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*"Gold is a wonderful thing! Whoever possesses it is the lord of all he wants. By means of gold one can even get souls into Paradise"*

**- Columbus, 1503**

# Gold's appeal as an investment avenue

# Fundamental drivers

- Demand and supply balance
- As a hedge against inflation and store of value
- Gold provides effective diversification for investment portfolios by exhibiting low long term correlation with other asset classes
- As a safe haven in times of financial, economic and political crises

# Gold Demand

## Some Interesting Facts

- Gold is so rare that the world pours more steel in an hour than it has poured gold since the beginning of time
- Gold has lustrous beauty, it's easily workable, it is rare, and it is virtually indestructible - **four characteristics that no other precious metal possess**
- All the gold in the world could be compressed into an **18 yard cube\***
- Experts estimate that there are **only 41,000# tons of gold left** in the earth to mine

Source: [www.jackgold.com/goldfacts.html](http://www.jackgold.com/goldfacts.html)

\* 1 cubic yard – measure of volume is 36 inches wide by 36 inches tall by 36 inches deep.

# 1 ton is equivalent to 1000 kilograms.

# Gold Demand

- Sources of demand for gold are extremely diverse – both geographically and sectorally – as compared to those of many other assets
- Gold demand is predominantly discretionary unlike most commodities and hence less exposed to the vagaries (i.e. unpredictability) of the economic cycle
- These factors explain the independence of the gold price and why demand has remained robust in the face of a rally that has spanned several years

# Sources of Gold Demand

**Demand Flows**  
5 year average (2004 – 2008)

**Jewellery (68%)**

Consistently accounts for 2/3rds of demand. Amounted to US\$ 61bn in 12 months ending Dec. 2008, making it one of the largest consumer goods in the world.

**Investment (19%)**

Identifiable investment demand in gold has increased considerably in recent years. Since 2003, investment has represented the strongest source of growth in demand. Wide range of reasons and motivations for people and institutions to invest in gold.

**Industrial (14%)**

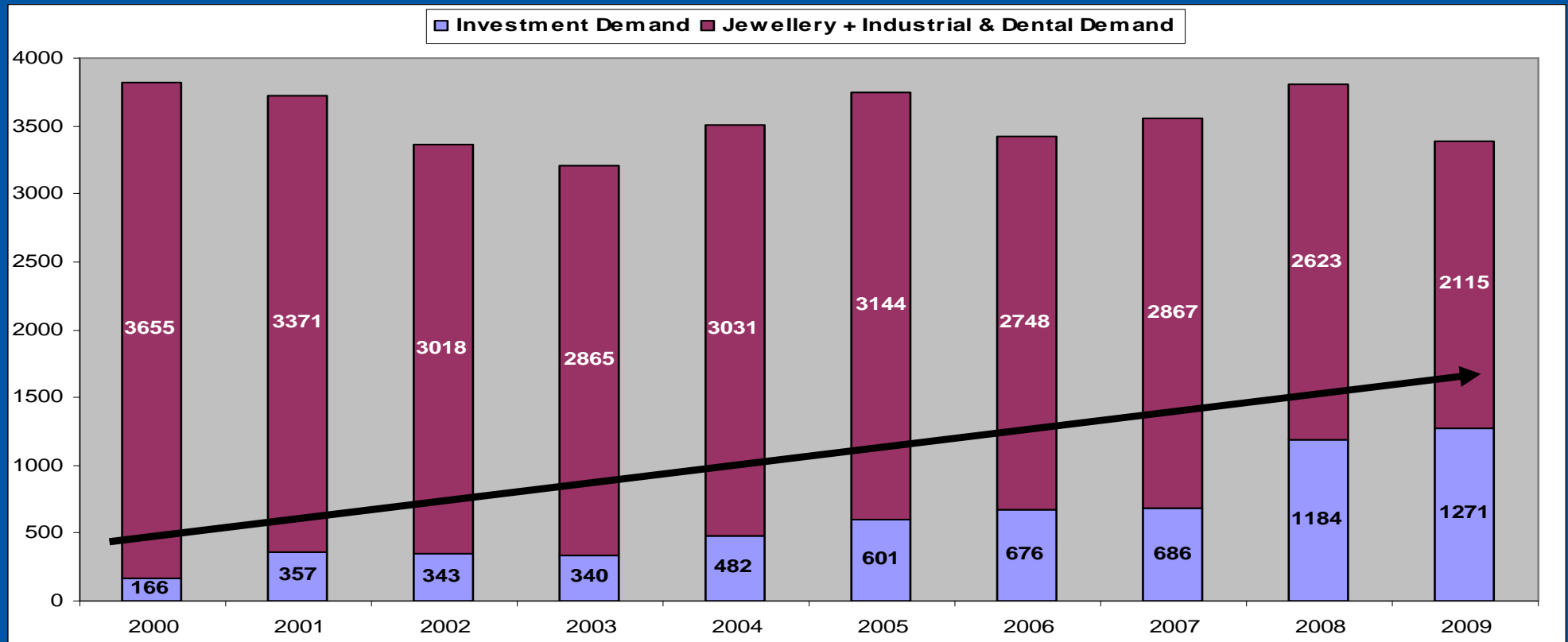
Over half of industrial demand arises from its use in electrical components. Used in various medical and Biomedical applications. Recent research has uncovered number of new uses like catalyst in fuel Cells, chemical processing and controlling pollution.

