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# Using Exchange Traded Products (ETPs) In Portfolio Construction

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Seminars**

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# Agenda

- Advantages of using Exchange Traded Products in investment portfolios and products.
- ETF Tax Free Investment Accounts.
- etfSA Retirement Annuity Funds.
- etfSA Living Annuities.
- Managed Investment Portfolios
  - South Africa
  - International
- Contact details.

# Advantages of ETPs in Portfolios

- Investment portfolios/products can be constructed using ETPs, just like unit trusts, individual shares or unlisted investments.

## What are the advantages?

- **Listing on the JSE brings**
  - Transparency
  - Liquidity – compulsory market making
  - Electronic register and depository
  - JSE Guarantee Fund means security of tenure.

# Advantages of ETPs (continued)

## ▪ Lower costs

- Total expense ratios (TERs) of ETFs are **half** those of index tracking unit trusts and **one-fifth** of normal unit trusts.
- etfSA "all-in costs" include:
  - TERs.
  - JSE trading costs
  - JSE settlement, transfer, custodian and registration fees
  - All administration costs
  - Asset management fees
  - Financial advice fees
  - Consultation fees

# Advantages of ETPs (continued)

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

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

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

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

# Advantages of ETPs (continued)

- Indices provide access:
  - to only blue chip, liquid securities
  - to full diversification of portfolios
  - the index is rebalanced quarterly to replace under performing stocks, at no additional expense to the ETP holder.

# Advantages of ETPs (continued)

## ▪ Lower risk

- ❑ Risk is measured as standard deviation against the index benchmark – ETPs are the index.
- ❑ Active asset managers underperform the index 85% of the time. If you buy index trackers, you eliminate this systemic underperformance.
- ❑ Strategic asset allocation strategy can be more accurately implemented.

**Passive investment reduces risk**

# ETF Tax Free Investment Accounts (ETFIA)

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# Tax Free Strategies

- Limited to R30 000 investment contribution each year, with lifetime contribution of R500000. Can be for any individual with SA ID number.
- Make investment as **early as possible in each tax year**
  - To maximize capital growth and to receive 4 tax free dividends.
- Debit order or periodic lump sums available from R1000 in ETF Tax Free Investment Accounts.

# Tax Free Strategies (continued)

- 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.

# 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**

	<b>1 Year</b>	<b>5 Years</b>	<b>17 Years</b>
Cash (bank savings)	R31 740	R208 208	R899 796
SA Government Bonds	R33 120	R233 817	R1 413 647
ETFIA <b>Income</b> Account	R34 110	R254 133	R1 979 479
JSE All Share Index	R35 640	R289 028	R3 375 777
ETFIA <b>Equity</b> Account	R38 370	R363 169	<b>R8 902 064</b>

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

# Retirement Annuity Funds



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# etfSA RA Funds

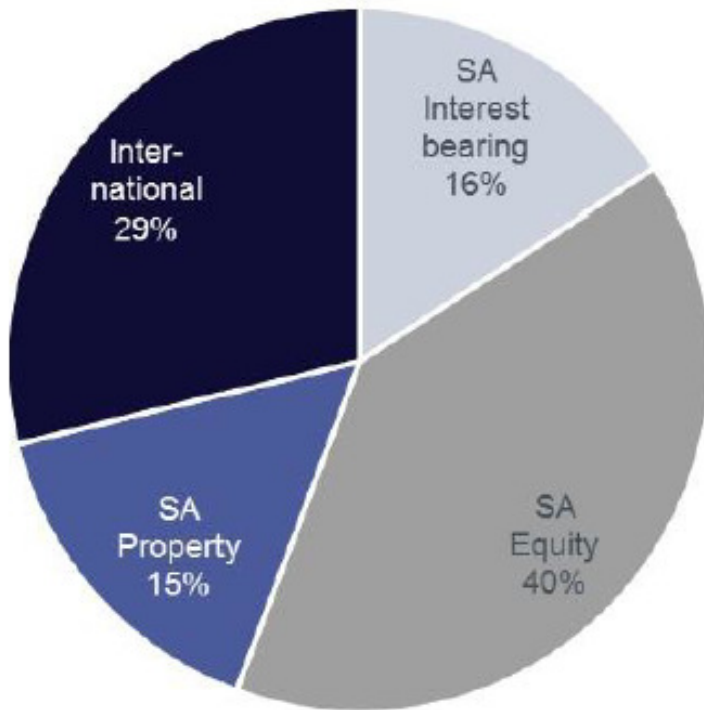
- Regulation 28 portfolios using only JSE listed ETFs and ETNs as the building blocks in portfolios.
- Membership of a small, personally managed FSB and SARS registered retirement fund.
- Daily access to your statements, benefits, Fund Rules, etc.
- Portfolio returns reported net of TERs and other costs.
- 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.



