Investing in South African Bond Markets Through Exchange Traded Funds (ETFs)
Mike Brown, Managing Director, etfSA.co.za

Interest in investing in Government bonds, which provide a fixed interest rate, and limited capital loss prospects, has been encouraged by the relatively poor performance of equity markets worldwide. Of course, the mounting sovereign debt problems in Europe and elsewhere, have cast a pall over many Government debt issues, but in South Africa, the bond market remains relatively unaffected.

There are four ETFs listed on the JSE that provide investors with access to investment in fixed interest (bond) indices.

**Investec zGOVI ETF**
The zGOVI securities (JSE code: ZGOVI), tracks the performance of the Bond Exchange of South Africa (BESA) Government Bond (GOVI) index. The GOVI index consists of 9 of the most liquid and tradable RSA Government bonds (see current portfolio constituents below).

The coupons (interest rate) paid by the underlying Government bonds are reinvested by Investec, through the issue of new ETF securities, twice annually. The current yield on the zGOVI is around 7%. The product has a Total Expense Ratio (TER) of 0,34% per annum

**RMB Inflation-X ETF**
This ETF security (JSE Code: BIPINF), provides investors with access to five RSA inflation linked bonds currently in issue by the SA Government. It tracks the GILBX Index. (The current portfolio is shown below). It makes quarterly distributions of interest to shareholders.

Inflation-linked bonds show an appreciation in capital value equal to the rise in the local inflation rate (CPI) and the interest rate (coupon) is also calculated on the inflation linked value of the bond. Therefore both capital and income are protected against erosion by inflation. The RMB Inflation-X ETFs offer a real yield of the current inflation rate plus 1,43% at present. The TER is 0,44% per annum.

**NewFunds ILBI ETF**
The ILBI ETF, issued by Absa Capital, tracks the Barclays Capital/Absa Capital South African Government Inflation-Linked bond index of 5 RSA inflation-linked bonds. All coupons received are automatically reinvested by the Manager to provide a total return product. The price increase in the ILBI ETF is designed to protect capital investment against any erosion by inflation. The product has an expected TER of 0,31% per annum.

**NewFunds GOVI ETF**
Also issued by Absa Capital, the GOVI ETF tracks the Total Return version of the SA Government Bond index, calculated by the SA Bond Exchange. All coupons paid by the SA Government are automatically reinvested, so the capital value of the GOVI ETF increases by the yield return and any capital gains/losses incurred by the SA Government bonds it tracks. It is expected to have an annual TER of 0,21%.
For Period Ended 31 December 2012

<table>
<thead>
<tr>
<th>Bond (Fixed Interest) ETFs</th>
<th>1 Month</th>
<th>3 Months</th>
<th>6 Months</th>
<th>1 Year</th>
<th>2 years p.a.</th>
<th>3 years p.a.</th>
<th>5 years p.a.</th>
</tr>
</thead>
<tbody>
<tr>
<td>All Bond Total Return Index</td>
<td>2.30%</td>
<td>2.62%</td>
<td>7.74%</td>
<td>16.02%</td>
<td>12.35%</td>
<td>13.28%</td>
<td>10.94%</td>
</tr>
<tr>
<td>NewFunds GOVI (Total Return)</td>
<td>2.20%</td>
<td>2.51%</td>
<td>7.33%</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>NewFunds ILBI (Inflation-Linked) (Total Return)</td>
<td>3.01%</td>
<td>5.43%</td>
<td>14.31%</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>zShares GOVI (Total Return)</td>
<td>2.21%</td>
<td>(0.89%)</td>
<td>7.31%</td>
<td>14.95%</td>
<td>11.56%</td>
<td>12.36%</td>
<td>-</td>
</tr>
<tr>
<td>RMB Inflation Linked (Inflation-X)</td>
<td>2.96%</td>
<td>5.44%</td>
<td>14.18%</td>
<td>18.74%</td>
<td>15.54%</td>
<td>13.76%</td>
<td>-</td>
</tr>
</tbody>
</table>

Portfolio Constituents (as at October 2012)

- Investec zGOVI
- RMB Inflation-X

All the bond ETFs are registered Collective Investment Schemes and are also listed on the Main Board of the JSE. They can be purchased through a JSE member stockbroker, or through specialised platforms, such as etfSA.co.za, which allows investments from R1000 lump sum or from R300 per month for debit orders.

For more information, please call Mike Brown, contact details below.

Mike Brown
Managing Director, etfSA
Phone: 011 561 6653
Email: mikeb@etfSA.co.za

Terms and conditions: Redistribution, reproduction, the resale or transmission to any third party of the contents of this article and this website, whether by email, newsletter, internet or website, is only possible with the written permission of etfSA. etfSA, its sponsors, administrators, contributors and product providers disclaim any liability for any loss, damage, or expense that might occur from the use of or reliance on the data and services provided through this website. etfSA.co.za is the registered trading name of M F Brown, an authorised Financial Services Provider (FSP No 39217). Professional Indemnity Insurance is maintained.