

Using Absa component ETFs in portfolio construction

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Agenda

- Who we are
- On costs
- Long-term investments
- Multi-asset investments
 - Core Retirement Annuity
 - MAPPSTTM ETFs
- How to invest in Absa's ETFs

Who we are – in numbers

R42.7bn

Total Assets
under
Management

57%

of ETF assets
in SA are ours
(R42.7bn out
of R75.1bn)

21

ETFs and ETNs
listed

36%

of ETFs in
listed in SA are
ours (16 out of
44)

5

Countries in
Africa where
our ETFs are
listed

7

Asset classes
covered - the
widest in SA

Source: Absa CIB, ETF issuer websites, Bloomberg. Asset data as of July 4, 2014

Highlights

+87%	% increase in AUM over last 12 m (R22.4bn to R41.8 bn)	Best	Performing non-sector equity ETF – 5y- NewSA
#1	Platinum ETF in the world	4 th	year in a row - Risk SA award for ETFs and RSPs
1 st	ever Morningstar award for an ETF - ours	1 st	ETFs in Mauritius – NewGold and NewPlat

Our ETF offering

	ETF name	Underlying index / asset	Listed	Issuer	NAV	TER
	NewGold ETF	Gold bullion	SA: Nov 2, 2004, Botswana: Jul 14, 2010, Nigeria: Dec 19, 2011 Ghana: Aug 23, 2012, Mauritius: July 26, 2013	NewGold Issuer Ltd	R19,100,951,320	0.40%
	NewPlat ETF	Platinum bullion	SA: April 26, 2013, Mauritius: Feb 24, 2014	NewGold Issuer Ltd	R 19,073,340,000	0.40%
	NewPalladium ETF	Palladium bullion	March 27, 2014	NewGold Issuer Ltd	R 3,916,612,233	0.40%
Equity	eRAFI™ Overall ETF	eRAFI™ Overall Index	June 23, 2008	NewFunds CIS	R 151,145,303	0.10%
	eRAFI™ Financial 15 ETF	eRAFI™ Financial 15 Index	June 15, 2009	NewFunds CIS	R 14,535,164	0.12%
	eRAFI™ Industrial 25 ETF	eRAFI™ Industrial 25 Index	June 15, 2009	NewFunds CIS	R 14,384,183	0.12%
	eRAFI™ Resource 20 ETF	eRAFI™ Resource 20 Index	June 15, 2009	NewFunds CIS	R 10,456,918	0.13%
	NewSA ETF	NewSA Index	Dec 1, 2008	NewFunds CIS	R 66,830,737	0.57%
	Shari'ah 40 ETF	FTSE/JSE Shari'ah 40 Index	Apr 6, 2009	NewFunds CIS	R 32,761,737	0.30%
	Equity Momentum ETF	Equity Momentum Index	Jan 26, 2012	NewFunds CIS	R 25,550,000	0.35%
	SWIX 40 ETF	FTSE/JSE SWIX 40 Index	Jan 26, 2012	NewFunds CIS	R 14,530,000	0.33%
Fixed income	GOVI ETF	GOVI Index	Jan 26, 2012	NewFunds CIS	R 84,892,000	0.27%
	ILBI ETF	ILBI Index	Jan 26, 2012	NewFunds CIS	R 58,130,000	0.28%
Cash	TRACI 3m ETF	TRACI 3m Index	Jan 26, 2012	NewFunds CIS	R 88,710,489	0.18%
Multi-asset	MAPPST™ Growth ETF	SWIX (75%), GOVI (10%), ILBI (10%), Cash (5%)	May 25, 2011	NewFunds CIS	R 25,109,559	0.33%
	MAPPST™ Protect ETF	SWIX (40%), GOVI (15%), ILBI (35%), Cash (10%)	May 25, 2011	NewFunds CIS	R 33,152,044	0.33%

Source: Absa CIB
Data as of July 4, 2014

SA investment industry - costs

- SA investment industry is expensive
- Three levels of costs:
 - Platform
 - Product
 - Advisory

