

ETFs as a source of Income

June 2013

 **GRINDROD
BANK**

THE POWER OF HUMAN CAPITAL

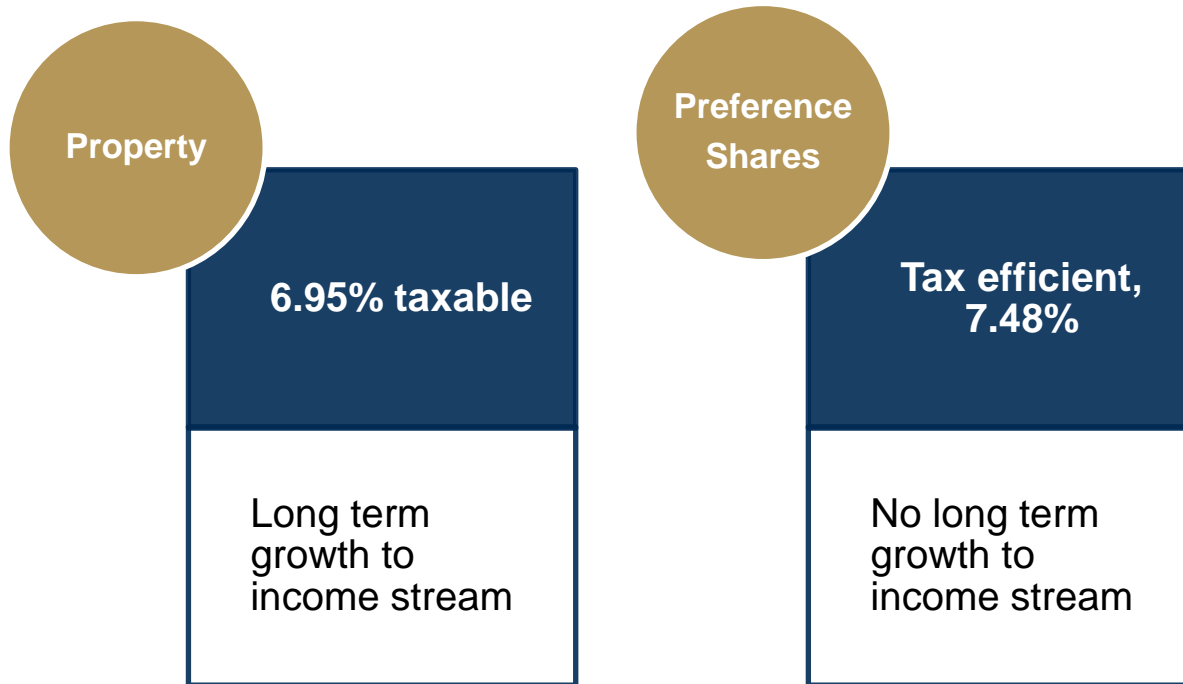
PRESENTED BY GARETH STOBIE



Grindrod: Exchange Traded Products



❖ Introduction to Grindrod Bank's ETF suite:



PROPTRAX : PROPERTY ETFs

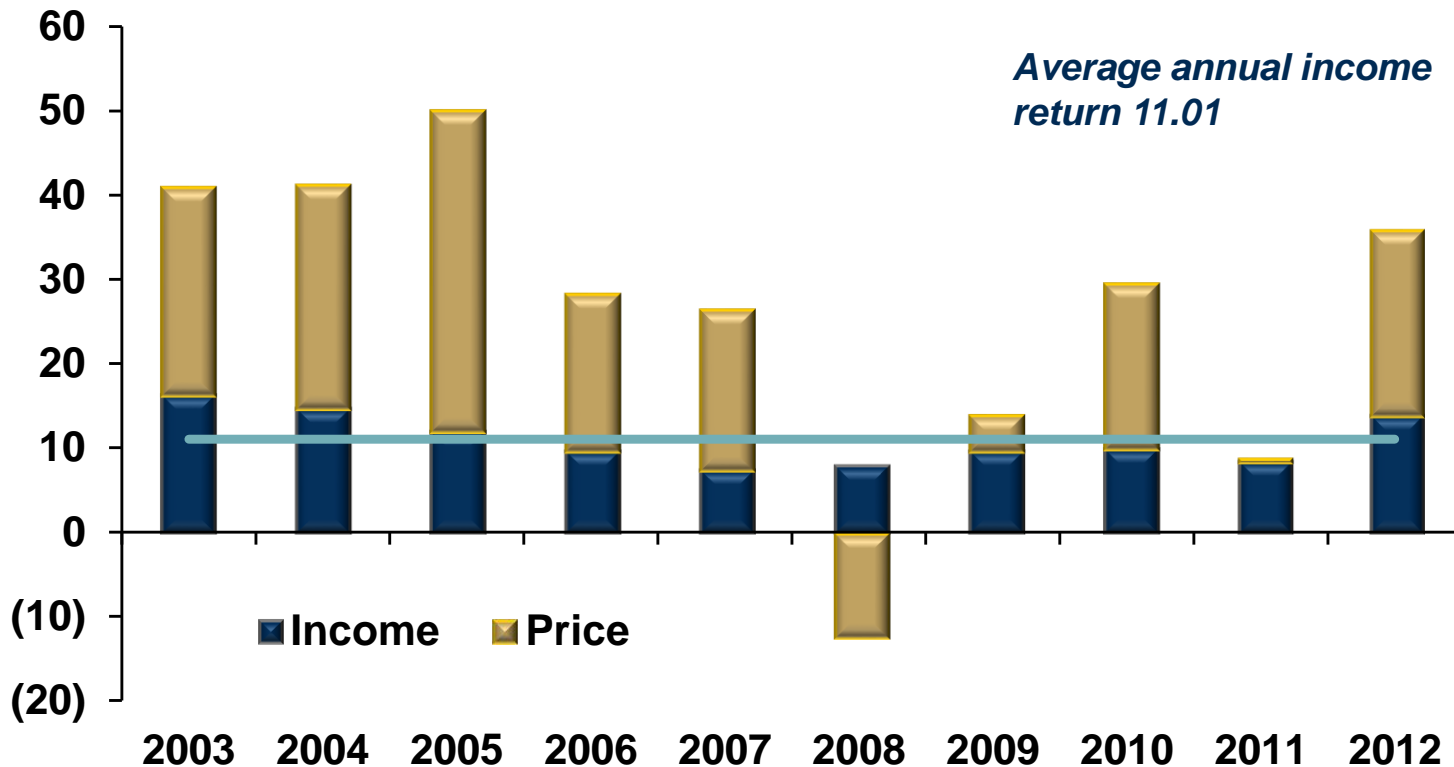


- ❖ Your share of the South African listed property market
- ❖ Liquid and cost effective
- ❖ Growing income stream > 6%
- ❖ Tangible investment secured by 'bricks and mortar'
- ❖ Regulated and transparent
- ❖ Historical performance

Listed Property Returns and How They are Derived?



- ❖ Average annual returns: 26.08 percent
- ❖ Average annual income: 11.01 percentage points or 43 percent of total return



Source: I-Net

Property Prospects




Scorecard

SA Short Rates	+	❖ Notwithstanding recent spike in bond yields, generally low yields set to continue
SA Property Fundamentals	0	❖ Industrial and retail doing well ❖ Office continues to struggle ❖ Forecast 6-8% pa distribution grow next 2-3 years
SA Valuations	0	❖ Recent pull-back healthy for the market but yields remain below historical average
Funding	+	❖ Extremely low funding rates available to property companies
Demand / Supply for SA Listed Property	0	❖ REIT legislation to be positive for sector ❖ Numerous new issuances pose some supply side risk but the issues remain over-subscribed
TOTAL	+ 2	Mildly positive outlook

Risk vs. Return : An Investors Quandary?



