

Wealth

Investing: TPSG benefits from strong gold prices

By Aris Riza Noor Baharin / The Edge Malaysia

08 Sep 2023, 11:30 am



"As TPSG invests in physical gold purchased from only gold refiners accredited by LBMA and securely stored in a vault in Singapore, its performance can be seen as being more reflective of the price movements of gold than those of equity markets." - Tan

This article first appeared in Wealth, The Edge Malaysia Weekly on August 28, 2023 - September 3, 2023

TradePlus Shariah Gold ETF (TPSG), an exchange-traded fund (ETF) managed by AHAM Asset Management Bhd (AHAM Capital), has generated fairly good returns over the past five years.

That is because the price of gold, considered a safe haven and an ideal inflation-hedging asset class by investors, performed well at a time when the global economy and financial markets were going through some turbulence, first caused by the pandemic and later by rising inflation and talk of a pending recession.

TPSG tracks the London Bullion Market Association (LBMA) gold price. As at Aug 8, it had generated an annualised return of 11.11% over the past five years, making it the second-best-performing ETF of the 16 listed on Bursa Malaysia.

However, TPSG's performance over the past five years has been uneven, with the highest returns recorded in the last 12 months. Over the past 12 months and for the year to Aug 8, the returns were 11.8% and 9.95% respectively. This performance helped push its annualised returns to 11.11% over a five-year period.

Anton Tan, chief officer of product solutions and customer experience at AHAM Capital, attributes the outperformance of TPSG to volatile markets, on the back of geopolitical tensions between the US and China. "Coupled with inflationary pressures, the investment demand for gold has increased. This has served as a factor in driving gold prices up," he says.

Tan says TPSG has outperformed similar commodity- or metal-based unit trust funds in the market over the past one, three and five years. The reason is that the ETF invests in physical gold, while commodity-based unit trust funds invest in the equities of companies that mine gold and other metals.

"This means the performance of these unit trust funds could be more correlated to the performance of equity markets. As TPSG invests in physical gold purchased from only gold refiners accredited by LBMA and securely stored in a vault in Singapore, its performance can be seen as being more reflective of the price movements of gold than those of equity markets," he adds.

Liquidity is often said to be a common issue that has plagued locally listed ETFs. But Tan observes that it has never been an issue for TPSG. "The underlying asset class for the ETF, which is gold, is very liquid. The minimum trading unit for TPSG on Bursa is 100 units," he says.

Tan recalls that the trading value of TPSG started modestly in early 2018, amounting to only RM12 million that year. But it spiked to almost RM145 million in 2020 before falling to about RM24 million in 2022. As a result, the average bid-ask spread of the ETF over the past year (July 1, 2022, to June 30, 2023) was about 1.54%.

For comparison, Malayan Banking Bhd, one of the most commonly traded blue-chip stocks, had a total trading volume of RM106.61 million in a single day on Aug 1. Its bid-ask spread could go as low as 0.1%.

The tracking error, which refers to the difference in performance between an ETF and its underlying benchmark, ranges from 1.76% to 2.3% over the past three financial years, says Tan. This means the ETF may not be tracking the LBMA gold price as closely as some investors may have wanted.

“Contribution to the tracking error is largely due to fees and expenses, as well as fund flows,” says Tan. TPSG has an annual management fee of 0.3% and a trustee fee of 0.06% per annum.

Tan believes TPSG is a good investment instrument for investors to gain easy exposure to gold as it is transparent and relatively liquid. It also provides investors with the flexibility to redeem physical gold.

“We think gold will continue to play an important role in serving as a hedge against market uncertainty as well as a store of value. From a portfolio perspective, we see it as a long-term holding for investors to hedge against economic instability,” he says.

Meanwhile, Morningstar data shows that the best-performing locally listed ETF over the past one, three and five years was the MyETF Dow Jones US Titans 50 managed by i-VCAP Management Sdn Bhd, a wholly-owned subsidiary of Kenanga Investors Bhd.

The ETF yielded investors an annualised return of 16.65%, 15.14% and 15.2% over the past one, three and five years respectively (as at Aug 8). The instrument is designed to provide investment results that closely correspond to the performance of its benchmark index, the Dow Jones Islamic Market US Titans 50.

Save by [subscribing](#) to us for your print and/or digital copy.

P/S: The Edge is also available on [Apple's App Store](#) and [Android's Google Play](#).