

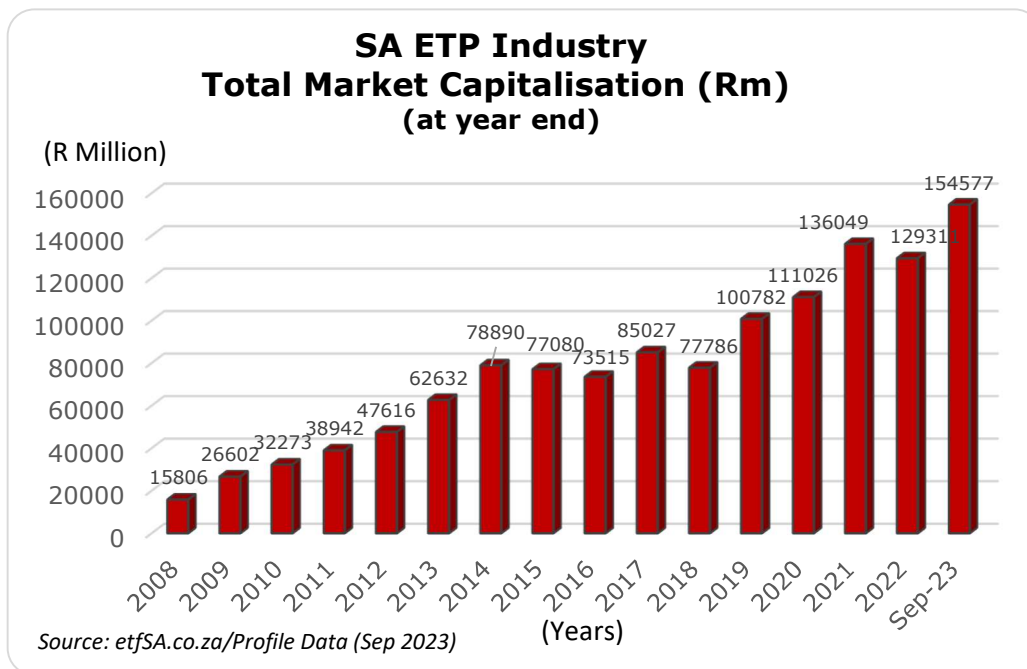
State of the South African Exchange Traded Product (ETP) Industry – as at 29 September 2023

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INDUSTRY OVERVIEW

The total South African ETP industry has grown by R25,2 billion in the first 9 months of 2023 and the total market capitalisation of the industry stands at R154,6 billion, as at 29 September 2023.

Even allowing for market volatility, the growth in index tracking Exchange Traded Products has been impressive, to date, this year.



NUMBER OF ETPs IN ISSUE

The total number of ETPs listed on the JSE has increased from 183 at the end of 2022, to 212 at the end of September 2023

A breakdown of the ETP product types is shown below in Table A.

Table A

Number of Exchange Traded Products in Issue (end of period)					
	2019	2020	2021	2022	Sep 2023
Exchange Traded Funds (ETFs)	73	78	86	95	94
Exchange Traded Notes (ETNs)	29	59	82	66	71
Actively Managed Certificates (AMCs)	-	-	-	22	43
Actively Managed ETFs (AMETFs)	-	-	-	-	4
Totals	102	137	168	183	212
<i>Source: etfSA.co.za (Sep 2023)</i>					

The significant increase in ETF products in issue during the course of this year, has been driven largely by actively managed products.

Actively Managed Certificates (AMCs)

The JSE amended its Listing Requirements in October 2022, to allow for actively managed products to be listed on the Exchange under Section 19 (asset backed products) of the JSE Listing Requirements. AMCs are notes issued to back a portfolio of securities that can be actively managed, rather than passively tracking an index, although the issuer will normally benchmark an index, in order to report back on the value created.

AMCs are debt-type instruments. So require the backing of an investment bank to ensure the creditworthiness of the product. To date, only the Union Bank of Switzerland (UBS) and Standard Bank of South Africa, have backed the issue of AMCs on the South African market.

This sector of the market was given a head start by UBS converting 19 of its actively managed ETNs into AMCs in late-2022, but it has subsequently added 13 more AMCs to the selection of products available. Standard Bank has now issued 11 AMCs and a total 43 products are listed under this category of ETPs.

