

# Exchange Traded Funds (ETFs)

Presentation to NedBank Capital / etfSA  
“New World of ETFs”  
Seminar

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etfSA.co.za

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# Agenda

- **What are ETFs?**
- **How do they work?**
- **Performance data**
- **What types of ETFs are there in South Africa?**
- **How to invest in ETFs**
- **Contact details**

# What are ETFs?

- **It is a security, listed on the JSE, that provides access to a group of securities (an index) chosen to represent an entire market, or a portion of the market**

# How Do ETFs Work?

## Index Weights – Basket of Constituents (as at October 2010) FTSE/JSE Top 40 Index

	Market Cap Weighted (%)	Equally Weighted (%)		Market Cap Weighted (%)	Equally Weighted (%)
African Bank Investments	0,8	2,5	Financiere Richemont	5,1	2,5
Arcelor Mittal	0,5	2,5	Capital Shop Centres	0,8	2,5
Anglo American Plc	12,2	2,5	Exxaro Resources Ltd	0,3	2,5
Anglo Platinum Ltd	2,0	2,5	FirstRand Ltd	2,4	2,5
AngloGold Ashanti Ltd	3,3	2,5	GoldFields Ltd	2,1	2,5
Aspen Pharmacare	0,8	2,5	Growthpoint Properties Ltd	0,8	2,5
African Rainbow Minerals	0,4	2,5	Harmony Gold Mining	0,9	2,5
Absa Group Ltd	1,4	2,5	Impala Platinum	3,4	2,5
BHP Billiton Plc	15,3	2,5	Investec (Ltd & plc)	1,3	2,5
Bidvest Group Ltd	1,5	2,5	Kumba Iron Ore Ltd	1,1	2,5

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# How Do ETFs Work?

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Lonmin Plc	0,2	2,5	RMB Holdings Ltd	0,9	2,5
Massmart	0,8	2,5	SABMiller Plc	7,7	2,5
Mondi (Ltd & plc)	0,9	2,5	Standard Bank Group Ltd	4,7	2,5
MTN Group	6,5	2,5	Steinhoff International	0,9	2,5
Nedbank Group Ltd	1,0	2,5	Shoprite Holdings Ltd	1,5	2,5
Naspers Ltd –N	4,2	2,5	Sanlam Ltd	1,6	2,5
Old Mutual Plc	2,3	2,5	Sasol Ltd	5,7	2,5
Pick 'n Pay Stores Ltd	0,3	2,5	Tiger Brands Ltd	0,7	2,5
Reinet Investments	0,7	2,5	Truworths	0,9	2,5
Remgro Ltd	1,4	2,5	Vodacom Group	0,8	2,5

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# How Do ETFs Work? (continued)

- You are buying a participatory interest (ownership) in a whole basket of shares
- So you own a percentage of all the best shares on the JSE. The index constituents changes to only include the biggest shares
- This diversification into a basket of blue chip shares
  - Enhances your performance potential
  - Reduces your risk

# ETFs and Unit Trusts

- **Majority of ETFs are Collective Investment Schemes**
- **They differ from Unit Trusts by being listed on the JSE, which brings**
  - **Live and fair value pricing**
  - **Electronic transfer, registration, custodianship on a single central register in individual investors' names**
- **ETFs cannot sustain high TERs as this creates visible divergence from Net Asset Value and tracking error**

# Unit Trust and ETF Total Expense Ratios in South Africa

(% per annum)	
	TER
General Equity Unit Trusts – average BIPS Top 40 ETF	1,70 0,21
Equity Specialist Unit Trust Funds – average Satrix DIVI ETF	2,32 0,45
Equity – Industrial Sector Unit Trusts – average Satrix INDI	1,52 0,45
<i>Source: ASISA Unit Trust Survey (June 2010)</i>	

- Excluded from TERs:
  - Brokerage costs
  - Distribution costs
  - Scrip lending income



