



The Home of Exchange Traded Funds®



The Home of Retirement Funds

Passive Investment – How to Invest In Exchange Traded Funds (ETFs)

Investment Seminar - JSE
29 November 2016

Mike Brown
Managing Director
etfSA.co.za

Agenda

- What are ETFs and how do they work?
- Benefits of ETFs.
- Differences between Passive and Active investment management.
- Using ETFs in Investor Club/Stokvel accounts
- Using ETFs in Discretionary Investments.
- Using ETFs in Tax Free Investment Accounts.
- Using ETFs in Retirement savings.

What Are ETFs?

- They are portfolios of shares, listed on the Stock Exchange (JSE).
- They are much like Unit Trusts, but benefit from modern technology and practices.
- They trade just like any other securities on the JSE.
- They are index-tracking (or passive) portfolios of shares.

What is an Index?

- An index reflects a basket of shares to represent the performance (capital growth and dividends) of:
 - A “basket” of shares (securities) listed on the JSE

What is an Index? (continued)

Index Weights – Basket of Constituents (as at September 2016) FTSE/JSE Top 40 Index			
	Market Cap Weighted (%)		Market Cap Weighted (%)
Anglo Ashanti	1,34	FirstRand Ltd	2,91
Anglo American Plc	5,07	Fortress Inc Fund A	0,34
Aspen Pharmacare Hldgs	2,06	Fortress Inc Fund B	0,41
Barclays Africa Group	1,24	Goldfields	0,80
BHP Billiton Plc	9,38	Growthpoint Properties Ltd	1,30
BID Corp Ltd	1,62	Impala Platinum Hldgs	0,60
Brait SE	0,59	Investec Ltd	0,46
Bidvest Ltd	1,07	Investec Plc	1,09
British American Tobacco	4,27	Intu Properties Plc	0,87
Compagnie Fin Richemont	9,09	Life Health Group	0,66
Discovery	0,71	Mediclinic International Ltd	0,96

What is an Index? (continued)

Index Weights – Basket of Constituents (as at September 2016)
FTSE/JSE Top 40 Index

	Market Cap Weighted (%)		Market Cap Weighted (%)
Mondi Ltd	0,63	RMB Holdings Ltd	0,79
Mondi Plc	1,94	Sanlam Ltd	2,10
Mr Price Group	0,62	Sasol Ltd	3,92
MTN Group	3,81	Shoprite Holdings Ltd	1,57
Naspers Ltd -N-	17,57	Sibanye Gold Ltd	1,38
NEDCOR	0,94	Standard Bank Group Ltd	3,47
Netcare Ltd	0,96	Steinhoff International Hldg	3,42
Old Mutual Plc	3,08	Tiger Brands Ltd	1,16
Redefine Properties	0,98	Vodacom Group	1,42
Reinet Inv Soc Anon	0,78	Woolworths Holdings Ltd	1,27
Remgro Ltd	2,23		

What is an Index?

- A sector of the market:
 - **Top 40 shares** (Satrix 40, SWIX Top 40, NewFunds Top 50)
 - **Industrials** (Satrix INDI 25 ETF; NewFunds S&P GIVI INDI ETF)
 - **Financials** (Satrix FINI 15 ETF; NewFunds S&P GIVI FINI ETF)
 - **Resources** (Satrix RESI 10 ETF; NewFunds S&P GIVI RESI 20 ETF)
 - **Global** (DBX Tracker MSCI USA ETF; DBX Tracker Eurostoxx 50 ETF; DB China ETN)

What is an Index?

- Can measure different types of assets:
 - Equities
 - Bonds
 - Commodities
 - Property
 - Currencies
 - Cash (money market)

What Are The Benefits of Buying the Index?

- You buy one ETF share, but you own a whole portfolio of shares.
- You only pay brokerage, JSE settlement, custodian, depository fees once and not for every share you own in the ETF.

**Buy one ETF and get an entire portfolio
for the price of a single trade**

Differences Between Passive and Active Investment Methods

■ Passive

- Manager replicates the return of the index.
- The index gives the **average return** of the market.
- If markets are efficient, it is very difficult **to beat an index consistently and over time.**
- Much lower costs.
- Lower volatility.
- Less risk.
- More transparency and flexibility.

