EXCHANGE TRADED PRODUCTS (ETFs & ETNs)

Now, for the first time ever, all South Africa's ETFs & ETNs on a single website www.etfsa.co.za

- **Everything you need to know about ETFs and ETNs**
- **Transact online all ETFs/ETNs**

Contact Details

Call Centre:	**0861 383 721 (0861 ETFSA1)**
International Calls:	**+27 11 561 6687**
Email:	**info@etfsa.co.za**
Website:	**www.etfsa.co.za**
Follow us on twitter:	**@ETFSA**

The Home of Exchange Traded Funds®

EXCHANGE TRADED PRODUCTS (ETPs)

EXCHANGE TRADED FUNDS (ETFs)

EXCHANGE TRADED NOTES (ETNs)

WHAT ARE ETPs?

The Modern Investment Vehicle for all Investors

Suze Orman, a well known US investment guru and TV personality, who often lectures in South Africa, calls ETFs "the Unit Trusts for the 21st Century". What does she mean by this?

Exchange Traded Products (ETPs) are securities that trade on the Johannesburg Stock Exchange (JSE) just like any other publically listed security**. But where they differ is that each ETF/ETN offers exposure to an entire basket or portfolio of shares** – you buy one ETF security and this gives you ownership of a portfolio of shares, for instance, all the companies in the FTSE/JSE Top 40 blue chip index. So with one transaction, you obtain ownership of all the largest and most tradable companies on the JSE.

Exchange Traded Notes (ETNs) are a variation of ETFs, but are debt instruments listed and traded in the form of securities, rather than portfolios of securities in the case of ETFs.

All the transacting, settlement, registration and custodianship of ETPs are handled electronically and the process is guaranteed by the JSE. The price of an ETP and the component shares it owns is always known at all times that the stockmarket is open. Costs allocated to the management and trading of ETPs are low in comparison with other investment products, such as unit trusts, because the manager is able to benefit from the economies of scale and spreading of costs offered by a big exchange such as the JSE.

Contrast the benefits of ETPs, - namely: transparency; trading openly on an exchange; low costs; portfolio diversification and simplicity - with any other investment vehicles where high management costs, lack of transparency, no trading platforms or centralised settlement systems and complexity are the norm. This is what Ms Orman means when she calls ETFs the "new age" investment tools.

WHY INVEST IN ETPs?

What Are ETPs?	An Exchange Traded Product (ETP) is an investment vehicle which provides an investor with direct access to a basket of shares traded on stock exchanges such as the Johannesburg Stock Exchange (JSE) with the convenience of trading in a single security. Most ETPs track an index, such as the FTSE/JSE Top 40. ETPs are attractive as investments because of their low costs (Total Expense Ratio [TER]) and the ability to purchase them like a normal listed security. An ETP combines the diversified portfolio of a unit trust investment with the tradability features of a listed security allowing it to be bought or sold during each trading day at the market ruling price. ETPs are passive investments, i.e. they provide the average performance of the asset class or index being tracked and not active investments (which seek to outperform the index).
Types of ETPs	There are two types of ETPs traded on the JSE: ***Exchange Traded Funds (ETFs)*** Typically track a basket (or index) of shares. The shares that replicate the index are physically held in a Trust (under the control of an independent Trustee) and ETF investor purchases a participatory investment in this portfolio (fund), which trades as an ETF on the JSE. ETFs are typically registered as Collective Investment Schemes (the same as unit trusts) and are regulated by the Financial Services Board (FSB) under the Collective Investment Schemes Act (CISCA). ***Exchange Traded Notes (ETNs)*** Typically provide access to assets that are less suitable to physically hold and store, such as commodities, currencies, etc. The issuer of the ETN is allowed to cover its liability to deliver performance through exposure to futures or forward contracts and does not have to hold such assets in physical form. The issuer of the ETN has the obligation to provide the total return (performance) of the asset being tracked. This obligation requires that the investor needs to take into account the creditworthiness (credit rating) of the issuer of the ETN. This is not necessary with an ETF.

Continued/...

WHY INVEST IN ETPs? (continued)

How can ETFs/ETNs benefit me?	• Buying a basket of shares (an ETF/ETN) is less risky than buying a single listed company as the diversification and spread of investments reduces the risk exposure. • ETPs typically track an index of the most liquid shares on the stockmarket. • Indices are regularly rebalanced by the Johannesburg Stock Exchange (JSE) to ensure that they reflect the most successful securities on the exchange.
Are ETFs/ETNs cost effective?	• When you buy an ETP you only pay once for exposure to a basket of shares. If you bought this index basket yourself, via a stock broker, it would be more expensive, and you would pay brokerage and Securities Transaction Tax (STT) for each of the shares purchased. • When you buy an ETP, you only pay brokerage once and there is not STT payable for ETP transactions. • ETPs generally have lower costs than other investment products like unit trusts because ETFs/ETNs are passively and not actively managed and the underlying portfolio of shares is not traded regularly. • ETNs typically have lower marketing, distribution and administration expenses. The overall cost structure of an ETP does not eat into your investment performance.
Are ETFs/ETNs easily tradeable?	• Yes, you can buy or sell ETPs at any time on the JSE just like any other listed security. • The JSE trading system facilitates buying and selling prices at all times and there are market makers to provide liquidity (prices) for large orders. • Alternatively, investors can transact ETFs and ETNs via etfSA Investor Plan where all orders are pooled and traded once a day. etfSA Investor Plan can accept any size orders from R1000 per transaction, or can process recurring debit order investments from R300 per month. All 64 of the currently listed ETFs/ETNs on the JSE are available on the etfSA trading platform.

