

## **A Study on Gold Exchange Traded Funds**

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**Abstract:** *This paper aims to measure the return of Gold ETFs and to compare the returns of Gold ETFs for the financial years 2014-2018. It is found that Reliance Gold Bees is the best performing fund on the basis of five year CAGR.*

**Key Words.** *Gold ETF, Net Asset Value, Annual Returns, CAGR*

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### **I. Introduction to Exchange Traded Funds**

In recent times, Exchange-traded funds (ETFs) have gained a wider acceptance as financial instruments whose unique advantages over mutual funds have caught the eye of many an investor. These instruments are beneficial for Investors that find it difficult to master the tricks of the trade of analyzing and picking stocks for their portfolio. Various mutual funds provide ETF products that attempt to replicate the indices on NSE, so as to provide returns that closely correspond to the total returns of the securities represented in the index. ETF's available on NSE are diverse lot. Equity, Debt, Gold and International Indices ETF's are available.

Exchange Traded Funds are essentially Index Funds that are listed and traded on exchanges like stocks. An ETF is a basket of stocks that reflects the composition of an Index, like Nifty 50. The ETFs trading value is based on the net asset value of the underlying stocks that it represents

ETFs are just what their name implies: baskets of securities that are traded, like individual stocks, on an exchange. Unlike regular open-end mutual funds, ETFs can be bought and sold throughout the trading day like any stock.

Most ETFs charge lower annual expenses than index mutual funds. However, as with stocks, one must pay a brokerage to buy and sell ETF units, which can be a significant drawback for those who trade frequently or invest regular sums of money In India, NIFTY BeES is the first-ever ETF launched in India on 28/12/2001 by Benchmark Mutual Funds.

#### **1.2 Gold ETFs**

Gold Exchange Traded Funds are simple investment products that combine the flexibility of stock investment and the simplicity of gold investments. Gold ETFs trade on the cash market of the National Stock Exchange, like any other company stock, and can be bought and sold continuously at market prices.

Gold ETFs are passive investment instruments that are based on gold prices and invest in gold bullion. Because of its direct gold pricing, there is a complete transparency on the holdings of an ETF. Further due to its unique structure and creation mechanism, the ETFs have much lower expenses as compared to physical gold investments. Gold Exchange Traded Fund (Gold ETF) was launched in India in 2007 by Benchmark Asset Management Company.

#### **1.3 Objectives of the study**

- a) To measure the return of gold ETFs
- b) To measure the return of Gold ETFs against its benchmark, i.e. gold price
- c) To compare the return among the Gold ETFs

#### **1.4 Review of Literature**

a) Tongia and Chugani (2010) analyzed that since the launch of gold ETFs in early 2007, it has emerged as a strong asset class, generating more than 27% returns (CAGR) against the sensx return of just about 4% CAGR during the same period. In the month of May 2010 alone, gold ETFs clocked about 8.7 % gains. Over the time ETFs has strengthened its role as a hedge against inflation as an equity markets, as sensx has declined by about 5.6% during the same period

- b) Saleem and Khan (2013) in their paper tried to trace the emergence & history of Gold ETFs in India and also to explain proper working mechanism of this fund along with portfolio risk diversification and tax implementation of Gold ETFs fund in India. This paper also tries to explain comparative study of Gold ETFs v/s Physical Gold and it also give focus on Gold ETFs as a strong and attractive investment option for investor
- c) Saranya Vimala and Saranya, R (2014) conducted a study on the performance of Gold EFTs in India. Out of 13, 10 Gold ETF's were selected and it is found that Gold ETFs have shown a positive beta and Sharpe Index which means it performs better than risk free assets.

**1.5 Research methodology**

The study is analytical in nature. The study is based on secondary data. The study comprises of twelve Gold ETFs listed in National Stock Exchange for period of five financial years starting from 2013-2014 to 2017-2018.

**1.6 Sources of data**

The data is collected from websites of National Stock Exchange, AMFI, Asset Management Companies, books, journals, articles, etc.

