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Gold BeES (Gold Benchmark Exchange Traded Scheme)

Gold Benchmark Exchange Traded Scheme is an open ended fund which intends to offer investors a means of participating in the gold returns without the necessity of taking physical delivery of gold.

- ◆ Each unit of gold ETF issued under the scheme will be approximately equal to the price of 1 gm of gold.
- ◆ Units of GTFs can be bought or sold like any other stock on the stock exchange (preferably NSE) where it is listed.
- ◆ Gold ETFs will be in the dematerialized form

Analyst's view:

Risk return profile: Gold is considered to be a safe and stable investment compared to other asset classes. Its return potential is less when compared to an equity investment, so is the risk. The major risks it will be exposed to are movement in international gold prices and currency. However, these risks can be ignored in the long term investment horizon.

Suitability: Thus, investors who want to diversify their portfolio across various asset classes can invest in this fund.

Preferred investment duration: Due to high volatility in the gold prices, long-term investment (**atleast 5 years**) in the fund is recommended

Asset classes and their risk-return profile

The following table exhibits the risk-return potential of various asset classes.

| Asset class | Return potential | Risk involved | Liquidity | Volatility |
|---------------------|------------------|---------------|-------------|---------------|
| Debt | Low | Low | High | Low |
| Equity | High | High | High | High |
| Commodities-ex gold | High | High | Medium | High |
| Gold | Medium | Medium | High | Medium |
| Art | High | High | Very low | Medium |
| Real Estate | Very high | Very high | Low | Low |

Gold has always been considered as a safe investment because of its easy acceptability as a mode of exchange across the world and its stability during the times of financial crisis.

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Proposed asset allocation:

| | |
|------------------|---------|
| Physical gold | 90-100% |
| Debt instruments | 0-10% |

Source: Benchmark AMC

Gold for better diversification

Correlation coefficients for period: 1997-05

| | Gold | Silver | Stocks | Bonds |
|--------|------|--------|--------|-------|
| Gold | 1 | 0.089 | 0.206 | 0.741 |
| Silver | | 1 | -0.099 | 0.146 |
| Stocks | | | 1 | 0.112 |
| Bonds | | | | 1 |

Extract from the article of Mr P.H. Ravikumar, MD & CEO, NCDEX Ltd (Finapolis, January 2006 issue)

Snapshot:

| | |
|--------------------------------|---|
| Offer period | Feb 15, 2007 to Feb 23, 2007 |
| Investment Objective | To provide returns (after considering the fund expenses) which are in line with the returns provided by domestic price of gold through physical gold |
| Offer price | Rs.100 |
| Scheme type | Gold ETFs |
| Minimum investment | Rs. 10,000 |
| Plans offered | Growth |
| Entry load (during NFO) | For Rs. 10,000 to Rs. 49,99,000- 1.5% For Rs. 50,00,000 to Rs. 1,99,99,000- 1% For Rs. 2,00,00,000 to Rs. 4,99,99,000- 0.5% For Rs. 5,00,00,000 and above- Nil |
| Exit load (during NFO) | Nil |
| Fund Manager | Vishal Jain |
| Liquidity | Daily |

Source: Benchmark AMC

The performance of the fund will be benchmarked against domestic gold prices.

Why Gold?

1: Better diversification

Gold has less correlation with other financial assets like stocks and bonds. Thus investing in gold can be more effective in diversifying the risk, hence reducing the volatility of the portfolio. The adjacent table shows that gold has very low correlation with stocks (0.206). This means that if gold is added in anyone's stock portfolio, it would complement his existing investments.

