

Stocks For Frocks – An Investment Event for Every Smart Woman

How to make *potjiekos*

Using **E**xchange **T**raded **F**unds to build an Investment Portfolio

August 2013

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- Exchange Traded Funds 101
 - Salient points about ETFs
- “How to make *potjiekos*”
 - What do you need to make a potjie?
 - Basic ingredients
 - How do you know what are in your “ingredients”?
- Three sample recipes for “**E**xtrremely **T**asty **F**lop-free” potjies
 - Low risk (approved by the “Heart Foundation”)
 - Medium risk (family-friendly)
 - High risk (student special)
- Investing in ETFs
 - Where?
 - What?
 - How?
- Questions

- What is an ETF?
 - A package deal
 - A box of chocolates
 - A hamper of goodies
- What is in the ‘hamper’?
 - There are different types of hampers – Christmas, Valentine’s Day, Back-to-School etc.
 - Every ETF also has a ‘theme’, e.g. Resource stocks, High dividend yielding stocks, Inflation-linked bonds, ‘Green’ companies, Physical gold, etc.
 - The theme is usually defined by the index that the ETF follows / tracks
- What makes an ETF less expensive?
 - The ‘package deal’ allows for economies of scale
 - There is only one ‘wrapper’ (plastic bag) and only one transaction
 - Nobody has to be paid to make investment decisions for the fund – the index dictates the ‘decisions’

What do you need to make a potjie?

BettaBeta

- Basic ingredients
 - Meat, potatoes, vegetables, liquids, salt
- Special ingredients
 - Garlic, herbs/spices, olive oil, alcohol?
- Equipment
 - Potjie, fire, company!



- Meat – broad market exposure
 - Basic “building block”; this provides the basis of the potjie
 - e.g. **BBET40**, Satrix40, SWIX40, RAFI40
- Potatoes – high dividends, preference shares
 - Stretches the potjie so that there is more to go around
 - e.g. Satrix Divi, PrefEx
- Stock or other liquids – cash
 - Adds moisture (and liquidity) to the potjie
 - e.g. Cash
- Olive oil – gold
 - Lubrication is essential – it stops the potjie from burning when the fire is too hot
 - e.g. NewGold ETF (not gold stocks), Standard Bank Gold-Linker ETN
- Vegetables – international exposure
 - Improves the nutritional value of the potjie
 - e.g. db x-trackers World / USA / UK / Euro / Japan / Africa ETN / China ETN / Emerging Markets ETN
- Special ingredients – thematic / sector exposure
 - Adds a specific flavour or texture to the potjie
 - e.g. **BGREEN**, RESI, FINI, INDI, Shari’ah40, ABSA Equity Momentum

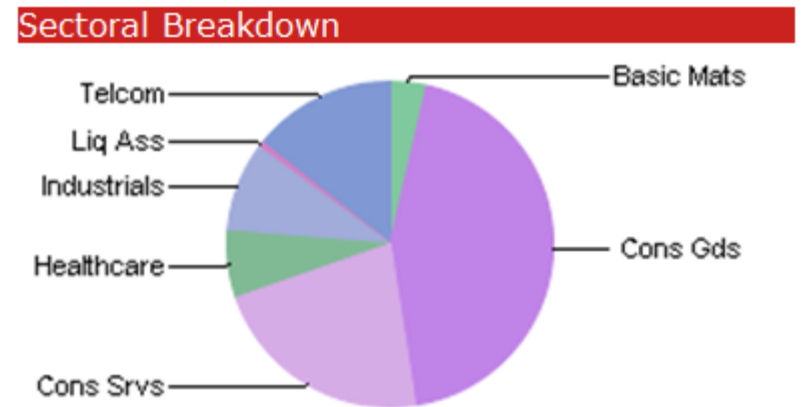
- Meat – broad market exposure, both equities **and bonds**
 - Basic “building block”; this provides the basis of the potjie
 - e.g. **BBET40**, Satrix40, SWIX40, RAFI40, **Investec ZGOVI**, **RMB Inflation-X**
- Potatoes – high dividends, preference shares, **listed property**
 - Stretches the potjie so that there is more to go around
 - e.g. Satrix Divi, PrefEx, **Proptrax**
- Stock or other liquids – cash
 - Adds moisture (and liquidity) to the potjie
 - e.g. Cash
- Olive oil – gold
 - Lubrication is essential – it stops the potjie from burning when the fire is too hot
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- Vegetables – international exposure
 - Improves the nutritional value of the potjie
 - e.g. db x-trackers World / USA / UK / Euro / Japan / Africa ETN / China ETN / Emerging Markets ETN
- Special ingredients – thematic / sector exposure, **commodities**
 - Adds a specific flavour or texture to the potjie
 - e.g. **BGREEN**, RESI, FINI, INDI, Shari’ah40, ABSA Equity Momentum, **Standard Bank Commodity-Linker ETNs**

How do you know what are in your “ingredients”?

