



### Investing in South African Bond Markets Through Exchange Traded Funds (ETFs)

Mike Brown, Managing Director, etfSA.co.za

16 November 2011

Interest in investing in Government bonds, which provide a fixed interest rate, and limited capital loss prospects, has been encouraged by the relatively poor performance of equity markets worldwide. Of course, the mounting sovereign debt problems in Europe and elsewhere, have cast a pall over many Government debt issues, but in South Africa, the bond market remains relatively unaffected.

There are two ETFs listed on the JSE that provide investors with access to investment in fixed interest (bond) indices.

#### Investec zGOVI ETF

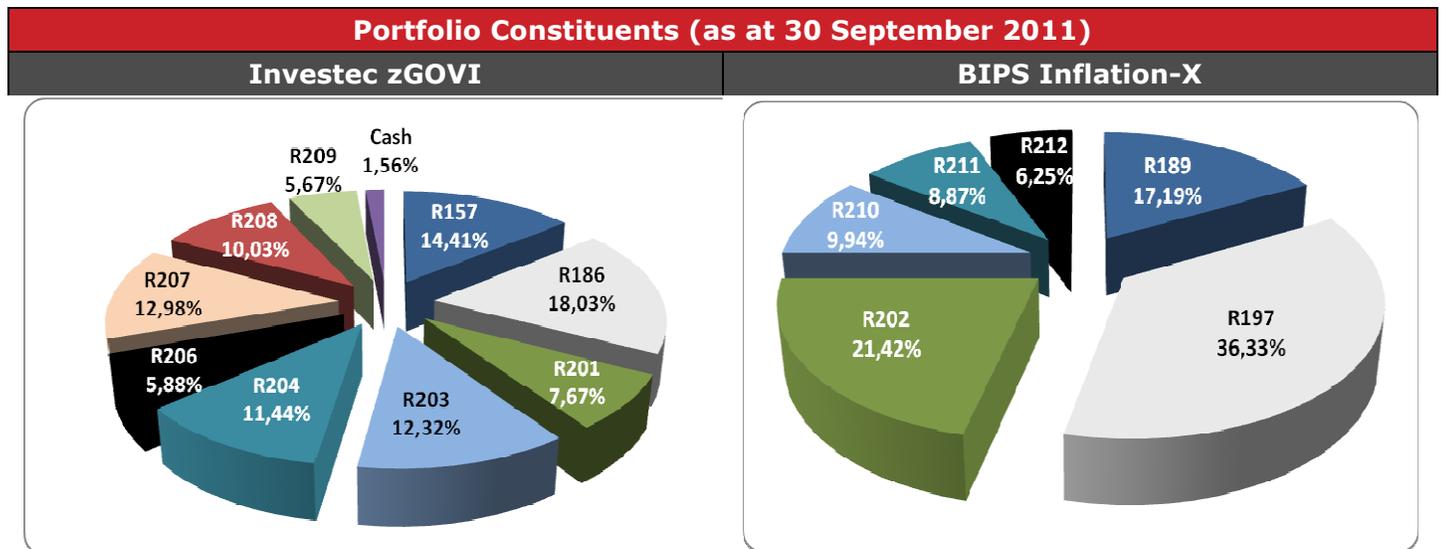
The zGOVI securities (JSE code: ZGOVI), tracks the performance of the Bond Exchange of South Africa (BESA) Government Bond (GOVI) index. The GOVI index consists of 9 of the most liquid and tradable RSA Government bonds (see current portfolio constituents below).

The coupons (interest rate) paid by the underlying Government bonds are reinvested by Investec, through the issue of new ETF securities, twice annually. The current yield on the zGOVI is around 8%. The product has a Total Expense Ratio (TER) of 0,34% per annum

#### BIPS Inflation-X ETF

This ETF security (JSE Code: BIPINF), provides investors with access to all six RSA inflation linked bonds currently in issue by the SA Government. It tracks the GILBX Index. (The current portfolio is shown below). It makes quarterly distributions of interest to shareholders.

Inflation-linked bonds show an appreciation in capital value equal to the rise in the local inflation rate (CPI) and the interest rate (coupon) is also calculated on the inflation linked value of the bond. Therefore both capital and income are protected against erosion by inflation. The BIPS Inflation-X ETFs offer a real yield of the current inflation rate plus 2,03% at present. The TER is 0,43% per annum.



