

# Investing in ETFs for First Time and Other Investors

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**etfSA.co.za Seminar**  
**JSE Ltd**  
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The Home of Exchange Traded Funds®



The Home of Retirement Funds

# Agenda

- What are ETFs?
- What is an Index?
- Difference between passive and active investment management.
- Types of ETFs
- How to invest using ETFs & ETNs
  - Stokvels / Investor Clubs
  - Tax Free Investment Accounts
  - Retirement Investments
  - Discretionary Investments
  - Managed Portfolios.

# What Are ETFs?

- They are securities (shares) listed on the JSE that trade like any normal share on the Main Board.
- Instead of giving access to the performance of **single company**, they provide **multi-company** investment exposure.
- The portfolios offered by ETFs are the components of an **index** (passive investment) and not an **actively managed** investment portfolio.

# What Are Passive Investments?

- They track an **index**.
- They seek to provide the “total returns” (capital growth plus all dividends/interest) of the index as **efficiently** as possible.
- They do this by **exactly replicating** an index through holding the index constituent basket in exactly the weighting stipulated by the compilers of an index.
- They do this at the **lowest cost** possible.
- The efficiency of an index tracking passive investment is measured by its “**tracking error**”.

**Passive investments give Beta returns.**

# What is an Index?

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

	Market Cap Weighted (%)		Market Cap Weighted (%)
Anglo Ashanti	0,76	FirstRand Ltd	3,40
Anglo American Plc	4,84	Foshini Group	0,75
Aspen Pharmacare Hldgs	1,65	Goldfields	0,66
Barclays Africa Group	1,88	Growthpoint Properties Ltd	1,29
BHP Billiton Plc	9,21	Imperial Holdings	0,60
BID Corp Ltd	1,52	Investec Ltd	0,44
Bidvest Ltd	1,28	Investec Plc	1,03
British American Tobacco	2,66	Life Healthcare Group	0,66
Capitec	0,75	Mediclinic International Ltd	0,71
Compagnie Fin Richemont	10,07	Mondi Ltd	0,63
Discovery	0,95	Mondi Plc	1,96

# What is an Index? (continued)

Index Weights – Basket of Constituents (as at March 2018) FTSE/JSE Top 40 Index			
	Market Cap Weighted (%)		Market Cap Weighted (%)
Mr Price Group	1,06	Sanlam Ltd	2,16
MTN Group	3,77	Sappi Ltd	0,74
Naspers Ltd -N-	20,16	Sasol Ltd	4,05
NEDCOR	1,00	Shoprite Holdings Ltd	1,77
NEPI Rockcastle PLC	0,74	Spar Group Ltd	0,65
Old Mutual Plc	3,41	Standard Bank Group Ltd	4,36
Redefine Properties	0,98	Tiger Brands Ltd	1,02
Reinet Inv Soc Anon	0,56	Truworths Int	0,72
Remgro Ltd	1,86	Vodacom Group	1,46
RMB Holdings Ltd	0,83	Woolworths Holdings Ltd	0,99

# Are Indices Worthwhile?

- They are **well diversified**.
- They typically only cover blue chip stocks (**reduces volatility and risk**).
- The index **always includes** only the best shares in the market or sector, **so is a high quality portfolio**.
- You only pay brokerage and JSE charges **once** and not for the whole portfolio.
- They are **transparent** – you always know what is in the index.

# Indices & ETFs Cover All Investment Sectors and Options

## Local Shares

- Satrix Top 40
- CoreShares Capped Top 50
- Satrix Capped INDI, FINI 15, etc.

## Foreign Shares

- Sygnia Itrix USA, Japan, World, etc.
- DB China, Emerging Markets.

## Listed Property

- PropTrax Ten, PropTrax SAPY
- Satrix Property.

## Bonds

- NewFunds GOVI, ILBI, etc.

## Commodities

- NewGold,
- Africa Rhodium, Platinum, Palladium,
- Standard Bank Oil, Copper, Corn, Wheat, etc.

## And Others



# 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 high Beta strategy) can generate greater volatility, which increases risk.
- Active investment also costs more money.
- Higher costs, more risk and only 50% chance of beating the market (at best) means that active management techniques are coming under pressure.

**Alpha is not easy.**

# Passive vs Active

- An index gives you the average return of the market.
- Who wants to be average?

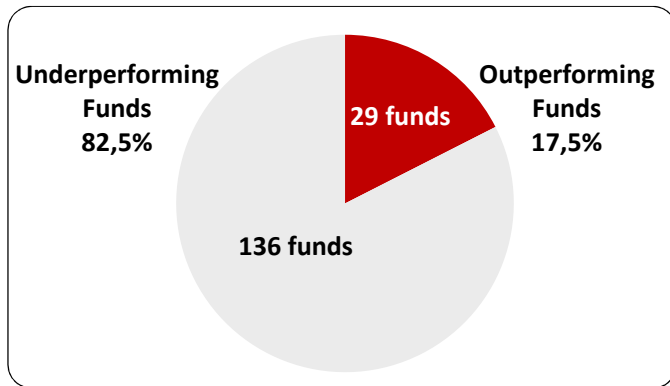
<b>Number of Active Asset Managers that Underperform the Return of the Index</b>			
	<b>1 Year</b>	<b>3 Year</b>	<b>5 Year</b>
<b>USA (benchmark S&amp;P 500)</b>	<b>63%</b>	<b>81%</b>	<b>84%</b>
<b>Europe (benchmark S&amp;P Europe 350)</b>	<b>47%</b>	<b>57%</b>	<b>73%</b>
<b>Canada (S&amp;P/TSIX Composite)</b>	<b>93%</b>	<b>91%</b>	<b>82%</b>

