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The case for Exchange Traded Products (ETPs) in Low Risk, Low Cost Balanced Investment Portfolios

Absa/etfSA.co.za
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What Are Exchange Traded Products (ETPs)?

- They are securities traded on the JSE, like any other listed shares.
- They give access to a portfolio (Fund) of shares.
- The Fund typically tracks an index.

Components of FTSE/JSE Top 40 Index

Index Weights – Basket of Constituents (as at June 2014) FTSE/JSE Top 40 Index			
	Market Cap Weighted (%)		Market Cap Weighted (%)
African Rainbow Minerals	0,32	Capital & Countries Prop	0,22
Anglo Platinum Ltd	0,47	Compagnie Fin Richemont	9,37
Anglo American Plc	6,36	Discovery	0,49
Anglo Gold Ashanti Ltd	1,29	Exxaro Resources Ltd	0,30
Aspen Pharmacare Hldgs	1,54	Firststrand Ltd	2,38
Assore Ltd	0,20	Growthpoint Properties Ltd	0,88
Barclays Africa Group	0,92	Impala Platinum Holdings	0,95
BHP Billiton Plc	13,47	Imperial	0,58
Bidvest Group Ltd	1,57	Investec Ltd	0,40
British American Tobacco	3,38	Investec Plc	1,01

Components of FTSE/JSE Top 40 Index

Index Weights – Basket of Constituents (as at June 2014) FTSE/JSE Top 40 Index			
	Market Cap Weighted (%)		Market Cap Weighted (%)
Intu Properties Plc	0,88	Remgro Ltd	1,91
Kumba Iron Ore Ltd	0,34	RMB Holdings Ltd	0,63
Life Healthcare Grp Hldgs	0,69	SABMiller Plc	10,26
Mediclinic International Ltd	0,60	Sanlam Ltd	1,85
Mondi Ltd	0,39	Sasol Ltd	5,93
Mondi Plc	1,20	Shoprite Holdings Ltd	1,21
MTN Group	6,68	Standard Bank Group Ltd	3,03
Naspers Ltd -N-	8,88	Steinhoff International Hldg	2,34
Nedbank Group Ltd	0,81	Tiger Brands Ltd	0,77
Old Mutual Plc	2,95	Vodacom Group	0,71
Reinet Inv Soc Anon	0,64	Woolworths Holdings Ltd	1,03

The Case for ETPs

- You buy one ETP, but you own a whole portfolio (fund) of shares.
- Although you own a whole portfolio, you only pay for one share – brokerage and JSE settlement costs are only paid once and not for every share in the portfolio.

**Buy one security and own a whole
“basket” of shares on the JSE.**

Continued/...

The Case for ETPs (continued)

Low costs

Average Total Expense Ratios (TERs)*		
	% p.a.	bps
Domestic Exchange Traded Fund	0,33%	33
Unit Trust Index Trackers	0,76%	76
General Equity Unit Trust	1,56%	156

- Low brokerage schemes are available for purchase of ETFs through Investment Plans, etc. (similar to LISP platforms for unit trusts).
- No STT (Securities Transfer Tax) of 0,25% payable for ETFs.
- Passive tracking index reduces portfolio churn and undisclosed transaction costs.

