

Making **ETFs** the Core of your Investment Plans

Presentation for etfSA

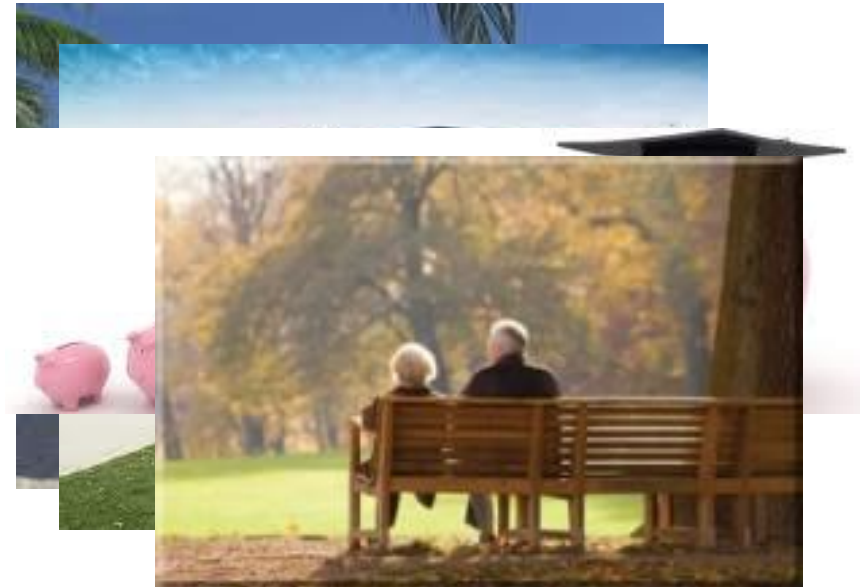
- Making the best use of ETFs to meet Investment Objectives
 - How to make investment decisions
 - How to make sure you get what you need from your investments
- Investment Strategies and Portfolio Construction using ETFs/ETNs
 - *“How to bake a cake”*
 - Understand how ETFs can be used to build your investment portfolio
 - Understanding risk and volatility
- The growing impact of climate change
 - *“How to plant and grow a perennial garden”*
 - The benefit of incorporating the “green advantage” into your portfolio

Making the best use of ETFs to meet Investment Objectives

How to make sure you get what you need from your investments

What are your investment objectives?

- To go on an overseas holiday?
 - To buy a house?
 - To save for your children's education?
 - To retire comfortably?
-
- To get from Johannesburg to Cape Town!



Choose the vehicle that is best suited to your journey

BettaBeta

Requirement	Best vehicle
Speed	Aeroplane
Scenic journey	4x4
Space / size	Bus

~~ETF~~
Choose the vehicle that is
best suited to your journey
~~investment requirement~~



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Income	<i>Satrix Divi</i> <i>Proptrax Ten</i>

For example

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Offshore	<i>db x-trackers World etc. Std Bank Africa Equity ETN</i>

For example

How do I know what performance to expect from my ETF investment?

- An investment in an ETF gives you the assurance that you will receive the **same return** as the underlying asset, which usually means an index such as the Top40, after costs
- Although you do not know in advance what **absolute return** you will receive, you do know that you will receive the same return as the index
- This means that an ETF has **very low relative risk** when compared to the benchmark index
- However, one could still have **absolute risk** in your investment
 - If the index declines by 10%, your ETF investment will also decline by 10%
- Your ETF investment will have the same return and risk characteristics as the **index it tracks**

Make sure you know what that is!

- The “F” in the ETF is **managed** for you!
 - Periodic rebalancing
 - Changes in underlying constituents
 - Quarterly distributions
- ETFs represent a **more tax efficient** investment vehicle
 - Dividend Withholding Tax (DWT)
 - Fund management expenses are paid from **pre-tax income** in the fund
 - DWT is only payable on the net-of-fees distribution, usually paid quarterly to unit holders
 - Capital Gains Tax (CGT)
 - All trades within the ETF trust is **CGT exempt**; CGT only applicable once you sell your ETF investment
 - However, remember that there is an initial portion that is tax-free
 - Securities Transfer Tax (STT)
 - **No STT payable** on an ETF investment! (0.25% per transaction)

TER

How to bake a cake

Investment Strategies and Portfolio Construction using ETFs/ETNs

What do you need to bake a cake?

- Basic ingredients
 - Flour, butter, sugar, eggs, milk, raising agent

- Special ingredients
 - Chocolate, nuts, fruit, icing, etc.

- Equipment
 - Measuring cups, baking trays, oven, mixing spoons, etc.



- Flour – broad market exposure
 - Basic “building block”; provides the substance and form to the cake
 - e.g. **BBET40**, Satrix40, SWIX40, RAFI40
- Raising agent – high dividends
 - Allows the cake to grow bigger and higher
 - e.g. Satrix Divi
- Eggs, Milk or other fluid – cash
 - Adds moisture (and liquidity) to the cake
 - e.g. Cash
- Butter – gold
 - The binding agent that coats the flour particles and allow it to stick together
 - e.g. NewGold (not gold stocks), Standard Bank Gold-Linker ETN
- Sugar – international exposure
 - Improves the taste and shelf-life of the cake
 - e.g. db x-trackers World / USA / UK / Euro / Japan / Africa ETN / China ETN / Emerging Markets ETN
- Special ingredients – thematic / sector exposure
 - Adds a specific flavour or texture to the cake
 - e.g. **BGREEN**, RESI, FINI, INDI, Shari’ah40, ABSA Equity Momentum

