Gold Benchmark Exchange Traded Scheme

NFO ARCHIVES | RANK FUNDS

Summary

Type	Open-ended ETF: Gold	**Benchmark**	Domestic price of gold**
Min. Investment	Rs 10,000	**Face Value**	Rs 100***
Entry Load	1.50%*	**Exit Load**	Nil
Issue Opens	February 15, 2007	**Issue Closes**	February 23, 2007

* 1.5% entry load for investments between Rs 10,000 - Rs 4,999,000; 1% for Rs 5,000,000 - Rs 19,999,000; 0.50% for Rs 20,000,000 - Rs 49,999,000; Nil for Rs 50,000,000 and above.

**The gold held by the Scheme shall be valued at the AM fixing price of London Bullion Market Association (LBMA) in US dollars per troy ounce for gold having a fineness of 995.0 parts per thousand. Domestic price of gold = (London Bullion Market Association AM fixing in US$/ounce X Conversion factor for converting ounce into kg for 0.995 fineness X rate for US$ into INR) + Custom duty for import of gold + Sales Tax/octroi and other levies applicable.

***As per the fund house, the number of units allotted would be the total amount invested divided by the Allotment Price. Allotment price of Gold BeES will be based on the investment of New Fund Offer in physical gold. The allotment price and the NAV of the units of the Scheme would be different due to the fact that the allotment price is arrived at after considering the actual purchase price of physical gold in case of investment of NFO proceeds whereas the NAV is calculated at the end of the day based on the market price of physical gold at the end of the day as per the valuation policy.

Investment Objective*

The investment objective of Gold Benchmark Exchange Traded Scheme (Gold BeES) is to provide returns that, before expenses, closely correspond to the returns provided by domestic price of gold through physical Gold.

However, the performance of Scheme may differ from that of the domestic prices of Gold due to expenses and certain other factors. There can be no assurance or guarantee that the investment objective of Gold BeES will be achieved.
*Source: Offer Document

Is this fund for you?

Gold BeES is an open-ended passively managed Exchange Traded Fund (ETF), launched by Benchmark Mutual Fund. The fund is designed to provide returns (before expenses) that closely correspond to the returns provided by the domestic price of gold. This makes Gold BeES, the first Gold ETF in the country, a unique investment opportunity for investors looking to invest in gold.

Gold BeES offers investors a convenient means to invest in gold without the hassles of storage and without compromising on the quality. Being an ETF, it will be traded on the stock exchange (to begin with on the National Stock Exchange-NSE) after the new fund offer (NFO) period. This means that investors can buy and sell units of Gold BeES on the stock exchange on a real time basis (i.e. buying/selling can be done any time during the trading hours) and not after market hours.

For investing in the Gold BeES, investors need to have a demat account and a broking/trading account with a registered stock broker.

During the NFO period, there is a variable entry load structure based on the investment amount.

Load structure during the NFO period

Investment Amount (Rs)	Load
10,000 - 4,999,000	1.50%
5,000,000 - 19,999,000	1.00%
20,000,000 - 49,999,000	0.50%
50,000,000 and above	Nil

After the NFO period, once the fund gets listed, investors can buy the units directly from the exchange through a broker, when instead of paying the entry load he has to pay a brokerage to the broker. On inquiring with several brokers we learnt that the brokerage for Gold BeES will be the same as any other stock (i.e. approximately 0.50% of the transaction value, although it could vary depending on your relationship with the broker). A brokerage of 0.50% is much lower than the 1.50% (maximum) load at the NFO stage. The minimum number of units that an investor can buy/sell on the exchange is 1 unit; each unit will equal (approximately) the price of 1 gram of gold.

The fund house has indicated that the expense ratio for the fund will not exceed 1.00%. However, as per the SEBI (Securities and Exchange Board of India) guidelines the fund house can charge expenses upto a maximum of 2.25% to the fund.

Likewise, investors can also consider investing in Gold BeES through the fund house after the NFO period; the entry load for which will be subsequently announced by the fund house. However, it should be noted that investors will have to buy a larger number of units from the fund house to meet the minimum investment criterion. The minimum number of units that can be bought from the fund house is called 'creation units'. Each creation unit consists of 1,000 units (1 Kg) of Gold BeES and cash components if any. Obviously, buying units in such a large quantity is not a viable proposition for many retail investors.

In terms of tax implications, investors must note that Gold BeES is treated like a debt fund. So tax incidence on sale of Gold BeES is similar to that on sale of debt funds. This means that tax on long-term capital gains is lower of 10% without indexation and 20% with indexation. Short-term capital gains will be added to income and taxed at the marginal income tax rate.

Also units held under the scheme of the fund will not be treated as assets as defined under Section 2(ea) of the Wealth Tax Act, 1957 and therefore would not be liable to Wealth Tax.

Gold ETFs were announced in the Union Budget two years ago, but it took a while for the mutual fund industry to launch the first product. So there has been considerable anticipation from investors for investing in it. Add to this the fact that gold prices have appreciated significantly over the recent past. Before investors consider investing in Gold BeES, we would like to draw their attention to some facts about gold:

1. Gold as an investment avenue has in some sense failed to deliver over the long-term. In fact, over the last 17 years, gold has appreciated by only 8.6% CAGR - Compounded Annualised Growth Rate. This compares not so well with other investment avenues like the stock markets (the return from the BSE Sensex over the same period is about two times more than what gold has delivered).

2. Gold is considered to be a safeguard against inflation. The reason for this is that the factors that affect the price of gold are usually different from factors that impact prices of financial assets like stock markets and bonds. So in times when financial assets are in turmoil due to inflation or any other development, the price of gold will tend to move in the other direction and money flows into 'safe' assets like gold. In a portfolio, gold brings in much needed stability over the long-term. Your Personalfn consultant can help you decide how much money you should have in gold (Not met a Personalfn Consultant yet? Click here)

Given the relatively high entry load charged by the fund house during the NFO period, investors, who intend investing in gold, should avoid Gold BeES during the NFO period. They can consider investing in the ETF after the NFO period when it gets listed in the stock exchange (as readers of Personalfn are aware there is no 'price' benefit in investing in a NFO). As mentioned earlier, brokerage paid to a stock broker is a lot lower than the entry load charged by the fund house during the NFO.

Portfolio Strategy

The fund is mandated to invest between 90%-100% of assets in physical gold and remaining 10% in debt and money market instruments. However, the fund house has indicated that it will aim to be fully invested in gold under normal circumstances.

Instruments	Allocation Range
Physical gold	90%-100%
Debt and money market instruments	0%-10%

Gold BeES will be managed passively in order to achieve its stated objective. In a passive management, the fund tries to mirror the performance of its benchmark index (in this case domestic gold price). To that end, Gold BeES will focus on tracking the performance of domestic gold and not outperforming it.

Fund Manager Profile

Vishal Jain (B.Sc, MBA) is Vice President - Investments at Benchmark Mutual Fund. He was previously associated with Index Services & Products Ltd (IISL), a joint venture of CRISIL and NSE, where he was involved in promoting indices for higher applications like Index Funds and Options. He has been associated with the Benchmark Asset Management Company (AMC) Private Limited since October 2000.

Outlook

Being an ETF, the performance of Gold BeES will be closely linked to that of the domestic gold price. As we have commented earlier, over the long-term (17 years) gold has not been a great performer as a standalone investment avenue compared to other asset classes like equities, debt and real estate. However, from a diversification perspective it has high utility in a portfolio.