

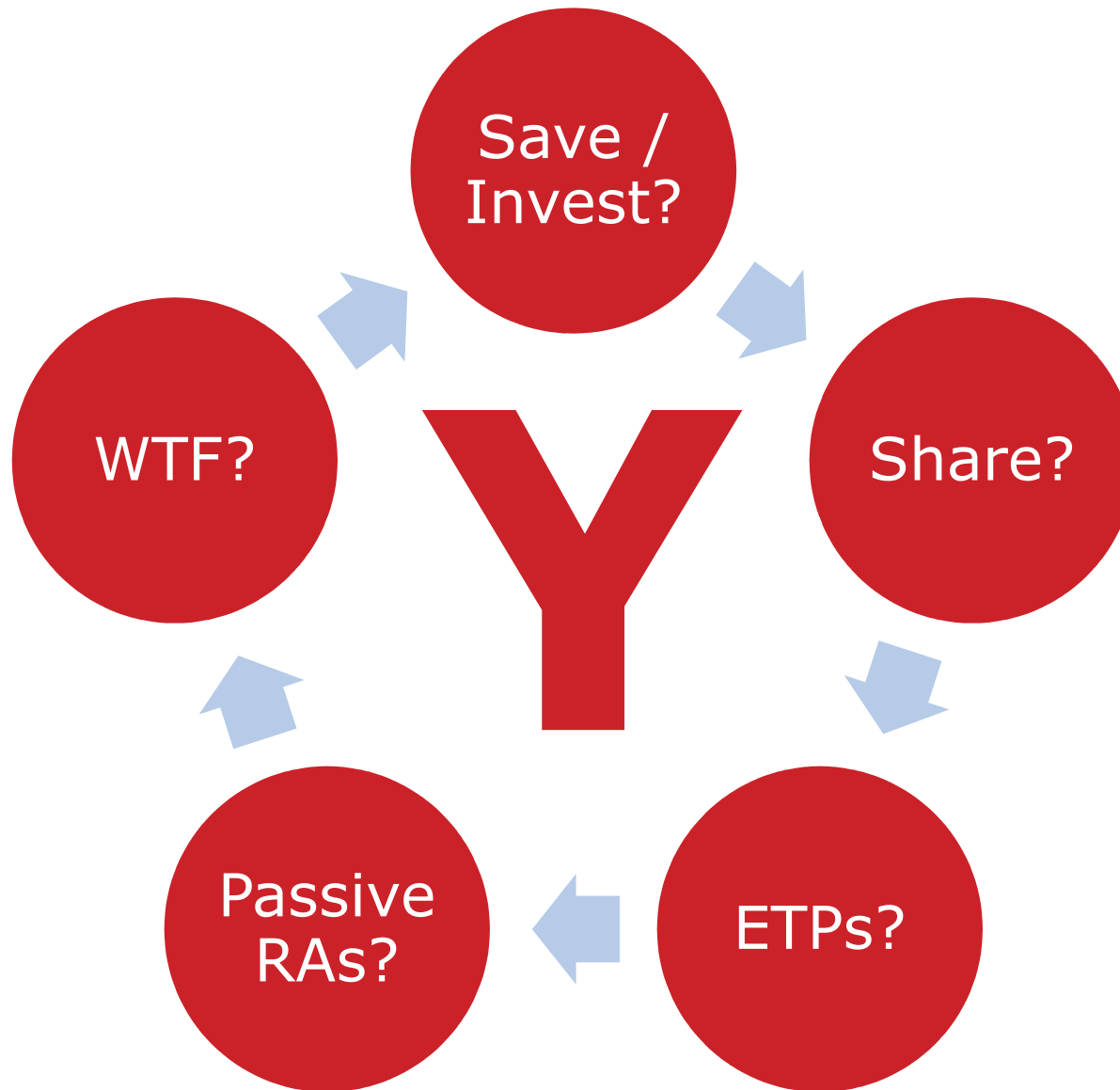
Why ETPs? Why not!

Investing in ETPs Seminar
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Nerina Visser
ETF Strategist
etfSA.co.za