This is the latest available data on the source – World Gold Council ([www.gold.org](http://www.gold.org))

# Diverse nature of overall gold demand

## Sector Wise Demand for Gold (Tonnes)

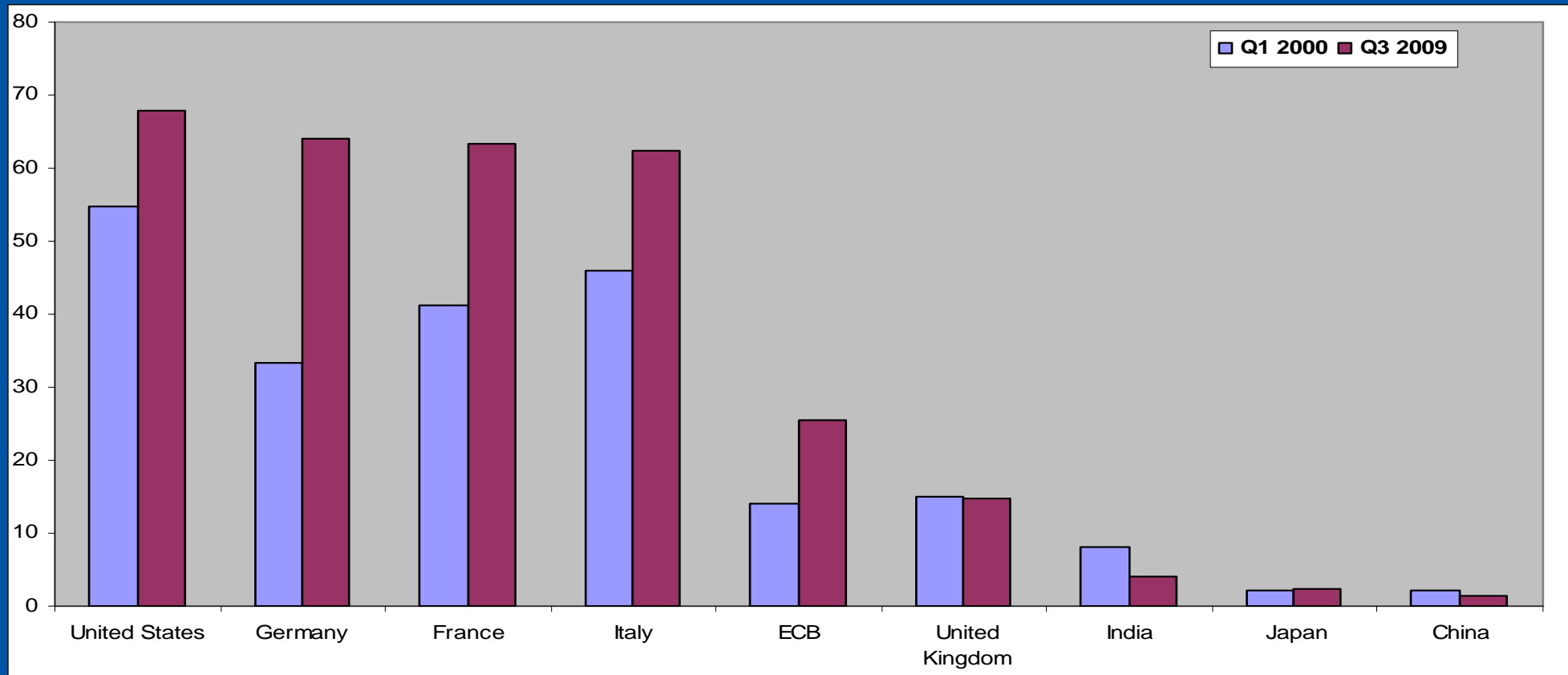
With the rise of price of gold in recent years, discretionary spending on jewellery and industrial demand for gold has fallen. However this has been offset by growing investment demand which has helped keep overall demand for gold stable.



This is the latest data available on the source - World Gold Council ([www.gold.org](http://www.gold.org))  
 Investment Demand refers to the sum of Net Retail investment demand and Exchange Traded Funds (ETFs) & Similar investment demand.  
 2009 figures are provisional.  
 1 ton = 1000 kilograms.

# Gold as a % of Total Reserves (Q1 2000 – Q3 2009)\*

As part of diversification of reserve assets, Emerging central banks may look to increase gold as a percentage of total reserves.



This is the latest data available on the source World Gold Council ([www.gold.org](http://www.gold.org))

In absolute terms China (holder of the world's largest foreign exchange reserves) has increased its holdings of gold from 395 tonnes (Q1 2000) to 1,054 tonnes (Q3 2009). Furthermore, for China to raise gold to even as low as 5% of total reserves (currently 1.45% of total reserves), would require the purchase of over 3600 tonnes of gold (approximately equivalent to total global demand for gold in 2009) at Q3 2009 levels of reserves and gold prices.

\* Q1 = April to June, Q2 = July to September, Q3 = October to December.

# Sources of Gold Supply

## Supply Flows 5 year average (2004 – 2008)

**Mine Production (60%)\***  
Net of hedging

Several hundred operating gold mines worldwide. New mines being developed to replace current production rather than cause any significant expansion in global total.

**Recycled Gold (Scrap)**  
(28%)

Gold mine production is relatively, recycled gold ensures that there is a potential source of easily traded supply when needed. The value of gold means that it is economically viable to recover it from most of its uses.