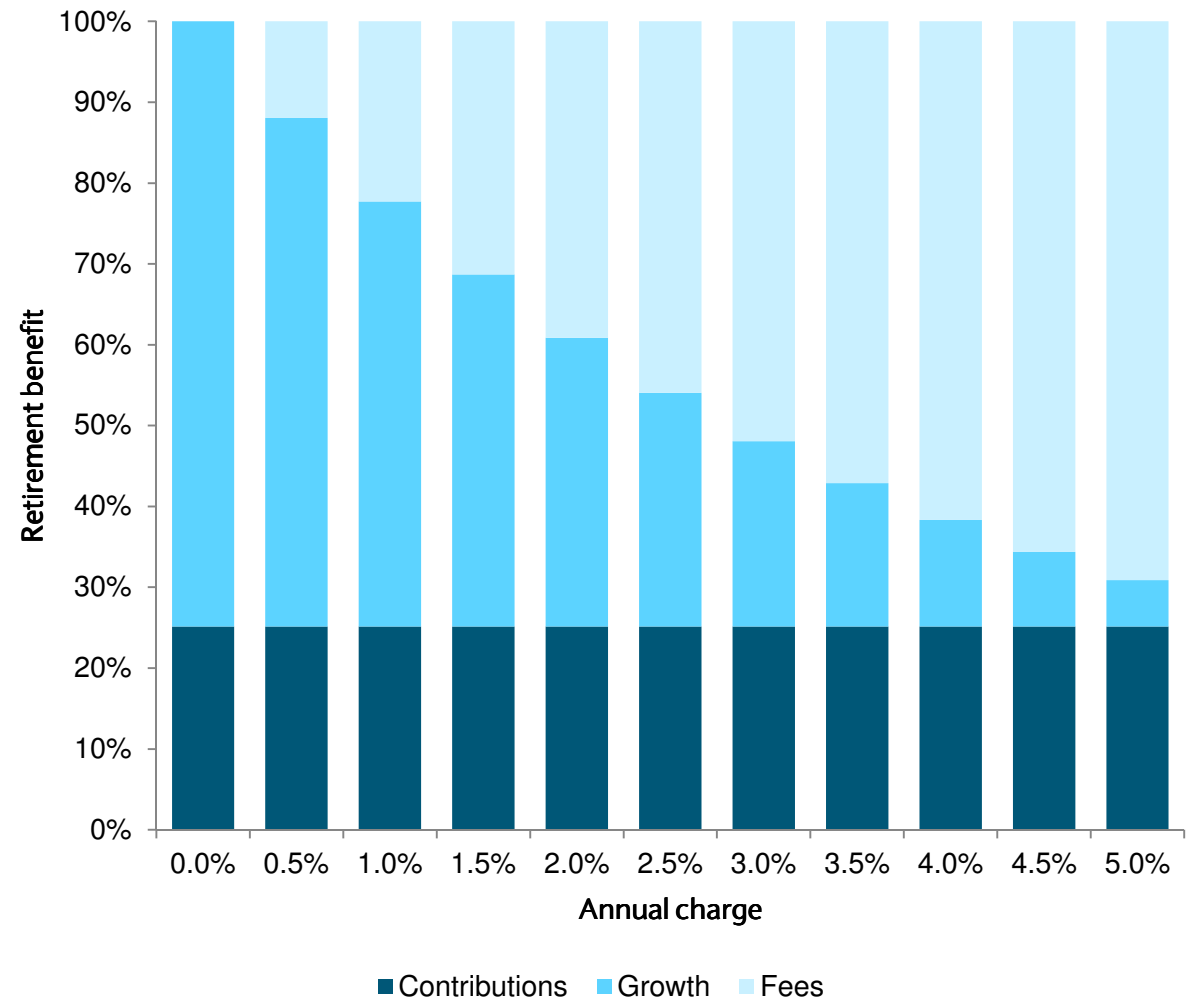
Product costs ~ 0.5% p.a. for passive solutions up to 3% p.a. for active (lower for larger institutional investors)

Platform costs – 0% (subsidised by rebates from product providers – 1% p.a.)

