

# **Understanding Exchange Traded Funds (ETFs) – Investment Solutions for Retail Investors**

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The Home of Exchange Traded Funds<sup>®</sup>



# What Are Exchange Traded Products (ETPs)?

- They are securities traded on the JSE, like any other listed shares.
- They give access to a portfolio (Fund) of shares.
- The Fund typically tracks an index.

# Components of FTSE/JSE Top 40 Index

Index Weights – Basket of Constituents (as at June 2014) FTSE/JSE Top 40 Index			
	Market Cap Weighted (%)		Market Cap Weighted (%)
African Rainbow Minerals	0,32	Capital & Countries Prop	0,22
Anglo Platinum Ltd	0,47	Compagnie Fin Richemont	9,37
Anglo American Plc	6,36	Discovery	0,49
Anglo Gold Ashanti Ltd	1,29	Exxaro Resources Ltd	0,30
Aspen Pharmacare Hldgs	1,54	Firststrand Ltd	2,38
Assore Ltd	0,20	Growthpoint Properties Ltd	0,88
Barclays Africa Group	0,92	Impala Platinum Holdings	0,95
BHP Billiton Plc	13,47	Imperial	0,58
Bidvest Group Ltd	1,57	Investec Ltd	0,40
British American Tobacco	3,38	Investec Plc	1,01

# Components of FTSE/JSE Top 40 Index

Index Weights – Basket of Constituents (as at June 2014) FTSE/JSE Top 40 Index			
	Market Cap Weighted (%)		Market Cap Weighted (%)
Intu Properties Plc	0,88	Remgro Ltd	1,91
Kumba Iron Ore Ltd	0,34	RMB Holdings Ltd	0,63
Life Healthcare Grp Hldgs	0,69	SABMiller Plc	10,26
Mediclinic International Ltd	0,60	Sanlam Ltd	1,85
Mondi Ltd	0,39	Sasol Ltd	5,93
Mondi Plc	1,20	Shoprite Holdings Ltd	1,21
MTN Group	6,68	Standard Bank Group Ltd	3,03
Naspers Ltd -N-	8,88	Steinhoff International Hldg	2,34
Nedbank Group Ltd	0,81	Tiger Brands Ltd	0,77
Old Mutual Plc	2,95	Vodacom Group	0,71
Reinet Inv Soc Anon	0,64	Woolworths Holdings Ltd	1,03

# The Case for ETPs

- You buy one ETP, but you own a whole portfolio (fund) of shares.
- Although you own a whole portfolio, you only pay for one share – brokerage and JSE settlement costs are only paid once and not for every share in the portfolio.

**Buy one security and own a whole  
“basket” of shares on the JSE.**

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# The Case for ETPs (continued)

## Low costs

Average Total Expense Ratios (TERs)*		
	% p.a.	bps
Domestic Exchange Traded Fund	0,33%	33
Unit Trust Index Trackers	0,76%	76
General Equity Unit Trust	1,56%	156

