

Using ETFs for Investments

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Agenda

- What are ETFs?
- What is an Index?
- Difference between passive and active investment management.
- Types of ETFs

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.

So, ETFs are Index Trackers.

What is an Index?

Index Weights – Basket of Constituents (as at June 2018)
FTSE/JSE Top 40 Index

	Market Cap Weighted (%)		Market Cap Weighted (%)
Absa Group Ltd	1,81	Discovery	0,89
Anglo Ashanti	0,77	FirstRand Ltd	3,20
Anglo American Plc	4,85	Foshini Group	0,60
Aspen Pharmacare Hldgs	1,54	Goldfields	0,62
BHP Billiton Plc	10,28	Growthpoint Properties Ltd	1,19
BID Corp Ltd	1,53	Investec Ltd	0,41
Bidvest Ltd	1,04	Investec Plc	0,95
British American Tobacco	3,05	Life Healthcare Group	0,52
Capitec	0,78	Mediclinic International Ltd	0,52
Clicks Group	0,73	Mondi Ltd	0,74
Compagnie Fin Richemont	10,10	Mondi Plc	2,28

What is an Index? (continued)

Index Weights – Basket of Constituents (as at June 2018)
FTSE/JSE Top 40 Index

	Market Cap Weighted (%)		Market Cap Weighted (%)
Mr Price Group	0,87	Sanlam Ltd	2,07
MTN Group	1,92	Sappi Ltd	0,81
Naspers Ltd -N-	23,16	Sasol Ltd	4,65
NEDCOR	0,90	Shoprite Holdings Ltd	1,53
NEPI Rockcastle PLC	0,66	Spar Group Ltd	0,59
Netcare Ltd	0,63	Standard Bank Group Ltd	3,80
Old Mutual Plc	2,29	Tiger Brands Ltd	0,86
Redefine Properties	0,86	Truworths Int	0,54
Remgro Ltd	1,70	Vodacom Group	1,21
RMB Holdings Ltd	0,81	Woolworths Holdings Ltd	0,76

Are Indices Worthwhile?

- They are **well diversified**.
- They typically only cover blue chip stocks (**reduces volatility and risk**).
- The index **always includes** only the best shares in the market or sector, **so is a high quality portfolio**.
- 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.

Indices & ETFs Cover All Investment Sectors and Options

Local Shares	<ul style="list-style-type: none">• Satrix Top 40, Ashburton Top 40• CoreShares Capped Top 50• Satrix Capped INDI, FINI 15, etc.
Foreign Shares	<ul style="list-style-type: none">• Sygnia Itrix USA, Japan, World, etc.• DB China, Emerging Markets• Satrix World, S&P 500, Nasdaq
Listed Property	<ul style="list-style-type: none">• PropTrax Ten, PropTrax SAPY• Satrix Property• CoreShares Global Property
Bonds	<ul style="list-style-type: none">• NewFunds GOVI, ILBI, etc.• Ashburton World Government Bond• Stanlib Global Govt. Index Bond
Commodities	<ul style="list-style-type: none">• NewGold• Standard Bank Africa Rhodium, Platinum, Palladium• Standard Bank Oil, Copper, Corn, Wheat, etc.
Smart Beta (Factor or Style)	<ul style="list-style-type: none">• NewFunds Value, Low Volatility, Momentum.• Satrix DIVI Plus, CoreShares DivTrax• Satrix RAFI, NewFunds S&P GIVI

What Are Active Investments?

- They seek to **outperform** the return of an index.
- As an index gives the **average return of the market**, the active manager seeks to provide **above average returns**.
- Mathematically, only 50% of investments will outperform the average – so **50% of active managers underperform the index** at any time – after costs, the underperformance is even higher.
- To beat the index, the average manager should typically run a portfolio that is very diverse from the index.
- However, this strategy (a high Beta strategy) can generate greater volatility, which increases risk.
- Active investment also costs more money.
- Higher costs, more risk and only 50% chance of beating the market (at best) means that active management techniques are coming under pressure.

Alpha is not easy.

Why Simple is Smart

SOUTH AFRICA

PERCENTAGE OF SOUTH AFRICAN EQUITY FUNDS THAT UNDERPERFORMED THE S&P SOUTH AFRICA DSW

Data as of Dec 29, 2017

FIVE-YEAR

93.23%

THREE-YEAR

96.27%

ONE-YEAR

95.92%

[GET STATS FOR OTHER MARKET SEGMENTS >](#)

93.23%

OF FUNDS UNDERPERFORMED THE S&P SOUTH AFRICA DSW

6.77%

OF FUNDS OUTPERFORMED THE S&P SOUTH AFRICA DSW

Passive outperforms active 93% of the time in SA.

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Investing in ETFs

- Can set up discretionary investments from R1000 per ETF, or R150 per month per ETF in etfSA Investor Plan.
- Can do Tax Free Investments for similar amounts using ETFs, either in specially chosen ETF portfolios or in individual ETFs.
- Small ETF investment units giving access to portfolios of shares are ideal for Investor Clubs/Stokvels/Group Investments.

Is it Worthwhile Investing?

What would a R10 000 lump sum investment per year for 10 years be worth in 10 year's time?

ETF	Value in 10 years (R)
Sygnia Itrix MSCI USA ETF	256 800
Satrix INDI Capped ETF	231 200

Source: Profile Data/etfSA.co.za (22/8/2018).