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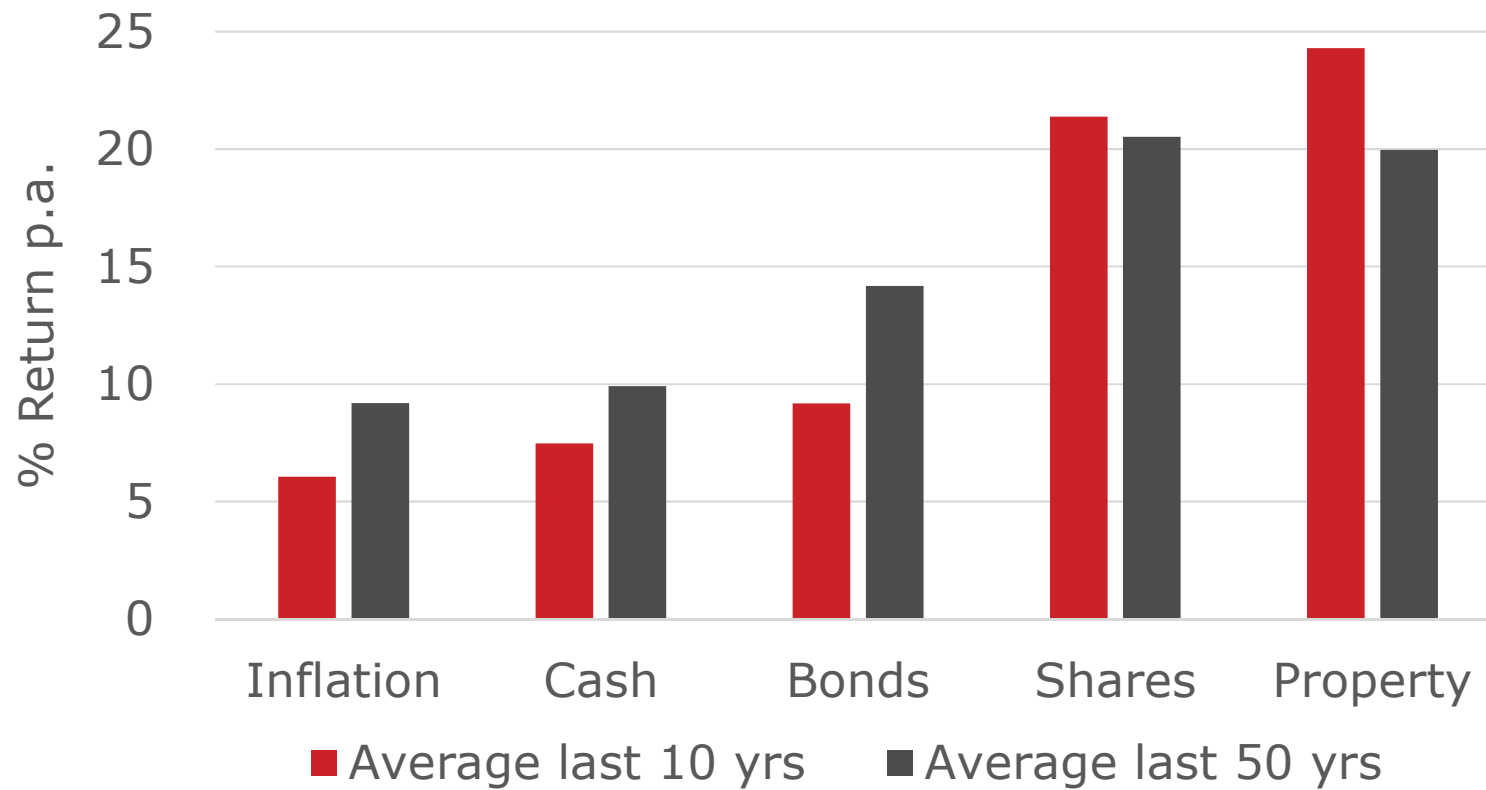




Why Save and Invest?

- Inflation – money loses its purchasing power over time
 - Average inflation rate: 9.2% (last 50 years) & 6.1% (last 10)
- What about a bank savings account?
 - Average prime interest rate ($\pm 4-5\%$ higher than deposit rates):
 - Before tax: 9.9% (last 50 years) & 7.5% (last 10)
 - After tax: 8.4% (last 50 years) & 6.4% (last 10)

Historical Performance



Source: I-Net data; etfSA calculations; Returns before costs and taxes

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Goals-based Investing

- Start with the end in mind
 - Investment strategy tailored to **your** goals
 - Performance is measured relative to **your** goal
 - not relative to some arbitrary benchmark
 - or the performance claim by your friend / colleague / advisor
 - Much easier to stick to **your** investment plan!

Contrast *wants* to *needs*

↑
WANTS
↓

Family holiday overseas	Comfortable retirement
Education funding for children	Emergency fund

————— NEEDS —————→

Different goals require different investment strategies

↑
WANTS
↓

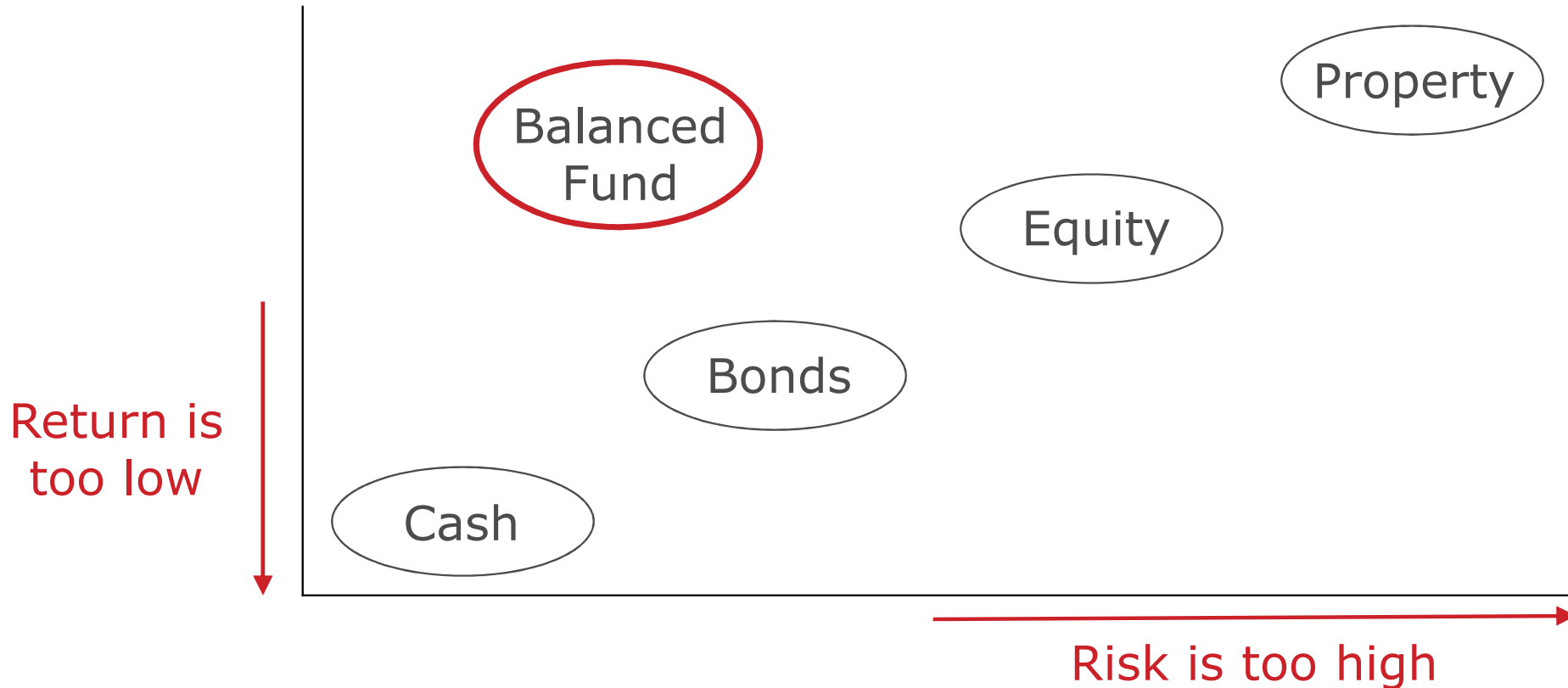
Family holiday overseas High risk appetite Active?	Comfortable retirement Balanced Fund Regulation 28
Education funding for children Discretionary Tax efficiency	Emergency fund Capital preservation, not return seeking