# Comparative Fee & Cost Structures

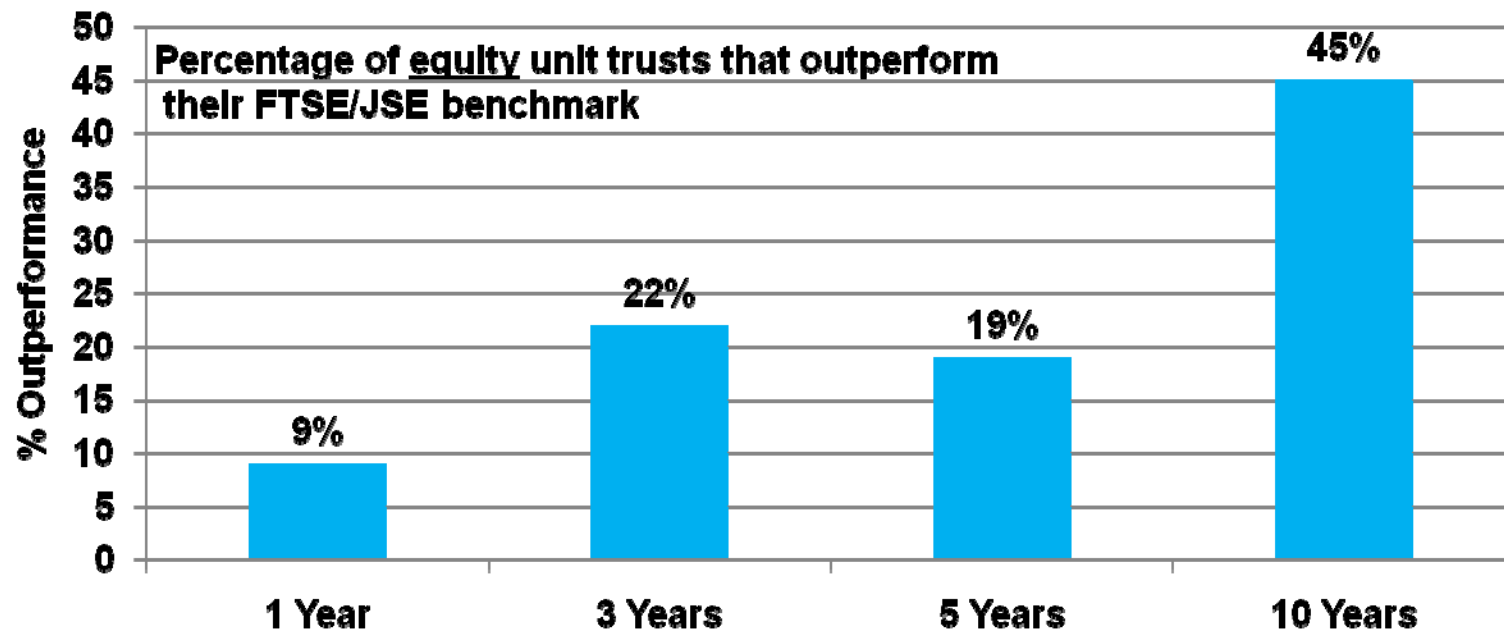
Unit Trusts vs Exchange Traded Funds (ETFs) (% of assets per annum)		
	Unit Trusts	ETFs
Total Expense Ratios (TERs)	1,0% to 3,5%	0,5%
Investment Platforms	0,5% to 1,0%	0,45% to 0,8%*
Fund Manager Fees	1,0% to 2,0%	n/a
Financial Advisor Commissions	1,0% to 5,0%	1,0%**
Performance Fees**	10% to 30% of outperformance	n/a
<b>Totals</b>	<b>3,5% to 11,5%</b>	<b>0,95% to 2,3%</b>
<b>Notes</b>	i) * Fees charged on etfSA platform	
	ii) + etfSA can be accessed directly by investors if Financial Advisors services not required	
	iii) ** Performance fees should be included in TERs	
	iv) These are representative charges ascertained from a sample of unit trust and ETF companies	

# ETFs and Unit Trusts (continued)

- **ETFs/Unit Trusts fall under CISCA, FAIS, FICA legislation and FSB regulation, guidelines, etc. for exposure, compliance, reporting and portfolio structure**
- **ETFs also comply with the Securities Services Act (2004) and are regulated by the JSE**
- **ETFs typically provide beta returns and low risk**
- **Unit Trusts focus on alpha returns but with associated risk**

