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The Home of Retirement Funds

Exchange Traded Funds (ETFs) Investment Seminar

JSE

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etfSA.co.za

Agenda

- What are ETFs and how do they work?
- Benefits of ETFs.
- ETFs and Unit Trusts
- Using ETFs in Stokvel/Investor Club portfolios.
- Using ETFs in Tax Free Investment Accounts.
- Using ETFs in discretionary portfolios.

What Are ETFs?

- They are portfolios of shares, listed on the Stock Exchange (JSE).
- They are much like Unit Trusts, but benefit from modern technology and practices.
- They trade just like any other securities on the JSE.
- They are index-tracking (or passive) portfolios of shares.

What is an Index?

- An index reflects a basket of shares to represent the performance (capital growth and dividends) of:
 - The **South African equity market** as a whole (Satrix 40 or SWIX, Ashburton Top 40 ETFs)
 - Or the **global equity market** (DBX Tracker World ETF)

What is an Index? (continued)

Index Weights – Basket of Constituents (as at March 2016) FTSE/JSE Top 40 Index			
	Market Cap Weighted (%)		Market Cap Weighted (%)
Anglo Ashanti	1,35	Capital & Countries Prop	0,39
Anglo American Plc	3,00	Capitec	0,48
Anglo Platinum Ltd	0,34	Compagnie Fin Richemont	7,44
Aspen Pharmacare Hldgs	1,68	Discovery	0,63
Barclays Africa Group	0,97	FirstRand Ltd	2,06
BHP Billiton Plc	6,55	Fortress Inc Fund	0,18
Bidvest Group Ltd	0,60	Fortress Inc Fund A	0,35
BID Corp Ltd	1,54	Growthpoint Properties Ltd	0,98
Brait SE	0,85	Investec Ltd	0,43
British American Tobacco	4,61	Investec Plc	1,01

What is an Index? (continued)

Index Weights – Basket of Constituents (as at March 2016)
FTSE/JSE Top 40 Index

	Market Cap Weighted (%)		Market Cap Weighted (%)
Intu Properties Plc	1,02	Reinet Inv Soc Anon	0,83
Mediclinic International Ltd	1,15	Remgro Ltd	1,89
Mondi Ltd	0,58	RMB Holdings Ltd	0,56
Mondi Plc	1,80	SABMiller Plc	15,30
Mr Price Group	0,67	Sanlam Ltd	1,78
MTN Group	3,48	Sasol Ltd	4,24
Naspers Ltd -N-	15,34	Shoprite Holdings Ltd	1,15
NEDCOR	0,55	Standard Bank Group Ltd	2,37
Netcare Ltd	0,77	Steinhoff International Hldg	3,77
Old Mutual Plc	3,03	Tiger Brands Ltd	0,89
Rand Merchant Ins Hldgs	0,46	Vodacom Group	0,85
Redefine Properties	0,75	Woolworths Holdings Ltd	1,31

What is an Index?

- A sector of the market:
 - ▣ **Industrials** (Satrix INDI 25 ETF; NewFunds S&P GIVI INDI ETF)
 - ▣ **Financials** (Satrix FINI 15 ETF; NewFunds S&P GIVI FINI ETF)
 - ▣ **Resources** (Satrix ESI 10 ETF; NewFunds S&P GIVI RESI 20 ETF)
 - ▣ **Global** (DBX Tracker MSCI USA ETF; DBX Tracker Eurostoxx 50 ETF; DB China ETN)

What is an Index?

- Can measure different types of assets:
 - Equities
 - Bonds
 - Commodities
 - Property
 - Currencies
 - Cash (money market)

What Are The Benefits of Buying the Index?

- You buy one ETF share, but you own a whole portfolio of shares.
- You only pay brokerage, JSE settlement, custodian, depository fees once and not for every share you own in the ETF.

**Buy one ETF and get an entire portfolio
for the price of a single trade**

What Are The Benefits of Buying the Index? (continued)

- An index gives you the average return of the market.
- Who wants to be average?

Number of Active Asset Managers that Underperform the Return of the Index			
	1 Year	3 Year	5 Year
USA (benchmark S&P 500)	86%	76%	89%
Europe (benchmark S&P Europe 350)	83%	76%	82%
South Africa (S&P SA DSW)	84%	82%	85%

Source: S&P Dow Jones Indices (SPIVA Scorecard) (December 2015).

