

Core-Satellite in Practice

**Investment Strategies
using ETPs Seminar**

June 2015

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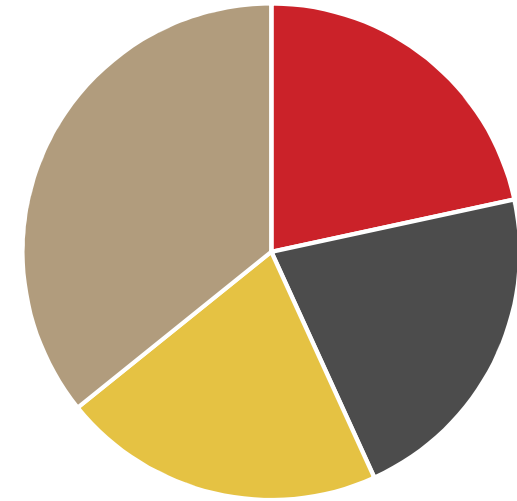
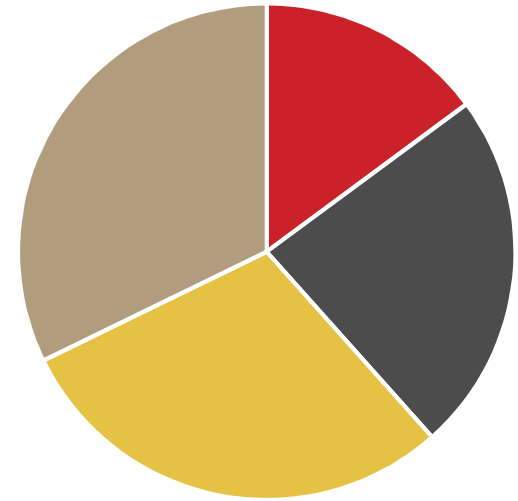
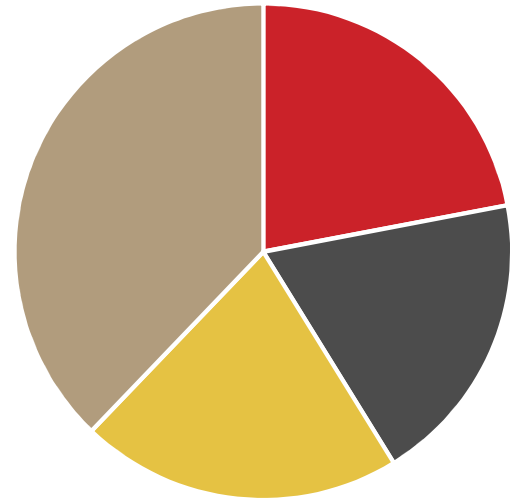
What's inside the core?

- “Markets don't give you returns
the underlying investments do”
- Four broad categories
 - Commodities
 - Financials
 - SA Industrials
 - Non-SA Industrials

Top 40

SWIX 40

CTOP50

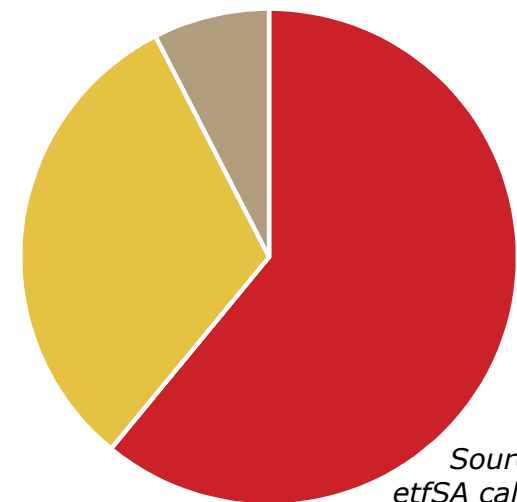
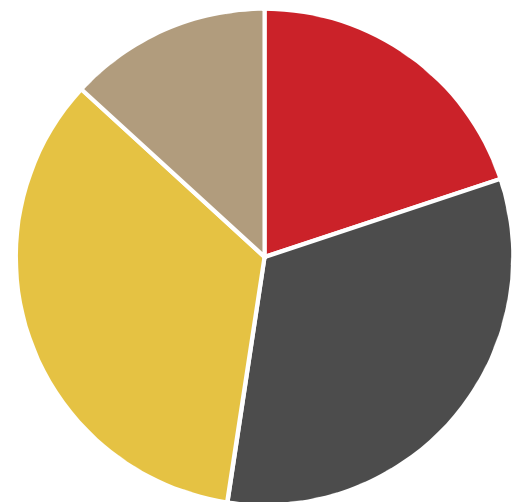
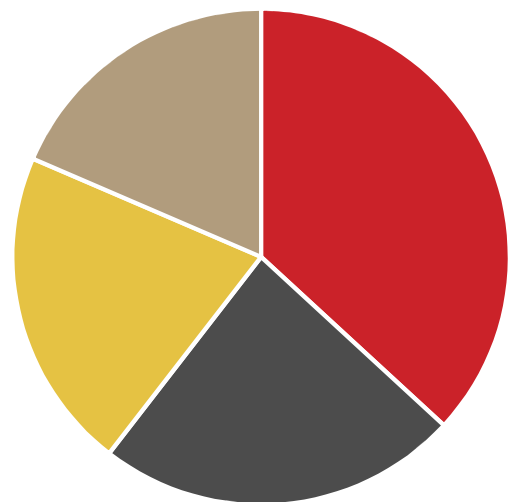