Advisory costs – up to 3% initial and on average 0.5% p.a. trailing

Costs matter

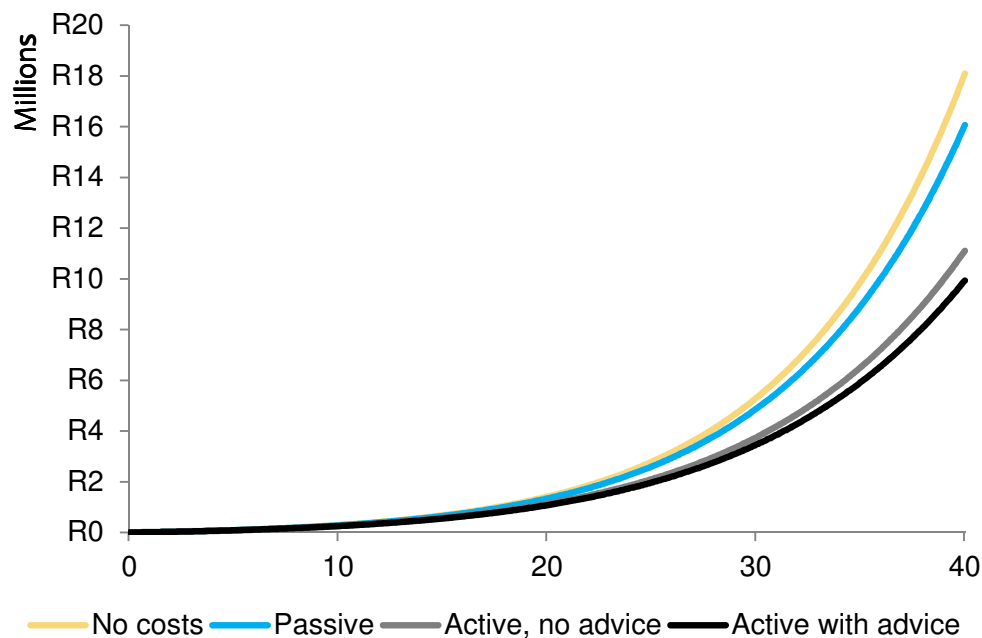
Over a long investment period, the impact of costs on the investment performance is significant.



Source: Absa CIB. Assumptions: real rate of return 6% p.a.; investment period: 40 years; monthly contributions inflation adjusted

Costs matter – another view

To further emphasize the importance of fees on investment performance, we look at performance of various investment options (investment at no cost, fully passive option at 0.5% p.a., all in fee, active option with no advice (1.5% p.a. asset management fee, 0.6% p.a., platform fee) and active option with advice (as before, plus 0.5% p.a. ongoing advisory fee and no upfront advisory fees). We further assumed R1,000 per month investment escalated by inflation (6% p.a.) over 40 years, and real rate of investment return of 6%.



	No fees	Passive	Active, no advice	Active, with advice
End assets	R18.09m	R16.06m	R11.11m	R9.94m
Fee impact (ZAR)	R0	R2.03m	R6.98m	R8,15m
Fee impact (%)	0%	11.2%	47.39%	57.11%

How to reduce costs of investment?

- Product costs
 - Product standardisation / simplification
 - Passive investment strategies
- Platform costs
 - Technology
 - Competition / new entrants
- Advisory
 - Regulatory initiatives
 - Investor empowerment (simple product / investment tools / investor education)

Product costs

Platform costs

Advisory costs

Reducing product costs

- Simple, well diversified multi-asset investment solutions
- Low cost building blocks – passive market trackers
- Static or (better) dynamic (algorithmic) asset allocation / life staging