Investment	Portfolio		Portfolio with Property
Stocks	60.00%		50.00%
Bonds	30.00%		30.00%
Cash	10.00%		10.00%
Listed Property	0.00%		10.00%
	100.00%		100.00%

10 Years, annualized

Return	16.80%	17.33%	
Risk	10.40%	9.78%	

PTX TEN & SAPY



	SAPY	TEN
Index	SAPY	Customized, top ten equally weighted
Yield ⁽¹⁾	6.78%	7.12%
Size	R108m	R141m
Share	PTXSPY	PTXTEN
1 Year ⁽²⁾	26.0%	21.9%
3 Year ⁽²⁾	21.6%	n/a

Source: I-Net

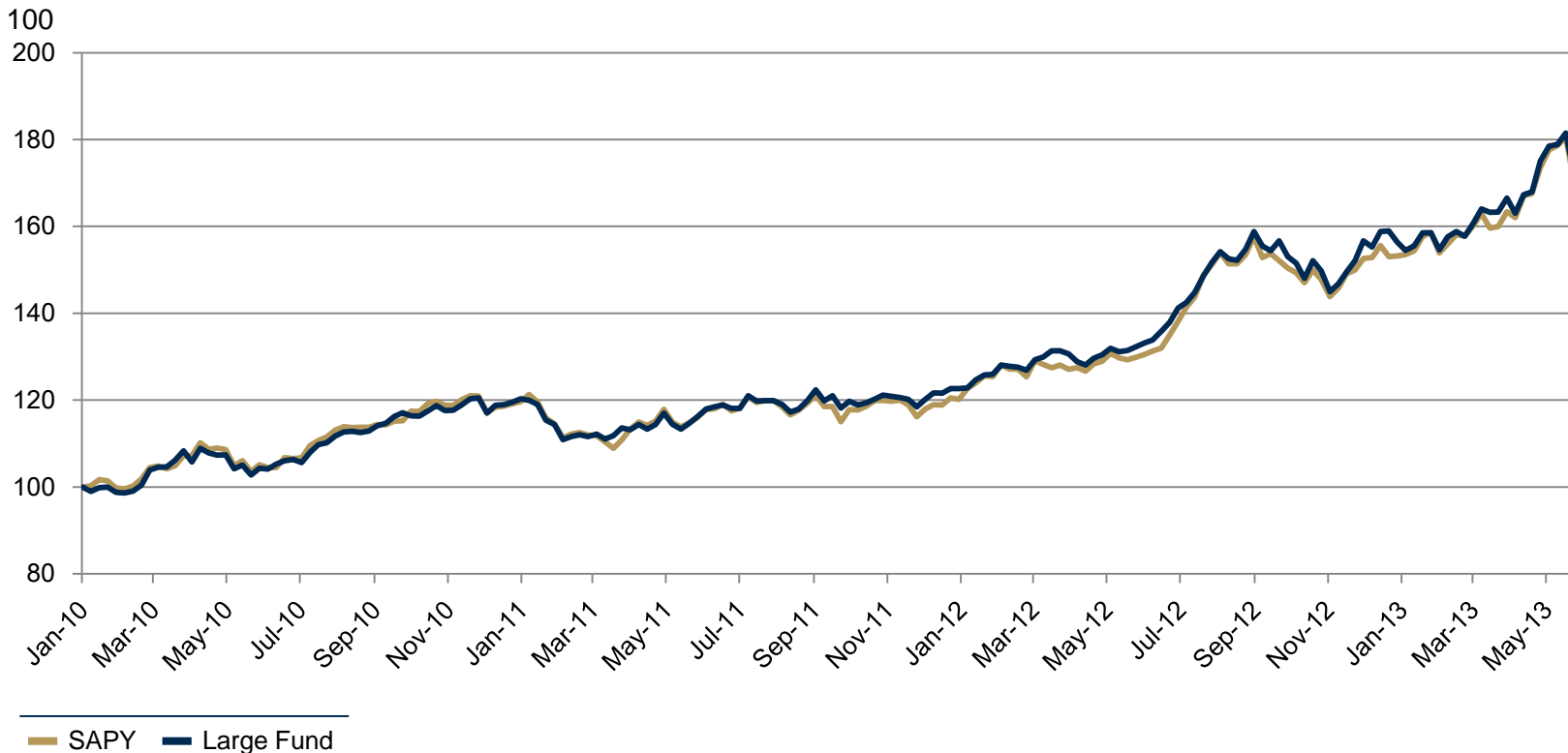
(1) As at 14 June 2013

(2) Source: SIM. Performance annualised, gross of fees

Do Large Funds Become Expensive Index Trackers?

