Wealth Management and Investing in ETFs Seminars

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Agenda

- The case for "passive" (Index tracking) investment strategies.
- How good is the average return?
- Indices & ETFs cover all investment sectors and options.
- Constructing portfolios.
- Managed ETF portfolios
  - Local (Rand based)
  - Global (Offshore funds).

The Case for "Passive" (Index Tracking) Investment Strategies

- An **index** is a group or **basket of securities**, bonds, or other financial instruments that **represents the investment performance** of a specific market, asset class, market sector, or an investment strategy.

- An **index** represents the effective return of all participants in the market – both buyers and sellers.

It provides the <u>average return</u> of the market

How Good is the Average Return?

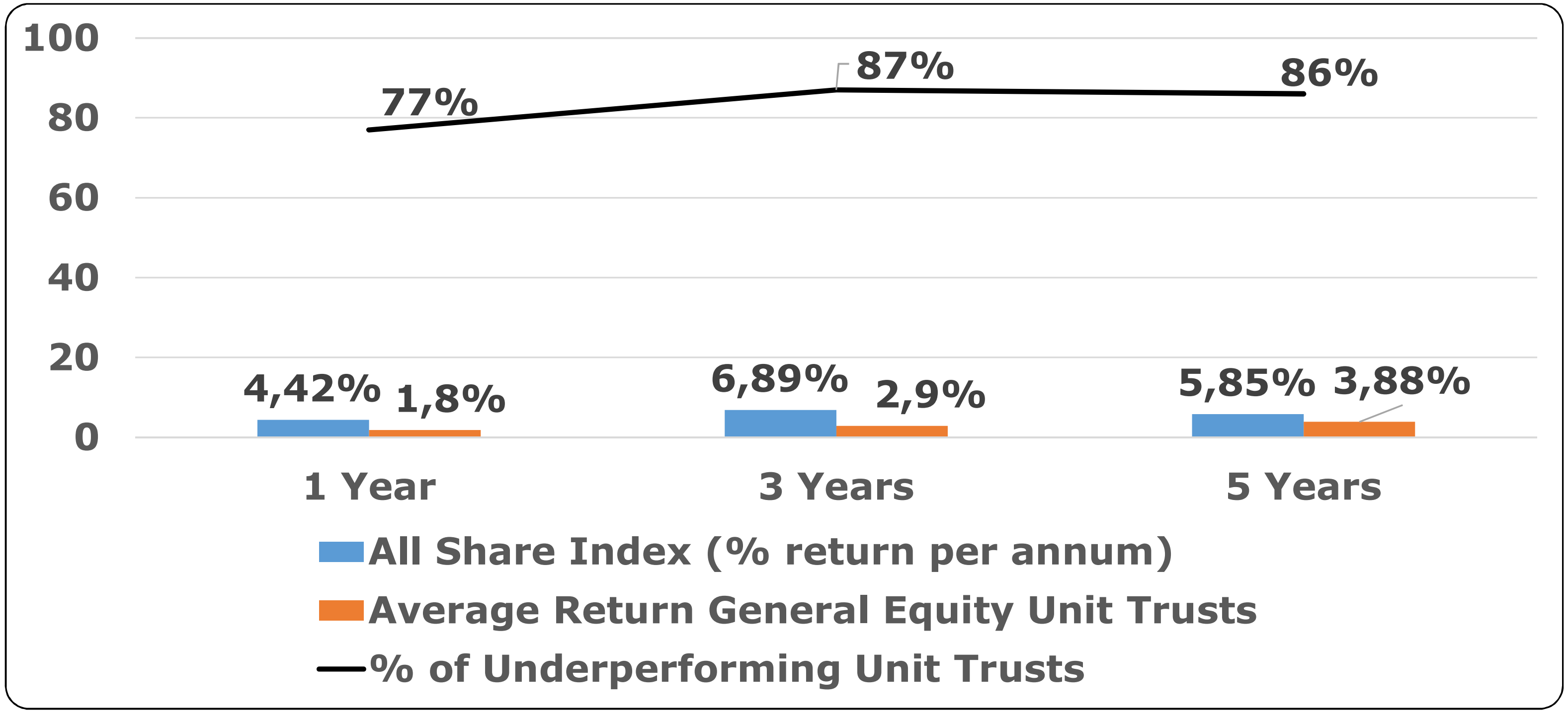
Percentage of Actively Managed Funds that Underperformed the Benchmark

	1 Year	3 Years	5 Years
USA	64%	79%	82%
Europe	86%	86%	80%
Canada	77%	94%	90%
Australia	87%	86%	80%

Source: S&P Dow Jones – SPIVA Report (31/12/2018).