## Investment Features of Bond ETFs

1. The **zShares GOVI ETF** has comfortably outperformed the returns of all 17 fixed interest bond Collective Investment Schemes (unit trusts and ETFs) for all periods measured in the Quarterly Unit Trust Survey (ASISA) over the past two years. One reason for this may be that its Total Expense Ratio (TER) is 0,34% per annum, compared with the average TER of 0,90% for the other 16 funds in this sector of the Survey.

Fixed Interest Bond Funds (17) (Total Return – income reinvested)					
	1 Month	3 Months	6 Months	1 Year	2 Year (p.a.)
Arithmetic Average	(1,17%)	2,69%	6,54%	6,05%	10,48%
Median Rate of Return	(1,78%)	2,68%	6,49%	6,15%	10,62%
zShares GOVI ETF	1,84%	6,78%	10,73%	9,76%	11,99%
Ranking	1	1	1	1	1

Source: Quarterly Unit Trust Survey – ASISA (30 September 2011)

The **BIPS Inflation-X ETF**, does not appear to have any direct competitors, which only provide access to inflation-linked bonds. It falls into the Varied Specialist Funds category for bonds in the Unit Trust Survey.

Fixed Interest Bond Funds (57) (Total Return – income reinvested)					
	1 Month	3 Months	6 Months	1 Year	2 Year (p.a.)
BIPS Inflation-X ETF	(1,01%)	3,13%	6,93%	8,92%	8,44%
Ranking	50	5	3	3	18

Source: Quarterly Unit Trust Survey – ASISA (30 September 2011)

The BIPS Inflation-Linked ETF has performed competitively with the almost 60 specialised bond funds available in South Africa. Given that inflation has been relatively low over the past two years – and the inflation-linked bonds come into their own in a rising and high inflation environment – this performance is extremely promising and suggests that there is a place for this product for long-term savers, looking to protect their capital from inflationary erosion.

2. Many investors choose **SA Government Retail Bonds** in order to receive fixed interest returns. Whilst these are deservedly popular products for the retail investor, they do not necessarily provide better returns than investing in the bond markets through Exchange Traded Funds. The table below shows the latest returns over the past 12 and 24 months for the zShares GOVI ETF compared with SA Retail Bonds purchased through the National Treasury.

Total Returns on Retail Bonds		
	1 Year Return*	2 Year Return** (per annum)
SA Retail Bonds	8,50%	9,25%
zShares GOVI ETF	9,76%	11,99%
*	Based on investment made in September 2010.	
**	Based on investment made in September 2009.	
Source: National Treasury Website ( <a href="http://www.treasury.gov.za">www.treasury.gov.za</a> ) etfSA Monthly Performance Survey ( <a href="http://www.etfSA.co.za">www.etfSA.co.za</a> )		

Not only do the Investec zGOVI ETFs offer better total returns, but they are more flexible and can be transacted at any time, whereas the RSA Retail Bond investor is locked in for a specific fixed period of 2-5 years.

3. Both the zShares GOVI and BIPS Inflation-X ETFs are registered Collective Investment Schemes and are also listed on the Main Board of the JSE. They can be purchased through a JSE member stockbroker, or through specialised platforms, such as [etfSA.co.za](http://etfSA.co.za), which allows investments from R1000 lump sum or from R300 per month for debit orders.

For more information, please call Mike Brown, contact details below.

**Mike Brown**

**Managing Director, etfSA**

**Phone: 011 561 6653**

**Email: [mikeb@etfSA.co.za](mailto:mikeb@etfSA.co.za)**

**Terms and conditions:** Redistribution, reproduction, the resale or transmission to any third party of the contents of this article and this website, whether by email, newsletter, internet or website, is only possible with the written permission of etfSA. etfSA, its sponsors, administrators, contributors and product providers disclaim any liability for any loss, damage, or expense that might occur from the use of or reliance on the data and services provided through this website. etfSA.co.za is the registered trading name of M F Brown, an authorised Financial Services Provider (FSP No 39217). Professional Indemnity Insurance is maintained.