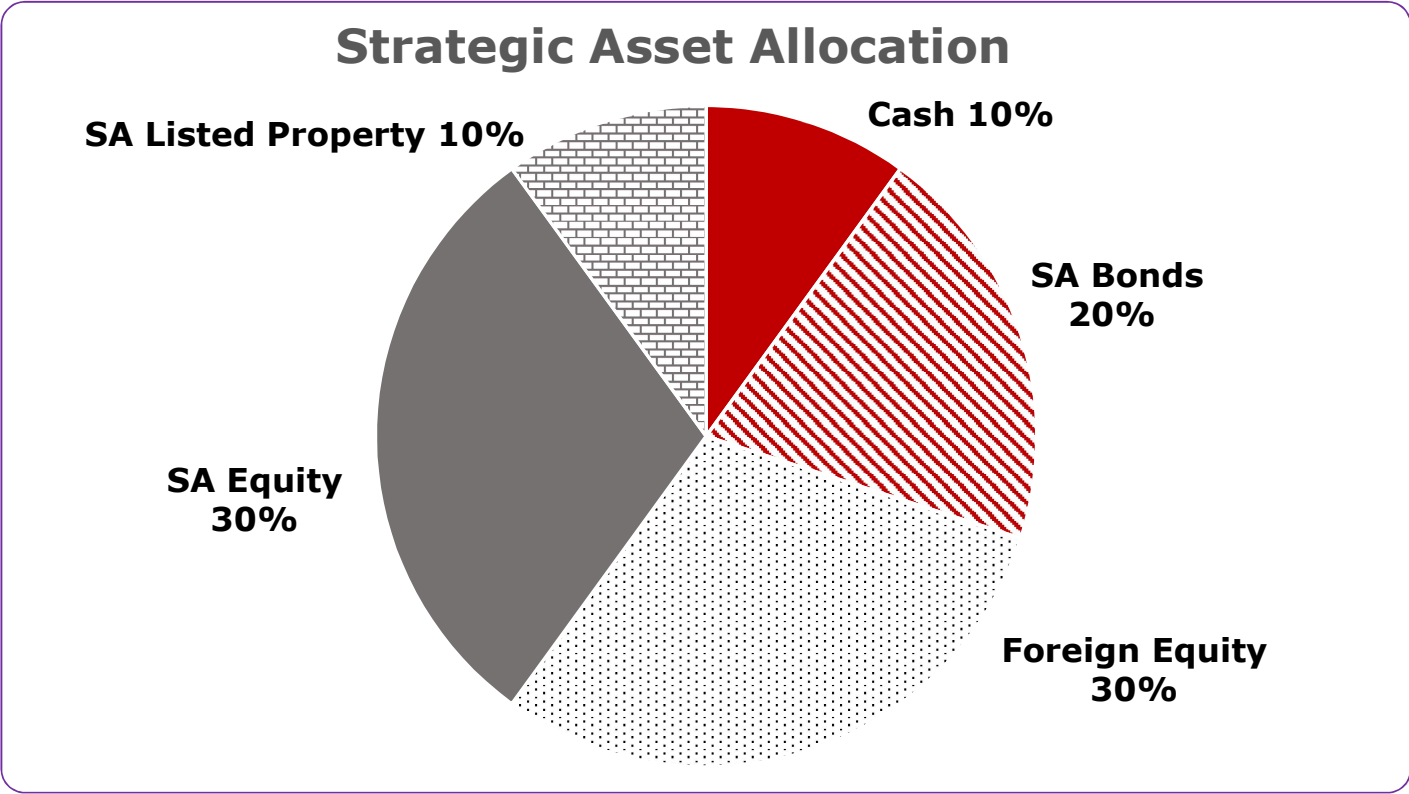
Can Regular Investments Make A Difference?

R1000 per month invested for 10 years

ETF	Value in 10 years (R)
Sygnia Itrix MSCI USA ETF	375 380
Satrix INDI Capped ETF	284 890

Source: Profile Data/etfSA.co.za (22/8/2018).

Multi Asset Portfolios Using ETFs



Model Index Portfolio

(% Return)

Asset Class	Index	1Year	3 Years	5 Years
Cash	STeFI (SA Fixed Income Index)	6,9%	7,2%	6,7%
Bonds	SA ALBI – JSE SA All Bond Index	11,2%	8,2%	8,1%
SA Equity	SWIX Top 40 FTSE/JSE SWIX Top 40 Index	3,7%	3,9%	9,4%
Foreign Equity	MSCI World Index (ZAR)	10,2%	8,4%	14,0%
SA Listed Property	FTSE/JSE SAPY – SA Listed Property Index	(13,6%)	(0,9%)	7,5%

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	6,94	6,38	0,69	0,64
Bonds	Absa NewFunds GOVI	20	7,97	7,67	1,59	1,53
SA Equity	Absa NewFunds SWIX Top 40	30	4,74	10,09	1,42	3,03
Foreign Equity	Satrix MSCI World Equity Feeder ETF	30	10,11	15,39	3,03	4,62
SA Listed Property	CoreShares SAPY ETF	10	(1,26)	6,78	(0,13)	0,68
Totals		100%			6,60	10,50

Source: Profile Data/etfSA.co.za (July 2018).

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Comparative Total Returns*

	3 Year (% p.a.)	5 Years (% p.a.)
Multi-Asset ETF Portfolio¹	6,60%	10,50%
Medium Equity Balanced Unit Trust	4,80%	7,57%
High Equity Balanced Unit Trust ²	4,76%	8,16%

Sources:

* Includes reinvestment of all income, net of TER.

1. etfSA.co.za

2. Quarterly Unit Trust Survey (June 2018).

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