



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

# Using Exchange Traded Products (ETPs) in Your Investments

**Stocks for  
Frocks Seminar**

**JSE  
12<sup>th</sup> September 2015**

**Mike Brown  
Managing  
Director  
[etfSA.co.za](http://etfSA.co.za)**

# Agenda

- Why ETPs are your first choice for investments.
- Practical day-to-day utilization in
  - Discretionary (your own) investment plan
  - Tax free investment accounts
  - Multi asset class portfolios
  - Managed balanced portfolios
  - In Retirement Funds
    - Before retirement (retirement annuities)
    - After retirement (living annuities)



# Why Exchange Traded Products are “Good for You”

- Easy to understand.
- You know exactly what you are investing in.
- Index investment is
  - Low risk (fully diversified)
  - Beats 85% of all active investment products worldwide
  - Is extremely low cost (high costs of investment is your biggest enemy for future financial independence)
- ETPs are very accessible
- Very mobile

**ETPs are designed for today’s investor**



# How Well Do Actively Managed Funds Perform?

(% by which active managers were outperformed by their benchmarks)

	1 Year	3 Years	5 Years
<b>USA (benchmark S&amp;P 500)</b>	86%	76%	89%
<b>Europe (benchmark S&amp;P Europe 350)</b>	83%	76%	82%
<b>South Africa (S&amp;P SA DSW)</b>	84%	82%	85%

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



The Home of Exchange Traded Funds®

# Discretionary Investments



# Your Own Investment Plan

- Save 10% of your income every month
- Put this into a low cost, low risk, transparent investment (ETPs are ideal).
- Keep on doing this – develop the investment habit.

**Get investing and stay invested!**



# Building Up Wealth

R1000 per month in DBX Tracker MSCI World ETF

	Current Value*				
	1 Year	3 Year (R)	5 Year (R)	10 Year (R)	20 year** (R)
<b>DBX Tracker MSCI World ETF</b>	13 250	50 640	111 860	360 300	3 650 000
* Current value of R1000 per month investment over 1-10 years for period ended 8 September 2015					
** Extrapolated return based on 2004-2014 returns.					
Source: <a href="http://etfSA.co.za">etfSA.co.za</a> / Profile Data (8/9/2015).					
Note: Historic returns may not be repeated in future.					



The Home of Exchange Traded Funds®

# The Advantages of 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.
- 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.
- Can view accounts online at any time.

