Prepared by: Tanya Naidoo (Research Analyst)

Insights: The Exchange Traded Product (ETP) Landscape

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UNDERSTANDING THE EXCHANGE TRADED PRODUCT (ETP) LANDSCAPE

The South African Exchange Traded Product (ETP) landscape has changed over the past decade and continues to evolve. Prior to the year 2022, all we were familiar with was Exchange Traded Funds (ETFs) and Exchange Traded Notes (ETNs). Looking back towards the latter end of 2022, we saw the introduction of Actively Managed Certificates, and now more recently, we see the introduction of Actively Managed ETFS (AMETFs).

Exchange Traded Product (ETP)

An Exchange Traded Product (ETP) is an investment vehicle which provides an investor with direct access to a basket of assets, it is traded on stock exchanges, such as the Johannesburg Stock Exchange (JSE), with the convenience of trading in a single security. Many ETPs track an index, such as the FTSE/JSE Top 40, but there is a growing range of actively-managed portfolios. ETPs are attractive as investments because of their lower costs (e.g., Total Expense Ratio TER) and the ability to trade them like a normal listed security. An ETP combines the diversified portfolio of a unit trust investment with the tradability features of a listed security, allowing it to be bought or sold during each trading day at the ruling market price. ETPs were traditionally known for being “passive investments”, i.e., they provide the average performance of the asset class or index being tracked, however this is quickly evolving with the introduction of Actively Managed Certificates and Actively Managed ETFs, promising alpha or Index beating investment returns.

So, what does all of this mean?

Looking at the Exchange Product Matrix, we see the split between asset-backed, credit-backed, index tracking, and active management strategies. These strategies are explained in more detail below:

Exchange Traded Product Matrix	*Asset Backed	**Credit Backed
Index Tracking	ETFs	ETNs
Active Management	AMETFs	AMCs

***Asset Backed: Financial instruments that are collateralised by a pool of underlying assets**

****Credit Backed: Backed by an issuer’s (financial institution) senior unsecured and uncollateralised debt instruments (not backed by an asset that is pledged as collateral)**

Passive Management

Exchange Traded Funds (ETF)

ETFs are a basket of underlying securities that provides exposure to a variety of sectors, across various geographies. They typically track a basket (or Index) of shares and the shares that replicate the index, are physically held in a Trust (under the control of an independent Trustee). ETF investors purchase a participatory unit in this portfolio (fund), which trades like any other instrument on the JSE.

Exchange Traded Notes (ETN)

ETNs are debt securities that are credit backed by an issuer, typically a bank, with the promise to pay the performance of the underlying, or reference investment, without the investors having a claim on the reference assets. The benefit here is that ETNs provide access to assets that are less suitable to be physically held and stored, such as commodities, currencies, etc.

Active Management

Actively Managed ETFs (AMETFs)

AMETFs are Exchange Traded Funds that have room for flexibility by being actively managed, rather than focusing on index tracking solutions. An AMETF may have a benchmark Index, the same way ETFs do, however managers have the flexibility to deviate from the Index as they see fit. They also trade the same way ETFs and other securities do on the JSE.

Actively Managed Certificates (AMCs)

Actively Managed Certificates are debt securities that are credit backed by an issuer, typically a bank, which offers investors exposure to the performance of an underlying portfolio that is actively managed. There is often intellectual property involved in the strategy of managing these portfolios, in an attempt to outperform their respective benchmark/s. Investors have the benefit of being invested in a flexible active strategy that is traded just like any instrument on the JSE.

Disclaimer

The Exchange Traded Products (ETPs) contained herein may be mainly Collective Investment Schemes in Securities (CIS) and all are listed securities which are generally medium to long-term investments that contain elements of risk and can be affected by market values, interest rates, exchange rates, volatility, dividend yields and issuer credit ratings. ETPs are listed on the Johannesburg, or other Stock Exchanges, and trade at ruling prices on such Exchanges.

The price of ETPs can go up as well as down and past performance is not necessarily a guide to the future. The ETPs herein are listed on the Johannesburg Stock Exchange Limited and trading in ETP securities will incur trading and settlement costs. ETF securities are traded at ruling prices and can engage in scrip lending.

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