

State of the South African Exchange Traded Product (ETP) Industry – as at 30 December 2022

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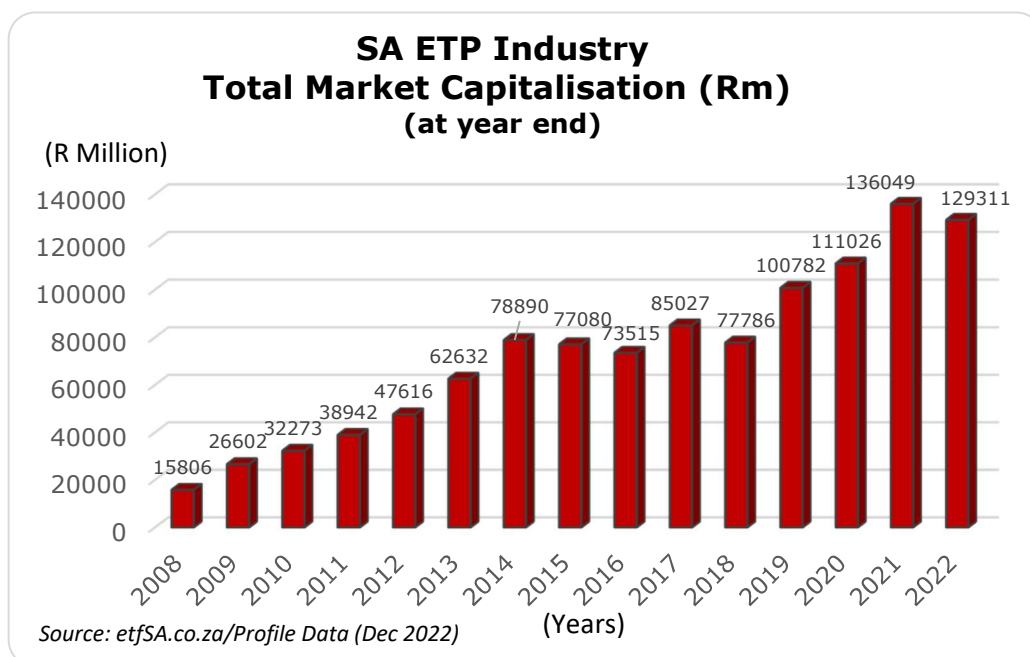
INDUSTRY OVERVIEW

The total market capitalisation of all Exchange Traded Products (which include ETFs, ETNs and AMCs), at the end of 2022, amounted to R129 310 million. This constituted a drop of some 5% on the value of the ETP industry, at the end of 2021. The decline in the total size of the exchange traded product industry last year, was the first such drop in the total value of the securities listed by ETP issuers, since 2018.

The significant decline in the equity markets, particularly globally, was the key factor in the shrinking of the size of the SA ETP industry. For instance, the US S&P index fell by 20% in 2022, and large declines were recorded in many other equity markets worldwide.

Bond market prices also fell as interest rates rose in response to the unexpected surge in international inflation rates, mainly due to the supply disruptions brought about by the unexpected Russian invasion of Ukraine. The South African equity market bucked the trend by recovering by over 15% from lows recorded in September 2021 and ending the year at close to record highs.

The ETP industry's resilience against this unfavourable background in the financial markets was notable.



TOTAL ETPs IN ISSUE

The number of Exchange Traded Products listed on the JSE rose from 168 at the end of 2021 to 183 at the end of 2022, as shown in Table A.

Table A

Number of Exchange Traded Products in Issue (end of period)				
	2019	2020	2021	2022
Exchange Traded Funds (ETFs)	73	78	86	95
Exchange Traded Notes (ETNs)	29	59	82	66
Actively Managed Certificates (AMCs)	-	-	-	22
Totals	102	137	168	183

Source: etfSA.co.za (December 2022)

Part of the growth in the number of ETP products available to local investors was the introduction by the JSE of two new categories for Exchange Traded Products in October 2022. These were:

Actively Managed Exchange Traded Funds (AMETFs) – these allowed issuers and portfolio managers to use actively managed strategies to provide a return for the investor, instead of passively tracking an index, or other type of asset. The listing requirements for these products require that the manager must publish details of the portfolio constituents and hold these exact assets. Net Asset Values (NAVs) of the fund have to be published on a regular basis (typically daily).