Are We Any Better in South Africa?

Percentage of <u>Actively Managed General Equity Unit</u> Trusts that <u>Underperformed</u> the FTSE/JSE All Share Index

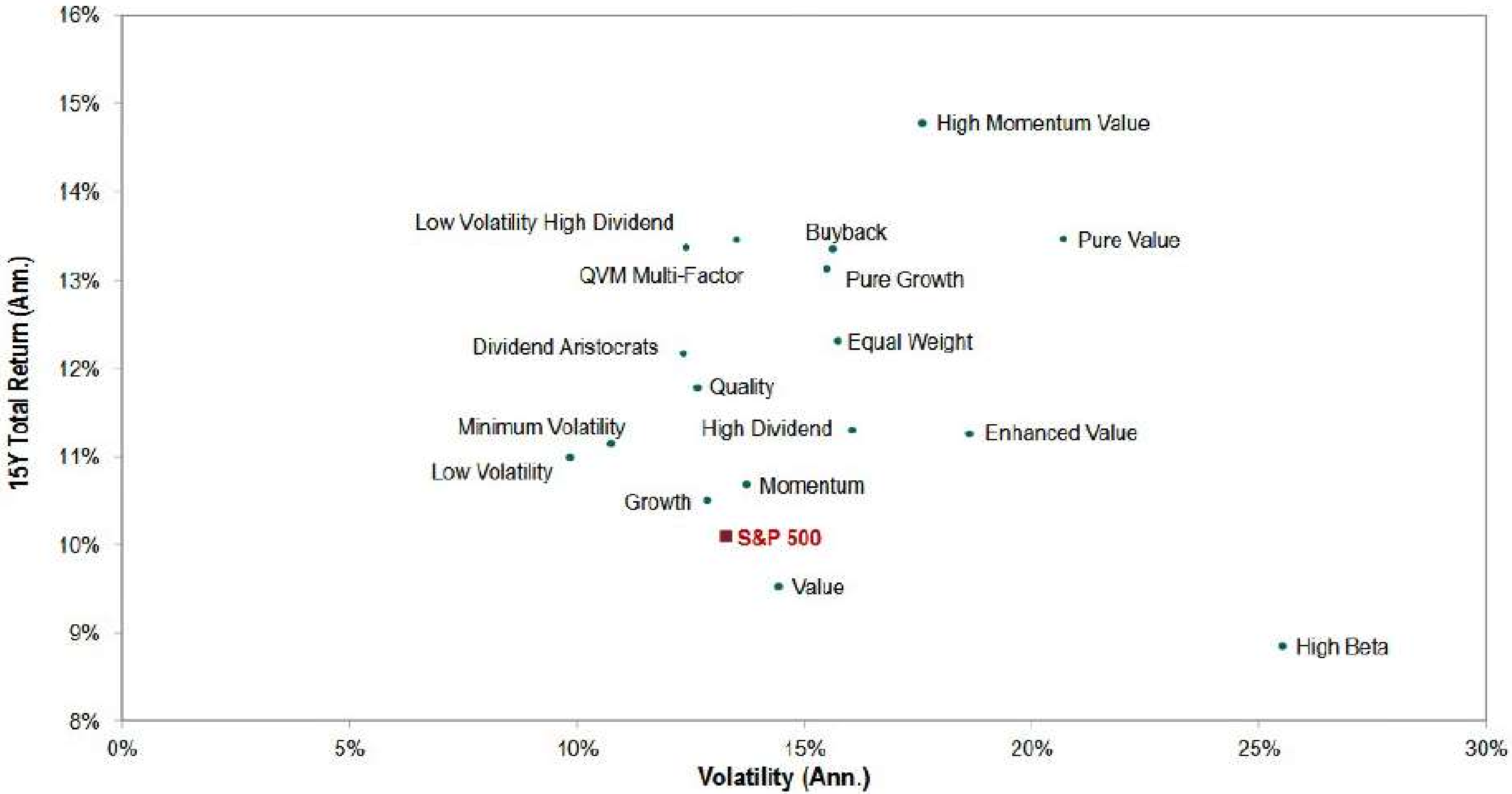


Source: ASISA Quarterly Unit Trust Performance Survey (June 2091).

