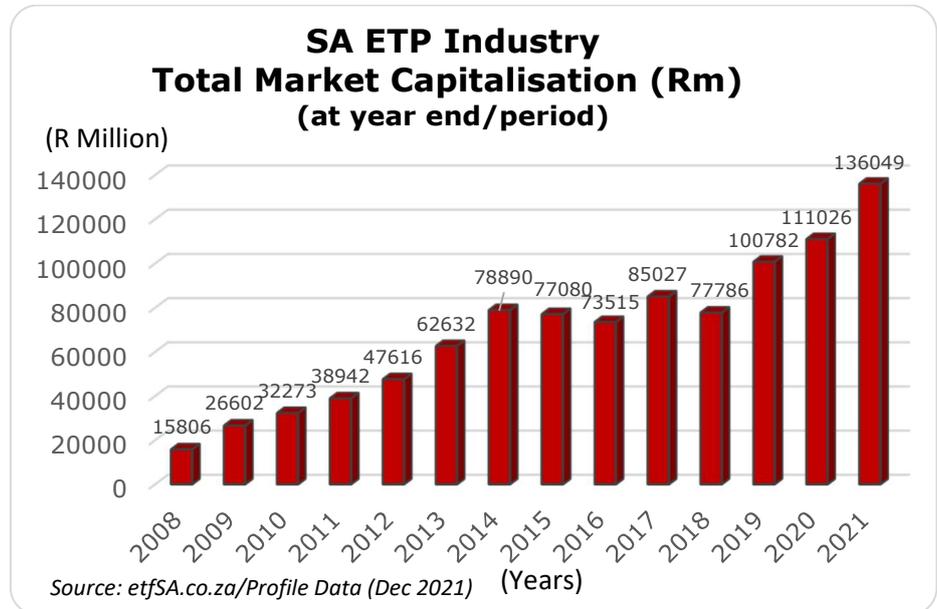




## State of the South African Exchange Traded Product (ETP) Industry – as at 31 December 2021

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At the end of 2021, the total market capitalisation (AUM) of the entire South African ETF and ETN industry, stood at R136 049 million, an increase of 22,5% on the R111 026 million, at the end of 2020.



The 2021 growth of the index tracking exchange traded products, listed on the JSE, was propelled largely by the good returns on the global and local equity markets, which raised the market capitalisation of leading companies and assets covered by the ETP portfolios. However, there was also some new capital raised by new and existing ETPs, which are open-ended and can increase or decrease capital in issue at any time. A total R5 195,8 million new capital was raised in 2021 in this manner.

The number of ETFs and ETNs in issue grew from 137 at end-December 2020 to 168 at end of 2021.

There has been a consistent rise in the number of ETPs in issue on the Johannesburg Stock Exchange (JSE) over the past three years, as shown in the table below.

<b>Number of Products in Issue (end of period)</b>			
	<b>2019</b>	<b>2020</b>	<b>2021</b>
Exchange Traded Funds (ETFs)	73	78	86
Exchange Traded Notes (ETNs)	29	59	82
<b>Total</b>	<b>102</b>	<b>137</b>	<b>168</b>

The local ETP industry has continued to be innovative in finding new tracker products to list on the local exchange. A feature of the past two years has been the increase in the number of Exchange Traded Notes (ETNs) now in issue, which has grown from 29 in 2019 to 82 today.

ETNs offer greater flexibility than ETFs in that:

- they can allow for actively managed as well as index tracking portfolios;
- they are cheaper to list and operate than ETFs; they do not require 100% physical cover for the indices they track and so allow for quantitative technologies which can track indices without having to fully replicate them; and
- they rely on the “guarantee” of the issuer company to provide the full return of the index being tracked, rather than physically holding the index constituent assets.

However, the creditworthiness of the issuer of the Exchange Traded Note has to be taken into account. To date in South Africa, only blue chip local banks and the Union Bank of Switzerland (UBS) have issued ETNs and all have strong credit ratings.