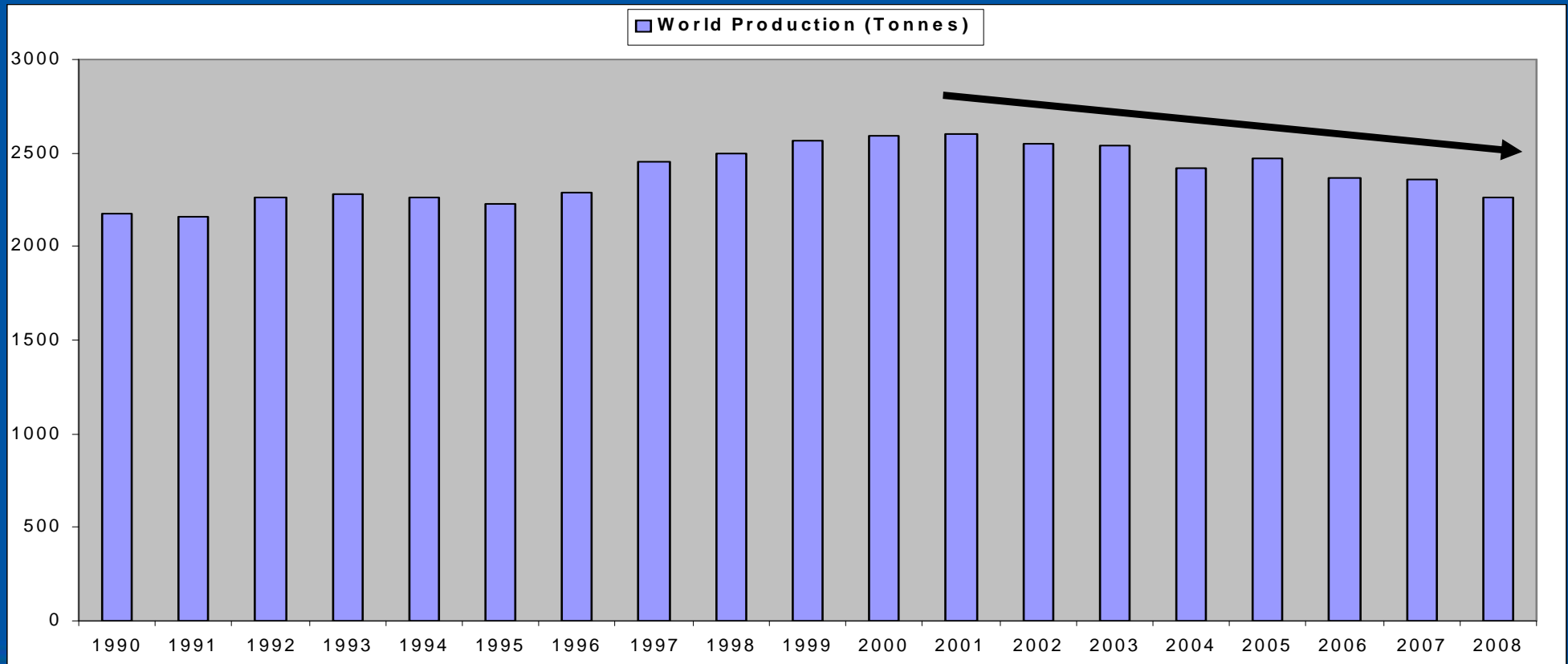
**Net Central Bank Sales**  
(12%)

Although a number of central banks have increased their gold reserves in the past decade, the sector as a whole has typically been a net seller since 1989. Significantly, gold sales from official sector sources, have been diminishing in recent years.

This is the latest data available on the source – World Gold Council ([www.gold.org](http://www.gold.org))

# World Gold Production (1990 – 2008)

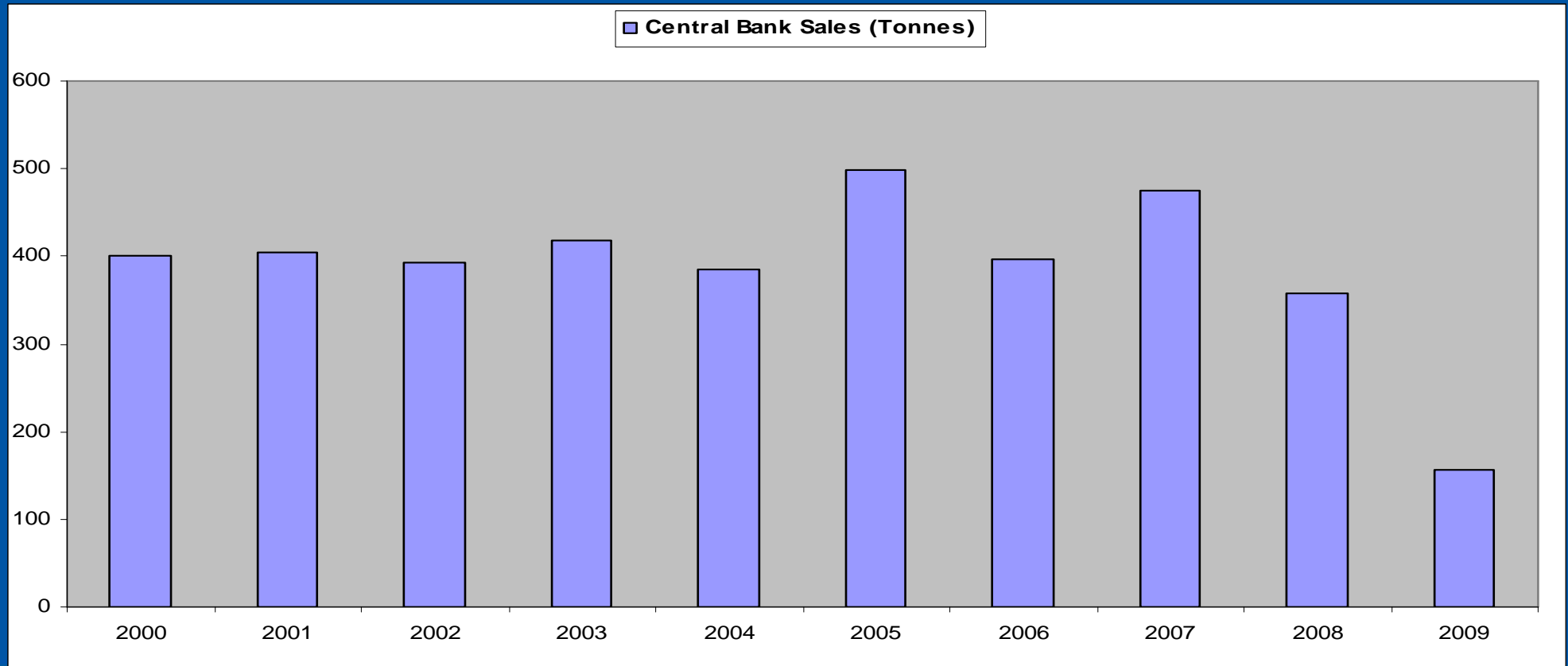
Global gold production is at a 12 year low. More importantly this downward trend has accelerated during a period where the price of gold has risen sharply indicating the lack of discovery of new mines and sources of gold.