**View: [www.etfsa.co.za](http://www.etfsa.co.za)**



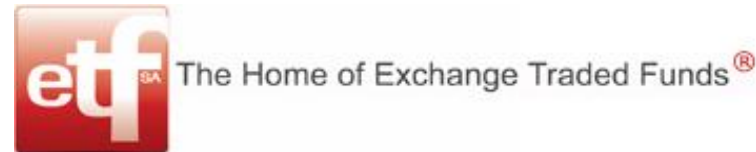


# Tax Free Investment Accounts



# New Tax Free Savings and Investment Accounts

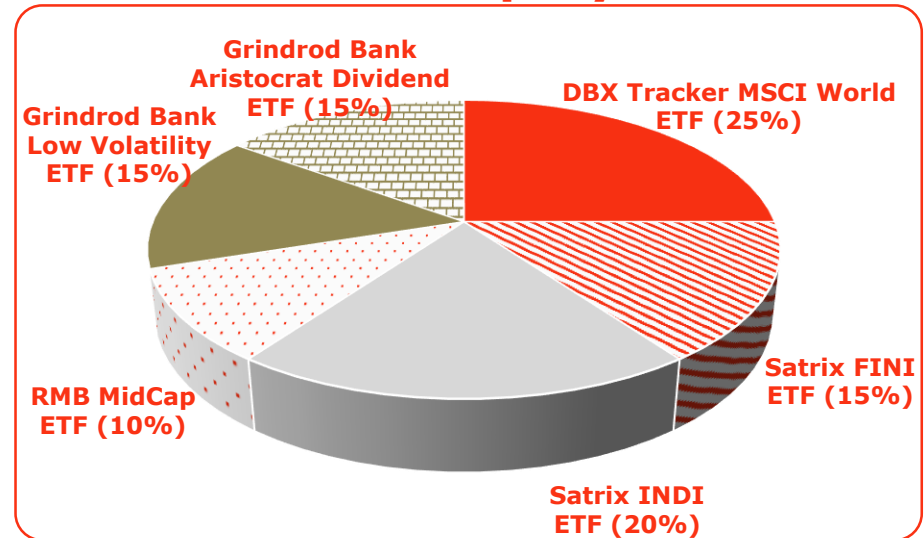
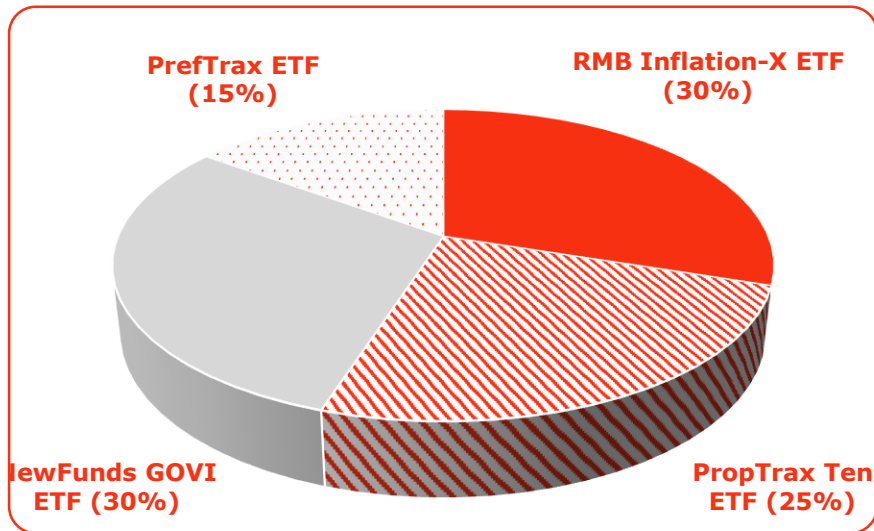
- All capital growth and any income/dividends earned in such accounts is tax free.
- Contributions limited to R30 000 per tax year per person.
- Subject to life investment contribution of R500 000.
- Value of investment can rise above R500 000 without any restrictions.
- Capital can be withdrawn at any time.



# The ETF Tax Free Investment Accounts

- Only invested in Collective Investment Scheme ETFs registered by the FSB and listed on the JSE.
- Offers the choice of two ETF portfolios.

## ETF Tax Free Income Account or ETF Tax Free Equity Account



- Or a combination of both (50%/50%)



# What Return Can I Expect?

**R30 000 p.a. investment to a maximum of R500 000**

	<b>1 Year</b>	<b>5 Years</b>	<b>17 Years</b>
Cash (bank savings)	R31 740	R208 208	R899 796
SA Government Bonds	R33 120	R233 817	R1 413 647
ETFIA- <b>Income</b> Account	R34 110	R254 133	R1 979 479
JSE All Share Index	R35 640	R289 028	R3 375 777
ETFIA- <b>Equity</b> Account	R38 370	R363 169	<b>R8 902 064</b>

*Based on the average return of the last five years to February 2015.*

*The same return may not be achieved in future.*



The Home of Exchange Traded Funds®

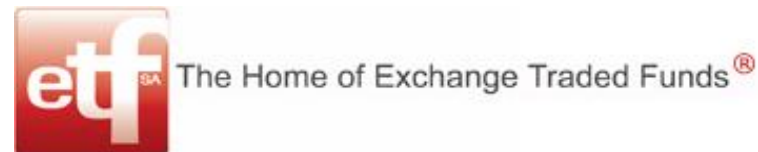
# Multi Asset Portfolios



# Building Your Own Portfolio

Multi asset class strategic asset allocation strategies.

Building Blocks	
SA Equities	20%
Global Developed Market Equities	20%
Global Emerging Market Equities	20%
Local Bonds	20%
SA Listed Property	20%



# Balanced Investment Portfolio

R5000 per month – R1000 in each ETF

	Amount Allocated		Current Value After 3 Years (R)	Current Value After 5 Years (R)
	(%)	(R)		
<b>SA Equities</b>				
Satrix INDI 25 ETF	20%	1 000	45 580	103 780
<b>Foreign Assets</b>				
DBX Tracker MSCI World ETF	20%	1 000	50 640	111 860
DB China ETN	20%	1 000	44 200	102 400
<b>SA Bonds</b>				
RMB Inflation-X ETF	20%	1 000	39 280	102 400
<b>Listed Property</b>				
PropTrax Ten ETF	20%	1 000	46 190	72 980
<b>Total</b>	<b>100%</b>	<b>R5 000 (pm)</b>	<b>R225 890</b>	<b>R485 150</b>



