

Private and confidential

Africa ETF

Commodity ETF's

South Africa

June 2014



Commodities as an asset class

Commodity markets

- Commodity markets trade globally
 - ❖ Enhanced liquidity
 - ❖ Information priced in quickly
- Commodity markets often not correlated to other asset classes
 - ❖ Diversification benefit in portfolio
- Commodity markets are thought to offer protection against inflation
 - ❖ Not perfect, but superior to other asset classes
- Several commodity classes close link to SA economy
- Recognised in Pension Fund (Reg 28) and Collective Investment Schemes (BN80) as separate asset classes with own investment limits

Asset class criteria

Criterion	Commodities
Homogeneity within asset class	√
Mutually exclusive	√
Diversifying	√
Liquidity	√
Non-zero positive returns	√

Source: Standard Bank Research

Gold and PGM's

Main applications

Gold

- Multiple sources world wide - production and recycling.
- Medium of monetary exchange – investors
- Jewellery
- Industrial demand – Stable

Platinum

- Main source South Africa, Russia, Zimbabwe and North America
- Medium of monetary exchange – investors
- Autocatalytic converter demand – auto makers - Diesel vehicle's – Reducing
- Jewellery demand – Increasing
- Industrial demand – Stable
- Production deficit – 2013/4
- Recycling increasing

Palladium

- Main source Russia, South Africa, North America and Zimbabwe
- Medium of monetary exchange – investors
- Autocatalytic converter demand – auto makers - Petrol vehicle's – Increasing
- Jewellery demand – Decreasing
- Industrial demand – Decreasing
- Dental demand – Decreasing
- Production deficit – 2007/8/9/10/12/13/14
- Recycling increasing

Pld closing on Gld and Plt over last 3 years, but be aware history



Source: Standard Bank Research

Gold, PGM and Top 40 over 5 years



Source: Standard Bank Research

Africa ETF General Specifications

Fund Details	AfricaPalladium ETF	AfricaGold ETF	AfricaPlatinum ETF
ETF Issuer	Africa ETF Issuer (Ltd) RF	Africa ETF Issuer (Ltd) RF	Africa ETF Issuer (Ltd) RF
JSE share code	ETFPLD	ETFGLD	ETFPLT
ISIN	ZAE000182531	ZAE000182523	ZAE000182556
Management Fee (Ex VAT)	35 bps	30 bps	30 bps
Initial denomination	1/100th of a troy ounce	1/100th of a troy ounce	1/100th of a troy ounce
Manager	Standard Bank	Standard Bank	Standard Bank
Currency	ZAR	ZAR	ZAR
Benchmark	Palladium Spot	Gold Spot	Platinum Spot
Custodian	JP Morgan, London	JP Morgan, London	JP Morgan, London
Asset	Allocated metal subject to LPPM rules for Good Delivery	Allocated metal subject to LBBM rules for Good Delivery	Allocated metal subject to LPPM rules for Good Delivery
Asset weighting	100% Palladium	100% Gold	100% Platinum
Listing Date	24/03/2014	07/04/2014	07/04/2014
Net Asset Value (18 Jun 2014)	R 89.04	R136.52	R156.22
Securities in Issue (18 June 2014)	42 100 000	200 000	2 300 000
Assets under management (18 June 2014)	ZAR 3 748 584 000	ZAR 27 171 374.26	ZAR 359 306 000
Commodity Held (18 June 2014)	420 619.965	1 998.747	22 984.690
Asset Allocation Factor (18 June 2014)	0.99904751	0.99931506	0.99931506
REG 28 Eligible	Yes	Yes	Yes
BN 80 (CIS) Eligible	Yes	Yes	Yes

ETF Price Mechanics

- Liquidity is always driven by the underlying asset and not the ETF units.
- ETF unit = vehicle to access the underlying asset in its stated denomination.

- Each Africa ETF gives the investor exposure to a portion of an ounce of the commodity, this fraction is determined on issuance of the ETF and decays marginally through time as management fee is incurred (Asset allocation factor).

- The ETF price = ((Commodity Spot Price x USD/ZAR) / Denomination) x Asset Allocation Factor.
- Spot Gold = \$1 295
- USD/ZAR = 10.65
- Denomination = 1/100
- Asset Allocation Factor = 0.99931506

