

Wealth Management Using ETPs

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Wealth Management Seminars
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Mike Brown
Managing Director
etfSA.co.za

Agenda

- What is index tracking (passive investment)?
- How ETPs give access to passive management techniques.
- Why passive, rather than active, investment management?
- What do ETPs specifically offer in portfolio management
 - Lower costs
 - Design of bespoke investment portfolios.
- Some portfolio strategies:
 - Medium to long-term strategic asset allocation
 - Income portfolios
 - Capital growth portfolio
 - Offshore portfolios.

What Are ETFs?

- They are portfolios of shares, listed on the Stock Exchange (JSE).
- They have a portfolio of securities and not a single company as the underlying investment.
- They trade just like any other securities on the JSE.
- They are typically index-tracking (or passive) portfolios of shares.

What is an Index & an Index Tracker?

- An index reflects a basket of shares to represent the performance (capital growth and dividends) of a market, market sector or investment type, style or risk parameter
- The index calculator is normally an independent company which specialises in the compiling of indices, such as:
 - MSCI – Morgan Stanley Composite indices
 - S&P – Standard & Poors
 - FTSE – Financial Time indices
- The user of an index (like an ETF or passive unit trust) does not choose the portfolio. This is done by the independent index calculation agent.
- **The passive investment manager then replicates this index.**

What is an Index?

Index Weights – Basket of Constituents (as at September 2018)
FTSE/JSE Top 40 Index

	Market Cap Weighted (%)		Market Cap Weighted (%)
Absa Group Ltd	1,75	Discovery	0,94
Anglo Ashanti	0,85	FirstRand Ltd	3,37
Anglo American Plc	5,58	Foshini Group	0,66
Aspen Pharmacare Hldgs	1,05	Growthpoint Properties Ltd	1,12
BHP Billiton Plc	11,49	Investec Ltd	0,49
BID Corp Ltd	1,63	Investec Plc	1,07
Bidvest Ltd	1,04	Life Healthcare Group	0,56
British American Tobacco	2,81	Mediclinic International Ltd	0,54
Capitec	0,90	Mondi Ltd	0,77
Clicks Group	0,68	Mondi Plc	2,39
Compagnie Fin Richemont	10,08	Mr Price Group	0,93

What is an Index? (continued)

Index Weights – Basket of Constituents (as at September 2018)
FTSE/JSE Top 40 Index

	Market Cap Weighted (%)		Market Cap Weighted (%)
MTN Group	2,66	Sanlam Ltd	2,20
Naspers Ltd -N-	21,07	Sappi Ltd	0,83
NEDCOR	0,94	Sasol Ltd	5,02
NEPI Rockcastle PLC	0,74	Shoprite Holdings Ltd	1,37
Netcare Ltd	0,60	Spar Group Ltd	0,57
Old Mutual Plc	2,46	Standard Bank Group Ltd	3,58
Redefine Properties	0,86	Tiger Brands Ltd	0,68
Reinet Investments SCA	0,64	Truworths Int	0,61
Remgro Ltd	1,67	Vodacom Group	1,24
RMB Holdings Ltd	0,81	Woolworths Holdings Ltd	0,77

Advantages of Indices & ETFs

- **Provide access:**

- to only blue chip, liquid securities
- to full diversification of portfolios
- the index is rebalanced quarterly to replace under performing stocks, at no additional expense to the ETF holder
- the index provides the average return of the market – which is hard to beat consistently.

Indices & ETFs Cover All Investment Sectors and Options

Local Shares	<ul style="list-style-type: none">• Satrix Top 40, Ashburton Top 40• CoreShares Capped Top 50• Satrix Capped INDI, FINI 15, etc.
Foreign Shares	<ul style="list-style-type: none">• Sygnia Itrix USA, Japan, World, etc.• DB China, Emerging Markets• Satrix World, S&P 500, Nasdaq
Listed Property	<ul style="list-style-type: none">• PropTrax Ten, PropTrax SAPY• Satrix Property• CoreShares Global Property
Bonds	<ul style="list-style-type: none">• NewFunds GOVI, ILBI, etc.• Ashburton World Government Bond• Stanlib Global Govt. Index Bond
Commodities	<ul style="list-style-type: none">• NewGold• Standard Bank Africa Rhodium, Platinum, Palladium• Standard Bank Oil, Copper, Corn, Wheat, etc.
Smart Beta (Factor or Style)	<ul style="list-style-type: none">• NewFunds Value, Low Volatility, Momentum.• Satrix DIVI Plus, CoreShares DivTrax• Satrix RAFI, NewFunds S&P GIVI

