



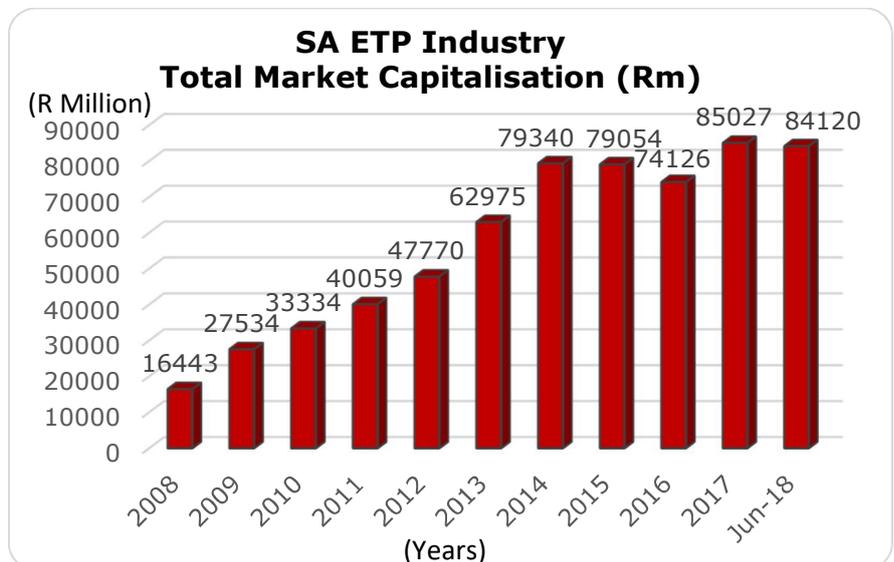
State of the South African Exchange Traded Product (ETP) Industry – As At 29th June 2018

Mike Brown, Managing Director, etfSA.co.za

Market Capitalisation

As at the end of June 2018, the total market capitalisation of all ETFs and ETNs, listed on the JSE, totalled R84,1 billion. This was a slight decline on the market capitalisation of R85,0 billion at the end of 2017, a drop of 1,1% (full details of the market capitalisation of all individual 94 ETFs can be viewed in the Quarterly Market Capitalisation report downloadable from the etfSA website, www.etfSA.co.za).

There was some rebound from the total market capitalisation of R80,1 billion as at the end of March 2018, reflecting the recovery in rand hedge ETF securities on the JSE, particularly those tracking global equity markets.



The ETP Industry as at End-June 2018

The total number of ETFs and ETNs in issue rose from 82 at the end of 2017 to 94 by the end of June 2018. No new Exchange Traded Notes (ETNs) were listed, so the rise in the number of products was purely in Exchange Traded Funds (ETFs), which is the preferred structure for many investors, particularly institutional managers.

A JSE listed ETF has to be 100% physically covered at all times, through the exact replication of the index being tracked, so tracking error and volatility is minimised. An ETN does not require full replication, which puts recourse on the creditworthiness of the ETN issuer. In an ETF where all liabilities are fully covered at all times, the issuer's creditworthiness is not material.

Of the twelve new ETFs listed to date in 2018, ten track foreign bond and equity indices and two provide South African smart beta coverage. Clearly, the volatility of the rand and its recent weakening against major currencies, has rekindled interest in offshore assets.

The underlying table provides a snapshot of the South African ETP industry as at end June 2018, analysed and ranked by the companies that issue ETPs on the JSE.

Table 1

| The South African Exchange Traded Product Industry (as at 29 June 2018) | | | | | | |
|--|------------------|--|----------------|--------------------|-----------|---|
| | Issuer | Value (Market Cap) of Shares in Issue (Rm) | | Number of Products | | New Capital Raised/Redeemed (Jan-Jun 2018) (Rm) |
| | | ETFs | ETNs | ETFs | ETNs | |
| 1. | Absa Bank | 24 946,6 | 808,8 | 18 | 5 | (5 445,2) |
| 2. | Sygnia/Itrix | 18 670,7 | - | 10 | - | 1 830,9 |
| 3. | Satrix Managers | 15 812,7 | - | 14 | - | 710,9 |
| 4. | Standard Bank | 5 066,0 | 1 703,3 | 4 | 10 | (1 624,2) |
| 5. | Deutsche Bank | - | 5 115,0 | - | 3 | - |
| 6. | CoreShares | 3 088,1 | - | 10 | - | 345,8 |
| 7. | Standard/Liberty | 2 974,1 | - | 8 | - | 95,7 |
| 8. | Ashburton | 2 526,8 | - | 5 | - | 409,4 |
| 9. | Investec Capital | - | 1 869,9 | - | 2 | - |
| 10. | First Rand | 1 520,9 | - | 3 | - | (45,2) |
| 11. | Cloud Atlas | 17,2 | - | 2 | - | 2,6 |
| Totals | | 74 623,0 | 9 497,2 | 74 | 20 | (3 719,3) |

Source: etfSA.co.za / JSE / Profile Data (29/06/2018).

Absa Bank - with 18 ETFs and 5 ETNs, remains the largest issuer of ETPs on the JSE, not only in the number of products, but also in terms of market capitalisation. Absa's 23 ETPs have a combined market capitalisation of R25 755 million.

However, Absa's position as the dominant provider of ETFs/ETNs in South Africa is coming under threat. Absa has always benefitted from large institutional investment in its commodity based ETFs. But NewGold, for instance, now has a market capitalisation of only R12,5 billion, compared with over R20 billion in 2012. The same decline in market capitalisation has occurred for the platinum and palladium based ETFs.