*Source: S&P Dow Jones Indices (SPIVA Scorecard) (December 2017).*

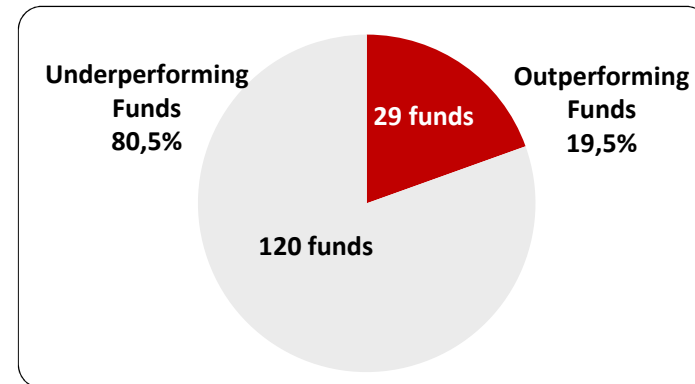
**Beating 80% of all active managers is a pretty high average**

# Passive vs Active Investment Management (South African Experience)

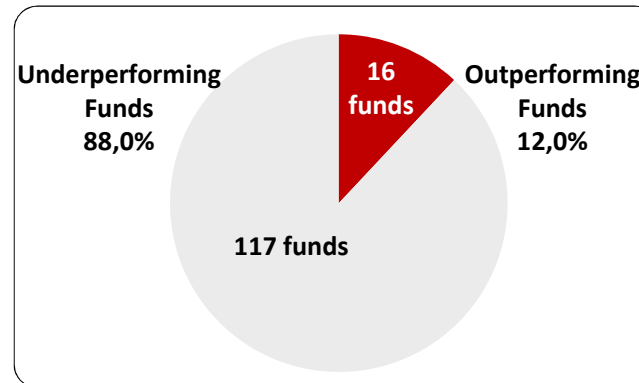
One Year (165 Funds)  
JSE All Share Index 9,60%



Two Years (149 Funds)  
JSE All Share Index 6,01%

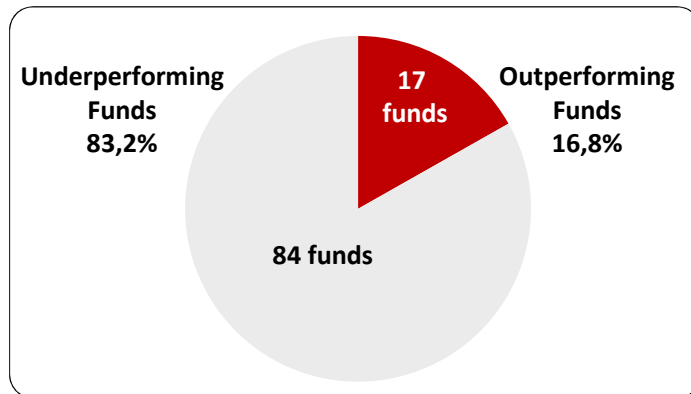


Three Years - JSE All Share Index 5,05%

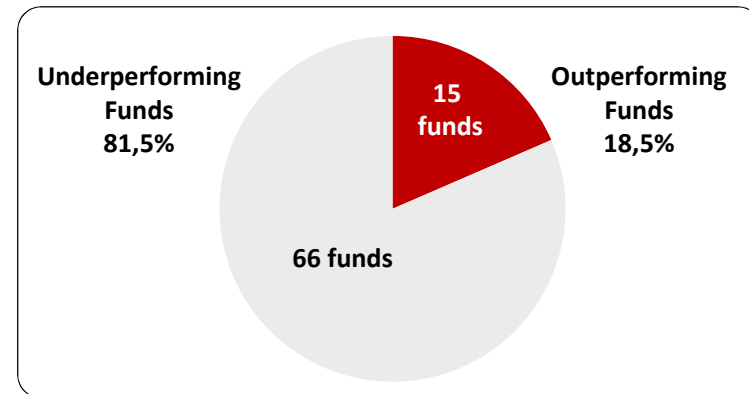


# Passive vs Active Investment Management (South African Experience) (continued)

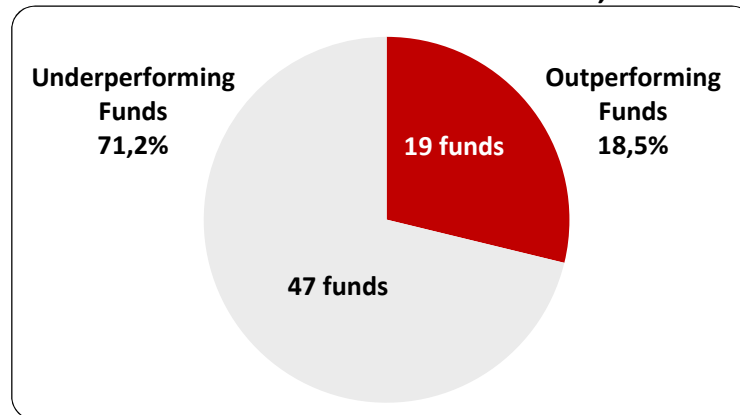
Five Years  
JSE All Share Index 10,02%



Seven Years  
JSE All Share Index 11,35%



Ten Years - JSE All Share Index 9,67%



# Relative Investment Performance

	6 Months	1 Year	2 Years	3 Years	5 Years
<b>JSE All Share Index</b>	<b>0,38%</b>	<b>11,45%</b>	<b>7,92%</b>	<b>5,28%</b>	<b>11,75%</b>
<b>Foreign Shares</b>	<b>(9,26%)</b>	<b>3,51%</b>	<b>4,10%</b>	<b>7,03%</b>	<b>14,52%</b>
<b>Listed Property</b>	<b>(7,70%)</b>	<b>(0,45%)</b>	<b>(0,22%)</b>	<b>2,00%</b>	<b>8,17%</b>
<b>Gold</b>	<b>(8,90%)</b>	<b>(3,98%)</b>	<b>(5,91%)</b>	<b>4,70%</b>	<b>3,94%</b>
<b>SA Bonds</b>	<b>12,21%</b>	<b>13,80%</b>	<b>12,16%</b>	<b>8,57%</b>	<b>6,71%</b>

# What Factors Will Drive The Market In Future?

- Synchronised world economic growth.
  - Focus on jobs and growth in South Africa.
  - Lower interest rates in South Africa
  - Lowest inflation rate in 40 years
  - Return to political normalcy and economic orthodoxy.
  - Improved investor confidence.
- } Good for investment markets

**(All this may not happen overnight)**

# How to Invest In and Use ETFs

- Stokvels / Investor Clubs / Group Investments
- Tax Free Investment Accounts
- Retirement Accounts
  - Retirement Annuity
  - Preservation Fund
  - Living Annuity
- Discretionary Portfolios
- Managed Portfolios – SA & Abroad.

