

What is an Exchange Traded Fund (ETF)?

An Exchange Traded Fund (ETF) is an open-ended mutual fund scheme which is listed and traded on the stock exchange like a stock. Primarily, ETFs are passively managed schemes and their primary objective is to track the performance of their respective underlying benchmarks, before expenses, subject to tracking error.

ETFs can track underlying of various asset classes

1 Equity ETFs

Equity ETFs aim to replicate the composition of their respective benchmarks by investing in the stocks in same proportion of their respective benchmarks (like Nifty 50 TRI, Nifty Bank TRI, etc.).

Note: TRI stands for Total Return Index

2 Fixed Income ETFs

Fixed Income ETFs replicate a fixed income index comprising of a basket of debt securities, consisting of G-Secs, State Development Loans (SDLs), Tri-Party Repo on G-Secs/T-bills, call money, short-term government securities, money market instruments with short term maturities and such others. Fixed Income ETFs are often less riskier than Equity ETFs.

3 Commodity ETFs

Commodity ETFs invest in commodities, such as precious metals. The objective of such ETF is to track closely the physical price of the commodity. In India, currently there are Gold ETFs and Silver ETFs available under this category.

Globally, other ETFs also include currency ETF, actively managed ETF, inverse ETF and leveraged ETF, all of which are yet to be offered in India.

Characteristics of ETFs

Particulars	Equity ETFs	Fixed Income ETFs	Commodity ETFs
Underlying Benchmark	Equity Index	Fixed Income Index	Physical Commodity
Benefits	<ul style="list-style-type: none"> Traded on the stock exchange Generally, lower Total Expense Ratio as compared to Active Equity funds Transparency Real time pricing No STT on purchase of ETF units, STT on sale of ETF units is 0.001% for delivery based trades Can be used as cash equivalent margin for derivatives segment with a haircut* 	<ul style="list-style-type: none"> Traded on the stock exchange Investor can benefit from income generation over capital invested Relatively low exposure to risk Transparency STT is not applicable on buying or selling the units on the stock exchange Can be used as cash equivalent margin for derivatives segment with a haircut* 	<ul style="list-style-type: none"> Traded on the stock exchange An efficient way to take exposure to Gold & Silver Convenience in dealing through demat account Transparency No storage, security or insurance concerns for investors Investors do not pay for making charges like in case of buying a physical gold or silver STT is not applicable on buying or selling the units on the stock exchange Can be used as cash equivalent margin for derivatives segment with a haircut*

*as per the stock exchange list of securities which can be used as margin
STT – Securities Transaction Tax

ETF facilitates asset allocation

- ▶ ETFs provide investors with exposure to broad segments and sub segments of the equity markets, commodities and money market thus enabling asset allocation consistent with their financial needs, risk tolerance, and investment horizon.
- ▶ Both institutional and individual investors use ETFs conveniently, efficiently, and cost effectively to allocate their assets.

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Mutual fund investments are subject to market risks, read all scheme related documents carefully.