



LOWER COSTS FOR eRAFI™ EXCHANGE TRADED FUNDS

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In a press release dated 31st May 2010, a reduction in the management fee charged for the eRAFI™ ETFs has been announced by Absa Capital.

The eRAFI™ ETFs have a cost structure which consists of: An annual management fee charged by Absa Capital and its partner, Plexus Asset Management; Other running and administration charges; Plus a performance fee. All of these costs are summed up in calculating the Total Expense Ratio (TER) of the eRAFI™ ETF products.

Absa have announced a reduction of between 20-25 basis points per annum in the first of these costs – the annual management fee it charges. The impact of this announcement is for the average management fee charged by Absa Capital to fall from around 75 to 80 bps per year, to around 50 to 55 basis points per year.

The put this in context, the TER for eRAFI™ was 1,66% (166 basis points) for the year ended March 2010. Of this total TER of 1,66%, 0,55% (55 basis points) was made up of performance fees. The management fees portion of the TER will now fall by between 20-25 basis points (0,20% to 0,25%) per annum on average to give an average adjusted TER of around 1,41% per annum. This still means that the eRAFI™ products are quite a lot more expensive than other ETFs that have average TERs of 0,50% (50 bps) per year, including the Satrix RAFI total return ETF, which has a TER of 0,069% (69,7 basis points) per annum as at March 2010.

Impact of Lower eRAFI™ Cost Structure (%)				
	Average Management Fee	Other TER Costs	Performance Fee	Total TER
Old Cost Structure				
eRAFI™ Overall	0,80	0,31	0,55	1,66
eRAFI™ FINI 15	0,80	0,49	0,81	2,10
eRAFI™ INDI 25	0,80	0,44	0,67	1,91
eRAFI™ RESI 20	0,80	0,40	1,16	2,36
New Cost Structure				
eRAFI™ Overall	0,55	0,31	0,55	1,41
eRAFI™ FINI 15	0,55	0,49	0,81	1,85
eRAFI™ INDI 25	0,55	0,44	0,67	1,66
eRAFI™ RESI 20	0,55	0,40	1,16	2,11
Satrix RAFI 40	-	0,69	-	0,69

Notes relating to this table are on page 2

Notes:	
1.	Total Expense Ratios are absorbed in the price of the product and are not an additional fee paid by investors – they do however impact on the performance of the ETF product.
2.	The Performance fee charged by eRAFI™ is 20% of the amount by which the various eRAFI™ ETF funds outperform their benchmark indices. A "high watermark" system is applied, so that any underperformance of the benchmark needs to be "clawed back" and additional performance fees can only be charged when the underperformance has been made up.
3.	Satrix RAFI 40 annual management fee is included in its TER, as is the cost of transacting assets, reinvesting distributions, etc. in the portfolio.
4.	These costs exclude other costs to the investor, which can include: brokerage charges for transacting in ETFs; platform administration charges, such as the 0,45% to 0,8% per annum charged by etfSA; plus any commissions which may be paid to a financial adviser (if applicable).

Absa have also announced that they intend, in future, to look at only recovering their direct costs in running the eRAFI™ ETF funds and will reduce TERs, as and when the size of the eRAFI™ portfolios increase. However, the performance fees will remain unchanged, but will only be payable when out-performance occurs. Vladimir Nedeljkovic, Head of ETF products at Absa Capital, clarifies this as follows "we don't believe investors should ever pay for anything other than outperformance and for direct costs of running the funds."

Performance Data

The various RAFI funds have only been listed since 2008 or later and so the comparable performance data only reflects performance numbers of 1 year or less. The comparative data for the Absa eRAFI™ ETF products and similar ETF funds is shown below.

Total Return Performance Data (%) (period ended 31 March 2010)			
	12 Months	6 Months	3 Months
eRAFI™ Overall	51,28	15,74	6,98
Satrix RAFI 40	56,03	18,52	7,00
eRAFI™ FINI 15	-	16,61	9,77
Satrix FINI 15	53,34	17,36	9,99
eRAFI™ INDI 25	-	11,44	4,01
Satrix INDI 25	49,58	13,74	3,51
eRAFI™ Resources 20	-	19,71	3,64
Satrix RESI 20	35,84	18,93	1,63

Source: PlexCrown/etfSA ETF Survey (March 2010)

The performance data above, admittedly for a short period only, indicates that the higher cost structures and performance fees charged for the Absa Capital eRAFI™ ETF products, ensures that similar ETF products, from the Satrix stable, outperform the eRAFI™ ETFs. However, over time, the enhanced fundamental indexation technology (which adds additional screening features – debt coverage ratios and net operating assets – to the revenue, cash flows, book to equity and dividend filters used in the passive RAFI technology followed by the Satrix RAFI 40, should add value and enable the enhanced eRAFI™ products to perform comparatively. Also, the indication in the press release by Absa, that it will look to progressively lower costs, whenever possible, is good news for investors.

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