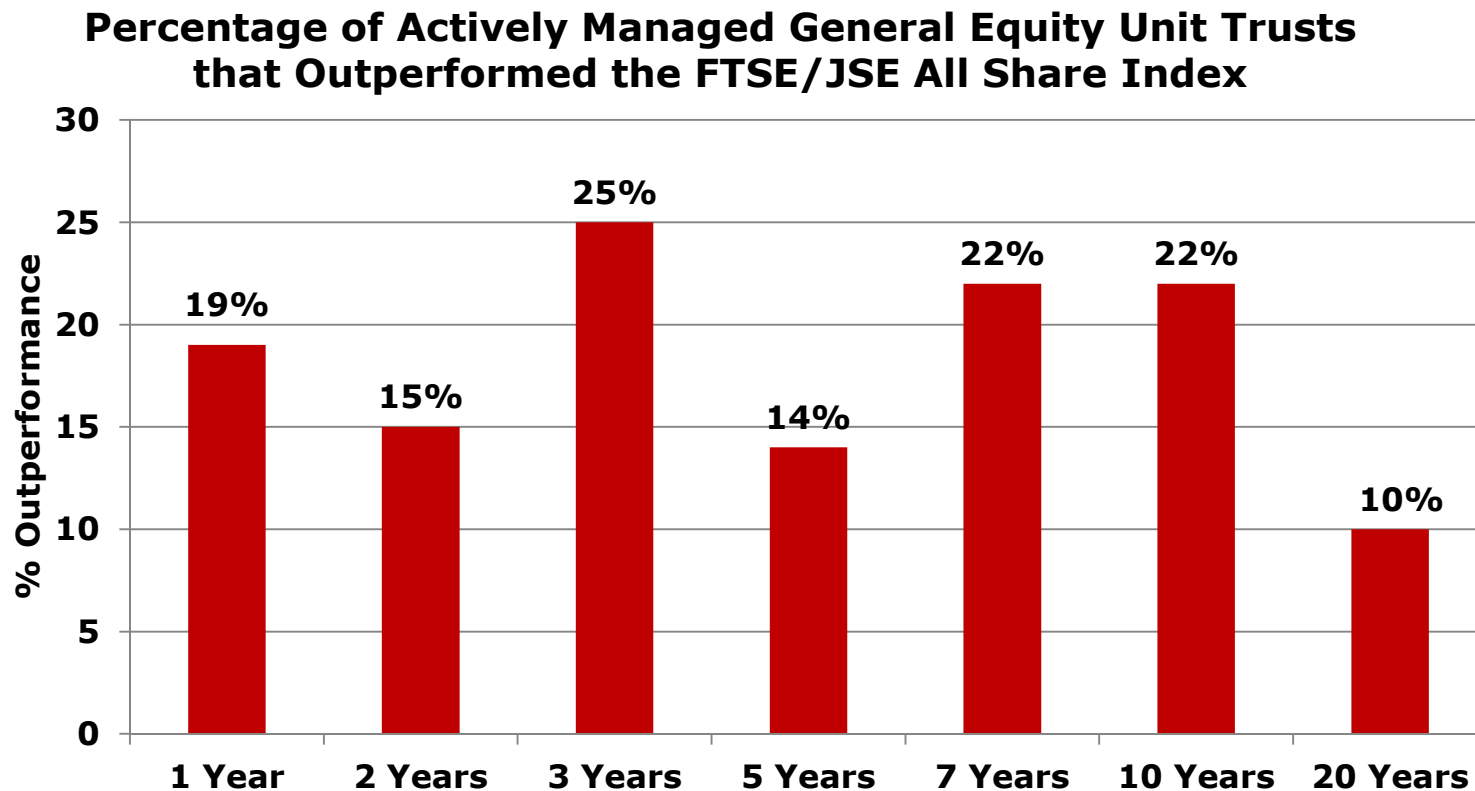
- Low brokerage schemes are available for purchase of ETFs through Investment Plans, etc. (similar to LISP platforms for unit trusts).
- No STT (Securities Transfer Tax) of 0,25% payable for ETFs.
- Passive tracking index reduces portfolio churn and undisclosed transaction costs.

**\*Note: TERs are not consciously paid by the investor, they are embedded in the price of the product.**

Continued/...

# The Case for ETPs (continued)

They outperform 80% of Actively Managed Portfolios Over Time



Source: ASISA Unit Trust Survey (30 June 2014)

# The South African ETP Industry

South African ETP Industry						
Issuer	Brands	Market Capitalisation (RM)		Total Market Capitalisation (Rm)	No of products	
		ETFs	ETNs		ETFs	ETNs
<b>ABSA</b>	NewFunds	42 155,4	196,1	42 351,5	16	5
	NewWave					
	NewGold					
<b>BNP Paribas</b>	GURU		20 400,0*	20 400,0*		4
<b>Sanlam</b>	Satrix	14 065,4		14 065,4	7	
<b>Deutsche Bank</b>	DBX Tracker	6 851,1	3 800,2*	10 651,3	5	3
<b>Standard Bank</b>	-	4 326,1	1 477,5*	5 803,6	3	10
<b>Standard Liberty</b>	Stanlib	3 595,6		3 595,6	3	
<b>Investec Capital</b>	-		1 836,7*	1 836,7	3	
<b>Rand Merchant Bank</b>	-	1 375,7	253,4	1 629,1	3	2
<b>Grindrod Bank</b>	GTrax	517,4		517,4	5	
<b>Nedbank Capital</b>	BettaBeta	294,9		294,9	2	
<b>Totals</b>		73 181,6	27 963,9	101 145,5	44	27
<b>Source:</b>	JSE/etfSA.co.za/Profile Data.					
*	Securities in issue.					



