

## **Do Emerging Market ETFs Exhibit Higher Tracking Error? Evidence from India**

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**Abstract:** This paper aims to measure the efficiency of the Indian equity ETFs (exchange traded funds) with respect to their benchmarks by assessing tracking errors. The analysis consisted of 10 different Indian equity ETF funds reflecting the benchmark Nifty index, midcap and Nifty bank indices. We find that Indian ETFs show higher tracking error compared to the developed world ETFs. We have compared tracking errors from different indices and found that mid-cap ETF fund exhibits higher tracking error compared to benchmark nifty ETFs. We attempted to examine the potential causes for higher tracking errors and probable remedial steps to minimize them. The findings of this analysis would be beneficial for retail and HNI (high net worth individuals) investors, DII (domestic institutional investors) and FII (foreign institutional investors) participating in Indian ETF markets.

**Keywords:** Tracking Error, Nifty, ETF, Exchange Traded Funds

**JEL Classification Number:** F31, F41

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