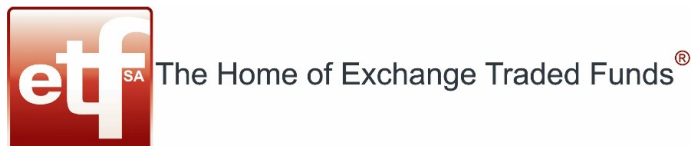


Managing Passive Investment Portfolios

etfSA.co.za
Wealth Management
Seminars

January/February 2018

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Agenda

- What is passive investment?
- Indexation development.
- Pro-active passive management.
- Investment strategies.
- Balanced ETF portfolios.

What is Passive Investment Management?

- Replicating indices
- The index providers determine the portfolio in an index tracker and **not the asset manager.**
- an index measures the average return of the market.

The Arithmetic Case for Passive Investment Management

- In any investment market, half the market participants will outperform and the rest will underperform the average market return.
- The average market return can be measured by an index. Investment in this index equates to the “passive” market return.
- **Before costs**, the return of the average active manager will equal the return of the average passive manager.

The Arithmetic Case for Passive Investment Management (continued)

Because active and passive returns are equal before costs, and because active managers bear greater costs, it follows that the after-cost return of the active manager **must** be lower than that from passive management.

William Sharpe

"Mutual Fund Perspectives" (1966)

"The Arithmetic of Active Management" (1991)

SPIVA Surveys*

(Percentage of Active Funds Outperformed by Benchmarks over 1, 3 and 5 year periods)

Market	1 Year	3 Year	5 Year	Benchmark Used
United States	66%	93%	88%	S&P 500
Europe	80%	74%	74%	S&P Europe 50
Canada	83%	81%	70%	S&P Canada
South Africa	72%	80%	77%	S&P SA Top 50

* S&P Dow Jones Indices (June 2017).

South African Quarterly Unit Trust Survey*

(Percentage of Actively Managed General Equity Unit Trusts Outperformed by FTSE/JSE All Share Index Over 1, 3 and 5 year)

1 Year	3 Year	5 Year
92,3%	86,5%	83,3%

* *Quarterly Unit Trust Performance Survey (September 2017).*

Indexation Development

- **Development of more representative indices**
 - Size (market cap.)
 - Liquidity
 - Free float
 - Daily trading volumes
 - Treatment of corporate events
- The more representative the index, the more replicable it becomes.

Indexation Development (continued)

- **Sector rotation**

- Access to market sectors, rather than the broad market can add to investment returns.

Market Sectors Returns Do Divert From the Broad Market

Total Returns Over Period (with dividends reinvested)			
1 Year		5 Years (% per annum)	
Satrix INDI 25 ETF	24,26%	Satrix INDI 25 ETF	16,42%
Satrix FINI 15 ETF	23,40%	Satrix FINI15 ETF	14,12%
Stanlib SWIX Top 40 ETF	23,34%	CoreShares PropTrax SAPY ETF	13,56%
Satrix 40 ETF	22,45%	Stanlib SWIX Top 40 ETF	12,14%
CoreShares S&P Top 50 ETF	20,87%	Satrix 40 ETF	11,18%
CoreShares PropTrax SAPY ETF	18,05%	Ashburton MidCap ETF	11,13%
Satrix RESI 10 ETF	14,02%	CoreShares Equally Weighted Top 40 ETF	7,16%
CoreShares Equally Weighted Top 40 ETF	13,06%	Satrix RESI 10 ETF	(2,77%)
Ashburton MidCap ETF	6,66%		

Source: etfSA.co.za/Profile Data (Monthly Performance Survey, December 2017)

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Indexation Development (continued)

- **Smart beta**

- Rather than replicating and benchmarking the broad market, **smart beta** indexes factors.

Global Smart Beta AUM			
US\$bn	Nov 2017 Flows	2017 YTD Flows	Current Assets
Dividend	1,2	13,6	194
Multi-factor	1,1	11,7	74
Low volatility	0,8	2,6	55
Equal Weight	1,0	4,2	51
Single exposure	0,7	8,2	41
Grand total	4,7	40,3	415
Total Equity ETPs	52,6	567,8	3 692
% Smart beta	8,9	7,1	11,2
<i>Source: Global ETP Landscape Report, BlackRock (November 2017).</i>			

Pro-Active Passive Management

- Just by selecting a benchmark, the passive manager is making an active decision.