This is the latest data available on the source – U.S. Geological Survey.

# Central Bank Sales (2000 – 2009)

Central banks have greatly reduced their sales of gold resulting in the decline of another crucial source of gold supply.



This is the latest data available on the source - World Gold Council ([www.gold.org](http://www.gold.org))  
1 ton = 1000 kilograms.

# Summary

## Gold Demand and Supply Dynamics

Demand Side	Supply Side
Wealth Effect – Increased demand for jewellery from India and the Mid-East	Limited Supply and fall in production across gold mines
Potential diversification from mega holders – Central Banks	
Investment – surge in Gold ETFs	

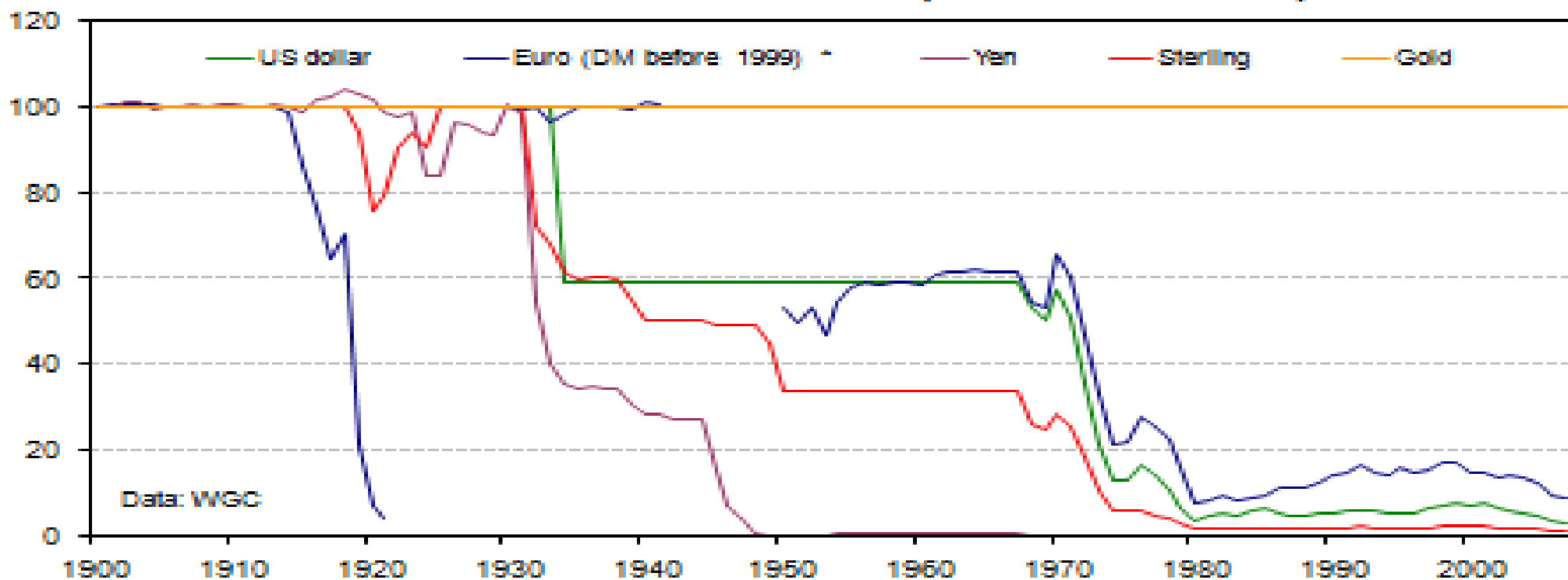
**Long Term Demand and Supply conditions indicate favorable investment climate for gold**

Source: World Gold Council ([www.gold.org](http://www.gold.org)) and Internal Analysis.

# Gold's performance relative to the world's leading currencies

The real price of gold has more than retained its purchasing power through a century characterised by sweeping change and repeated geopolitical shocks. In contrast, the real value of most currencies has generally declined.

Currencies in terms of Gold (Index 1900 = 100)



## Past performance may or may not be sustained in future.

This is the latest data available on the source – World Gold Council ([www.gold.org](http://www.gold.org))

The chart shows relative performance of gold vis – a vis currencies starting with the base index of 100.