- ❖ Large local actively managed property CISCA fund
- ❖ > R5billion AuM
- ❖ TER: 1.49%

Rebased to



Source: I-Net as at 1 June 2013

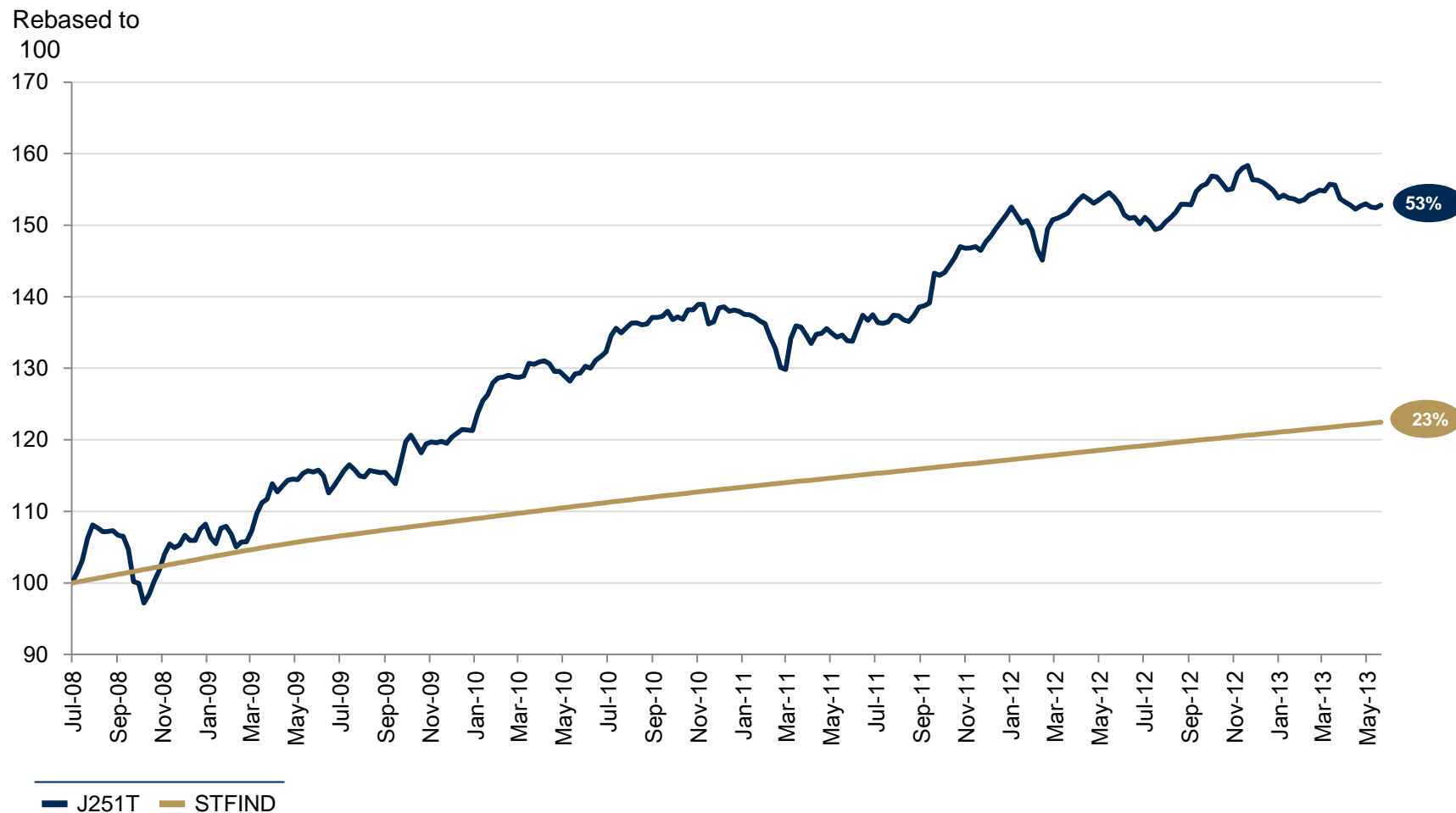
PREFex SA's Preference share ETF



- ❖ Hybrid investment: part Equity, part Debt
- ❖ High yielding 7.48% fixed income investment
- ❖ Significant pick-up in after tax yields relative to cash
- ❖ Tax efficient (max DWT @ 15%)
- ❖ Comparable to bonds and cash but must invest > 12 months
- ❖ Very attractive after surprising pull back in valuations