————— NEEDS —————→

Why Share?

- Investments carry higher risk than bank savings
- Reduce that risk by **sharing**
 - ❑ Costs – economies of scale
 - ❑ Make learning a group effort – investor club / stokvel
 - ❑ Investment diversification

Benefits of Diversification Return vs. Risk



Different ways to invest

- Regulatory protection
- Diversified investment
- Opaque
- High costs



- Full control
- Intraday trading
- Not well diversified
- Even higher costs



- Regulatory protection
- Diversified investment
- Full transparency
- Intraday trading
- Lowest costs

Why ETPs?

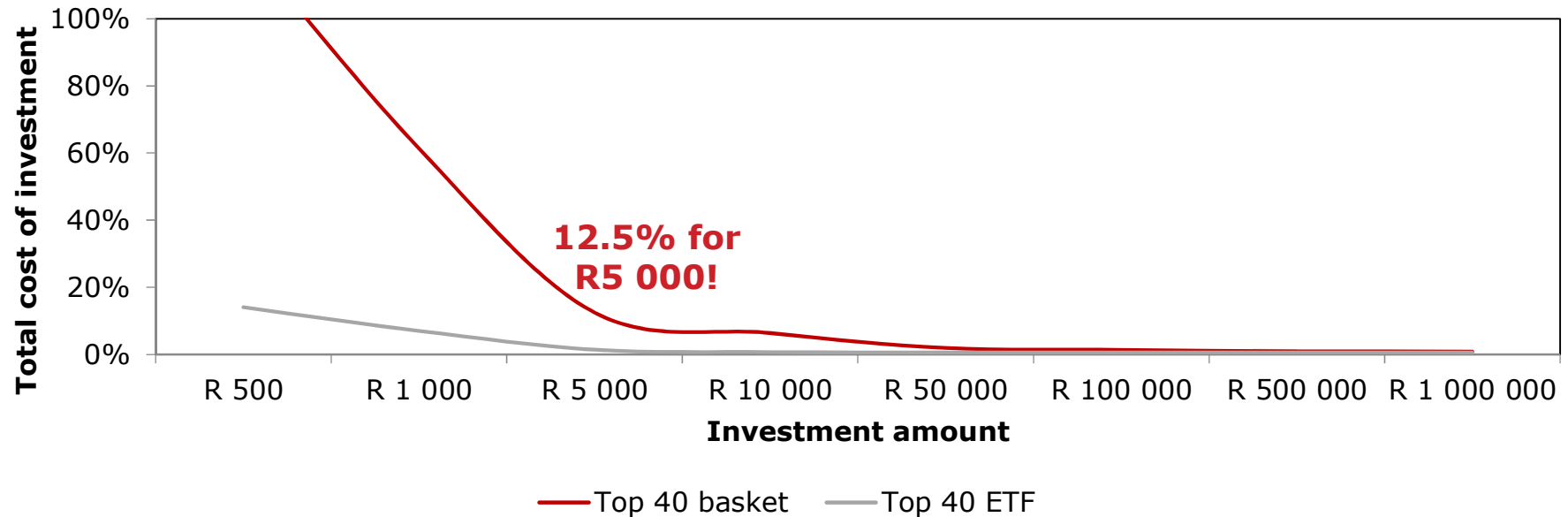
- Buying 40 individual shares is MUCH more expensive than buying 1 ETF unit...

	Portfolio of Top 40 shares	Top40 ETF
Gross investment amount	R 100 000	R 100 000
Brokerage (0.5%+VAT)	R 570	R 570
JSE fees & levies	R 555	R 13
Securities Transfer Tax (STT)	R 250	
Net investment amount	R 98 625	R 99 417
Total cost of investment	1.4%	0.6%

Source: JSE / Strate data; etfSA calculations

Why ETPs?