- Read the label on the packet
- As index-tracking funds, ETFs are completely transparent
- The “list of ingredients” can be found on the daily valuation statistics published on the website
 - e.g. Satrix INDI 25
 - Not a domestic industrial index any longer

NUTRITION INFORMATION RITORNELLI			
AVERAGE VALUE		PER 3.5 OZ	PER PIECE
CALORIES	Kcal	492	64
PROTEIN	g	7.0	0.9
TOTAL CARBOHYDRATES	g	69.0	9.0
(Sugar)	g	(29.0)	(3.7)
TOTAL FAT	g	21.0	2.7
(Saturated Fat)	g	(10.0)	(1.3)
FIBER	g	2.0	0.3
SODIUM	g	0.18	0.023


Top Holdings on 30 Jun 2013			
SHARE	No Units	Value (Rm)	% of Fund
SABMILLER	451 570	216.75	19.66%
RICHEMONT	1 801 326	158.57	14.38%
MTN GROUP	771 114	141.88	12.87%
NASPERS-N	179 722	131.20	11.90%
BATS	130 503	66.94	6.07%
Totals		715.35	64.87%



Source: www.etsa.co.za

Three sample recipes for Extremely Tasty Flop-free Potjies

BettaBeta

- Low-risk (*approved by the Heart Foundation* )
 - Very low risk tolerance; Focus on capital protection and income generation
 - 5% after tax income draw-down p.a.
- Medium-risk (*family-friendly*)
 - Average risk tolerance; Combine capital growth and some income generation
 - 2% after tax income draw-down p.a.
- High-risk (*student special*)
 - Very high risk tolerance; Focus on maximum capital gain
 - No income draw-down required

“Extremely Tasty Flop-free potjies” investment in different ETFs

BettaBeta

Potential ETF “Ingredients”

Meat	BBET40 – BettaBeta Equally Weighted Top40 ETF
	ZGOVI – zShares Govi ETF
	RMBINF – RMB Inflation-X ETF
Potatoes	STXDIV – Satrix Divi ETF
	PTXTEN – Property Tracker Ten ETF
Liquids	Cash
Olive oil	GLD – NewFunds NewGold ETF
Vegetables	MXWO – DBX World ETF
	MSEMF1 – DB MSCI Emerging Markets ETN
Special ingredients	BGREEN – BettaBeta Be Green ETF
	SBAOIL – Standard Bank Oil ETN

“Extremely Tasty Flop-free potjies” % investment in different ETFs



Potential ETF “Ingredients”		Low (%)	Med (%)	High (%)
Meat	BBET40 – BettaBeta Equally Weighted Top40 ETF	15	35	40
	ZGOVI – zShares Govi ETF	10	10	10
	RMBINF – RMB Inflation-X ETF	20	5	–
Potatoes	STXDIV – Satrix Divi ETF	10	5	–
	PTXTEN – Property Tracker Ten ETF	10	5	–
Liquids	Cash	10	5	–
Olive oil	GLD – NewFunds NewGold ETF	5	10	5
Vegetables	MXWO – DBX World ETF	10	10	15
	MSEMF1 – DB MSCI Emerging Markets ETN	–	5	10
Special ingredients	BGREEN – BettaBeta Be Green ETF	10	10	10
	SBAOIL – Standard Bank Oil ETN	–	–	10

Disclaimer: Not to be construed as a recommendation or as investment advice

“Extremely Tasty Flop-free potjies” Comparative (theoretical) performance

BettaBeta

Asset Allocation Portfolios – ETF Portfolios compared to Collective Investment Schemes Total Returns (% Growth with Dividends Reinvested)

	1 Year (%)	2 Years (%) p.a.	3 Years (%) p.a.
Balanced ETF Portfolio (low risk) <i>Heart Foundation</i>	8.0	12.1	13.3
Balanced ETF Portfolio (medium risk) <i>Family-friendly</i>	7.8	12.3	14.8
Balanced ETF Portfolio (high risk) <i>Student special</i>	10.1	12.3	16.8
Asset Allocation Unit Trusts (average)			
Prudential Low Equity Funds	6.3	8.0	8.8
Prudential Medium Equity Funds	5.3	8.7	10.8
Prudential High Equity Funds	4.2	8.9	11.9