# Stokvels / Investor Clubs

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# Starting & Managing an Investor Club/ Stokvel

## FICA REQUIREMENTS

(to be sent to investment administrators)

- Copy of Constitution / Founding Statement.
- Letter or document for Authorised Person to Represent Society (signed by all members).
- Copy of Register of Investors.
- Copy of Club / Stokvel bank statement.
- FICA documents for Authorised Person.
  - ID
  - Proof of residence.

# Using ETPs In Investor Clubs / Stokvels

- Less risk (more diversification) by using ETP portfolios to provide exposure to equities, bonds, listed property and other asset classes.
- Low costs do not eat into investment performance.
- Low investment minimums
- Quarterly dividends can be paid out or reinvested depending on choice of Club/Stokvel.

# Using the etfSA Investor Plan for Stokvel/Investor Club Investments

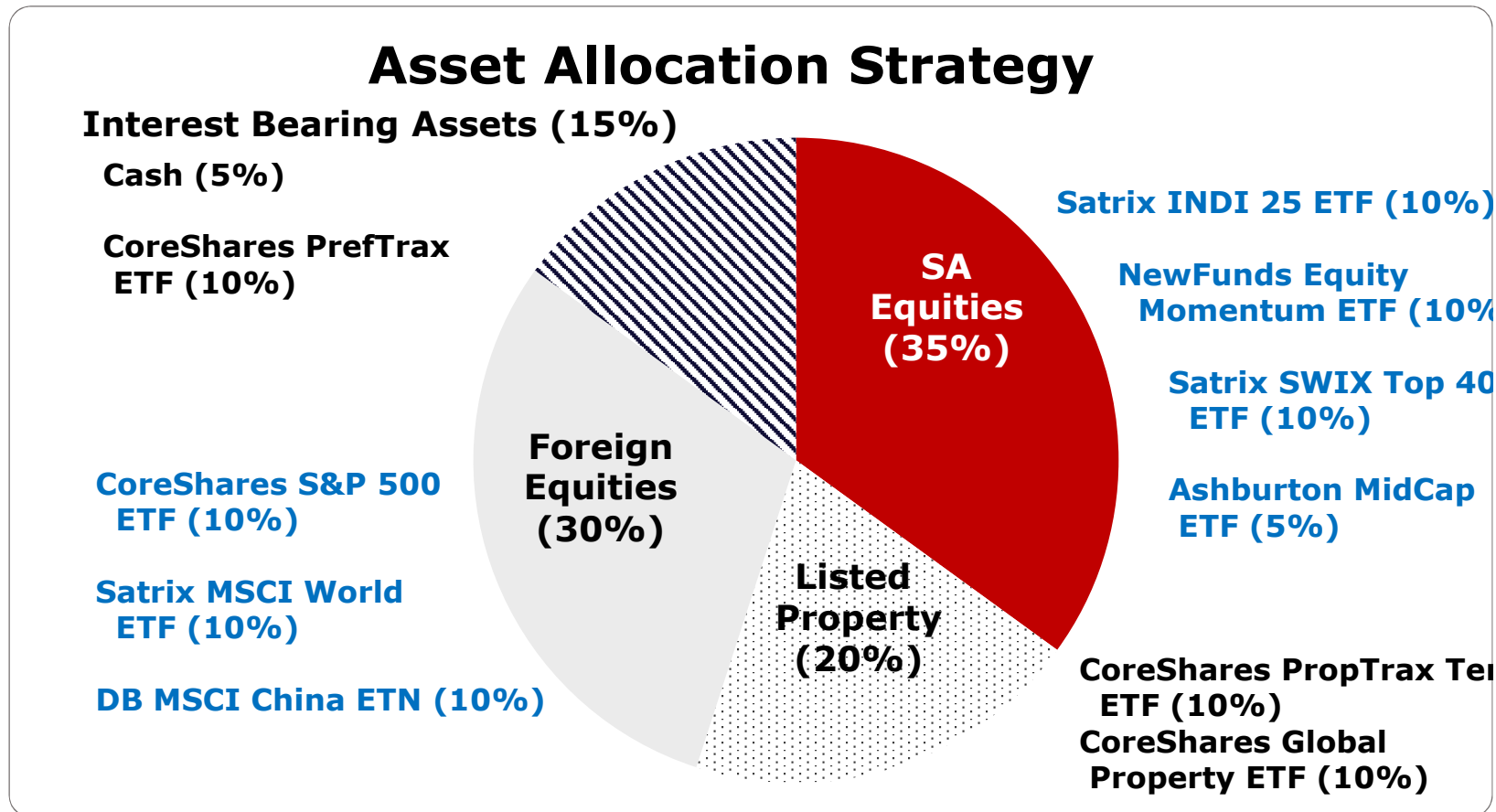
- Will accept investments from R1000.
- Will process debit orders from R150 per month.
- Automatically reinvests dividends four times a year.
- Brokerage fee of 0,08% (8bps) per transaction (all trades “bulked”).
- Administration fee (0,35% - 0,65% p.a.) is administered over 12 months and covers all transactions over that period.
- Specialise in ETPs only.