Multi-Asset Balanced Portfolios

	Allocation	Weighted Average Return* (% p.a.)
Cash (STEFI)	10%	0,65%
SA Bonds (ALBI)	20%	1,24%
SA Equity (FTSE/JSE ALSI)	40%	4,76%
Offshore Equity (MSWR)	20%	3,65%
SA Listed Property (SAPY)	10%	1,38%
	100%	11,68%
* Over past 5 years (to September 2017).		

Multi-Asset SA Balanced Portfolios Past Five Years

Targeted return over 5 years	11,68%
Average multi-asset medium equity unit trusts	9,34%
Average multi-asset high equity unit trusts	10,15%

Source: Quarterly Unit Trust Performance Survey (September 2017).

Pro-Active Passive Management

	Allocation (%)	5 Year Return (% p.a.)	Weighted Total Average Return (% p.a.)
Cash	10%	6,5%	0,65%
NewFunds TRACI ETF	10%	6,23%	0,62%
Bonds	20%	6,2%	1,24%
NewFunds GOVI ETF	20%	6,10%	1,22%
SA Equities	40%	11,86%	4,76%
Satrix INDI 25 ETF	15%	16,94%	2,54%
Satrix FINI 15 ETF	15%	16,14%	2,42%
Satrix SWIX Top 40 ETF	10%	12,14%	1,21%
Foreign Equities MSCI (ZAR)	20%	18,27%	3,65%
Sygnia/Itrix MSCI USA ETF	10%	23,71%	2,37%
Satrix World ETF	5%	19,66%	0,98%
DB China ETN	5%	21,44%	1,07%
SA Listed Property	10%	13,775	1,38%
PropTrax Ten ETF	10%	15,12%	1,51%
Weighted Index Return over 5 years (% p.a.)			11,68%
Managed ETF portfolio return over 5 years (% p.a.)			13,94%

Source: JSE Ltd ; etfSA.co.za / Profile Data – Monthly Performance Survey (September 2017)

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Investment Strategies

Asset managers can provide superior investment performance through

1. Asset allocation – **strategic asset allocation** to establish a composite benchmark.
2. Deviate from the benchmark by
 - Active stock selection
 - Factor timing – time varying bets on broader factor variables (**tactical asset allocation**).

Investment Strategies (continued)