How to Survive SA's Political Uncertainty

- **Invest more offshore** – 55 of 97 ETPs listed on the JSE give direct access to foreign assets. **(pure rand hedges)**.
- **Invest in commodities** – 19 JSE listed ETFs/ETNs invest directly in global commodity markets. **(rand hedge)**
- **Hold funds in cash/near cash** – 9 ETFs invest in interest bearing assets **(low capital risk)**:
 - NewFunds TRACI ETF
 - CoreShares PrefTrax ETF
 - NewFunds GOVI ETF

etfSA.co.za Monthly Performance Survey
Best Performing Index Tracker Funds – 28 September 2018
(Total Return % Performance*)

Fund Name	Type	10 Years (p.a.)	Fund Name	Type	5 Years (p.a.)
Satrix INDI 25	ETF	16,59%	Sygnia/Itrix MSCI USA	ETF	20,43%
Sygnia/Itrix MSCI USA	ETF	16,54%	Sygnia/Itrix MSCI World	ETF	16,42%
Sygnia/Itrix MSCI World	ETF	13,45%	Standard Bank Palladium Linker	ETN	16,09%
Prudential Enhanced Property Tracker Fund	Unit T	13,37%	DB MSCI China	ETN	14,70%
		3 Years (p.a.)			2 Years (p.a.)
NewFunds S&P GIVI RESI	ETF	29,82%	Standard Bank Africa Rhodium	ETF	97,99%
Standard Bank Palladium Linker	ETN	20,19%	Standard Bank Palladium Linker	ETN	28,03%
NewGold Palladium	ETF	18,79%	Standard Bank Oil	ETN	28,03%
Standard Bank Africa Palladium	ETF	18,62%	NewGold Palladium	ETF	27,03%
		1 Year			6 Months
Standard Bank Africa Rhodium	ETF	129,04%	Standard Bank Africa Rhodium	ETF	47,90%
Standard Bank Oil	ETN	57,77%	Standard Bank Oil	ETN	45,62%
Satrix RESI 10	ETF	28,33%	CoreShares S&P 500	ETF	36,95%
Standard Bank Palladium Linker	ETN	24,93%	Satrix S&P 500	ETF	35,35%
		3 Months			
Standard Bank Africa Commodity Index	ETN	21,93%	NewGold Palladium	ETF	18,38%
Standard Bank Palladium Linker	ETN	19,93%	Standard Bank Africa Palladium	ETF	18,21%

Source: etfSA.co.za / Profile Media Funds Data (28/9/2018)

* Includes reinvestment of dividends.

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What Are Active Investments?

- They seek to **outperform** the return of an index.
- As an index gives the **average return of the market**, the active manager seeks to provide **above average returns**.
- Mathematically, only 50% of investments will outperform the average – so **50% of active managers underperform the index** at any time – after costs, the underperformance is even higher.
- To beat the index, the average manager should typically run a portfolio that is very diverse from the index.
- However, this strategy (a low Beta strategy) can generate greater volatility, which increases risk.
- Active investment also costs more money.
- Higher costs, more risk and only limited chance of beating the market means that active management techniques are coming under pressure.

Alpha is not easy.

Why Simple is Smart

SOUTH AFRICA

PERCENTAGE OF SOUTH AFRICAN EQUITY FUNDS THAT UNDERPERFORMED THE S&P SOUTH AFRICA DSW

Data as of Dec 29, 2017

FIVE-YEAR

93.23%

THREE-YEAR

96.27%

ONE-YEAR

95.92%

[GET STATS FOR OTHER MARKET SEGMENTS >](#)

93.23%

OF FUNDS UNDERPERFORMED THE S&P SOUTH AFRICA DSW

6.77%

OF FUNDS OUTPERFORMED THE S&P SOUTH AFRICA DSW

Passive outperforms active 93% of the time in SA.