***Note: TERs are not consciously paid by the investor, they are embedded in the price of the product.**

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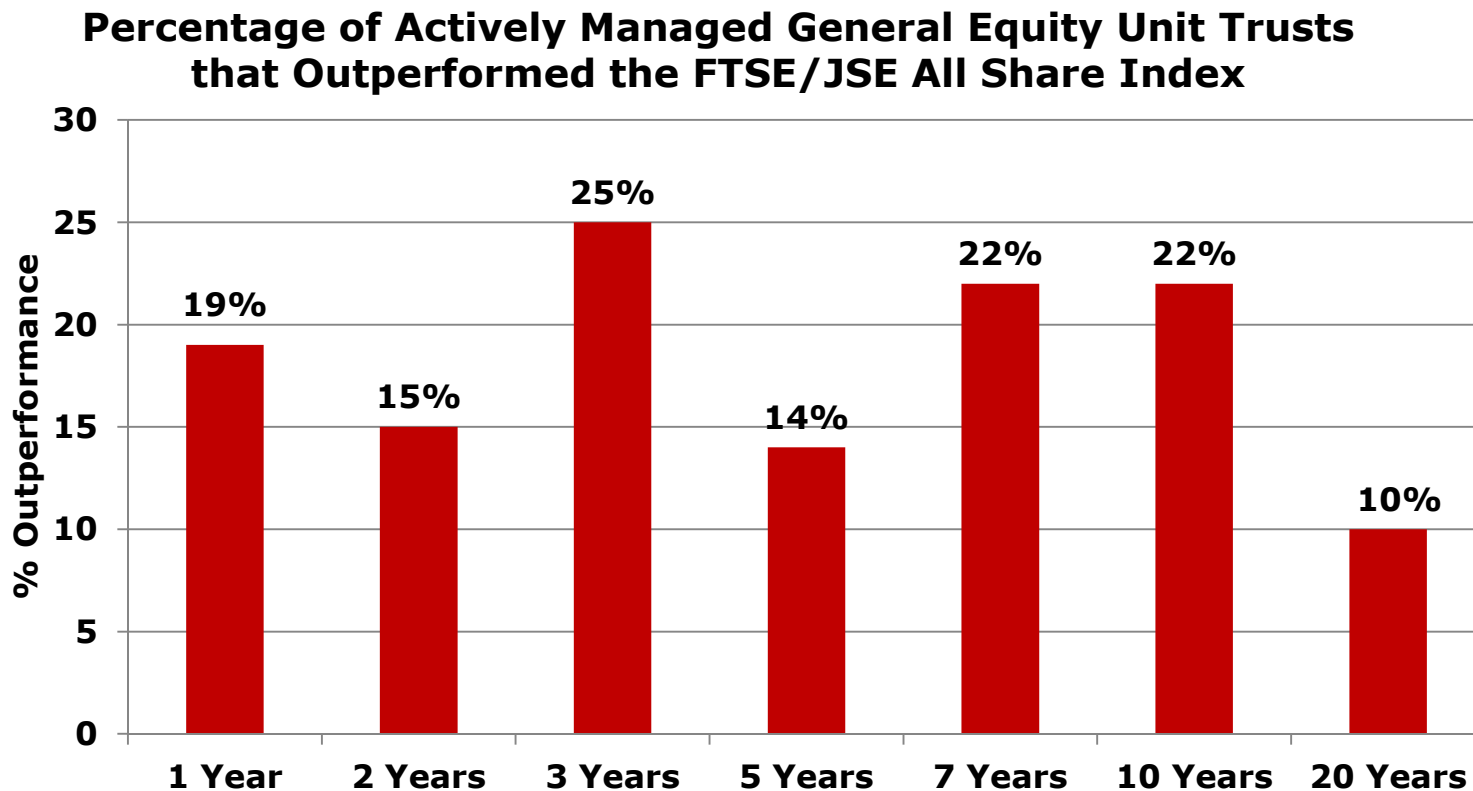
The Case for ETPs (continued)

JSE Listing

- Security of tenure (all ETPs are registered in your name on the centralized JSE/STRATE/CSDP electronic settlement, registration, custodianship system).
- Twin regulation: FSB and JSE.
- Complete transparency in:
 - Price discovery
 - Portfolio components
 - Disclosure of costs.
- Live trading to take advantage of intraday index movements .
- JSE regulations require full (100%) physical backing for all ETFs and bank guarantees for TNs.
- Listed index trackers, like ETFs, have to fully replicate JSE indices tracked at all times.

The Case for ETPs (continued)

They outperform 80% of Actively Managed Portfolios Over Time



Source: ASISA Unit Trust Survey (30 June 2014)