# Performance Data

## Outperformance of South African Equity Unit Trusts (1 to 10 years)



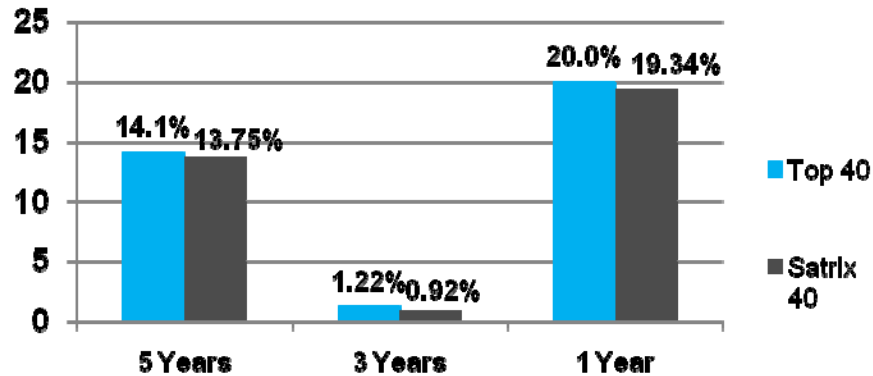
Source: Profile Media Data  
Dr D Wessels, DRW Investment Research (September 2010)

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# Performance Data

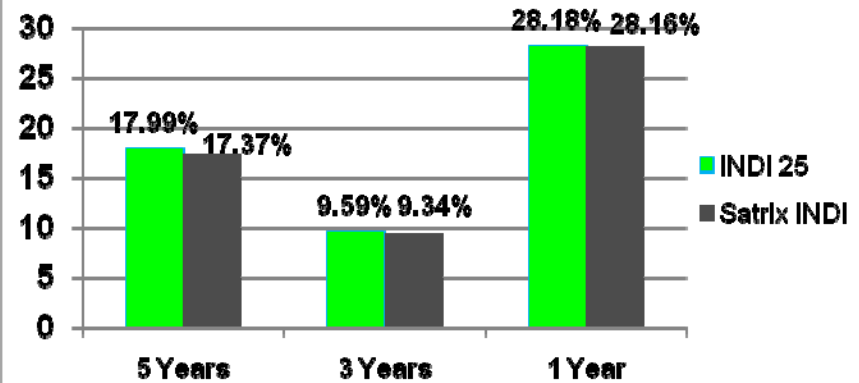
## Satrix 40



Indices - no costs  
Satrix - net of TERs

Source: PlexCrown/etfSA Performance Survey  
(September 2010)

## Satrix INDI



Indices - no costs  
Satrix - net of TERs

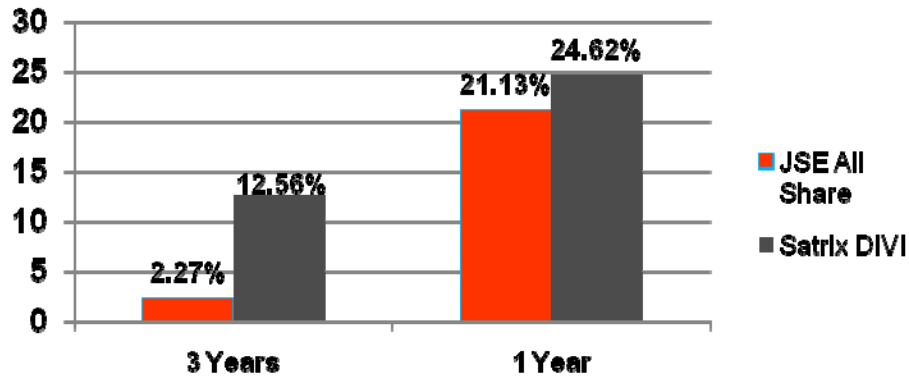
Source: PlexCrown/etfSA Performance Survey  
(September 2010)