Indices & ETFs Cover All Investment Sectors and Options

Local Shares	• Satrix Top 40. Ashburton Top 40 • CoreShares Capped Top 50 • Satrix Capped INDI, FINI 15, etc.
Foreign Shares	• Sygnia Itrix USA, Japan, World, etc. • DB China, Emerging Markets • Satrix World, S&P 500, Nasdaq
Listed Property	• PropTrax Ten, PropTrax SAPY • Satrix Property • CoreShares Global Property
Bonds	• NewFunds GOVI, ILBI, etc. • Ashburton World Government Bond • Stanlib Global Govt. Index Bond
Commodities	• NewGold • Standard Bank Africa Rhodium, Platinum, Palladium • Standard Bank Oil, Copper, Corn, Wheat, etc.
Smart Beta (Factor or Style)	• NewFunds Value, Low Volatility, Momentum. • Satrix DIVI Plus, CoreShares DivTrax • Satrix RAFI, NewFunds S&P GIVI

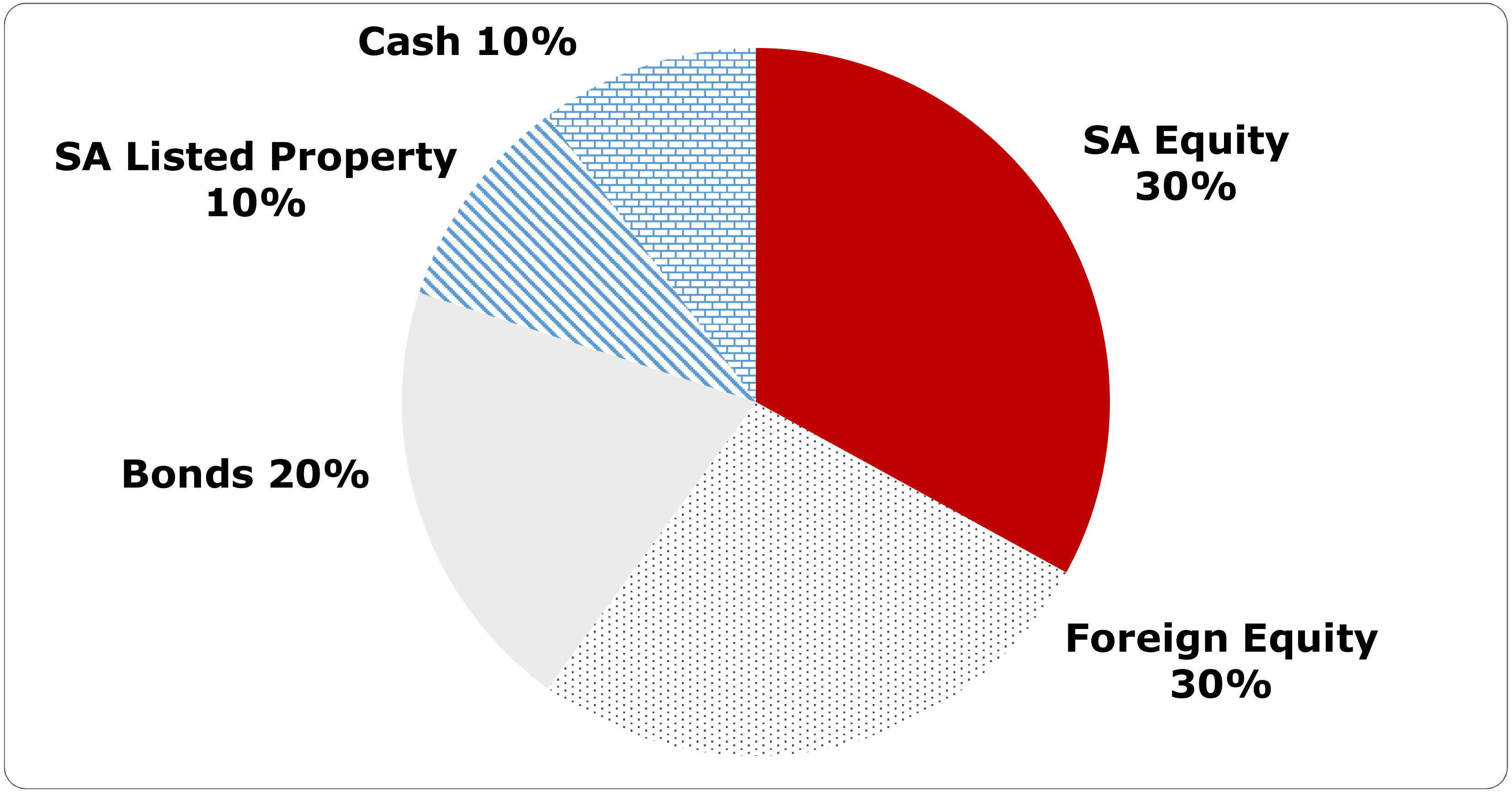
15 Year Risk & Return – Absolute (US)