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

# Portfolios for Stokvels / Investor Clubs

- Select your own portfolios from 93 ETPs available on etfSA Investor Plan.
- For Stokvels with over R100 000 investments, etfSA.co.za can provide guidance and advice.
- For Stokvels/Investor Clubs with over R1 million, etfSA can offer a bespoke portfolio management service.

# Pro-Forma Portfolio for Investor Clubs/Stokvels



Average weighted annual return: 16,2% per annum (past 5 years)

Source: [etfSA.co.za](http://etfSA.co.za) / Profile Data December 2017

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# How Good is 16,2% per annum for a Balanced Portfolio Over 5 Years?

	Average Return Over Past 5 Years
<b>etfSA Balanced Portfolio</b>	<b>16,2%</b>
High Equity Multi-Asset Unit Trusts (203)	10,2%
Medium Equity Multi-Asset Unit Trusts (89)	9,3%
Low Equity Multi-Asset Unit Trusts (156)	8,4%
General Equity Unit Trusts (183)	12,5%
<i>Source: Quarterly Unit Trust Survey (December 2017).</i>	

## Pro-Forma Portfolio for Investor Clubs/Stokvels (R100 000 Lump Sum Investment)

	Amount Allocated		Current Value* After 5 Years (R)
	(%)	(R)	
<b>SA Equities</b>			
Satrix INDI 25 ETF	10%	10 000	23 940
Satrix SWIX Top 40 ETF	10%	10 000	18 650
NewFunds Equity Momentum ETF	10%	10 000	17 450
Ashburton MidCap ETF	5%	5 000	8 530
<b>Foreign Equities</b>			
CoreShares S&P 500 ETF	10%	10 000	32 005
Satrix MSCI World ETF	10%	10 000	28 125
DB MSCI China ETN	10%	10 000	27 340
<b>Listed Property</b>			
PropTrax Ten ETF	10%	10 000	19 780
CoreShares Global Property 40 ETF	10%	10 000	23 690
<b>Interest Bearing Assets</b>			
PrefTrax ETF	10%	10 000	16 990
Cash	5%	5 000	6 920
<b>Total</b>	<b>100%</b>	<b>R100 000</b>	<b>R223 420</b>

\* Current value of lump sum investment done 5 years ago (with dividends reinvested).

Source: etfSA.co.za / Profile Data (December 2017).

Note: Historical returns may not be repeated in future.

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## Pro-Forma Portfolio for Investor Clubs/Stokvels (R10 000 Per Month Debit Order Investment)

	Amount Allocated		Current Value* After 5 Years (R)
	(%)	(R)	
<b>SA Equities</b>			
Satrix INDI 25 ETF	10%	1 000	87 660
Satrix SWIX Top 40 ETF	10%	1 000	79 980
NewFunds Equity Momentum ETF	10%	1 000	78 000
Ashburton MidCap ETF	10%	1 000	72 980
<b>Foreign Equities</b>			
CoreShares S&P 500 ETF	10%	1 000	99 950
Satrix MSCI World ETF	10%	1 000	93 600
DB China ETN	10%	1 000	109 050
<b>Listed Property</b>			
PropTrax Ten ETF	10%	1 000	83 100
CoreShares Global Property 40 ETF	10%	1 000	84 900
<b>Interest Bearing Assets</b>			
PrefTrax ETF	10%	1 000	75 900
<b>Total</b>	<b>100%</b>	<b>R10 000 per month</b>	<b>R865 120</b>

\* *Current value of lump sum investment done 5 years ago (with dividends reinvested).*

Source: *etfSA.co.za / Profile Data (December 2017).*

Note: *Historical returns may not be repeated in future.*

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# Tax Free Investment Accounts

## ▪ Benefits

- No tax whatsoever – no capital gains tax, no dividend withholding tax, no interest tax
- No restriction on withdrawals – timing or amount.

## ▪ Disadvantages

- Annual (R33,000) and lifetime (R500,000) contribution limits
- Restrictions on underlying investments, e.g. only ETFs/unit trusts.