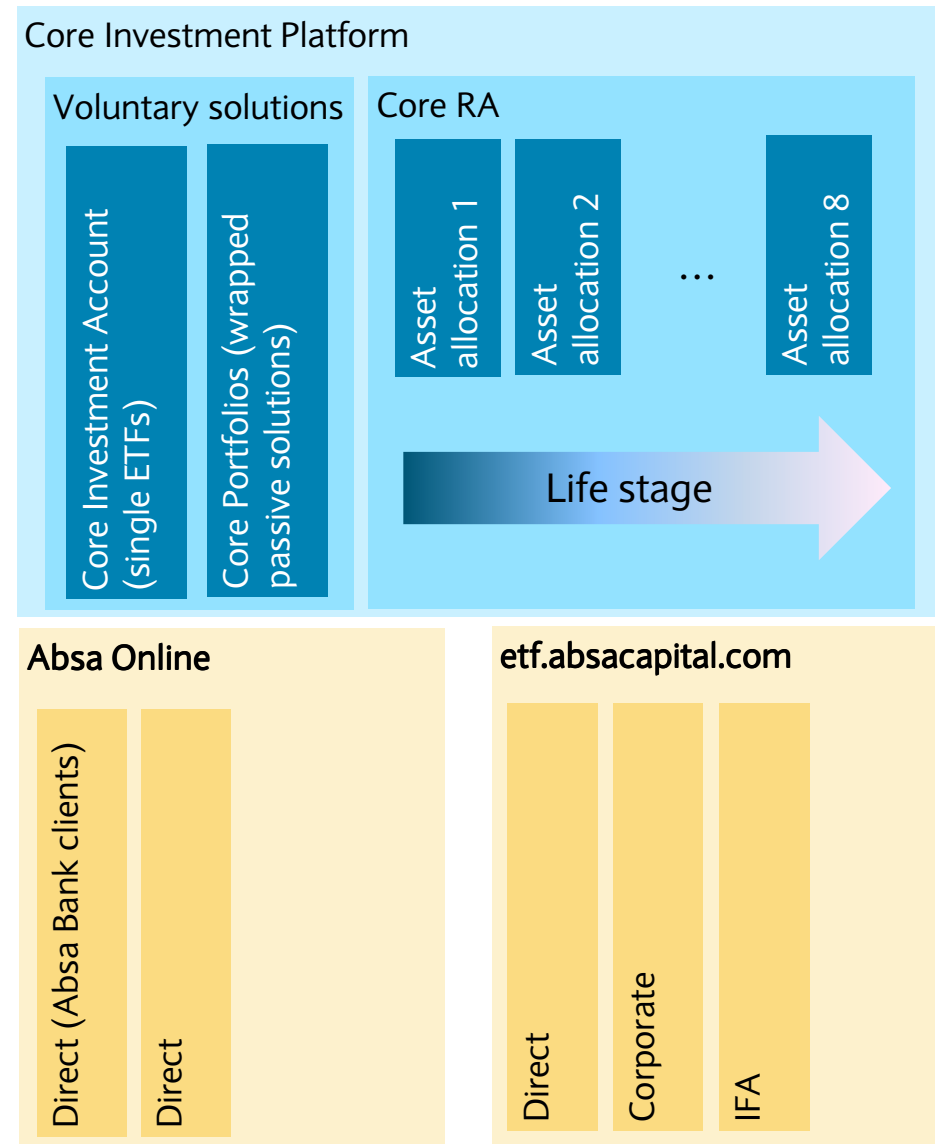
“You get what you pay for” fallacy

- South African investment market has a bias towards active investment
- The assumption is that active managers add value in excess to extra fees
- This assumption is wrong.
- SA and international research* demonstrates that
 - majority of active asset managers underperform their market benchmark (the effect is even more significant if the “survivorship bias” is accounted for
 - This underperformance is consistent across asset classes
 - Investment performance is not consistent over time (top quintile performance over the last five years does not tell as anything about the performance over the next five years) – it is hard to predict the best performing asset manager in the future based on past performance

Sources: “Quest for Alpha” – Daniel Wessels DRW Investment Research (2010), “The case for index fund investing” – Vanguard Research (2013)