- Flour – broad market exposure, both equities **and bonds**
 - Basic “building block”; provides the substance and form to the cake
 - e.g. **BBET40**, Satrix40, SWIX40, RAFI40, **Investec ZGOVI**, **BIPS Inflation-X**
- Raising agent – high dividends, **listed property**
 - Allows the cake to grow bigger and higher
 - e.g. Satrix Divi, **Proptrax**
- Eggs, Milk or other fluid – cash
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- Special ingredients – thematic / sector exposure, **commodities**
 - Adds a specific flavour or texture to the cake
 - e.g. **BGREEN**, RESI, FINI, INDI, Shari’ah40, ABSA Equity Momentum, **Standard Bank Commodity-Linker ETNs**

How do you know what are in your “ingredients”?

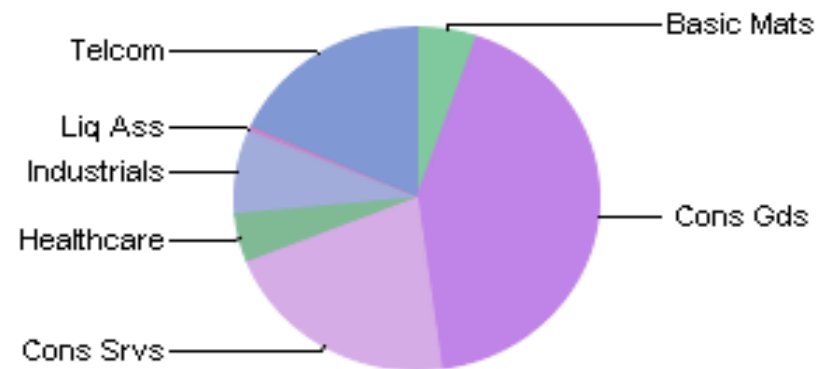
- Read the label on the packet
- As index-tracking funds, ETFs are completely transparent
- The “list of ingredients” can be found on the daily valuation statistics published on the website
 - e.g. Satrix INDI 25
 - Not a domestic industrial index any longer

NUTRITION INFORMATION RITORNELLI			
AVERAGE VALUE		PER 3.5 OZ	PER PIECE
CALORIES	Kcal	492	64
PROTEIN	g	7.0	0.9
TOTAL CARBOHYDRATES	g	69.0	9.0
(Sugar)	g	(29.0)	(3.7)
TOTAL FAT	g	21.0	2.7
(Saturated Fat)	g	(10.0)	(1.3)
FIBER	g	2.0	0.3
SODIUM	g	0.18	0.023

Top Holdings on 31 Dec 2011

SHARE	No Units	Value (Rm)	% of Fund
SABMILLER	435 739	123.35	20.55%
MTN GROUP	664 921	95.57	15.92%
RICHEMONT	1 843 202	75.15	12.52%
NASPERS-N	142 410	50.30	8.38%
BATS	78 691	30.18	5.03%
Totals		374.54	62.40%

Sectoral Breakdown



Three sample recipes for Extremely Tasty Flop-free Cakes

- Linda's Lekker Low-risk *Lake*
 - Very low risk tolerance; Focus on capital protection and income generation
 - 5% after tax income draw-down p.a.
- Mandla's Marvelous Medium-risk *Make*
 - Average risk tolerance; Combine capital growth and some income generation
 - 2% after tax income draw-down p.a.
- Humphrey's Hearty High-risk *Hake*
 - Very high risk tolerance; Focus on maximum capital gain
 - No income draw-down required

“Extremely Tasty Flop-free cakes” investment in different ETFs



Potential ETF “Ingredients”

Flour	BBET40 – BettaBeta Equally Weighted Top40 ETF
	ZGOVI – zShares Govi ETF
	RMBINF – RMB Inflation-X ETF
Raising agent	STXDIV – Satrix Divi ETF
	PTXTEN – Property Tracker Ten ETF
Fluids	Cash
Butter	GLD – NewFunds NewGold ETF
Sugar	MXWO – DBX World ETF
	MSEMF1 – DB MSCI Emerging Markets ETN
Special ingredients	BGREEN – BettaBeta Be Green ETF
	SBAOIL – Standard Bank Oil ETN

“Extremely Tasty Flop-free cakes” % investment in different ETFs



Potential ETF “Ingredients”		Low (%)	Med (%)	High (%)
Flour	BBET40 – BettaBeta Equally Weighted Top40 ETF	15	35	40
	ZGOVI – zShares Govi ETF	10	10	10
	RMBINF – RMB Inflation-X ETF	20	5	–
Raising agent	STXDIV – Satrix Divi ETF	10	5	–
	PTXTEN – Property Tracker Ten ETF	10	5	–
Fluids	Cash	10	5	–
Butter	GLD – NewFunds NewGold ETF	5	10	5
Sugar	MXWO – DBX World ETF	10	10	15
	MSEMF1 – DB MSCI Emerging Markets ETN	–	5	10
Special ingredients	BGREEN – BettaBeta Be Green ETF	10	10	10
	SBAOIL – Standard Bank Oil ETN	–	–	10

Disclaimer: Not to be construed as a recommendation or as investment advice

“Extremely Tasty Flop-free cakes” Comparative (theoretical) performance

Asset Allocation Portfolios – ETF Portfolios compared to Collective Investment Schemes Total Returns (% Growth with Dividends Reinvested)

