

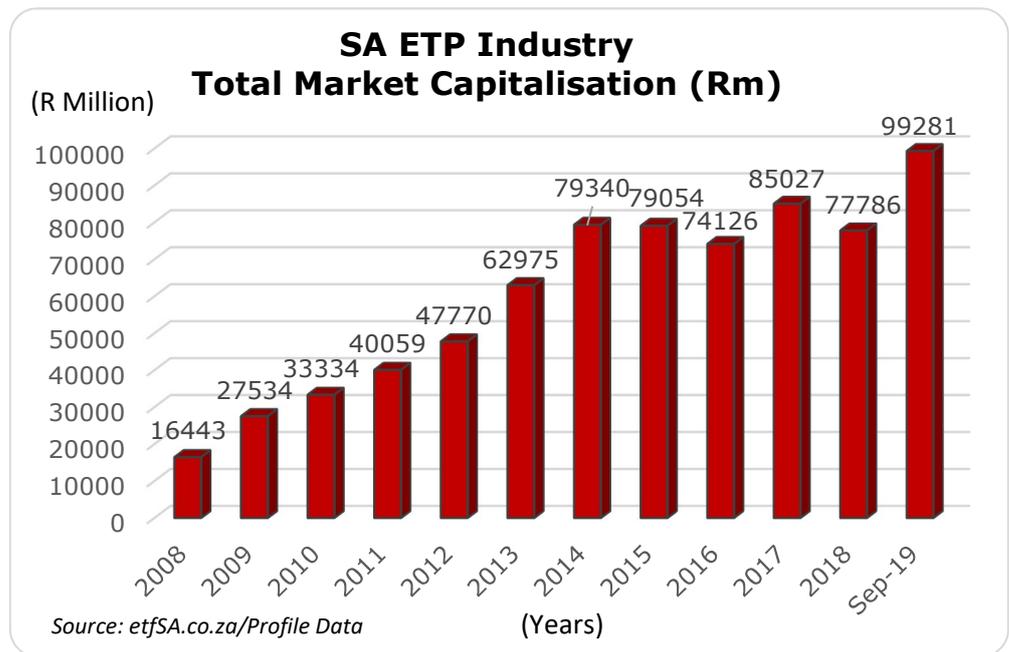
State of the South African Exchange Traded Product (ETP) Industry – as at 30 September 2019

Mike Brown, Managing Director, etfSA.co.za

Market Capitalisation

The market capitalisation of the total SA Exchange Traded Products industry continued to rise strongly in the third quarter of 2019. It now amounts to R99,3 billion, an increase of 27,6% on the total value of the ETP industry at the end of 2018.

During the third quarter of this year, total market capitalisation grew from R91,3 billion on 30 June 2019 to R99,3 billion on 30 September 2019. The R8 billion gain stemmed mainly from a rise in commodity ETFs in issue and from price gains in these products.



New Capital Raised

Total new capital raised in the first nine months of 2019 was R7 864,9 million, R7 724,6 million for ETFs and R140,7 million for ETNs.

Four new ETFs were issued in this period, all of these smart beta products. Absa (NewFunds) issued 3 ETFs which manage volatility by switching between cash and equities, depending on momentum and drawdown targets being reached. The extent of the portfolio adjustments rely on various trigger levels being breached and is governed by three strategies, namely defensive, high growth and moderate. This formula driven approach to asset allocation changes is a part active/part passive investment strategy, which is a first for South African ETFs.

Absa (NewFunds) was able to gain some institutional support for these products and a total of R150 million new capital was raised.

CoreShares replaced their Equally Weighted ETF with a smart beta product, the Scientific Beta Multi Factor ETF, which uses six risk factor criteria to construct its portfolio. As the mandate differs materially from the Equally Weighted Top 40 ETF, it can be regarded as a new product.

The CoreShares Multi Factor ETF and the three managed volatility Absa ETFs, point to the increasing sophistication of the local ETF market.