- Commodities
- Financials
- SA Industrials
- Non-SA Industrials

RAFI 40

Eq Wtd Top 40

Shariah 40



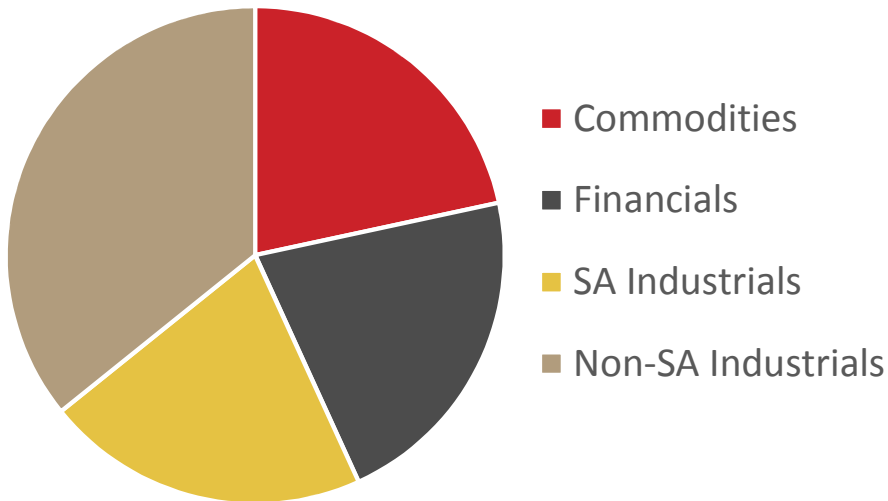
- Commodities
- Financials
- SA Industrials
- Non-SA Industrials

Source: JSE, S&P, ProfileMedia; etfSA calculations; as at 31-May-15



Core Equity – CTOP50

CoreShares SA Top50 Capped ETF



Div Yield (%)
2.6



P/E Ratio (x)
19.2



Randhedge (%)
73.7



Small Caps (%)

0.0

Top 10 holdings (%)

Company	Percentage
NPN Naspers -N	10.4
SAB SAB Miller	9.9
CFR Richemont	9.2
BIL BHPBilliton	9.1
MTN MTN	5.5
AGL Anglo American	4.5
SOL Sasol	3.6
SHF Steinhoff	3.5
OML Old Mutual	3.4
SBK Standard Bank	3.2

Five year performance p.a.

Return	Std Dev	RAR*
18.7%	12.4%	1.52

Source: S&P, Grindrod; etfSA calculations; as at 31-May-15

*RAR=Risk-adjusted Return

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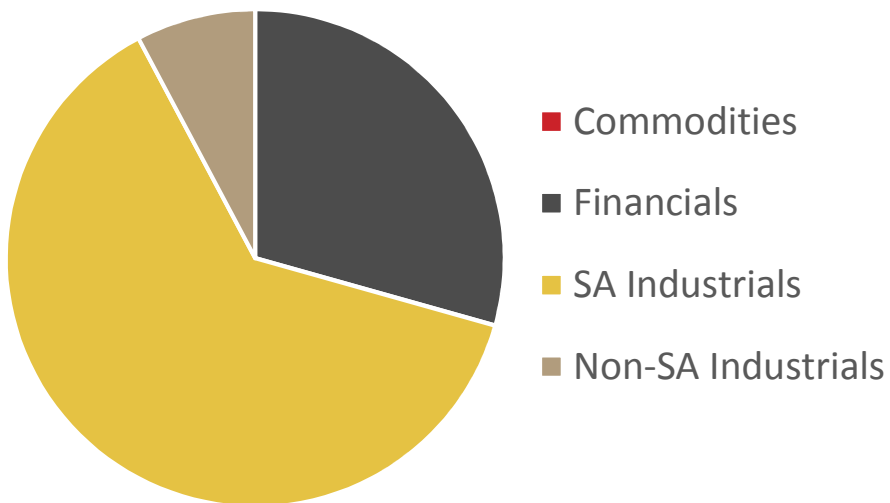


Selecting satellites

- A **good** satellite investment should be **sufficiently different** from the core
- Can be implemented in different ways, e.g.
 - ❑ **Equity only** – different shares, sectors, size, style
 - ❑ **Other asset classes** – towards a diversified balanced fund
 - ❑ **Getting tactical** – targeted exposure to desired investment opportunities

Satellite – Equity only – DIVTRX

CoreShares Dividend Aristocrats ETF



Div Yield (%)



P/E Ratio (x)



Randhedge (%)



Small Caps (%)



Top 10 holdings (%)

Symbol	Company Name	Percentage (%)
LEW	Lewis	41.8
IVT	Invicta	4.8
WBO	WilsonBailey	4.7
AVI	AVI	4.2
DST	Distell	4.1
TRE	Trencor	4.1
BTI	BAT	4.1
JSE	JSE	4.1
EOH	EOH	4.0
CPI	Capitec	4.0