Public acceptance of ETNs has been slow, mainly because they do not fully replicate indices, as in the in case of ETFs, and accordingly, are regarded by many as “more risky”. They are also not allowed as investments in tax-free accounts, and some portfolio mandates also restrict investment in ETNs.

## New Capital Raised

The growth of R25 billion in the total market capitalisation of the entire ETP industry during 2021, was due to both growth in the underlying value of the ETPs already in issue, plus incremental capital raised from the new listings or delistings of ETPs, as well as creations or redemptions of ETPs already in issue. The net new capital raised in 2021 amounted to R5 195,8 million.

New Capital Raised / Redeemed (1 January - 31 December 2021) (by Issuing House)		
Issuing Product		(R million)
1.	Satrix Managers (ETFs)	4 746,1
2.	Sygnia Itrix (ETFs)	3 080,0
3.	Union Bank of Switzerland (ETNs)	1 175,0
4.	Ashburton (ETFs)	769,4
5.	Absa Capital (ETNs)	681,4
6.	FirstRand (ETNs)	423,0
7.	CoreShares (ETFs)	184,9
8.	FirstRand (ETFs)	1,8
9.	Cloud Atlas (ETFs)	1,3
10.	Standard Bank (ETNs)	(274,0)
11.	Absa Capital (ETFs)	(1 674,3)
12.	Invest (ETFs)	(3 918,8)
<b>Total</b>		<b>5 195,8</b>
<i>Source: etfSA.co.za Quarterly Securities in Issue and New Capital Raised Survey December 2021).</i>		

**Satrix Managers**, with R4 746 million in new capital, from the issue of new ETFs, , but also additions to existing ETFs, has been the most successful raiser of new capital in 2021. Its more recent focus on foreign referenced ETFs is paying off. Most South African investors, with the exception of institutional investors, can access “inward listed” ETFs/ETPs, without using their foreign exchange allowances. This adds greatly to investor choice at significantly reduced costs, to physically moving money abroad for investment in foreign assets.

**Sygnia Itrix**, follows a similar strategy to Satrix Managers, in largely focusing on foreign referenced ETFs and raised R3 080 million in new capital last year.

Both of these companies were also active in listing new ETFs during 2021. Sygnia Itrix added two new ETFs, focussing on ESG criteria for world and emerging market equity indices and also brought another “thematic ETF” to the South Africa market in the form of the **Solactive Healthcare ETF** that invests in innovative healthcare companies worldwide.

Satrix Managers joined the “thematic ETF” school in issuing a **Global Infrastructure ETF**, which is a broad theme that is attracting global pension fund money, as well as issuing an **Innovative & Diversity ETF**, tracking qualifying companies in South Africa that focus on gender equality and inclusion practices.

**Union Bank of Switzerland (UBS)** is now the only global provider of ETPs in South Africa. For the past few years, it has offered its balance sheet to asset managers in South Africa that wish to list actively managed portfolios on the JSE. There are now 14 such products available on the JSE.

In late-2021, UBS itself became a direct provider of ETNs listed on the JSE, that passively track global indices. 17 such products were listed, with a total market capitalisation of R425 million. Many of these tracker ETNs are highly innovative and add unique investment exposure to trends and themes not available elsewhere in listed format in South Africa.

As a result of its new products listed in 2021, the Union Bank of Switzerland was the third most successful raiser of new capital for ETPs in the local market, after Satrix and Sygnia Itrix.

Commodity-based ETFs came under price and redemption pressure during the course of last year. Of course, these ETFs, particularly those linked to Platinum Group Metals (PGMs) have provided very strong investment returns over the period 2016 to 2020, but some profit-taking set in during 2021.

**Absa Capital**, which issues the NewGold ETFs, tracking gold, platinum and palladium, redeemed R2 537 million of these commodity ETFs during the course of the past 12 months. **Invest**, which also issues ETFs tracking PGMs (including Rhodium), showed a similar trend and redeemed R3 842 million commodity ETFs.