## ▪ Who?

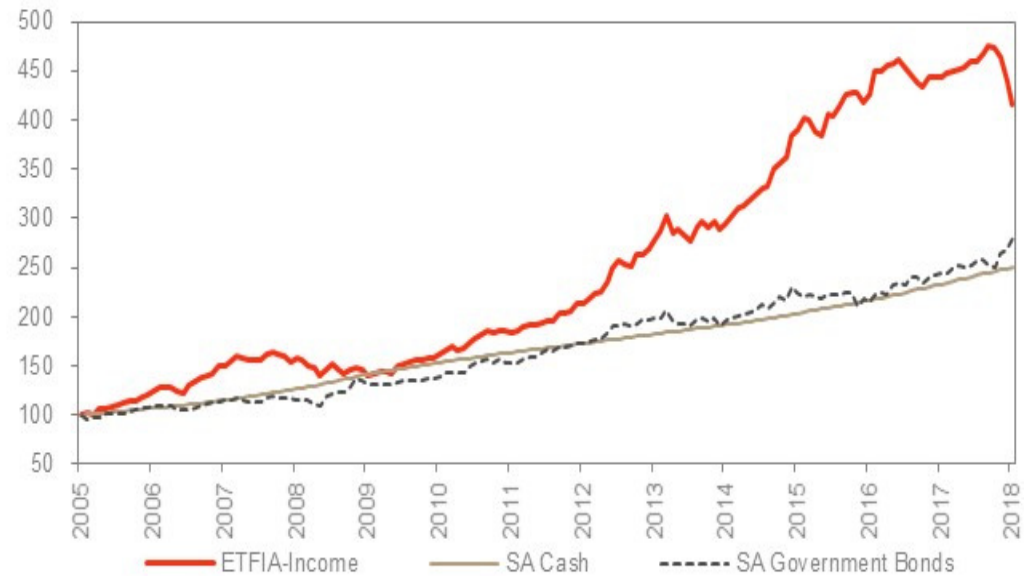
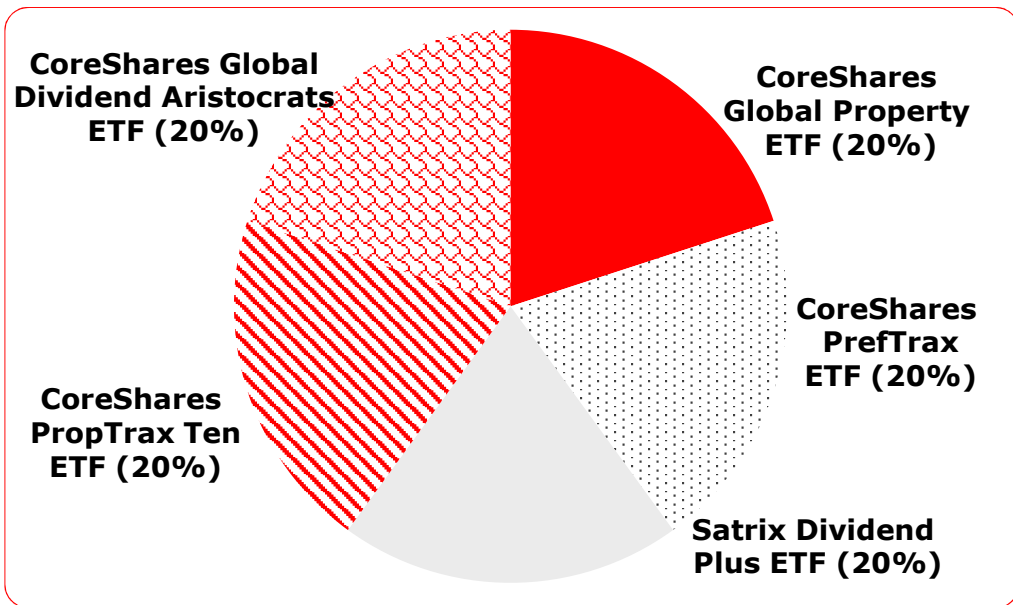
- Only individuals, SA residents (SA bank account)
- Can be infants, children and non-tax payers.

# Tax Free Investment Accounts

- Can select investments from R1000 in lump sum or debit orders, up to R33 000 per tax year, in:
  - Four specially designed ETF portfolios
  - Select your own ETF or ETFs
  - Can transfer out of other tax free accounts to etfSA.co.za, or vice versa.

<b>FEES – 1% ALL-IN INVESTMENT AND ADMINISTRATION COST</b>	
	<b>Rate per annum</b>
Portfolio Management and Advice Fees	0,5% (incl. VAT)
Administration and Custody Fees	0,5% (incl. VAT)
<i>All transaction fees for ETF portfolio purchases, reinvestment of dividends, etc. are included in the total fee of 1% per annum.</i>	

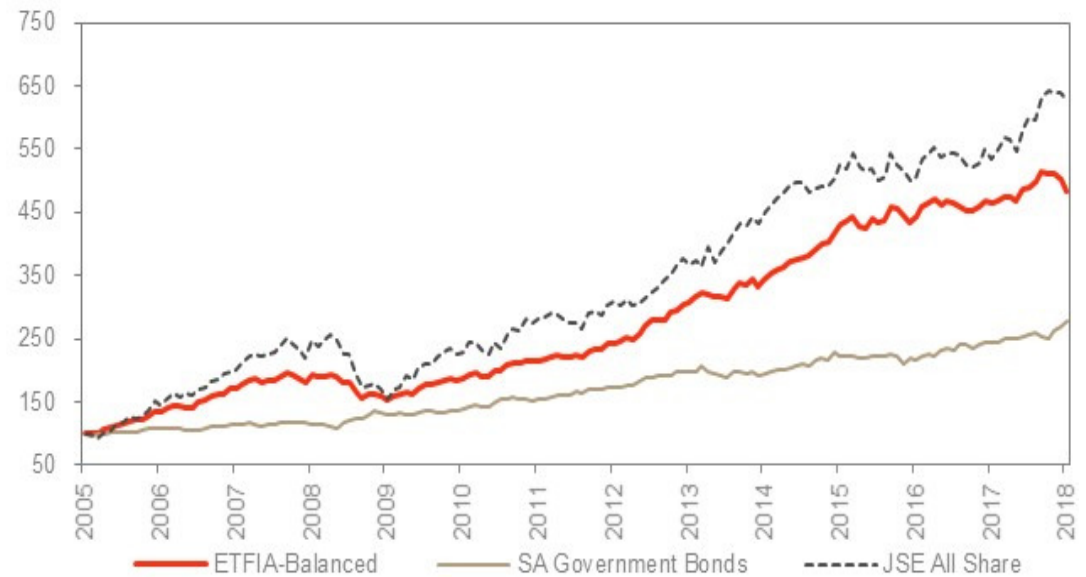
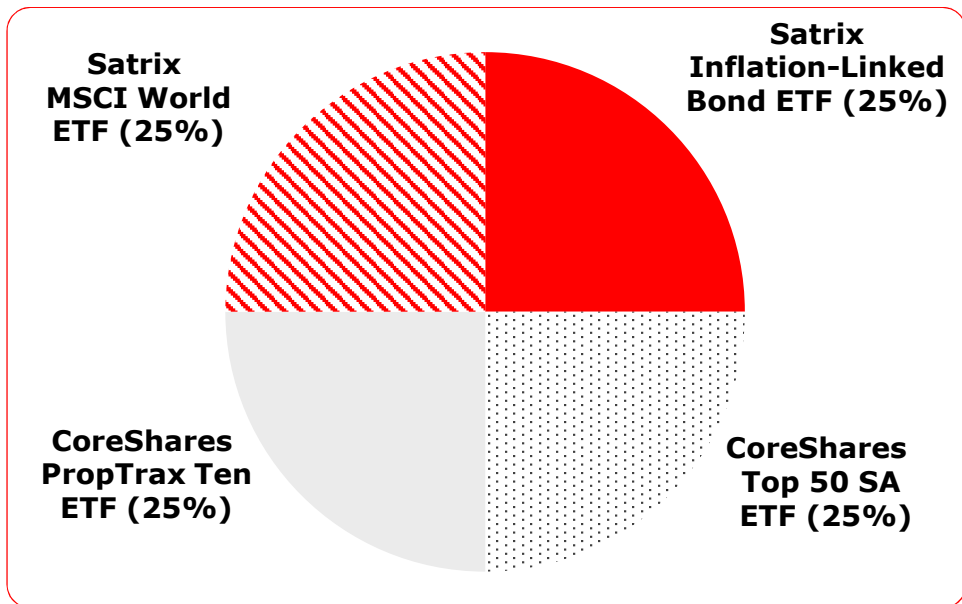
# Tax Free Investment Accounts Income Portfolio