Asset allocation performance based on historical index and ETF data for 3 years ended 31 December 2011 – NGBS calculations
Performance Data source: Unit Trust Performance Survey – ASISA (31 December 2011)

- As a listed share, it can be bought through any stockbroker, or via an investment platform
 - This is the ‘shop’ where you can buy your ‘hamper’
- Considerations:
 - Costs
 - Depends on what you want to do
 - Lump sum or debit order
 - Frequency
 - Reinvestment of dividends
 - Size of investment
 - Other bells and whistles
- Most versatile option for ALL JSE-listed exchange traded products (ETFs and ETNs):
 - www.etfsa.co.za if you are a **DIY investor**; good for debit orders, smaller lump sums, cost effective reinvestment of dividends and switches
 - www.etfsara.co.za for a cost-effective **retirement annuity** option; if you are self-employed or already contributing to an employer’s retirement fund and would like to make additional savings for retirement

What if I can't afford all the ingredients at once?

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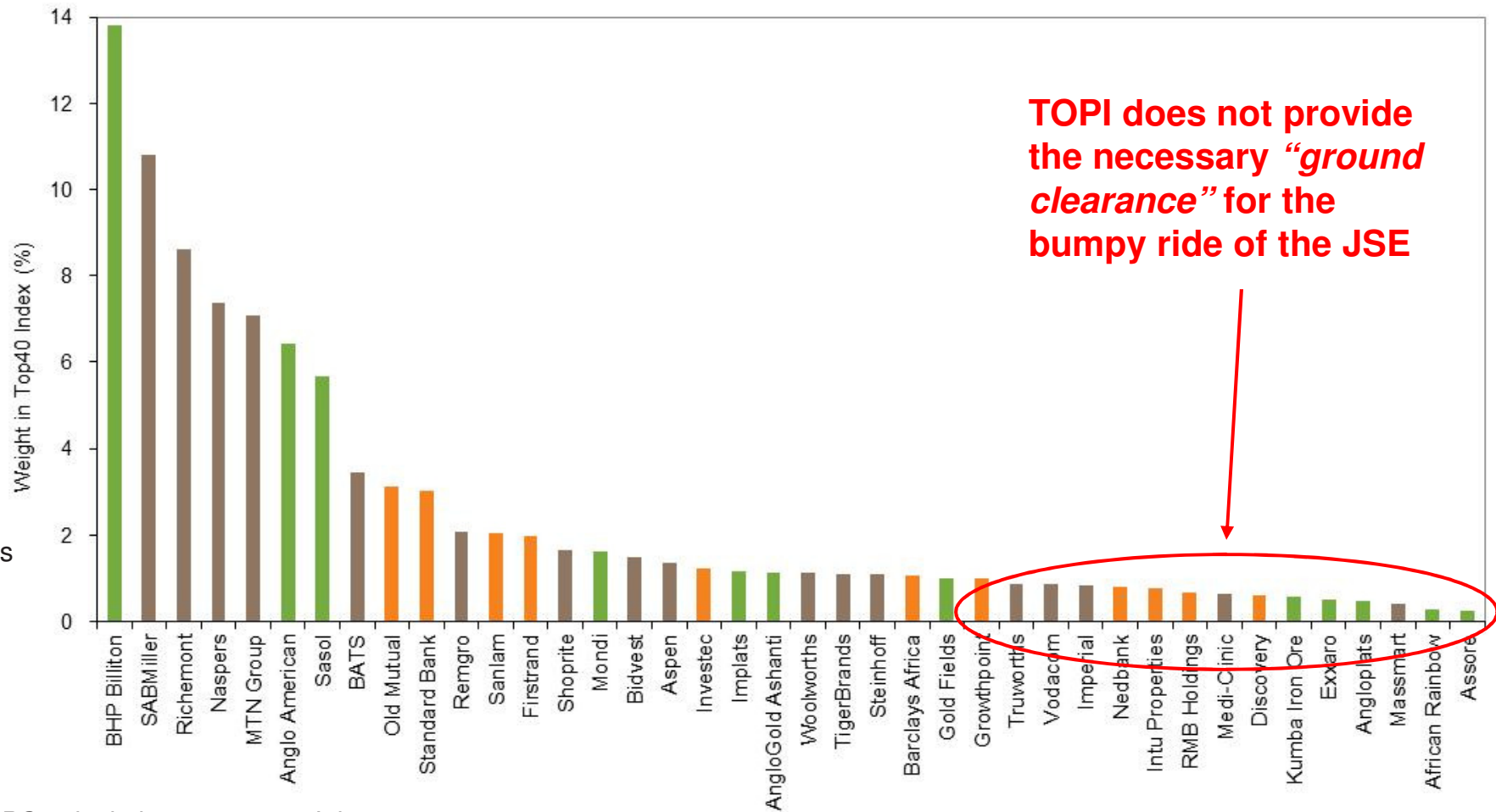
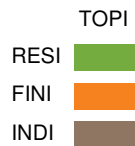
- Many of us can't afford R2000-R5000 debit order per month to buy the full "spread" of ingredients
- Two options:
 - Save until you have enough
 - Invest in a core ETF (or two) and reinvest in the full basket at your annual "Big Money Date Day"
- What is a good core investment?
 - FTSE/JSE Africa Top40 Index (also called the TOPI)
 - An index of the 40 largest and most prominent companies listed on the JSE Securities Exchange; represents $\pm 84\%$ of the market cap and $\pm 90\%$ of the trading on the equity market
 - This list of blue chip companies are re-assessed every quarter to make sure that it is always reflective of the "best-of-the-best", as measured by size (market capitalisation)
 - Contribution ("weight") of each share to the index is based on the free float (available) market capitalisation (FF-MC)
 - This is what is typically "sold" to the investor as "the market"

