

# **ETFs 101**

## **An Introduction to Exchange Traded Products (ETPs)**

**Presentation at  
myShare Investment Day  
13<sup>th</sup> October 2012**

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Managing Director  
etfSA.co.za**

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# What Are Exchange Traded Products (ETPs)?

- They are securities listed and traded on the JSE just like any other listed product.

**Continued/...**

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# What Are Exchange Traded Products (ETPs)?

Prices from "The Star" newspaper (3 Oct 2012)

PLATINUM & PRECIOUS METALS				TRAVEL & LEISURE														
AMPLATS	40800	42400	40131	-1625	26.4	0.5	101.5	398019	9	9	9	-72.7	-0.2	48613	AFDAWN			
AQUARIUS	589	605	580	+15	-75.9	-	-2.3	619143	CITYLDG	9500	9900	9391	+190	51.8	2.6	23.1	28916	AH-VEST
ATLATS	175				-61.0	-	7.7		COMAIR	142	142	142	-	-29.4	-	37.4	8000	ALERT
BAUBA	125				-44.4	-	17.9		CULINAN	110			-	37.5	0.9	25.2		ALLIANCE
EASTPLATS	155	174							DON	17	17	17	-	-32.0	-	-1.1	105562	ANSYS
IMPLATS	13950	14150														25.9	67528	B&W
JUBILEE	122	125														-1.4		BEIGE
LONMIN	7454	7671														9.6		BEIGE PREF
NORTHAM	2929	3039														17.1	14090	BIOSCI
PLATFIELD	4	5														12.6	43284	BLACKSTAR
RBPLAT	4750	4775														14.3	337613	BLUE
WESIZWE	82	89														87.8		BRIKOR
<b>CONSTRUCTION &amp; MATERIALS</b>				<b>EXCHANGE TRADED FUNDS</b>														
AFRIMAT	749	749							BBEWT40	3926	3936	3936	+14	18.8	2.6	-	100	BSI STEEL
AGI	2								BE GREEN	1557	1556	1556	+4	-	1.0	-	1400	CHEMSPEC
AVENG	3148	3170							DBX JAPAN	479	488	485	+5	-0.6	1.2	-	40000	CHROMETCO
BASREAD	862	873							DBX USA	1155	1164	1150	-2	30.7	0.6	-	58844	DIAMONDCP
CALGRO M3	474	475							DBX WORLD	1107	1118	1100	+3	23.7	1.2	-	63278	ERBACON
CERAMIC	13000								DBXEURO50	2723	2740	2703	+30	14.7	2.1	-	59518	FINBOND
DAWN	640	650							DBXFT100	7855	7860	7838	+25	22.3	2.6	-	12807	FONEWORX
ESORFRANK	135	135							MAPPS GRO	1307			+3	22.0	0.4	-		GOODERSON
GROUP S	2700	2700							MAPPS PRO	2497			+4	19.2	0.3	-	240	HARDWARE
KAYDAV	72								NEW RAND	2691	2687	2686	+4	19.0	-	-	2103	HUGE
M&R HLD	2234	2234							NEWFEQMOM	1801			+27	-	-	-		IMBALIE
MASNITE	3990								NEWFNGOVI	4215			+21	-	-	-		INTEWASTE
MAZOR	150								NEWFNILBI	5084			+3	-	-	-		IPSA
PPC	2883	2900							NEWFNISWIX	946			+3	-	-	-		IQUAD
PROTECH	45	48							NEWFNSWIX	1684			+1	-	-	-		ISA
RAUBEX	1586	1587							NEWFTRACI	14425	14500	14375	-45	17.1	-	-	127037	KIBO
SANYATI	21								NEWGOLD	3594			+7	24.8	1.4	-	9	LONRHO
SEAKAY	1	1							NEWSA	1095	1093	1093	+1	-	1.0	-	45	MAS
STEFSTOCK	1050	1058							PREFEX	4825	4850	4800	-5	28.8	1.5	-	220	MINERESI
WBHO	13960	14184							PROXSAPY	1402	1410	1405	-5	27.5	5.5	-	12270	MONEYWB
<b>GENERAL INDUSTRIALS</b>																		
ARGENT	645	645							PROPXTEN	2065	2065	2065	+34	20.1	1.2	-	47	MSHOLDING
ASTRAPAK	680	680														0.0	0	MUVONI
																13.9	10094	NUTRITION
																14.5	950138	OASIS
																8.5	238772	ONLOGIX
																		OSIRIS

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# What Are Exchange Traded Products (ETPs)?