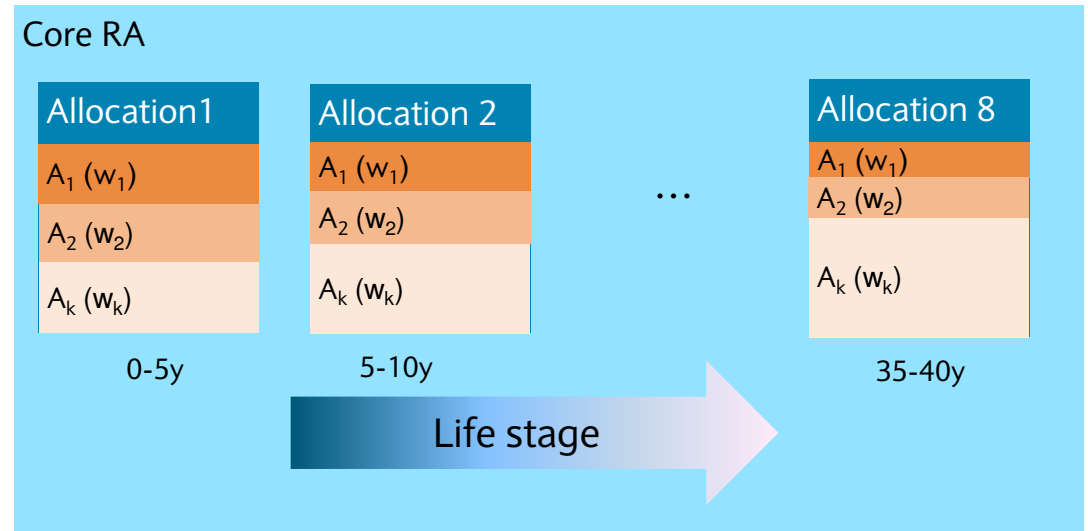
Core platform

- The platform hosted on and administered by AIMS
- Two groups of products offered:
 - Voluntary investments
 - single component ETFs (Core Investment Account),
 - passive wrapped solutions (portfolios) (Core Portfolios)
 - Retirement products
 - Core RA – multi-asset passive solution, managed on a life-stage model basis, with 8 risk “buckets” (described in more detail later).
- Two main interfaces will be offered to investors:
 - Absa Online will offer the full range of products, catering for individual investors (Absa and non-Absa clients)
 - etf.absacapital.com will be geared toward corporate clients, but will offer full product access to direct and IFAs (phase 2)



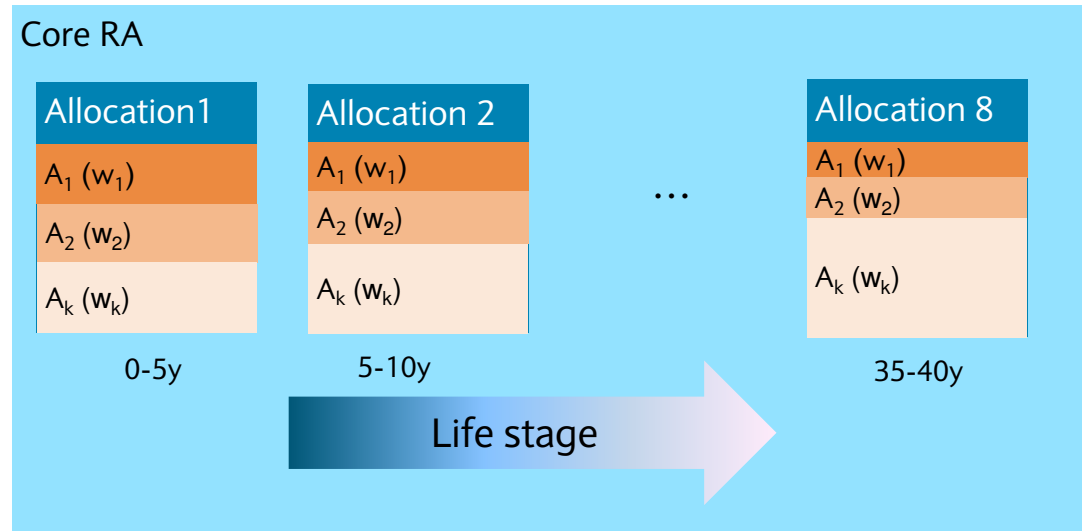
Core Retirement Annuity

- The retirement solution structured in a form of a retirement annuity (RA) and designed using a life stage- model:
 - The product consists of 8 different asset allocations corresponding to different life stages (time to retirement)
 - Each asset allocation Regulation 28 compliant (compliance built into the product design and checked by AIMS). SA equity exposure is decomposed into three factor exposures (market, value and momentum).
 - The portfolios are constructed using optimal asset allocation methodology, based on observed asset volatilities, returns and correlations, and re-balanced bi-annually (by running the optimisation process using newly observed market parameters)
- All the portfolio components are passive index tracking products (ETFs)