	1 Year (%)	2 Years (%) p.a.	3 Years (%) p.a.
Balanced ETF Portfolio (low risk) <i>Linda’s Lekker Low-risk Lake</i>	8.0	12.1	13.3
Balanced ETF Portfolio (medium risk) <i>Mandla’s Marvelous Medium-risk Make</i>	7.8	12.3	14.8
Balanced ETF Portfolio (high risk) <i>Humphrey’s Hearty High-risk Hake</i>	10.1	12.3	16.8
Asset Allocation Unit Trusts (average)			
Prudential Low Equity Funds	6.3	8.0	8.8
Prudential Medium Equity Funds	5.3	8.7	10.8
Prudential High Equity Funds	4.2	8.9	11.9

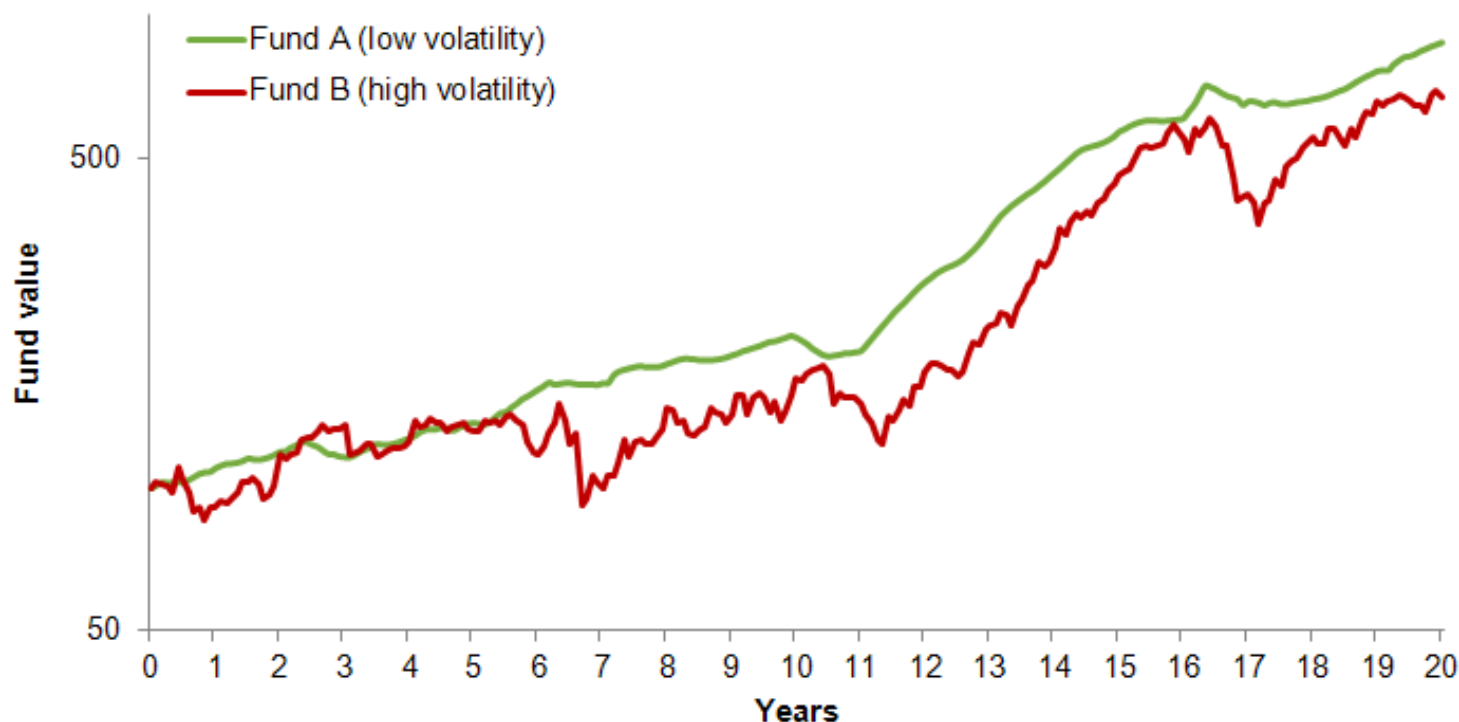
Asset allocation performance based on historical data for 3 years ended 31 December 2011
Performance Data – Unit Trust Performance Survey – ASISA (31 December 2011)

- Measuring cup
 - How much of what depends entirely on your investment objectives and risk tolerance
- Mixing spoons
 - “One of the secrets to a successful cake is not to mix it too much – it makes the texture dense and the cake will not rise as much”
 - Decide on your desired exposures, invest accordingly and don’t “over-mix”
- Baking tray
 - etfSA account
- Oven
 - Stock exchange
 - “Remember not to open the oven door too soon during the baking process”

Understanding risk and volatility

The differences behind different weighting methodologies
and the role of **equal weighting** in a portfolio

- Two funds, both with an average return of 12% p.a., but different levels of volatility
- Fund A: 10% p.a. volatility vs. Fund B: 20% p.a. volatility