In December 2012, NewGold had over 150 million ETF securities listed, now this has fallen to 77 million shares listed at 29 June 2018, a drop of 49% in the shares in issue. The performance of commodity prices over this period has not necessarily been unfavourable, particularly in rand terms, but interest in commodity based ETFs appears to be waning, possibly due to profit taking by some investors to cover up losses in other asset classes.

The outlook for commodity prices remains cloudy. Synchronised economic growth in both developed and emerging economies remains a possibility, but the Trump trade wars and Brexit uncertainties are dampening expectations.

Sygnia/Itrix - has now moved into a clear second place in the SA ETP industry, based on size. Sygnia Itrix only entered the ETF market in June 2017, when it purchased five offshore index trackers from Deutsche Bank, but it has added a further five ETFs to its JSE listings in the past year. Total market capitalisation of the Deutsche Bank ETFs was just under R12 billion in June 2017, the current market capitalisation of the Sygnia Itrix ETFs is now R18,7 billion, just one year later, a gain of over 55% in a short period of time.

Undoubtedly, Sygnia Itrix has brought new energy and impact to the ETF market in South Africa and their progress in becoming the dominant player in the industry will be watched with interest.

Satrix Managers - has given up its place as the second biggest ETF provider to Sygnia, in recent months. Satrix, which introduced ETFs to the South Africa market in November 1999, still remains the most well-known brand in the SA ETF industry. This positions it well in the retail market, whereas other ETF issuers tend to concentrate on the institutional market.

After some years of not creating new ETFs for listing, Satrix has issued seven new ETFs in the past year, mainly on international equity indices and seems to be refocussing on growing its market share in the SA Exchange Traded Fund industry.

Standard Bank – like Absa, has suffered from its focus on commodity based ETFs and ETNs and in the first six months of 2018, redeemed over R1,6 billion in such ETFs, that were delisted on the JSE. However, it remains the fourth largest issuer of ETFs/ETNs in South Africa, with a total market capitalisation of R6,8 billion.

Standard Liberty – has also been active in issuing new ETFs in the first half of 2018. It has listed 5 new ETFs, all tracking global indices and using iShares ETFs as the feeder funds for its local listings. This method, now also used by CoreShares and Satrix, simplifies the creation/redemption process and helps manage costs efficiently.

Smart Beta ETFs

The strategy of listing Exchange Traded Products that focus on tracking certain investment factors or themes, rather than being based purely on market capitalisation criteria, has been a feature of global ETF markets in recent years. South Africa has not lagged in this respect.

As Table 2 shows, there are 13 listed smart beta ETFs in South Africa, with a total market capitalisation amounting to R3 535 million (R3,5 billion), at end June 2018. ETFs that track future dividend payments or historic dividend consistency, are the most popular smart beta products, accounting for 58% of all funds invested in smart beta ETFs. This mirrors the experience elsewhere in the world, where selecting portfolio of shares, based on high dividend payments, is a proven investment strategy.

ETFs, based purely on risk factors, have been less successful to date in South Africa as the investment public presumably has difficulty selecting which factors are likely to be optimal at any period in time. This suggests that multi-factor ETFs, which have proven popular in certain global markets, might find better favour with SA investors.

Table 2

| Smart Beta ETFs Listed on the JSE | | | | |
|---|--|-----------------------|---------------------------------|--|
| Product | | Factor Tracked | Current Market Cap. (Rm) | Comments |
| Absa Capital | | | | |
| 1. | NewFunds Equity Momentum ETF | Momentum | 75,3 | Reweights and rebalances monthly to invest in shares showing the best upward momentum on the JSE. |
| 2. | NewFunds Low Volatility ETF | Low Volatility | 30,9 | Tracks 20 highly liquid shares exhibiting low volatility and low market beta. Also utilises equal risk contribution. |
| 3. | NewFunds Value Equity ETF | Value | 33,0 | Low P/E and low risk-to-book ratios, with equal risk contribution. |
| 4. | NewFunds S&P GIVI Resources 15 ETF | High Intrinsic Value | 33,5 | Filters resource stocks based on intrinsic value and low volatility. |
| 5. | NewFunds S&P GIVI Industrial 25 ETF | High Intrinsic Value | 41,1 | Selects individual stocks on intrinsic value and low volatility. |
| 6. | NewFunds S&P GIVI Financial 15 ETF | High Intrinsic Value | 48,8 | Chooses highly liquid financial shares based on value and volatility. |
| 7. | NewFunds S&P GIVI Top 50 ETF | Intrinsic Value | 87,8 | Index capped top 50 shares on JSE ranked on intrinsic value and volatility. |
| CoreShares | | | | |
| 8. | CoreShares Global Dividend Aristocrats ETF | Dividends | 170,7 | Tracks global portfolio of consistent dividend payers. |
| 9. | CoreShares Low Volatility ETF | Low Volatility | 15,6 | Tracks S&P index of liquid SA stocks with least volatility. |
| 10. | CoreShares DivTrax ETF | Dividends | 280,9 | Tracks S&P index of SA stocks that have increased or maintained dividend payments for 7 consecutive years. |
| Satrix Managers | | | | |
| 11. | Satrix Quality ETF | Quality | 137,6 | Tracks index based on return-on-equity accruals and financial leverage ratios. |
| 12. | Satrix Dividend Plus ETF | Dividends | 1 586,0 | Index tracking future high dividend yields. |
| 13. | Satrix RAFI 40 ETF | Value | 993,7 | Shares selected on fundamental value. |
| Total | | | R3 534,9 | |
| <i>Source: etfSA.co.za (end-June 2018).</i> | | | | |

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.