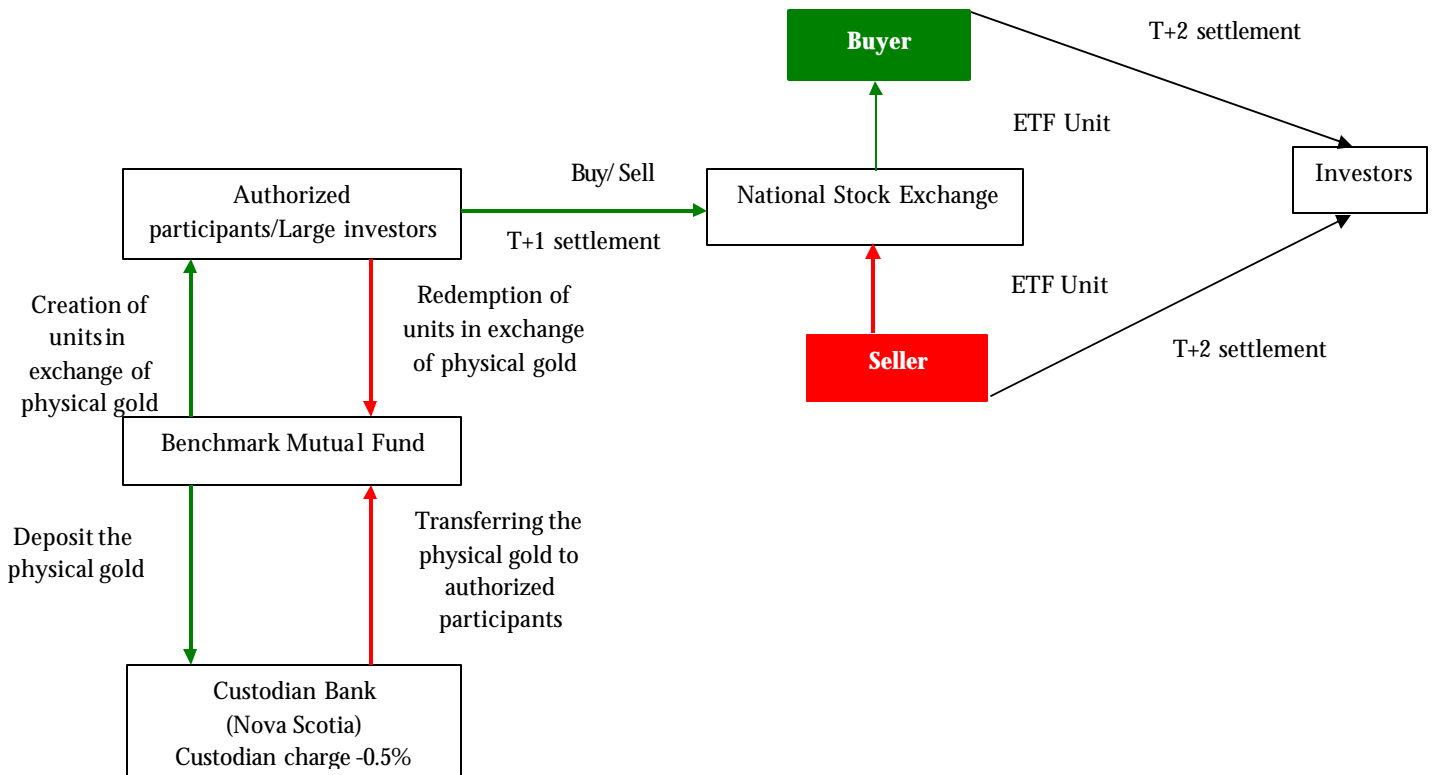
2: Gold is a good hedge against inflation.

Gold has always been considered as a hedge against inflation. This is further reaffirmed by the findings of a study, on the purchasing power of gold in Britain, between 1596 and 1997. The results of the study revealed that, one ounce of gold would consistently purchase the same amount of goods and services, as it would have done 400 years ago.

3: A stable and safe investment

- It is generally considered as safe investment since gold prices do not exhibit too much of volatility and at the same time, the yellow metal has always gone up in its value (but for short-term aberrations).
- It has worldwide acceptance as a mode of trading.
- The confidence in gold is also reflected in the gold holdings of world's major central banks. A significant portion of their total reserve is apportioned to gold.

Functioning of GETF



Basic information on BeES

- ◆ The fund can be bought or sold with an existing de-mat account (De-mat account can be in NSDL or CDSL).
 - ◆ Units will be allotted to the investor on T+2 settlement basis.
 - ◆ The fund will follow MF Custodian Bank Integrated Model-.
 - ◆ The custodian will be Nova Scotia Bank. The custodian charge is estimated to be close to 0.5% per annum.
 - ◆ Expense ratio is not expected to increase 1% p.a.
- ~ This model states that gold will be held by the custodian bank, which will buy or sell the units to/from the wholesale intermediary. While the units will be traded on stock exchanges investors can buy gold from the intermediary.*