Differences Between Passive and Active Investment Methods (continued)

▪ Active

- The manager targets **outperforming the benchmark index.**
- They have to do this to justify higher fees.
- **But:**
 - This means higher risk
 - Portfolio churn and transaction costs
 - Capital gains and securities transfer taxes on portfolio trades
 - Liquidity traps as the active manager can be sucked into buying undervalued shares.

Passive vs Active

- An index gives you the average return of the market.
- Who wants to be average?

Number of Active Asset Managers that Underperform the Return of the Index			
	1 Year	3 Year	5 Year
USA (benchmark S&P 500)	86%	76%	89%
Europe (benchmark S&P Europe 350)	83%	76%	82%
South Africa (S&P SA DSW)	84%	82%	85%

Source: S&P Dow Jones Indices (SPIVA Scorecard) (December 2015).

Beating 85% of all active managers is a pretty high average

Passive vs Active

Does active investment management work?

Not really

Stokvels / Investor Clubs

The Home of Exchange Traded Funds[®]



Legal Status of Stokvels / Investor Clubs / Burial Societies

- Government Gazette Notice 43 of 2013 exempts such organisations from the requirements of the FAIS Act.
- Definition:
 - **Stokvel/Investor Club** means a group of natural persons amongst whom a common bond exists joined together to form an invitation only group savings scheme or rotating credit scheme and that:
 - a) Consists of members who have pledged mutual support to each other towards the attainment of specific objectives;
 - b) Establishes a continuous pool of capital by raising funds by means of the subscriptions of or contributions by members
 - c) Provides for members to share in profits and to nominate management; and
 - d) Relies on self-imposed regulation to protect the interest of its members.

Starting & Managing an Investor Club/ Stokvel

FICA REQUIREMENTS

(to be sent to investment administrators)

- Copy of Constitution / Founding Statement.
- Letter or document for Authorised Person to Represent Society (signed by all members).
- Copy of Register of Investors.
- Copy of Club / Stokvel bank statement.
- FICA documents for Authorised Person.
 - ID
 - Proof of residence.

Using ETPs In Investor Clubs / Stokvels

- Less risk (more diversification) by using ETP portfolios to provide exposure to equities, bonds, listed property and other asset classes.
- Low costs do not eat into investment performance.
- Low investment minimums
- Quarterly dividends can be paid out or reinvested depending on choice of Club/Stokvel.