Average return p.a. last five years: **8.4%**

Note: Past performance is no guarantee of future returns

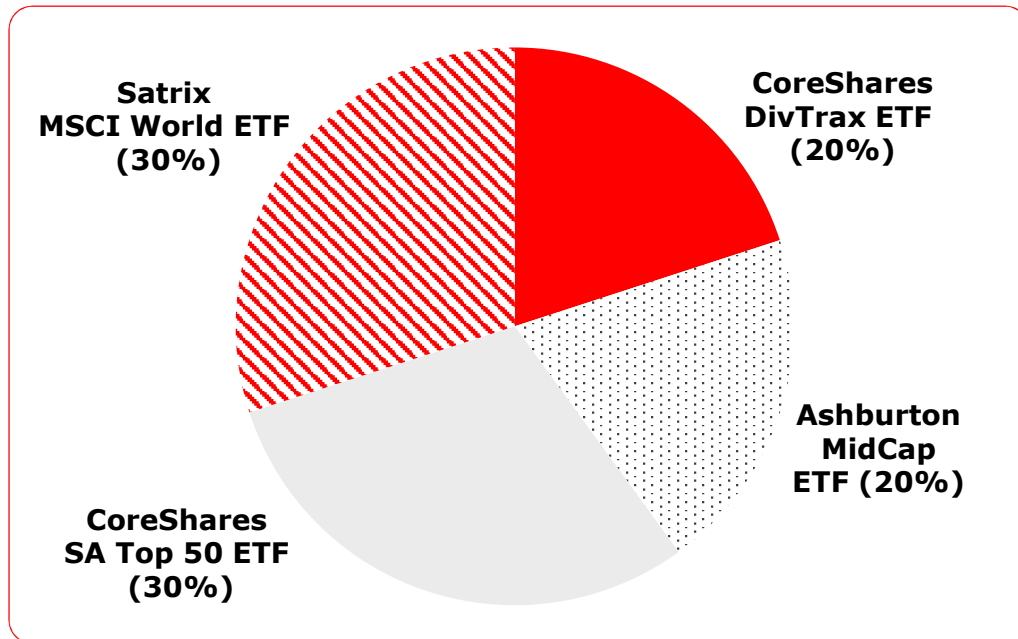
# Tax Free Investment Accounts Balanced Portfolio



Average return p.a. last **five** years: **9.4%**

Note: Past performance is no guarantee of future returns

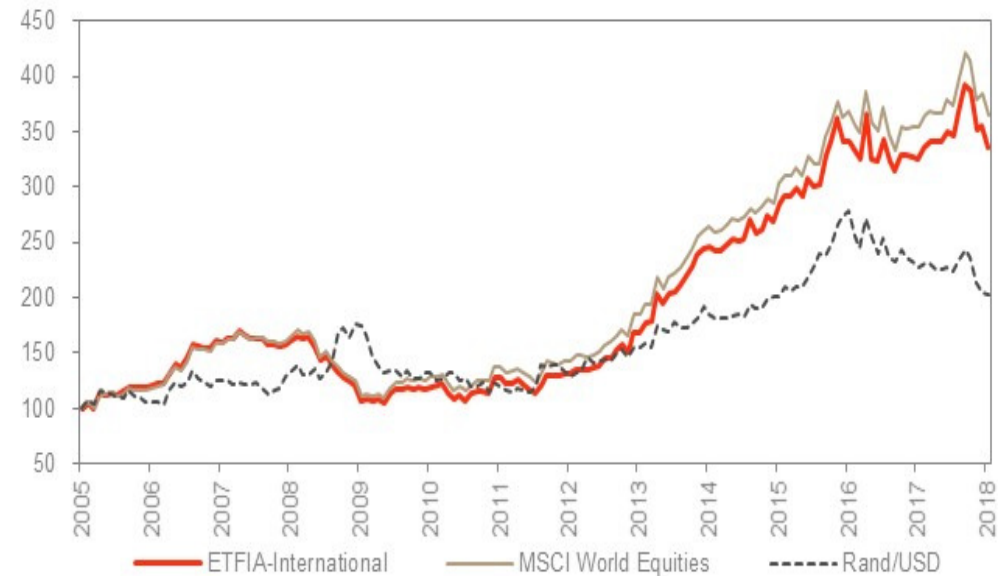
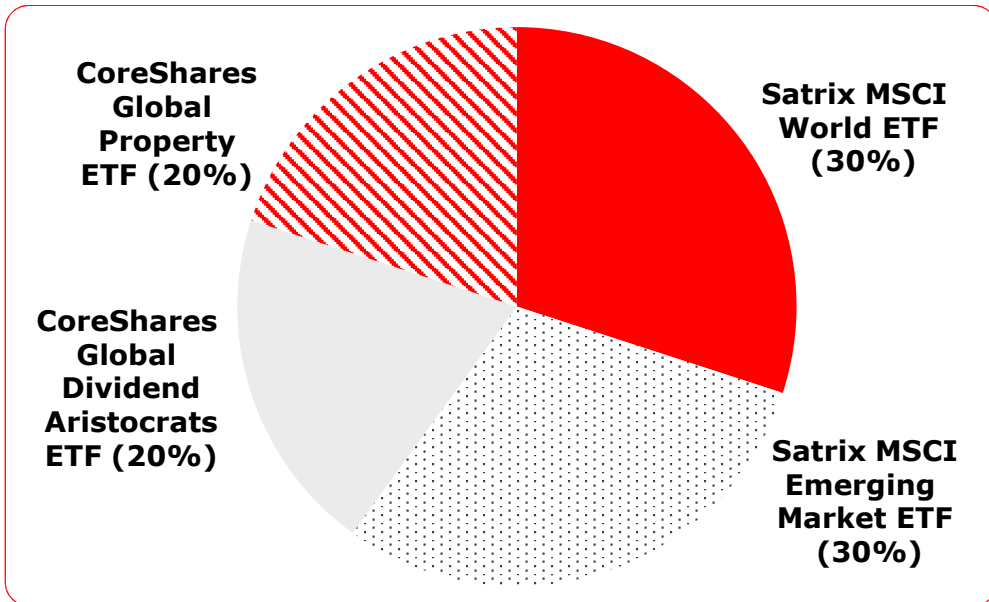
# Tax Free Investment Accounts Equity Portfolio