... especially if your investment amount is relatively small

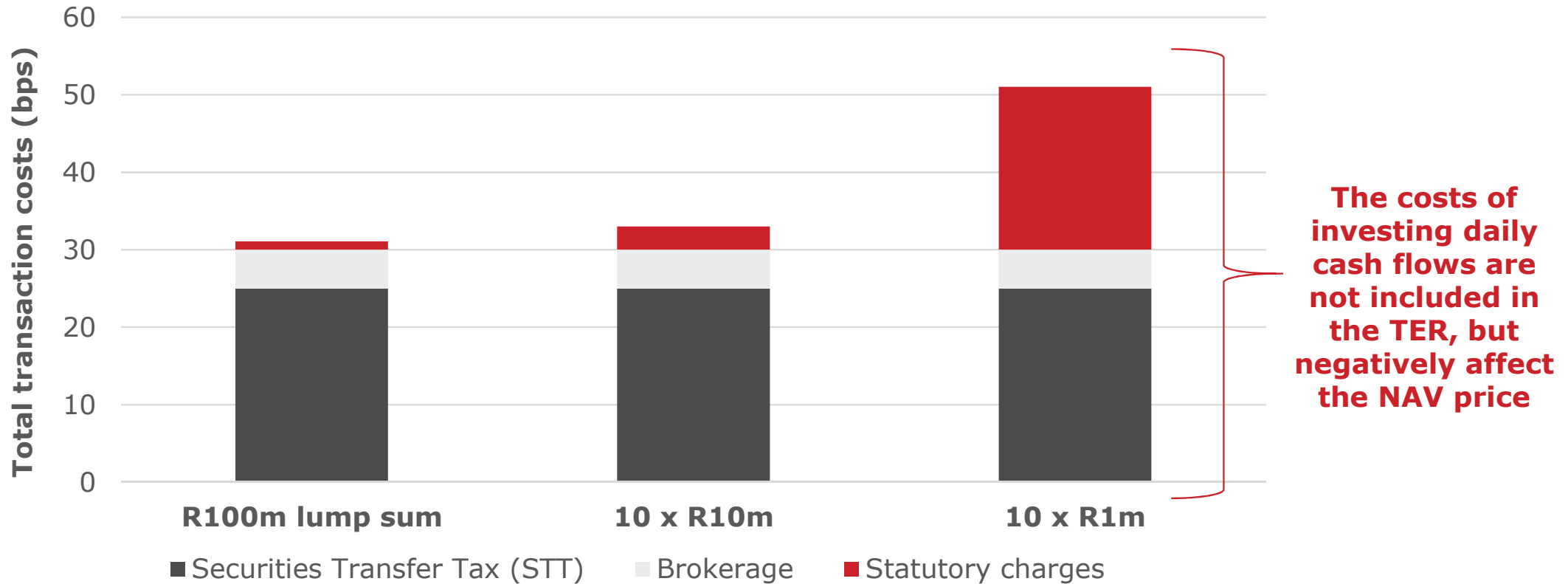


Source: JSE / Strate data; etfSA calculations

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Why not a unit trust?



Source: JSE / Strate data; etfSA calculations

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Comparison of ETF performance to index-tracking unit trust

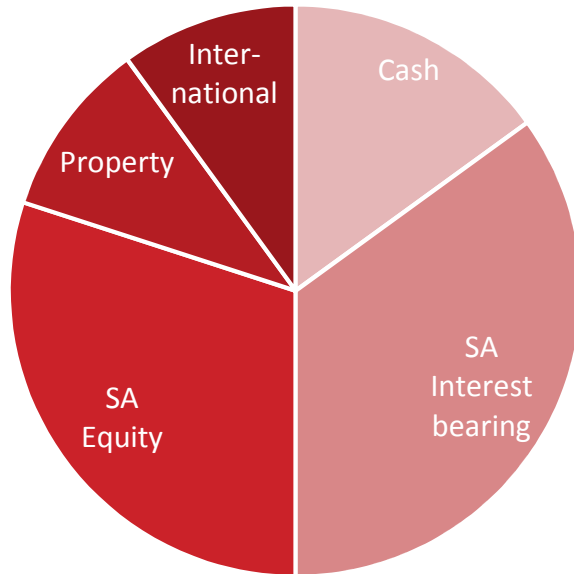
- 3 year performance to Sep-14 – total return p.a.
 - Satrix RAFI40 **ETF**: 18.7% vs. Satrix RAFI40 **Index Fund**: 18.4%
 - Satrix Divi+ **ETF**: 14.2% vs. Satrix Dividend **Index Fund**: 13.7%
 - BettaBeta Equally Weighted Top40 **ETF**: 18.3% vs.
Satrix Equally Weighted Top40 **Index Fund**: 17.5%

Why 'Passive' RAs?

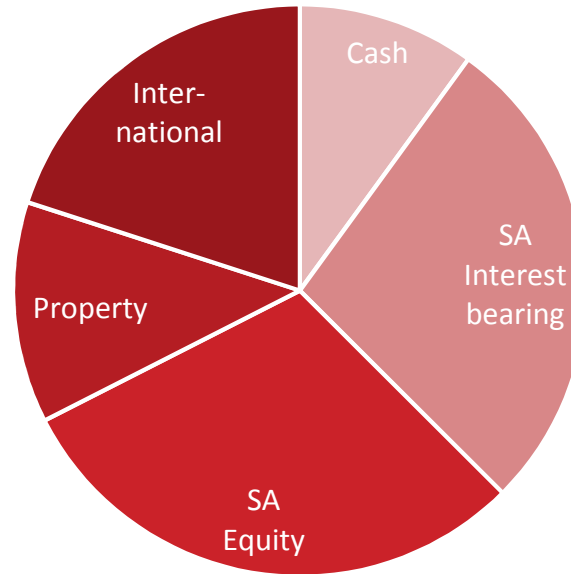
- 'Passive' underlying investments – all the benefits of ETPs
- 'Passive' asset allocation \equiv Long term Strategic allocation
 - Make sure that you are exposed to the desired **risk factors** and **return drivers** over time
 - Minimise ongoing **frictional costs** (total transaction costs, not just the so-called Total Expense Ratio (TER))