- They offer access to a **basket or portfolio** of listed companies and **not** just a **single company**.
- The portfolios either:
  - Track an index of shares or bonds, or
  - They offer the return of an asset class or bundle of shares.

# What is An Index?

## Index Weights – Basket of Constituents (as at October 2012) FTSE/JSE Top 40 Index

	Market Cap Weighted (%)	Equally Weighted (%)		Market Cap Weighted (%)	Equally Weighted (%)
Absa Group Limited	1,16	2,5	Capital Shop Centres Grp	0,68	2,5
African Rainbow Minerals	0,31	2,5	Compagnie Fin Richemont	6,34	2,5
Anglo Platinum Ltd	0,74	2,5	Exxaro Resources Ltd	0,52	2,5
Anglo American Plc	8,06	2,5	Firststrand Ltd	2,77	2,5
Anglo Gold Ashanti Ltd	2,52	2,5	Gold Fields Ltd	1,79	2,5
Aspen Pharmacare Hldgs	1,15	2,5	Growthpoint Properties Ltd	1,01	2,5
Assore Ltd	0,32	2,5	Harmony Gold Mining Co	0,67	2,5
BHP Billiton Plc	13,04	2,5	Impala Platinum Holdings	2,02	2,5
Bidvest Group Ltd	1,57	2,5	Imperial	0,90	2,5
British American Tobacco	2,3	2,5	Investec Ltd	0,34	2,5

# What is An Index? (continued)

## Index Weights – Basket of Constituents (as at October 2012) FTSE/JSE Top 40 Index

	Market Cap Weighted (%)	Equally Weighted (%)		Market Cap Weighted (%)	Equally Weighted (%)
Investec Plc	0,75	2,5	RMB Holdings Ltd	0,92	2,5
Kumba Iron Ore Ltd	1,07	2,5	SABMiller Plc	10,82	2,5
Massmart	0,42	2,5	Sanlam Ltd	1,65	2,5
Mondi Ltd	0,23	2,5	Sasol Ltd	5,50	2,5
Mondi Plc	0,72	2,5	Shoprite Holdings Ltd	2,30	2,5
Mr Price Group Ltd	0,78	2,5	Standard Bank Group Ltd	3,85	2,5
MTN Group	6,77	2,5	Steinhoff International Hldg	1,09	2,5
Naspers Ltd -N-	5,07	2,5	Tiger Brands Ltd	0,91	2,5
Nedbank Group Ltd	1,08	2,5	Truworths	1,04	2,5
Old Mutual Plc	2,70	2,5	Vodacom Group	1,07	2,5
Remgro Ltd	1,52	2,5	Woolworths Holdings Ltd	1,23	2,5

# What Are Exchange Traded Products (ETPs)? (continued)

- They are **passive** investments – they merely replicate the performance of an index or basket of shares.
- Unlike **active** investments – where the asset manager attempts to outperform the index or market benchmark performance.

