Risk factors

Scheme specific risk factors

Risk factors associated with investing in Gold and Gold related securities

- **Market risk due to volatility in gold prices:**
  The NAV of the Scheme will react to the securities and bullion market movements. The Investor may lose money over short or long periods due to fluctuation in the Scheme's NAV in response to factors affecting gold prices. The price of gold is driven by speculation and supply and demand, like most commodities. The key factors that affect the volatility of gold are geo-political uncertainties, rising crude oil prices, depreciating dollar, government policies on major export and import destinations, sales by Central Banks, fluctuating industrial demand and store of value demand, changes in indirect taxes or any other levies etc.

- **Liquidity risks in physical markets impairing the ability of the fund to buy and sell gold :**
  Commodities tend to be more volatile than other instruments driven by demand and supply dynamics. This may have an impact on liquidity and may result in price risk. Liquidity risks may arise due to issues related to the supply chain which affects the availability of gold. The OTC markets for physical gold are concentrated in centres like London, New York and Zurich. However, London gold market is by far the largest global center for over the counter (OTC) transactions. Globally, most of the countries prefer to store their gold reserves in London due to transparent market for gold driven by robust supporting infrastructure such as vaults, specialised transportation companies, insurers and customs handling firms. Mining companies, central banks, manufacturers of jewellery and industrial products, together with investors transact their business through London center. However, in a situation of heightened geopolitical uncertainties and tariff wars, countries may intend to ship the gold back home as a defence mechanism which may adversely impact the supply of physical gold in global centres. The situation may result in higher cost of liquidity for the fund house, at the time of bulk redemptions driven by market sentiments.

  The market makers/authorized participants for gold ETFs also depend on the bulk gold markets centres to procure and sell the physical gold for providing two way liquidity to the fund houses. However, geopolitical uncertainty leading to supply issues in global centres, may limit their ability to support fund houses to meet the redemption by selling the underlying gold in physical markets in extreme scenarios.

  The gold ETF has to sell gold only to bullion bankers/traders who are authorized to buy gold but there is no obligation for bullion bankers/traders to be on the other side of the trade. Though there are adequate number of players (commercial or bullion bankers) to whom the gold ETF can sell gold, it may have to resort to distress sale of gold if there is no or low demand for gold to meet its cash needs of redemption or expenses.

  The lack of liquidity in the physical gold market may further arise due to seasonality of demand and supply. Lastly, government regulations including change in taxation or duties levied on gold may affect the demand and supply and may affect the liquidity.

Risks associated with handling, storing and safekeeping of physical gold:
All Physical gold procured must follow the LBMA guidelines as per prescribed SEBI guidelines. Risk arises when part or all of the gold held by the Fund could be lost, stolen or damaged and access to gold may be restricted due to natural calamities or human actions. Loss or damage as a consequence of war, invasion, acts of foreign enemies, hostilities (whether war be declared or not), civil war, rebellion, revolution, insurrection, military or usurped power may also lead to erosion of the value of underlying gold. Loss due to aridity, humidity, exposure to light or extremes of temperature can lead to risk of value erosion of physical gold. Hence, the Custodian maintains insurance with regards to the business on terms and conditions and the custodian is also responsible for all costs arising from the insurance policies. The custodian taking delivery on behalf of the AMC needs to ensure the weight, purity, and the source of gold as specified under the LBMA guidelines. Since this is paramount under SEBI guidelines, the risk arises in violation of same. Safekeeping of physical gold requires appropriate vaulting space, conforming to the best global standards. The vaulting agents engaged by the custodian needs to ensure the same.

Tracking Error and Tracking Difference Risk:
Since the scheme is passively managed, it is exposed to tracking error and tracking difference risk. Tracking error is defined as the annualized standard deviation of the difference in the daily returns between the NAV of the Scheme and the Underlying Index. Tracking Difference is defined as the annualized difference of returns between the NAV of the Scheme and the underlying index. The Fund Manager would not be able to invest the entire corpus in physical gold due to certain factors such as the fees and expenses of the Scheme, cash balance and regulatory restrictions, which may result in Tracking Error with the underlying price of gold. The Scheme's returns may therefore deviate from that of the underlying gold. The Fund Manager would monitor the Tracking Error of the Scheme on an ongoing basis and would seek to minimize the Tracking Error to the maximum extent possible. There can be no assurance or guarantee that the Scheme will achieve any particular level of Tracking Error relative to performance of the underlying Index. Tracking Error/ Tracking Difference may arise including but not limited to the following reasons:

- Expenditure incurred by the Fund.
- Available funds may not be invested at all times as the Scheme may keep a portion of the funds in cash to meet Redemptions, for corporate actions or otherwise.
- Accounting for indirect taxes including tax reclaims.

The AMC would monitor the tracking error of the Scheme on an ongoing basis and would seek to minimize tracking error. Under normal market circumstances, tracking error based on past one year rolling data shall not exceed 2%. However, in case of unavoidable circumstances in the nature of force majeure, which are beyond the control of the AMCs, the tracking error may exceed 2% and the same shall be brought to the notice of Trustees with corrective actions taken by the AMC, if any.