Unit Trusts and ETPs

Unit Trusts	ETPs
<ul style="list-style-type: none"> Are Collective Investment Schemes (CIS). 	<ul style="list-style-type: none"> ETFs are mostly CIS products. ETNs are not CIS products.
<ul style="list-style-type: none"> Are unlisted over-the-counter off-market products <ul style="list-style-type: none"> No central electronic registry No central depository No guarantee fund for settlement. 	<ul style="list-style-type: none"> ETPs are publically listed securities. Central electronic register. Single depository and custodian system controlled by JSE and "big four" banks. JSE guarantee fund.
<ul style="list-style-type: none"> Are typically actively managed so carry market risk and systemic risk from portfolio management (standard deviation). 	<ul style="list-style-type: none"> Are Index trackers, so only market risk applies.
<ul style="list-style-type: none"> Volatility critical concern. 	<ul style="list-style-type: none"> Volatility confined to market beta.
<ul style="list-style-type: none"> Portfolio only disclosed historically. 	<ul style="list-style-type: none"> Portfolios disclosed daily.

Higher risk

Low risk

Total Costs

	Unit Trusts	ETPs
Management Fees Average Total Expense Ratio (TER)	1,52% (152bps) per annum	0,33% (33bps) per annum
Portfolio Construction Fees	0,5% to 1,00 per annum	Included in TER
Platform Fees	0,25% to 0,75% per annum	-
Stockbroker Fees	-	0,25% to 0,5%
Wrap Fees	0,5% to 1,00% per annum	-
Investment Plan Fees	-	0,3% to 0,7% per annum
Total Costs	2,77% to 4,27% per annum	0,80% to 1,53% per annum

Stokvels / Investor Clubs

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Legal Status of Stokvels / Investor Clubs / Burial Societies

- Government Gazette Notice 43 of 2013 exempts such organisations from the requirements of the FAIS Act.
- Definition:
 - **Stokvel/Investor Club** means a group of natural persons amongst whom a common bond exists joined together to form an invitation only group savings scheme or rotating credit scheme and that:
 - a) Consists of members who have pledged mutual support to each other towards the attainment of specific objectives;
 - b) Establishes a continuous pool of capital by raising funds by means of the subscriptions of or contributions by members
 - c) Provides for members to share in profits and to nominate management; and
 - d) Relies on self-imposed regulation to protect the interest of its members.

Starting & Managing an Investor Club/ Stokvel

FICA REQUIREMENTS

(to be sent to investment administrators)

- Copy of Constitution / Founding Statement.
- Letter or document for Authorised Person to Represent Society (signed by all members).
- Copy of Register of Investors.
- Copy of Club / Stokvel bank statement.
- FICA documents for Authorised Person.
 - ID
 - Proof of residence.

Using ETPs In Investor Clubs / Stokvels

- Less risk (more diversification) by using ETP portfolios to provide exposure to equities, bonds, listed property and other asset classes.
- Low costs do not eat into investment performance.
- Low investment minimums
- Quarterly dividends can be paid out or reinvested depending on choice of Club/Stokvel.

Using the etfSA Investor Plan for Stokvel/Investor Club Investments

- Will accept investments from R1000.
- Will process debit orders from R300 per month.
- Automatically reinvests dividends four times a year.
- Brokerage fee of 0,08% (8bps) per transaction (all trades “bulked”).
- Administration fee (0,4% - 0,7% p.a.) is administered over 12 months and covers all transactions over that period.
- Specialise in ETPs only.

