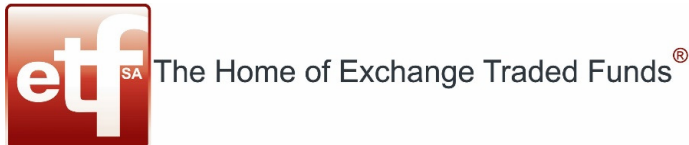


# ETFs as an Investment Vehicle

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**etfSA.co.za Seminar**  
**JSE Ltd**  
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# Agenda

- What are ETFs?
- What is an index?
- How ETFs operate as passive index trackers.
- Investing for Investor Clubs/Stokvels.

# What Are ETFs?

- They are securities (shares) listed on the JSE that trade like any normal share on the Main Board.
- Instead of giving access to the performance of **single company**, they provide **multi-company** investment exposure.
- The portfolios offered by ETFs are the components of an **index** (passive investment) and not an **actively managed** investment portfolio.

# What is an Index?

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

	Market Cap Weighted (%)		Market Cap Weighted (%)
Anglo Ashanti	1,33	FirstRand Ltd	2,96
Anglo American Plc	5,65	Fortress Inc Fund A	0,37
Aspen Pharmacare Hldgs	2,08	Fortress Inc Fund B	0,49
Barclays Africa Group	1,30	Goldfields	0,70
BHP Billiton Plc	9,03	Growthpoint Properties Ltd	1,35
BID Corp Ltd	1,50	Impala Platinum Hldgs	0,67
Brait SE	0,48	Investec Ltd	0,49
Bidvest Ltd	1,05	Investec Plc	1,14
British American Tobacco	4,01	Intu Properties Plc	0,78
Compagnie Fin Richemont	9,30	Life Health Group	0,65
Discovery	0,72	Mediclinic International Ltd	0,94

# What is an Index? (continued)

Index Weights – Basket of Constituents (as at December 2016) FTSE/JSE Top 40 Index			
	Market Cap Weighted (%)		Market Cap Weighted (%)
Mondi Ltd	0,66	RMB Holdings Ltd	0,82
Mondi Plc	2,06	Sanlam Ltd	2,20
Mr Price Group	0,73	Sappi Ltd	0,83
MTN Group	3,80	Sasol Ltd	3,92
Naspers Ltd -N-	16,91	Shoprite Holdings Ltd	1,42
NEDCOR	0,98	Standard Bank Group Ltd	3,32
Netcare Ltd	0,88	Steinhoff International Hldg	3,29
Old Mutual Plc	3,11	Tiger Brands Ltd	1,27
Redefine Properties	1,03	Vodacom Group	1,43
Reinet Inv Soc Anon	0,77	Woolworths Holdings Ltd	1,29
Remgro Ltd	2,27		

# Are Indices Worthwhile?

- They are **well diversified**.
- They typically only cover blue chip stocks (**reduces volatility and risk**).
- You only pay brokerage and JSE charges **once** and not for the whole portfolio.
- They are **transparent** – you always know what is in the index.
- ETFs, as **listed securities**, offer security of tenure through the JSE/STRATE Central Depository Clearing House and Guarantee agreements.

# Passive vs Active

- 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 2016).*

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

# How ETFs Operate

- All ETFs track an **index** or **asset class**.
- They do this by exactly replicating the index.
- They physically hold all the securities in the index.
- They are therefore 100% physically backed.
- Any **“tracking error”** comes from:
  - The cost of managing the ETF, i.e. the Total Expense Ratio (TER).



# Total Expense Ratios (TERs)

	<b>% per annum</b>
<b>SA index ETFs listed on the JSE</b>	<b>0,32%</b>
<b>Index tracking Unit Trusts</b>	<b>0,71%</b>
<b>Actively managed SA Equity Unit Trusts</b>	<b>1,58%</b>

*Source: Quarterly Unit Trust Survey – Profile Data (31/12/2016).*

# How ETFs Operate

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  - The cost of managing the ETP, i.e. the Total Expense Ratio (TER).
  - The cost of trading the ETP on the JSE.