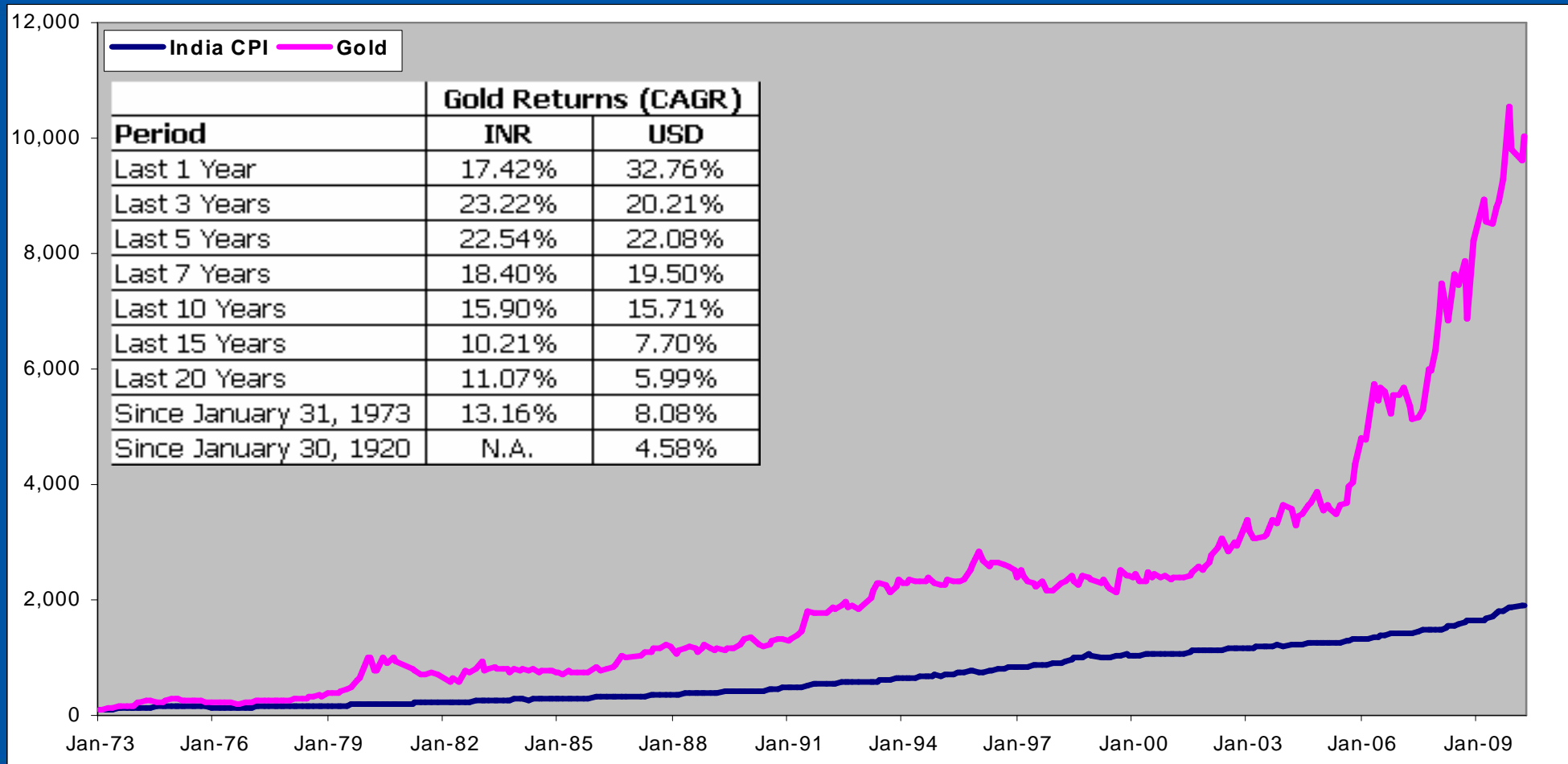
The gaps in the German / Euro line are the hyperinflation of 1922 and then the breakdown after WW2.

**The USD has lost 92.98% of its real value over the course of the last 90 years. \$100 in March 1920 would be worth only \$7.02 in real terms in March 2010.**

Source: Internal analysis. The US CPI has been used to calculate real value of the USD.

# Gold: Hedge against Inflation

## Indian CPI and Gold in INR (Relative Performance)



**Past performance may or may not be sustained in future.**

Source - Bloomberg.

Data computation internal.

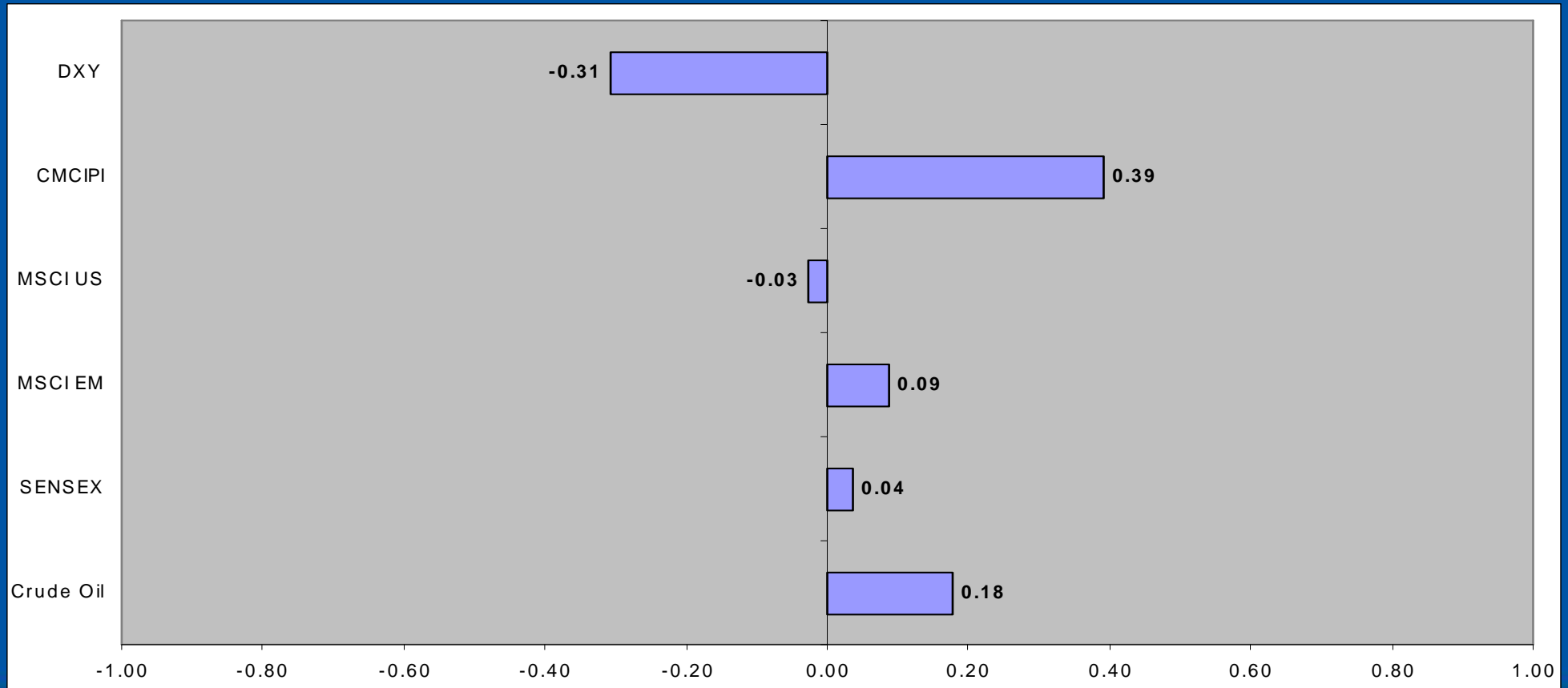
Data is from the period January 31, 1973 to April 30, 2010.