The other new capital raised in the first three quarters of 2019 came predominantly from the issue of additional securities by commodity ETFs, notably platinum tracking products in the first quarter of 2019 and by gold tracker ETFs in the third quarter.

The South African ETP Industry as at 30 June 2019

Table A

The South African Exchange Traded Product Industry (as at 30 September 2019)						
	Issuer	Number of Products		Value (Market Cap) of Shares in Issue (Rm)		Total Market Capitalisation (Rm)
		ETFs	ETNs	ETFs	ETNs	
1.	Absa Capital	21	5	31 504,7	535,1	32 039,8
2.	Sygnia/Itrix	10	-	20 497,2	-	20 497,2
3.	Satrix Managers	15	-	19 023,7	-	19 023,7
4.	Standard Bank	4	10	6 086,5	1 924,9	8 011,4
5.	Deutsche Bank	-	3	-	5 230,0	5 230,0
6.	CoreShares	9	-	4 406,4	-	4 406,4
7.	Stanlib	9	-	3 227,0	-	2 817,7
8.	Ashburton	5	-	2 817,7	-	3 227,0
9.	Investec	-	2	-	1 821,1	1 821,1
10.	UBS	-	8	-	1 207,8	1 207,8
11.	FirstRand (RMB)	3	-	976,0	-	976,0
12.	Cloud Atlas	2	-	22,9	-	22,0
Totals		78	28	88 562,1	10 718,9	99 281,0
<i>Source: etfSA.co.za / JSE / Profile Data (30/9/2019).</i>						

Table A provides a snapshot of the ETF industry as at 30 September 2019. The total size (market capitalisation) of all ETFs/ETNs listed on the JSE is now just below R100 billion. The R100 billion mark has been achieved over a period of just under 20 years signalling steady rather than meteoric rise in the acceptance of passive Exchange Traded products in South Africa. However, the index tracking case now appears to be well established in local markets and the passive industry is likely to be far more competitive in future.

There are now 106 products listed on the JSE (78 ETFs and 28 ETNs) issued by 12 separate companies.

Product Issuers

Absa (NewFunds) – Absa Capital remains the dominant force in the South African ETF markets, with 26 ETFs/ETNs in issue and with a total market capitalisation of R32,0 billion – close to one-third of the total ETP industry.

R5,8 billion new capital was raised by Absa for its ETFs in the first three quarters of this year, the bulk of this for the gold and platinum ETFs it has in issue. Direct investment in physical precious metal bullion through the convenience of ETFs listed and traded on the JSE is a unique asset class exposure in the local markets and these products deserve their popularity.

Sygnia Itrix – at one stage, it appeared the Sygnia Itrix would close the gap on Absa Capital in terms of total market capitalisation. However, in 2019, Absa has pulled away due to renewed support for its commodity ETFs.

Sygnia Itrix remains a very strong force in the local ETF industry, with 10 products in issue for a market capitalisation of R20,5 billion.

Some profit taking by local investors in global equity exposure has resulted in a net redemption of R716 million in Sygnia Itrix ETFs during January to September this year. Its 4th Industrial Revolution ETF, which invests in an index dedicated to new generation global shares, continues to attract new capital (raising R174 million in the period) and possibly points to opportunities in similar product innovation for Sygnia Itrix going forward.

Satrix Managers – remains in third place in the local ETF industry. It has 15 ETFs in issue covering global equity and equity indices. More recently, it has ventured into the area of smart beta, by issuing ETFs covering the investment factors of Quality and Momentum in the South African equity markets.

Satrix was the second most successful issuer in raising new capital, bringing in a further R2 435 million (R2,4 billion) by the new creation of securities for its 15 ETFs listed on the JSE.

Standard Bank – has consolidated its position in the top four issuers of ETFs/ETNs in South Africa during the course of this year. It specialises in commodity ETFs and ETNs and now has over R8 billion under management with 14 products in issue.