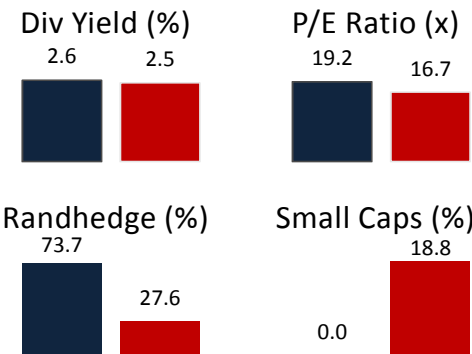
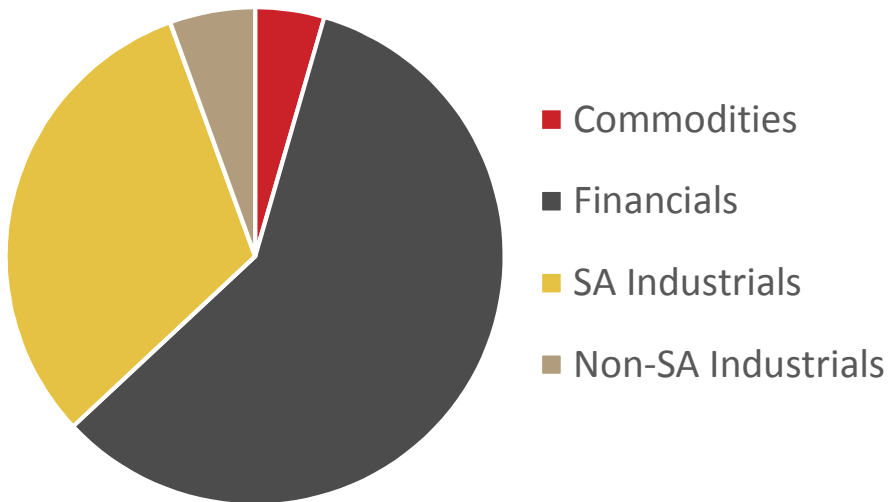
Source: S&P, Grindrod; etfSA calculations; as at 31-May-15

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Satellite – Equity only – LVLTRX

CoreShares Low Volatility ETF



Top 10 holdings (%)

Company	Percentage
PSG PSG	3.4
ATT Attacq	3.1
LBH Libhold	3.1
BTI BAT	3.0
HYP Hyprop	3.0
PGR Peregrine	3.0
CCO CapCountry	3.0
EOH EOH	2.9
DTC Datatec	2.9
HCI Hoskens	2.9

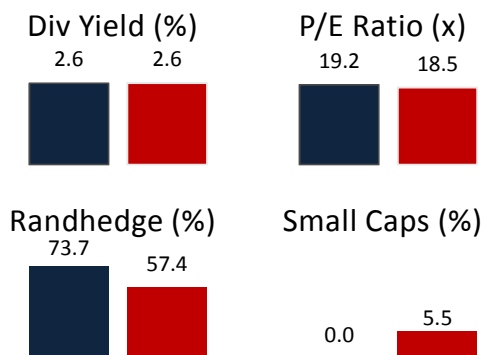
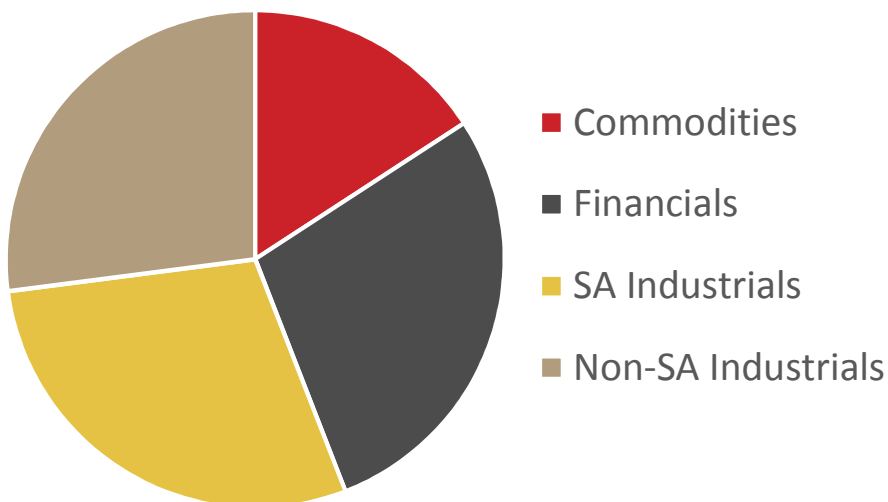
30.3

