

Absa ETFs

What are they, how do we use them?



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Introduction

- Examples of Rapid Change
- International Themes
- Beta and Smart Beta Building Blocks
- Walk through the Absa ETFs
- Absa S&P GIVI50 and Sector Smart Beta ETFs

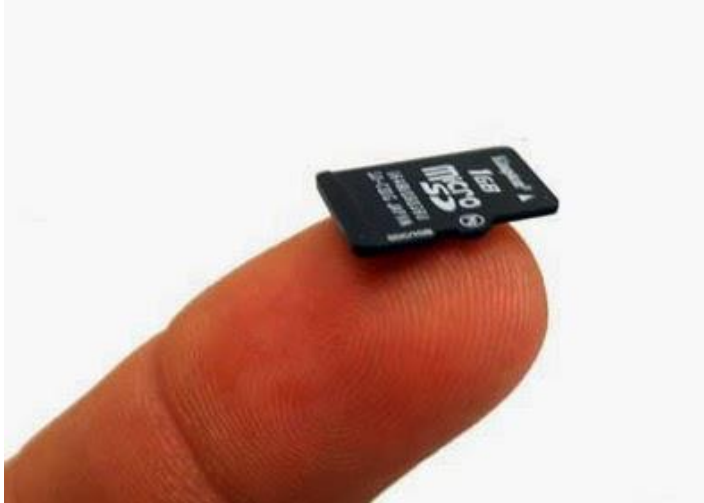
How fast things can change...?



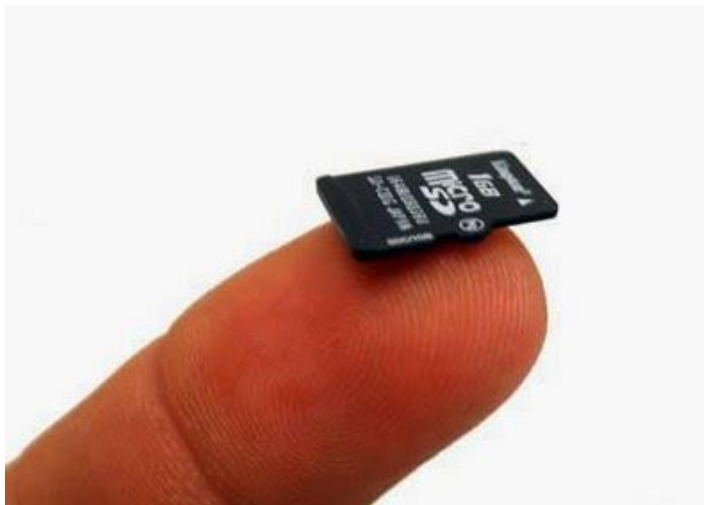
- 5mb Hard Drive 1956
- 2000 pounds
- IBM leased the disk for an annual fee of \$35,000!
- 58 Years later...



