Headline: Edelweiss ETF-Nifty Quality 30	
Source: Mint	**Date:** 17 May 2016

PRODUCT**CRACK**

Edelweiss ETF-Nifty Quality 30

The ₹14-trillion worth mutual funds (MF) industry in India is slowly warming up to exchange-traded funds (ETF). Edelweiss Asset Management Ltd has launched its third ETF, called Edelweiss ETF-Nifty Quality 30 (ENQ30).

WHAT IS IT?

An ETF is a passively-managed MF scheme that consists of a basket of securities, like equity shares of companies, which form part of its benchmark index and also in exactly the same proportion. An ETF's mechanism is different than an index fund's.

In an index fund, while the fund manager rebalances the portfolio on a daily basis, depending on how the weightages of the benchmark's underlying stocks move, the ETF comes with a twist. A unit of ETF is 'created' only when someone (typically a market marker; in ETF parlance) exchanges the underlying securities—in the same proportion and quantity as it takes to make one such ETF unit—with the fund house for a unit. The market maker then makes these ETF units available on the stock exchange where investors can buy from.

Similarly, when investors sell ETF units back on the stock exchange, the market maker exchanges the same with the fund house and gets the underlying basket of securities in return. An ETF's structure is, therefore, superior to that of an index fund; its tracking error is low on account of no fund manager intervention.

But ENQ30 is not your typical ETF. Its benchmark index is Nifty Quality 30 index. This index consists of 30 stocks and it curates stocks out of the top 100 stocks by market capitalisation on the basis of return of equity (the higher, the better), debt-equity ratio (the lower, the better), and profitability.

The National Stock Exchange (NSE) manages this index, so other fund houses can also launch ETFs benchmarking on it. For now, ENQ30 is the only one. You need a demat account to buy into it. Units will be listed on the NSE and the BSE Ltd.

BENCHMARK INDEX
Nifty Quality 30 Index

TYPE
Exchange-traded fund

EXIT LOAD
Nil

WHAT WORKS...

While active fund managers have the scope to outperform benchmark indices by picking and choosing scrips of companies that they think are well-managed, a passively-managed fund cannot be choosy. A passive fund's manager has to invest in all of her benchmark index's stocks even if she doesn't like them.

How about an index that filters stocks based on parameters? That's where Nifty Quality 30 index and ENQ30 come in. The index will do the rebalancing of the stocks (based on the three parameters) once a year. The fund house also aims to keep the expense ratio limited to 49 basis points. One basis point is one-hundredth of a percentage point.

...WHAT DOESN'T

The fund house has back tested the data and the results are impressive. ENQ30 has outperformed large-cap funds (as a category) across various time periods. But that has no bearing on how the quantitative model will perform in the future. That is a drawback of most quant-based MF schemes. ENQ30 is an interesting option, but avoid it for now. Let it complete a year or two to see how it performs.

—Kayezad E. Adajania