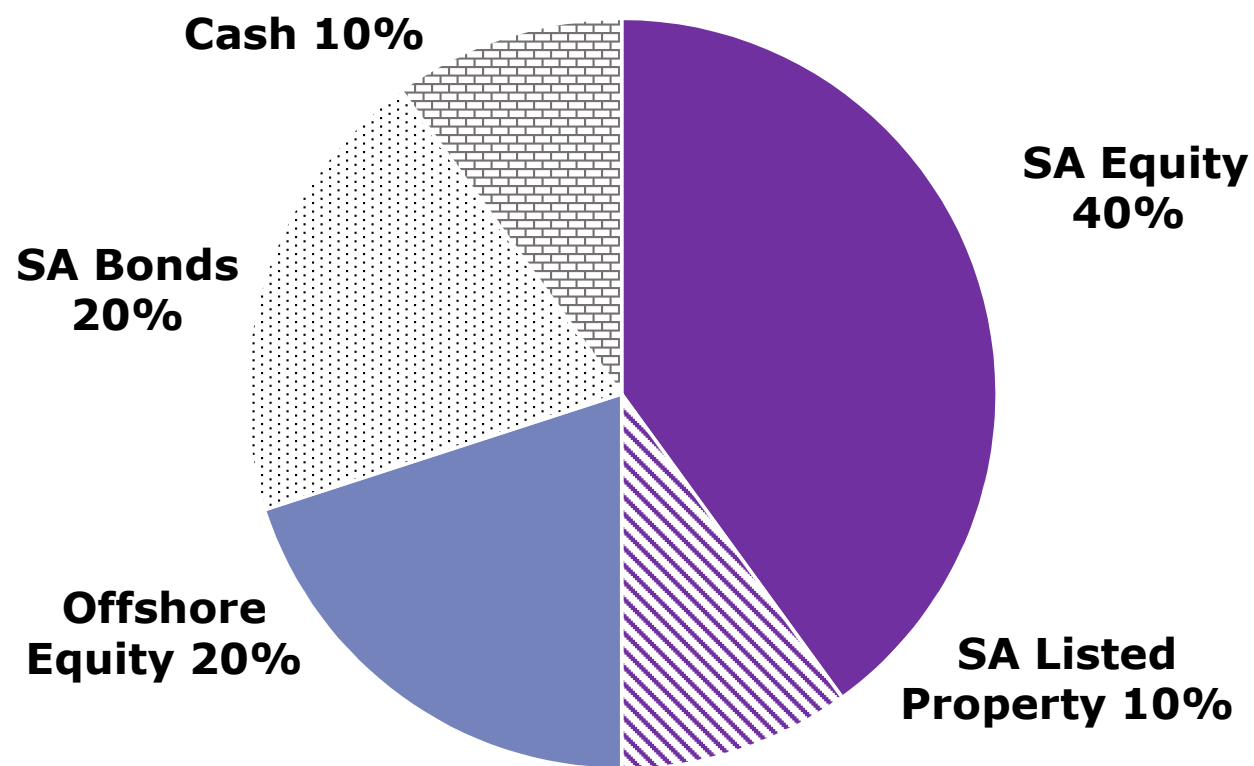
The **passive investment manager** can use index tracking products to deliver on:

1. a strategic asset allocation strategy
2. And/or to deviate from this benchmark by tactical asset allocation
3. By overweighting certain sectors of the market (sector rotation) or by factors (smart beta).

The active investment manager has to add exclusive value largely based on stock selection.

Strategic Asset Allocation (SAA)

Conventional SAA



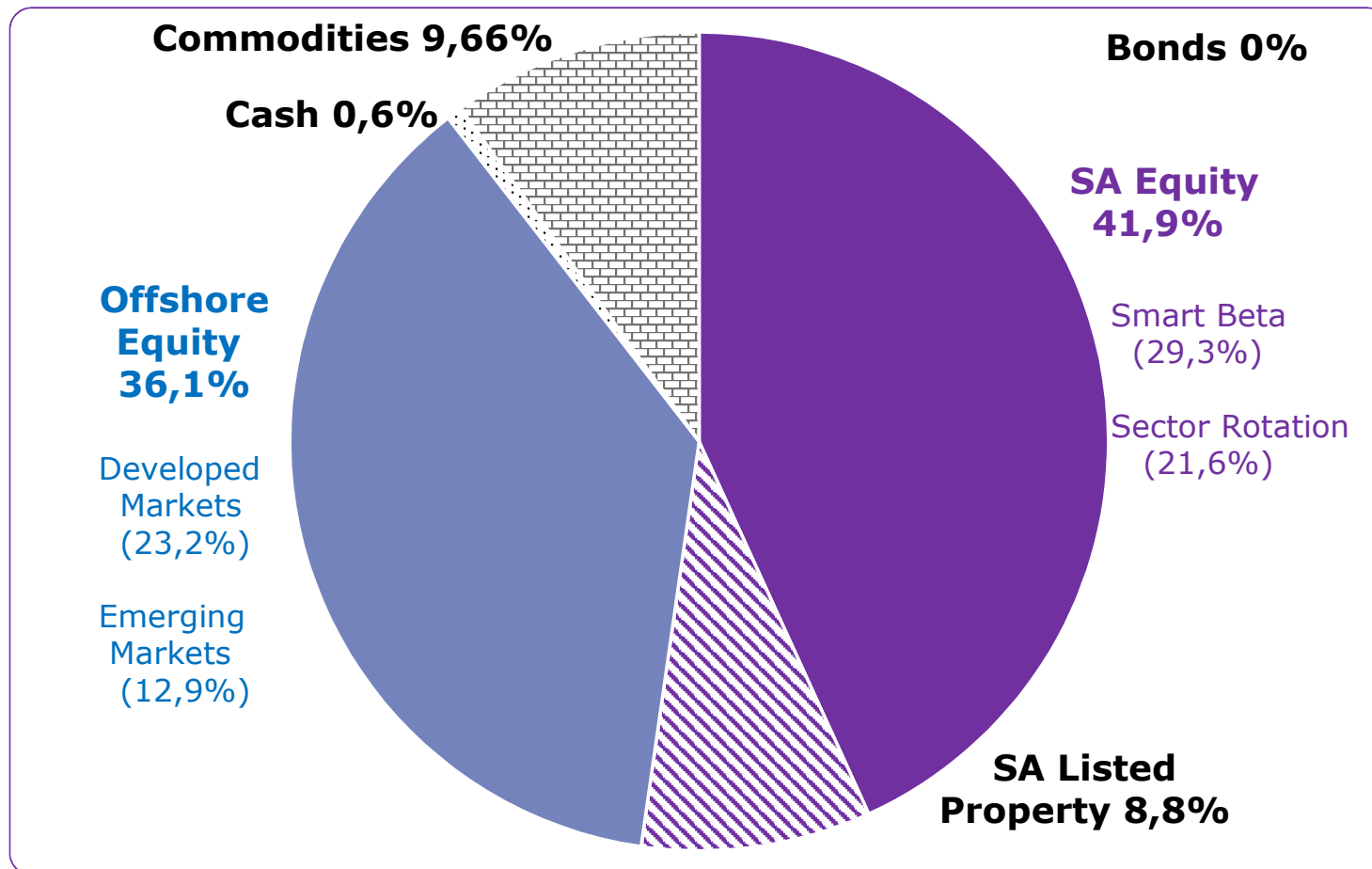
**Total return
11,68%
per annum
over past
5 years.**