Change



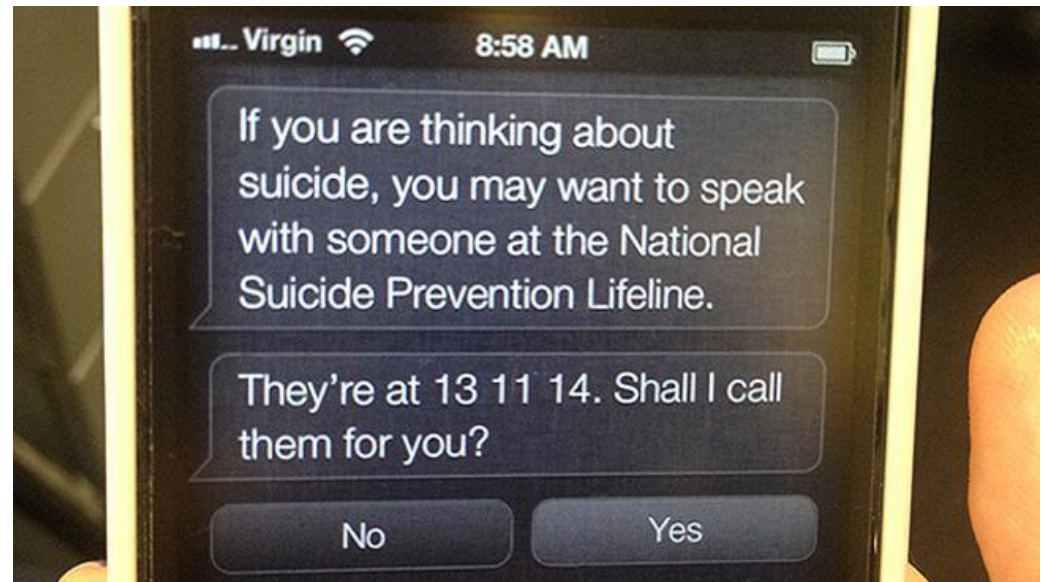
2005 120mb for R1000



2015 120gb for R1000

1000x in ten years

How has software changed?



Still not perfect.....