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# 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%) Debt (max 75%)	Cash	5.8		
		Ashburton Inflation-linked GOVI ETF	6.3		
		CoreShares PrefTrax ETF	3.8		
SA Equity	Equities (max 75%)	CoreShares Equally Weighted Top40 ETF	5.2		
		Satrix FINI15 ETF	1.9		
		Satrix INDI25 ETF	2.9		
		NewFunds GIVI SA Top50 ETF	8.7		
		NewFunds GIVI Financial ETF	3.7		
		NewFunds GIVI Industrial ETF	3.7		
		NewFunds Equity Momentum ETF	3.8		
		Coreshares Dividend Aristocrats ETF	10.0		
		SA Property	Immovable Property (max 25%)	Stanlib Property ETF	3.5
				Proprax Ten ETF	12.0
Offshore	Foreign exposure (max 25%)	dbx-Trackers World ETF	5.7		
		dbx-Trackers EuroStoxx 50 ETF	2.9		
		BNP GURU World ETN	3.8		
		BNP GURU Asia ETN	1.9		
		dbx-Trackers China ETN	4.8		
		NewFunds US Dollar ETN	1.9		
		NewFunds Euro ETN	1.9		
		NewFunds Pound Sterling ETN	0.9		
		Commodities	Physical (max 10%)	StdBank Africa Commodity ETN	2.9
NewGold Palladium ETF	2.1				



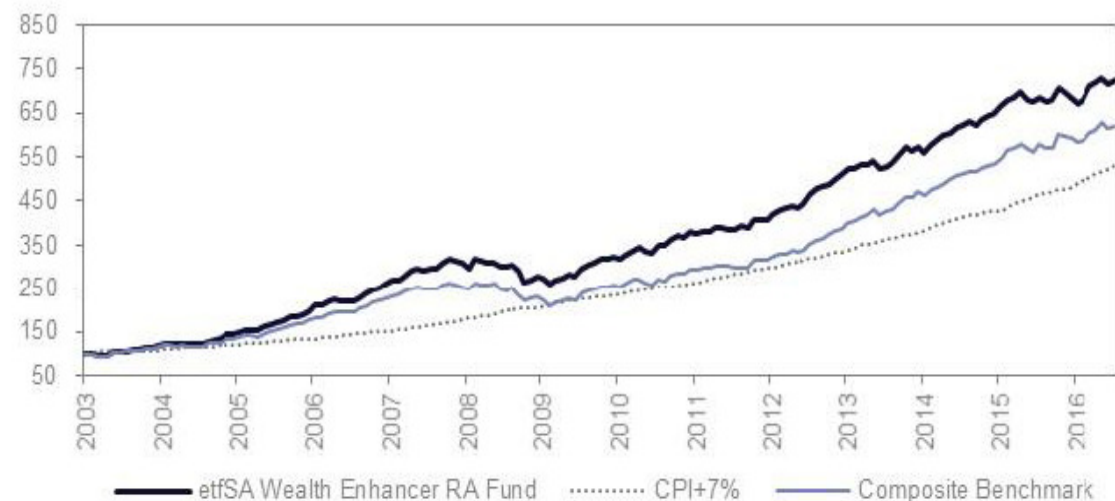
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# etfSA Wealth Enhancer (CPI +7%) RA Portfolio – Historic Investment Performance