- AfricaGold ETF = ZAR 137.92 $((\$1295 \times 10.65) / 100) \times 0.99931506$

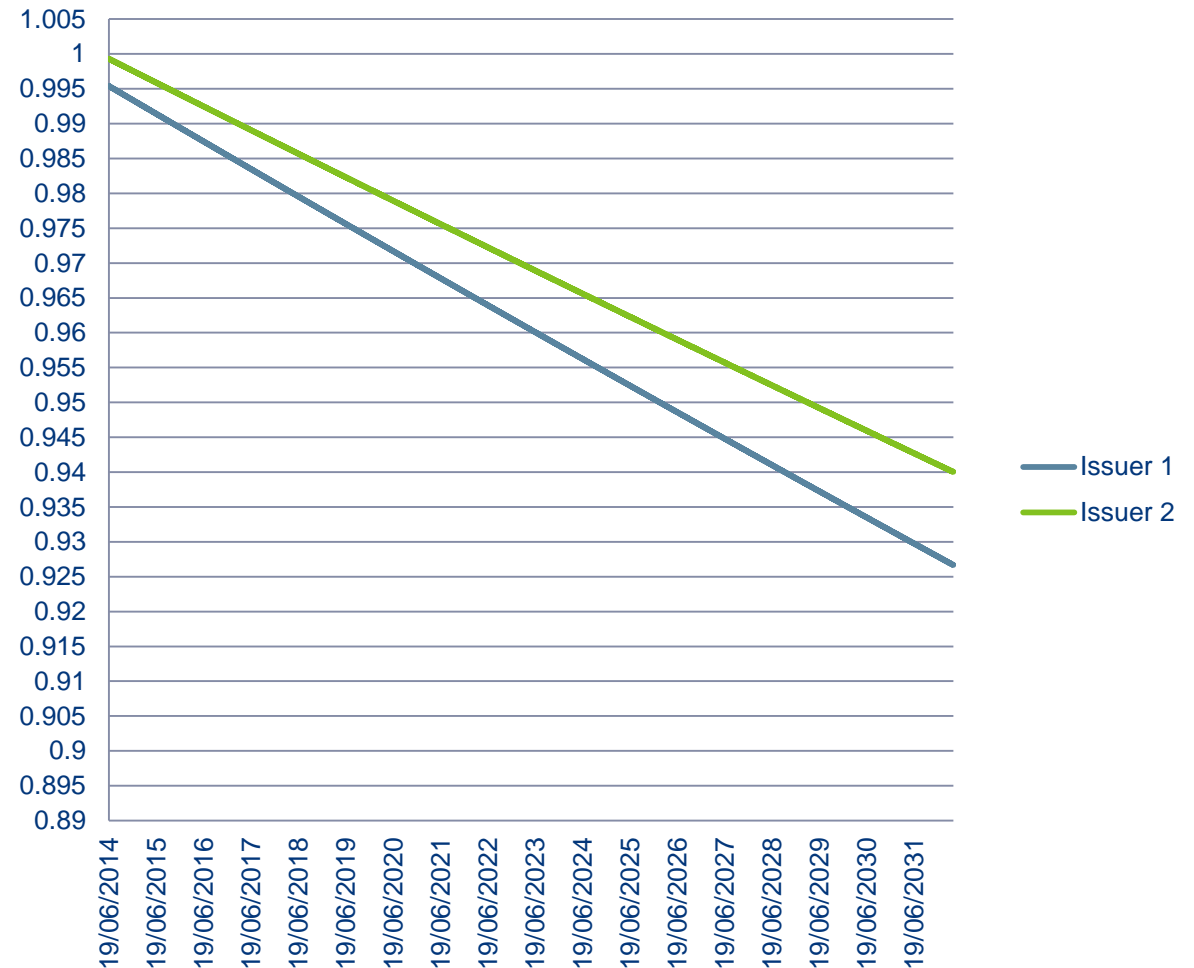
ETF Asset Allocation Factor

- NB – Asset allocation factor
- Asset allocation factor – how much underlying asset is linked to 1 ETF unit.
- New ETF 1 to 1 ie 1 ETF = 100%. Depicted as 1 unit = 0.01 of an ounce of metal or 1 unit = 0.001 Top 40 index units and so on.
- Asset allocation factor will reduce (decay) on a daily basis by the factor of the annual management fee proportionally charged for that day.
- ETF management fee of 0.40% after 1 year asset allocation factor = 99.6%. (1 ETF = 0.00996 oz or 0.000996 Top 40 index units).
- Compounding effect result in large asset allocation factor differentials between ETF's = price differences.
- 2 similar ETF's launched on the same day, ETF A (0.40%) and ETF B (0.30%)
 - ❖ After 1 year ETF A = 99.6% and ETF B = 99.7%. ETF B 0.1% > ETF A
 - ❖ After year 2 ETF A = 99.202% and ETF B = 99.401%. ETF B 0.199% > ETF A
- NB – same asset but different listing dates or a different management fee = different prices
- The formula for calculating the ETF asset allocation factor is as follows:
 - ❖ Asset Allocation = $1 / ((1 / (1 - \text{management fee}))^{(\text{current day} - \text{listing date} + 1) / 365})$

Similar ETF – different price

	Issuer 1	Issuer 2	
Underlying	ETF A	ETF B	
Listing Date	01/01/2013	01/04/2014	
Date	24/06/2014		
Days	540	85	
Man Fees	0.45%	0.30%	Differential
Ref Qty	0.99334965	0.99930056	0.00595091
ETF A Price	R 155.70		
Comparative ETF B Price	R 156.63		
ETF B Price		R 156.30	
Comparative ETF A Price		R 155.37	
Actual Price	R 155.70	R 156.30	< 0.33

ETF's Decay Over Time



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