View: www.etfsa.co.za

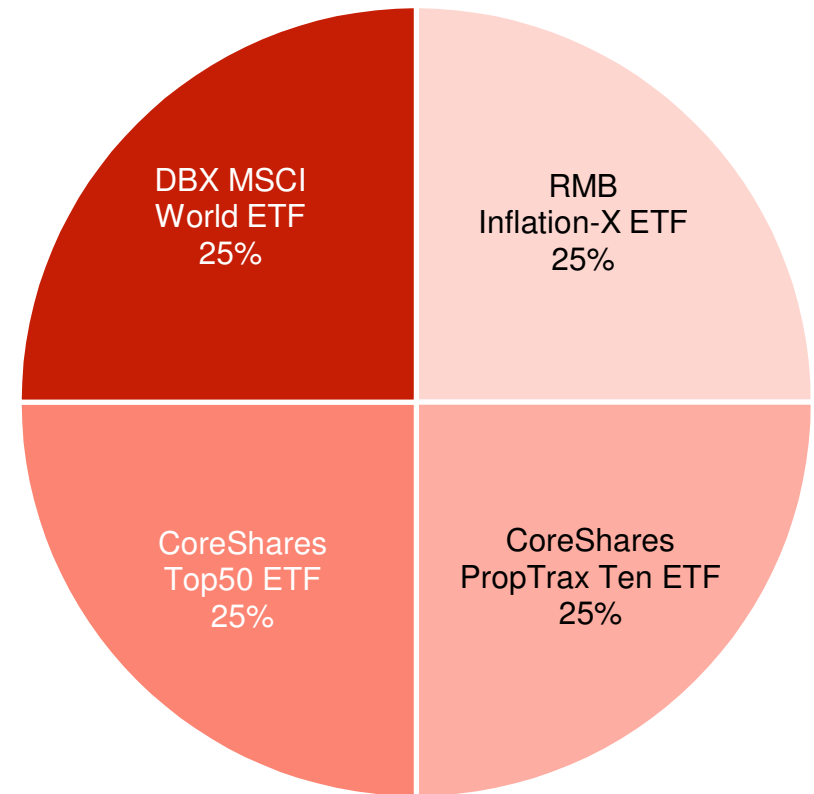
Portfolio Construction for Stokvels / Investor Clubs – Bank Savings Accounts

- R100 in the bank.
- 6% interest rate p.a.
- After one year you have R106.
- Nothing more – nothing less.
- But inflation is $>7\%$, so your money is now worth less...

Gives you no capital growth

Balanced Portfolio for Stokvels / Investor Clubs

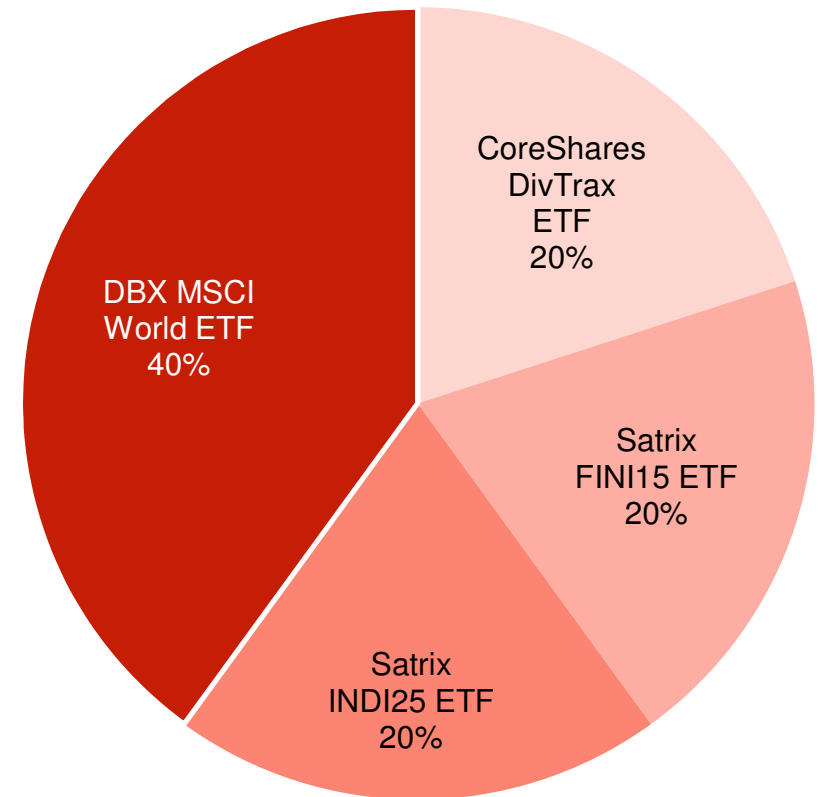
(%)	3 yrs (p.a.)	5 yrs (p.a.)
Comparative Benchmark Performance		
Bonds - SA Government Bond Index	3.0	7.4
SA Equities - JSE All Share Index	14.4	13.4
Portfolio ETF Performance		
RMB Inflation-X ETF (25%)	2.6	6.8
CoreShares SA Top50 ETF (25%)	15.6	14.1
CoreShares PropTrax Ten ETF (25%)	12.4	19.4
dB X-Trackers World ETF (25%)	21.5	21.0
Balanced Account - Model Portfolio	12.5	15.7



