

Item No. 11: Tenure of ETF manufacturers for investment in ETF by EPFO - SBI and UTI Mutual Funds.

1. The Central Board in its 208th Meeting held on 16/09/2015 had approved selection of SBI mutual Fund as ETF manufacturer for investment in ETF by EPFO. It had considered the fact that to begin with investment in ETF can start with Asset Management Companies (AMCs) under Public Sector. Among PSUs there were only two asset management companies namely SBI Mutual Fund and UTI mutual fund. Since at that point in time only SBI mutual fund had ETF on Nifty 50 and Sensex, EPFO started investing in ETF through SBI Mutual Fund.
2. The tenure of investment with SBI Mutual fund was initially till 31st March 2016, which was later extended till 30th June 2016.
3. Further, in pursuance to the decision of 123rd FIAC and 212th Central Board, the Request for proposal (RFP) for Selection of Asset Management Companies for EPFO's Investments in Exchange Traded Funds (ETFs) was advertised on 03rd June 2016. Later on in the 126th FIAC held on 27/06/2016 it was considered that ETFs as an investment vehicle are relatively nascent in the Indian market, it was thought to be prudent to invest only with AMCs with majority ownership under Public Sector rather than expanding the investment universe to all other AMCs as was decided by the Central Board when for the first time investment in ETF was allowed. Also, it was decided to recommend to the CBT that the process for selection of Asset management companies through the bidding process which was advertised may be terminated.
4. Accordingly, an agenda item on "Selection of Asset Management Companies as ETF manufacturer for investment in ETFs by EPFO" was placed in 213th meeting of CBT held on 08.07.2016. It was proposed to Select Asset Management Companies with majority ownership under Public Sector i.e. SBI Mutual Fund (63% stake by State Bank of India and 37% stake by Amundi India holding) and UTI Mutual Fund (18.29% each take by State Bank of India, Life Insurance Corporation of India, Bank of Baroda and Punjab National Bank and 26% stake by T. Rowe Price) for investment in ETFs by EPFO.
5. The Central Board after deliberation approved selection of SBI Mutual Fund and UTI Mutual Fund. It directed FIAC reconsider the ratio of allocation of funds between SBI and UTI with a view to have fair competitive performance. The 128th FIAC held on 22/07/2016 deliberated on the issue and accordingly recommended to Central Board allocation of 75:25 for SBI MF and UTI MF respectively. The proposal as recommended by FIAC was approved by the Board in its 214th CBT meeting held on 26th July 2016.

6. The tenure of SBI MF and UTI MF as ETF manufacturer for investment in ETF by EPFO as approved by the Central Board in its 213th meeting was till 30.06.2017.
7. The Central Board in its 218th meeting held on 27.05.2017 further extended their tenure for a period of one year till 30.06.2018. (Copy of agenda and minutes **Annexure-11A**).
8. The criteria set by the Central Board on the previous occasion for selection of AMC's were as under:-
 - a) Must have majority ownership under Public Sector.
 - b) Assets under management (AUM) of not less than Rs 15,000 crores under equity mutual funds.
 - c) Must have both the Nifty 50 and Sensex ETFs.
9. The table below contains list of AMC's which qualifies criteria b) & c) listed above.

Sl. No.	AMC	Quarterly average assets under management (AUM) under equity mutual fund - March 2018 (Rs. Crores)	Quarterly Average AUM - March 2018 (Rs. in Crores)	
			Sensex ETF	Nifty ETF
1	ICICI Prudential Mutual Fund	95,306	2.78	844.91
2	SBI Mutual Fund	91,102	9,143.16	29,545.65
3	HDFC Mutual Fund	87,779	14.79	54.63
4	Reliance Mutual Fund	81,573	33.33	893.24
5	Aditya Birla Sun Life Mutual Fund	69,414	11.17	140.55
6	UTI Mutual Fund	48,664	1,976.30	6,077.22
7	Kotak Mahindra Mutual Fund	45,471	11.80	537.13
8	IDFC Mutual Fund	19,943	0.83	3.46

10. Out of the above 8 Asset Management Companies (AMC) from the table above only SBI MF and UTI MF meet all the criteria mentioned at Para 8 above.
11. Accordingly, even with updated data as on 31/03/2018 there is no change in the existing list of AMC's in which EPFO is making its present ETF Investments.
12. The current expense ratios of both the above AMC are 0.069% (6.9bp). The brokerage on the sale/purchase of the underlying securities is capped at 0.02% (2bp).
13. In the 134th meeting of the FIAC held on 25th May, 2017 CRISIL was asked to compare the performance of both the mutual fund house on the basis of their tracking error. The Comparative performance of both the mutual fund houses was placed in the 136th FIAC held on 27.09.2017 and based on the facts placed, it was decided to continue with the existing allocation of 75:25 for SBI and UTI Mutual Fund.
14. Similarly, a comparative study of the performance of both the Mutual Funds was carried out by the consultant, CRISIL on the basis of tracking

error for the period till April 2018 (Report as **Annexure-11B**). The findings of the performance is as under:-

Annualized Tracking Error (from 1 Oct'16 to 30 Apr'18)	
UTI NIFTY Exchange Traded Fund	0.0572%
UTI SENSEX Exchange Traded Fund	0.0561%
SBI ETF Nifty 50	0.0176%
SBI ETF SENSEX	0.0160%

15. The comparative analysis of the tracking error as above suggests that the performance of SBI MF is slightly better UTI MF. In this light the Committee may decide whether to continue with the present allocation or to change the present allocation.
16. The above said agenda is being placed in the 139th FIAC meeting held on 25.06.2018. The recommendation of the Committee will be placed before the Board on table.