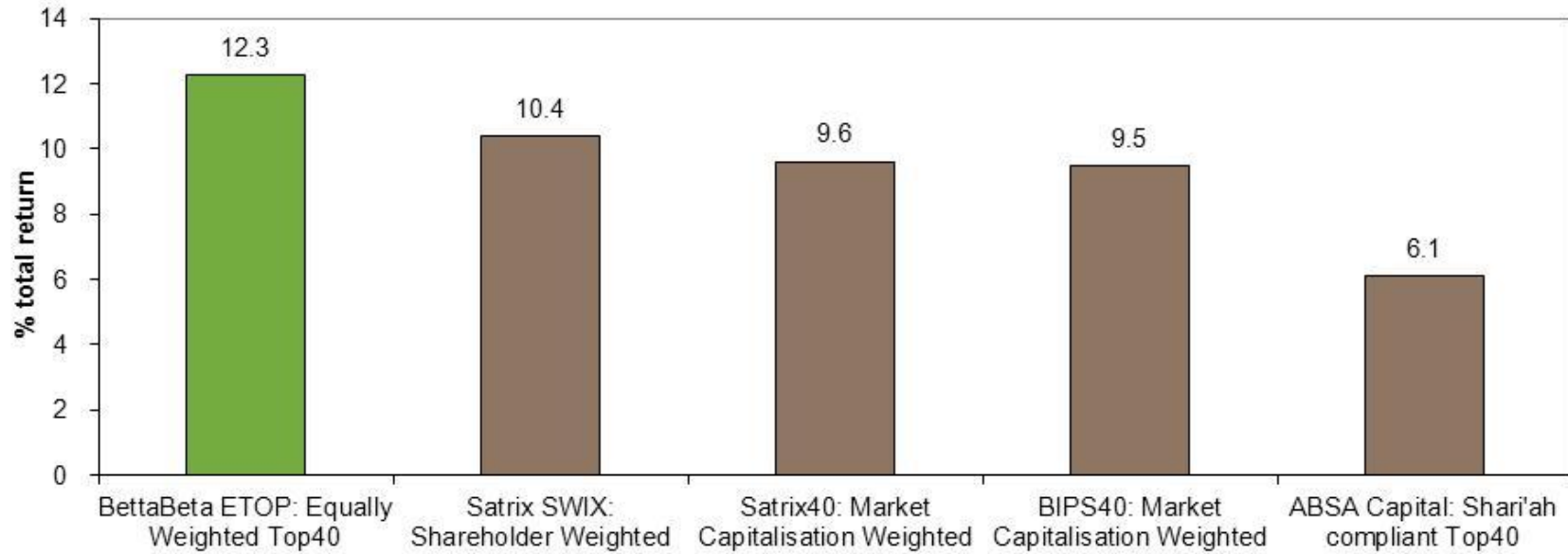


- On a *compound* return basis, Fund A outperforms Fund B by 30% over 20 years

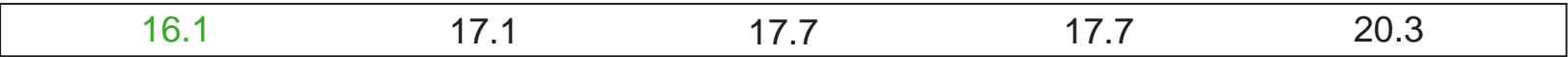
BettaBeta Equally Weighted Top 40 ETF – Relative Performance since inception



Performance (annualised) since listing (25-Mar-10): Highest return – Lowest risk



Risk
(% standard deviation p.a.)



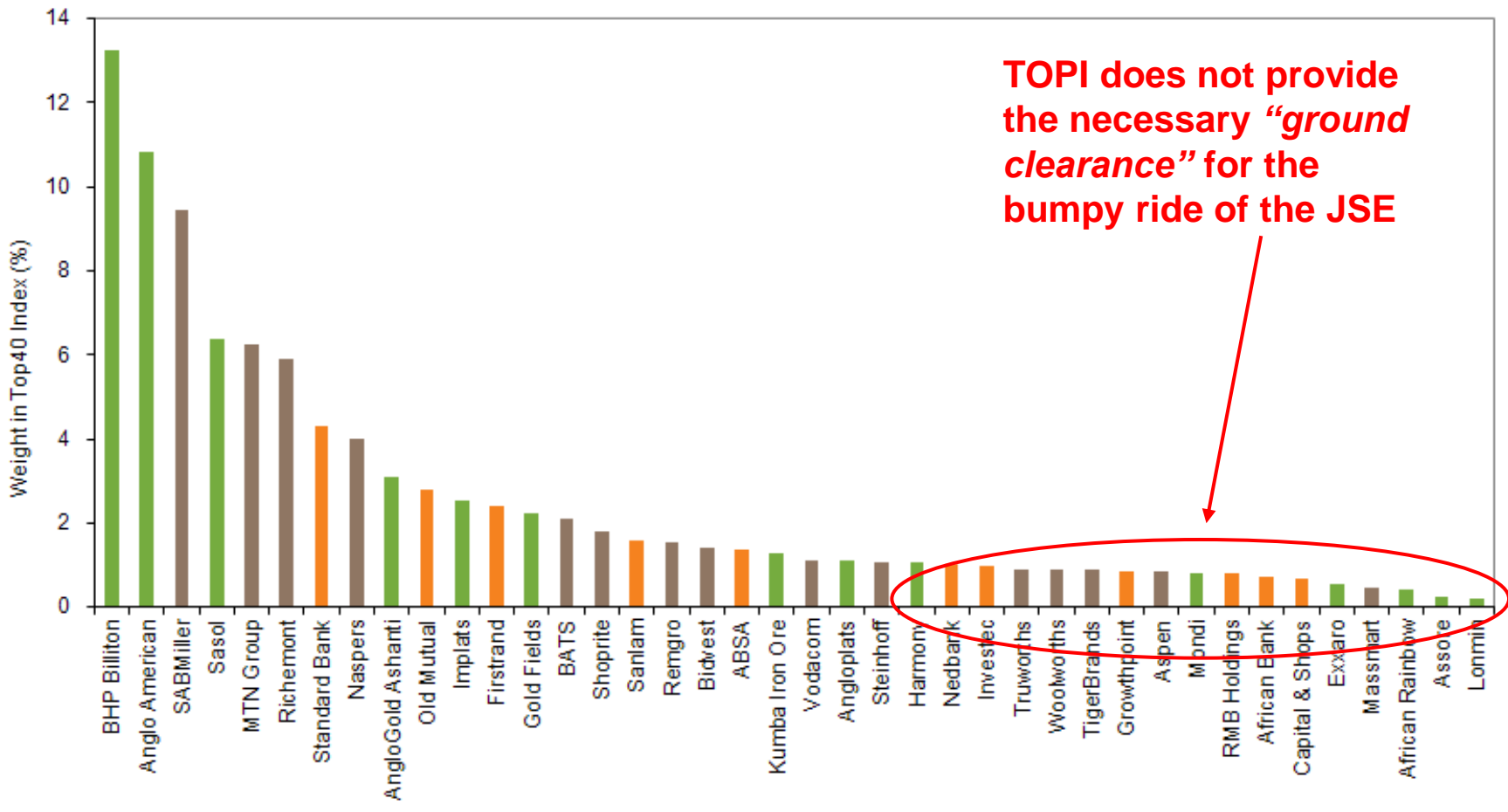
Performance of ETFs from 25-Mar-10 to 29-Feb-12 on an NAV basis; Source: Nedbank Capital