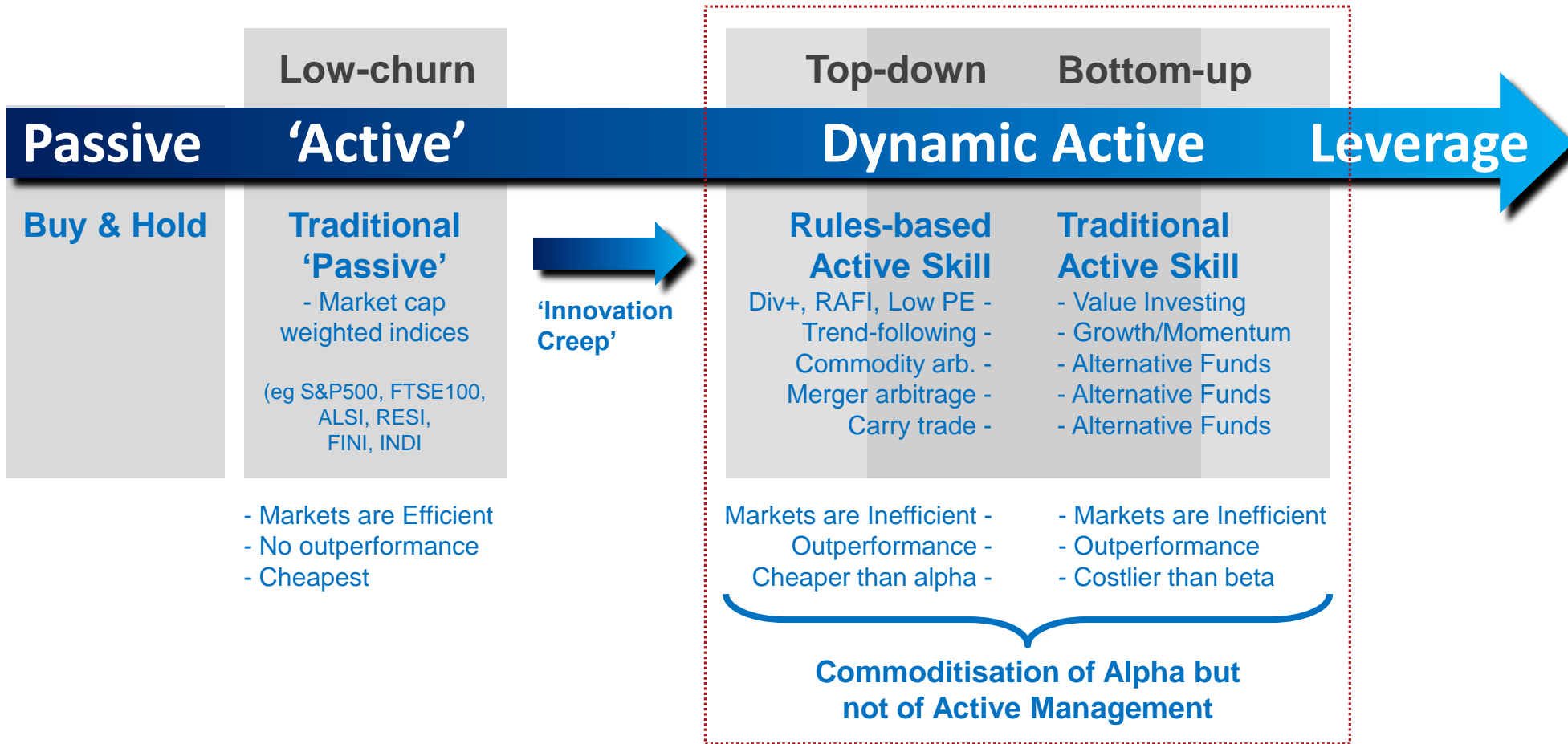


What are the themes we see internationally?

- ETF Market in US has doubled in last 4 years to \$3trillion
- ETFs are one of fastest growing investment classes in the history of finance
- ETFs provide Beta and Smart Beta building blocks
 - Beta market (e.g. TOP40, Government Bonds)
 - Smart Beta are gaining traction
- More new money flowing into ETFs than mutual funds in US
- Smart Beta Funds are eating the lunch of pure beta ETFs and active funds
- Investors are starting to add combinations of different Smart Beta Solutions to their portfolios.

“I am concerned that Smart Beta is a repackaged sales hype, but I am not sure, there may be something there”

At a Glance



- All investing is active (low churn vs high churn)

What's the difference between Smart & Pure Beta?

- Pure Beta ETFs are market cap weighted funds/ETFs