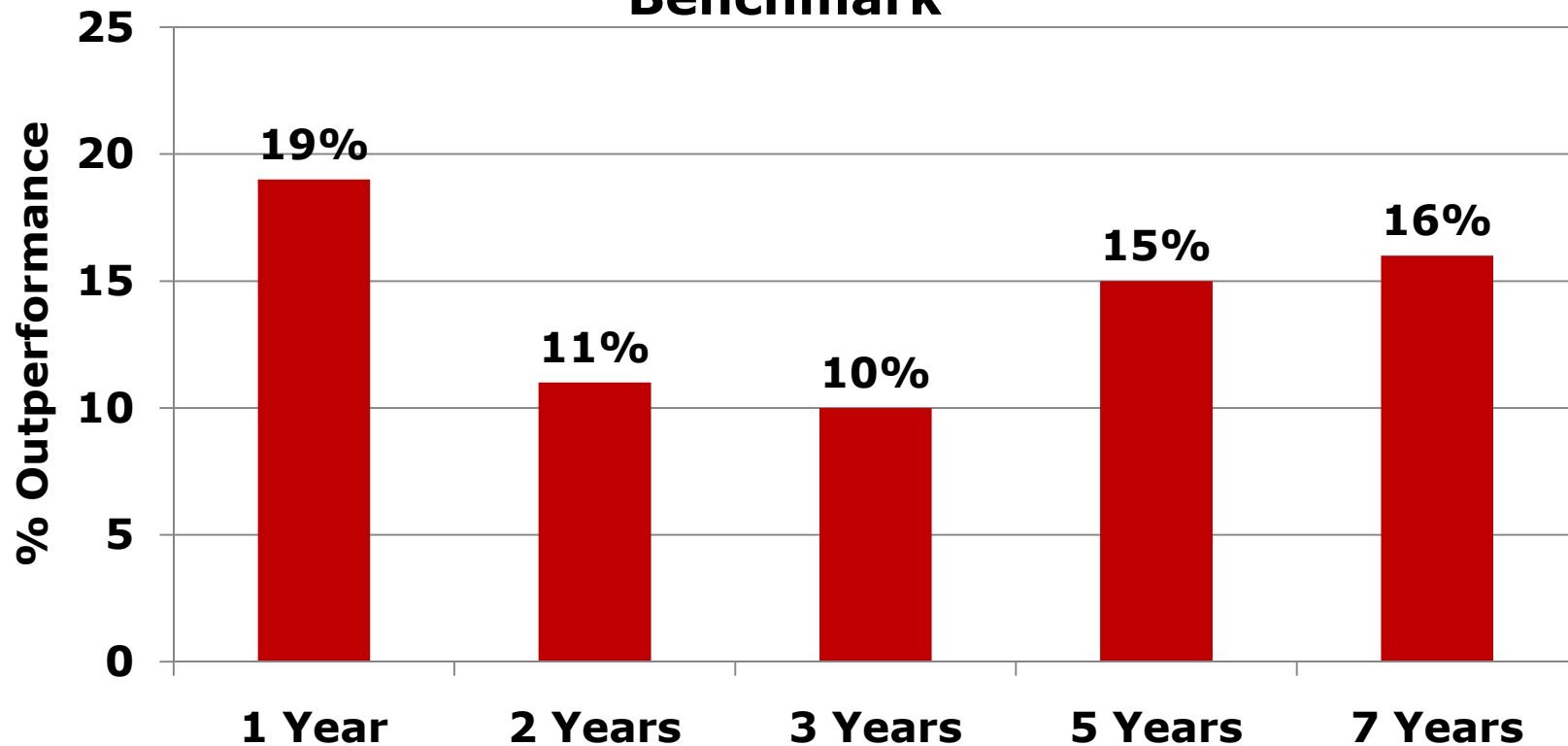
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# Why You Should Be Using ETFs/ETNs

## Unit Trusts Beating the FTSE/JSE SWIX Index Benchmark



Source: "The Quest for Alpha" - D Wessels - DRW Investment Research (June 2012)

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# Why Buy An Index Tracker?

- You buy one ETF and own a whole portfolio of index shares:
  - Reduce your risk by diversifying your portfolio
  - Enhance performance potential
  - Lower your costs – you only pay brokerage and JSE costs once, not for every share in the portfolio.
- So you own say 40 shares but you only pay to buy one share.