Top 40 index (TOPI) – Stock-specific Exposure

Top 2 names
(BIL and AGL)
≈ 25% of index

Top 5 names
≈ 50% of index

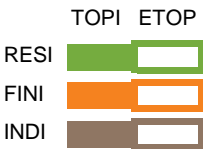
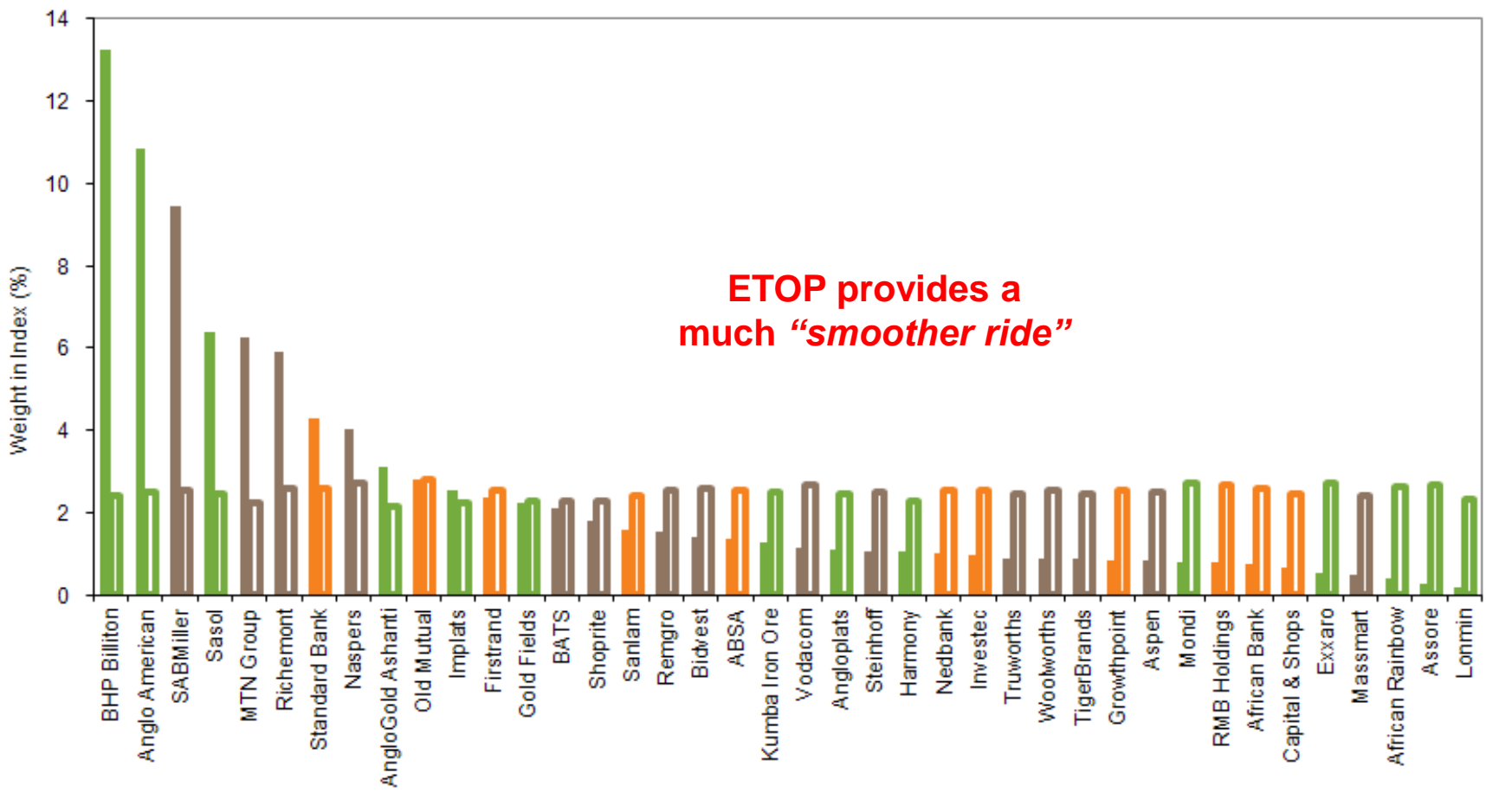
Bottom 10 names
≈ 5% of index