CPI – Consumer Price Index.

CAGR – Compounded Annualised Growth Rate

# Return correlation between gold and key assets

Gold's most valuable contribution to a portfolio, despite its strong returns in recent years, lies in the fact that it has a low correlation with most other assets.



**Past performance may or may not be sustained in future.**

Source: Bloomberg. Data computation internal.

Returns correlation refers to the daily return correlation till May 2010.

CMCiPI – UBS Bloomberg Constant Maturity Commodity Index. DXY – Dollar Index. MSCI US - MSCI United States Index.

MSCI EM – MSCI Emerging Markets Index.

Period under consideration: Gold (since Jan. 1967), CMCiPI (Since Oct. 1997), MSCI US (Since Dec. 1969), MSCI EM

(Since Dec. 1987), BSE SENSEX (Since Apr. 1979), Crude Oil (Since May 1983.)

# Where we are today...

- India and emerging markets in general (especially in Asia) have recovered swiftly, growing at close to pre - crisis rates
- Pace and depth of global economic recovery varies widely across different regions
- Recovery in developed markets is tentative and still largely dependent on accomodative monetary and fiscal policies
- Recovery across the board still susceptible to exogenous shocks leading to return of extreme risk aversion

Source: Internal Analysis.

# Gold as an insurance

- If the global economic recovery takes hold and risk assets like equities perform well, the investment in gold can be considered equivalent to an insurance premium
- If on the other hand, the recovery falters gold will limit downside of portfolios and act as a great insurance for investment portfolios
- Furthermore, in times of global turmoil / panic, the price of gold has historically risen reflecting its characteristic as a safe haven investment
- Consider the following slide...

# Gold as a safe haven

**Historically, during periods of great stress, crises and panics, gold has limited the downside and acted as a great insurance for investment portfolios.**

Event	Period	Gold Returns (%)	Equity Returns (%)
Sub prime mortgage / credit crisis	October 2007 – March 2009	<b>15.74</b>	-59.07
Dotcom Bubble / September 11, 2001 terrorist attack	March 2000 – October 2002	<b>14.18</b>	-51.43
Asian financial crisis	July 1997 – September 1998	<b>-15.79</b>	-59.06*
Bursting of the Japanese stock and real estate bubble	December 1989 – April 2003	<b>-17.77</b>	-76.86***
Yom Kippur War / Arab oil embargo	January 1973 – December 1974	<b>182.24</b>	-38.31**
World War 2	September 1939 – April 1942	<b>-1.66</b>	-37.49**
The Great Depression	August 1929 – June 1932	<b>0.29</b>	-88.74**

**Past performance may or may not be sustained in future.**

Source: Bloomberg.

Data computation internal. All returns computed above are based on the performance of values denoted in USD.

Equity returns refers to returns of the MSCI World Index.

\*Refers to returns of the MSCI Asia Pacific Ex Japan Index. \*\*Refers to returns of the Dow Jones Industrial Average.

\*\*\*Refers to returns of the Nikkei 225 stock average.



*When we have gold we are in fear, when we have none we are in danger.*

**– English Proverb**

# Presenting

# **HDFC Gold Exchange Traded Fund**

**(An Open-Ended Exchange Traded Fund)**

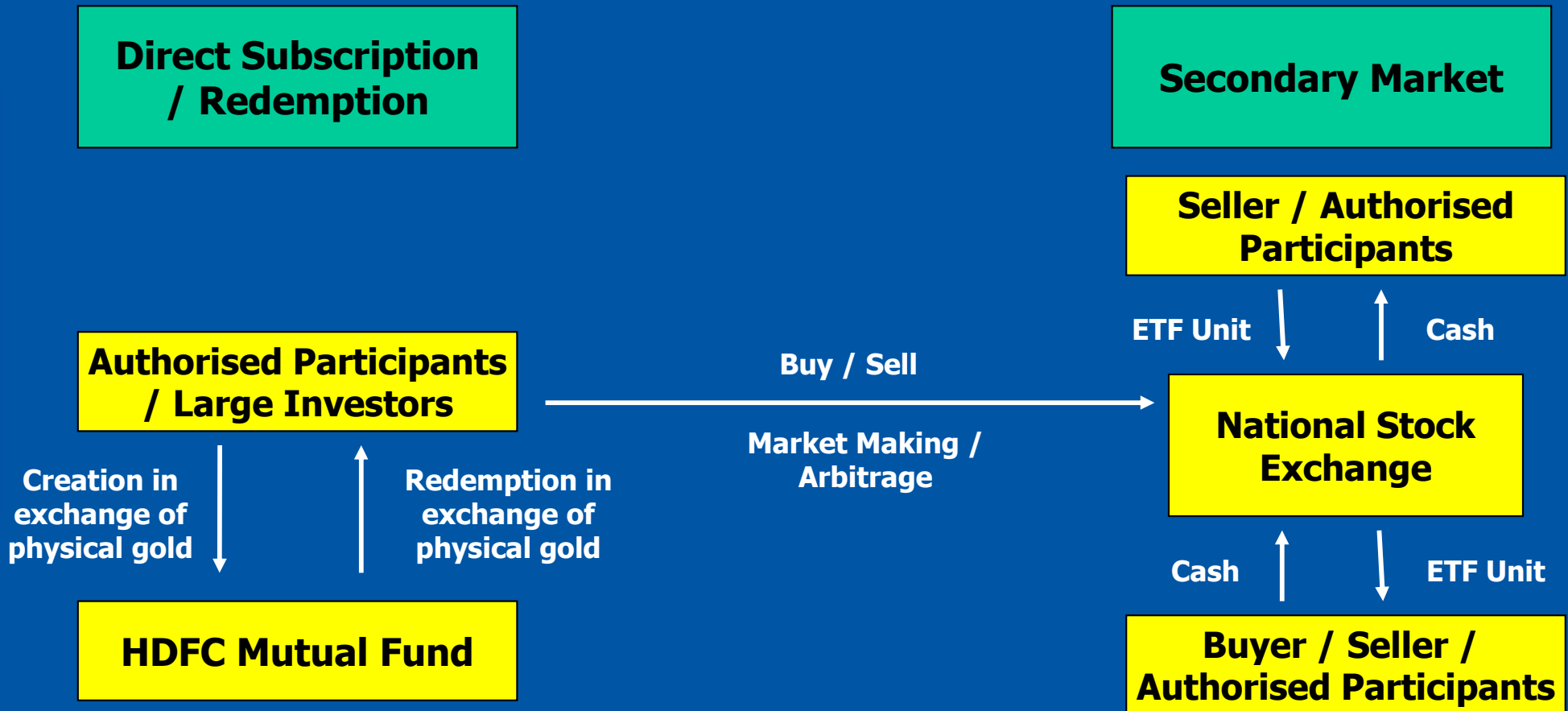
# Comparison of Gold ETF's with Physical Gold (An illustrative chart)