# Types of Exchange Traded Products:

## 1) Exchange Traded Funds (ETFs)

- Track an index
- The Stock Exchange selects the index shares.
- The ETF replicates the index portfolio by owning the index constituents in exactly the weighting stipulated by the Stock Exchange.
- Are Collective Investment Schemes
- Physically hold all index constituent shares in a **Trust**, which is insolvency remote and managed by an independent **Trustee**.
- Effectively are unit trusts listed on the JSE.

# Types of Exchange Traded Products:

## 2) Exchange Traded Notes (ETNs)

- Typically provide the total returns of an asset or asset class that can be accessed more efficiently through a futures or forward contract.
- ETNs often provide exposure to assets not otherwise easily accessible, i.e. commodities, currencies, asset baskets.
- The issuer of the ETN has the obligation to provide the total return of the asset tracked by the ETN.
- This obligation effectively makes ETNs debt instruments and therefore the creditworthiness of the issuer has to be taken into account.
- ETNs are securities traded on the JSE, but are not Collective Investment Schemes.

# What Are The Advantages of ETPs?

## Complete Transparency

- Listed on the JSE, pricing is done on the market and is know to every investor.
- Underlying portfolio is published daily.
- Settlement, trading, registration, transfer done through JSE/STRATE – fully centralised electronic, failsafe and cost effective.

## Instant Liquidity & Tradeability

- ETPs are like normal shares. Can be bought or sold at any time through the JSE
- Market makers and open-ended structures cater for large trades.

## Passive Investments

- An index always contains the premium shares/assets in the market.
- Index measures the average performance (BETA) of the market.

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# What Are The Advantages of ETFs?

(Continued)

## Diversification

### Diversified portfolio.

- Provides full exposure to blue chip shares/ assets.
- Reduces risk/volatility.
- Ensures benchmark performance.
- Can be easily hedged.

## Very Cost Efficient

- Average costs one-third of unit trusts.

# Total Expense Ratios (TERs)

ETFs	Basis Points	
BIPS Top 40	0,21	(0,21%)
Stanlib Top 40	0,19	(0,19%)
BettaBeta EWT 40	0,39	(0,39%)
Satrix 40	0,45	(0,45%)
<b>Average</b> of all local ETFs	0,55	(0,55%)
Unit Trusts		
Average General Equity Funds	1,62	(1,62%)
Average Value Funds	1,75	(1,75%)
Average Growth Funds	1,54	(1,54%)
<ul style="list-style-type: none"> <li>▪ <i>Total Expense Ratios (TERs) measures the cost (annualised) of providing the product.</i></li> <li>▪ <i>TER is included in the price of the product.</i></li> </ul> <p><i>Source: ASISA – Quarterly Unit Trust Survey (June 2012).</i></p>		

# Monthly ETP Performance Survey – September 2012

## etfSA.co.za Monthly Performance Survey Best Performing Index Tracker Funds – 28 September 2012 (Total Return %)\*

Fund Name	Type	5 Years (per annum)		Fund Name	Type	3 Years (per annum)
NewGold	ETF	22,79%		NewGold	ETF	25,47%
Prudential Property Enhanced	Unit Trust	14,99%		Prudential Property Enhanced Index Fund	Unit Trust	24,06%
Satrix INDI 25	ETF	14,17%		Satrix INDI 25	ETF	23,98%
Proptrax SAPY	ETF	13,41%		Proptrax SAPY	ETF	22,08%
		<b>2 Years (per annum)</b>				<b>1 Year</b>
Standard Bank Silver-Linker	ETN	36,31%		NewFunds eRAFI FINI 15	ETF	38,78%
NewGold	ETF	27,55%		Prudential Property Enhanced Index Fund	Unit Trust	36,36%
Standard Bank Gold-Linker	ETN	25,37%		Proptrax TEN	ETF	33,50%
Satrix INDI 25	ETF	23,39%		Proptrax SAPY	ETF	33,42%
DBX Tracker MSCI USA	ETF	22,57%		Standard Bank Platinum-Linker	ETN	32,60%
		<b>6 Months</b>				<b>3 Months</b>
Standard Bank Wheat-Linker	ETN	39,86%		NewWave Silver	ETN	31,08%
Standard Bank Corn-Linker	ETN	39,78%		Standard Bank Silver-Linker	ETN	28,94%
Proptrax SAPY	ETF	18,06%		NewWave Platinum	ETN	16,86%
				Standard Bank Platinum-Linker	ETN	16,30%

Source: Profile Media FundsData (28/09/2012)

\* Includes reinvestment of dividends.