Actual Balanced ETP Portfolio

Asset Class	Total (R)	(%)
Domestic Equity		41,9
Ashburton MidCap ETF	1 511 367	4,2
CoreShares Dividend Aristocrats ETF	1 345 210	3,5
NewFunds Equity Momentum ETF	2 602 462	7,2
Satrix INDI 25 ETF	7 030 237	19,1
Satrix Quality SA ETF	834 889	2,4
Satrix RESI 10 ETF	1 999 979	5,4
Domestic Property		8,8
CoreShares PropTrax Ten ETF	3 217 670	8,8
International Equity		36,1
DB MSCI China ETN	3 293 147	9,0
Sygnia/Itrix Eurostoxx 50 ETF	3 652 790	10,1
Sygnia/Itrix MSCI USA ETF	4 817 983	13,1
Satrix MSCI Emerging Markets ETF	1 449 524	3,9

Asset Class	Total (R)	(%)
International Property		3,5
CoreShares S&P Global Property ETF	1 275 643	3,5
Commodities		9,6
Standard Bank Africa Rhodium ETF	1 474 792	4,0
Absa New Palladium ETF	628 499	1,7
Standard Bank Palladium-Linker ETN	1 413 923	3,9
Cash		0,6
Nedbank Money Market		0,4
Other cash		0,2

Overall Asset Allocation



**Total return
20,4% per
annum over
past 4½
years.**

Managed Portfolios Using ETFs

- Can compete with active managers.
- Providing diversification, risk control, management of standard deviation.
- Using only listed ETPs, where market making gives instant liquidity if needed.
- With over 80 ETPs now listed on the JSE, and more to come shortly, the ETF portfolio business is becoming more complex.
- Giving rise to the **ETF strategist**.

Managed Portfolios Using ETFs (continued)

- Total costs **1% per annum**, includes:
 - Transaction costs
 - Settlement and custodian fees
 - Account administration
 - Asset management
 - Financial advice and consultation
- Service provided for both **local and global managed ETF portfolios.**

Dates to Remember

- Deadline for payments into Tax Free and Retirement Annuity accounts: **Friday 23rd February 2018.**
- Open day for aid with application forms, etc.: **Saturday 10th February 2018.**
 - Venue: etfSA.co.za offices, Block 4, 3 Anerley Road, Parktown.
 - Time: from 09h00

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