- Weight the holdings by the size of the instrument in the market
- E.g. SWIX40, Satrix40, GOVI, ILBI

- Puts the market as the centre of the universe

- Assumptions:
 - Market is pricing instruments correctly
 - Market is efficient
 - The bigger the company or the bigger the bond in the market, the bigger the holding should be

What is a smart Beta ETF?

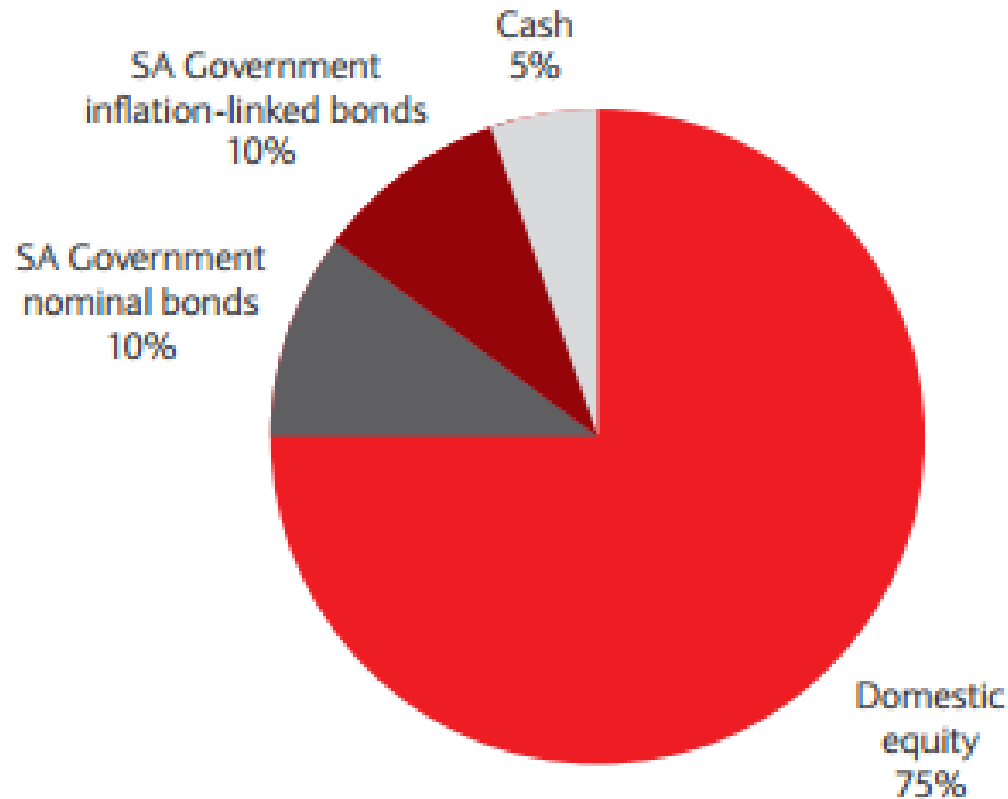
- Smart Beta ETFs sever the link between the holding of a security and the size of a security in the fund
- Weight the holdings by something else:
 - Volatility, dividends, sales, book value, intrinsic value
 - Methodology/process is documented and can be replicated
- E.g. Absa Momentum Equity ETF, S&P GIVI50 ETF and S&P GIVI RES/IND/FIN ETF
- Puts the economy as the centre of the universe
- Smart Beta goes by many names:
 - Smart Beta, Strategic Beta, Scientific Beta, Factor based investing, fundamental based investing, advanced beta