Source: JSE data; ETF providers; etfSA calculations

Equity Portfolio for Stokvels / Investor Clubs

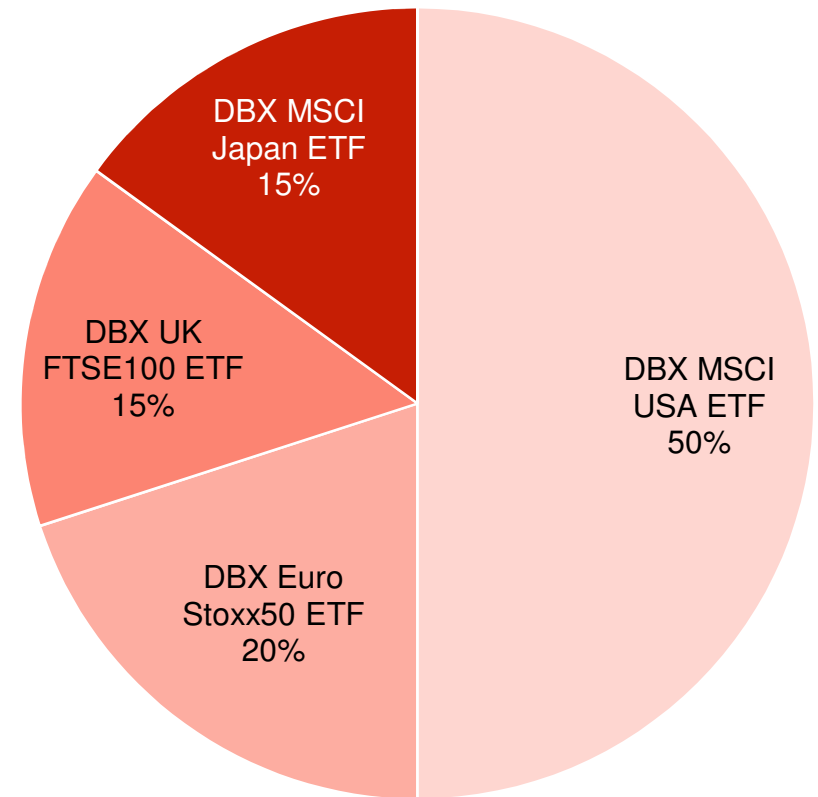
(%)	3 yrs (p.a.)	5 yrs (p.a.)
Comparative Benchmark Performance		
SA Equities - JSE All Share Index	14.4	13.4
Offshore Equities - MSCI World Index	21.5	21.0
Portfolio ETF Performance		
Satrix FINI15 ETF (20%)	15.2	17.8
Satrix INDI25 ETF (20%)	23.3	24.2
Coreshares Dividend Aristocrats ETF (20%)	12.4	16.0
dB X-Trackers World ETF (40%)	21.5	21.0
Equity Account - Model Portfolio	19.9	21.0



Source: JSE data; ETF providers; etfSA calculations

International Portfolio for Stokvels / Investor Clubs

(%)	3 yrs (p.a.)	5 yrs (p.a.)
Comparative Benchmark Performance		
Offshore Equities - MSCI World Index	21.5	21.0
Currency - Rand/USD exchange rate	16.6	16.6
Portfolio ETF Performance		
dB X-Trackers MSCI USA ETF (50%)	26.7	26.6
dB X-Trackers EuroStoxx50 ETF (20%)	15.3	11.0
dB X-Trackers FTSE100 ETF (15%)	13.2	14.2
dB X-Trackers MSCI Japan ETF (15%)	15.2	18.6
International Account - Model Portfolio	22.0	21.4



Source: JSE data; ETF providers; etfSA calculations

Portfolios for Stokvels / Investor Clubs

- Replicate the Tax Free portfolios shown.
- Select your own portfolios from over 70 ETPs available on etfSA Investor Plan.
- For Stokvels with over R100 000 investments, etfSA.co.za can provide guidance and advice.