Continued/...

WHY INVEST IN ETPs? (continued)

Are ETFs/ETNs transparent?	• Being listed on the JSE means that prices are updated at frequent intervals and are available to investors throughout the trading day, and not just once a day like a unit trusts. • The ETF/ETN issuer discloses the underlying portfolio of shares in the fund on a daily basis.
Do ETFs pay dividends?	• Yes, ETFs collect the dividends from all the companies in the index tracked and pay these dividends over to investors, normally four times a year at the end of each quarter. • The accrued dividends in any ETF portfolio are published daily in the net asset value (NAV) figures by all ETF issuing companies. • ETNs typically automatically reinvest dividends to provide total returns, or track assets like physical commodities which do not pay dividends.
Do I have ownerships of my ETPs?	• Every ETF/ETN security you own is registered in your name on the JSE/STRATE electronic share registers by etfSA on a daily basis.
Are ETFs/ETNs well regulated?	• Nearly all ETF issuers are registered Collective Investment Schemes and are regulated and controlled by the Financial Services Board (FSB). All ETFs/ETNs are publicly listed securities and are also regulated by the JSE.
How Risky are ETPs?	• ETPs are relatively low risk as they track indices of the largest and most tradable stocks or bonds on the JSE. They don't try to outperform the JSE index benchmarks. They are "passive" investments. • Investors in ETPs accept the market (benchmark) risk, but not the risk that an "actively" managed product might outperform or underperform the market. This risk adjusted return can be very volatile and imposes significant risk for the investor who seeks an actively managed product. . • ETPs are the (benchmark) market return so are inherently low risk products.

WHAT ARE THE COSTS OF ETPs?

ETFs have average Total Expense Ratios (TERs) - which are the costs of running the portfolio - one-third (or even lower) than the average unit trust TERs. High TERs detract from the investment performance of portfolios.

The TER is embedded in the price of the ETF/ETN product, so is not paid directly by the investor.

ETPs need to be purchased through JSE member stockbrokers, or through a dedicated ETF (ETF/ETN) platform such as the etfSA Investor Plan which acts as a stockbroker on behalf of the investor.

Total Expense Ratios (TERs)		
ETFs	**Basis Points**	
RMB Top 40	0,19	(0,19%)
Stanlib Top 40	0,22	(0,22%)
NewFunds SWIX Top 40	0,33	(0,33%)
Satrix 40	0,45	(0,45%)
Average of all local ETFs	**0,33**	**(0,33%)**
Unit Trusts		
Average General Equity Funds	1,62	(1,62%)
Average Value Funds	1,75	(1,75%)
Average Growth Funds	1,54	(1,54%)

- *Total Expense Ratios (TERs) measures the cost (annualised) of providing the product.*
- *TER is included in the price of the product.*

Source: ASISA Unit Trust Survey (June 2014).

Fee Schedule – applicable to all ETFs/ETNs on the etfSA Investor Plan Platform*

Annual Administration Fee (calculated daily and deducted quarterly)	
Total Investment Per Fund	**Fee**
R0 to R500 000	0,70%
R500 000 to R1 000 000	0,55%
R1 000 000 or more	0,40%
* From 1st July 2013.	

Transaction fees

- Debit order fee: R3,50. Debit order rejection fee: R110
- Stock brokerage fees 0,10% (buying and selling) and Nominal JSE/Strate and Investor Protection fees (plus VAT) will be charged.
- All fees quoted are exclusive of VAT. VAT will be levied where applicable.
- The annual administration fee is subject to a Fee Share Agreement between the Administrators and etfSA.co.za.

HOW DO ETP COSTS COMPARE WITH UNIT TRUSTS?

When looking at the total costs of a unit trust investment: the TER; advisory fees; costs charged by the provider of the Collective Investment Scheme to use its products on a transaction platform; and commissions paid to financial advisors, all need to be taken into account. This "chain of costs" can add up significantly and reduce the yield or total return of your investment.

ETPs, with a far simpler mechanism of distribution through the Stock Exchange, eliminate many of these costs and have far lower overall cost structures than the average unit trust.