Using the etfSA Investor Plan for Stokvel/Investor Club Investments

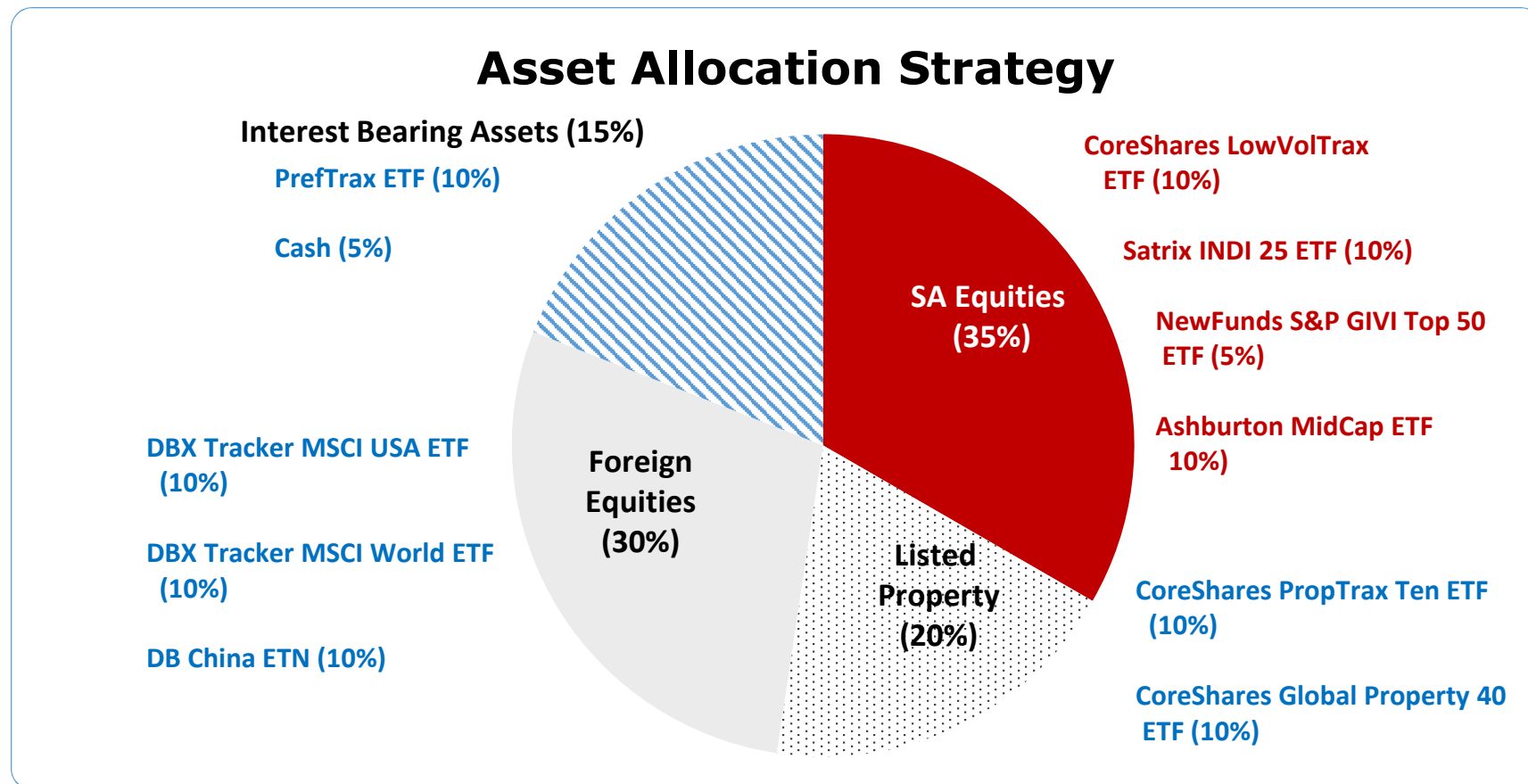
- Will accept investments from R1000.
- Will process debit orders from R300 per month.
- Automatically reinvests dividends four times a year.
- Brokerage fee of 0,08% (8bps) per transaction (all trades “bulked”).
- Administration fee (0,35% - 0,65% p.a.) is administered over 12 months and covers all transactions over that period.
- Specialise in ETPs only.

View: www.etfsa.co.za

Portfolios for Stokvels / Investor Clubs

- Select your own portfolios from over 70 ETPs available on etfSA Investor Plan.
- For Stokvels with over R100 000 investments, etfSA.co.za can provide guidance and advice.
- For Stokvels/Investor Clubs with over R1 million, etfSA can offer a bespoke portfolio management service.

Pro-Forma Portfolio for Investor Clubs/Stokvels (R1 million Lump Sum Investment)



Pro-Forma Portfolio for Investor Clubs/Stokvels (R1 million Lump Sum Investment)

	Amount Allocated		Current Value* After 5 Years (R)
	(%)	(R)	
SA Equities			
Satrix INDI 25 ETF	10%	100 000	251 900
NewFunds S&P GIVI Top 50 ETF	5%	50 000	76 400
CoreShares LowVolTrax ETF	10%	100 000	203 600
Ashburton MidCap ETF	10%	100 000	189 900
Foreign Equities			
DBX Tracker MSCI USA ETF	10%	100 000	332 400
DBX Tracker MSCI World ETF	10%	100 000	281 500
DB China ETN	10%	100 000	222 200
Listed Property			
PropTrax Ten ETF	10%	100 000	233 300
CoreShares Global Property 40 ETF	10%	100 000	242 300
Interest Bearing Assets			
PrefTrax ETF	10%	100 000	158 800
Cash	5%	50 000	74 000
Total	100%	R1 000 000	R2 266 300

126,6% over
5 years
25% per year

* Current value of lump sum investment done 5 years ago (with dividends reinvested).

Source: etfSA.co.za / Profile Data (25/11/2016).