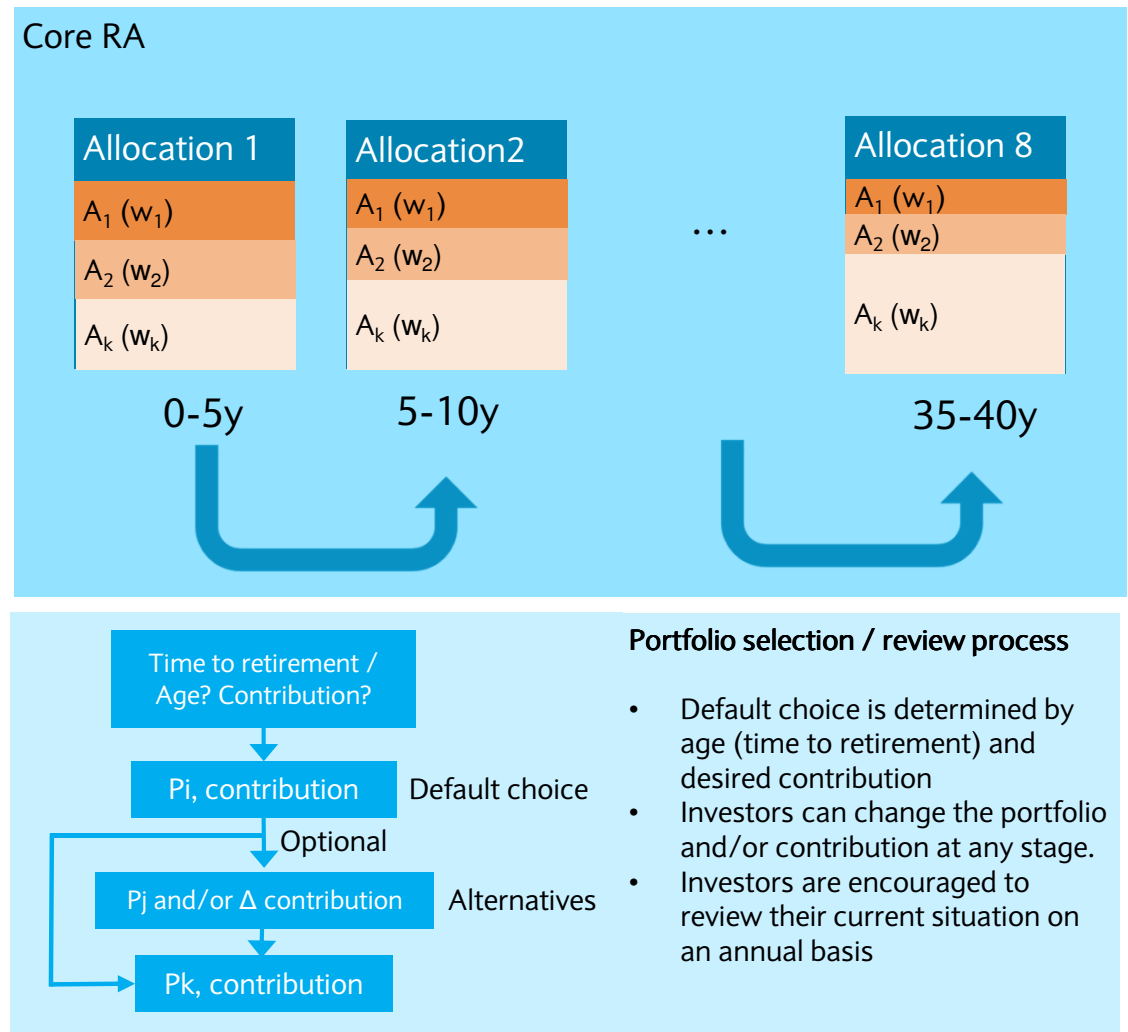
Core Retirement Annuity (cont.)

- The portfolios currently contain the following exposures:
 - SA equities :
 - NewFunds SWIX40 ETF (market factor)
 - NewFunds eRAFI Overall ETF (value factor)
 - NewFunds SA Momentum ETF (momentum factor)
 - SA government bonds and SA inflation bonds
 - NewFunds GOVI ETF
 - NewFunds ILBI ETF
 - International equity: db x-trackers MSCI World Index ETF
 - Property: Stanlib SA Property ETF
 - Money market: NewFunds TRACI 3m ETF
- The weights dynamically determined by the portfolio optimisation process (subject to Reg. 28 constraints)



Core Retirement Annuity (cont.)