etfSA RA Fund Strategic Asset Allocation

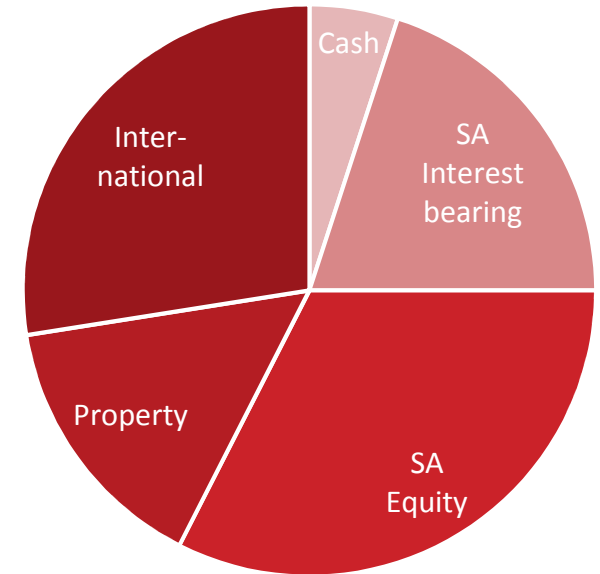
Conservator - CPI+3



Builder - CPI+5



Enhancer - CPI+7



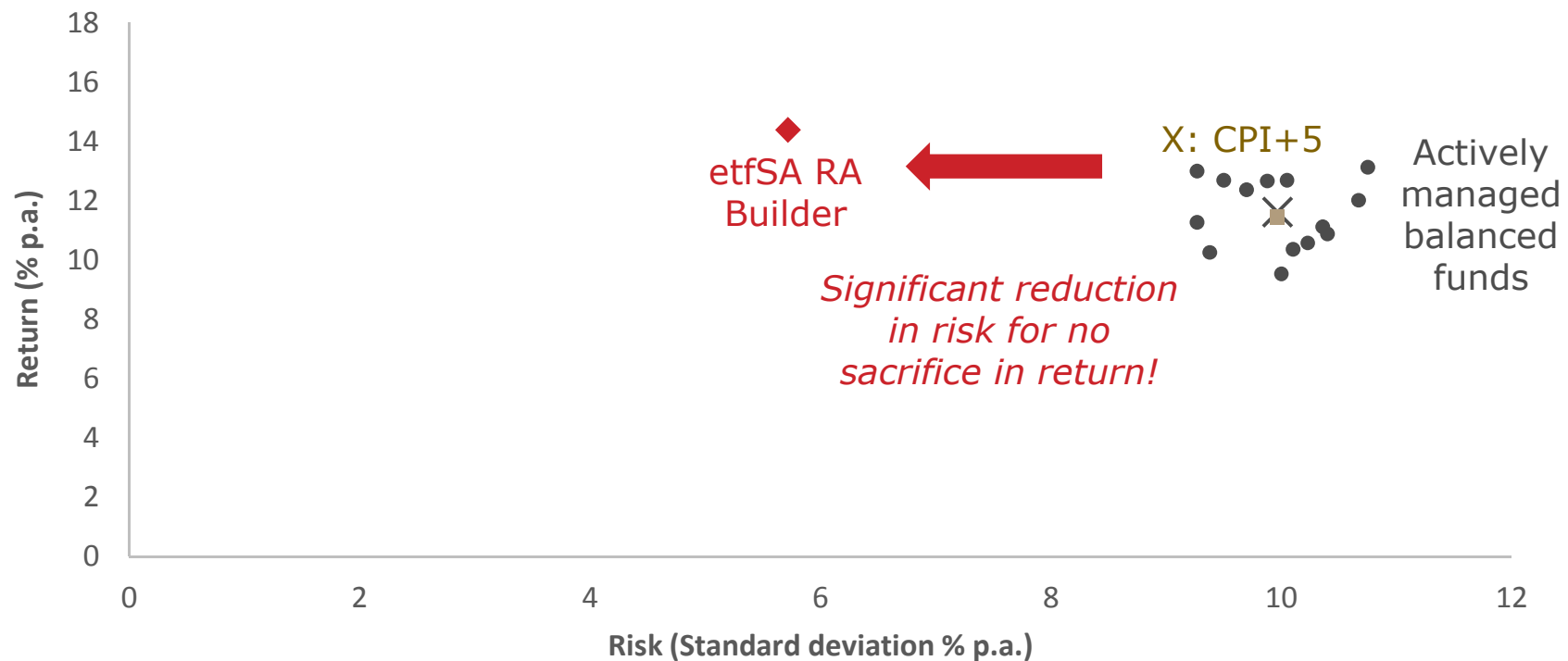
Note: International includes Physical Commodities

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Long term benefit of using a 'passive' investment strategy