CoreShares – one of the smaller companies issuing ETFs in South Africa, CoreShares has steadily grown the range of products it issues and the assets it has under management. Market capitalisation for all nine CoreShares ETFs grew from R3 393,6 million at the end of 2018, to R4 406,4 million at the end of September 2019, a rise of 30 percent.

CoreShares has also started a process of tidying up its portfolio of ETFs in issue. The CoreShares Low Volatility ETF was delisted in late-2018; the Equally Weighted Top 40 ETF has been replaced by the Scientific Beta Multi Factor ETF; and a ballot process is currently underway for the amalgamation of the CoreShares PropTrax SAPY ETF and the CoreShares PropTrax Ten ETF. This should be approved soon and the merged Property ETF will focus on improving the yield from a listed property portfolio.

Stanlib – the Standard Liberty Group now has nine ETFs in issue with R3 227 million total market capitalisation at the end of September 2019. The Stanlib stable of ETFs covers equity, bond and listed property indices, both locally and globally. It has now overtaken Ashburton to be the seventh largest issuer of ETFs in South Africa.

Commodity Based ETFs and ETNs

Table B

Commodity ETPs in South Africa				
Market Capitalisation as at 30 September 2019				
		Issuer		Total (Rm)
		NewGold (Absa Capital) (Amount Rm)	Standard Bank (Amount Rm)	
1.	Precious Metal ETFs			
	Gold	14 753,6	155,1	14 908,7
	Platinum	13 585,4	2 079,6	15 665,0
	Palladium	10 012,8	3 418,1	4 430,9
	Rhodium	-	433,7	433,7
	Sub-total	29 351,8	6 086,5	35 438,3
2.	Precious Metal ETNs			
	Gold	-	242,1	242,1
	Platinum	27,8	222,5	250,3
	Palladium	-	360,6	360,6
	Silver	42,0	86,3	128,3
	Sub-total	69,8	911,5	981,3
3.	Other Commodity ETNs			
	Copper	-	145,1	145,1
	Corn	-	35,8	35,8
	Oil	-	430,5	430,5
	Wheat	-	33,4	33,4
	Commodity Basket	-	142,2	142,2
	Sub-total	-	767,0	787,0
Grand Total		29 421,6	7 765,0	37 206,6
<i>Source: etfSA.co.za/Profile Data (30 September 2019)</i>				

South Africa is unique amongst global financial markets in that commodity tracking Exchange Traded Products play a far more significant role than is the case in other markets.

Table B summarises the commodity ETPs that are in issue on the JSE, as at 30 September 2019.

In total, commodity-based ETPs accounted for a market capitalisation of R37,2 billion (37,5% of the total SA ETP industry) and for 18 out of the 106 ETPs currently trading on the JSE.

Physically-backed gold and platinum ETFs, issued by NewGold (Absa Capital) and Standard Bank, dominate the market, but a broad spread of other commodities can be traded in ETNs.

Why is the penetration of commodity ETPs of greater significance in South Africa?

- The tradition of investing in mining and mineral resources in South Africa has always been strong. However, as the local gold mining industry has shrunk to a fraction of its former size and the major mining houses have either shut down or moved offshore, direct investment in metals rather than in mining shares has become the favoured option for some investment managers.
- The mining overall environment has deteriorated in recent years in South Africa. Doubts concerning mineral rights, mining policy, taxation treatment and ownership, have prevented new mining development and expansions. Accordingly, direct investment in metals, rather than in mining ventures, has become more attractive.
- The enhanced security of commodity ETFs, where the physical assets are held offshore in global depositories, or the liabilities are covered on international futures markets, rather than having assets physically held in South Africa, also contributes in favour of these ETFs.
- Regulation 28 of the Pension Funds Act, 196, specifically allows for 10% of the assets of any retirement fund to be held in commodities and the FSCA has indicated its preference for such holdings to be in ETF or ETN form.
- The outstanding investment returns of many commodity based ETFs and ETNs over the past five years are in stark contrast to poor returns from more traditional asset classes.