The Home of Exchange Traded Funds®

# MANAGED INVESTMENT PORTFOLIOS

**Bespoke ETP portfolios to meet the investment  
requirements of the Individual Client, Trust,  
Corporation or Institution**





# etfSA.co.za

## Portfolio Management Service

- Personal ETP portfolios designed for your particular financial requirements, risk profile and income needs.
- Portfolio designs taking into account
  - Volatility (standard deviations, etc.)
  - Concentration risk
  - Risk reward correlation
  - Tracking errors and product efficiency
  - Diversification
  - Performance mandates and targets.
- 1% per annum fee covers all brokerage, administration, custodianship, asset management and financial advice.
- Investment of R1 million or more to qualify.

Portfolio Management Service

011 274 6170 [portfolios@etfsa.co.za](mailto:portfolios@etfsa.co.za)



The Home of Exchange Traded Funds®

# RETIREMENT INVESTMENTS

- Retirement Annuity Funds (Preservation, Provident Funds coming soon)
- Living Annuity Funds



The Home of Retirement Funds

# Pre-Retirement Investment

- Build up capital for retirement under favourable tax dispensations.
  - Contributions are tax free up to a percentage of your taxable income (15% in SA) (27,5% next year).
  - Contributions in excess of this can be carried forward.
  - Any income/dividends/capital gains in the fund are not taxed.
- Minimum retirement age normally prescribed (in SA – 55 years old).



The Home of Retirement Funds

# Global Retirement Fund Reforms

**Government must identify clear objectives for the whole retirement system.**

## 4 pillar approach

Pillar 1



A basic public pension that provides a minimum income

Tax Funded for poverty relief amongst aged

Pillar 2



A mandatory, fully funded system linked to the working years

Government / private funded or both

Pillar 3



A voluntary, fully funded system

Private sector management

Pillar 4



Savings from outside the pension system



The Home of Retirement Funds

# Mandatory Systems

**Minimum level of retirement funding** for all workers by employers, employees, self-employed and temporary workers.

Suggested level 8% of earnings in developed economies

MOVE TOWARDS COMPULSION



The Home of Retirement Funds

# Trend To Preservation

## Contributions (or accrued benefits) must have immediate vesting and portability

- Benefits should only be accessible under certain conditions of:
  - Retirement
  - Death
  - Permanent disability
- “Leakage reduces the effectiveness of the retirement system and should not be permitted in an ideal retirement system”\*

*\*CFA Report – An Ideal Retirement System – (March 2015)*



The Home of Retirement Funds

# Value of R200 000 Capital Preserved in a RA Fund

	After 10 Years	After 20 Years	After 30 Years
<b>R200k (lump sum in etfSA Wealth Enhancer Fund) (16% per annum)</b>	R1 042 200	R5 492 800	R28 295 730
<i>Future performance extrapolated on actual 10 year returns for etfSA Wealth Enhancer Fund.</i>			



The Home of Retirement Funds

# Focus on Costs

## **Overall costs should be fully disclosed.**

- Very little transparency about overall costs, which need to include all investment, administration, marketing and operating costs
- Competition is important in encouraging fair pricing.

**“A difference of 2,1% in annual costs between an actively managed fund and an index fund, means a 65% enhancement in capital available for retirement after 40 years.”**

John Bogle *“The Arithmetic of “All-In” Investment Expenses”*

Financial Analyst Journal (2014)



The Home of Retirement Funds



# Lump Sum R200k Investment

	10 Years	20 Years	30 Years	40 Years
<b>Low cost, high return RA Fund (etfSA Wealth Enhancer Fund)</b>	R1 042 200	R5 492 800	R28 295 730	R147 450 000
<b>High cost RA Fund (2,5% per annum higher costs)</b>	R805 000	R3 220 000	R12 880 000	R51 520 000
<b>The "penalty" cost of underperformance</b>	<b>23%</b>	<b>41%</b>	<b>54%</b>	<b>65%</b>

**Do costs matter?**

**You bet they do!**



The Home of Retirement Funds

# Retirement Annuity Funds (RA Funds)

- Own your own pension fund.
- Make contributions from R300 per month, or R1000 for lump sums.
- Select your own retirement age (after 55).
- You can transfer your pension fund to a RA Fund when you change jobs – preserve your retirement savings.