Building Up Wealth

R1000 per month in Satrix INDI 25 ETF

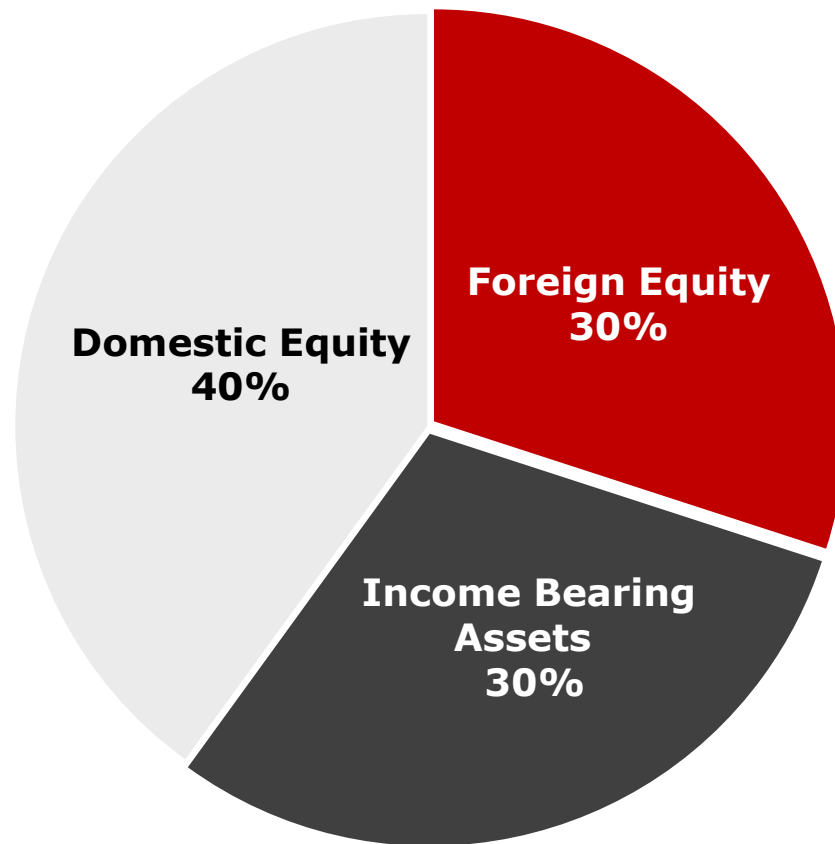
	Current Value*				
	1 Year	3 Year (R)	5 Year (R)	10 Year (R)	20 year** (R)
Satrix INDI 25 ETF	13 640	57 380	124 780	422 400	4 638 600
* Current value of R1000 per month investment over 1-10 years for period ended 19 June 2014					
** Extrapolated return based on 2004-2014 returns.					
Source: etfSA.co.za / Profile Data.					
Note: Historic returns may not be repeated in future.					

Using Passively Managed ETPs in Portfolio Construction

Strategic Asset Allocation

- A multi-asset strategy reduces risk, creates diversification and can enhance long-term performance.
- **Asset allocation strategy** typically accounts for 90% or more of balanced portfolio performance over time.
- Need to meet Regulation 28 and other compliance requirements.

Typical Asset Allocation



Why Passive? Using Exchange Traded Products?

Lower Risk

- Eliminate active manager getting the market wrong.
- Greater consistency of performance by ensuring actual returns of the index for each asset class.
- Risk is typically measured by the standard deviation against the benchmark (the index).
- Investing directly in the indices materially reduces the standard deviation (volatility) risk of the portfolio.

Balanced Portfolio

(multi asset class)

ETF Balanced Portfolio	Amount Allocated (%)	3 Year Total Return* (% per annum)	5 Year Total Return* (% per annum)
Domestic Equity			
Satrix INDI 25 ETF	20%	31,59%	30,59%
NewFunds eRAFI FINI ETF	10%	28,33%	24,51%
NewFunds eRAFI Overall	10%	19,32%	19,79%
Foreign Equity			
DBX Tracker MSCI USA ETF	15%	33,41%	24,93%
DBX Tracker MSCI World ETF	15%	28,49%	21,34%
Interest Bearing Assets			
NewFunds ILBI ETF**	15%	11,42%	10,10%
Proptrax SAPY ETF	15%	16,49%	19,51%
Totals	100%	24,41%	21,95%
Multi Asset Unit Trusts			
Low Equity Fund***	-	11,68%	11,00%
High Equity Funds***	-	15,55%	15,12%
Flexible Funds	-	15,75%	15,39%

*	Total return with all dividends reinvested.
**	
***	Average returns for all unit trusts in this sector.
*	

Source:	ASISA – Quarterly Unit Trust Survey (June 2014)
Note:	Historical returns may not be repeated in future.

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Investment Plans

- Will accept investments from R1000.
- Will process debit orders from R300 per month.
- Automatically reinvests dividends four times a year.
- Administration fee (0,4% - 0,7% p.a.) is administered over 12 months and covers all transactions over that period.
- Will facilitate third party investments
- Ideal for Investor Clubs/Stokvels.
- Specialise in ETPs only.
- Financial advice can be provided for portfolio investments.

Comparison on Transaction Costs

**Online stockbroker & etfSA Investor Plan
R5000 per month debit order in 5 ETFs (R1000 per ETF)**

	Total Charge (R)	
	Monthly	Annual
Online Stockbroker		
Stockbrokerage (0,5% per transaction or R50 minimum fee) per transaction	250	3 000
Settlement charges (R12,45 per transaction)	62	747
Administration fee	60	720
Total	372	4 467
etfSA.co.za		
Stockbrokerage (0,1%)	5	60
Settlement charges	-	-
Debit order charge	3,50	42
Admin fee (0,7% per annum)	35	213
Total	43,50	315

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