

FIRST-TIME INVESTORS should avoid thematic funds: Experts

CPSE ETF's 5th Tranche Opens Tue, Seeks to Raise ₹3,500 crore

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Mumbai: The fifth instalment of the Central Public Sector Enterprises Exchange Traded Funds (CPSE ETFs), through which the government intends to raise at least ₹3,500 crore, will be launched on Tuesday for anchor investors. Subsequently, it will be open for all investors from Wednesday to Friday.

Financial planners believe long-term equity mutual fund investors and first-time retail investors should stay away from thematic funds despite low valuations and the discount on offer, as the fund is concentrated and susceptible to high volatility.

The CPSE ETF, which will be managed by Reliance Mutual Fund, has a concentrated portfolio spread across a few sectors such as energy, oil PSU, infrastructure & engineering and PSU financials. Top four holdings — ONGC, Indian Oil, Coal India and NTPC — account for 77.7% of the portfolio.

In terms of valuations, the Nifty CPSE Index trades at a PE (price-to-earnings) ratio of 8.43 compared to the Nifty 50 PE of 26.32. It offers a dividend yield of 5.52 compared to Nifty 50's 1.25%.

"First-time investors would be better off with a well-diversified equity mutual fund than a thematically concentrated portfolio," says Anup Bhaiya, MD and chief executive officer, Money Honey Financial Services.

Nifty CPSE Index

Company Name	Weightage %
ONGC	20.43
NTPC	19.54
Coal India	19.09
IOC	18.64
Rural Electr Corp	6.72
Power Fin Corp	6.13
Bharat Electronics	4.06
Oil India	2.84
NBCC (India)	1.46
NLC India	0.63
SJVN	0.47

Data as on Feb 28, 2019

Source: NSE Indices



In the past one year, the CPSE ETF has lost 7.62% against the Nifty's gains of 10.3%. In the past, investors have been disappointed with PSU stocks, which have been mostly underperformers.

"Mutual fund investors would do well to invest in actively mana-

ged equity mutual funds where chances of alpha creation are high as compared to passively thematic basket of government companies," says Jignesh Shah, founder, Capital Advisors.

ETFs score on lower expense ratio and this one will have an expense ratio of less than 1 basis point, the lowest for the industry. In addition, all categories of investors will get an upfront discount of 4% on underlying shares purchased from the government. No discount will be offered on the purchase of index constituents from the open market.

The latest CPSE ETF issue will be open for retail investors from March 20. All the previous four CPSE ETF issues have received a good response from investors, with the fund house refunding extra subscriptions.

The new fund offer of CPSE ETF was first launched in March 2014 in which the fund house mobilized ₹4,363 crore. CPSE ETF's further fund offer (FFO) was launched in January 2017, where it collected ₹13,705 crore, out of which the fund refunded ₹7,705 crore due to the issue size limit of ₹6,000 crore.

CPSE ETF further fund offer (FFO 2) in March 2017 collected ₹10,083 crore, out of which ₹7,583 crore was refunded to investors due to the issue size limit of ₹2,500 crore. CPSE ETF further fund offer (FFO 3) was launched in November 2018 and collected ₹31,203 crore, out of which ₹14,203 crore was refunded to investors due to limited issue size of ₹17,000 crore.