

Fund of Funds (FoFs) have gained traction over the past year, especially after reinstatement of tax advantages for this category in Budget 2024. These changes have made FoFs more attractive from a post-tax returns perspective.

Among the different types of FoFs, the following categories have seen increasing investor interest:

- **Income Plus Arbitrage FoF** is a FoF that invests in a mix of arbitrage and debt funds, with exposure to debt funds below 65%. This structure allows for tax-efficient investing, as long-term capital gains after two years are taxed at 12.5% plus surcharge and cess, much lower than the highest marginal tax rates applied to traditional debt funds.
- **Gold ETF FoF & Silver ETF FoF** offers a convenient route to invest in precious metals by holding ETFs that track gold and silver prices without having the necessity of holding demat account.

With FoFs, **total cost of ownership** is crucial, especially for categories like Gold and Silver ETF FoFs (where returns are closely tied to commodity prices and not fund manager skill), or Income Plus Arbitrage FoFs (which aim for debt-like returns, where every basis point matters). Investors often focus only on the **expense ratio of the FoF wrapper** (the fund that they directly invest in), without realizing that there's also an **additional hidden cost**: the **expense ratio of the underlying fund(s)**. What truly matters is the **Total Expense Ratio (TER)**, which is:

$$\text{TER} = \text{FoF expense} + \text{Underlying fund's expense}$$

At DSP, in the spirit of full transparency, we disclose the **Total Expense Ratio (TER)** of our Fund of Funds (FoFs), which includes both the cost of the FoF itself and that of the underlying funds. We believe this comprehensive disclosure is essential for investors to make well-informed decisions that accurately reflect the true cost of their investments. When comparing the expenses of FoFs, investors should ensure they are evaluating the **total cost**, not just the FoF's standalone expense ratio. In many cases, the TER (including underlying fund costs) is not readily available and may require investors to compute it separately. The table below highlights the difference between the FoF expense and the total expense borne by investors, including the expense of the underlying funds. While we've presented data for three categories, this approach applies broadly across all Fund of Funds.

Particulars	Income plus arbitrage FoF		Gold ETF FoF		Silver ETF FoF	
	Direct plan	Regular plan	Direct plan	Regular plan	Direct plan	Regular plan
Fund of Fund Expense ratio	0.07	0.41	0.17	0.50	0.20	0.61
	+		+		+	
Underlying Fund's Expense ratio	0.33		0.52		0.43	
	=		=		=	
<b>Total Expense borne by investors</b>	<b>0.40</b>	<b>0.74</b>	<b>0.69</b>	<b>1.02</b>	<b>0.63</b>	<b>1.05</b>

Data as of 30 Apr 2025. Source – MFIE. Category average considered for expense ratio

### So, What Should Investors Do?

- **Always check the Total Expense Ratio**, including both the FoF and underlying fund costs.
- **Ask questions**: If the total cost isn't clearly disclosed, demand transparency.
- **Be cautious of misleading comparisons**: A fund with a lower displayed expense ratio might still cost more in reality.

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**Mutual Fund investments are subject to market risks, read all scheme related documents carefully.**