Absa ETFs

- Pure Beta or (Market cap weighted)
 - 2 Balanced Fund ETFs
 - SWIX ETF
 - GOVI Bond and Inflation Bond
 - Cash ETF
 - Shariah compliant ETF

- Smart Beta
 - S&P GIVI 50
 - 3 S&P GIVI Sector ETFs (IND/FIN/RES)
 - Momentum Equity ETF

Balanced Fund ETFs – High Equity

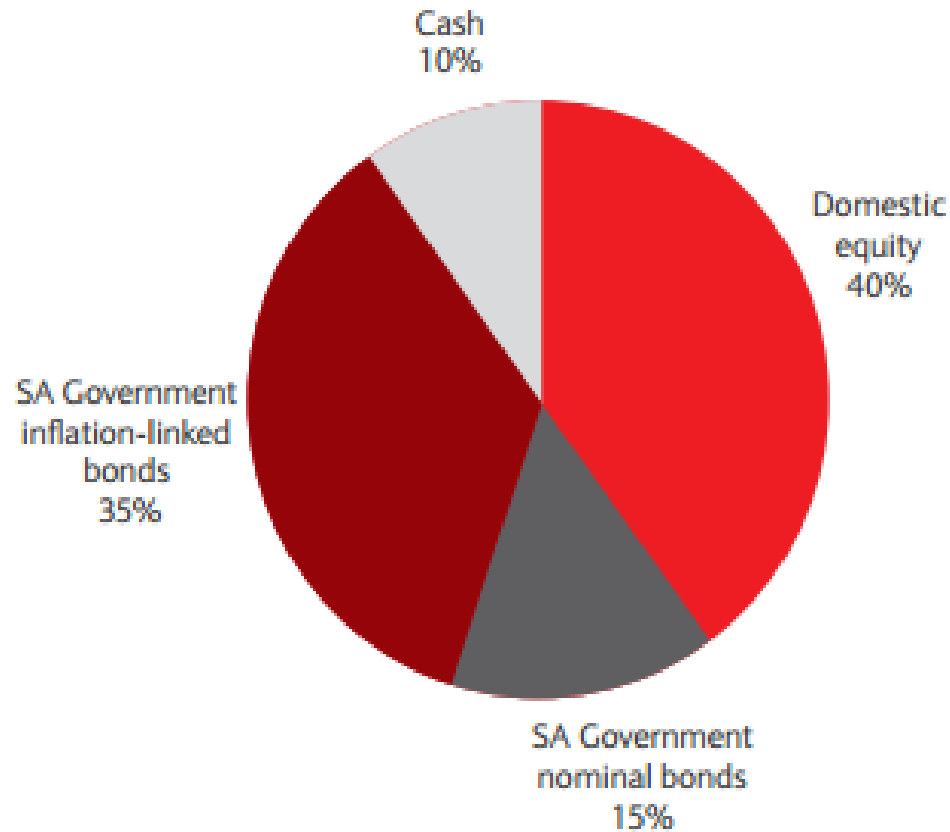


Performance period	Return p.a
1 Year	7.54%
2 Year	16.74%
3 Year	16.82%

Costs : 0.33%

Source: Absa CIB

Balanced Fund ETFs – Medium Equity

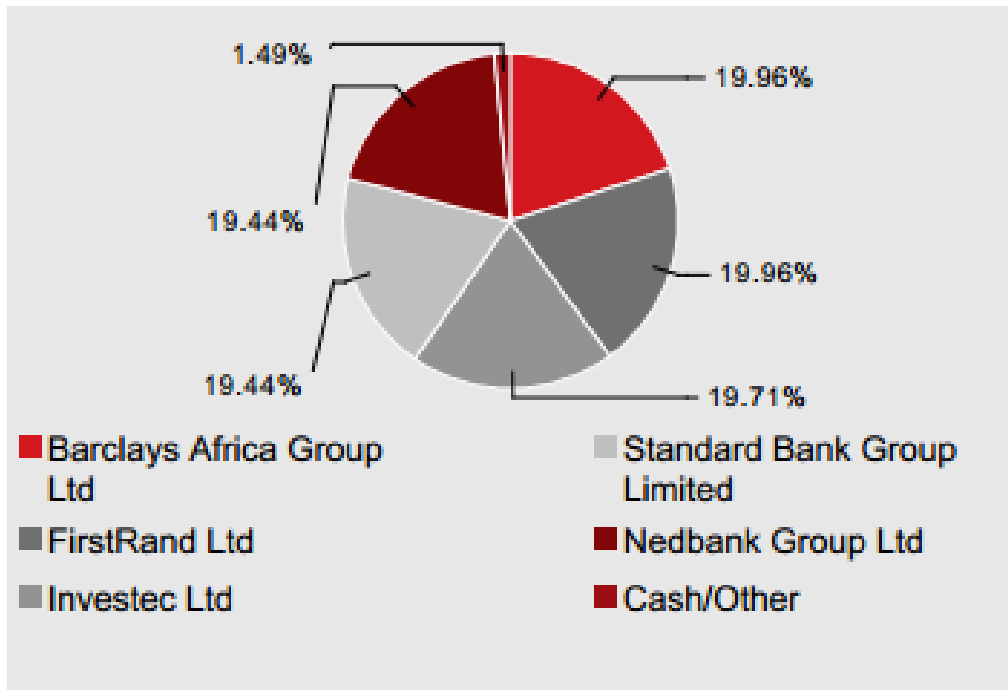


Performance period	Return p.a
1 Year	6.58%
2 Year	12.26%
3 Year	12.51%

Costs : 0.33%

Source: Absa CIB

Cash ETF



Performance period	Return p.a
1 Year	5.88%
2 Year	5.52%
3 Year	5.49%

Costs : 0.20%

Source: Absa CIB

Fixed Income ETFs

- **Government Bond ETF**
- Exposure to 10 fixed income bonds

Performance period	Return p.a
1 Year	7.35%
2 Year	6.41%
3 Year	6.30%

- **Inflation Government Bond ETF**
- Exposure to 9 inflation linked bonds

Performance period	Return p.a
1 Year	4.81%
2 Year	8.17%
3 Year	9.04%

Costs : 0.25%-0.30%

Source: Absa CIB

Equity ETFs

- **Swix ETF**

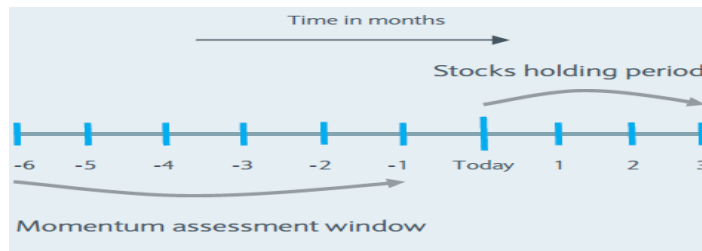
Performance period	Return p.a
1 Year	8.53%
2 Year	20.44%
3 Year	20.46%

Costs : 0.34%

- **Momentum Equity ETF**

How it works?