Source: S&P, Grindrod; etfSA calculations; as at 31-May-15

Core: 70% CTOP50

Satellite: 15% DIVTRX + 15% LVLTRX

70% CTOP50 + 15% DIVTRX + 15% LVLTRX



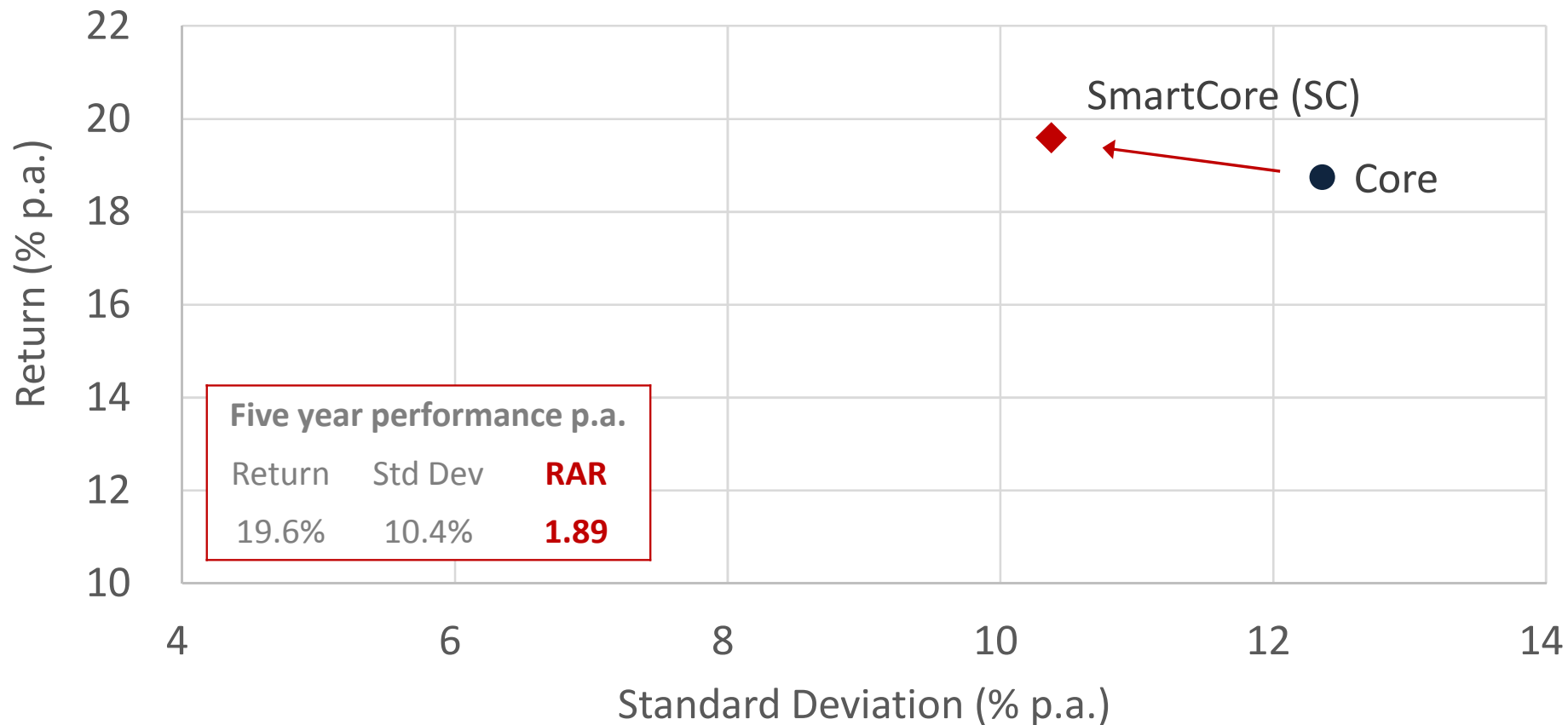
Top 10 holdings (%)	46.9
NPN Naspers -N	7.8
SAB SAB Miller	6.9
CFR Richemont	6.8
BIL BHPBilliton	6.4
MTN MTN	4.4
AGL Anglo American	3.1
SBK Standard Bank	3.1
BTI BAT	3.0
OML Old Mutual	2.8
SOL Sasol	2.5