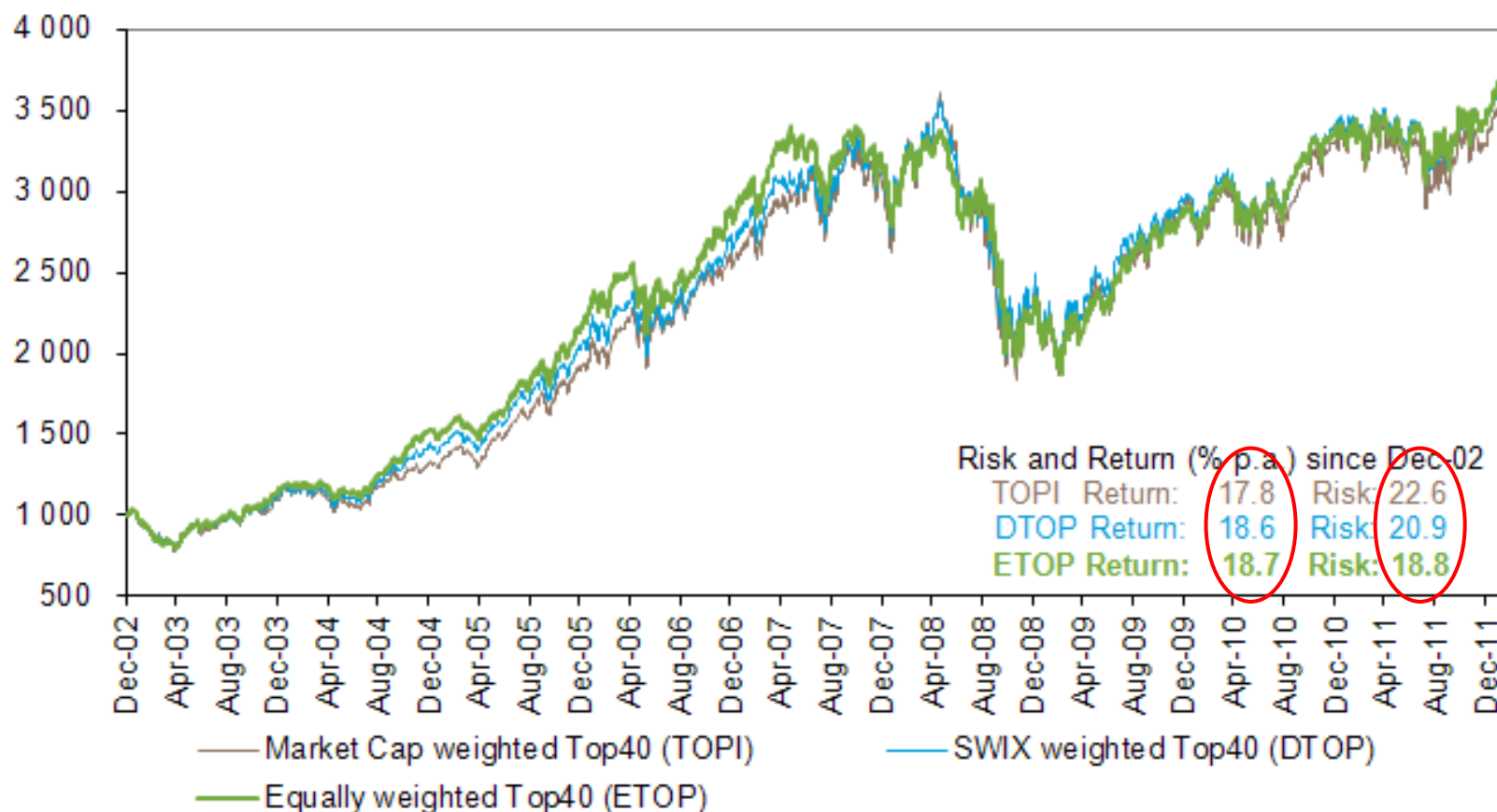
TOPI does not provide the necessary "ground clearance" for the bumpy ride of the JSE

TOPI
RESI
FINI
INDI

Equally Weighted Top 40 Index (ETOP) compared to Market Cap Weighted Top 40 Index (TOPI)



Equal weighting gives a similar return but at much lower risk!



All indices are total return and based at 1000 at Dec-02

How to grow a perennial garden

Incorporating the “**green advantage**” into your investment portfolio

*“Perennial plants are the **backbone** of nearly every flower garden. Unlike annual plants, which must be replanted each spring, perennials **regrow** from the same roots every year. People grow perennial plants because they are such **easy-care, dependable performers**, and because they offer an **enormous variety** of color, texture and form.”*

What is required for a perennial garden?