- Takes universe of all JSE stocks
- Applies liquidity filters
- Calculates price momentum, ranks them



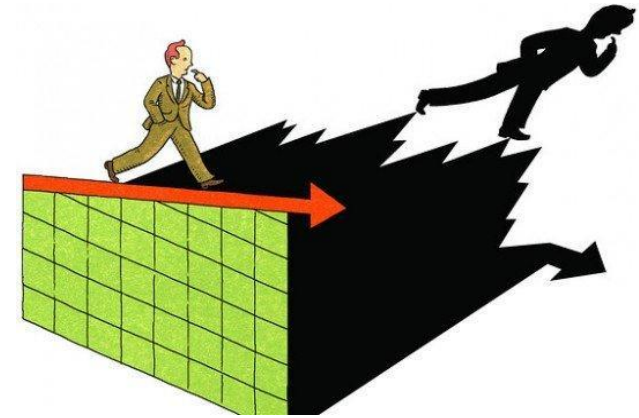
Source: Absa CIB

Performance period	Return p.a
1 Year	7.29%
2 Year	16.30%
3 Year	18.43%

Costs : 0.40%

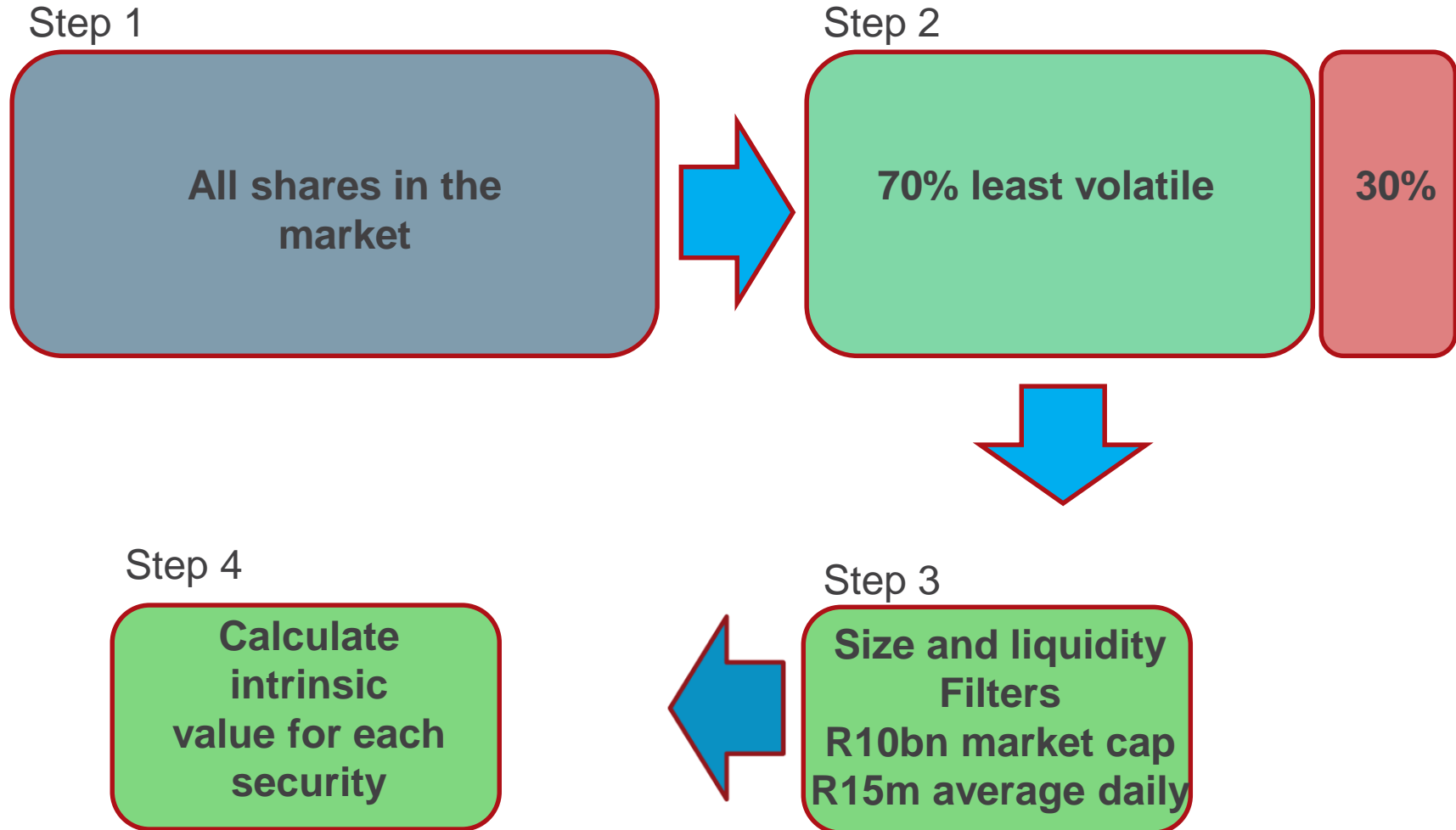
The new Absa S&P GIVI ETFs

- 4 Absa ETFs started tracking the S&P GIVI indices on 1 June 2015
- These replaced the eRafi ETFs, changed benchmarks by a ballot process
- The 4 SMART Beta ETFs are
 - S&P GIVI SA Top50 ETF (GIVISA)
 - S&P GIVI SA Financial 15 ETF (GIVFIN)
 - S&P GIVI SA Industrial 25 ETF (GIVIND)
 - S&P GIVI SA Resources 15 ETF (GIVRES)



Absa S&P GIVI South Africa Top50 ETF(GIVISA)

- How it works ?



Absa S&P GIVI South Africa Top50 ETF(GIVISA)

- How it works ?
 - Preference shares are excluded from the index
 - Allocates to the Top 50 shares remaining weighted by intrinsic value
 - The maximum weight of each stock in the index is capped at 10%
 - Multi-factor smart Beta, looking at volatility first and then intrinsic value
 - Index and the ETF rebalances every 6 months
- Get different stocks to Top40 (e.g. Naspers)
- Get different weightings to Top40



Index/ ETF Name	1 m	3 m	6 m	1 yr	2 yr	3 yr
FTSE/ JSE Top 40 TR Index	-3.96	-0.55	6.18	6.78	14.30	20.12
S&P GIVI South Africa 50 TR Index	-4.03	0.78	8.44	14.99	20.34	24.42

*Returns for a year or more are annualised