**Retirement Funds for the 21<sup>st</sup> Century**

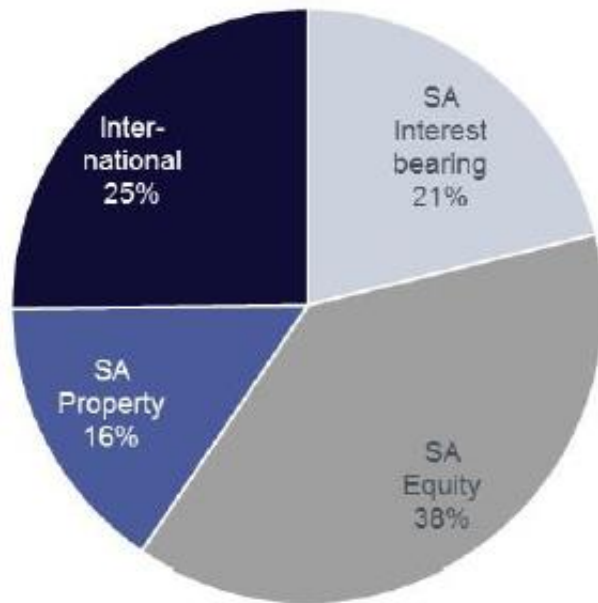


The Home of Retirement Funds

# Constructing Pension Fund Portfolios with ETFs

## etfSA RA Fund (CPI +7%) Wealth Enhancer Fund

Benchmark Strategic Asset Allocation



### Portfolio Investment Returns compared to Market Performance

(%)	6m	1yr	3yrs (pa)	5yrs (pa)	10yrs (pa)
Cash - ST Fixed Income Index (STeFI)	3.2	6.4	5.7	5.8	7.3
FTSE/JSE All Bond Index (ALBI)	-0.7	5.4	5.7	7.9	8.3
FTSE/JSE All Share Index (ALSI)	-4.5	1.1	15.6	16.4	15.7
FTSE/JSE SA Listed Property Index (SAPY)	1.4	27.5	15.3	19.5	19.7
MSCI World Index in ZAR (MXWR)	5.7	17.1	26.7	22.3	11.1
<b>CPI+7%</b>		<b>12.6</b>	<b>13.6</b>	<b>13.2</b>	<b>13.8</b>
<b>etfSA Wealth Enhancer RA Fund</b>	<b>-0.5</b>	<b>8.1</b>			
CPI+7% Model Portfolio	-0.0	8.6	12.7	14.4	14.6



The Home of Retirement Funds

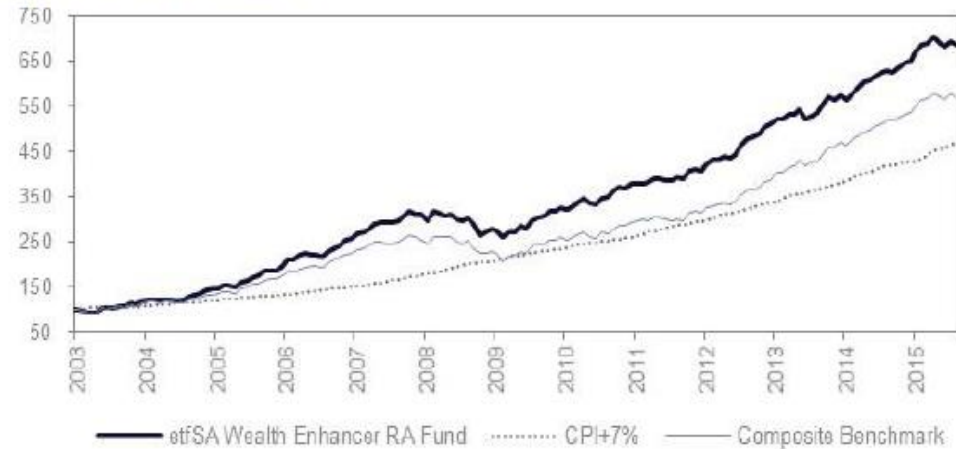
# Constructing Pension Fund Portfolios with ETFs