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# Performance Data

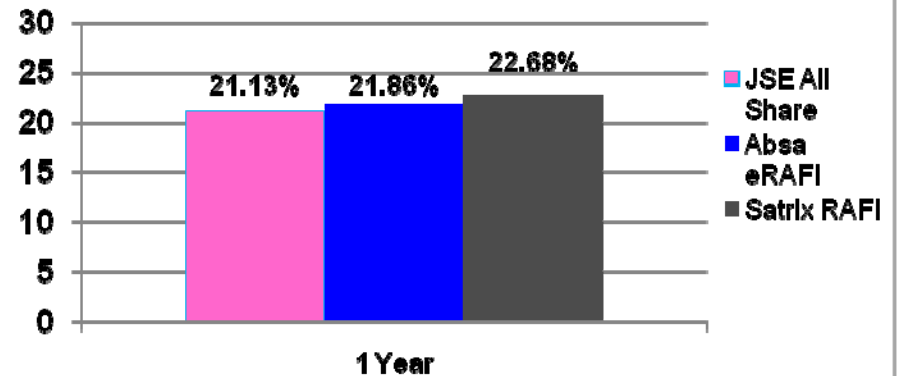
## Satrix DIVI



Indices - no costs  
Satrix - net of TERs

Source: PlexCrown/etfSA Performance Survey  
(September 2010)

## Absa eRAFI/Satrix RAFI



Indices - no costs  
Satrix - net of TERs

Source: PlexCrown/etfSA Performance Survey  
(September 2010)

# What Types of ETFs Are There?

## A) Index Tracking ETFs

1.	Top 40 – Broad Market Access	Description
	<b>Satrix 40</b>	Market cap index of JSE top 40 blue chip shares on the JSE – high exposure to mining and large cap shares
	<b>BIPS 40</b>	Same portfolio as Satrix 40, but Total Expense Ratio (TER) 0,21% vs Satrix 40's 0,45%
	<b>Satrix SWIX 40</b>	Adjusts the Top 40 weighting to exclude all South African shares held by foreigners. Reduces the portfolio exposure to mining and dual listed shares
	<b>BettaBeta EQW 40</b>	Equally allocates the same amount (2,5%) to each of the top 40 shares. This balanced approach produces less volatility and lower risk adjusted exposure to the Top 40.
	<b>Stanlib Top 40</b>	Same portfolio as Satrix 40
	<b>Stanlib SWIX 40</b>	Same portfolio as Satrix SWIX

**Dividends paid quarterly**

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# What Types of ETFs Are There?

## A) Index Tracking ETFs (continued)

2.	JSE Sector Exposure	Description
	<b>Satrix INDI 25</b>	Provides access to top 25 industrial shares (manufacturing, construction, retail) on the JSE
	<b>Satrix FINI 15</b>	Exposure to local banks, insurance and financial services companies
	<b>Satrix RESI 20</b>	Provides a portfolio of the top 20 mining and resource counters on the JSE
Dividends paid quarterly		
3.	Bond (Fixed Interest) ETFs	Description
	<b>Investec zGOVI</b>	Invests in SA Government bonds, the interest rate (coupon) is reinvested twice annually with new zGOVI securities issued
	<b>BIPS Inflation Plus</b>	Exposure to a portfolio of SA Government Inflation Linked Fixed Interest bonds – gives protection of both capital and interest against CPI inflation. Pays quarterly dividends

# What Types of ETFs Are There?

## A) Index Tracking ETFs (continued)

4.	Property ETFs	Description
	<b>Proptrax</b>	Invests in the top 16 property shares on the JSE. Gives exposure to property, the fourth asset class, and pays a high quarterly distribution yield
5.	"Style" ETFs	Description
	<b>Shari'ah Top 40</b>	Invests in a basket of shares selected from the Top 40 based on Islamic investment principals for share selection
	<b>NewSA</b>	Portfolio of shares selected for their BEE credentials
	<b>NewRand</b>	Basket of 10 shares picked for their close correlation to the rand exchange rate. Provides a "rand hedge" portfolio
	<b>Satrix DIVI</b>	Selects 30 of the JSE's largest companies for their dividend payment potential over the forthcoming year. Offers high yield and potential for the re-rating of share prices that pay good dividends

**Dividends paid quarterly**

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# What Types of ETFs Are There?

## A) Index Tracking ETFs (continued)

<b>6.</b>	<b>Foreign ETFs</b>	<b>Description</b>
	<b>DBX Euro</b>	Provides access in rands, and with no foreign exchange controls for individuals, to a portfolio of the Top 50 European shares.
	<b>DBX UK</b>	Provides access in rands, and with no foreign exchange controls for individuals, to a portfolio of the Top 100 companies on the London Stock Exchange.
	<b>DBX Japan</b>	Provides access in rands, and with no foreign exchange controls for individuals, to a portfolio of the Top 400 Japanese shares.
	<b>DBX USA</b>	Provides access in rands, and with no foreign exchange controls for individuals, to a portfolio of the Top 600 US companies.
	<b>DBX World</b>	Provides access in rands, and with no foreign exchange controls for individuals, to a portfolio of some 1900 shares worldwide.