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Total Costs

	Unit Trusts	ETPs
Management Fees Average Total Expense Ratio (TER)	1,52% (152bps) per annum	0,33% (33bps) per annum
Asset Management Fees	0,25% to 1,00% per annum	Passive replication No fees
Platform Fees	0,25% to 0,75% per annum	0,25% to 0,75% per annum
Stockbroker Fees	Included in NAV (outside TER) 0,10%-0,5%	Bulking keeps fees below 0,10%
Total Costs	2,12% to 3,77% per annum	0,58% to 1,18% per annum

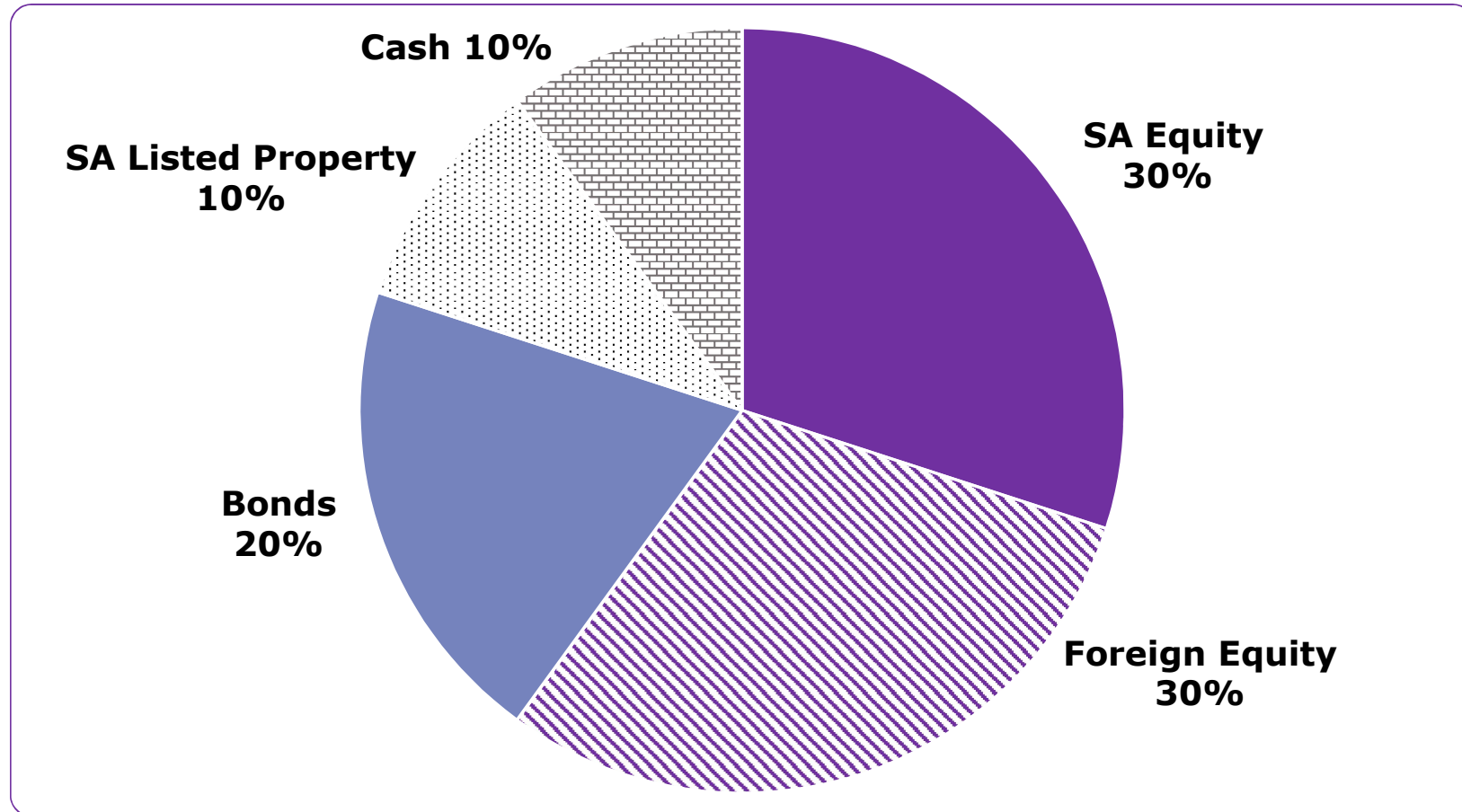
Bespoke Investment Portfolios

Long-term strategic asset allocation

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Strategic Asset Allocation



Strategic Asset Allocation Portfolio

Multi-Asset Balanced Portfolios				
	Allocation	Weighted Average Return* (% p.a.)		
		3 Years	5 Years	10 Years
Cash (STEFI)	10%	0,68%	0,65%	0,60%
SA Bonds (ALBI)	20%	1,57%	1,45%	1,71%
SA Equity (FTSE/JSE ALSI)	30%	2,13%	2,35%	3,54%
Offshore Equity (MSWR)	30%	3,42%	4,44%	3,56%
SA Listed Property (SAPY)	10%	(0,13%)	0,66%	1,34%
	100%	7,67%	9,55%	10,75%

* Data to 30 September 2018. Profile Data/etfSA.co.za.

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Multi-Asset SA Indexed Portfolios

	3 Years	5 Years	10 Years
etfSA.co.za Multi-index Strategic Asset Allocation	7,67%	9,55%	10,75%
Average Multi-Asset Medium Equity Unit Trusts	5,32%	6,59%	8,81%
Average Multi-Asset High Equity Unit Trusts	5,38%	6,89%	9,65%

Source: Quarterly Unit Trust Performance Survey (September 2018).

etfSA.co.za Multi-Asset ETF Portfolio

Asset Class	ETF	Allocation (%)	Total Return		Weighted Average Annual Return	
			3 Years (%p.a.)	5 Years (% p.a.)	3 Years (%p.a.)	5 Years (% p.a.)
Cash	Absa NewFunds TRACI	10	6,97%	6,45%	0,70%	0,64%
Bonds	Absa NewFunds GOVI	20	7,48%	6,85%	1,50%	1,37%
SA Equity	Satrix Top 40	30	6,50%	7,16%	1,95%	2,15%
Foreign Equity	Satrix MSCI World Equity Feeder ETF	30	14,45%	16,48%	4,33%	4,94%