Historical Performance of Balanced Funds - Medium Equity Mandate

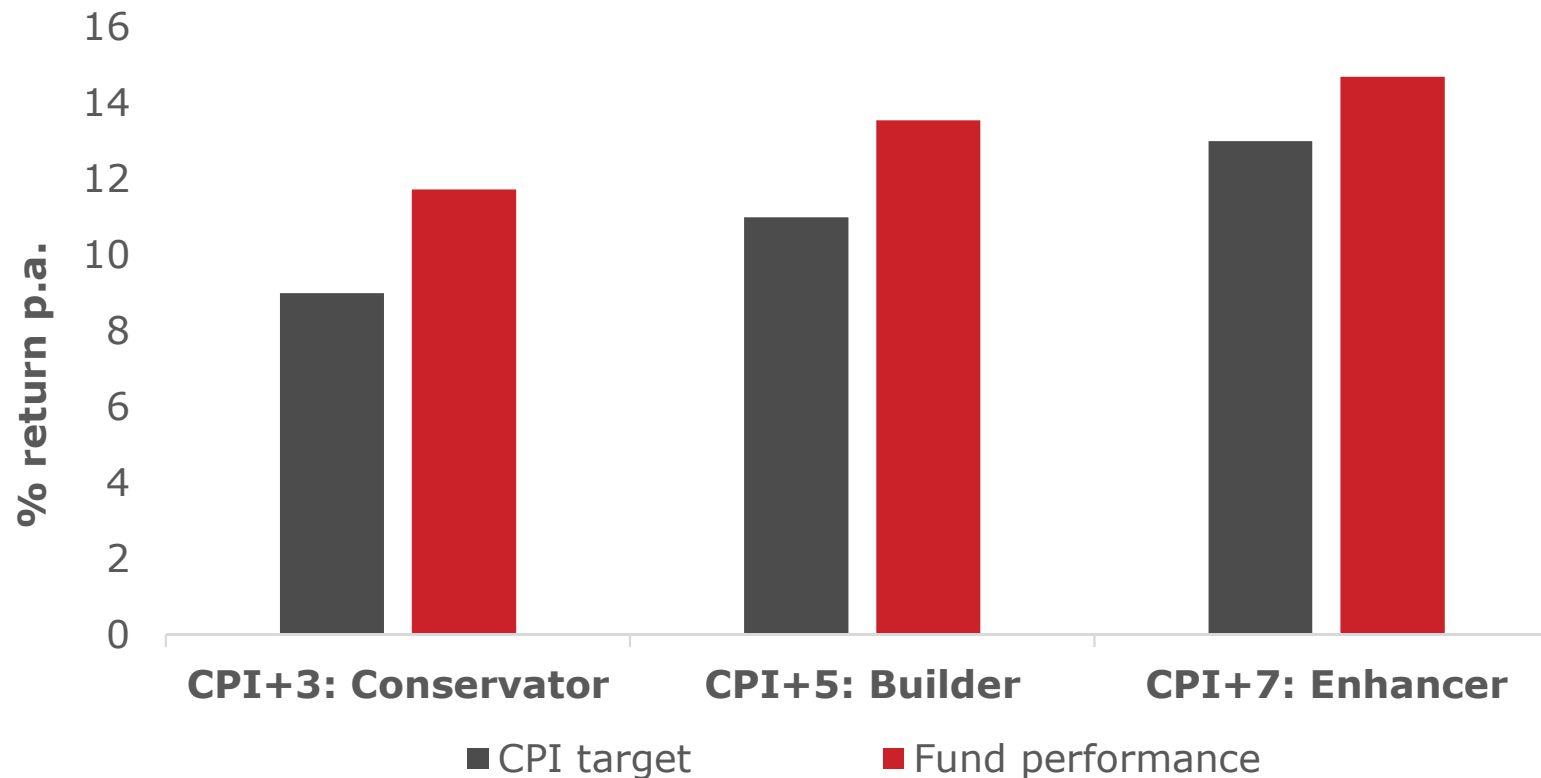


Notes: Average performance for the 10 years from Jan-05 to Dec-14
Source: ProfileMedia data; etfSA calculations

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etfSA RA Fund Performance Since Inception