Dividends paid twice a year

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# What Types of ETFs Are There?

## B) ETFs that seek outperformance of the index

<b>Satrix RAFI 40</b>	Selects 40 JSE companies using Research Affiliates Fundamental Indexation methods (RAFI), which uses fundamental accounting criteria to select “undervalued shares”. All dividends and other income is automatically reinvested (i.e. a total return fund)
<b>eRAFI™ Overall</b>	Uses RAFI methodology as above, but with enhanced filter techniques, to seek outperformance of the All Share Index. Quarterly dividends
<b>eRAFI™ INDI 25</b>	Selects 25 industrial stocks on the JSE using enhanced RAFI technology. Quarterly dividends
<b>eRAFI™ FINI 15</b>	Selects 15 financial shares on the JSE using enhanced RAFI technology. Quarterly dividends
<b>eRAFI™ RESI 20</b>	Selects 20 resource (mining) shares on the JSE using enhanced RAFI technology. Quarterly dividends

# What Types of ETFs Are There?

## C) Commodity Exchange Traded Products

<b>NewGold ETF</b>	Invests in physical gold bullion – providing direct exposure to the gold price, traded in rands on the JSE
<b><i>Exchange Traded Notes (ETNs) – Issued by Standard Bank</i></b>	
<b>Commodity-Linked (Gold) *</b>	Provides access to the global price of gold using underlying gold commodity futures (traded in rands on the JSE)
<b>Commodity-Linked (Silver) *</b>	Provides access to the global price of silver using underlying silver commodity futures (traded in rands on the JSE).
<b>Commodity-Linked (Platinum) *</b>	Provides access to the platinum price on world markets, using platinum commodity futures (traded in rands on the JSE).
<b>Commodity-Linked (Palladium) *</b>	Provides access to the palladium price on world markets, using palladium commodity futures (traded in rands on the JSE).

**No dividends**

**\*To be included on etfSA Investor Scheme™ shortly**

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# New etfSA Products

- **Standard Bank Commodity Linked Notes (ETNs)** – gold, silver, platinum, palladium
- **etfSA STeFI Linked Money Market Deposit, Managed by Nedbank**
  - Guarantee the STeFI money market composite interest rate (weighted return of call to 12 months fixed deposit rates)
  - No capital loss
  - Interest return calculated monthly and new notes issued and deposited into your account
  - Comparable with unit trust money market funds
  - Competitively low costs

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# New etfSA Products (continued)

- **etfSA Retirement Annuity Funds**
  - Now registered with FSB (12/8/38021)
  - Fully administered retirement fund scheme with FSB approved independent trustees, valuers, investment administrators, auditors)
  - Regulation 28 compliant portfolios constructed by Nedbank Capital with ETFs as the underlying investments
  - Transparent, low cost, liquid
  - Will accommodate lump sums, debit orders, transfers from other funds - for individuals, corporates and financial advisors

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# How To Invest In ETFs

## Through etfSA Investor Scheme™

- R1000 lump sum (minimum)
- R300 debit order (minimum)
- Brokerage 0,1% of investment value
- Annual management fee (0,45% to 0,8%) includes registration, custodianship, reporting, reinvestment of dividends, etc.
- Can be done independently (no commissions) or through financial advisor (FSP) – up to 1% trailing fee

# etfSA Investor Scheme™ Platform & Financial Advisors

- Clients accounts administered by FSB registered LISP
  - Automated Outsourcing Services (AOS)
- FSB registered FSPs can register on etfSA Investor Scheme™ to have clients accounts managed and to receive trailing commissions
- Registered FSPs can advise clients and transact in ETFs with FAIS Category 1:14 and/or 1:8 license
- Registration process fully electronic
- Application form creates client/broker investment mandate
- FICA held by administrator or FSP
- Electronic access to client statements

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# Contact details

<b>Website</b>	<b><a href="http://www.etfsa.co.za">www.etfsa.co.za</a></b>
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<b>etfSA Management</b>	<b>Tel: 011 561 6653 Fax: 011 388 4674 <a href="mailto:info@etfsa.co.za">info@etfsa.co.za</a></b>

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