Five year performance p.a.		
Return	Std Dev	RAR
19.6%	10.4%	1.89

Source: S&P, Grindrod; etfSA calculations; as at 31-May-15

*RAR=Risk-adjusted Return

Performance improvement achieved with "Smart" Core



Source: S&P, Grindrod; etfSA calculations; as at 31-May-15

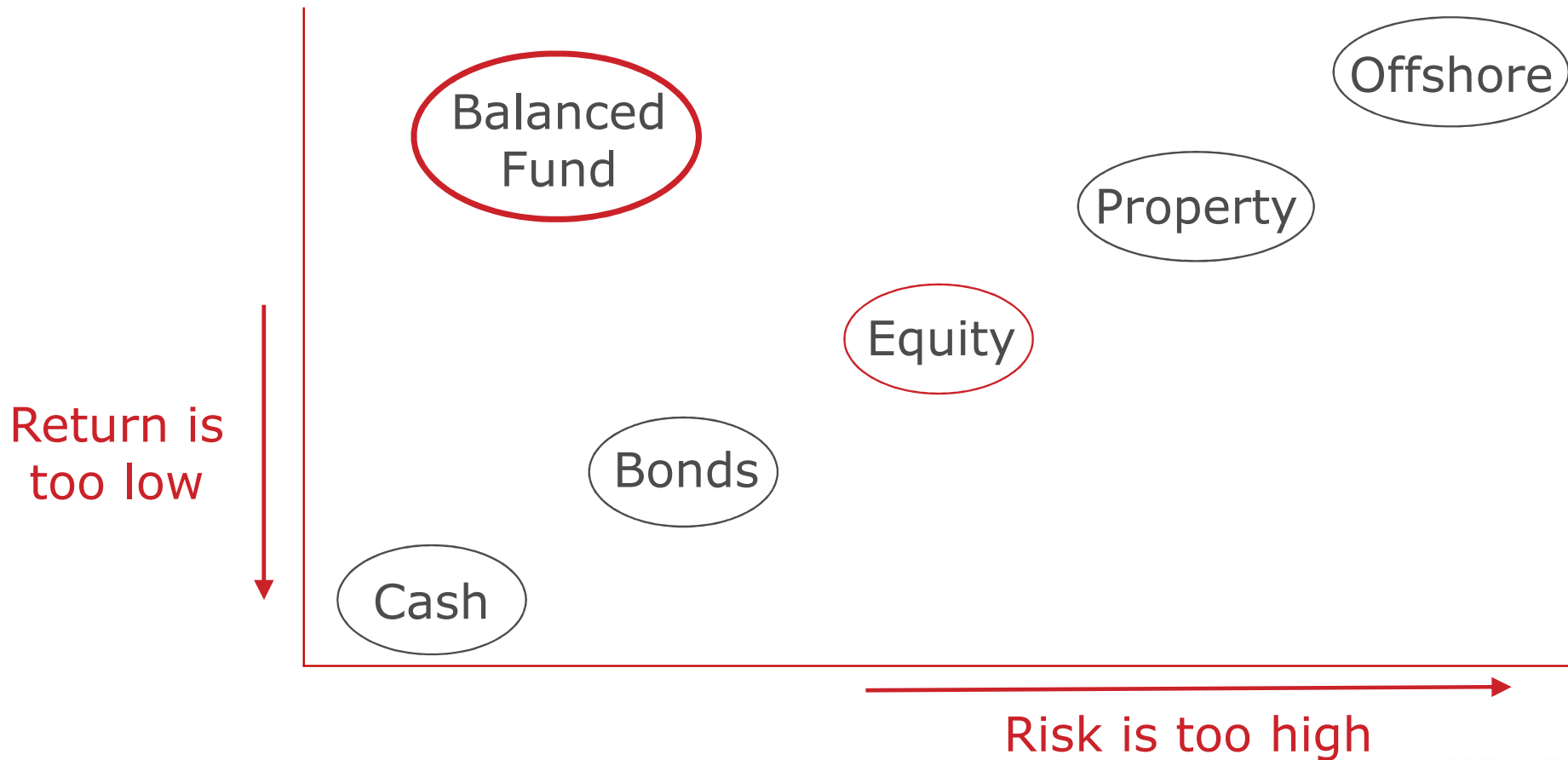
*RAR=Risk-adjusted Return

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Benefits of Diversification

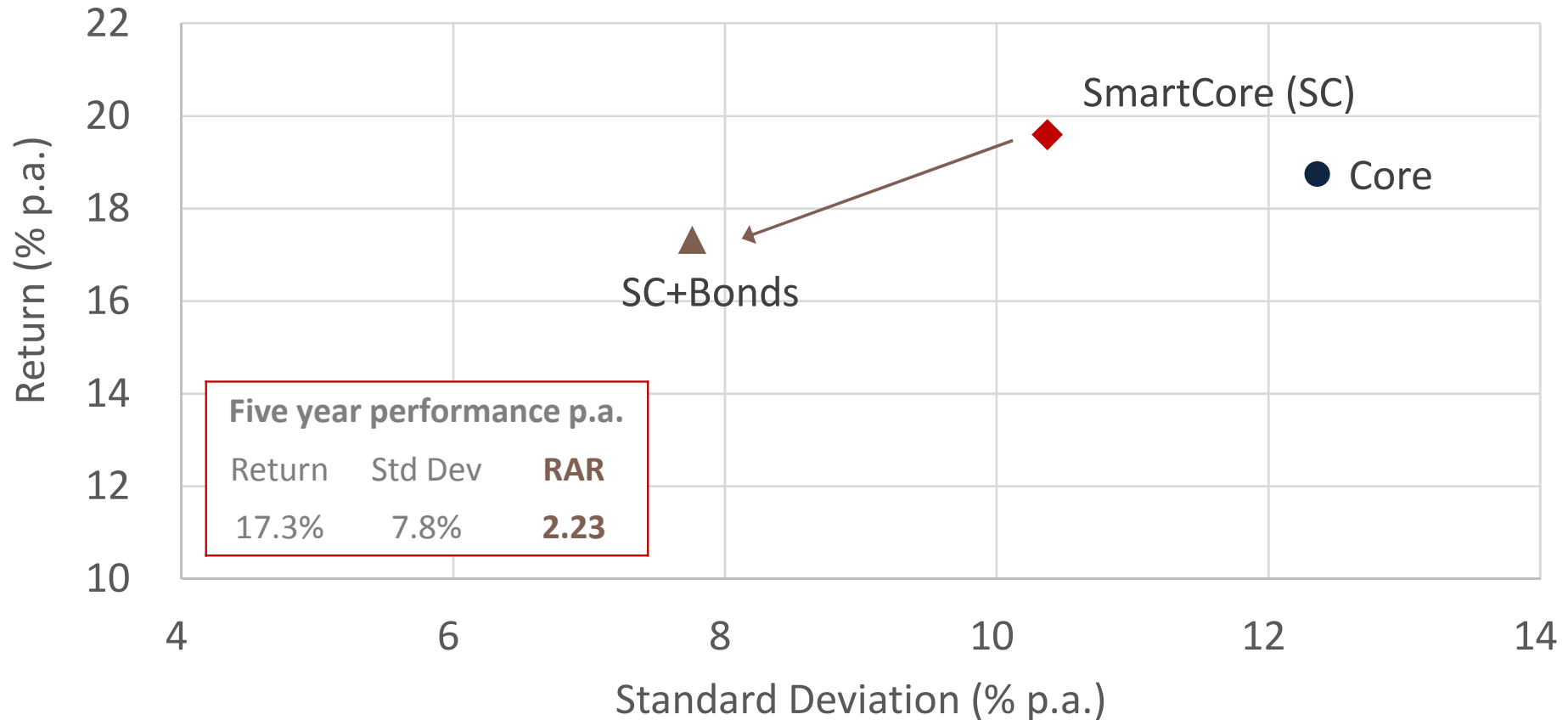
Balanced Fund – Return vs. Risk



Balanced Fund – Bonds

- Purpose / role of bonds in a balanced portfolio
 - ❑ Higher interest income than cash, but with added risks (i.e. potential for capital gains and losses)
- *Ceteris paribus* (all else being equal)
 - ❑ Interest rates ↑ Bond prices ↓
 - ❑ Inflation ↑ Bond prices ↓