ETF Tax Free Investment Accounts (ETFIA)

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Tax Free Investment Accounts

- All income (dividends, interest) plus capital gains is tax free.
- ETFs/Unit Trusts which pay 4 dividends a year are ideal for maximizing the tax free income allowance.
- The tax free capital gains are key.

Capital Gains (past 5 years)		
	% Appreciation (per annum)	Value of R30000 Investment After 5 Years*
Tax Free Savings Account	5,8%	39 800
JSE All Share Index	12,7%	54 540
ETF Tax Free Investment Equity Portfolio	21,4%	79 000
* All income reinvested.		

Tax Free Strategies

- Limited to R30 000 investment contribution each year. Can be for any individual with SA ID number.
- Make investment as **early as possible in each tax year**
 - To maximize capital growth and to receive 4 tax free dividends.
- Debit order or periodic lump sums available from R1000 in ETF Tax Free Investment Accounts.
- Three ETFIA portfolios to choose from
 - Balanced income/equity ETF portfolio
 - Equity only ETF portfolio
 - Foreign ETFs only
 - Individual ETFs for R30 000 investment.

Discretionary Investments

Individual Investments

In your **own portfolio of ETPs**, you manage the investment. You can choose your own individual ETPs or portfolio.

- Through the etfSA Investor Plan
 - Debit orders from R300 per ETP, per month
 - Lump sums from R1000 per ETP
 - Quarterly dividends automatically reinvested
 - Fully administered platform run by AOS, from 0,35% to 0,7% per annum management fee
 - Transaction/brokerage charges paid for each transaction (8bps per trade).

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Using ETFs In A Discretionary Portfolio Single ETF Investment

Building Up Wealth
R1000 per month in Satrix INDI 25 ETF

	Current Value*				
	1 Year (R)	3 Year (R)	5 Year (R)	10 Year (R)	20 year** (R)
Satrix INDI 25 ETF	12 990	45 820	103 820	370 980	3 125 260

* Current value of R1000 per month investment over 1-10 years for period ended 27 May 2016.

** Extrapolated return based on 2004-2014 returns.

Source: etfSA.co.za / Profile Data (27/5/2016).

Note: Historic returns may not be repeated in future.

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Discretionary Portfolio Using Exchange Traded Funds (ETFs)

	Amount Allocated (%)	5 Year Return (% p.a.)	Weighted Return (% p.a.)
SA Equities (30%)			
Satrix INDI 25 ETF	15%	24,17%	3,62%
NewFunds S&P GIVI FINI ETF	10%	18,55%	1,86%
Satrix SWIX Top 40 ETF	5%	13,95%	0,70%
Foreign Equities (40%)			
DBX Tracker MSCI USA ETF	15%	31,46%	4,72%
DBX Tracker MSCI FTSE 100 ETF	10%	21,53%	2,15%
DBX Tracker MSCI Japan ETF	10%	22,62%	2,26%
DBX Tracker Eurostoxx 50 ETF	5%	19,08%	0,95%
Bonds (15%)			
RMB Inflation-X ETF	15%	8,85%	1,33%
Listed Property (15%)			
PropTrax Ten ETF	15%	16,04%	2,30%
Total	100%		19,99%

Note: Average return past 5 years for multi-asset Unit Trusts	
Low Equity	9,73%
Medium Equity	10,63%
High Equity	11,62%

Source: Quarterly Unit Trust Survey (Dec 2015).
 Note: Historical returns may not be repeated in future.

Individual Investments

**Have your portfolio
managed by
etfSA.co.za**

- **etfSA Retirement Annuity Funds – 3 portfolio choices. Total fees 1,15% per annum.**
- **etfSA Living Annuity Funds – 4 portfolio choices. Total fees 0,75% - 1,25% per annum.**
- **etfSA Bespoke Portfolios designed for specific needs of investor. Minimum investment: R1 million. Total fees 1% per annum maximum.**

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