SA Listed Property	CoreShares PropTrax Ten ETF	10	(1,27%)	7,55%	(0,13%)	0,75%
Totals		100%			8,35%	9,85%

Source: Profile Data/etfSA.co.za (September 2018).

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Income Portfolio

	Allocation (%)	3 Year Total Return (% p.a.)	Weighted Total Average Return (% p.a.)	Current Yield (%)
Interest Bearing Assets (35%)				
NewFunds GOVI ETF	10%	7,48%	0,75%	8,5%
CoreShares PrefTrax ETF	10%	8,05%	0,81%	11,25%
Cash (NICMM)	15%	7,75%	1,16%	8,0%
High Yielding (15%)				
PropTrax Ten ETF	15%	(1,27%)	(0,19%)	8,9%
Foreign Equity (30%)				
CoreShares Global Dividend Aristocrat ETF	5%	14,95%	0,75%	5,0%*
Satrix S&P 500 ETF	10%	14,40%	1,44%	3,0%*
DB MSCI China ETN	5%	14,19%	0,71%	-
Satrix Nasdaq ETF	5%	15,06%	0,75%	3,0%*
CoreShares Global Property ETF	5%	15,84%	0,76%	5,0%*
SA Equity (20%)				
Satrix RESI 10 ETF	5%	15,27%	0,76%	3,1%
CoreShares Top 50 ETF	10%	8,33%	0,83%	3,1%
Satrix FINI 15 ETF	5%	6,32%	0,31%	4,5%
Total	100%		8,84%	

* Yield in Rands.

Source: JSE Ltd ; etfSA.co.za / Profile Data – Monthly Performance Survey (September 2018)

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Capital Growth Portfolio (Rand based)

	Allocation (%)	3 Year Total Return (% p.a.)	Weighted Total Average Return (% p.a.)
Foreign Equity (40%)			
Satrix S&P 500 ETF	10%	14,40%	1,44%
CoreShares Global Dividend Aristocrat ETF	10%	14,95%	1,49%
DB MSCI China ETN	5%	14,19%	0,70%
Satrix Nasdaq ETF	10%	15,06%	1,51%
Sygnia Itrix MSCI Japan ETF	5%	12,26%	0,61%
Listed Property (10%)			
CoreShares Global Property ETF	10%	15,84%	1,58%
Commodities (20%)			
Standard Bank Africa Rhodium ETF	5%	54,06%	2,70%
NewGold Palladium ETF	10%	18,79%	1,88%
Standard Bank Oil ETN	5%	8,79%	0,44%
SA Equity (30%)			
Satrix RESI 10 ETF	10%	15,27%	1,53%
CoreShares Top 50 ETF	5%	8,33%	0,41%
Satrix RAFI 40 ETF	10%	10,79%	1,08%
Satrix FINI 15 ETF	5%	6,32%	0,31%
Total	100%		15,68%