Actively Managed Certificates (AMCs) – these are non-interest paying debt instruments - similar to ETNs, where the investor accesses the performance of a basket of securities that are actively managed according to a specific mandate. The AMC must reference a portfolio that is actively managed by an independent portfolio manager.

The issuer of the AMC lends its balance sheet to the product, but the investment performance is delivered by the strategy of the independent portfolio manager.

AMCs have already gained some traction and there are 22 such products, listed on the JSE, despite this category of the JSE listing requirements only being introduced in October 2022.

The conversion of 14 actively managed ETNs to AMCs by Union Bank of Switzerland, helped get the AMC category off to a flying start. In addition, UBS have listed 5 new AMCs, all operated by independent asset managers.

Standard Bank have also recently listed 3 AMCs, all with different portfolio managers.

The continued growth in the number of ETPs that are listing on the JSE, particularly now that actively managed portfolios are also accommodated as Exchange Traded Products, indicates that the listing of index tracking and portfolio products is finding increasing favour with local investors. Further expansion of the number and variety of Exchange listed products can be expected in future.

NEW CAPITAL RAISED - ISSUING HOUSES

In addition to the increase in the number of ETPs listed on the JSE, there was also an increase in the net capital raised by the ETP issuers, either through IPO listings of new products, or from further issues of ETPs already listed on the Exchange. All Exchange Traded Products are open-ended, which enables securities to be listed or delisted on the JSE, in order to cater for market demands for the products. This open-ended nature of exchange traded products ensures that the ETFs, ETNs and AMCs trade at their net asset value and not at discounts or premiums due to excess market demand for the product.

The capital raising by the ETP issuers had two distinct outcomes.

Some ETP issuing houses, namely Satrix, Sygnia Itrix and CoreShares, consistently raised new capital mainly by additional issues of ETPs already listed on the JSE, to meet market demand for their particular products. The issue of AMCs later in the year by Union Bank of Switzerland and Standard Bank, also brought new capital into the market.

These positive capital gains were largely offset by delisting of ETPs by the issuers of commodity backed ETPs, namely Absa Capital, under the NewGold brand and by Standard Bank, under the 1invest brand. Also, Investec Capital delisted its two ETNs covering the JSE Top 40 and SWIX Top 40 indices, as these notes reached their maturity date.

As shown in Table B, the overall impact was for a net R1 281,7 million new capital being attracted into the industry.

Table B

Net New Capital Raised / (Redeemed) - South African ETP Issuing Houses - 2022		
Issuing House		Total Capital (R million)
1.	Satrix Managers (ETFs)	3 271,9
2.	Sygnia Itrix (ETFs)	3 229,6
3.	CoreShares (ETFs)	1 261,1
4.	Union Bank of Switzerland (AMCs)	525,0
5.	Standard Bank (AMCs)	300,0
6.	FNB (ETFs)	234,1
7.	FNB (ETNs)	200,0
8.	Cloud Atlas (ETFs)	0,3
9.	Absa Capital (NewWave ETNs)	(227,9)
10.	1invest (ETFs)	(1 673,4)
11.	Investec Capital (ETNs)	(2 377,3)
12.	Absa Capital (NewFunds ETFs, NewGold ETFs)	(3 461,7)
Total		1 281,7
<i>Source: etfSA.co.za Quarterly Securities in Issue and New Capital Raised Survey December 2022).</i>		

NEW CAPITAL RAISED – INDIVIDUAL PRODUCTS

Table C

Capital Raised / (Redeemed) for Individual Exchange Traded Products			
2022			
ETP	Amount (Rm)	ETP	Amount (Rm)
Sygnia Itrix Emerging Markets 50 ETF	1 149,2	NewGold Platinum ETF	(1 725,9)
CoreShares Wealth GOVI ETF	839,7	Absa NewGold ETF	(1 449,2)
Satrix S&P 500 ETF	815,1	Investec SWIX Top 40 ETN	(1 277,7)
Satrix 40 ETF	718,2	Investec Top 40 ETN	(1 095,6)
Sygnia Itrix S&P Global 1200 ESG	658,9	Invest Palladium ETF	(1 016,8)

Source: etfSA.co.za Quarterly Securities in Issue and New Capital Raised Survey December 2022).