The full etfSA Performance Survey is available on [www.etfsa.co.za](http://www.etfsa.co.za)

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Market data: 0.00 (0.00%) | ETF Property Index Tracker SAPY: 4590 ↓ -12.00 (-0.26%) | ETF Property Index Tracker Top Ten: 1360 ↑ 23.00  
SW Carbon Credit Note: 10998 = 0.00 (0.00%) | SBR003 - Retail deposit note R100 denominations: 10138 = 0.00 (0.00%) |

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## etf Education

On this page you will find easy to understand general information about ETF's.

To view presentations about ETF's click [here](#).

To view a brief description of the different types of ETFs click [here](#).

**What are ETF's?**  
An Exchange Traded Fund (ETF) is an investment vehicle which provides an investor with direct access to a basket of shares traded on stock exchanges such as the Johannesburg Stock Exchange (JSE) with the convenience of trading in a single security. Most ETFs track an index, such as the FTSE/JSE Top 40. ETFs are attractive as investments because of their low costs (Total Expense Ratio TER) and the ability to purchase them like a normal exchange listed security. An ETF combines the diversified portfolio of a unit trust investment with the tradability features of a listed security allowing it to be bought or sold at the end of each trading day at the market ruling price.

**How can ETF's benefit me?**  
Buying a basket of shares (an ETF) is less risky than buying a single listed company as the diversification and spread of investments reduces the risk exposure. ETFs typically track an index of the most liquid shares on the stockmarket. Indices are regularly rebalanced by the Johannesburg Stock Exchange (JSE) to ensure that they reflect the

ETF Education page:

Continued/...

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# For More Information on ETFs/ETNs (continued)

March 2012 15:21 ETF BetaBeta Equally Weighted Top 40 Portfolio: 3749  $\uparrow$  0.00 (0.00%) | ETF BetaBeta Green: 1489  $\uparrow$  0.00 (

March 2012 15:21 ETN - Deutsche Bank AG: 1  $\uparrow$  0.00 (0.00%) | ETN - Deutsche Bank MSCI Africa Capped 50 TRI: 6032  $\uparrow$  0.00 (0

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Capital announces a drop in management fees its ETFs

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Global Lists New Exchange Funds

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Investment "Making ETFs the Core Investment Plans" – March

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Retail Bonds in South Africa

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SA.co.za SA ETF, ETN & Structured Product Survey (Jan)

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**On this page you are able to view easy to understand presentations about ETF's.**

To view additional information about ETF's [click here](#)

2011

- JSE MyShare Investment Day presentation - "ETFs 101" ▶ 22 October 2011 [190kb]
- What are ETFs? [50kb]
- What are the Advantages of ETFs? [49kb]
- What can ETFs do for my Investment Portfolio? [101kb]
- Using ETFs in Portfolio Management [42kb]
- Global Development of the ETF Market [88kb]

2010

**The New World of ETFs - November 2010 presentations:**

- Nedbank Capital – BetaBeta Retail presentation – Nernia Visser [494kb]
- etfSA - Exchange Traded Funds presentation – Mike Brown [220kb]

**RMB Exchange Traded Notes**



# For More Information on ETFs/ETNs

Click on the **"LEARN MORE"** button for different types of ETFs



Home	About etfSA	ETFs	ETNs	How to Invest	Learn More	My Profile	Performance Data
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#### Total Number of Products

