

Finology

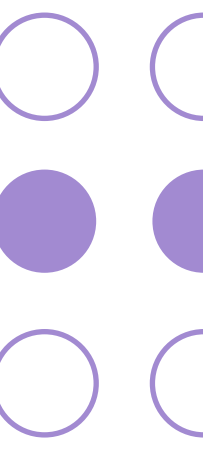
Recipe

BEST

GOLD

FUND

2026



## Gold Mutual Fund Vs GOLD ETF Cost Structure Explained–

- When you invest in a Gold Mutual Fund, whether it is called a Fund of Fund (FoF), Gold Savings Fund, or any other variant, you end up paying a dual expense ratio.
- This structure is completely different from equity index mutual fund investing. In index mutual funds, the underlying investments are the actual constituent stocks of the index, not an ETF from the same AMC.

## How does the cost structure work?

### Layer 1: Underlying Gold ETF

The Gold ETF charges its own expense ratio for managing and storing physical gold.

This cost is deducted daily from the ETF's NAV.

### Layer 2: Gold Mutual Fund (FoF)

The Gold Mutual Fund holds units of the underlying Gold ETF only, and that ETF belongs to the same AMC.

The FoF charges an additional expense ratio for providing liquidity, SIP administration, and other operational costs.

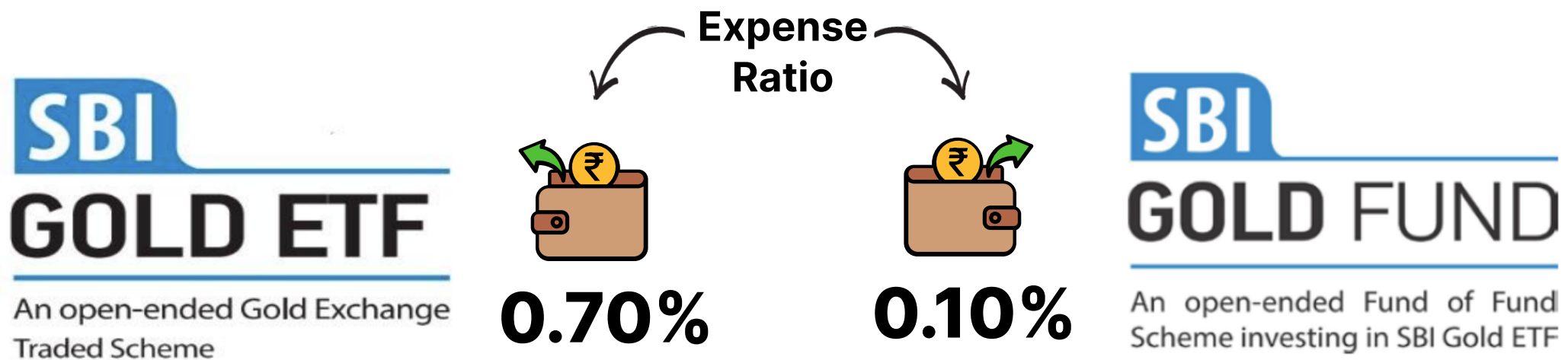
This cost is deducted from the Mutual Fund's NAV.

Total cost to the investor  $\approx$  Expense Ratio of ETF + Expense Ratio of FoF

**Total cost to the investor  $\approx$  Expense Ratio of ETF + Expense Ratio of FoF**



## Illustrative example



Effective total cost: By holding the SBI Gold Fund, the investor pays approximately 0.80% per year.

(0.70% from the ETF + 0.10% from the FoF)

- The primary investment objective of Gold Mutual Funds is the precise replication of physical gold price movements.
- While expense ratio is a critical metric, it cannot be the sole determinant of fund selection.
- A comprehensive selection process requires examining tracking error (%), which represents the degree to which a Gold Mutual Fund's returns deviate from its benchmark index (domestic physical gold prices).
- For gold-focused funds, tracking error becomes the primary indicator of portfolio efficiency and fund manager execution quality.
- A lower expense ratio does not automatically translate into lower tracking error.

## Root causes of tracking error

Tracking error in Gold Mutual Funds arises from two distinct components:

**01.**

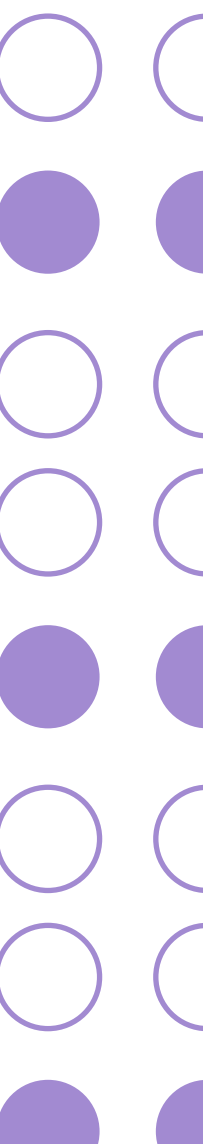
**Expense Ratio**

Annual management fees and administrative costs charged to the fund.

