

## Absa Capital Lists New Exchange Traded Funds

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Absa Capital, who manage ETFs under their NewFunds Collective Investment Scheme, which is an FSB registered product supplier, has recently launched five additional NewFunds ETFs.

Two of these are unique in the South African ETF marketplace, namely:

<b>NewFunds TRACI 3 Month ETF</b>	Is a money market fund which tracks the total return performance of 3 month bank deposits
<b>NewFunds Equity Momentum ETF</b>	Provides the total return of a portfolio of JSE listed securities selected for their relative price momentum.

The three other products transverse more common ground, but are total return funds, which differ in that respect from other ETFs that track similar indices.

<b>NewFunds GOVI ETF</b>	Tracks the SA Government Bond Total Return Index, with any coupons received automatically reinvested on a monthly basis.
<b>NewFunds ILBI ETF</b>	Tracks the performance of Barclays/Absa Capital South Africa inflation-linked bond index. The index is rebalanced monthly to reflect any inflation changes and coupons are also reinvested on a monthly basis to provide a total return fund.
<b>NewFunds SWIX 40 ETF</b>	Tracks the FTSE/JSE SWIX Top 40 total return index.

### MORE DETAILS ON THE NEWFUNDS ETFS

#### NewFunds TRACI ETF

This is the first money market ETF to list on the JSE. It provides the return of the Barclays Capital/ Absa Capital ZAR Tradable Cash Total Return Index. The index tracks the price and yield performance of 3 month South African money market deposit interest rates, sourced from various local banks. Interest received is reinvested at the end of each month, which pushes up the value of the Fund and the value (price) of the participatory interest ETFs issued. Although this income is automatically reinvested, it is deemed to be distributed for tax purposes.

NewFunds is currently not publishing a yield on this TRACI ETF and is only providing a NAV value, but it is hoped that the yield will be provided in due course, which would make it easier to compare this product with other money market funds. NewFunds is indicating an "estimated" Total Expense Ratio (TER) of less than 0,20% per annum for this product, although the actual TER will only available after the product has incurred 12 months worth of expenses.

### **NewFunds SWIX 40 ETF**

Although SWIX ETFs are already covered by Satrix and Stanlib, the NewFunds SWIX 40 ETF breaks new ground in that it is a total return fund. All distributions are reinvested at the end of each quarter and are deemed as taxable.

Unlike unit trusts, which typically issue new units to account for reinvested income, the NewFunds ETFs operate on the "roll-up" principle, where the value of the Funds (and the price of the ETF) rise in accordance with any reinvested income. The number of units held by the investor stay the same, but the value of these units increases.

### **NewFunds GOVI ETF**

Like most bond funds, this ETF tracks the GOVI index of the top ten most tradeable RSA Government bonds. All interest income received is automatically reinvested on a monthly basis and the NAV of units in issue rises accordingly. In this way, the NewFunds GOVI ETF differs from the already established Investec zShares GOVI ETF, which only reinvests dividends twice annually and not on a monthly basis, and does this through the issue of new units.

### **NewFunds ILBI ETF**

Tracks the total return performance of six inflation-linked RSA Government bonds. The index and portfolio are rebalanced monthly, with all interest received automatically reinvested. This differs from the BIPS (RMB) Inflation-X ETF, where quarterly distributions are made directly to investors.

The NewFunds ILBI ETF total return structure provides an efficient hedge against inflation and provides significant advantages in terms of flexibility and monthly inflation rebalancing compared with RSA Retail Inflation-Linked bonds, which only rebalance for inflation every six months, and which need to be held by investors until maturity. ETFs can be traded at any time through the JSE or Investment Platforms.

### **NewFunds Equity Momentum ETF**

This product tracks the Barclays Capital/Absa Capital Equity Momentum index (total return), which selects large and medium cap JSE listed shares based on their relative price momentum over the assessed period, where stocks with higher relative price momentum are given higher weightings in the portfolio. The Equity Momentum ETF portfolio of constituent securities currently consists of 23 stocks.

Dividend distributions by the index constituent companies are automatically reinvested at the end of each quarter, such distributions are deemed distributions for tax purposes.

Momentum products can be particularly attractive at certain stages of the investment cycle and are often referred to as "growth funds" in terms of "style" strategies. In conjunction with the NewFunds eRAFI ETFs, which are effectively "value funds", this new Absa Capital offering provides investors with ETFs to take advantage of different investment styles and market cycles.

Product Summary – Additional NewFunds ETFs		
ETF Product	JSE Share Code	Index Tracked
NewFunds SWIX 40	NFSWIX	FTSE/JSE SWIX Top 40 (total return)
NewFunds GOVI	NFGOVI	FTSE/JSE GOVI Bond (total return)
NewFunds ILBI	NFILBI	Barclays/Absa RSA Government Inflation Linked Bond Index (total return)
NewFunds Equity Momentum	NFEMOM	Barclays/Absa Equity Momentum Index (total return)
NewFunds TRACI	NFTRCI	Barclays/Absa Tradable Cash Index (3 month) – total return
<i>Source: Absa Capital NewFunds Product Sheets</i>		

These five new ETF products have been labelled as “Component” Exchange Traded Funds by Absa Capital as they are designed to provide the building blocks for investment portfolios using ETFs as the components for asset allocation and other balanced portfolios. The transparency, liquidity (Absa Capital will provide liquidity as the market maker) and low costs of ETFs, make them ideal in such component portfolios. Absa Capital have indicated that they intend providing these products at very competitive TERs (estimated at between 0,20% to 0,34% p.a. depending on the product chosen). However, it will only be possible to accurately account for TERs once the products have been trading for the first 12 months.

The NewFunds ETF products can be purchased through any JSE member stockbroker or through investment platforms such as the etfSA Investor Scheme™. The etfSA platform accepts investments from R300 per month for debit orders and R1000 for once-off lump sum investments.

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

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