ETFs	38
ETNs	20
<b>Total</b>	<b>58</b>

### ETF/ETN Products Offered Through the etfSA Investor Scheme<sup>®</sup>

**Products available:**  
**38 ETFs**  
**20 ETNS**

A) INDEX TRACKING ETFs		
1.	Top 40 – Broad Market Access	Description
Dividends paid quarterly	<b>Absa NewFunds SWIX 40</b>	Tracks the FTSE/JSE SWIX Top index (same as Satrix SWIX 40 and Stanlib SWIX 40), however, all dividends are automatically reinvested on a quarterly basis to provide a total return.
	<b>Nedbank BetaBeta EWT 40</b>	Equally allocates the same amount (2,5%) to each of the Top 40 shares. This balanced approach produces less volatility and a lower risk adjusted exposure to the Top 40.
	<b>RMB 40</b>	Same portfolio as Satrix 40, but lower cost structure.
	<b>Satrix 40</b>	Market cap index of JSE Top 40 blue chip shares on the JSE – high exposure to mining and large cap shares.
	<b>Satrix SWIX Top 40</b>	Adjusts the Top 40 weighting to exclude all South African shares held by foreigners. Reduces the portfolio exposure to mining

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Click on the "ETF or ETN" button



**Satrix INDI Portfolio**  
Domestic--Equity--Industrial

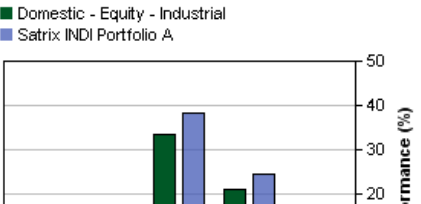
**Focus and Objective**

The Satrix INDI is an Exchange Traded Fund (ETF) listed on the JSE. The Satrix INDI aims to give investors the performance of the FTSE/JSE Industrial index. The Satrix INDI provides the opportunity to invest in the top 25 shares, measured by their market capitalisation, in the industrial sector. The Satrix INDI tracks the FTSE/JSE INDI25 index, as closely as possible. Dividends received from these companies are also paid out quarterly - net of costs.

**Management**

**Satrix Securities**  
This fund is managed by Satrix Managers (Pty) Ltd.

**Comparative Performance - A Class**

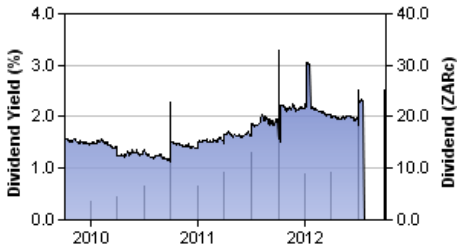


**Technical Overview**

FORMATION DATE:	15 Feb 2002
BENCHMARK:	FTSE/JSE INDI25 (J211)
HOLDINGS:	26
UNIT HOLDERS:	8 293
ORIGINAL PRICE:	705
PRICING SYSTEM:	Forward
INCOME DECL:	31/03,30/06,30/09,31/12
MINIMUM LUMP SUM:	R1 000
MINIMUM MONTHLY:	R300
RISK RATING:	High

**Dividend Yield A Class**

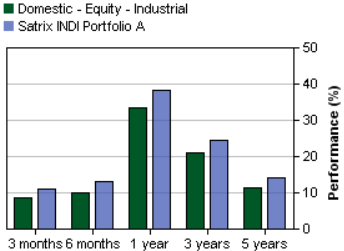
Vertical lines represent dividends.



**Management**

**Satrix Securities**  
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**Comparative Performance - A Class**



**Dividend Yield A Class**

Vertical lines represent dividends.