# Trading Costs for JSE

Stockbrokerage fee	<ul style="list-style-type: none"> <li>• Can be between 0,25% - 1,00% per trade.</li> </ul>
Using etfSA.co.za	<ul style="list-style-type: none"> <li>• 0,08% per trade;</li> </ul> <p>Or</p> <ul style="list-style-type: none"> <li>• Included in annual fees charged.</li> </ul>
Settlement charges; JSE/ Strate/Custodial fees	<ul style="list-style-type: none"> <li>• About R14 per trade.</li> <li>• Most brokers charge R600-R1000 per month for administration.</li> </ul>
Using etfSA.co.za	<ul style="list-style-type: none"> <li>• Trades "bulked" so minimal fees.</li> <li>• Monthly administration charges included in annual fees.</li> </ul>
Bid/offer spreads	<ul style="list-style-type: none"> <li>• Buyers always want to pay below the market price.</li> <li>• Sellers always want to sell above the market price.</li> </ul>
Using etfSA.co.za	<ul style="list-style-type: none"> <li>• Use market makers who trade at NAV (fair value) market price and eliminate the bid/offer spreads.</li> </ul>

# ETFs Are:

- The lowest cost
- Most transparent
- Easily accessible
- Most efficient
- Safest way

**To make index tracking investments.**

# Stokvels / Investor Clubs

# 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 R150 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.

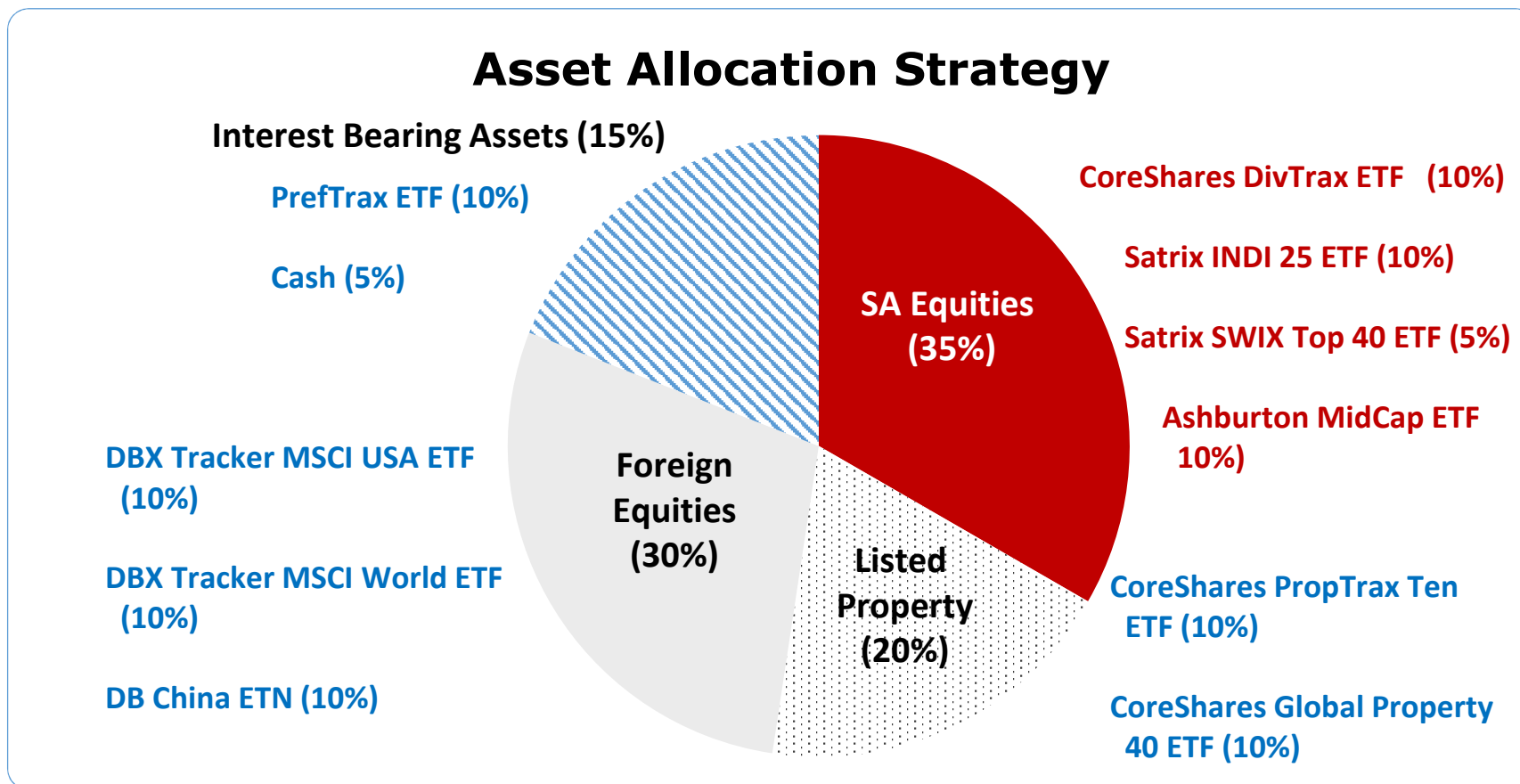
**View: [www.etfsa.co.za](http://www.etfsa.co.za)**