Note: Historical returns may not be repeated in future.

The Home of Exchange Traded Funds®



Pro-Forma Portfolio for Investor Clubs/Stokvels (R100 000 Per Month Debit Order Investment)

	Amount Allocated		Current Value* After 5 Years (R)
	(%)	(R)	
SA Equities			
Satrix INDI 25 ETF	10%	10 000	812 150
NewFunds S&P GIVI Top 50 ETF	10%	10 000	633 000
CoreShares LowVolTrax ETF	10%	10 000	798 900
Ashburton MidCap ETF	10%	10 000	734 300
Foreign Equities			
DBX Tracker MSCI USA ETF	10%	10 000	1 083 800
DBX Tracker MSCI World ETF	10%	10 000	968 200
DB China ETN	10%	10 000	861 800
Listed Property			
PropTrax Ten ETF	10%	10 000	862 200
CoreShares Global Property 40 ETF	10%	10 000	937 500
Interest Bearing Assets			
PrefTrax ETF	10%	10 000	728 000
Cash	-		
Total	100%	R100 000pm	R8 410 850

* Current value of lump sum investment done 5 years ago (with dividends reinvested).

Source: etfSA.co.za / Profile Data (25/11/2016).

Note: Historical returns may not be repeated in future.

The Home of Exchange Traded Funds®



Discretionary Investments

Individual Investments

You manage the investment. You can choose your own individual ETFs or portfolio of ETFs.

- Through the **etfSA Investor Plan Platform**

- Debit orders from R300 per ETP, per month
- Lump sums from R1000 per ETP
- Quarterly dividends automatically reinvested
- Fully administered platform run by AOS, from 0,35% to 0,65% per annum management fee
- Transaction/brokerage charges paid for each transaction (8bps per trade).

www.etfsa.co.za

The Home of Exchange Traded Funds®



Using ETFs In A Discretionary Portfolio Single ETF Investment

Building Up Wealth
R1000 per month in Satrix INDI 25 ETF

	Current Value*				
	1 Year (R)	3 Year (R)	5 Year (R)	10 Year (R)	20 year** (R)
Satrix INDI 25 ETF	12 400	42 900	95 700	345 600	3 091 400

* Current value of R1000 per month investment over 1-10 years for period ended 27 May 2016.

** Extrapolated return based on 2004-2014 returns.

Source: etfSA.co.za / Profile Data (25/8/2016).

Note: Historic returns may not be repeated in future.

The Home of Exchange Traded Funds®



Discretionary Investments

- Can be used to build up wealth outside retirement funds (which are not accessible until retirement).
- Can be accessed at any time.
- Ideal for Stokvels/Investor Clubs.
- Can be used for Third Party investments.
- Build up your own portfolios to suit your **risk profile** or to meet your **investment objectives**.

Website: www.etfsa.co.za

Email: info@etfsa.co.za

The Home of Exchange Traded Funds®



ETF Tax Free Investment Accounts (ETFIA)

The Home of Exchange Traded Funds®



Tax Free Investment Accounts

- All income (dividends, interest) plus capital gains is tax free.
- ETFs/Unit Trusts which pay 4 dividends a year are ideal for maximizing the tax free income allowance.
- The tax free capital gains are key.

Capital Gains (past 5 years)		
	% Appreciation (per annum)	Value of R30000 Investment After 5 Years*
Tax Free Savings Account	5,8%	39 800
JSE All Share Index	12,7%	54 540
ETF Tax Free Investment Equity Portfolio	21,4%	79 000
* All income reinvested.		

What Return Can I Expect?

R30 000 per annum investment to a maximum of R500 000

	1 Year	5 Years	17 Years
Cash (bank savings)	R31 740	R208 208	R899 796
SA Government Bonds	R33 120	R233 817	R1 413 647
ETFIA Income Account	R34 110	R254 133	R1 979 479
JSE All Share Index	R35 640	R289 028	R3 375 777
ETFIA Equity Account	R38 370	R363 169	R7 805 000

*Based on the average return of the last five years to February 2016.
The same return may not be achieved in future.*

ETF Tax Free Investment Accounts

- Various ETFIA portfolios to choose from
 - Balanced income/equity ETF portfolio
 - Equity only ETF portfolio
 - Foreign ETFs only
 - Individual ETFs for R30 000 investment.
- Total cost 1% per annum, includes all transaction, administration, asset management and advice fees.