**1.7 Data analysis**

Data is analyzed using Annual Rate of Return and Compounded Average Growth Rate of return. Net Asset Value of funds on closing date of previous financial year ( FY 2012-2013) is taken for calculating return of funds.

a) The yearly rate of return is calculated by taking the amount of money gained or lost at the end of the year and dividing it by the initial investment at the beginning of the year. This method is also referred to as the annual rate of return or the nominal annual rate.

The calculation for the yearly rate of return method

$$\frac{\text{End of year value of the fund} - \text{Beginning of the year value of the fund}}{\text{Beginning of the year value of the fund}}$$

b) Compound annual growth rate, or CAGR, is the mean annual growth rate of an investment over a specified period of time longer than one year. It represents one of the most accurate ways to calculate and determine returns for individual assets, investment portfolios and anything that can rise or fall in value over time.

$$\text{CAGR} = \left( \frac{\text{Ending Value}}{\text{Beginning Value}} \right)^{\left( \frac{1}{\# \text{ of years}} \right)} - 1$$

**1.8 Limitations**

Gold ETFs are only selected for the study and the study is solely based on secondary data/

**1.9 Following is the table consist the Gold ETFs listed in NSE**

**Table No1**

**List of Gold ETFs listed on NSE**

Issuer	Name	Symbol	Underlying	Launch Date
Axis Mutual Fund	Axis Gold ETF	AXISGOLD	Gold	Nov 2010
Aditya Birla Sun Life Mutual Fund	Aditya Birla Sun Life Gold ETF	BSLGOLDETF	Gold	May 2011
Canara Robeco MF	Canara Robeco Gold ETF	CRMFGETF	Gold	Mar 2012
HDFC Mutual Fund	HDFC Gold Exchange Traded Fund	HDFCMFGETF	Gold	Aug 2010
ICICI Prudential Mutual Fund	ICICI Prudential Gold Exchange Traded Fund	ICICIGOLD	Gold	Aug 2010

IDBI AMC	IDBI Gold ETF	IDBIGOLD	Gold	Nov 2011
Invesco India Mutual Fund	Invesco India Gold Exchange Traded Fund	IVZINGOLD	Gold	Mar 2010
Kotak Mutual Fund	Kotak Gold Exchange Traded Fund	KOTAKGOLD	Gold	Jul 2007
Quantum Mutual Fund	Quantum Gold Fund (an ETF)	QGOLDHALF	Gold	Feb 2008
SBI Mutual Fund	SBI Gold Exchange Traded Scheme	SETFGOLD	Gold	Apr 2009
UTI Mutual Fund	UTI GOLD Exchange Traded Fund	GOLDSHARE	Gold	Mar 2007
Reliance Nippon Life Asset Management Limited	Reliance ETF Gold BeES	GOLDBEES	Gold	Mar 07

**Table No.1:** Gold Price Per Gram And Annual And Compounded Average Growth Rate Of Returns Of Gold

Year	Gold Price (Rs)	Returns of Gold Percentage (%)
2013-2014	2490.81	-10.71
2014-2015	2385.76	-4.22
2015-2016	2635.79	10.48
2016-2017	2596.44	-1.49
2017-2018	2792.20	7.54
5 YEARS CAGR		2.31

Source: World Gold Council website

**Interpretation:** The highest annual rate of return on gold is posted during the year 2016-2017, i.e. 10.48% and highest negative return during 2013-2014, i.e. -10.71%. From 2014-2018 the gold has achieved a CAGR of 2.31%.