- NewFunds GOVI ETF (**NFGOVI**) tracks SA Government Bond Total Return Index (coupons are automatically reinvested)

Performance improvement achieved from 70% "Smart" Core + 30% Bonds



Source: ProfileMedia data; etfSA calculations; as at 31-May-15

*RAR=Risk-adjusted Return

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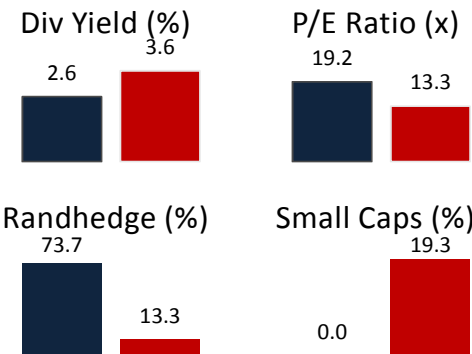
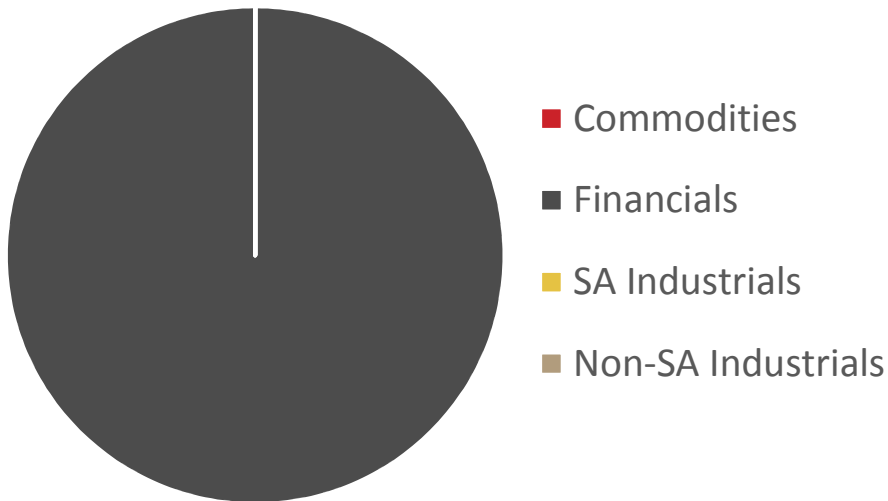


Balanced Fund – Property

- Purpose / role of property in a balanced portfolio
 - Hybrid between equities and bonds
 - High long-term potential returns from **capital gains**, but with **substantial short term risks**
 - High and consistent **dividends** and interest
- CoreShares Proptrax ETF (**PTXSPY**) tracks the FTSE/JSE SA Listed Property Index (SAPY)

Satellite – Property – PTXSPY

CoreShares Proptrax ETF



Top 10 holdings (%)