**Dividend History - A Class (last 3 years)**

30 SEP 2012	25.08c
30 JUN 2012	25.08c
31 MAR 2012	9.07c
31 DEC 2011	8.95c
30 SEP 2011	33.03c
30 JUN 2011	13.18c
31 MAR 2011	9.27c
31 DEC 2010	6.63c
30 SEP 2010	22.87c
30 JUN 2010	6.45c
31 MAR 2010	4.51c
31 DEC 2009	3.59c
30 SEP 2009	13.73c
30 JUN 2009	6.42c
31 MAR 2009	8.16c

Profile page:

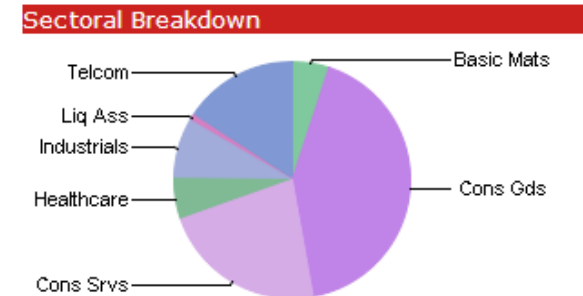
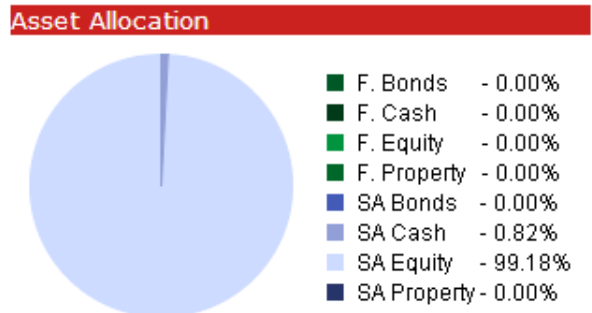
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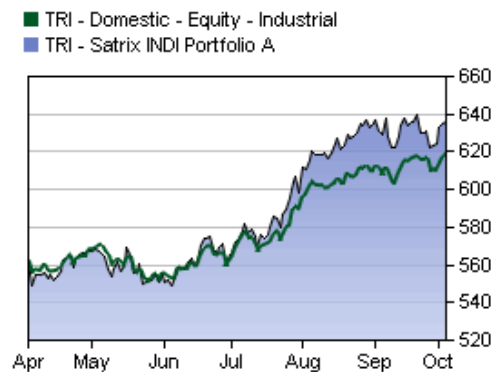
Fees	
TER, CLASS-A (30 JUN 2012):	0.46%
PERF FEE TER, CLASS-A (30 JUN 2012):	0%
ANNUAL, CLASS-A:	0.8% (Satrix Investment plan)
PERFORMANCE, CLASS-A: 0.45% - 0.80% PER ANNUM DEPENDING ON THE SIZE OF THE INVESTMENT. ONLY APPLICABLE IF PURCHASED THROUGH THE INVESTMENT PLAN.	

Top Holdings on 30 Jun 2012			
SHARE	No Units	Value (Rm)	% of Fund
SABMILLER	457 656	150.98	21.20%
MTN GROUP	690 771	97.34	13.67%
RICHEMONT	1 914 857	85.86	12.05%
NASPERS-N	150 603	65.51	9.20%
BATS	81 750	34.38	4.83%
<b>Totals</b>		<b>434.07</b>	<b>60.94%</b>



## Satrix INDI Portfolio - A Class

### PRICE - A CLASS



Latest NAV 03 Oct 2012 **3 644.98c**  
 NAV on 03 Apr 2012 **3 248.45c**

### PERFORMANCE TO 3 OCT 2012

#### R1 000 LUMP SUM (NAV-NAV INCL. DIVIDENDS)

PERIOD	Return	Value(R)	Inflation(R)
3 MONTHS	11.08%	1 110.80	1 006.40
6 MONTHS	13.07%	1 130.70	1 013.80
1 YEAR	38.29%	1 382.90	1 047.80
3 YEARS	24.39%	1 924.80	1 142.70
5 YEARS	14.04%	1 929.00	1 351.70
10 YEARS	22.34%	7 510.10	1 733.90

#### R100 PER MONTH (NAV-NAV INCL. DIVIDENDS)

PERIOD	Return	Value(R)	Inflation(R)
3 MONTHS	2.04%	304.10	303.23
6 MONTHS	12.07%	643.69	n/a
1 YEAR	25.72%	1 381.06	n/a
3 YEARS	22.01%	5 129.37	n/a
5 YEARS	19.81%	10 288.14	n/a
10 YEARS	19.97%	38 149.82	n/a