Risk Factors associated with Exchange Traded Commodity Derivative (ETCD)
An exchange-traded commodity derivative is a standardized financial contract, traded on a regulated exchange, that derives its value from an underlying commodity like gold, oil, or agricultural products. These contracts, typically futures or options, allow investors to speculate on price movements or hedge against price fluctuations of the underlying commodity without actually owning it.

- **Liquidity Risk:** While ETCDs that are listed on an exchange carry lower liquidity risk, the ability to sell these contracts is limited by the overall trading volume on the exchanges. The liquidity of the Schemes' investments is inherently restricted by trading volumes of the ETCD contracts in which it invests. Additionally, change in margin requirements or intervention by government agencies to reduce overall volatility in the underlying commodity could lead to adverse impact on the liquidity of the ETCD.

- **Price risk:** ETCDs are leveraged instruments hence, a small price movement in the underlying security could have a large impact on their value. Also, the market for ETCDs is nascent in India hence, arbitrages can occur between the price of the physical commodity and the ETCD, due to a variety of reasons such as technical issues and volatile movement in the price of the physical good. This can result in mispricing and improper valuation of investment decisions as it can be difficult to ascertain the amount of the arbitrage.

- **Settlement risk:** ETCDs can be settled either through the exchange or physically. The inability to sell ETCDs held in the Schemes' portfolio in the exchanges due to the extraneous factors may impact liquidity and would result in losses, at times, in case of adverse price movement. Wherein the underlying commodity is physically delivered in order to settle the derivative contract, such settlement could get impacted due to various issues, such as logistics, Government policy for trading in such commodities.

Risk Factors associated with investing in Gold Monetisation Scheme (GMS)

The scheme may, as permitted by SEBI, invest a part of its pool of physical gold assets in Gold Monetisation Scheme run by Banks. Under the GMS, Gold ETF will deposit its physical gold assets as principal with the Banks which offer such facility ("the issuer"). A situation could arise where the issuer is unable to return the principal physical gold to Gold ETF upon maturity or in case of an early redemption. Such inability to return physical gold could arise on account of liquidity problems or general financial health of the issuer. A default by the issuer under a GMS may result in losses to the Unit holders. GMS being an unlisted and non transferrable security can be redeemed only with the issuer and hence, is subject to the risk of an issuer's inability to meet principal and interest payments on the obligation (credit risk).

Risk Factors associated with investments in Money Market instruments

- Investments in money market instruments would involve a moderate credit risk i.e. risk of an issuer's liability to meet the principal payments.
- Money market instruments may also be subject to price volatility due to factors such as changes in interest rates, general level of market liquidity and market perception of credit worthiness of the issuer of such instruments.
- The NAV of the Scheme's Units, to the extent that the corpus of the Scheme is invested in money market instruments, will be affected by the changes in the level of interest rates. When interest rates in the market rise, the value of a portfolio of money market instruments can be expected to decline.
- The liquidity of these instruments can be adversely affected by any adverse sentiment about the issuer or deterioration in general market liquidity. This liquidity refers to the ease with which a security can be sold at or near to its valuation yield- to-maturity (YTM). The primary measure of liquidity risk is the spread between the bid price and the offer price quoted by a dealer.

Risk factor associated with legal, tax and regulatory risk

The Scheme could be exposed to changes in legal, tax and regulatory regime which may adversely affect it and / or the investors. Such changes could also have retrospective effect and could lead to additional taxation imposed on the Scheme which was not contemplated either when investments were made, valued or disposed off.

Risks associated with Segregated Portfolio

Liquidity risk - Segregated Portfolio is created to separate debt and money market instruments affected by a Credit Event from the Main Portfolio of the Scheme to ensure fair treatment to existing, entering and exiting investors of the scheme. The Fund will not permit redemption of the Segregated Portfolio units, but the units will be listed on a recognized stock exchange. The Fund is not assuring any liquidity of such units on the stock exchange which may subject investors to impact cost. Further, trading price of units on the stock exchange may be significantly lower than the prevailing NAV. Investors can continue to transact (subscribe / redeem) from the Main Portfolio.

Credit risk – While the AMC will put in sincere efforts to recover the securities in the Segregated Portfolio and distribute the same to unit holders, since such securities are affected by credit event, it is likely that such securities may not realize any value leading to losses to investors.

Risks associated with transaction in Units through Stock Exchange mechanism

In respect of transactions in Units of the Scheme routed through the BSE StAR MF platform or any other recognized stock exchange platform as intimated by the AMC, allotment and redemption of Units on any Business Day will depend upon the order processing/ settlement by BSE, or such other exchange and their respective clearing corporations on which the Fund has no control. Further, transactions conducted through the stock exchange mechanism shall be governed by the operating guidelines and directives issued by BSE or such other recognized exchange in this regard