Headline: Nifty CPSE index outperforms Nifty	
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Nifty CPSE index outperforms Nifty

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MUMBAI

An exchange-traded fund (ETF) that tracks a Nifty index of 10 central public sector enterprises (CPSEs) far outperformed the benchmark Nifty index in the last one year, data showed.

While the Nifty 50 gained 21.1% in the 12 months ended 19 May and the BSE Sensex rose 19.94%, the Nifty CPSE index jumped 50.6%.

Energy firms make up 57.4% of the CPSE index, and the surge in energy stocks has lifted it. In contrast, the Nifty is more diversified, with the highest weightage for financial services while energy contributes only 14.2%.

Dhirendra Kumar, chief executive of mutual funds researcher Value Research, said the Nifty CPSE portfolio is very skewed and reflects performance of only 10 stocks which makes it quite risky.

"The CPSE ETF index may look attractive due to high dividends doled out by the public sector units (PSUs) but the Nifty CPSE index is not a wealth creator for investors in the long run," Kumar said.

Dividend yield of the Nifty CPSE and Nifty are 4.34% and 1.29% while annualized returns of the former and latter are 42.96% and 19.8%, respectively.

Only those state-owned firms that have paid at least 4% dividend, including bonus for seven years immediately preceding, or at least seven out of the eight or nine years immediately preceding are chosen for the CPSE index.

Its constituents are: Oil and Natural Gas Corp. Ltd, GAIL India Ltd, Coal India Ltd, Indian Oil Corp. Ltd, Oil India Ltd, Power Finance Corp. Ltd, Rural Electrification Corp. Ltd, Container Corp. of India Ltd, Engineers India Ltd and Bharat Electronics Ltd.

Dhaval Kapadia, director, portfolio specialist at Morningstar Investment Adviser, said that valuations of CPSE ETF index looks better because the Nifty index is more diversified. "For instance, CPSE ETF index has no stocks from IT, consumer durables sectors etc.," he said. One-year forward price to earnings (PE) ratio of CPSE Index is at 11.27 while it is 17.94 for the Nifty.

Kapadia added large cap category funds have performed better than CPSE ETF funds in the three-year period till 19 May. According to data compiled by Morningstar, three-year annualized returns of large cap category funds is at 14.07% while that of CPSE ETF is at 8.46%. The large cap category has 63 funds.

"CPSE ETF funds are more volatile compared to large cap category funds. Standard deviation of CPSE ETF funds is 25.17 while it is 17.18 for large cap category funds," Kapadia added. Volatility or level of fluctuation in returns of a fund is typically indicated by its standard deviation.

Sundeep Sikka, executive director and chief executive officer of Reliance Mutual Fund which manages the CPSE ETF, said some of the best-performing PSUs constituting the CPSE fund are economic drivers of the country and with a better-run government, it is doing well. CPSE ETF was acquired by Reliance Mutual Fund in October 2015, which was originally managed by Goldman Sachs Mutual Fund.

According to a 10 February *Mint* report, the second ETF announced by finance minister Arun Jaitley in the budget is likely to be managed by ICICI Prudential Asset Management Co. Ltd.

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