- A high level description of the solution implementation:
 - The default portfolio allocation is determined by the investor's age (time to retirement) and desired contribution
 - On an annual basis, investors are encouraged to review their current situation to determine if they would like to make changes to their stipulated retirement age and contribution level.
 - If no action is taken, they will remain in the existing asset allocation until their age bracket changes, whereby they are automatically re-allocated to the next asset allocation category



MAPPS™ ETFs

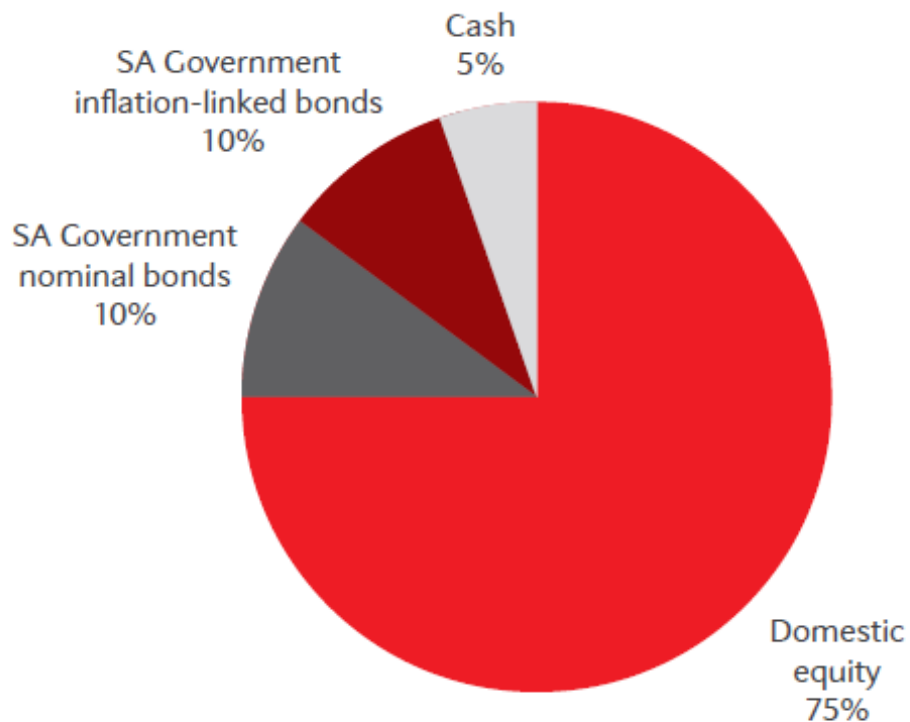
- SA investors have access to a number of ETFs tracking a variety of market indices, commodities and currencies
- The investors (institutional and retail) have expressed need for products that would provide diversified exposure to multiple asset classes
- To satisfy that need, in 2011, we have launched MAPPS™ family of ETFs, the first investments in SA to provide investors with a simple, convenient and cost effective way to access a range of asset classes by purchasing a single share on the JSE.
- MAPPS™ innovation
 - **Multiple asset class coverage:** MAPPS™ ETF incorporate exposure to equity, fixed income, inflation linked bonds and cash
 - **Tracking industry benchmark indices:** each underlying component tracks the performance of an underlying industry benchmark index (e.g. SWIX, GOVI, ILBI)

MAPPS™ ETFs

- MAPPS™ innovation (cont.):
 - Two strategies covering different risk profiles available: two MAPPS™ ETFs initially offered:
 - MAPPS™ Growth
 - MAPPS™ Protect
 - Both strategies aim to generate capital growth and limit volatility by exploiting the correlations between the asset classes they contain
 - Ideal for an investor wanting a complete investment solution without paying away unnecessary fees.