Source: S&P Dow Jones Indices LLC and/or its affiliates.
Data as of 31/3/2018. Illustrative purposes only.

Constructing Portfolios

Strategic Asset Allocation



90% of all investment returns, over time, come from asset allocation.

Strategic Asset Allocation Portfolio

Multi-Asset Index Portfolio				
	Allocation	**Weighted Average Return* (% p.a.)**		
		3 Years	**5 Years**	**10 Years**
Cash (STEFI)	10%	0,71%	0,68%	0,65%
SA Bonds (ALBI)	20%	1,76%	1,64%	1,76%
SA Equity (FTSE/JSE ALSI)	30%	1,69%	1,54%	3,63%
Offshore Equity (MSWR)	30%	2,72%	3,33%	4,34%
SA Listed Property (SAPY)	10%	(0,37%)	0,50%	1,20%
	100%	**6,51%**	**7,70%**	**11,58%**

** Data to 30 June 2019. Profile Data/etfSA.co.za.*

Multi-Asset SA Balanced Portfolios

Comparison with Balanced Unit Trusts

	3 Years	5 Years	10 Years
etfSA.co.za Multi-index Strategic Asset Allocation	**6,51%**	**7,70%**	**11,58%**
Average Multi-Asset **Medium Equity Unit Trusts**	4,32%	5,17%	9,10%
Average Multi-Asset **High Equity Unit Trusts**	3,94%	5,09%	10,10%

Source: Quarterly Unit Trust Performance Survey (June 2019).

etfSA.co.za Multi-Asset ETF Portfolio

Asset Class	ETF	Allocation (%)	Total Return		Weighted Average Annual Return	
			3 Years (%p.a.)	5 Years (% p.a.)	3 Years (%p.a.)	5 Years (% p.a.)
Cash	Absa NewFunds TRACI	10	7,10%	6,78%	0,71%	0,68%
Bonds	Absa NewFunds GOVI	20	8,23%	7,68%	1,65%	1,54%
SA Equity	Satrix Top 40	30	6,28%	4,64%	1,88%	1,39%
Foreign Equity	Sygnia Itrix MSCI World ETF	30	10,92%	12,90%	3,28%	3,87%
SA Listed Property	CoreShares PropTrax Ten ETF	10	(4,44%)	6,0%	(0,44%)	0,61%
Totals		**100%**			**7,08%**	**8,09%**

Source: Profile Data/etfSA.co.za (June 2019).

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So, a simple passive index based multi-asset portfolio outperforms the great majority of actively managed Unit Trusts – why?

- High Unit Trust cost structures.
- Poor stock selection by active managers.
- Efficient markets support passive strategies.
- Low volatility of index trackers.

Managed ETF Portfolios
(Rand based)

- 106 ETFs/ETNs listed on the JSE to cover all asset classes and sub-sectors.
- Access to specific asset classes like commodities, currencies, themes, styles and smart beta is unique.
- ETPs give pure beta exposure, so lower risk.
- Total management cost of one percent per annum.

Using ETFs/ETNs as building blocks in multi-asset portfolios makes sense.