*Source : S&P and Morningstar

S&P GIVI South Africa RESI/INDI/FINI ETFs

- The 3 Sector ETFs follow a similar process to the GIVI50 ETF
- They look at stocks in each sector
- Max weight per stock is 30%
- How have the GIVI indices performed against FTSE/JSE Indices to 31 May 2015?

Index/ ETF Name	1 m	3 m	6 m	1 yr	2 yr	3 yr
FTSE/ JSE Resources 10 TR Index	-5.24	-6.49	-3.27	-21.01	-4.21	-0.12
S&P GIVI South Africa Resources TR Index	-5.40	-5.33	6.56	-3.78	2.98	-0.52
FTSE/ JSE Industrial 25 TR Index ZAR	-3.14	0.60	8.31	16.78	20.79	30.86
S&P GIVI South Africa Industrials TR Index ZAR	-1.95	0.85	7.00	13.94	21.38	29.82
FTSE/ JSE Financial 15 TR Index	-6.76	0.04	8.36	21.98	24.02	25.78
S&P GIVI South Africa Financials TR Index	-6.15	0.10	10.06	22.64	22.77	27.00

*Returns for a year or more are annualised


*Source : S&P and Morningstar

Is smart beta “better”

- Investments 101 → don't put all your eggs in one basket
- Smart beta is different to pure beta ETFs
- In the context of **diversification**, different is better
- Understand what Smart Beta Funds are doing

- Diversifying means being diversified between
 - Active managers
 - Pure Beta Investments
 - Smart Beta Investments

- Being diversified across one theme is not fully diversified



Thank you / Questions

More Information : etfcib.absa.co.za (Type Absa ETF in Google)

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