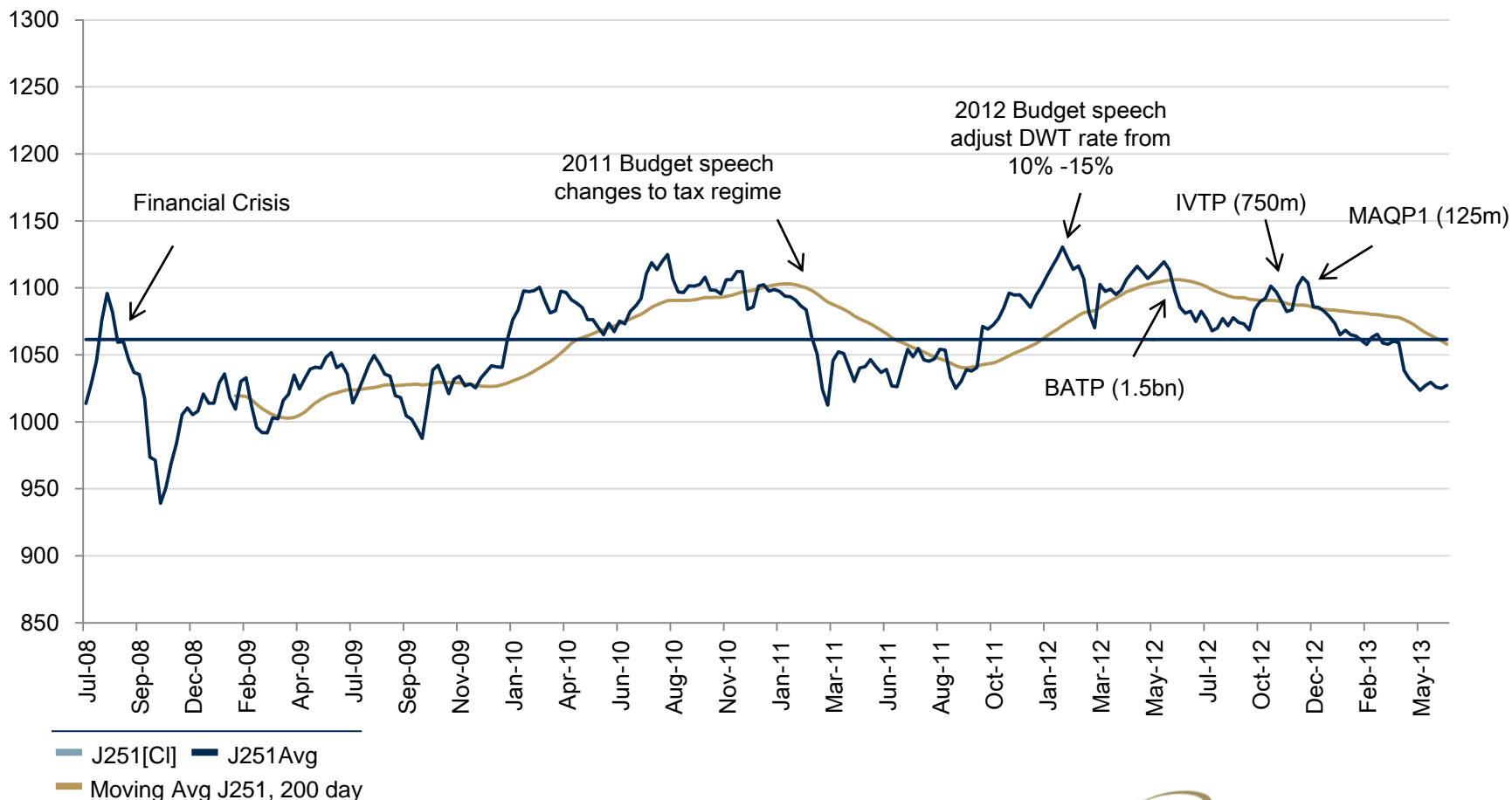
Prefs vs. Cash since start of Financial Crisis