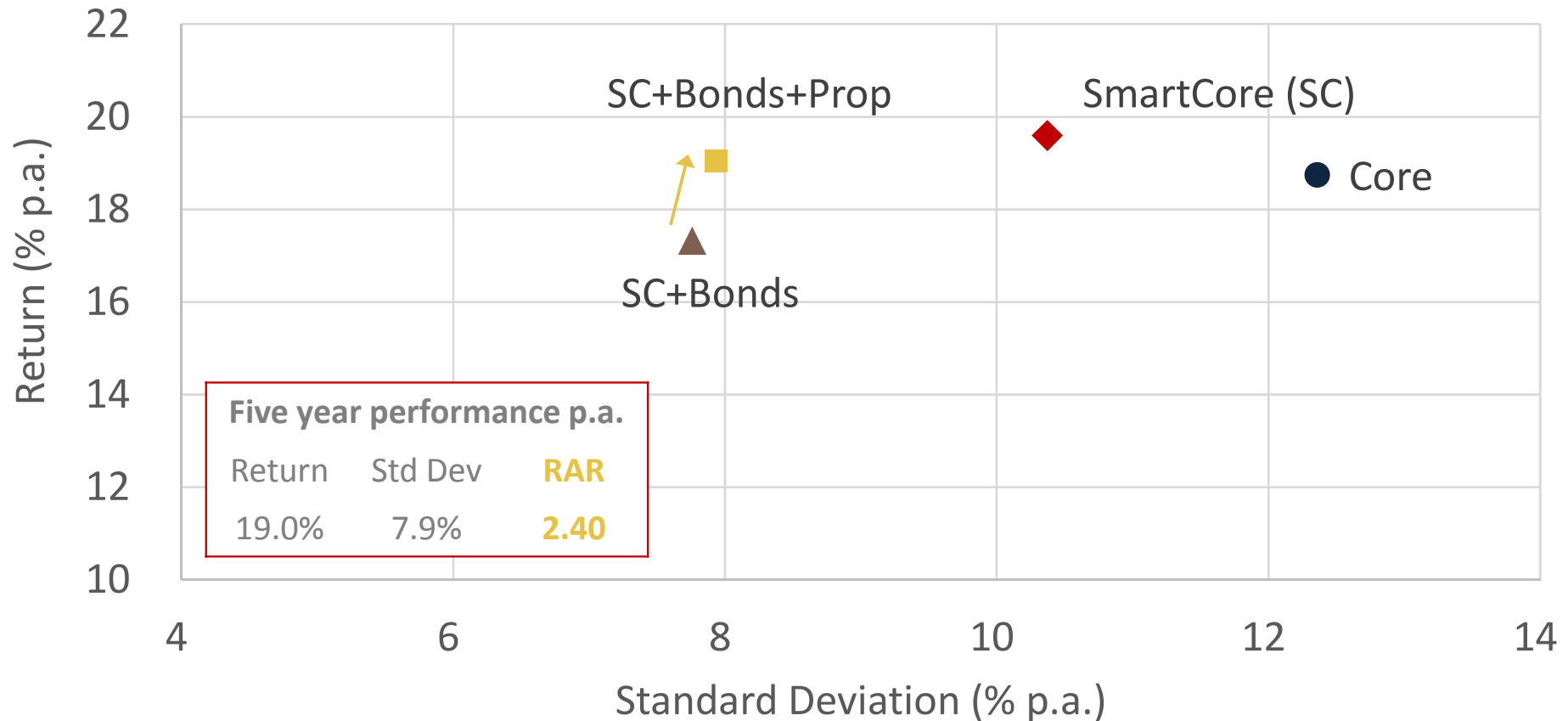
Symbol	Company Name	Percentage (%)
		84.3
GRT	Growthpoint	21.4
RDF	Redefine	14.0
HYP	Hyprop	9.5
NEP	NEPI	9.0
CPF	CaptProp	7.4
RES	Resilient	7.0
ATT	Attacq	4.6
ROC	Rock Castle	4.3
VKE	Vukile	3.8
SAC	SA Corporate	3.2

Source: S&P, Grindrod; etfSA calculations; as at 31-May-15

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Performance improvement achieved from 60% "Smart"Core + 20% Bonds + 20% Property



Source: ProfileMedia data; etfSA calculations; as at 31-May-15

*RAR=Risk-adjusted Return

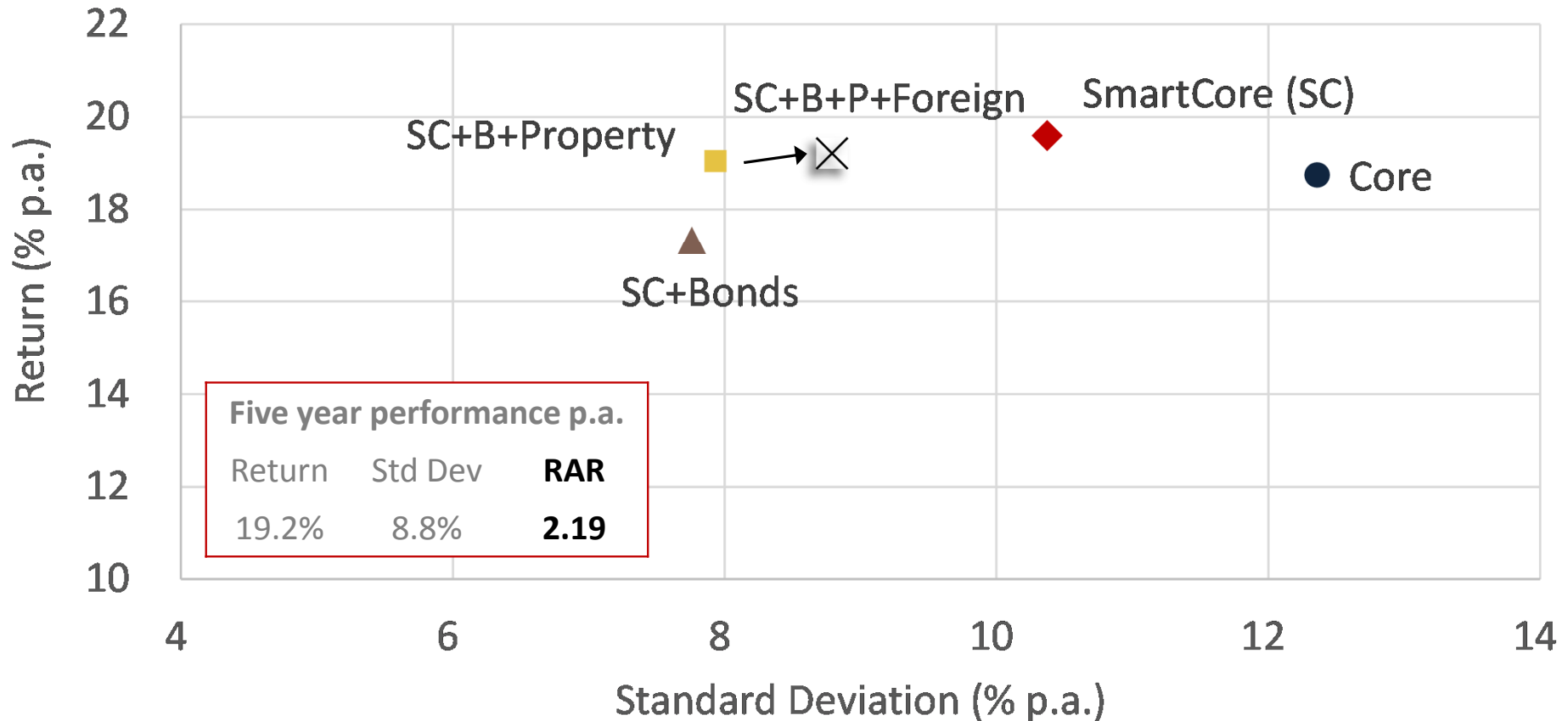
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Balanced Fund – Foreign