The AMC listing requirements require that "third party" asset managers be utilised by the issuer of the AMC notes. This creates an opportunity for asset managers to list "white label" products, which can then trade on the JSE as actively managed portfolios.

The asset manager of the portfolio is then able to use the JSE with its electronic trading, settlement and custodian systems, at a very low cost to have these products traded on a secondary market, which extends the potential client base for them

Actively Managed Exchange Traded Funds (AMETFs)

These products are more rigorously structured, as the underlying assets have to be held physically as the collateral for the AMCETF to trade at its NAV or fair value. Like any ETF, the products are open-ended, with securities created, or redeemed, at any time, market making is required and the underlying portfolios need to be disclosed and transparent.

To date, only 4 AMETFs have been issued, but it is believed that many more such products are likely to be listed in due course.

NEW CAPITAL RAISED

Not only has higher market prices for many ETP securities, particularly in offshore markets, helped increase the market capitalisation of the ETP industry in South Africa, but also the capital raised from new ETP listings as well as the creation of additional securities for already listed ETPs, has helped to grow the size of the industry.

In the first 9 months of 2023, R10,76 billion new capital was raised by the ETF industry through the JSE from the net creation of ETP securities.

Table B, below, shows the amount of capital raised /or redeemed per issuing house for the 9 month period, ending 29 September 2023.

Table B

Net New Capital Raised / (Redeemed) - South African ETP Issuing Houses – First Nine Months 2023		
Issuing House		Total Capital (R million)
1.	Invest (ETFs)	4 302,3
2.	CoreShares/10X (ETFs)	4 219,7
3.	Satrix Managers (ETFs)	2 207,1
4.	Union Bank of Switzerland (AMCs)	1 973,6
5.	Standard Bank (AMCs)	850,0
6.	FNB (ETFs)	579,7
7.	Absa Capital (NewWave ETNs)	126,6
8.	Union Bank of Switzerland (ETNs)	125,0
9.	Prescient Management Company (ETFs)	116,0
10.	FNB (ETNs)	50,0
11.	Absa Capital (NewFunds ETFs, NewGold ETFs)	(1 690,2)
12.	Sygnia Itrix (ETFs)	(2 096,5)
Total		10 763,3
<i>Source: etfSA.co.za Quarterly Securities in Issue and New Capital Raised Survey (Sep 2023).</i>		

Invest (Standard Bank) and CoreShares/10X are top of the capital raising table, with both houses attracting more than R4 billion in new capital for the first three quarters of 2023.

Invest benefitted, in early 2023, by raising nearly R4 billion from the issue of additional securities in the 1Invest Platinum ETF, which tracks the US dollar price of platinum bullion.

There were some redemptions of 1Invest Platinum ETFs in the third quarter of this year, as the platinum price ground to a halt, but the ETF continues to be widely supported by local investors.

10X, which purchased the CoreShares ETF business during the course of this year, raised new capital from a number of its ETFs already in issue. Old Mutual, South Africa's largest asset manager, has a majority shareholding in 10X and the ETF issuer appears to be benefitting from the greater allocation by Old Mutual to passive investment products.

Sygnia Itrix, with R2,09 billion ETF securities delisted in 2023 to date, has felt the effect of some loss of business in its foreign referenced ETFs, but continues to be the second largest issuer of ETP products in South Africa.

Absa Capital (NewGold), which sold its other ETF products to Satrix, continues to issue its ETFs that track precious metal bullion prices. It suffered from profit-taking as investors withdrew from holdings of NewGold ETFs, as the US dollar gold price failed to follow through on the gains made in late-2022/early-2023, when global inflation was still rising.

Table C

Capital Raised/Redeemed for Individual Exchange Traded Products (First 9 Months of 2023)	
ETF	Amount (R million)
Invest Platinum ETF	3 367,3
Satrix MSCI World ETF	2 545,6
Sygnia Itrix MSCI World ETF	1 759,0
Absa NewGold Platinum ETF	1 357,0
CoreShares/10X Global Dividend Aristocrat ETF	1 129,9
CoreShares/10X Wealth GOVI ETF	1 039,9
Sygnia Itrix Eurostoxx 50 ETF	636,4
Satrix GOVI ETF	(684,0)
Sygnia Itrix Emerging Markets 50 ETF	(2 271,9)
NewGold ETF	(3 024,4)

Examining the capital raised or redeemed by individual ETFs in 2023, to date, shows that platinum ETFs were the biggest raisers of new capital, for both 1invest as well as NewGold (Absa Capital). Otherwise, foreign equity tracking ETFs and South African bond ETFs were the most popular individual products.

