

# ETFs as a source of Income



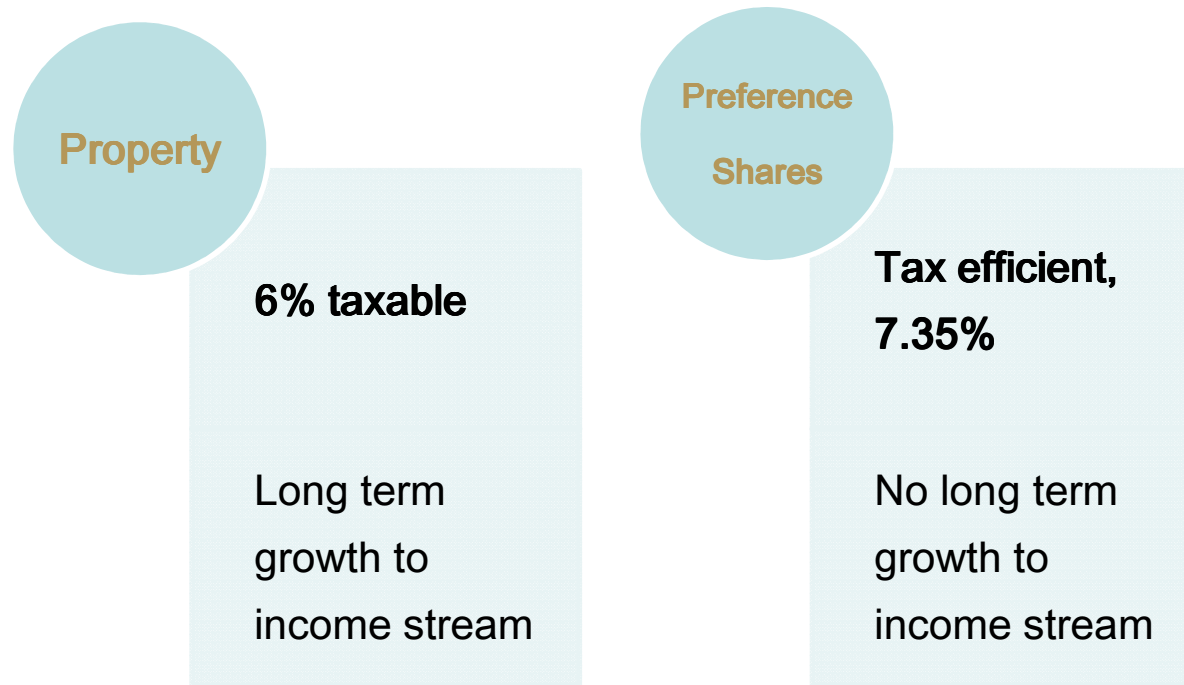
PRESENTED BY **GARETH STOBIE**



# Grindrod: Exchange Traded Products



- Introduction to Grindrod Bank's ETF suite:



# PROPTRAX : PROPERTY ETFs



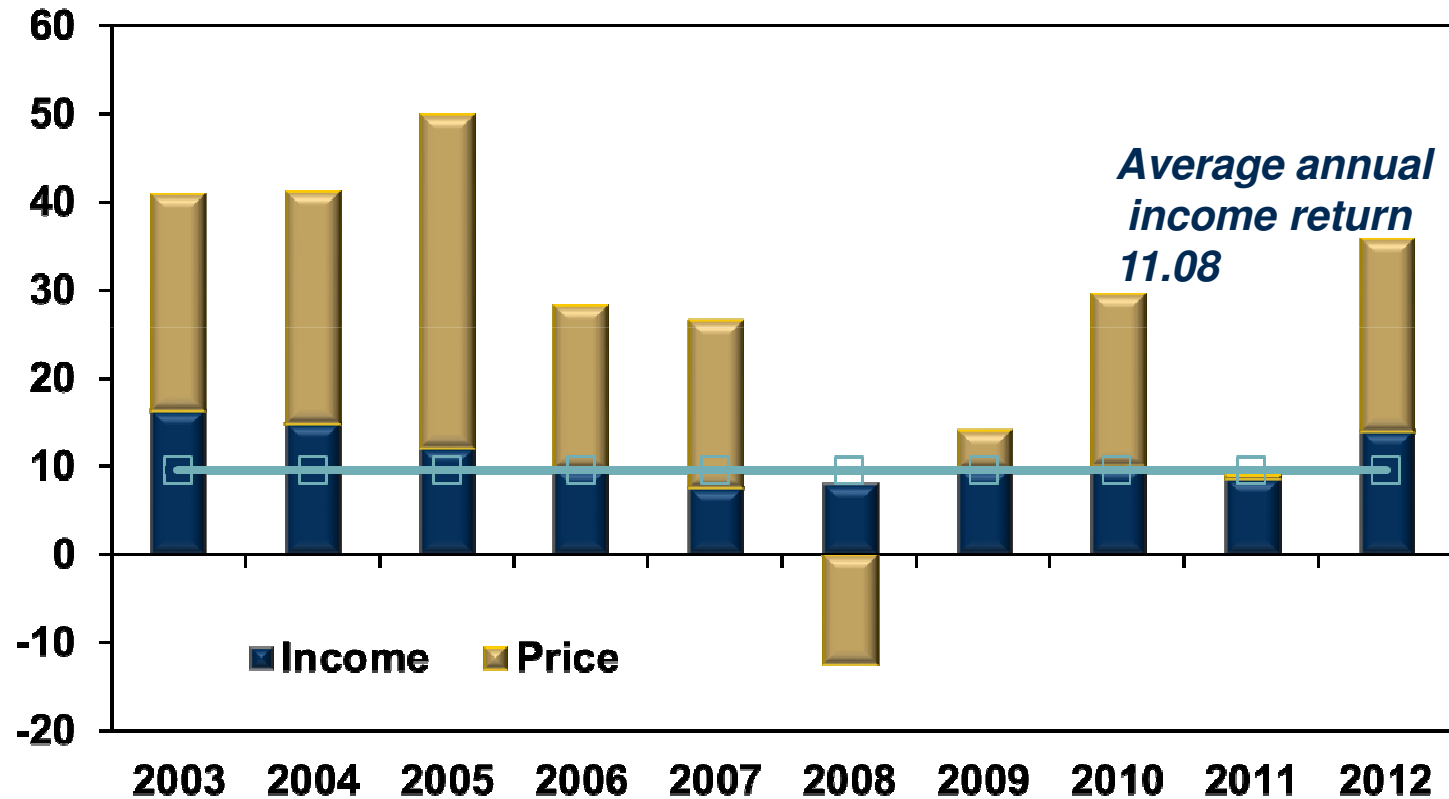
- Your share of the South African listed property market
- Liquid and cost effective
- Growing income stream > 6%
- Tangible investment secured by 'bricks and mortar'
- Regulated and transparent
- Historical performance

# Listed property returns and how they are derived?



Average annual returns: 26.08 percent

Average annual income: 11.01 percentage points or 43 percent of total return



Source: I-Net

# Property Prospects



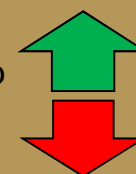
## Scorecard

SA Short Rates	+	Rates to remain at current level through 2013-15.
SA Property Fundamentals	0	Industrial and retail doing well. Office continues to struggle. Forecast 6-8% pa distribution grow next 2-3 years.
SA Valuations	-	2-tier market - 60% of sector overvalued. Large caps on low forward yields.
Funding	+	Extremely low funding rates available to property companies.
Demand / Supply for SA Listed Property	0	REIT legislation to be positive for sector. New issues over-subscribed.
<b>TOTAL</b>	<b>+ 1</b>	<b>Mildly positive outlook</b>

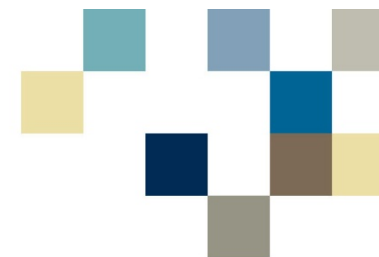
# Risk vs. Return : An investors quandary?