**02.**

**5% flexibility in asset allocation**

SEBI mandates a minimum of 95% investment in physical gold or gold-linked instruments.



This allows the asset manager discretionary authority to hold alternative instruments, creating both opportunities and risks.

### 1. Cash and Cash Equivalents (T-Bills)

Used solely for daily liquidity management and handling redemption flows.

### 2. Commodity Futures (Gold Futures)

Used to improve tracking efficiency when bridging physical settlement delays while purchasing physical gold bars.

### 3. Securities Lending and Borrowing

Used to generate additional returns by lending the underlying holding securities to offset expense ratio drag.

This can reduce net tracking error if lending income exceeds associated costs.

## Illustrative example

Assume gold prices rise by 10% in a year. You are choosing between two funds.

01.

#### Fund A (cheap one)

Gold Return: +10.00%

Less Expense Ratio: -0.50%

Less Tracking Error (Lag): -1.00%

Final Investor Return: approx 8.5 %

02.

#### Fund B (Expensive one)

Gold Return: +10.00%

Less Expense Ratio: -1.00%

Less Tracking Error (Lag): -0.00%

Final Investor Return: approx 9.00%

- All available Gold ETFs in the past 1yr delivered returns in the 76%–79% range, driven by the sharp gold rally in 2025.
- Tracking Error matters more: Lower is better. The top 10 ETFs, with tracking error between 0.14% and 0.22%.

Rank (by Total Cost)	ETF Name	Tracking Error (%)	Expense Ratio (%)	Total Approx. Cost (%)
1.	UTI Gold ETF	0.14	0.48	<b>0.62</b>
2.	Tata Gold ETF	0.22	0.40	<b>0.62</b>
3.	ICICI Prudential Gold ETF	0.21	0.50	<b>0.71</b>
4.	Aditya Birla Sun Life Gold ETF	0.25	0.47	<b>0.72</b>
5.	Quantum Gold Fund ETF	0.17	0.56	<b>0.73</b>
6.	Invesco India Gold ETF	0.22	0.55	<b>0.77</b>
7.	Axis Gold ETF	0.22	0.56	<b>0.78</b>
8.	Baroda BNP Paribas Gold ETF	0.22	0.59	<b>0.81</b>
9.	SBI Gold ETF	0.22	0.70	<b>0.92</b>
10.	Nippon India ETF Gold BeES	0.23	0.80	<b>1.03</b>

## Top 3 Gold ETF funds comparison -

Metric	UTI Gold ETF	ICICI Prudential Gold ETF	Tata Gold ETF
Tracking Error (Efficiency)	0.14% 🏆	0.21%	0.22%
Expense Ratio (Cost)	0.48%	0.50%	0.40% 🏆
Liquidity (Avg volume) Unit trades/day	Moderate	Very High 🏆	High
Assets Under Management	~₹3,035 Cr	~₹13,617 Cr 🏆	~₹2,450 Cr
Unit Price (NAV)	~₹114	~₹117	~₹13 (Affordable)
1-Year Return (Fund)	78.47%	77.86%	77.10%
Benchmark 1-Year Return (Domestic physical gold price)	<b>~79.43%</b>		

## Final Recommendation



 **ICICI ETF**

EXCHANGE TRADED FUNDS

**ICICI Prudential Gold ETF**

- The difference between a Gold ETF and a Gold Mutual Fund is marginal because the underlying asset is physical gold.
- Gold is inherently less volatile and represents a single commodity exposure, unlike equity ETFs such as Nifty 50 that hold 50 different stocks driving the bid-ask spread.
- As a result, price-to-NAV deviation in Gold ETFs remains negligible, typically around **0.04%–0.05%**.
- An ETF is a suitable choice if your broker offers **free equity delivery**.
- If brokerage costs apply, a Gold Mutual Fund becomes a practical alternative.

## Recommended Gold Mutual Fund option



**ICICI Prudential Regular Gold Savings Fund- Direct plan growth**

**Total cost  $\approx$  0.59%**  
(ETF expense 0.50% + FoF expense 0.09%).

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