GETFS in comparison with other gold investment avenues

| Parameters | Jeweller | Banks (Bars/coins) | From the commodity exchange (delivery option is exercised) | GETFs |
|-----------------------------------|--------------------------------------|--|---|--|
| Purchase and sale | Physical form | Physical form | Physical form | Dematerialized form |
| Quantum of investment | Any amounts | Multiples of 1/5/10 gms | Multiples of 10 | Multiples of approx 1 gm |
| Pricing | May differ from jeweller to jeweller | May differ from bank to bank | Linked to international gold prices | Linked to international gold prices converted in domestic currency |
| Making charges | Are involved | Are involved | Not involved | Not involved |
| Impurity risk | May exist | May exist | None | None |
| Storage requirement | Locker | Locker | Ware house | De-mat account |
| Security of asset | Investor responsible | Investor responsible | Investor responsible | Taken care of by the fund house |
| Risk of theft | Yes | Yes | Yes | No |
| Selling | At high discount on market prices | Selling back to the banks is not possible in most of the cases. Bars/coins could be sold to jewellers. | Selling is possible to the exchange at prevailing market prices | Selling brokerage charged by NSE member. Arbitrage opportunity available to authorized participants ensures that NAVs trade close to their actual values |
| Convenience | Low | Low | Medium | High |
| Wealth tax | Yes | Yes | Yes | No |
| Long term capital gain tax | Yes (if held for more than 3 years) | Yes (if held for more than 3 years) | Yes (if held for more than 3 years) | Yes if held for more than 1 years) |

Benefits of GETF

- ◆ Cost efficiency
- ◆ Tax efficiency
- ◆ Small amount (approx Rs.10,000), ideal for retail investors
- ◆ Liquidity
- ◆ Greater price uniformity
- ◆ Quick and convenient dealing through demat account
- ◆ Transparency

Tax Implication:

Income tax:

The fund will be treated as a debt-oriented fund for income tax purposes.

- ◆ There will be no tax deduction at source on redemption (irrespective of amount involved) for unit holders resident in India.
- ◆ If the investor holds the units for more than 1 year, his gains (long term) on redemption will be charged at 22.44% (including surcharge and cess) with indexation and 11.22% (including surcharge and cess) without indexation.
- ◆ However, any gains made on selling before 1 year, will result in short-term capital gains taxable at normal slab rates.

Wealth Tax:

- ◆ Units are not treated as assets as defined under Section 2(ea) of the Wealth Tax Act, 1957 and therefore would not be liable to wealth tax.

Performance of existing funds of Benchmark AMC

The table shows the performance of Benchmark mutual fund's funds. The AMC was the first one to introduce ETFs in the Indian market and has launched many ETFs since then. The AMC has been maintaining the lowest tracking error among ETFs tracking Nifty.

| Scheme name | Corpus Size (Rs.Crs) as on Jan 31, 07 | Absolute returns (as on Feb 15, 07) | | |
|---------------------------|---------------------------------------|-------------------------------------|--------------|--------------|
| | | 3 months | 6 months | 1 year |
| Benchmark Bank BeES | 5633.33 | -2.97 | 34.34 | 30.47 |
| Benchmark Derivative | 138.02 | 2.03 | 3.41 | 7.81 |
| Benchmark Split Capital A | 5.37 | 3.68 | 11.64 | 15.82 |
| Benchmark Split Capital B | 5.37 | 4.92 | 9.04 | 20.60 |
| Nifty Benchmark ETS | 140.02 | 7.59 | 26.04 | 39.14 |
| Nifty Junior BeES | 3.22 | 3.07 | 26.77 | 21.42 |
| Liquid Benchmark ETS | 156.61 | 1.80 | 3.43 | 6.65 |
| Nifty | N.A. | 6.96 | 25.14 | 37.19 |
| Sensex | N.A. | 6.58 | 26.89 | 41.95 |
| Nifty Junior | N.A. | 3.13 | 27.04 | 21.05 |
| Bank Nifty | N.A. | -3.02 | 34.94 | 29.36 |
| Crisil Liquid | N.A. | 1.62 | 3.05 | 6.11 |

Datasource: Bloomberg

Fund Manager:

Mr. Vishal Jain will act as the fund manager. Currently he is holding the position of Vice President-Investments in the Benchmark AMC. He is a B.Sc. graduate and an MBA with over 7 years experience. He was previously with the CRISIL Ltd., India's premier rating agency, where he was part of the Index group, which was involved in the calculation, maintenance and dissemination of CRISIL Equity Indices. He was then deputed to India Index Services & Products Ltd (IISL), a joint venture of CRISIL and NSE, which had a licensing and consulting agreement with Standard & Poor's, the world largest index service provider. At IISL, he was also involved in promoting indices for higher applications like Index Funds and Options. He is working with this AMC since October 2000.

At Benchmark, he is responsible for fund management. Presently, he is handling three schemes, viz. Nifty BeES, Junior BeES and Bank BeES.

For more information on MUTUAL FUNDS call 1600 4258283 or contact your nearest Karvy branch.

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