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# Exchange Traded Funds (ETFs) Investment Seminar

**JSE**

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# Agenda

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

# What Are ETFs?

- They are portfolios of shares, listed on the Stock Exchange (JSE).
- They are just 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 market as a whole (All Share, Top 40)
  - A sector of the market (Industrials, Resources, Financials)
  - Or different types of assets:
    - Equities
    - Bonds
    - Commodities
    - Property
    - Currencies
    - Cash (money market)

# What is an Index? (continued)

Index Weights – Basket of Constituents (as at December 2015) FTSE/JSE Top 40 Index			
	Market Cap Weighted (%)		Market Cap Weighted (%)
Anglo Platinum Ltd	0,39	Compagnie Fin Richemont	8,70
Anglo American Plc	2,49	Discovery	0,61
Aspen Pharmacare Hldgs	1,70	FirstRand Ltd	2,24
Barclays Africa Group	0,74	Fortress Inc Fund	0,35
BHP Billiton Plc	6,33	Fortress Inc Fund A	0,19
Bidvest Group Ltd	1,90	Growthpoint Properties Ltd	1,05
Brait SE	0,85	Investec Ltd	0,46
British American Tobacco	4,56	Investec Plc	1,07
Capital & Countries Prop	0,38	Intu Properties Plc	1,05
Capitec	0,47	Mediclinic International Ltd	1,23

# What is an Index? (continued)

Index Weights – Basket of Constituents (as at December 2015) FTSE/JSE Top 40 Index			
	Market Cap Weighted (%)		Market Cap Weighted (%)
Mondi Ltd	0,58	Remgro Ltd	2,01
Mondi Plc	1,81	RMB Holdings Ltd	0,64
Mr Price Group	0,67	SABMiller Plc	15,38
MTN Group	4,30	Sanlam Ltd	1,77
Naspers Ltd -N-	14,05	Sasol Ltd	4,40
NEDCOR	0,57	Shoprite Holdings Ltd	1,23
Netcare Ltd	0,83	Standard Bank Group Ltd	2,48
Old Mutual Plc	3,20	Steinhoff International Hldg	3,86
PSG Group	0,31	Tiger Brands Ltd	0,86
Rand Merchant Ins Hldgs	0,48	Vodacom Group	0,82
Redefine Properties	0,83	Woolworths Holdings Ltd	1,34
Reinet Inv Soc Anon	0,80		

# What Are The Benefits of Buying the Index?

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

	1 Year	3 Year	5 Year
<b>USA (benchmark S&amp;P 500)</b>	<b>86%</b>	<b>76%</b>	<b>89%</b>
<b>Europe (benchmark S&amp;P Europe 350)</b>	<b>83%</b>	<b>76%</b>	<b>82%</b>
<b>South Africa (S&amp;P SA DSW)</b>	<b>84%</b>	<b>82%</b>	<b>85%</b>
<i>Source: S&amp;P Dow Jones Indices (SPIVA Scorecard) (December 2015).</i>			

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

- 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**



# 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)
<b>Satrix INDI 25 ETF</b>	12 380	44 680	101 570	359 590	3 750 000

\* Current value of R1000 per month investment over 1-10 years for period ended 7 March 2016.

\*\* Extrapolated return based on 2004-2014 returns.

Source: [etfSA.co.za](http://etfSA.co.za) / Profile Data (07/3/2016).

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.)
<b>SA Equities (30%)</b>			
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%
<b>Foreign Equities (40%)</b>			
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%
<b>Bonds (15%)</b>			
RMB Inflation-X ETF	15%	8,85%	1,33%
<b>Listed Property (15%)</b>			
PropTrax Ten ETF	15%	16,04%	2,30%
<b>Total</b>	<b>100%</b>		<b>19,99%</b>

<b>Note: Average return past 5 years for multi-asset Unit Trusts</b>	
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.

# 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 Discretionary 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.
- Will facilitate third party investments
- Ideal for Investor Clubs/Stokvels.
- Specialise in ETPs only.

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# 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 (from 2016/2017)
  - Balanced income/equity ETF portfolio
  - Equity only ETF portfolio
  - Foreign ETFs only
  - Individual ETFs for R30 000 investment.

# Contact Details

Discretionary Investments	0861 383 721 (etfSA Investor Plan)	<a href="mailto:info@etfSA.co.za">info@etfSA.co.za</a>
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RA Funds	0861 383 727 (etfSA RA Fund)	<a href="mailto:rafunds@etfSA.co.za">rafunds@etfSA.co.za</a>
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