Top 40 index (TOPI) – Stock-specific Exposure

Top 2 names
(BIL and SAB)
≈ 25% of index

Top 5 names
≈ 50% of index

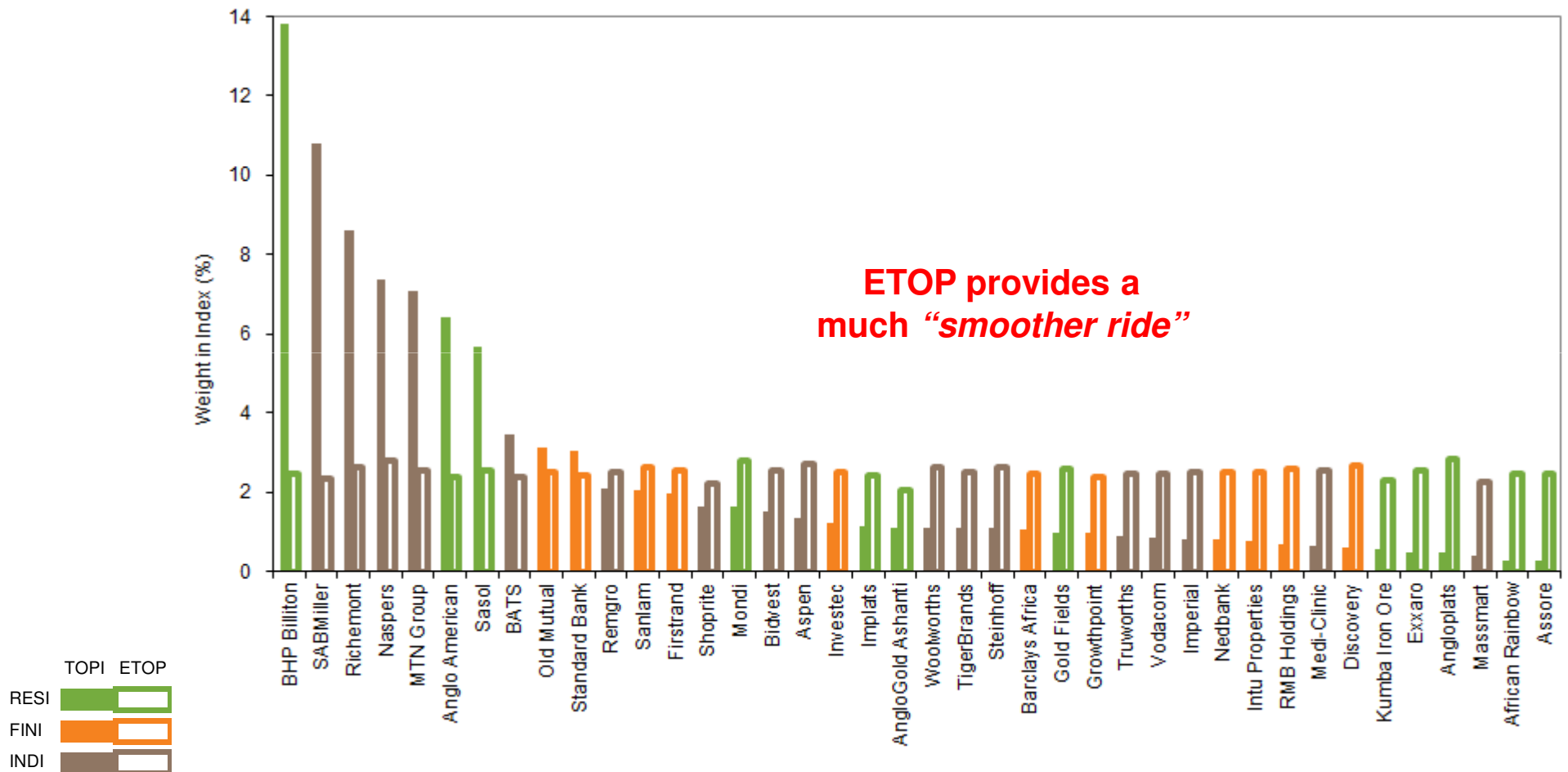
