



## HOW TO BUY THE JSE TOP 40 SHARES WITH EXCHANGE TRADED FUNDS (ETFs)

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Some investors, and even possibly financial advisors, might be confused by the number of Top 40 ETFs that are now available. Much like unit trusts, where a number of products with the same benchmarks and objectives are available from the different registered product providers, ETF Manco's typically use the Top 40 benchmark for their standard products.

But not all Top 40 ETFs are the same.

### Different Top 40 ETFs

The **Satrix Top 40** and **BIPS Top 40** ETFs track the market capitalisation weighted Top 40 index. This index gives priority to the major companies on the JSE that dominate the market cap league. The biggest two companies on the JSE (Anglo and BHP Billiton) make up 26,3% of the Top 40 portfolio, with the next 4 largest companies providing 25,7% of the weighting of the Top 40 index.

Accordingly, 6 out of 41 companies make up 52% of the Top 40 index, which is replicated exactly by the Satrix Top 40 and BIPS Top 40 ETFs. This makes the market cap 40, something of a large cap fund, with a tendency towards reflecting momentum or growth phases in the market cycle and with a bias towards the mining and resource sectors (48,8% of the index).

The Satrix 40 has an annualised Total Expense Ratio (TER) of 0,463% (46,3 basis points), whereas the TER for the BIPS 40 is 0,21% (21,1 bps).

The **Satrix Swix Top 40** ETF tracks the Shareholder Adjusted Top 40 index, which only takes into account shares in the Top 40 index held in the domestic JSE/Strate share register. If such top 40 company shares are held abroad and traded through London or New York, for instance, they would not be part of the SWIX index.

The impact of such index weighting is to reduce the exposure to mining and resource shares to 36,6% and to reduce the fund allocation to the larger companies. The biggest 6 companies on the SWIX index, only contribute 41,5% of the index, which reduces the large cap bias somewhat.

The Satrix SWIX Top 40 ETF has an annualised Total Expense Ratio of 0,464% (46,4 bps).

The **BettaBeta QWT 40 ETF**, takes the process of a balanced equity portfolio still further, as it allocates funds on an equally weighted basis (2,5% per share) to all the stocks in the Top 40 index. In essence, the equally weighted Top 40 seeks to: reduce short-term volatility; provides greater exposure to the smaller companies in the Top 40 index; diversifies the portfolio; and reduces the size and resource bias of the Top 40 index.

The BettaBeta QWT 40 has only been listed since March 2010, but is expected to have an annualised TER of under 0,5%.

### Using Top 40 ETFs in Portfolios

For investors, or clients, who want access to the commodity cycle and/or are seeking a good rand hedge exposure, the market cap Top 40 products, like Satrix 40 and BIPS 40 are ideal.

For the more cautious investors, who wish to reduce short-term volatility and the influence of exogenous factors, such as the exchange rate and commodity prices, the Satrix SWIX Top 40 or BettaBeta QWT 40 are better suited.

For the cost conscious investor, and over time costs do matter, the BIPS Top 40 ETF, with a TER of 0,21% per annum is one of the lowest cost of all equity exposure CIS products available to retail investors.

### Performance Data

Total Return (per annum) (since December 2002)			
	Equally Weighted Top 40 (BettaBeta QWT 40)	Market Cap Weighted (Satrix 40, BIPS 40)	Shareholder Adjusted (Satrix SWIX 40)
Total Return (% per annum)	19,5	18,5	19,5
Standard Deviation Risk	19,4	23,6	21,7
Risk Adjusted Return	1,00	0,76	0,90

Source: Nedbank Capital

Over time, 7 years in the above table, the lower risk associated with the SWIX and BettaBeta ETFs pays off in terms of better annual and risk adjusted returns.