## etfSA RA Fund (CPI +7%) Wealth Enhancer Fund

### Actual Portfolio Holdings

Asset class	Reg. 28 Category	Description	Weight (%)
SA Interest bearing	Cash (max 100%) Debt (max 75%)	Cash	3.3
		RMB Inflation-linked GOVI ETF	9.1
		New Funds GOVI ETF	8.7
SA Equity	Equities (max 75%)	BettaBeta Equally Weighted Top40 ETF	7.2
		New Funds GVI SA Top50 ETF	10.3
		New Funds Equity Momentum ETF	5.4
		RMB MidCap ETF	5.4
		Coreshares Dividend Aristocrats ETF	10.1
		SA Property	Immovable Property (max 25%)
Offshore	Foreign exposure (max 25%)	dbx-Trackers World ETF	5.4
		BNP GURU World ETN	3.2
		dbx-Trackers Emerging Markets ETN	6.5
Commodities	Africa (max 5%) Physical (max 10%) Other (max 5%)	StdBank Africa Equity ETN	4.0
		StdBank Africa Commodity ETN	4.7
		New Gold Palladium ETF	1.4

### Historical Performance



The Home of Retirement Funds

# Post-Retirement

## Demographics – Ageing Populations

- Need to fund 20-30 years in retirement.
- Portfolio shifts to **equities** as the asset class providing the returns necessary to build up and preserve capital for extended periods of retirement.



The Home of Retirement Funds

# Post-Retirement

## Flexibility

In contributions and drawdowns as individuals' financial or personal circumstances vary as well as post-retirement



**The global workforce is aging; people are working for longer, but more flexibly.**



**Individuals should be able to receive a part pension whilst continuing to receive or make contributions whilst working part-time. Partial drawdown of capital as well as income is required if people need to replace capital assets in retirement.**



The Home of Retirement Funds

# etfSA Living Annuity Fund

## Four Portfolios Offered

**CPI +3% - Wealth Conservator Fund**

**CPI +5% - Wealth Builder Fund**

**CPI +7% - Wealth Enhancer Fund**

**CPI +10% - Wealth Maximiser Fund (LA Funds only)**

- Can mix allocation between portfolios.
- Switch between portfolios at no cost.
- Full transparency in portfolio holdings and investment performance.
- Fixed total cost structure (clean pricing) (0,75% - 1,25%, size dependent).



The Home of Retirement Funds

# Advice worth taking home.....?

“My advice to the trustee could not be more simple: Put 10% of the cash in short-term government bonds and the rest in a very low-cost S&P 500 index fund. (I suggest Vanguard’s). I believe the trust’s long-term results from this policy will be superior to those attained by most investors – whether pension funds, institutions or individuals – who employ high-fee managers.”



The Home of Retirement Funds



# Contact Details

<b>Discretionary Investments</b>	<b>0861 383 721 (etfSA Investor Plan)</b>	<a href="mailto:info@etfsa.co.za">info@etfsa.co.za</a>
<b>Tax Free Investment Accounts</b>	<b>0861 100 917</b>	<a href="mailto:etfia@computershare.co.za">etfia@computershare.co.za</a>
<b>RA Funds</b>	<b>0861 383 727 (etfSA RA Fund)</b>	<a href="mailto:rafunds@etfsa.co.za">rafunds@etfsa.co.za</a>
<b>Living Annuity Funds</b>	<b>011 274 6167</b>	<a href="mailto:etfsala@Multilect.co.za">etfsala@Multilect.co.za</a> ; <a href="mailto:lafunds@etfsa.co.za">lafunds@etfsa.co.za</a>
<b>Portfolio Management Service</b>	<b>011 274 6170</b>	<a href="mailto:portfolios@etfsa.co.za">portfolios@etfsa.co.za</a>
<b>Nerina Visser</b>	<b>011 274 6173</b>	<a href="mailto:nerinav@etfsa.co.za">nerinav@etfsa.co.za</a>
<b>Mike Brown</b>	<b>011 274 6171</b>	<a href="mailto:mikeb@etfsa.co.za">mikeb@etfsa.co.za</a>

**Terms and conditions:** Redistribution, reproduction, the resale or transmission to any third party of the contents of this article and this website, whether by email, newsletter, internet or website, is only possible with the written permission of etfSA. etfSA, its sponsors, administrators, contributors and product providers disclaim any liability for any loss, damage, or expense that might occur from the use of or reliance on the data and services provided through this website. etfSA.co.za is the registered trading name of M F Brown, an authorised Financial Services Provider (FSP No 39217). etfSA.co.za is licensed to provide financial services in the following categories: Collective Investment Schemes; Shares and Securities; Retail Pension Fund Benefits; short-Term deposits; Friendly Society Benefits and Long-Term Insurance Category C. Professional Indemnity Insurance is maintained.