<u>Investment</u>	<u>Portfolio</u>	<u>Portfolio with Property</u>
Stocks	60.00%	50.00%
Bonds	30.00%	30.00%
Cash	10.00%	10.00%
Listed Property	0.00%	10.00%
	100.00%	100.00%
10 Years, annualized		
Return	16.80%	17.33%
Risk	10.40%	9.78%



# PTX TEN & SAPY



	SAPY	TEN
Index	SAPY	Customized, top ten equally weighted
Yield <sup>(1)</sup>	5.86%	6.15%
Size	R124m	R130m
Share	PTXSPY	PTXTEN
1 Year <sup>(2)</sup>	35.4%	30.7%
3 Year <sup>(2)</sup>	23.7%	n/a

(1) As at 06 May 2013

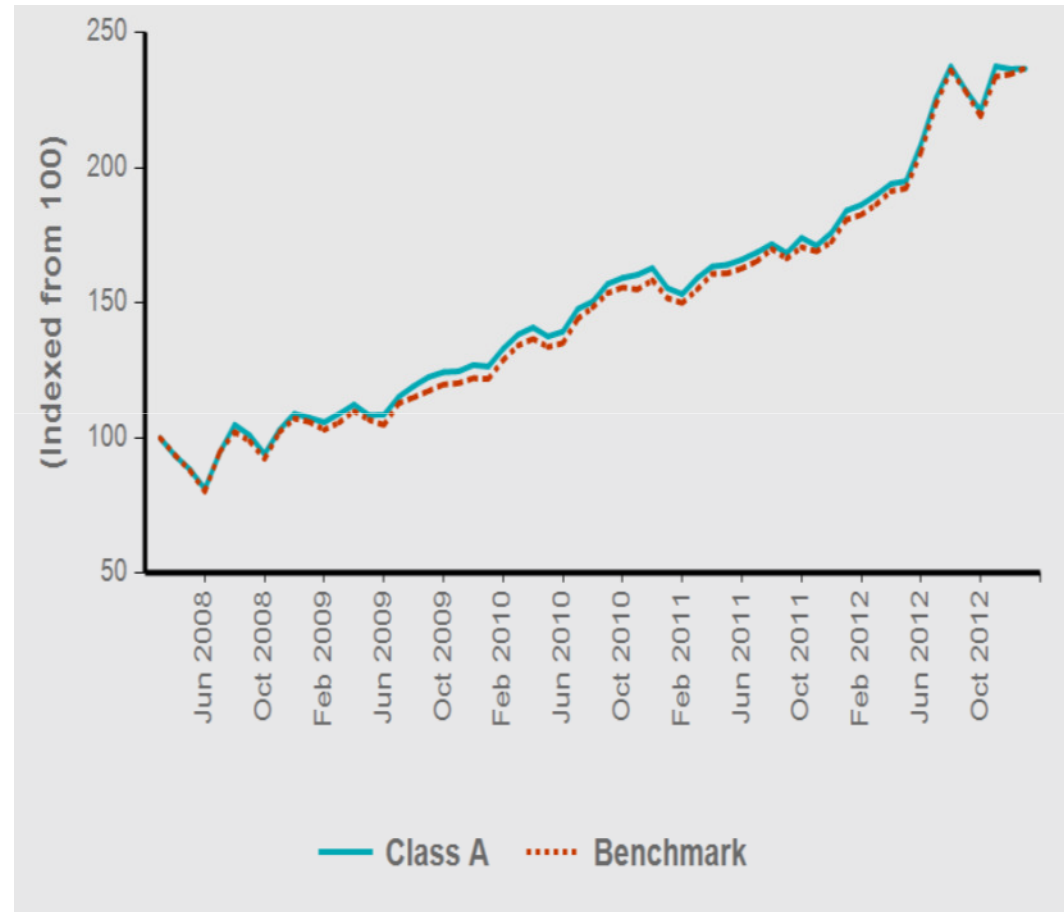
(2) Source: SIM. Performance annualised, gross of fees

# Do Large Funds Become Expensive Index Trackers?



Worked example:

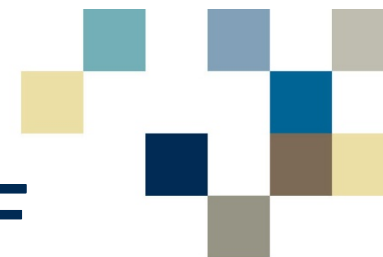
- Large local actively managed property CISCA fund
- >R5billion AuM
- TER: 1.49%



Source: Said active managers' website and fact sheet data



# PREFEX : SA's Preference share ETF



**PREFex**

- Hybrid investment: part Equity, part Debt
- High yielding **7.35%** fixed income investment
- Significant pick-up in after tax yields relative to cash
- Tax efficient (max DWT @ 15%)
- Comparable to bonds and cash *but* must invest > 12 months
- Very attractive after surprising pull back in valuations