## Portfolio Investment Returns compared to Market Performance

(%)	3yrs (pa)	5yrs (pa)	10yrs (pa)
Cash - ST Fixed Income Index (STeFI)	6.2	5.9	7.3
FTSE/JSE All Bond Index (ALBI)	7.3	8.1	8.5
FTSE/JSE All Share Index (ALSI)	11.8	14.5	12.9
FTSE/JSE SA Listed Property Index (SAPY)	17.2	18.9	19.4
MSCI World Index in ZAR (MXWR)	17.2	22.3	10.1
CPI+7%	12.6	12.6	13.2
<b>etfSA Wealth Enhancer RA Fund</b>	<b>12.0</b>		
CPI+7% Model Portfolio	12.4	13.4	13.7

## Historical Performance



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# etfSA Living Annuities



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# etfSA Living Annuities

- For post-retirement annuities.
- Portfolios using ETFs and ETNs as building blocks
- “All-in” fees of
  - 1,25% up to R10 million
  - 0,95% from R10 million to R20 million
  - 0,75% above R20 million.
- Personally designed bespoke LA portfolio to maintain your lifestyle in retirement.
- You can transfer from any pension, provident, preservation or RA fund directly to etfSA LA, or from another LA to etfSA LA under Directive 135.



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# etfSA Living Annuities

PORTFOLIO CONSTRUCTION			
Fund	Average Annual Return	Amount Allocated (%)	Weighted Average* Return (%)
Wealth Maximiser Fund (CPI +10%)	18,2%	60%	10,9%
Wealth Conservator Fund (CPI +3%)	10,3%	20%	2,1%
Wealth Enhancer Fund (CPI +7%)	13,3%	20%	2,7%
<b>Total</b>		100%	15,7%
* Returns of model portfolio over past 5 years.			



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# etfSA Living Annuities

## Annual Growth / Withdrawals / Costs of etfSA LA Portfolio R5 million Lump Sum

Year	Amount Invested (R)	Capital Growth (15% p.a. (R)	Annual Drawdown (+6% escalated at 5% p.a.) (R)	Annual Costs (1,25% p.a.) (R)	Capital Retained (R)
<b>1</b>	5 000 000	750 000	300 000	71 900	5 378 100
<b>2</b>	5 378 100	806 700	338 800	77 300	5 768 700
<b>3</b>	5 768 700	865 300	437 800	82 900	6 113 300
<b>4</b>	6 113 300	917 000	492 100	87 900	6 450 300
<b>5</b>	6 450 300	967 500	545 200	92 700	6 779 900
<b>6</b>	6 779 900	1 017 000	600 300	97 500	7 099 100
<b>7</b>	7 099 100	1 064 800	653 100	102 000	7 408 800
<b>8</b>	7 408 800	1 111 300	681 600	106 500	7 732 000
<b>9</b>	7 732 000	1 159 800	755 800	111 100	8 024 900
<b>10</b>	8 024 900	1 203 700	830 600	115 400	8 282 600

- Assumptions**
- Capital Growth of 15% per annum, based on model portfolio 5 year returns.
  - Initial annual withdrawal of 6% of capital, escalated by 5% per annum, to account for inflation.
  - Annual costs calculated at 1,25% per annum.



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# Managed Investment Portfolios

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# etfSA Portfolio Management Company (Pty) Ltd

## Managed Discretionary Portfolios

**For investments over ±R1 million**

- Bespoke portfolio management service
- Designed to meet investment and risk profile of individual clients.
- All-in cost 1% per annum (includes all transaction, custodian, administration, asset management and financial advice).
- Funds can be added to or withdrawn at any time.
- Full personal service – access to Nerina Visser or Mike Brown at any time.

# etfSA Portfolio Management Company (Pty) Ltd

## International ETP Portfolios

- Fully managed investment portfolios for capital located **outside South Africa**.
- Settlement into and out of an offshore bank account.
- Utilise global stockbroking platform (Saxo Capital Markets) – access to 30 major stock exchanges in multi-currencies.
- ETF securities held in your name through a global custodian company, with custody agreement for all major exchanges.
- Total fee 1,0% per annum (includes trading, settlement, custody, asset management ,financial advice, account administration).