Comparative Fee and Cost Structures
Unit Trusts vs Exchange Traded Funds (ETFs)
(% of asset per annum)

	Unit Trusts	ETFs
Total Expense Ratios (TERs) (average)	1,5%	0,33%
Investment Platforms	0,5%	0,40% to 0,70%*
Fund Manager Fees	0,5% to 1,0%	n/a
Financial Advisor Commissions	0,5% to 1,0%	N/A
Totals	**3,0% to 4,0%**	**0,73% to 1,03%**

Notes

i) * Fees charged on etfSA Investor Plan platform (from 1st July 2013).

ii) etfSA Investor Plan can be accessed directly by investors if Financial Advisors services are not required.

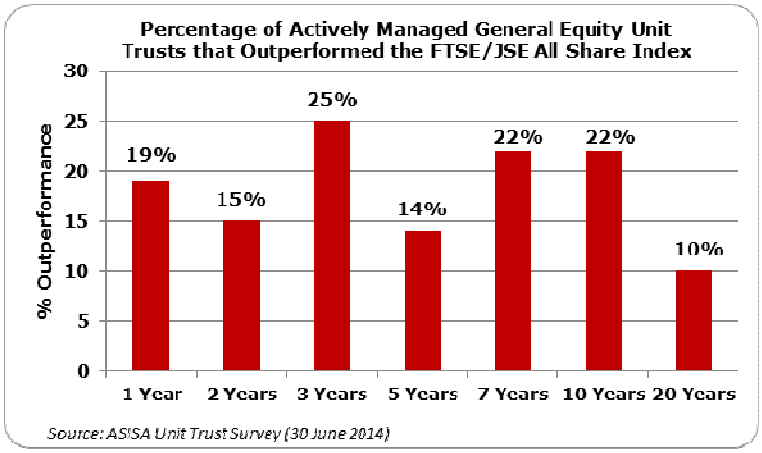
iii) These are representative charges ascertained from a sample of unit trust and ETF companies.

iv) Performance fees are charges for certain unit trusts, but not all.

PERFORMANCE ISSUES

- Only a relatively small percentage of actively managed unit trusts can outperform their benchmark. (Note: only TERs and no platform or other distribution costs are taken into account when the figures are calculated.) If all costs were included, even more unit trust managers would fail to beat the benchmark.
- ETFs give close to the benchmark performance (cheaply and efficiently).
- The complexities and risk attached to choosing any of the 900 or so unit trusts that can add meaningful performance above the average market (benchmark) returns offered by ETPs, means that passively managed ETFs/ETNs are becoming a favoured investment choice.

How Many Unit Trusts Outperform Their Benchmark (1 – 20 years)?



WHY USE etfSA INVESTOR PLAN?

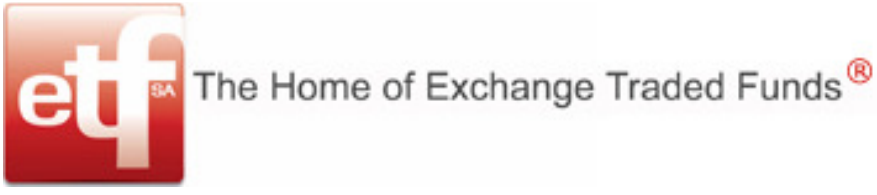
- You can buy, sell, switch, transfer any ETP listed in South Africa on a single platform. Visit www.etfsa.co.za and click on "How to Invest".
- etfSA.co.za offers a fully managed service to buy, sell, switch or hold any ETFs and report to its clients.
- Total administration costs of 0,40% to 0,70% per annum, depending on the size of investment.
- Investment can be done online and investor statements can be viewed online at any time.
- Or, if you prefer, application forms can be completed and emailed, faxed or delivered to us.
- etfSA Investor Plan is fully compliant with all FSB and JSE regulatory requirements.
- etfSA website (www.etfsa.co.za) tells you all you need to know about Exchange Traded Products.

MIKE BROWN Managing Director
etfSA.co.za 011 561 6653 mikeb@etfsa.co.za

Disclaimer

The Exchange Traded Products (ETPs) contained herein are Collective Investment Schemes in Securities (CIS)and/or JSE listed securities which are generally medium to long-term investments that contain elements of risk and can be affected by market values, interest rates, exchange rates, volatility, dividend yields and issuer credit ratings.

The price of ETPs can go up as well as down and past performance is not necessarily a guide to the future. The ETPs herein are listed on the Johannesburg Stock Exchange Limited and trading in ETP securities will incur trading and settlement costs. ETP securities are traded at ruling prices and can engage in scrip lending.

The information and opinions provided herein are of a general nature and do not constitute investment advice. Whilst every care has been taken, no representation, warranty or undertaking, expressed or implied, is given as to the accuracy or completeness thereof.

All opinions and information on this website may be changed at any time without notice. etfSA.co.za is the trading name of M F Brown, which is a registered Financial Services Provider (FSP No. 39217). FSP No 39217 holds Professional Indemnity Insurance as required by the Financial Advisory and Intermediary Services Act (2002). M F Brown has successfully completed the Level One Regulatory Examinations (RE1 and RE5). etfSA.co.za®, etfSA The Home of Exchange Traded Funds® and etfSA Investor Plan are registered trademarks in the Republic of South Africa.