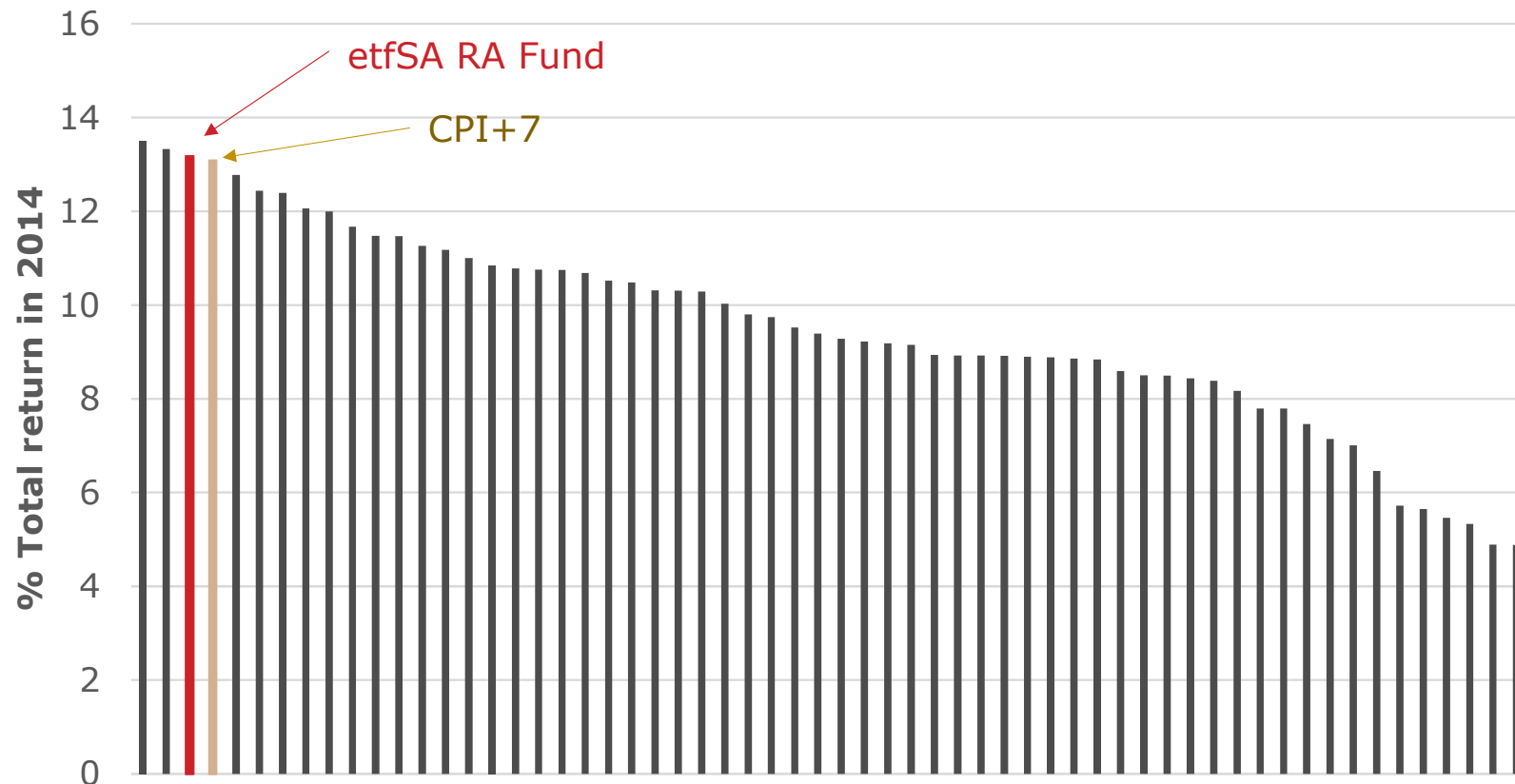


Source: ProfileMedia data; etfSA calculations

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etfSA Wealth Enhancer RA Fund Comparative 2014 Performance

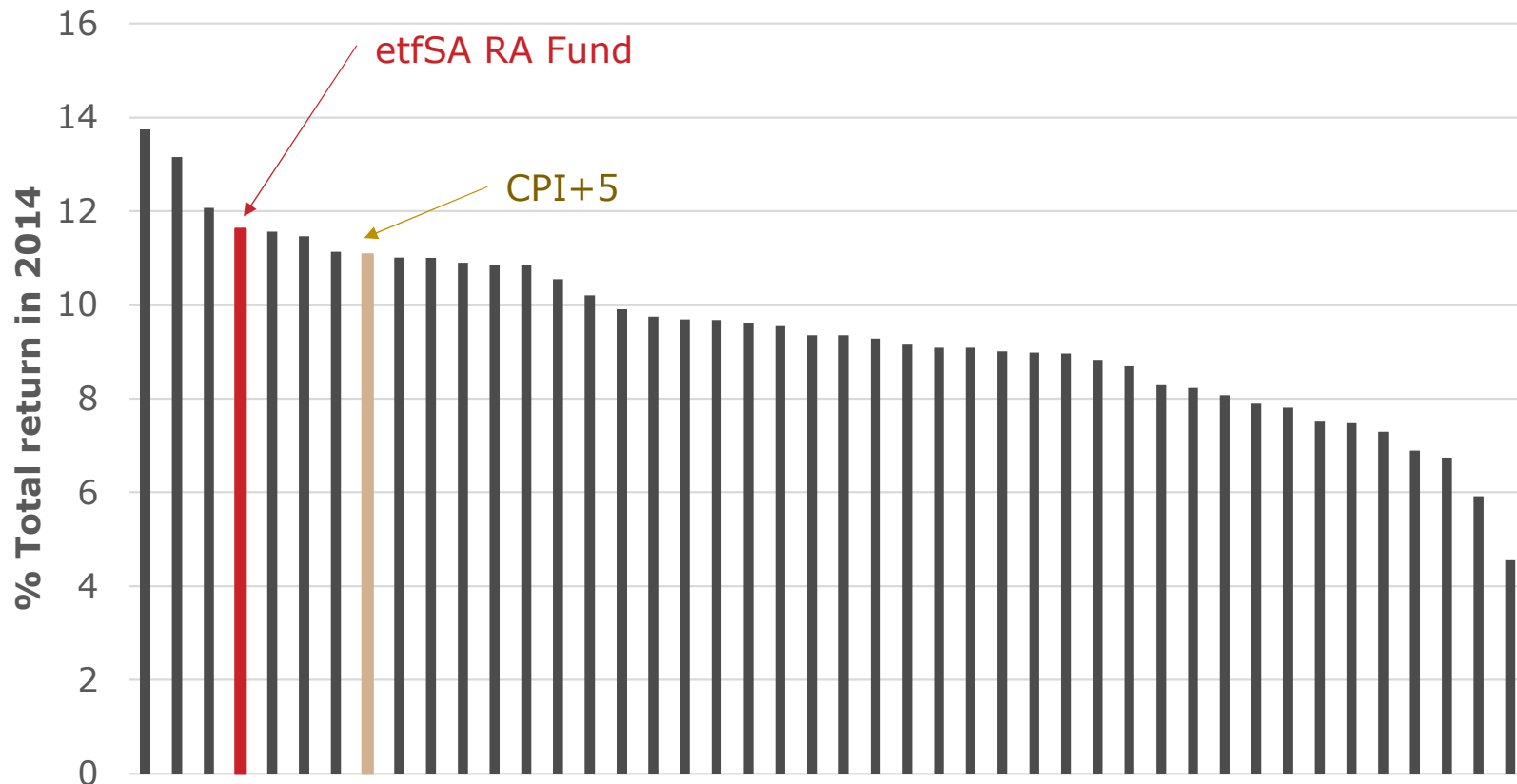


Source: ProfileMedia; all domestic balanced funds with a high equity mandate

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etfSA Wealth Builder RA Fund Comparative 2014 Performance