Parameter	Jeweller	Bank	Gold ETF
How gold is held	Physical (Bars / Coins)	Physical (bars / Coins)	Dematerialized (Electronic form)
Pricing	Differs from one another. Neither transparent nor standard	Differs from bank to bank. Not standard	Linked to international gold prices and very transparent
Buying premium above gold price	Likely to be more	Likely to be more	Likely to be less
Impurity risk	High	Nil	Nil
Storage requirement	Locker / Safe	Locker / Safe	Demat account
Security of asset	Investor is responsible	Investor is responsible	Fund house takes the responsibility
Resale	Conditional and uneconomical	Banks do not buy back	At secondary market prices
Convenience in buying / selling	Less convenient, as gold needs to be moved physically	Less convenient, as gold needs to be moved physically	More convenient, as held in electronic form under the demat account
Quantity to buy / sell	Available in standard denomination	Available in standard denomination	Minimum is ½ or 1 gram according to the fund
Bid Ask spread	Very high	Can't sell back	Very low
Risk of theft	Yes, possible	Yes, possible	No, not possible
Wealth tax	Yes	Yes	No
Long term capital gains tax	Only after 3 years	Only after 3 years	After 1 year

# Gold ETFs are suitable for the following types of investors:

- Investors looking to effectively diversify their portfolios
- Investors searching for an effective hedge against inflation and store of value
- Those looking for a hassle free and tax efficient way of owning gold
- Those wanting to purchase gold in small and regular amounts as compared to large lump sums which are traditionally required to purchase physical gold

# Working of HDFC Gold Exchange Traded Fund (HGETF) - An illustrative chart



**Note 1:** The role of the AMC is of a facilitator to the Authorised Participants / Large Investors to purchase / sell gold on their behalf for the purpose of creating / redeeming HGETF units in Creation Unit Size.

**Note 2:** Each Creation Unit Size will consist of 1,000 Units of HGETF and 1 Unit of HGETF will be approximately equal to 1 gram of gold.

**Note 3:** Description of the working is elaborated in the Scheme Information Document of HGETF

# Product Features

<b>Type of Scheme</b>	<ul style="list-style-type: none"> <li>An Open Ended Gold Exchange Traded Fund</li> </ul>
<b>Investment Objective</b>	<ul style="list-style-type: none"> <li>The investment objective of the scheme is to generate returns that are in line with the performance of gold, subject to tracking errors</li> </ul>
<b>Liquidity</b>	<ul style="list-style-type: none"> <li>The units of HGETF will be listed on the capital market segment of the National Stock Exchange of India Ltd. (NSE). All investors including Authorised Participants and Large Investors can subscribe (buy) / redeem (sell) units on a continuous basis on the NSE on which the units are listed during the trading hours on all the trading days.</li> <li>In addition, Authorised Participants and Large Investors can directly subscribe to / redeem HGETF units on all business days with the Fund in 'Creation Unit Size' at NAV based prices on an ongoing basis, commencing not later than 30 days from the closure of New Fund Offer (NFO) period.</li> <li>The units of the scheme will be issued, traded and settled compulsorily in dematerialized (electronic) form.</li> </ul>
<b>New Fund Offer Price</b>	<ul style="list-style-type: none"> <li>Each unit of HGETF having a face value of Rs. 100/- will be issued at a premium equivalent to the difference between the allotment price and the face value of Rs. 100/-. Each unit is approximately equal to 1 (one) gram of gold</li> </ul>
<b>Benchmark</b>	<ul style="list-style-type: none"> <li>Domestic price of physical gold</li> </ul>
<b>Purity of Gold</b>	<ul style="list-style-type: none"> <li>Purity (fineness) of 995 parts per 1,000 (99.5%) or higher</li> </ul>
<b>Plans / Options</b>	<ul style="list-style-type: none"> <li>Currently, there are no investment Plans / Options being offered under the Scheme</li> </ul>