Website: www.etfsa.co.za

Email: taxfree@etfsa.co.za

The Home of Exchange Traded Funds®



Retirement Annuity Funds



The Home of Retirement Funds

Retirement Annuity Funds

- A RA is a retirement fund in your own name.
- Can be opened by individual – to take advantage of 27,5% tax deductions allowed under the Income Tax Act.
- Individual RAs can be opened for your staff members:
 - They get the tax benefits
 - The employer can expense all the contributions and costs
 - Employer has **no retirement liability**.
- RA member can choose their own retirement age and portfolios.



The Home of Retirement Funds

etfSA RA Funds

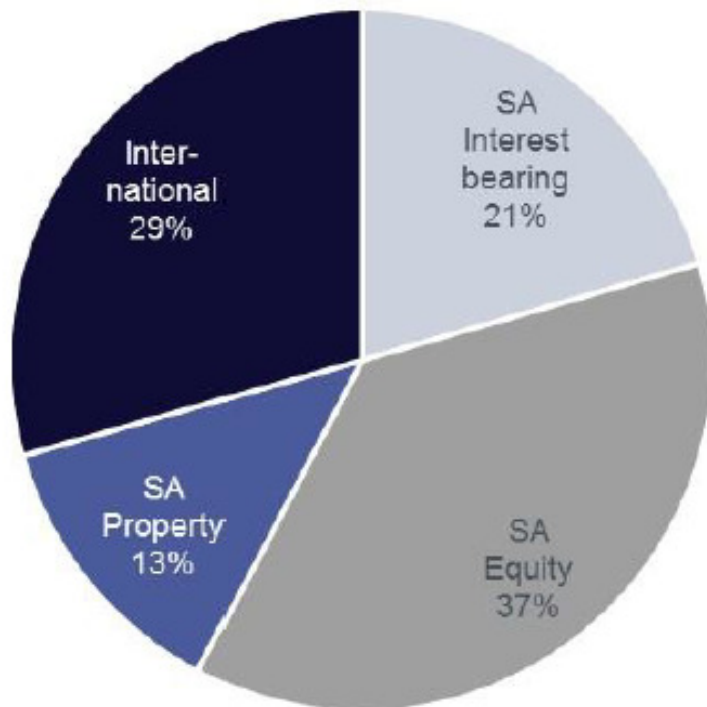
- Regulation 28 portfolios using only JSE listed ETFs and ETNs as the building blocks in portfolios.
- Membership of a small, personally managed FSB and SARS registered retirement fund.
- Daily access to your statements, benefits, Fund Rules, etc.
- Portfolio returns reported net of TERs and other costs.
- Administration and running costs of 1,00% per annum.
- You can transfer any pension fund, provident or preservation fund, umbrella fund, corporate fund or individual RA fund into/or out of etfSA RA Fund by a Section 14 transfer.



The Home of Retirement Funds

etfSA Wealth Enhancer (CPI +7%) RA Portfolio – Asset Structure

Benchmark Asset Allocation



Actual Portfolio Holdings

Asset class	Reg. 28 Category	Description	Weight (%)
SA Interest bearing	Cash (max 100%)	Cash	9.7
		Ashburton Inflation-linked GOVI ETF	5.9
	Debt (max 75%)	CoreShares PrefTrax ETF	5.0
		CoreShares Equally Weighted Top40 ETF	5.0
		Satrix FINI15 ETF	0.9
		Satrix INDI25 ETF	2.8
		NewFunds GVI SA Top50 ETF	8.0
		NewFunds GVI Financial ETF	2.7
		NewFunds GVI Industrial ETF	3.7
		NewFunds Equity Momentum ETF	3.7
Coreshares Dividend Aristocrats ETF	10.4		
SA Property	Immovable Property (max 25%)	Stanlib Property ETF	3.9
		Proptrax Ten ETF	9.0
Offshore	Foreign exposure (max 25%)	dbx-Trackers World ETF	5.7
		dbx-Trackers EuroStoxx 50 ETF	2.9
		BNP GURU World ETN	3.9
		dbx-Trackers China ETN	4.8
		NewFunds Euro ETN	1.8
		NewFunds Pound Sterling ETN	0.9
		StdBank Africa Commodity ETN	2.9
		NewGold ETF	5.0
Commodities	Physical (max 10%)	NewGold Palladium ETF	1.7