Bottom 10 names
≈ 5% of index



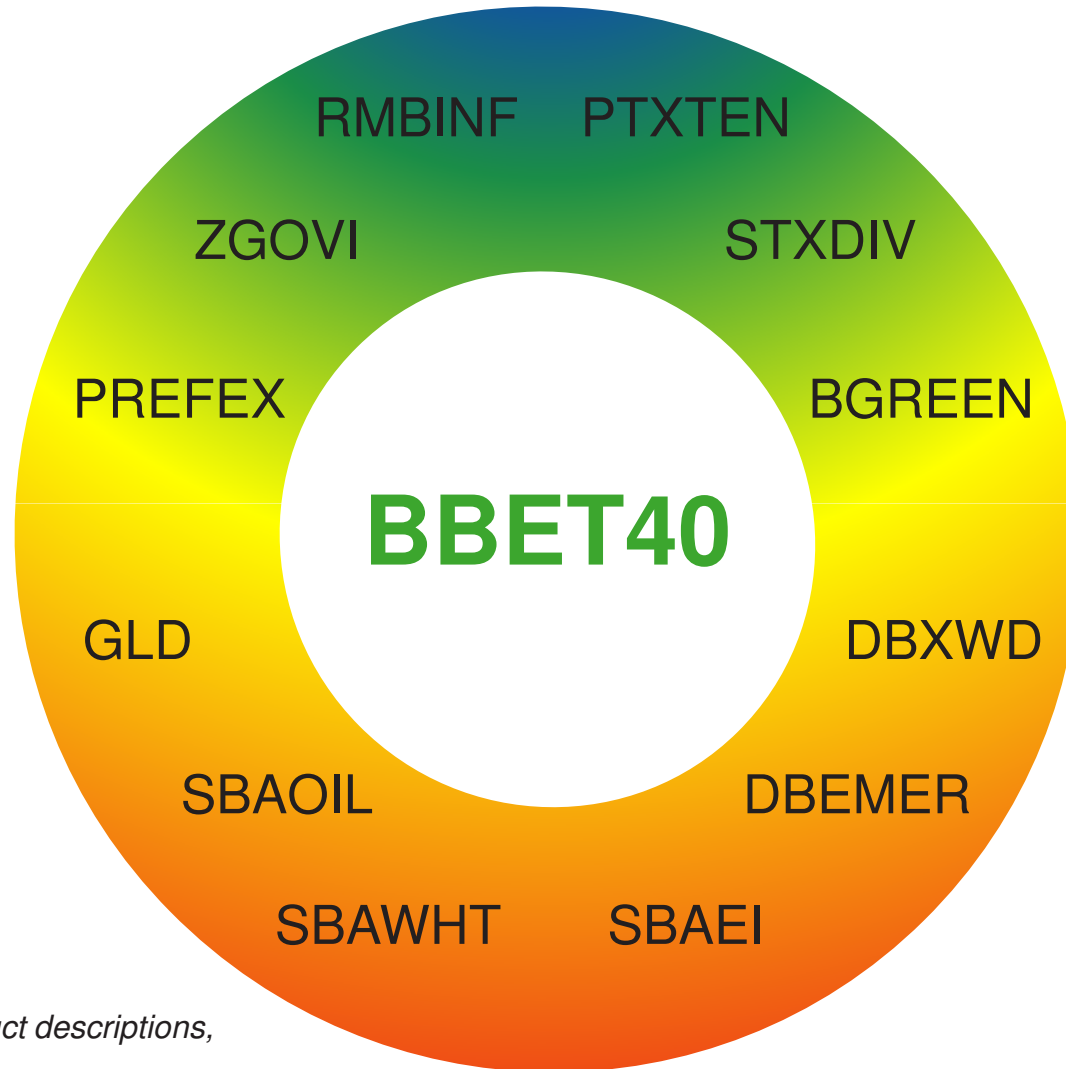
Source: JSE; NGBS calculations; as at 31-Jul-13