\* VALUES FOR PERIODS GREATER THAN ONE YEAR ARE ANNUALISED

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# Using ETPs To Construct Portfolios

	Type of Exposure	ETP Product	Comments
1.	<b>GENERAL EQUITY MARKET RETURNS – Beta products</b>	Satrix 40/RMB Top 40 ETFs	<ul style="list-style-type: none"> <li>Exposure to the Top 40 shares on the JSE (market cap weighted).</li> </ul>
		BettaBeta EWT 40 ETF	<ul style="list-style-type: none"> <li>Top 40 shares on the JSE with allocation of funds equally weighted.</li> </ul>
		NewFunds SWIX Top 40 ETF	<ul style="list-style-type: none"> <li>Shareholder weighted Top 40.</li> </ul>
2.	<b>OTHER ASSET CLASSES – diversification strategies</b>	zShares GOVI ETF	<ul style="list-style-type: none"> <li>Invests only in SA Government bonds.</li> </ul>
		Proptrax SAPY or Proptrax TEN ETFs	<ul style="list-style-type: none"> <li>Invests purely in JSE listed property shares.</li> </ul>
		DBX Tracker MSCI USA ETF	<ul style="list-style-type: none"> <li>Invests in Top 600 USA shares.</li> </ul>
		NewGold ETF	<ul style="list-style-type: none"> <li>Invests in gold bullion.</li> </ul>
		Standard Bank Commodity-Linkers	<ul style="list-style-type: none"> <li>Invest in commodities such as precious metals, minerals, softs, oil, etc.</li> </ul>
3.	<b>CAPITAL PRESERVATION – provide consistent returns with capital preservation</b>	RMB Inflation-X ETF	<ul style="list-style-type: none"> <li>Invests in RSA Inflation-linked bonds.</li> </ul>
		PrefEx ETF	<ul style="list-style-type: none"> <li>Invests in JSE listed preference shares, gives good dividend yields with capital preservation.</li> </ul>
		NewFunds TRACI ETF	<ul style="list-style-type: none"> <li>Money market ETF.</li> </ul>
4.	<b>THEMATIC PRODUCTS – promise of market outperformance</b>	Satrix DIVI Plus ETF	<ul style="list-style-type: none"> <li>Invests in portfolio of high dividend yield securities.</li> </ul>
		Nedbank BGreen ETF	<ul style="list-style-type: none"> <li>Green index has outperformed JSE All Share by some 40% over the past three years.</li> </ul>
		NewFunds Equity Momentum ETF	<ul style="list-style-type: none"> <li>Tracks an index of top JSE shares based on current price momentum.</li> </ul>

# How To Invest In ETFs/ETNs

Through Stockbrokers	Through Investment Plans (etfSA.co.za)
<ul style="list-style-type: none"> <li>• <b>Minimum investment amounts often apply.</b></li> </ul>	<ul style="list-style-type: none"> <li>• <b>R1000 lump sum.</b></li> </ul>
<ul style="list-style-type: none"> <li>• <b>No debit orders.</b></li> </ul>	<ul style="list-style-type: none"> <li>• <b>R300 debit order.</b></li> </ul>
<ul style="list-style-type: none"> <li>• <b>Brokerage minimum charge R85-R125 per transaction.</b></li> </ul>	<ul style="list-style-type: none"> <li>• <b>Brokerage 0,1% of investment value.</b></li> </ul>
<ul style="list-style-type: none"> <li>• <b>Annual custodian fees – R600-R700.</b></li> </ul>	<ul style="list-style-type: none"> <li>• <b>Included in annual management fee (0,45% to 0,8%).</b></li> </ul>
<ul style="list-style-type: none"> <li>• <b>Advisory fees 1% per annum.</b></li> </ul>	<ul style="list-style-type: none"> <li>• <b>n/a</b></li> </ul>

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- Will facilitate third party investments
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# Contact details

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