There is no clear evidence that the global commodity cycle has turned negative, but the speculation in precious metal markets, in particular, now appears to have abated. Continued growth in the global economy, plus some recovery in supply shortages which have held back growth in many metal consuming industries, might see a revival in certain metal prices during the course of 2022.

### Snapshot of the SA ETP Industry as at 31 December 2021

The South African Exchange Traded Product Industry (as at 31 December 2021)						
	Issuer	Number of Products		Value (Market Cap) of Shares in Issue (Rm)		Total Market Capitalisation (Rm)
		ETFs	ETNs	ETFs	ETNs	
1.	Satrix Managers	23	-	37 097,8	-	37 097,8
2.	Sygnia Itrix	13	-	34 875,6	-	34 875,6
3.	Absa Capital	18	5	29 009,2	1 611,0	30 620,2
4.	Invest	13	-	8 033,2	-	8 033,2
5.	UBS	-	31	-	6 175,6	6 175,6
6.	CoreShares	9	-	5 878,6	-	5 878,6
7.	Ashburton	5	-	4 975,2	-	4 975,2
8.	FirstRand	3	42	1 404,0	3 510,6	4 914,6
9.	Investec	-	2	-	2 541,6	2 541,6
10.	Standard Bank	-	2	-	929,8	929,8
11.	Cloud Atlas	2	-	7,3	-	7,4
<b>Totals</b>		<b>86</b>	<b>82</b>	<b>121 280,9</b>	<b>14 768,6</b>	<b>136 049,5</b>

Source: [etfSA.co.za](http://etfSA.co.za) / JSE / Profile Data (31/12/2021).

The ETP industry remains dominated by the three top issuing houses, as shown below.

Top Three		
Issuer	Market Cap. (R million)	% of Industry
Satrix Managers	37 097,8	27,3
Sygnia Itrix	34 875,6	25,6
Absa Capital	30 620,2	22,5
<b>Totals</b>	<b>102 593,6</b>	<b>75,4</b>

The "big three" account for R102,6 billion or 75,4% of the total AUM of the South African ETP industry. Whilst competition between these three companies is fierce and is good for the industry as a whole, the remaining 8 issuing houses have plenty of work to do in order to become competing players in the industry.

The trend towards the issue of ETNs in recent years, has boosted the number of ETP products in issue, but has attracted relatively little capital. The total AUM for ETNs in South African now stands at R14,8 million, or only 10,8% of the industry

The investment public appears to prefer the certainty of 100% physically backed Exchange Traded Funds (ETFs), rather than ETNs that rely on the creditworthiness of the issuer to support their delivery of index tracking returns. ETNs are JSE listed instruments, with the same regulatory requirements and restrictions as ETFs, but the investment public needs to be reassured and convinced of the merits of ETNs.

Also, the South African retail investor, in particular, has shown an affinity for “vanilla” index tracking ETFs over the past number of years. For instance, they did not take to the smart beta ETFs listed a few years ago by a number of issuers. Will they now take to the fairly complex “thematic” and “style” ETFs and ETNs currently being issued on the JSE? Whilst investing in the mega themes, that will probably dominate the post-COVID-19 global economy, could be rewarding over time, the relative complexities of these products will require some education of the investing public.

The Johannesburg Stock Exchange could possibly play a greater role in this regard. Unlike the Main Board for single companies, listed on the JSE, which has recently experienced a net delisting of companies and further delistings are expected, the ETP industry recorded a net listing of 66 new products in the past two years. This is surely one of the most successful sectors of the JSE in recent years, but the Exchange does little to promote the listed index tracking industry, nor to educate the investment public.

In all, 2021 was a successful year for the Exchange Traded Product industry as both the size and scope of the industry continued to grow significantly and this success story should be celebrated.

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- All South African ETFs & ETNs – Market Capitalisation Totals – December 2009 to December 2021.
- ETFs & ETNs survey – Securities in Issue and New Capital Raised/Redeemed (for period ended 31 December 2021).



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