



LIC MUTUAL FUND

LIC MF Gold ETF Fund of Fund

Abstract

Gold has historically occupied a central position in Indian household savings and wealth preservation strategies. However, traditional investment in physical gold continues to involve multiple systemic limitations, including storage risks, purity concerns, high transaction costs and liquidity constraints. Additionally, conventional Gold Exchange Traded Funds (ETFs) typically require Demat accounts, creating accessibility barriers for retail investors unfamiliar with capital market infrastructure. LIC Mutual Fund addressed these problems through the LIC MF Gold ETF Fund of Fund, an open-ended Fund of Fund scheme investing in the LIC MF Gold Exchange Traded Fund.

Launched on 14 August 2012, the initiative was designed to expand access to gold investments by supplying a transparent, liquid, cost-effective and digitally accessible alternative that does not require physical gold ownership or a Demat account. The scheme follows a passive investment strategy that closely replicates domestic gold prices by investing in underlying ETF units while preserving liquidity, transparency and operational simplicity. Supported by robust administrative frameworks, investor education initiatives, risk management systems and efficient ETF replication mechanisms, the fund has evolved into a scalable, investor-friendly commodity-linked investment solution.

Introduction LIC Mutual Fund launched the LIC MF Gold ETF Fund of Fund, an investor-friendly product that simplifies access to gold as an investment asset class. The scheme was introduced to overcome the operational, financial and availability challenges associated with physical gold ownership and traditional gold investment channels. As an open-ended Fund of Fund, this scheme connects investors directly with domestic gold price movements. Investors can easily and securely access gold price exposure without the need for storage or a Demat account.

The initiative focused on addressing four key investor concerns: physical gold

storage risks, liquidity constraints, Demat dependency barriers and limited portfolio diversification opportunities. The scheme also considered gold as an inflation hedge and portfolio stabilizer within increasingly volatile financial markets. It also offered assurance of purity and availability. These benefits come from investments in smaller denominations and direct AMC-based transactions. The initiative has benefited lakhs of beneficiaries by making gold investing easy and encouraging long-term wealth preservation and diversification through greater awareness.

The Problem Statement

Gold remains one of the most preferred investment assets in India because of its historical role as a store of value, an inflation hedge and a safe-haven asset during economic uncertainty. However, classic methods of investing in gold continue to present several functional and availability barriers for investors.

The first major challenge involved physical ownership risks. Investments in physical gold require secure storage arrangements, involve risks of theft and loss and often raise concerns about purity verification and charging practices. These constraints disproportionately disadvantage small and retail investors.

The second challenge concerns liquidity and transaction effectiveness. Physical gold transactions are often cumbersome. They involve wide spreads between buying and selling prices and lack the transparency of regulated financial instruments. Investors needed a simpler and more liquid alternative.

A third barrier involved Demat dependency. Traditional Gold ETFs require investors to maintain Demat accounts. This creates operational and psychological barriers to entry for many retail investors, especially those unfamiliar with equity market infrastructure.

The fourth challenge involved portfolio diversification and inflation protection. Investors increasingly wanted low-correlation assets to hedge against equity stock market volatility, inflation and exchange rate fluctuations. However, accessible gold-linked investment products remained limited.

On top of these problems, there is a bigger need for gold-based investments that are simple, easy to use online and follow rules that keep investors safe, just as modern investors expect. LIC Mutual Fund, therefore, identified the need for an accessible solution that combines gold's wealth-preservation attributes with the convenience, liquidity and transparency of mutual fund structures.

Solutions Stack

The LIC MF Gold ETF Fund of Fund was designed as a comprehensive commodity-linked investment solution. It integrates passive investment management, ETF replication, functional transparency and investor accessibility.

The first layer of the solution involved the Fund of Fund structure itself. The scheme invested exclusively in units of LIC MF Gold Exchange Traded Fund, thereby enabling investors to gain exposure to domestic gold prices indirectly through mutual fund participation. This structure eliminated the need for physical gold ownership and Demat accounts, significantly reducing operational barriers for retail investors.

The second major component involved passive investment management. The scheme followed a passive investment strategy. This strategy was designed to closely replicate the returns of LIC MF Gold ETF, regardless of prevailing gold prices or future commodity outlooks.

The third component involved operational accessibility and liquidity. Investors could purchase units in smaller denominations without requiring large capital commitments, making gold investments more available and adaptable. Units could also be bought or redeemed directly through the Asset Management Company on business days at the applicable Net Asset Value (NAV). The fund assures investors of 99.5% gold purity in the underlying ETF, providing confidence and peace of mind during every investment.

Risk management systems were also implemented to minimise tracking error and manage commodity price volatility. Regular portfolio reviews ensured accordance with domestic gold price movements and wider market conditions.

Investor education initiatives formed an additional component of the solution architecture.

Strategic Vision and Institutional Philosophy

LIC Mutual Fund started the LIC MF Gold ETF Fund of Fund to help more people invest in gold through a simple, clear, low-cost and customer-friendly option. The organisation recognised that investors increasingly sought digitally accessible investment products that could deliver diversification benefits without operational complexity.