# Building Up Wealth

## R1000 per month in Satrix INDI 25 ETF

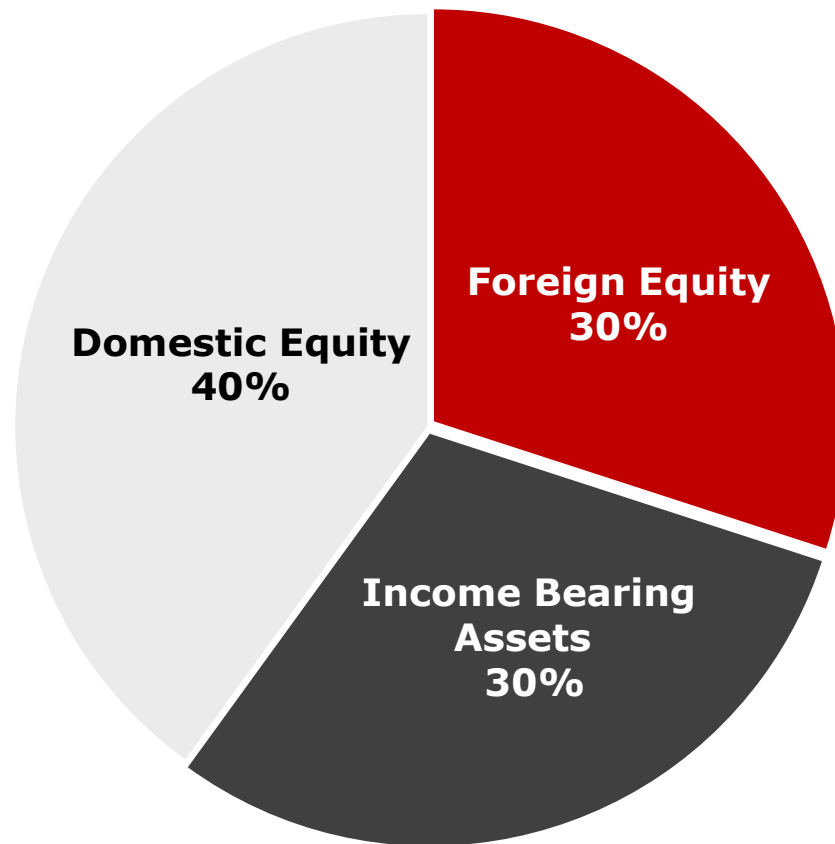
	Current Value*				
	1 Year	3 Year (R)	5 Year (R)	10 Year (R)	20 year** (R)
<b>Satrix INDI 25 ETF</b>	13 640	57 380	124 780	422 400	4 638 600
* Current value of R1000 per month investment over 1-10 years for period ended 19 June 2014					
** Extrapolated return based on 2004-2014 returns.					
Source: <a href="http://etfSA.co.za">etfSA.co.za</a> / Profile Data.					
Note: Historic returns may not be repeated in future.					

# Building Up Wealth

## R1000 per month in ETF Portfolio

Fund	Amount Allocated (%)	Current Value* After 3 Year Investment (R)	Current Value* After 5 Year Investment (R)
<b>Domestic Equities</b>			
Satrix INDI 25 ETF	1 000	56 630	123 150
<b>Foreign Equity &amp; Assets</b>			
DBX Tracker MSCI USA ETF	1 000	58 340	120 000
<b>Listed Property</b>			
Proptrax SAPY ETF	1 000	44 600	90 500
<b>Bonds</b>			
RMB Inflation-X ETF	1 000	41 430	77 480
<b>Totals</b>	<b>R4 000 (per month)</b>	<b>R201 000</b>	<b>R411 130</b>
*	<i>Current value of lump sum investment done 3 and 5 years ago.</i>		
<b>Source:</b>	<i>etfSA.co.za / Profile Data (28/7/2014).</i>		
<b>Note:</b>	<i>Historical returns may not be repeated in future.</i>		