# Product Features

<p><b>Load Structure</b> (For purchases during the NFO Period and Ongoing Basis)</p>	<p><b>Entry Load: Not Applicable</b></p> <ul style="list-style-type: none"> <li>Pursuant to SEBI Circular no. SEBI / IMD / CIR No.4 / 168230 / 09 dated June 30, 2009, no entry load will be charged by the scheme to the investor. Upfront commission shall be paid directly by the investor to the ARN Holder (AMFI registered Distributor) based on the investor's assessment of various factors including the service rendered by the ARN holder.</li> </ul> <p><b>Exit Load</b></p> <p><b>For Creation Unit Size:</b></p> <ul style="list-style-type: none"> <li>No exit load will be levied on redemptions made by Authorised Participants / Large Investors directly with the fund in Creation Unit Size.</li> </ul> <p><b>For other than Creation Unit Size: Not Applicable</b></p> <ul style="list-style-type: none"> <li>The units of HGETF in other than Creation Unit Size cannot be directly redeemed with the Fund. These units can be redeemed (sold) on a continuous basis on the NSE during the trading hours on all the trading days.</li> </ul>
<p><b>Minimum Application Amount</b></p>	<p><b>During the NFO Period:</b></p> <ul style="list-style-type: none"> <li><b>Authorised Participants:</b> In Creation Unit Size only. Each Creation Unit Size will consist of 1,000 units of HGETF.</li> <li><b>Other Investors (including Large Investors):</b> Rs. 5,000 and any amount thereafter per application during the NFO period.</li> </ul>
<p><b>Unit</b></p>	<p>1 Unit of HGETF will be approximately equal to 1 gram of gold.</p>

For further details on Scheme features please refer to the Scheme Information Document (SID) of the Scheme.

# Asset Allocation Pattern

The broad asset allocation of the Scheme's portfolio to be followed under normal circumstances:

Type of Assets / Instruments	Indicative Allocations (% of Total Assets)		Risk Profile
	Minimum	Maximum	
Gold Bullion*	90	100	Medium to High
Debt Securities and Money Market Instruments #	0	10	Low

\* Investments in gold instruments (including derivatives) will be made as and when SEBI permits mutual funds to invest in gold related instruments.

# Investment in securitised debt shall not normally exceed 10% of the net assets of the Scheme.

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■ **Standard Risk Factors: All mutual funds and securities investments are subject to market risks and there can be no assurance that the Scheme's objectives will be achieved and the NAV of the Scheme may go up or down depending upon the factors and forces affecting the securities market.** Past performance of the Sponsors and their affiliates / AMC / Mutual Fund do not indicate the future performance of the Scheme(s) of the Mutual Fund. There is no assurance or guarantee to unit holders as to the rate of dividend distribution nor that dividends will be paid regularly. Investors in the Scheme are not being offered any guaranteed / assured returns. Investment in Mutual Fund Units involves investment risks such as trading volumes, settlement risk, liquidity risk, default risk including the possible loss of principal. As the price / value / interest rates of the gold/ securities in which the Scheme invests fluctuates, the value of your investment in the Scheme may go up or down. **Scheme Specific Risk Factors:** The Scheme would primarily invest in physical gold and track the spot price of gold in the domestic market. Hence, the value of the Units shall relate directly to the value of the gold and fluctuations in the price of gold could adversely affect investment value of the Units. The factors that may affect the price of gold *inter-alia* include economic and political developments, changes in interest rates and perceived trends in bullion prices, exchange rates, inflation trends, market movements, etc. The NAV will also be exposed to risks related to currency, counter party, asset class, physical gold, liquidity, regulatory, passive investments, indirect taxation, trading and redemption. The NAV and the price of physical gold may vary to the extent of the investments held by the Scheme in the debt segment. Please read the Scheme Information Document for detailed Scheme Specific Risk Factors. **HDFC Gold Exchange Traded Fund, an open-ended exchange traded fund, is only the name of the scheme and does not in any manner indicate either the quality of the scheme, its future prospects and returns. Please read the Scheme Information Document (SID) and Statement of Additional Information (SAI) before investing.** **Terms of Issue:** The Units are offered at a face value of Rs. 100/- and issued at a premium equivalent to the difference between the allotment price and the face value during the New Fund Offer Period (NFO). NFO Expenses shall be borne by the AMC / the Trustee Company. The Units will be listed on the Capital Market Segment of the National Stock Exchange of India Limited (NSE) within 30 days from the date of closure of the NFO. All investors including Authorised Participants and Large Investors can subscribe (buy) / redeem (sell) Units in round lots of one Unit on a continuous basis on the NSE during the trading hours on all the trading days. In addition, Authorized Participants and Large Investors can buy / sell Units directly from the Mutual Fund in Creation Unit Size, on all Business days at NAV based prices. The Units will be issued, traded and settled compulsorily in dematerialized (electronic) form. **Investor benefits and general services:** Investors can subscribe to the units through the mutual fund trading platforms viz. BSE StAR MF of Bombay Stock Exchange Limited (BSE) and Mutual Fund Service System (MFSS) of NSE. The AMC will calculate and publish the first NAV of the scheme not later than 30 days from the closure of the NFO. Subsequently, the NAVs will be calculated and disclosed at the close of every Business Day. The NAV shall also be communicated to NSE. For further details, please refer to the SID, SAI and Key Information Memorandum cum Application forms, which are available on our website [www.hdfcfund.com](http://www.hdfcfund.com), and at the ISCs/ Bank Collection Centres of HDFC Mutual Fund. Investors can also contact us on 1800 233 6767 (toll free) or send an e-mail at [cliser@hdfcfund.com](mailto:cliser@hdfcfund.com).

- **Disclaimer of NSE:** It is to be distinctly understood that the permission given by NSE should not in any way be deemed or construed that the SID has been cleared or approved by NSE nor does it certify the correctness or completeness of any of the contents of the Draft Scheme Information Document. The investors are advised to refer to the SID for the full text of the Disclaimer clause of NSE.
- **Statutory Details:** HDFC Mutual Fund has been set up as a trust sponsored by Housing Development Finance Corporation Limited and Standard Life Investments Limited (liability restricted to their contribution of Rs. 1 lakh each to the corpus) with HDFC Trustee Company Limited, the Trustee (Trustee under the Indian Trusts Act, 1882) and with HDFC Asset Management Company Limited (“HDFC AMC”) the Investment Manager.

# Thank You