The fund, therefore, intended to bridge the divide between traditional gold investment behaviour and modern mutual fund accessibility. The strategic vision was guided by five core objectives. The first objective was to enable investors to access gold as an asset class without the hassles of physical storage. The second objective focused on providing a cost-effective and transparent way to track domestic gold prices.

The third objective aimed to support

portfolio diversification and provide an inflation hedge. This was important during periods of market volatility and currency fluctuations. The fourth objective was to sustain liquidity and minimise tracking error through efficient ETF replication systems. The fifth objective aimed to improve investor awareness about gold's role in long-term wealth preservation.

Implementation Journey

The LIC MF Gold ETF Fund of Fund was launched in August 2012 as part of LIC Mutual Fund's broader policy to expand investor participation within commodity-linked financial products. The first phase of implementation focused on structuring the fund architecture to secure seamless linkage with the underlying LIC MF Gold ETF while continuing efficient gold price replication and operational openness.

The scheme was categorised as a domestic FoF and structured as an open-ended mutual fund to ensure investor flexibility and liquidity.

The second phase focused on strengthening operational processes, including ETF transaction handling, liquidity management, portfolio monitoring and decreasing tracking error. Risk management

systems were integrated to address variations in global and domestic gold prices.

Subsequent implementation efforts concentrated on investor education and market information campaigns. LIC Mutual Fund actively promoted understanding regarding gold as a financial asset rather than solely a physical commodity or jewellery product. The scheme also evolved operationally through improvements within investor servicing, NAV-based liquidity access, SIP enablement and expanded digital transaction capabilities.

Implementation Challenges

One of the primary challenges was managing volatility in gold prices while ensuring consistent tracking performance through ETF-based replication. Since gold prices are affected by global commodity trends, currency fluctuations, inflation expectations and international uncertainty, preserving steady tracking effectiveness requires continuous portfolio oversight.

A second challenge involved minimising tracking error between the Fund of Fund and domestic gold prices. Since the scheme operated through underlying ETF investments, maintaining close correlation with benchmark gold prices required operational exactness and disciplined portfolio management.

Another challenge involved investor education. Many retail investors traditionally associated gold ownership primarily with jewellery or physical bullion. Educating customers about gold as a regulated

financial asset required sustained awareness-building initiatives.

The organisation also faced broader challenges to its market reputation. Investors frequently compared gold-linked returns with higher-return equity products without fully appreciating gold's role as a diversification and inflation-hedging instrument.

Highlights

- LIC Mutual Fund launched the LIC MF Gold ETF Fund of Fund in August 2012 to democratise gold investing by providing a transparent, liquid and digitally accessible alternative to physical gold ownership.
- The initiative addressed key challenges associated with traditional gold investments, including storage risks, purity concerns, liquidity issues, high transaction costs and the need for Demat accounts in conventional Gold ETFs.
- Structured as an open-ended Fund of Fund investing in the LIC MF Gold ETF, the scheme enables investors to access domestic gold price movements through smaller investments, SIPs and direct AMC-based transactions without holding physical gold.
- The platform combined passive investment management, ETF replication, liquidity access, risk management and investor education to support portfolio diversification, inflation hedging and long-term wealth preservation.
- The initiative benefited over 9 lakh investors, improved awareness of gold as a regulated financial asset and created a scalable model for inclusive, low-cost and customer-friendly commodity-linked investment solutions.

Outcomes The LIC MF Gold ETF Fund of Fund generated significant operational, investor-centric and financial inclusion outcomes. The initiative successfully expanded access to gold investments by eliminating the need for physical storage, addressing purity concerns and reducing reliance on Demat accounts.

Beneficiaries gained access to a regulated and transparent gold investment mechanism through the scheme. The product enabled investors to participate in domestic gold price movements through smaller denomination investments and SIP structures, making gold investments more affordable and systematic.

The initiative also strengthened investor awareness of gold's role as an inflation hedge, portfolio stabilizer and diversification tool during periods of economic unpredictability and market volatility. Operationally, the scheme delivered liquidity and convenience through AMC-based purchase and redemption systems, without the operational obstacles of physical gold ownership. The passive investment strategy ensured close alignment with domestic gold prices while preserving transparency and regulatory compliance within mutual fund frameworks.

Conclusion The fund represents an important move toward democratising commodity-linked investments through digitally accessible, transparent and investor-friendly financial structures.

By eliminating the operational obstacles associated with physical gold ownership and reducing barriers created by Demat account dependency, LIC Mutual Fund successfully broadened access to gold as an investment asset for retail and institutional investors alike.

The initiative also demonstrates the evolution of India's mutual fund industry toward simplified, inclusive investment solutions that combine traditional asset preferences with modern financial infrastructure. Through passive investment management, ETF replication, liquidity access and investor education, the scheme created a scalable and functional framework for commodity-based portfolio diversification.

Importantly, the product points out that financial inclusion within investment ecosystems requires not only digital accessibility but also the simplification of operational barriers and the enhancement of investor understanding.



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