Average return p.a. last **five** years: **12.9%**

Note: Past performance is no guarantee of future returns

# Tax Free Investment Accounts International Portfolio



Average return p.a. last **five** years: **14.7%**

Note: Past performance is no guarantee of future returns

# Retirement Fund Accounts

- All contributions are tax deductible – up to 27,5% of your annual taxable income.
- All growth in the Retirement Fund is not taxable.
- We use only ETFs to construct different risk portfolios that are fully Regulation 28 compliant.
- Total costs = 1% per annum, includes:
  - Portfolio charges
  - Administration of benefits
  - Financial advice
  - Platform administration costs.

**No hidden fees**



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# Retirement Annuity Funds

- Your own retirement account.
- Can be run independently to your pension fund or other contractual retirement funds.
- Flexible:
  - Choose from various portfolios
  - Date of retirement
  - Contributions not fixed.
- Can view retirement benefits online (updated daily).
- Section 14 of the Pension Funds Act enables you to transfer from any retirement fund, or pension fund to etfSA RA Fund.
- Can provide ETF based Provident and Preservation Funds, if required.



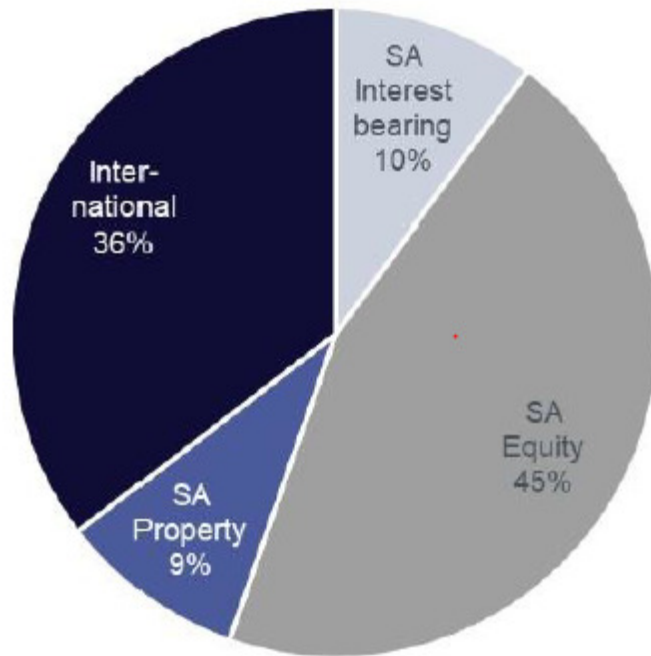
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# Retirement Annuity Funds

## ETF Portfolio Overlays - Wealth Enhancer Portfolio

### CPI +7% - Benchmark Asset Allocation



*'International' includes physical commodities*

### Actual Portfolio Holdings

Asset class	Reg. 28 Category	Description	Weight (%)
SA Interest bearing	Cash (max 100%) Debt (max 75%)	Cash	5.2
		NewFunds GOVI ETF	2.5
		CoreShares PrefTrax ETF	2.5
SA Equity	Equities (max 75%)	CoreShares SA Top50 ETF	19.8
		Ashburton Mid Cap ETF	9.8
		Satrix RAFI40 ETF	4.0
		NewFunds Equity Momentum ETF	5.8
		Coreshares Dividend Aristocrats ETF	5.8
		SA Property	Immovable Property (max 25%)
Proptrax Ten ETF	5.7		
Offshore	Foreign exposure (max 30% + 10% in Africa)	Satrix MSCI World ETF	8.2
		CoreShares Global Dividend Aristocarts ETF	4.1
		Satrix MSCI Emerging Market ETF	5.0
		DBX-Trackers MSCI China ETN	3.0
		CoreShares Global Property ETF	6.2
		AMI Africa ex SA Big50 ETF	3.0
Commodities	Physical (max 10%)	NewGold ETF	3.0
		NewGold Palladium ETF	2.8