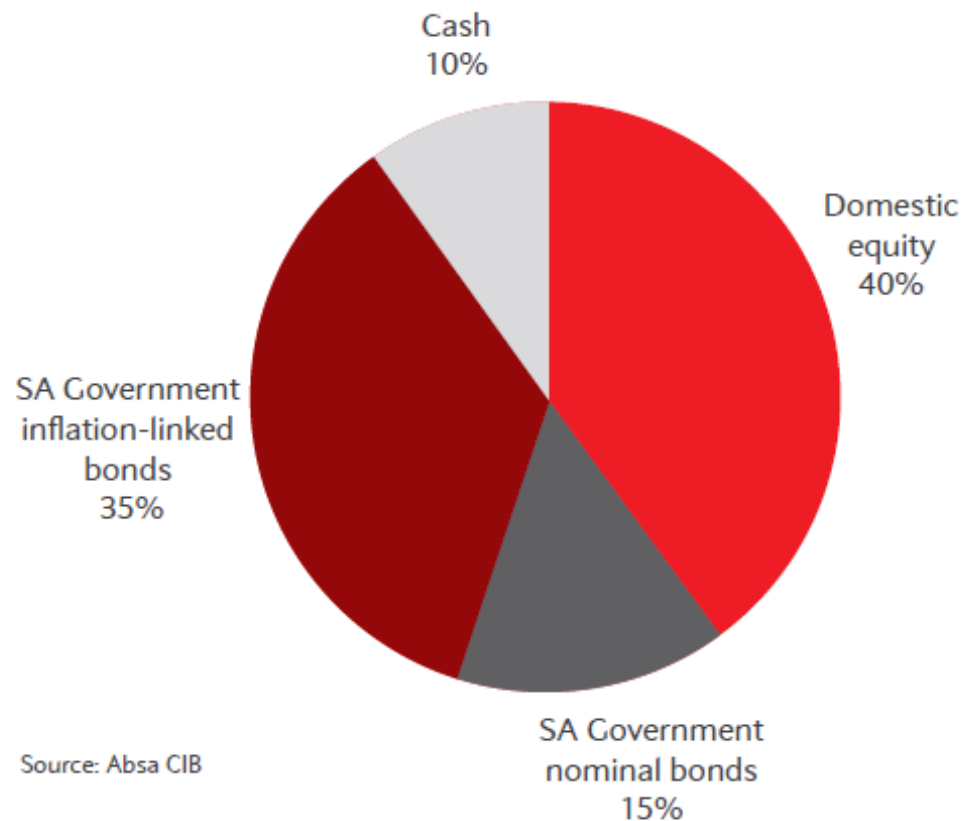
MAPPS™ ETFs

NewFunds MAPPS™ Growth ETF



Source: Absa CIB

NewFunds MAPPS™ Protect ETF



Source: Absa CIB

Annualised return	MAPPS Growth	MAPPS Protect
One year	25.09%	16.94%
Since inception	18.25%	14.25%

Advantages of investing in MAPPS™

- Simple access to a lifestyle strategy through a single investment listed on the JSE and traded like a share. Before MAPPS™, an investor wanting to access such life-stage products would pay asset management / multimanager and consulting fees.
- Traded like a share – intra-day trading and pricing, full liquidity (market maker)
- Transparency – tracks the underlying combination of component indices as its benchmark. The components are fully disclosed, in contrast to most active funds, which tend to disclose their top ten holdings only.
- Diversification and asset allocation – exposure to a diversified portfolio of assets in a single transaction; portfolio rebalancing performed automatically – investors spared admin burden; optimal blends of assets for different investor types

Advantages of investing in MAPPS™ (cont.)

- Lower costs – as low as 30bps for the full solution
- Easily verifiable / fully transparent: tracking publicly traded indices; index methodology published and easily replicable – the performance of MAPPS can easily be measured against its stated index, the prices can easily be reconciled and verified
- Regulatory / investor protection
 - Issued out of a NewFunds CIS, regulated and managed in terms of the CISCA 45 of 2002 and the JSE ETF regulations
 - Actual underlying securities are physically held in trust on behalf of the investor – no derivatives exposure
- Regulation 28 compliant
 - Designed and managed according to the new Regulation 28 guidelines under the Pension Funds Act

Why Absa's ETFs?

- **Low costs** – average TER for our ETFs is between 0.1-0.3% per annum, compared to the average TER for SA ETFs or around 0.5% per annum
- **Widest choice** – covering most major asset classes, allowing investors to create well diversified portfolios using only ETFs
- **Easy access** – multiple access points – through a stockbroker, through AIMS LISP platform, third-party platforms, Absa online banking
- **Focus on solutions, not components** – we are aware that investors save for a purpose – retirement, children's education, new car. We believe that those needs can be met in a simple, cost-effective and convenient way through different multi-asset products constructed using passive investment components . Available on Absa Online.

How to access Absa's ETFs?

Components

Exchange traded funds and notes

Core RA

Retirement products

Portfolios

Voluntary investment portfolios

JSE

Absa Stockbrokers
or any other broker

AIMS /
AOL

www.absa.co.za
etf.absacapital.com

Third party
platforms

AOS
etfSA
etc.

For any information: etf.absacapital.com

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