# Typical Asset Allocation



# Balanced Portfolio

## (multi asset class)

ETF Balanced Portfolio	Amount Allocated (%)	3 Year Total Return* (% per annum)	5 Year Total Return* (% per annum)
<b>Domestic Equity</b>			
Satrix INDI 25 ETF	20%	31,59%	30,59%
NewFunds eRAFI FINI ETF	10%	28,33%	24,51%
NewFunds eRAFI Overall	10%	19,32%	19,79%
<b>Foreign Equity</b>			
DBX Tracker MSCI USA ETF	15%	33,41%	24,93%
DBX Tracker MSCI World ETF	15%	28,49%	21,34%
<b>Interest Bearing Assets</b>			
NewFunds ILBI ETF**	15%	11,42%	10,10%
Proptrax SAPY ETF	15%	16,49%	19,51%
<b>Totals</b>	<b>100%</b>	<b>24,41%</b>	<b>21,95%</b>
<b>Multi Asset Unit Trusts</b>			
Low Equity Fund***	-	11,68%	11,00%
High Equity Funds***	-	15,55%	15,12%
Flexible Funds	-	15,75%	15,39%

*	Total return with all dividends reinvested.
**	Based on ILBI index returns.
***	Average returns for all unit trusts in this sector.

Source:	ASISA – Quarterly Unit Trust Survey (June 2014)
Note:	Historical returns may not be repeated in future.

# Investment Plans

- Will accept investments from R1000.
- Will process debit orders from R300 per month.
- Automatically reinvests dividends four times a year.
- 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.
- Financial advice can be provided for portfolio investments.

# Comparison on Transaction Costs

**Online stockbroker & etfSA Investor Plan  
R5000 per month debit order in 5 ETFs (R1000 per ETF)**

	Total Charge (R)	
	Monthly	Annual
<b>Online Stockbroker</b>		
Stockbrokerage (0,5% per transaction or R50 minimum fee) <b>per transaction</b>	250	3 000
Settlement charges (R12,45 per transaction)	62	747
Administration fee	60	720
<b>Total</b>	<b>372</b>	<b>4 467</b>
<b>etfSA.co.za</b>		
Stockbrokerage (0,1%)	5	60
Settlement charges	-	-
Debit order charge	3,50	42
Admin fee (0,7% per annum)	35	213
<b>Total</b>	<b>43,50</b>	<b>315</b>

# RETIREMENT FUNDS USING ETPs

# Why Retirement Annuity (RA) Funds?

- Build up your own retirement fund.
- Tax deductible contributions.
- Preservation of capital – cannot withdraw until at least 55 years of age.
- Tax efficient portfolio structures.
- Direct distribution of funds to beneficiaries in the event of your death.



# Features of the etfSA Retirement Annuity Fund

## High Flexibility

- Flexible contributions
  - From R5000 lump sum
  - From R300 per month
  - R1000 for additional lump sums
- Switch between etfSA RA portfolios at no cost.
- Transfer in or out of etfSA RA Fund at no cost under Section 14 transfer.
- No penalties if you cannot continue contributions or want to change any contributions.
- Can invest directly, without financial advisor.
- Or can use financial adviser (trailing commissions of up to 1% per annum can be paid).

# etfSA RA Fund – Wealth Enhancer Fact Sheet

BETTABETA

CPI+7% target return fund

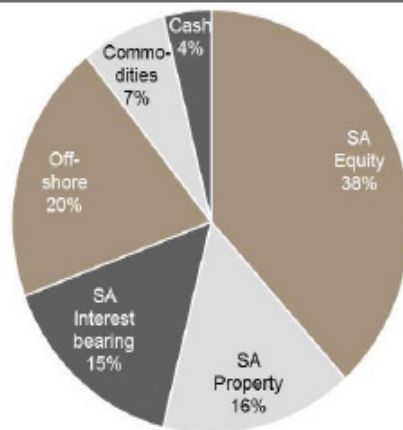
June 2014

## etfSA Wealth Enhancer RA Fund



The Home of Retirement Funds

### Benchmark Asset Allocation



### Key Information

Sector

SA Multi-asset – Medium Equity  
(Reg. 28 compliant)

Composite Benchmark

The etfSA Wealth Enhancer RA Fund aims to preserve the purchasing power of assets over time by achieving targeted returns of 7% in excess of the level of inflation (as measured by the Consumer Price Index, or CPI) over rolling three year periods, while reducing the volatility associated with market-linked investments. The fund is constructed through strategic allocations into a range of exchange traded products, exposed to different asset classes, which optimises the cost efficiency and transparency of the fund. The fund is ideal for investors who are self-employed or already contributing to an employer's retirement fund and would like to make additional savings for retirement. The portfolio is suitable for an investor with an investment horizon of at least 15 years and beyond – it is designed to provide maximum growth in capital with a high targeted real return. The portfolio is well-suited for risk-tolerant investors with real return objectives, seeking long term wealth creation, who in terms of their liabilities, have to earn investment returns in excess of inflation. The portfolio does not pay out dividends – any distributions received from underlying investments are automatically reinvested into the portfolio to allow for additional compounded growth.