Capital Growth Portfolio (Rand based)

	Allocation (%)	5 Year Total Return (% p.a.)	Weighted Total Average Return (% p.a.)
Foreign Equity (40%)			
Satrix S&P 500 ETF	10%	16,26%	1,63%
CoreShares Global Dividend Aristocrat ETF	10%	12,93%	1,29%
DB MSCI China ETN	10%	11,96%	1,20%
Satrix Nasdaq ETF	5%	17,05%	0,85%
Sygnia |Itrix 4th Industrial Revolution ETF	5%	16,95%	0,85%
Listed Property (10%)			
CoreShares Global Property ETF	10%	14,14%	1,41%
Commodities (20%)			
Standard Bank Africa Rhodium ETF	5%	65,00%	3,25%
NewGold Palladium ETF	10%	23,16%	2,32%
NewGold ETF	5%	10,04%	0,50%
SA Equity (30%)			
Satrix Capped INDI ETF	5%	4,17%	0,21%
CoreShares Top 50 ETF	5%	5,35%	0,27%
Satrix DIVI Plus ETF	10%	5,93%	0,59%
Satrix FINI 15 ETF	5%	5,93%	0,30%
NewFunds Equity Momentum ETF	5%	8,03%	0,40%
Total	**100%**		**15,07%**

Source: JSE Ltd ; etfSA.co.za / Profile Data – Monthly Performance Survey (September 2019)

Note: Historical returns may not be repeated in future.

Global Managed ETF Portfolios

- Over 6 000 ETFs to choose from.
- 300 selected ETF universe listed on London Stock Exchange (LSE).
- Can invest in US Dollars, UK Pounds, Euros.
- Funds must flow from and back into an offshore bank account.
- Preferential access to Saxo Global Trading system.
- Portfolios managed on ongoing basis and designed to suit bespoke requirements of individual investors.
- Total cost: one percent per annum.

Pro-forma Managed Global ETF Portfolio

Product	Size (million	Provider	Ticker	TER	5 Year* Performance (% p.a.)	Allocation	Weighted Return (% p.a.)
Developed Market Equities							
Core S&P 500 UCITS ETF (USA) (Accumulating)	US$31 746	iShares	CSPX	0,07%	12,69%	10%	1,27%
Core NASDAQ 100 UCITS ETF (Accumulating)	US$1 245	iShares	CNDX	0,33%	19,38%	10%	1,94%
Automation and Robotics UCITS ETF (Accumulating)	US$2 557	iShares	RBOT	0,40%	**18,51%	5%	0,93%
Select Dividends ETF (Distributing)	US$17 161	iShares	DVY	0,39%	10,06%	10%	1,06%
						35%	
Emerging Market Equities							
China Large Cap UCITS ETF (Distributing)	US$4 728	iShares	FXC	0,74%	7,20%	10%	0,72%
MSCI Emerging Markets UCITS (Distributing)	US$49 080	iShares	EIMG	0,14%	5,20%	10%	0,52%
MSCI India UCITS ETF (Distributing)	US$5 082	iShares	INDA	0,68%	10,09%	10%	1,00%
						30%	
Bonds							
Global Infrastructure UCITS ETF (Distributing)	US$754	iShares	INFR	0,65%	5,80%	5%	0,29%
iShares IBOXX High Yield Global Corporate Bond UCITS ETF (Accumulating)	US$17 143	iShares	HYG	0,49%	4,07%	5%	0,20%
						10%	
Property							
US Property Yield UCITS ETF (Distributing)	US$5 036	iShares	IYR	0,40%	8,52%	10%	0,85%
Developed Market Property Yield	US$3 073	iShares	IWDP	0,59%	5,48%	5%	0,27%
						15%	
Commodities							
Physical Gold ETF	US$6 667	iShares	SGLN	0,25%	3,26%	10%	0,33%
						10%	
						100%	
Total Annual Return (US Dollars)							**9,38%**
Total Annual Return (ZAR Rands)							**17,88%**

** Taken from product fact sheets. ** Since inception investment returns. Total returns with dividends reinvested. Historic investment returns may not be replicated in future*

Note: portfolios are designed to meet the specific requirements of individual investors so can differ from the above selection.

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