The summary table below, from the latest Monthly Performance Survey, clearly shows the dominant investment returns made by commodity ETFs and ETNs over the past 5 years.

Summary Table

etfSA.co.za Monthly Performance Survey					
Best Performing Index Tracker Funds –30 September 2019					
(Total Return % Performance*)					
Fund Name	Type	5 Years (p.a.)	Fund Name	Type	3 Years (p.a.)
Standard Bank Palladium Linker	ETN	24,65%	Standard Bank Africa Rhodium	ETF	102,5%%
Standard Bank Africa Palladium	ETF	23,19%	Standard Bank Palladium Linker	ETN	38,99%
NewGold Palladium	ETF	23,16%	Standard Bank Africa Palladium	ETF	35,99%
Sygnia Itrix MSCI USA	ETF	22,17%	NewGold Palladium	ETF	35,99%
		2 Years (p.a.)			1 Year (p.a.)
Standard Bank Africa Rhodium	ETF	122,24%	Standard Bank Africa Rhodium	ETF	114,10%
Standard Bank Palladium Linker	ETN	44,89%	Standard Bank Palladium Linker	ETN	68,88%
Standard Bank Africa Palladium	ETF	41,10%	Standard Bank Africa Palladium	ETF	63,69%
NewGold Palladium	ETF	40,99%	NewGold Palladium	ETF	62,92%
		6 Months			3 Months
Standard Bank Africa Rhodium	ETF	69,84%	Standard Bank Africa Rhodium	ETF	63,99%
Standard Bank Palladium Linker	ETN	27,89%	Absa NewWave Silver	ETN	20,95%
NewGold Palladium	ETF	25,80%	Standard Bank Silver Linker	ETN	20,86%
Standard Bank Africa Palladium	ETF	25,73%	NewGold Platinum	ETF	17,88%

Source: etfSA.co.za / Profile Media Funds Data (30/9/2019) * Includes reinvestment of dividends.

There are indications that the favourable conditions for investment in commodity ETPs could continue for some time, as scarcities in supply of certain metals and the rand hedge qualities of such globally priced assets combine to make this an asset class that needs to be considered in any balanced investment portfolio.



Invest with the ETF specialists™
ETF Investments for:

- Individuals • Tax Free • Stokvels • Retirement • Managed Portfolios

www.etfSA.co.za
info@etfSA.co.za

Disclaimer: The Exchange Traded Products (ETPs) contained herein are mainly Collective Investment Schemes in Securities (CIS) and other listed securities which are generally medium to long-term investments that contain elements of risk and can be affected by market values, interest rates, exchange rates, volatility, dividend yields and issuer credit ratings. ETPs are listed on the Johannesburg, or other Stock Exchanges, and trade at ruling prices on such Exchanges. The price of ETPs can go up as well as down and past performance is not necessarily a guide to the future. The ETP's herein are listed on the Johannesburg Stock Exchange Limited and trading in ETP securities will incur trading and settlement costs. ETF securities are traded at ruling prices and can engage in scrip lending. The information and opinions provided herein are of a general nature and do not constitute investment advice. Whilst every care has been taken, no representation, warranty or undertaking, expressed or implied, is given as to the accuracy or completeness thereof. etfSA.co.za is managed by M F Brown, who is a registered financial services provider (FSP No. 39217). M F Brown has Professional Indemnity Insurance as required by FAIS. The etfSA Investment Services Company (Pty) Ltd (FSP No 40107) provides asset management as well as financial intermediary and advice services. It uses Exchange Traded Products to construct portfolios for use in Retirement Annuity, Tax Free and Discretionary investments. It holds Professional Indemnity insurance and Fidelity Guarantee insurance as required by FAIS. All opinions and information on this website may be changed at any time without notice. Redistribution, reproduction, the resale or transmission to any third party of the contents of this website, whether by email, newsletter, internet or website, is only possible with the written permission of etfSA. etfSA.co.za, 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@ and etfSA The Home of Exchange Traded Funds® are registered trademarks in the Republic of South Africa.