Proposal: THE SBI Mutual Fund and UTI Mutual Fund may continue as ETF manufacturer for investment in ETF by EPFO for tenure of one year i.e. till 30/06/2019. The committee may decide on the allocation of funds between SBI MF and UTI MF.

Proposal: The item is placed before the CBT for consideration/information.

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No. Conf. 1(1)218th CBT (EPF)/2017/3841

Dated: 08.06.2017

To

All Members,
Central Board (Employees' Provident Fund),
(As per list).

9 JUN 2017

Sub: - Forwarding of minutes of 218th meeting of the Central Board (EPF) held on 27.05.2017 – reg.

Sir/Madam,

I am directed to forward herewith the minutes of 218th meeting of the Central Board (EPF) held on 27.05.2017 at Regency Ball Room, 1st Part, Hyatt Regency, Weikfield IT Park, Nagar Road, Pune, duly approved by the Chairman, Central Board (EPF) for kind perusal.

Kindly acknowledge receipt.

Yours faithfully,

Encl: As above.

(Amiya Kant)

Regional PF Commissioner (Conference)

Copy forwarded for information and necessary action to :

1. Internal Circulation: FA & CAO, ACC (HQ) MN, ACC (HQ) KLT, ACC (HQ) KVS, All Addl. CPFCs Headquarters, New Delhi.
2. Under Secretary to SS-II, Ministry of Labour & Employment, New Delhi.
3. PS to CPFC for information.
4. Deputy Director (OL) for Hindi Version.
5. Guard File.

(Kewal Kishan)

Section Officer (Conference)

In item no. 2 of ATR: Shri P.J. Banasure inquired about the progress regarding Workers' Bank. CPFC informed that the issue is now in final stage and once the Ministry gives approval, the process of study and submitting feasibility report for setting up of Workers' Bank will start. Sh. Manish Gupta said that the process is expected to start in a month's time and be completed in two months' period after commencement.

In item no. 4 of ATR: Sh. Ashok Singh said that the coolies of Railways should be provided social security benefit under EPFO. It was replied that railways coolies are not employees of Indian Railways. Members suggested that it can be taken up with Indian Railways as the coolies are provided with Railway pass facility.

In item no. 9 of ATR: Shri P.J. Banasure said that publicity campaign should be done in regional languages also. CPFC confirmed that publicity is being done in regional languages also.

In item no. 10 of ATR: Vice Chairperson said that the proposal for coverage of Anganwadi, Workers and helpers has been recommended by the Labour Ministry and sent to a Group of Ministers for consideration and on receipt of response further action will be taken.

Shri M.J. Rao said that all the staff members who have requested for transfer should be transferred as a one-time measure.

The Board noted the action taken status with these observations.

Item No. 3: Minutes of meetings of Sub-Committees of the Board

The Board took note of the minutes placed before it with the suggestion to hold the meetings of the Sub Committees on (i) Exempted Establishments, (ii) Construction Workers and (iii) Contract Workers.

Item No. 4: Tenure of ETF manufacturer for investment in ETF by EPFO – SBI & UTI Mutual Fund.

The Board took note of the information placed before it and approved the proposal as contained in the agenda.

Item No. 5: Status of ETF Investments

Shri Ashok Singh said that the money with EPFO is workers money and should not be invested in equity as investment in equity requires day to day monitoring by experts. CPFC said that a small part of EPF Funds are invested in exchange traded funds only. In ETF too, investment is done through the instruments of NIFTY and SENSEX only. There is no discretion with EPFO in choosing the products in which to invest. Shri Shankar Saha raised concern whether we should risk worker's money without their consent. He said that he opposes investment in equity. Shri A.K. Padmanabhan reiterated his opposition to investment in equity.





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Performance of ETF investments by SBI and UTI MF

Vikram Shastry <vikram.shastry@crisil.com>

Thu, May 3, 2018 at 2:16 PM

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Dear Sir,

Please find below the annualized tracking errors for the ETFs of SBI MF and UTI MF.

Annualized Tracking Error (from 1 Oct'16 to 30 Apr'18)	
UTI NIFTY Exchange Traded Fund	0.0572%
UTI SENSEX Exchange Traded Fund	0.0561%
SBI ETF Nifty 50	0.0176%
SBI ETF SENSEX	0.0160%

Regards,

Vikram Shastry

Manager

Funds and Fixed Income Research

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