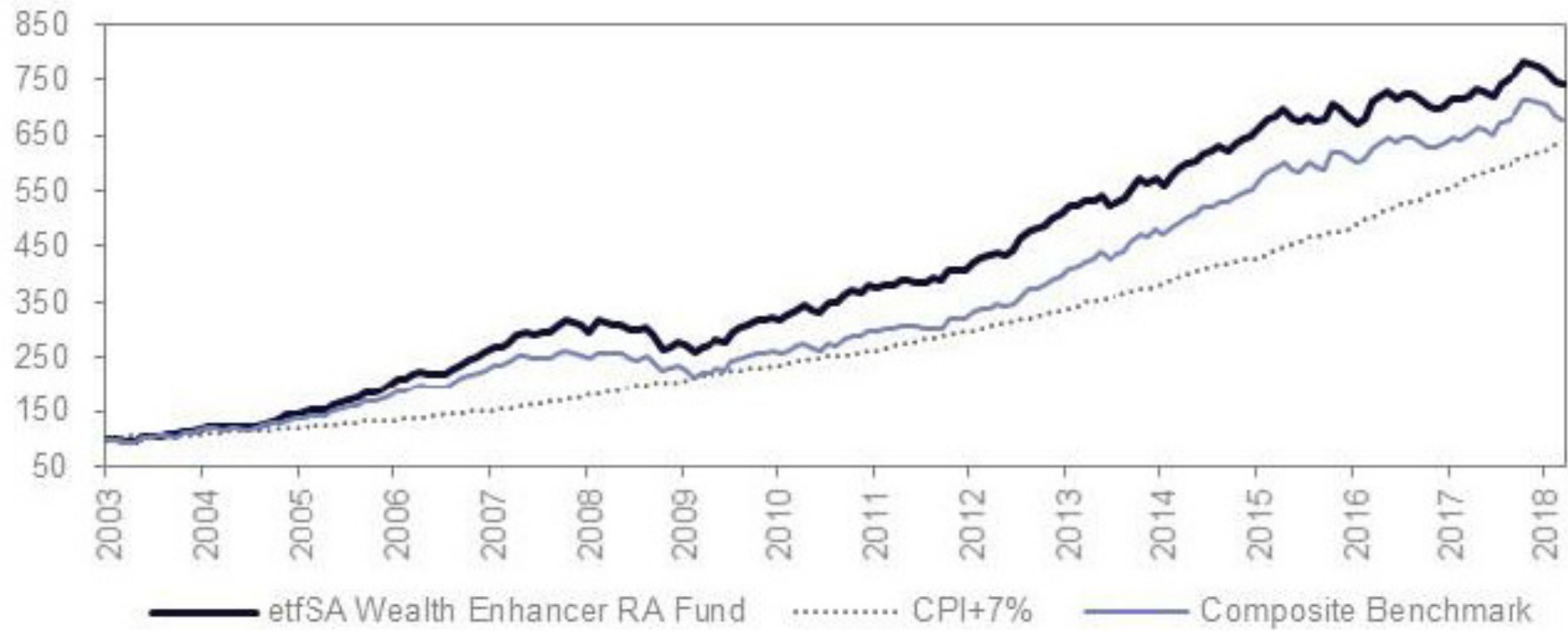


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# Retirement Annuity Funds

## ETF Portfolio Historic Performance - Wealth Enhancer Portfolio

**CPI +7%**



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# Living Annuity Funds

- After retirement funds using ETFs in portfolio construction.
- No need for Regulation 28, so portfolio design can be more relevant.
- Lifestyle requirements, income preservation and sustainability can be taken into account.
- Your pension requirements designed specifically for you (“one size does not fit all”).
- Low costs do not eat into your retirement savings.



# Living Annuity Funds

- You can transfer directly from any retirement fund (including your pension fund) into an etfSA Living Annuity.
- You can transfer from another Living Annuity into the etfSA Living Annuity.
- No transfer charges.



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# Discretionary Investments

- Not linked to retirement or tax free accounts.
- Full discretion to add or withdraw funds at any time.
- From R150 per month in debit orders.
- Or R1000 in lump sums.

# Regular Investments etfSA Investor Plan<sup>®</sup>

## ▪ Benefits

- No contribution limits
- Can use any ETFs/ETNs listed on the JSE.

## ▪ Disadvantages

- No tax benefit on contribution
- No tax benefit on withdrawal.

## ▪ Who?

- Anyone – individuals, clubs, Stokvels, trusts, companies, third party investments, joint accounts, etc.

# Managed Portfolios Using ETFs

- Can compete with active managers.
- Providing diversification, risk control, management of standard deviation.
- Using only listed ETPs, where market making gives instant liquidity if needed.
- With over 90 ETPs now listed on the JSE, and more to come shortly, the ETF portfolio business is becoming more complex.
- Giving rise to the **ETF strategist**.

# Managed Portfolios Using ETFs

(continued)

- Total costs **1% per annum**, includes:
  - Transaction costs
  - Settlement and custodian fees
  - Account administration
  - Asset management
  - Financial advice and consultation
- Service provided for both **local and global managed ETF portfolios.**



# Contact Details

<b>Discretionary Investments</b>	<b>010 446 0371</b>	<a href="mailto:info@etfsa.co.za">info@etfsa.co.za</a>
<b>Tax Free Investment Accounts</b>	<b>010 446 0371</b>	<a href="mailto:taxfree@etfsa.co.za">taxfree@etfsa.co.za</a>
<b>RA Funds</b>	<b>010 446 0374</b>	<a href="mailto:rafunds@etfsa.co.za">rafunds@etfsa.co.za</a>
<b>Living Annuity Funds</b>	<b>010 446 0374</b>	<a href="mailto:lafunds@etfsa.co.za">lafunds@etfsa.co.za</a>
<b>Portfolio Management Service</b>	<b>010 446 0372</b>	<a href="mailto:portfolios@etfsa.co.za">portfolios@etfsa.co.za</a>
<b>Nerina Visser</b>	<b>010 446 0376</b>	<a href="mailto:nerinav@etfsa.co.za">nerinav@etfsa.co.za</a>
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