Source: JSE Ltd ; etfSA.co.za / Profile Data – Monthly Performance Survey (September 2018)

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Offshore Portfolio

Product	Size (million)	Provider	Ticker	TER	5 Year* Performance (% p.a.)	Allocation	Weighted Return (% p.a.)
Developed Market Equities							
Core S&P 500 UCITS ETF (USA) (Accumulating)	US\$31 746	iShares	CSPX	0,07%	12,69%	10%	1,27%
Core NASDAQ 100 UCITS ETF (Accumulating)	US\$1 245	iShares	CNDX	0,33%	19,38%	10%	1,94%
Core MSCI Japan UCITS ETF (Distributing)	US\$16 973	iShares	SJPA	0,20%	7,69%	5%	0,38%
Core DAX UCITS ETF	EUR7 218	iShares	DAXEX	0,16%	8,88%	5%	0,44%
Automation and Robotics UCITS ETF (Accumulating)	US\$2 557	iShares	RBOT	0,40%	**18,51%	10%	1,85%
						40%	
Emerging Market Equities							
China Large Cap UCITS ETF (Distributing)	US\$4 728	iShares	FXC	0,74%	7,20%	10%	0,72%
MSCI Emerging Markets UCITS (Distributing)	US\$49 080	iShares	EIMG	0,14%	5,20%	10%	0,52%
MSCI India UCITS ETF (Distributing)	US\$5 082	iShares	INDA	0,68%	10,09%	10%	1,00%
						30%	
Bonds							
Global Infrastructure UCITS ETF (Distributing)	US\$754	iShares	INFR	0,65%	5,80%	5%	0,29%
iShares IBOXX High Yield Global Corporate Bond UCITS ETF (Accumulating)	US\$17 143	iShares	HYG	0,49%	4,07%	5%	0,20%
iShares US Treasury Bond (7-10 years) (Distributing)	US\$9 223	iShares	IEP	0,15%	2,34%	5%	0,12%
						15%	
Property							
US Property Yield UCITS ETF (Distributing)	US\$721	iShares	IUSP	0,40%	6,89%	5%	0,34%
European Property Yield UCITS ETF	EUR1 483	iShares	IPRP	0,40%	12,76%	5%	0,64%
UK Property Yield UCITS ETF (Distributing)	UK£683	iShares	IUKP	0,40%	7,32%	5%	0,37%
						15%	
						100%	
Total Annual Return (US Dollars)							10,08%
Total Annual Return (ZAR Rands)							20,90%

* Taken from product fact sheets. ** Since inception investment returns. Total returns with dividends reinvested. Historic investment returns may not be replicated in future

Note: portfolios are designed to meet the specific requirements of individual investors so can differ from the above selection.

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Features of Managed Portfolios

- Specifically designed for the requirements of the individual investor (no one size fits all).
- Risk, concentration, volatility, product exposure all factored in.
- Fee of **one** percent per annum, covers
 - Product cost
 - Administration
 - Brokerage, settlement
 - Reinvestment of dividends
 - Portfolio rebalancing and changes
 - Financial advice and consultation.
- For both local and offshore portfolios.
- Minimum investment: R1 million.

Contact Details

Discretionary Investments	010 446 0371	info@etfsa.co.za
Tax Free Investment Accounts	010 446 0371	taxfree@etfsa.co.za
RA Funds	010 446 0374	rafunds@etfsa.co.za
Living Annuity Funds	010 446 0374	lafunds@etfsa.co.za
Portfolio Management Service	010 446 0372	portfolios@etfsa.co.za
Nerina Visser	010 446 0376	nerinav@etfsa.co.za
Mike Brown	010 446 0377	mikeb@etfsa.co.za

Website: www.etfsa.co.za

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