# Portfolios for Stokvels / Investor Clubs

- Select your own portfolios from 73 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



**Average weighted annual return: 14,66% per annum (past 5 years)**

Source: [etfSA.co.za](http://etfSA.co.za) / Profile Data 31/12/2016

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## Pro-Forma Portfolio for Investor Clubs/Stokvels (R100 000 Lump Sum Investment)

	Amount Allocated		Current Value* After 5 Years (R)
	(%)	(R)	
<b>SA Equities</b>			
Satrix INDI 25 ETF	10%	10 000	23 530
Satrix SWIX Top 40 ETF	5%	5 000	17 600
CoreShares DivTrax ETF	10%	10 000	14 300
Ashburton MidCap ETF	10%	10 000	19 360
<b>Foreign Equities</b>			
DBX Tracker MSCI USA ETF	10%	10 000	28 930
DBX Tracker MSCI World ETF	10%	10 000	25 130
DB China ETN	10%	10 000	21 200
<b>Listed Property</b>			
PropTrax Ten ETF	10%	10 000	21 750
CoreShares Global Property 40 ETF	10%	10 000	22 200
<b>Interest Bearing Assets</b>			
PrefTrax ETF	10%	10 000	15 490
Cash	5%	5 000	6 920
<b>Total</b>	<b>100%</b>	<b>R100 000</b>	<b>R216 410</b>

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

Source: etfSA.co.za / Profile Data (27/3/2017).

Note: Historical returns may not be repeated in future.

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## Pro-Forma Portfolio for Investor Clubs/Stokvels (R10 000 Per Month Debit Order Investment)

	Amount Allocated		Current Value* After 5 Years (R)
	(%)	(R)	
<b>SA Equities</b>			
Satrix INDI 25 ETF	10%	1 000	80 600
Satrix SWIX Top 40 ETF	10%	1 000	72 600
CoreShares DivTrax ETF	10%	1 000	70 300
Ashburton MidCap ETF	10%	1 000	81 560
<b>Foreign Equities</b>			
DBX Tracker MSCI USA ETF	10%	1 000	94 600
DBX Tracker MSCI World ETF	10%	1 000	86 570
DB China ETN	10%	1 000	80 530
<b>Listed Property</b>			
PropTrax Ten ETF	10%	1 000	86 130
CoreShares Global Property 40 ETF	10%	1 000	89 000
<b>Interest Bearing Assets</b>			
PrefTrax ETF	10%	1 000	80 100
<b>Total</b>	<b>100%</b>	<b>R10 000 per month</b>	<b>R821 990</b>

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

Source: *etfSA.co.za / Profile Data (27/3/2017).*

Note: *Historical returns may not be repeated in future.*

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