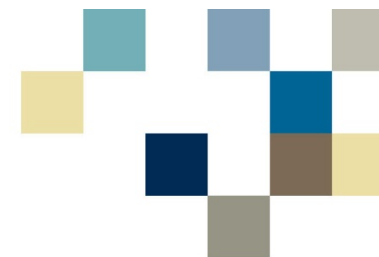
# PREFEX Prospects



## Scorecard

Interest Rates	-	Prime remains at historical low and likely to remain so for now.
Valuations	+	Yield relative to asset class historical yields and relative to other Fixed Income asset classes is very competitive.
Regulatory/strategic	+	Tax changes finalized, competing strategies successfully challenged
Demand / Supply for listed prefs	0	Recent issuances (Brait/Invicta) have put pressure on market. No new issuances announced.
<b>TOTAL</b>	<b>+</b>	<b>Positive outlook</b>

# PREFEX



Index	J251 (FTSE/JSE Preference share Index)
Yield	7.35%
Size	R213m
Share	PREFEX
Index construction	Market cap weighted (> 75% major banks)
1 Year	1.35%

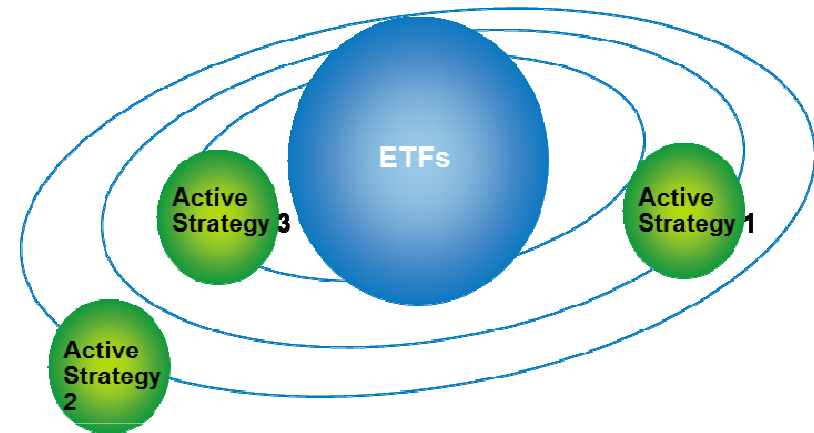
(1) Source: I-Net. Bridge & Grindrod Asset Management, Performance annualised, net of fees

# ETF Usage Example: Core Satellite Strategy



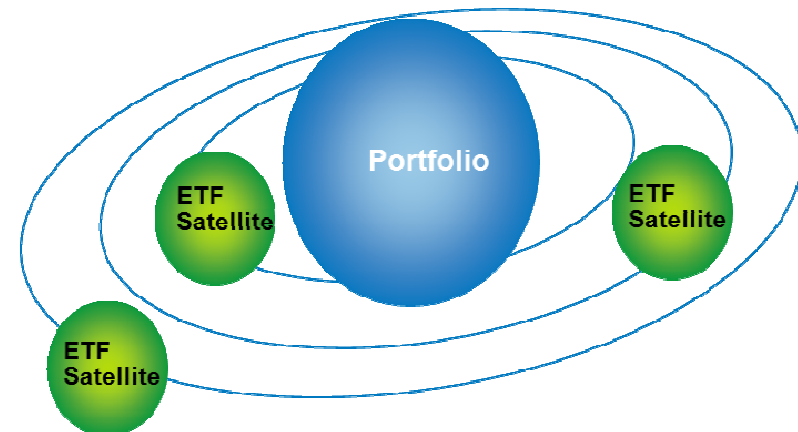
## Core:

- Broad diversification by closely mirroring asset class benchmarks
- Consistent performance relative to a benchmark
- Low costs
- Improved risk management



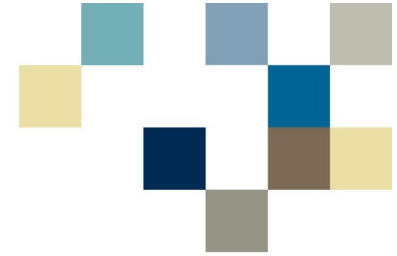
## Satellite:

- Precise exposure to a wide range of discrete market sectors, specific styles or market capitalisations indices
- Exposure to selected market segments at low costs
- Eliminating security selection or manager selection risk



Source: BlackRock as at end of 2012

# Contact



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