- Healthy, fertile soil
- Good planning
- Regular tending and watering
- **Correct plant selection!**



- Source of information must independent, objective, transparent, consistent and reputable
- The **Carbon Disclosure Project (“CDP”)** is an independent not-for-profit international organisation holding the largest database of primary corporate climate change information in the world
- The **Top 100 companies on the JSE** are rated on the basis of the disclosure and performance of their response to climate change and how they manage it
- The Nedbank Green Index uses the **Disclosure** scores for constituent selection and the **Performance** ratings for the weight in the index
- Top 10 holdings in the index:

Company		Weight in Nedbank Green Index (%)
EXX	Exxaro Resources	4.2
WHL	Woolworths Holdings	4.0
REM	Remgro	3.8
GFI	Gold Fields	3.8
NED	Nedbank Group	3.8
BTI	British Am. Tobacco	3.7
MND	Mondi Ltd	3.3
PIK	Pick N Pay	3.2
BAW	Barloworld	3.1
SNT	Santam	3.1

Source: Nedbank Capital; as at 29-Feb-12

A UNEP FI / UNISA survey
found that the
single greatest barrier
to responsible investing in SA is
the **belief that responsible investing results in underperformance**

- There is growing awareness that Environmental, Social and Governance (“ESG”) factors affect the (financial) bottom line and as such influence investment performance
- Example: Goldfields – Beatrix Methane Gas Project
 - Extracting methane gas from the underground mine areas reduces the risk of explosions and thereby improves the safety in the mining operations
 - Increase turnover (higher probability of meeting production targets)
 - The extracted methane gas is used as an alternative source of energy thereby reducing the cost of electricity
 - Reduce expenses
 - The company receives carbon credits for the reduction in carbon emissions
 - Additional revenue earned
- Improved financial performance results in superior investment performance

Why NOT green investing!



Performance of Nedbank Green Index vs. All Share Index (ALSI) & Socially Responsible Investment Index (SRI)



Cumulative outperformance since inception: >40% vs. the ALSI

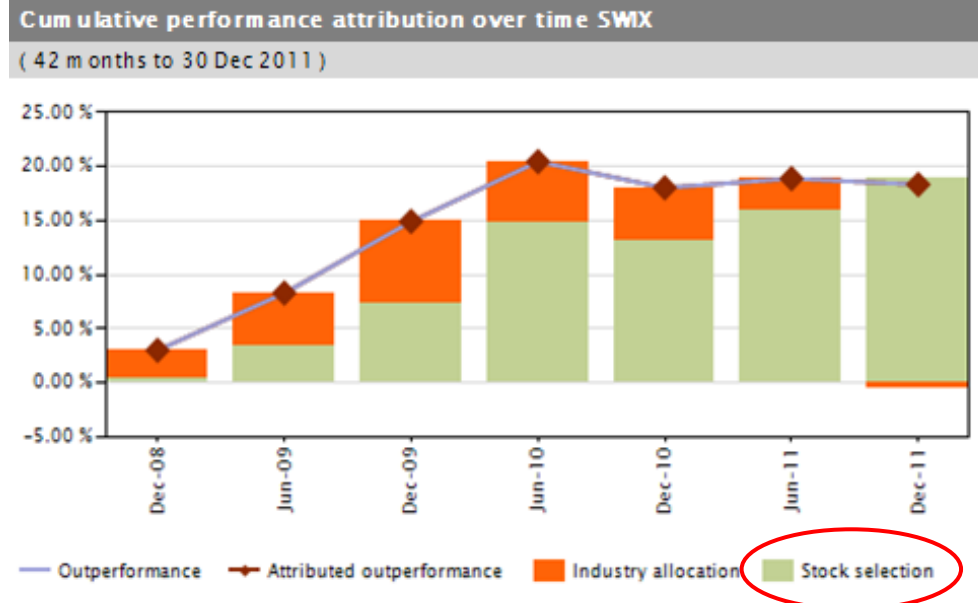
Source: Nedbank Capital; As at 29-Feb-12

Important disclaimer!

- Past performance is **no guarantee** of future performance
- We cannot guarantee
 - the **absolute** level of the future performance
 - the level of **relative** outperformance

- What we **can guarantee** is
 - the rules-based **process** behind the stock selection
- Independent* attribution analysis on the relative performance proves that the outperformance comes primarily from **stock selection**

*Source: Riscura Analytics



- Managing environmental risks and opportunities affects **financial outcomes**
- It is a “rating system” that identifies **quality of management** – how does a company deal with change and challenges
 - It separates the victors from the victims
- Being environmentally responsible **does not have to come at a cost in performance**
- Investing in companies with strong environmental credentials **incentivises companies** to behave responsibly and **allows investors to act** on their environmental convictions
- The **BettaBeta Be Green ETF** (share code: **BGREEN**) provides exactly such an investment opportunity

- Like a well-tended perennial garden, investments need to be regularly “watered”
- Monthly debit orders and automatic re-investment of dividends is a prudent long-term investment strategy
 - This is facilitated at very low cost on the etfSA platform
- Available for both BettaBeta ETFs:
 - BBET40
 - BGREEN