Table C demonstrates the sharp negative impact on the scale of the ETP industry arising from the delisting of a significant number of securities by the issuers of precious metal ETFs. Most equity tracking ETFs, listed foreign referenced and locally referenced indices, continued to attract new investor interest and led to additional securities being listed. It remains to be seen if the delistings of commodity ETPs will continue in 2023, or if this was more of a one-off event.

Snapshot of the SA ETP Industry as at 30 December 2022

Table D presents the total picture of the total Exchange Traded Product industry at the end of 2022. The total number of ETPs in issue amounted to 183 with a total market capitalisation of R129 310,9 million. In accordance with the changes in the JSE listing instructions, the table now also reflects the Actively Managed Certificates (AMCs) in issue.

Table D

The South African Exchange Traded Product Industry								
(as at 30 December 2022)								
	Issuer	Number of Products			Value (Market Cap) of Shares in Issue (Rm)			Total Market Capitalisation (Rm)
		ETFs	ETNs	AMCs	ETFs	ETNs	AMCs	
1.	Satrix Managers	26	-	-	37 748,4	-	-	37 748,4
2.	Sygnia Itrix	15	-	-	32 877,8	-	-	32 877,8
3.	Absa Capital	18	5	-	27 701,6	1 526,5	-	29 228,1
4.	FNB/FirstRand	8	42	-	6 416,3	2 568,8	-	8 985,1
5.	CoreShares	10	-	-	6 728,0	-	-	6 728,0
6.	Invest	16	-	-	6 502,4	-	-	6 502,4
7.	UBS	-	17	19	-	406,8	5 363,7	5 770,5
8.	Standard Bank	-	2	3	-	1 174,1	290,0	1 464,1
9.	Cloud Atlas	2	-	-	6,5	-	-	6,5
Totals		95	66	22	117 981,0	5 676,2	5 653,7	129 310,9

Source: etfSA.co.za – Market Capitalisation – SA Industry Report (30/12/2022).

Satrix Managers – remains the number one participant in the South African ETP industry in terms of size, with a total market capitalisation of R37 748,4 million. Over the past year, it has widened its lead over Sygnia Itrix, the second largest ETP issuer, mainly because of the growth in market capitalisation of the South African referenced ETFs it has in issue.

The majority of the 13 ETFs Satrix has issued on South African equity indices, increased their market capitalisation during 2022, whereas most of their foreign referenced ETFs, dropped in market capitalisation last year. This was due to market conditions, as the South African equity markets performed notably better than foreign markets, even in rands, during 2022.

Satrix issued 3 new ETFs during the course of 2022, namely the **Satrix India ETF**, **Satrix Healthcare Innovation ETF** and the **Satrix Smart City Infrastructure ETF**. The first product raised R189 million in new capital, reflecting some interest amongst local retail investors in investing in the dynamically growing Indian economy.

The deal for the sale of Absa's asset management and administration business to Sanlam has been recently concluded. Included in this is the sale of the NewFunds ETFs in the Absa stable to Satrix, which is fully owned by Sanlam. At the end of 2022, the NewFunds ETFs had a combined market capitalisation of R4 920,2 million, which will swell the assets under management by Satrix quite materially.

Satrix have yet to announce their plans for the ETFs they will be acquiring. There is some duplication involved in the assets and indices tracked by the NewFunds ETFs, for which Satrix already has ETFs listed. Some of the NewFunds ETFs are also very small and have failed to gain traction in the markets. So Satrix may well decide to delist some of these ETFs, or combine them with their existing Satrix products, or to continue them under the Satrix brand.

In all events, the acquisition of these 15 Absa NewFunds ETFs will increase Satrix's lead in the industry.

Sygnia Itrix – suffered relatively to Satrix in 2022 because of its focus on foreign referenced ETFs in its basket of products. Only 2 of the 15 ETFs Sygnia has in issue, track South African equity indices, the rest all provide links to global market indices. Accordingly, the poor performance of international markets hit Sygnia last year, but as a world markets recover, the positioning of Sygnia products in the market place could prove more favourable.