### Model Portfolio Investment Returns compared to Market Performance

<http://www.etfsara.co.za/factsheets/etfSA-RA-CPI+3-jun2014.pdf>

# etfSA RA Fund – Wealth Enhancer Fact Sheet

SA Multi-asset – Medium Equity  
(Reg. 28 compliant)  
Composite Benchmark

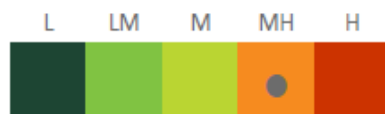
33%ALSI+15%SAPY+10%ALBI  
+10%ILBI+5%STeFI+27%MXWR

Return Target

CPI+7% over rolling three years

Risk Profile

Medium to High (MH)



Fund Total Expense Ratio (TER),  
incl. in total below  
0.35% + VAT  
NO performance fees  
TOTAL cost (Retirement Annuity,  
Administration and Fund management)  
1.35% + VAT

Contact us

Retirement Annuity Provider:  
etfSA RA Funds

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to allow for additional compounded growth.

## Model Portfolio Investment Returns compared to Market Performance

(%)	6m	1yr	3yrs (p.a.)	3yr Stdev	5yrs (p.a.)	10yrs (p.a.)
FTSE/JSE All Share Index (ALSI)	11.8	32.7	20.6	11.5	21.6	21.0
FTSE/JSE SA Listed Property Index (SAPY)	6.3	6.0	18.4	14.8	20.9	23.2
FTSE/JSE All Bond Index (ALBI)	3.4	5.5	8.7	6.8	9.5	9.4
BarCap Inflation-Linked Bond Index (ILBI)	6.0	8.7	8.2	7.6	6.5	9.2
Cash - ST Fixed Income Index (STeFI)	2.8	5.4	5.5	0.1	6.0	7.5
MSCI World Index in ZAR (MXWR)	6.4	31.0	27.2	12.6	20.1	10.9
CPI+7%		14.3	13.5		12.9	13.6
CPI+7% Model Portfolio	7.0	18.7	16.8	6.5	17.0	17.8
<b>etfSA Wealth Enhancer RA Fund</b>	<b>8.1</b>					

Refer to Note 1 on back page

## Actual Portfolio Holdings

Asset class	Reg. 28 Category	Description	Weight (%)	
SA Equity	Equities (max 75%)	BettaBeta Equally Weighted Top40 ETF	19.7	
		BettaBeta Green ETF	7.1	
		RMB MidCap ETF	6.4	
		Satrix Divi Plus ETF	5.1	
SA Property	Immovable Property (max 25%)	Proptrex Ten ETF	15.6	
SA Interest bearing	Debt (max 75%)	RMB Inflation-linked GOVI ETF	7.9	
		NewFunds GOVI ETF	7.5	
Offshore	Cash (max 100%)	Cash	3.8	
		Foreign exposure (max 25%)	dB X-Trackers World ETF	9.6
			dB X-Trackers Emerging Markets ETN	5.9
		Africa (max 5%)	StdBank Africa ETN	4.5
		Gold (max 10%)	NewGold ETF	2.9
Commodities	Other (max 5%)	StdBank Oil ETN	2.4	
		StdBank Wheat ETN	1.6	

<http://www.etfsara.co.za/factsheets/etfSA-RA-CPI+3-jun2014.pdf>

# etfSA RA Fund – Wealth Enhancer Fact Sheet

## Contact us

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	Cash (max 100%)	Cash	3.8
	Foreign exposure	dB X-Trackers World ETF	9.6
Offshore	(max 25%)	dB X-Trackers Emerging Markets ETN	5.9
	Africa (max 5%)	StdBank Africa ETN	4.5
	Gold (max 10%)	NewGold ETF	2.9
Commodities	Other (max 5%)	StdBank Oil ETN	2.4
		StdBank Wheat ETN	1.6

## Historical performance



<http://www.etfsara.co.za/factsheets/etfSA-RA-CPI+3-jun2014.pdf>

# Contact details

## etfSA.co.za Discretionary Investments

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