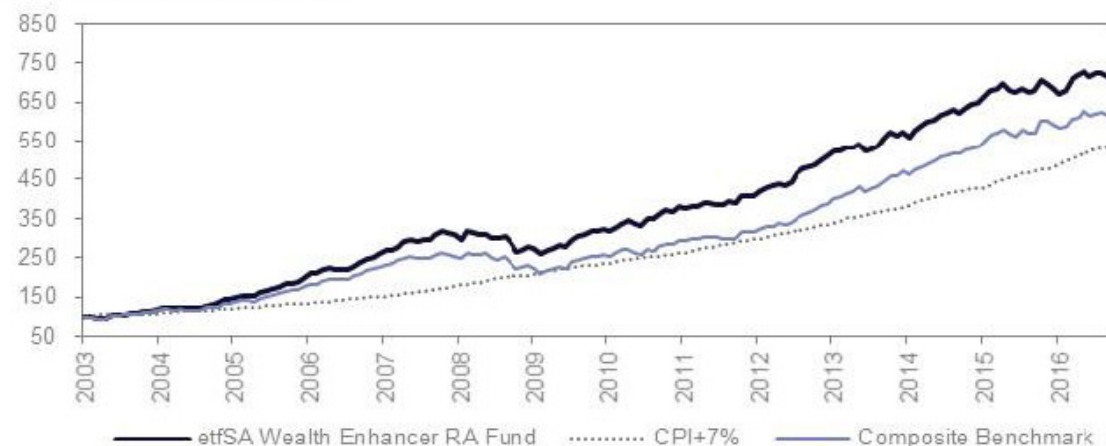
The Home of Retirement Funds

etfSA Wealth Enhancer (CPI +7%) RA Portfolio – Historic Investment Performance

Portfolio Investment Returns compared to Market Performance

(%)	3yrs (pa)	5yrs (pa)	10yrs (pa)
Cash - ST Fixed Income Index (STeFI)	6.5	6.0	7.3
FTSE/JSE All Bond Index (ALBI)	6.9	7.6	8.3
FTSE/JSE All Share Index (ALSI)	6.7	12.7	11.2
FTSE/JSE SA Listed Property Index (SAPY)	13.6	17.4	16.6
MSCI World Index in ZAR (MXWR)	12.3	18.6	8.1
CPI+7%	12.6	12.7	13.2
etfSA Wealth Enhancer RA Fund	6.9		
CPI+7% Model Portfolio	7.0	12.5	13.1

Historical Performance



The Home of Retirement Funds

Contact Details

Discretionary Investments	0861 383 721 (etfSA Investor Plan)	info@etfSA.co.za
Tax Free Investment Accounts	0861 100 917	etfia@computershare.co.za
RA Funds	0861 383 727 (etfSA RA Fund)	rafunds@etfSA.co.za
Living Annuity Funds	011 274 6167	lafunds@etfSA.co.za
Portfolio Management Service	011 274 6170	portfolios@etfSA.co.za
Nerina Visser	011 274 6173	nerinav@etfSA.co.za
Mike Brown	011 274 6171	mikeb@etfSA.co.za

Terms and conditions: Redistribution, reproduction, the resale or transmission to any third party of the contents of this article and this website, whether by email, newsletter, internet or website, is only possible with the written permission of etfSA. etfSA, its sponsors, administrators, contributors and product providers disclaim any liability for any loss, damage, or expense that might occur from the use of or reliance on the data and services provided through this website. etfSA.co.za is the registered trading name of M F Brown, an authorised Financial Services Provider (FSP No 39217). etfSA.co.za is licensed to provide financial services in the following categories: Collective Investment Schemes; Shares and Securities; Retail Pension Fund Benefits; Short-Term deposits; Friendly Society Benefits and Long-Term Insurance Category C. Professional Indemnity Insurance is maintained.

The Home of Exchange Traded Funds®