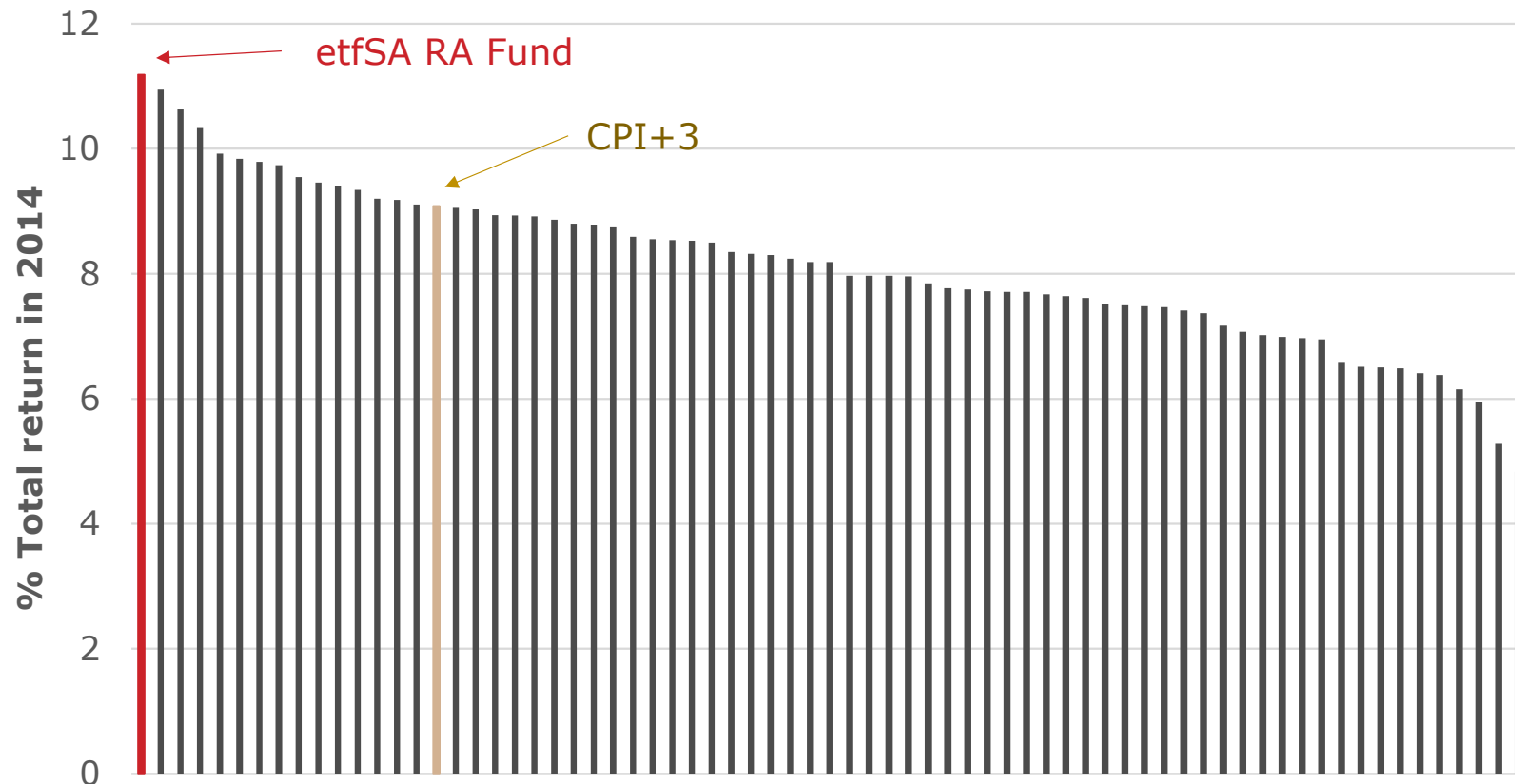


Source: ProfileMedia ; all domestic balanced funds with a medium equity mandate

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etfSA Wealth Conservator RA Fund Comparative 2014 Performance



Source: ProfileMedia ; all domestic balanced funds with a low equity mandate

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WTF?

- Why Trade in February!
- Optimising tax efficiency before the end of the tax year
 - ❑ RA Fund – make maximum allowable contributions
 - ❑ Capital Gains Tax (CGT) – lock in full tax-free capital gains

RA Fund contributions

The greater of 15% of taxable income other than from retirement funding employment, R3,500 less current deductions to a pension fund, or R1,750

Example:

<i>Taxable income</i>	<i>R500,000</i>
<i>Allowable contribution</i>	<i>R45,000</i>
<i>Already contributed</i>	<i><u>-R30,000</u></i>
<i>Excess available</i>	<i><u>R15,000</u></i>

Source: National Treasury Tax Tables; etfSA calculations

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Minimise Capital Gains Tax (CGT)

- CGT rate (for individuals) 13.3%; CG exclusion=R30,000 p.a.
- Reset portfolio base value by locking in R30,000 of CG
- Notes:
 - Must have held the investment for at least 3 years to qualify for CGT rather than ordinary income tax
 - R30,000 tax-free limit includes capital gains from other sources

Question time



Contact details

Websites	www.etfsa.co.za (discretionary investments) www.etfsara.co.za (etfSA RA Fund)
etfSA Call Centre	0861 383 721 (etfSA Investor Plan) queries@etfsa.co.za 0861 383 727 (etfSA RA Fund) rafunds@etfsa.co.za
etfSA Management	Team: info@etfsa.co.za Jenilee Naidoo : 011 274 6170 jenileen@etfsa.co.za Mike Brown: 011 274 6171 mikeb@etfsa.co.za Sherryl Fortuin : 011 274 6172 sherrylf@etfsa.co.za Nerina Visser: 011 274 6173 nerinav@etfsa.co.za Fax: 0866 924 543

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