Equally Weighted Top 40 Index (ETOP) compared to Market Cap Weighted Top 40 Index (TOPI)

BettaBeta



Source: JSE; NGBS calculations; as at 31-Jul-13



*For ETP fact sheets and product descriptions,
see www.etsa.co.za*

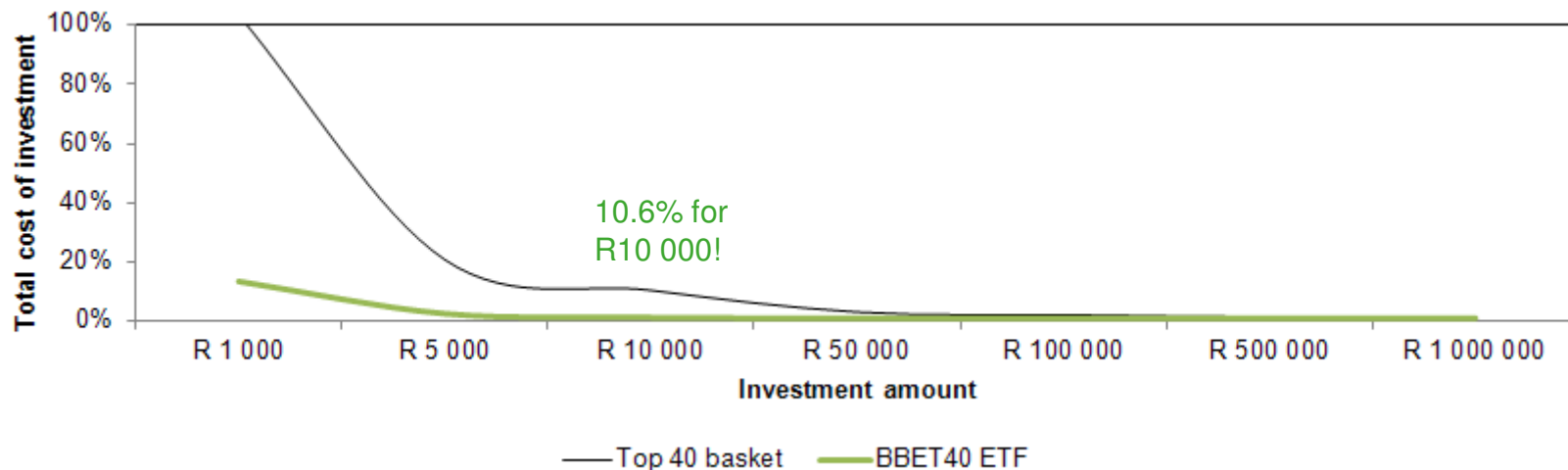
“Can I do this myself?”



- Investing in 40 individual shares rather than 1 ETF is a LOT more expensive...

	Basket of Top 40 shares	BBET40 ETF
Gross investment amount	R 100 000	R 100 000
Brokerage (0.5%) (buy and sell)	R 1 140	R 1 140
JSE fees & levies (buy and sell)	R 918	R 22
STT (only buy)	R 250	
Net investment amount	R 97 692	R 98 838
Total cost of investment	2.3%	1.2%

- ...especially if your investment amount is relatively small



Calculations: Nedbank Capital; Based on the costs of Standard Online Share Trading

How to give yourself the gift that will keep on giving...

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- Like a well-tended perennial garden, investments need to be regularly “watered”
- **Monthly debit orders** and **automatic re-investment of dividends** is a prudent long-term investment strategy



- Warren Buffett:

*Someone's sitting in the shade today
because someone planted a tree a long time ago*

- Robert Louis Stevenson:

*Don't judge each day by the harvest you reap
but by the seeds that you plant*

Questions?

Thank You

For more information, please refer to our website: www.bettabeta.co.za
For regular educational insights and news, follow on Twitter: [@Nerina_Visser](https://twitter.com/Nerina_Visser)

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