**Table No 2** Net Asset Value of Gold Exchange Traded Funds

No of funds	1	2	3	4	5	6	7	8	9	10	11	12
Year/Funds	Reliance GETF	UTI GETF	Kotak GETF*	Quantum GETF	SBI GETF	Invesco India GETF	HDFC GETF	ICICI GETF*	AXIS GETF	Aditya Birla GETF	IDBI GETF	Canara GETF
2013-2014	2599.31	2618.35	260.58	1300.26	2671.90	2778.86	2662.01	271.28	2659.36	2843.38	2739.93	2821.50
2014-2015	2433.85	2438.65	243.44	1218.78	2506.71	2519.00	2496.37	252.81	2491.25	2550.71	2546.49	2523.86
2015-2016	2688.61	2691.38	268.27	1338.70	2757.45	2770.89	2739.50	277.79	2738.38	2809.45	2810.28	2700.35
2016-2017	2625.81	2630.31	261.28	1305.17	2699.63	2702.52	2668.45	270.82	2595.98	2742.41	2751.12	2688.84
2017-2018	2772.14	2786.10	275.93	1378.74	2832.90	2853.88	2848.80	284.00	2743.00	2896.11	2925.39	2851.24

Source: AMFI website

Figures are in Indian Rupees

\*Kotak Gold ETF's and ICICI Gold ETF's NAV are adjusted as they have converted the value of one unit of fund approximately equivalent to 1/10 value of one gram of gold.

Interpretation: The Net Asset Values of all Gold ETFs have moved positively during the years 2015-2016 and 2017-2018.

**Table No 3** Annual Rate of Returns of Gold Exchange Traded Funds

No of funds	1	2	3	4	5	6	7	8	9	10	11	12
Year/Funds	Reliance GETF	UTI GETF	Kotak GETF	Quantum GETF	SBI GETF	Invesco India GETF	HDFC GETF	ICICI GETF	AXIS GETF	Aditya Birla GETF	IDBI GETF	Canara GETF
2013-2014	-7.94	-7.65	-8.03	-7.86	-7.62	-4.77	-7.92	-6.82	-7.90	-3.81	-7.35	-5.01
2014-2015	-6.37	-6.86	-6.58	-6.27	-6.18	-9.35	-6.22	-6.81	-6.32	-10.29	-7.06	-10.55
2015-2016	10.47	10.36	10.20	9.84	10.00	10.00	9.74	9.88	9.92	10.14	10.36	6.99
2016-2017	-2.34	-2.27	-2.6	-2.50	-2.10	-2.47	-2.59	-2.51	-5.20	-2.39	-2.11	-0.43

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2017-2018	5.57	5.92	5.61	5.64	4.94	5.60	6.76	4.87	5.66	5.60	6.33	6.04

Figures are in percentage

**Interpretation:**

During 2013-2014: All funds posted negative returns but all of them have lesser negative returns when compared to its bench mark. Kodak Gold ETF is having highest negative return of -8.03% and Adiya Birla Gold ETF is having least negative return of -3.81%.

During 2014-2015: All funds posted negative returns but all of them have higher negative returns when compared to its bench mark. Adiya Birla Gold ETF is having highest negative return of -10.29% and SBI Gold ETF is having least negative return of -6.18%

During 2015-2016 : All funds posted highest rate of return during the year 2015-2016 and Reliance Gold Bees ranked No. 1 with highest rate of return of 10.47% among the twelve funds. All funds under performed with its bench mark (gold price) returns of 10.4%. Reliance Gold Bees is closely following its benchmark.

Table No.4: Compounded Annual Rate of Returns of Gold Exchange Traded Funds

No of funds	1	2	3	4	5	6	7	8	9	10	11	12
Year/Funds	Reliance GETF	UTI GETF	Kotak GETF	Quantum GETF	SBI GETF	Invesco India GETF	HDFC GETF	ICICI GETF	AXIS GETF	Aditya Birla GETF	IDBI GETF	Canara GETF
5 Years CAGR	1.30	1.25	1.15	1.18	1.18	0.53	1.37	0.92	0.62	0.37	1.32	0.21

**Interpretation:** Reliance Gold Bees ranked No.1 having highest CAGR of 1.30 % of return. Gold has achieved 2.31% of CAGR and no funds have achieved this mark.

**Conclusion:**

This paper compared the NAV, Annual rate of return and CAGR of Gold ETFs and return are compared with bench mark returns , i.e. Gold Price. It is found that Relaince Gold Bees is best fund among the twelve funds with highest CAGR.

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