- Purpose / role of foreign investments in a balanced portfolio
 - ❑ So much more than just a **Rand-hedge**
 - ❑ Multi-factor **diversification**: geographic, currency, economic cycles, etc
 - ❑ Exposure to sectors and trends **not available in local** market
- db X-trackers MSCI World ETF (**DBXWD**) is just one of many foreign ETPs listed on the JSE

Performance improvement achieved from 50% SC+15% Bonds+15% Prop+20% Foreign



Source: ProfileMedia data; etfSA calculations; as at 31-May-15

*RAR=Risk-adjusted Return

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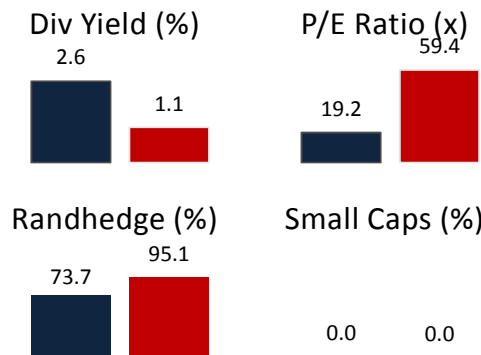
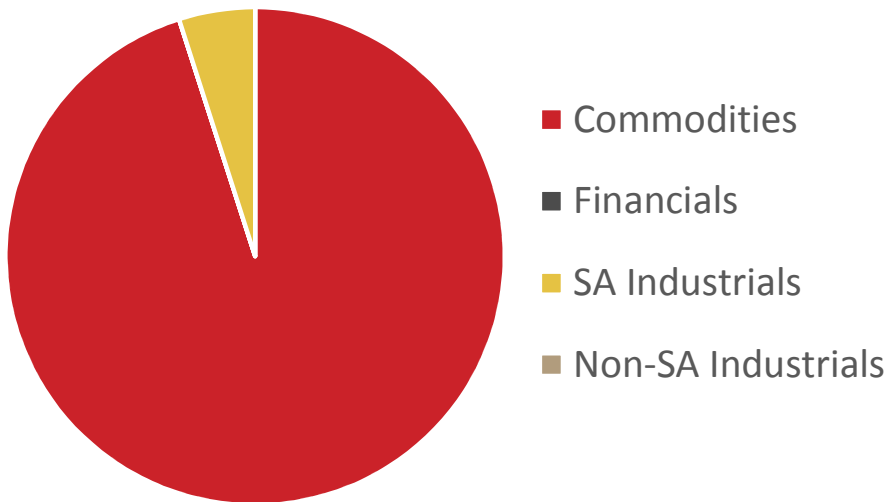


Getting Tactical with Satellites

- Satellite investments are an ideal way to get tactical exposure, for example
 - Domestic equity: NewFunds GIVI Resources ETF (**GIVRES**)

Satellite – Tactical – GIVRES

NewFunds GIVI Resources ETF



Top 10 holdings (%)	Percentage
ANG Anglo-Ashanti	20.1
MNP Mondi plc	18.1
GFI Gold Fields	17.4
MND Mondi	13.6
HAR Harmony	8.6
SAP Sappi	7.6
AFE AECI	5.2
NPK Nampak	4.9
OMN Omnia	3.3
SGL Sibanye Gold	1.2
Total	100.0

Source: S&P, ABSA/Barclays; etfSA calculations; as at 31-May-15

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Getting Tactical with Satellites

- Satellite investments are an ideal way to get tactical exposure, for example
 - ❑ Domestic equity: NewFunds GIVI Resources ETF (**GIVRES**)
 - ❑ Bonds: RMB Inflation-X Bond ETF (**RMBINF**)
 - ❑ Property: CoreShares Proptrax Ten ETF (**PTXTEN**)
 - ❑ Foreign exposure: db X-trackers EuroStoxx 50 ETF (**DBXEU**), db X-trackers MSCI China ETN (**DBCHIN**), BNP Paribas GURU Asia ETN (**BNPASI**)
 - ❑ Commodities – too many to mention!

In summary

- **WISIWYG** – **W**hat's **InSide** Is **W**hat **Y**ou **G**et
 - ❑ Make sure you know what it is
- Do not select investments on the basis of **past performance**
 - ❑ Understand the **drivers** of past performance to look for clues on future performance
- Consider your portfolio on an **aggregate** basis
 - ❑ Beware unintended **concentration** risk and bias

Question time