Despite unfavourable market performance, **Sygnia Itrix MSCI Emerging Market 50 ETF**, which tracks an index of the top 50 shares in all emerging markets, was the single most successful ETP in the industry in terms of raising new capital in 2022, issuing new securities with a value of R1 149,2 million.

Sygnia issued two new ETF in 2022. The **Sygnia Itrix Sustainable Economy ETF**, which was listed in October 2022. This ETF tracks the S&P Kensho Sustainable Technologies index, which seeks out companies predominantly listed in the US, that implement sustainable technologies. By the end of 2022, this ETF had a market capitalisation of R145,1 million, indicating good initial support for such an innovative product.

The other new product listed was the **Sygnia Itrix New China Sectors ETF**, which concentrates on the consumer, healthcare and communications sectors of the Chinese economy.

Absa Capital – as mentioned earlier, Absa will be selling its 15 NewFunds ETFs to Sanlam/Satrix, which will reduce its overall market capitalisation by some R5 billion. In addition, redemptions of Absa's NewGold ETF, that track the price of gold, platinum and palladium, amounted to R3 229,4 million in 2022.

Absa has therefore experienced a significant decline in the value and scope of its ETP offerings last year and its future plans will be watched with interest.

CoreShares – experienced a boost in last-2022, when it listed the **CoreShares Wealth Government Bond ETF** in December 2022. This ETF tracks the FTSE/JSE All Bond Government index (GOVI), which encompasses the top ten RSA bonds in terms of their liquidity and market capitalisation (size).

CoreShares attracted a substantial investment (R823 million) from an investor, who apparently wished to switch holdings in the NewFunds GOVI ETF to another product provider. By the end of 2022, the new CoreShares Wealth GOVI ETF had raised R839,7 million in new capital.

The balance of the 10 ETFs, issued by CoreShares, with the exception of the CoreShares S&P 500 ETF, attracted new capital during the course of last year and CoreShares, in total, issued R1 261,1 million new ETF securities in 2022. Its market capitalisation at the end of 2022 was R6 728 million, enabling it to reclaim 5th spot in the ETP issuer league table from 1Invest.

10X, a local asset manager and provider of retirement funds, has purchased the assets of CoreShares, although final regulatory approval is still awaited. The CoreShares book of 10 ETFs, covering both global and local markets, offers 10X a good entry point into the ETP industry and future developments will be awaited with interest.

1Invest – mainly due to the delisting of securities tracking precious metals prices, which amounted to a total of R1 258,4 million reduction in capital, 1Invest had a relatively poor year in 2022. This total market capitalisation of ETFs in issue by this company, fell from R8 033,2 million in 2021, to R6 502,4 million at the end of 2022.

However, the company does appear to be active in increasing its foothold in the industry. Three new innovative ETFs were issued during the second half of the year, namely: the **1Invest ICE US Treasury Short Bond ETF** which gives access to US Treasury paper of a duration less than one year, thereby differentiating it from the longer-term US bond ETFs in issue by other providers; the **1Invest MSI Emerging Market Asia ETF** which tracks companies listed in 8 Asian countries; and the **1Invest MSCI World Socially Responsible ETF** which focusses on the reduction of fossil fuel usage across 23 developed economies. The later ETF is the first in a series of SRI indices that 1Invest intends introducing to the South African market over a period of time.

Union Bank of Switzerland (UBS) – which has been responsible for the development and listing of actively managed ETN portfolios on the JSE since 2019, took advantage of the new listing requirements published by the JSE for Actively Managed Certificates (AMCs), by relisting their 14 actively managed ETN products as AMCs in October 2022. UBS also introduced a further 5 new AMCs to the market, all managed by third party portfolio managers, to get the new AMC Board on the JSE off to a flying start.

UBS continues to offer 17 ETNs that track various equity indices around the world. In total, the market capitalisation of all ETP products now issued in the UBS programme and under its balance sheet, now amounts to R5 770,5 million and further issues by this House are expected.

Note: full details for each Exchange Traded Fund and Exchange Traded Note are available on the quarterly reports available on the etfSA website: www.etfsa.co.za:

- All South African ETFs, ETNs & AMCs – Market Capitalisation Totals – December 2009 to December 2022.
- ETP survey – Securities in Issue and New Capital Raised/Redeemed (for period ended 30 December 2022).



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