Thank You

For more information, please refer to our website: www.bettabeta.co.za

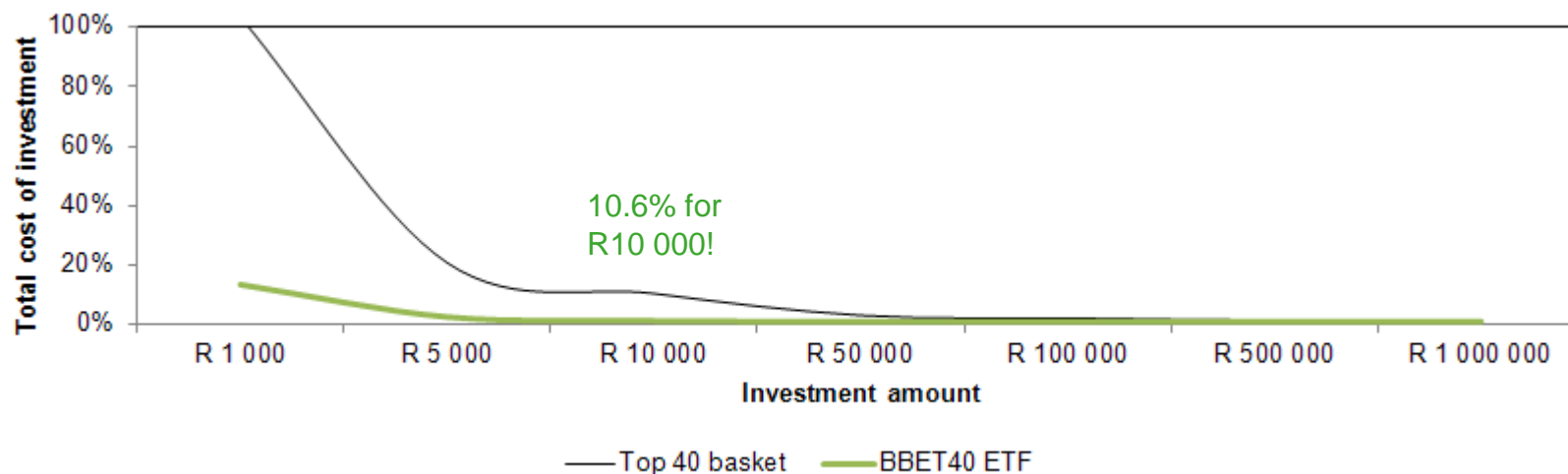
“Can I do this myself?”



- Investing in 40 individual shares rather than 1 ETF is a LOT more expensive...

	Basket of Top 40 shares	BBET40 ETF
Gross investment amount	R 100 000	R 100 000
Brokerage (0.5%) (buy and sell)	R 1 140	R 1 140
JSE fees & levies (buy and sell)	R 918	R 22
STT (only buy)	R 250	
Net investment amount	R 97 692	R 98 838
Total cost of investment	2.3%	1.2%

- ...especially if your investment amount is relatively small



Calculations: Nedbank Capital

What ETF / ETN options are available?

Asset class	Category	ETFs available
Equities only	Broad market access	BettaBeta Equally Weighted Top40 (BBET40) Satrix40, SWIX and RAFI, <i>BIPS40, NewFunds eRAFI, Stanlib40 and SWIX</i>
	Sector exposure	<i>Satrix RESI10, FINI15 and INDI25</i> <i>NewFunds eRAFI RESI20, FINI15 and INDI25</i>
	Listed property	<i>Proptrax, Proptrax Ten</i>
	Style / thematic	BettaBeta Be Green (BGREEN) Satrix Divi, <i>NewFunds Shari'ah40, NewRand, NewSA and Equity Momentum</i>
Fixed interest only	Regular bonds	<i>z-shares GOVI, NewFunds GOVI</i>
	Inflation-linked bonds	<i>BIPS Inflation-X, NewFunds ILBI</i>
Foreign exposure	Foreign equity markets	<i>db x-trackers World, USA, UK, Euro, Japan, Africa, China, Emerging Markets, Standard Bank Africa</i>
Alternative investments	Commodities	<i>NewFunds NewGold, Standard Bank Commodity-linkers (Gold, Silver, Platinum, Palladium, Copper, Corn, Oil, Wheat, Commodity basket)</i>
Multi-asset	Balanced funds	<i>NewFunds MAPPS Protect and Growth</i>

Why (physical) gold in an investment portfolio?

- Gold is often considered a **high risk** investment, but over the last 16 years, it has been **no more risky** than South African equities!

From Jun-95 to Dec-11*	All Share Index Total Return	Gold price in ZAR
Average monthly return (%)	1.39	1.32
Average annual return (%)	18.7	17.3
Standard Deviation (% p.a.)	20.3	20.0
Minimum monthly return (%)	-29.3	-15.1
Maximum monthly return (%)	14.1	21.7

*Jun-95 is the inception of the current All Share index data

- Its most important contribution relates to its diversification benefits – thanks to **negative correlations**

Correlation based on monthly total returns: Jul-95 to Dec-11	All Share Index (ALSI)	SA Listed Property (SAPY)	Inflation-linked Bond Index (ILBI)	All Bond Index (ALBI)	Money Market Index (Cash)	Developed Market Equities in ZAR (World)	Physical gold in ZAR (Gold)
ALSI	1.0	0.3	-0.3	0.3	-0.1	0.5	0.0
SAPY		1.0	-0.1	0.6	-0.1	-0.0	-0.2
ILBI			1.0	-0.2	0.1	-0.1	0.1
ALBI				1.0	0.1	-0.1	-0.2
Cash					1.0	0.1	-0.1
World						1.0	0.3
Gold							1.0