Government could launch 2nd public-unit fund by early May

- Business Standard
- 17 Mar 2017
- ARUP ROYCHOUDHURY New Delhi, 16 March

The government is firming up plans for launching another CPSE ETF (central public sector enterprises exchange-traded fund) and will likely have it ready to hit the bourses by early May. The discussions between the Centre and the asset manager, ICICI Mutual Fund, on the stocks of the ETF are in final stages, sources say.

ETFs are index-tracking funds that can be traded on exchanges just like a stock, so they combine the diversified holdings of a fund with the low cost and tradability of a share. The biggest advantage is that it provides diversification to investors and is cheaper than investing in a fund. The brokerage fees are the same as trading in an individual stock. An open-ended ETF has no upper investment limit but a closed one has.

This CPSE ETF will draw on the success of the first one, which was launched in March 2014, and whose third tranche is open for subscription till Friday. The first CPSE ETF is man- aged by Reliance Mutual Fund and has so far garnered ~9,000 crore over the previous two tranches.

"DIPAM (Department of Investment and Public Asset Management) and ICICI Mutual Fund are working on the constituents of the second CPSE ETF. Everything should be finalised by end-April or early May," said a senior government official aware of the developments. The request for proposal (RFP) for asset managers for the second ETF in August last year clarified that the ETF could also contain government's stake in non-state-owned companies. Officials have said that, hence, the ETF could include Centre's stake in Axis Bank, Larsen & Toubro, ITC, and Hindustan Zinc. It could also include state-owned banks, which were not included in the first CPSE ETF.

Just like the first ETF, the proposed second ETF will also be a new fund offer (NFO) followed by additional offers. "Government may provide appropriate discount for different investors in the form of a suitable mix of upfront and back-end loyalty discount," the advertisement had said.

The constituent firms of the first ETF are Coal India, Oil and Natural Gas Corporation, GAIL, Rural Electrification Corp, Power Finance Corp, Container Corp of India, Indian Oil, Oil India, Bharat Electronics, and Engineers India. Of these, the largest are ONGC, with a 23.62 per cent weight, Coal India (17.18 per cent), and GAIL (16.81 per cent). The other companies' weights range between 1 and 8.5 per cent.

The request for proposal for asset managers for said the ETF could contain govt’s share stake in non-state-owned companies