On an after tax basis the J251 has outperformed the Stefi



Buying Opportunity in Preference Share Market

- ❖ The J251 Preference Share Index is currently priced 3.23% below the average price since inception



PREFEX Prospects



Scorecard

Interest Rates	-	❖ Prime remains at historical low and likely to remain so for now
Valuations	+	❖ Yield relative to asset class historical yields and relative to other Fixed Income asset classes is very competitive
Regulatory/strategic	+	❖ Tax changes finalized, competing strategies successfully challenged
Demand / Supply for listed prefs	0	❖ Recent issuances (Brait/Invicta) have put pressure on market. No new issuances announced
TOTAL	+	Positive outlook

PREFEX



Index	J251 (FTSE/JSE Preference share Index)
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Yield	7.48%
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Size	R211m
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Share	PREFEX
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Index construction	Market cap weighted (> 75% major banks)
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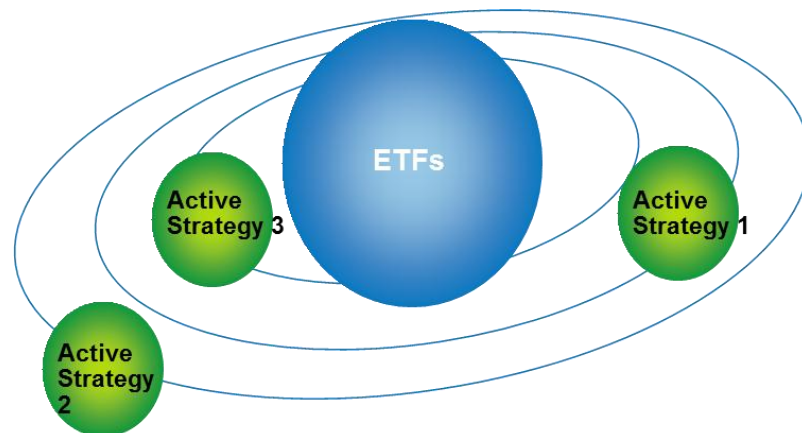
1 Year	0.22%
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Source: I-Net & Grindrod Asset Management, Performance annualised, net of fees

ETF Usage Example: Core Satellite Strategy

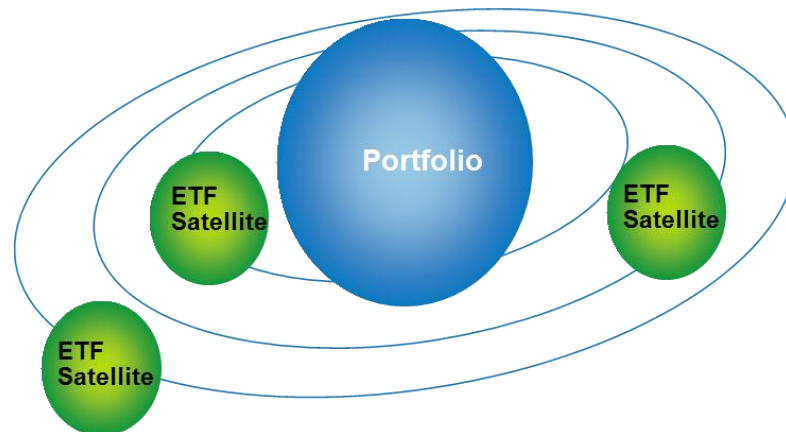
Core:

- ❖ Broad diversification by closely mirroring asset class benchmarks
- ❖ Consistent performance relative to a benchmark
- ❖ Low costs
- ❖ Improved risk management



Satellite:

- ❖ Precise exposure to a wide range of discrete market sectors, specific styles or market capitalisations indices
- ❖ Exposure to selected market segments at low costs
- ❖ Eliminating security selection or manager selection risk



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