# etfSA Portfolio Management Company (Pty) Ltd

## GLOBAL ETF ILLUSTRATIVE PORTFOLIO

Product	Size (million)	Provider	Ticker	TER	3-5 Year Performance (% p.a.)	Allocation	Weighted Return (% p.a.)
<b>Developed Market Equities</b>							
<b>Core S&amp;P 500 UCITS ETF (USA)</b>	US\$15 795	iShares	SWPA	0,07%	10,70%	10%	1,07%
<b>High Dividend Yield ETF (USA)</b>	US\$20 900	Vanguard	VYM	0,09%	11,21% (5 year)	10%	1,12%
<b>Core MSCI World UCITS ETF</b>	US\$7 065	iShares	SWDA	0,20%	6,71%	5%	0,33%
<b>Europe Dividend Yield UCITS ETF</b>	EUR633	iShares	IDUY	0,40%	11,14%	10%	1,11%
<b>MSCI Japan UCITS ETF</b>	US\$1 400	iShares	IJPN	0,20%	5,14%	5%	0,26%
						<b>40%</b>	
<b>Emerging Market Equities</b>							
<b>China Large Cap UCITS ETF</b>	US\$581	iShares	FXC	0,74%	2,79%	5%	0,14%
<b>MSCI Far East (ex Japan) UCITS ETF</b>	US\$1 709	iShares	IFFF	0,74%	1,79%	5%	0,08%
						<b>10%</b>	

Note: Historical returns may not be repeated in future.

(Table continued on next slide)

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# etfSA Portfolio Management Company (Pty) Ltd (continued)

GLOBAL ETF ILLUSTRATIVE PORTFOLIO							
Product	Size (million)	Provider	Ticker	TER	3-5 Year Performance (% p.a.)	Allocation	Weighted Return (% p.a.)
<b>Bonds</b>							
<b>US Treasury Bond (7 + 10 years) UCITS ETF</b>	US\$2 703	iShares	IBTM	0,20%	5,42%	5%	0,27%
<b>Emerging Markets Government Bond ETF</b>	US\$961	Vanguard	VWOB	0,34%	10,36% (5 year)	5%	0,52%
<b>Emerging Markets Corporate Bond UCITS ETF</b>	US\$207	iShares	EMCP	0,50%	4,99%	5%	0,25%
<b>Global Infrastructure UCITS ETF</b>	US\$481	iShares	INFR	0,65%	5,89%	5%	0,30%
						<b>20%</b>	
<b>Property</b>							
<b>US Property Yield UCITS ETF</b>	US\$802	iShares	IUSP	0,40%	13,50%	5%	0,67%
<b>UK Property UCITS ETF</b>	GBP722	iShares	IUKP	0,40%	8,38%	5%	0,42%
<b>Developed World Property Yield UCITS ETF</b>	US\$3 153	iShares	IWDP	0,50%	10,82%	5%	0,54%
<b>European Property Yield UCITS ETF</b>	EUR1 587	iShares	IPRP	0,40%	17,73%	5%	0,88%
<b>Asia Property Yield UCITS ETF</b>	US\$291	iShares	IASP	0,59%	7,42%	5%	0,37%
						<b>25%</b>	
<b>Commodities</b>							
<b>Physical Gold ETC</b>	US\$2 110	iShares	SGLN	0,25%	0,4%	<b>5%</b>	0,02%
							8,35%

Note: Historical returns may not be repeated in future.

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# Contact Details

Discretionary Investments	0861 383 721 (etfSA Investor Plan)	<a href="mailto:info@etfSA.co.za">info@etfSA.co.za</a>
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RA Funds	0861 383 727 (etfSA RA Fund)	<a href="mailto:rafunds@etfSA.co.za">rafunds@etfSA.co.za</a>
Living Annuity Funds	011 274 6167	<a href="mailto:lafunds@etfSA.co.za">lafunds@etfSA.co.za</a>
Portfolio Management Service	011 274 6170	<a href="mailto:portfolios@etfSA.co.za">portfolios@etfSA.co.za</a>
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