Snapshot of the SA ETP Industry as at 29 September 2023

Table D

The South African Exchange Traded Product Industry (as at 29 September 2023)										
	Issuer	Number of Products				Value (Market Cap) of Shares in Issue (Rm)				Total Market Capitalisation (Rm)
		ETFs	ETNs	AMCs	AM ETFs	ETFs	ETNs	AMCs	AM ETFs	
1.	Satrix Managers	38	-	-	-	48 254,1	-	-	-	48 254,1
2.	Sygnia Itrix	15	-	-	1	37 477,9	-	-	50,0	37 527,9
3.	Absa Capital	3	5	-	-	23 292,7	1 747,1	-	-	25 039,8
4.	CoreShares/ 10X	12	-	-	2	10 036,9	-	-	1 364,4	11 401,3
5.	FNB/FirstRand	8	42	-	-	7 518,7	3 512,8	-	-	11 031,5
6.	Invest	16	-	-	-	9 684,7	-	-	-	9 684,7
7.	UBS	-	22	32	-	-	616,3	8 279,5	-	8 895,8
8.	Standard Bank	-	2	11	-	-	1 469,4	1 159,1	-	2 628,5
9.	Prescient Management	2	-	-	1	113,0	-	-	0,01	113,0
10.	Cloud Atlas/ Easy Equities	-	-	-	-	-	-	-	-	suspended
Totals		94	71	43	4	136 378,0	7 345,6	9 439,6	1 414,4	154 576,6

Source: *etfSA.co.za – Market Capitalisation – SA Industry Report (29/09/2023).*

As at 29 September, the total size (market cap) of the South African ETF industry, was R154 576,6 million, with 212 ETP products in issue. Table D, above, shows the dispersion of products amongst the 10 issuing houses that currently list ETPs on the JSE.

Satrix Managers, is the dominant force in the SA listed tracker fund industry and has increased its lead at the top of the table in terms of assets under management, which now total R48,2 billion.

Sygnia Itrix remains the second largest issuing house, but is falling steadily behind Satrix, as it has a smaller range of products, focussing mainly on global equity indices, compared with Satrix's far wider range of products.

Absa Capital, having disposed of most its ETFs to Satrix as part of the sale of Absa Asset Management to Sanlam, is holding its position as number three in the industry. However, its product range is limited, mainly focussed on the volatile commodity markets and its future strategy will be awaited with interest.

Strong competition exists for the next spot in the issuing house league table. **10X, formerly CoreShares**, has moved into fourth position, just ahead of First Rand/FNB. Being a product provider to their major shareholder, Old Mutual, is clearly advantageous to 10X, but the brand is well recognised in the institutional and retail industry, so its ETF products have a far broader base than purely being an "in-house" provider.

INDIVIDUAL ISSUING HOUSES

Satrix Managers – With R48,2 billion under management in ETFs, Satrix is over 10 billion larger in AUM than the second issuing house in the industry, Sygnia Itrix.

The transfer of some R4 billion in index tracking ETFs by Absa to Satrix, has assisted Satrix in its growth momentum. However, the 13 ETFs taken over in this manner, have led to some duplication in ETF products provided and/or are too small to make a meaningful contribution to the issuing house. Much of Satrix's energy in the past 9 months seems have been devoted to the consolidation of the Absa products.

The majority of all Satrix ETFs have seen small redemptions over the year to date, so the new capital raised has come mainly from foreign referenced ETFs, notably the Satrix MSCI World ETF, which has a strong following in the markets.

Satrix has not issued any new ETFs in 2023, probably as a result of its focus on consolidating the Absa ETF products.

Satrix remains the most recognised brand in the ETP industry and is particularly widely known and accepted in retail investment markets.

Sygnia Itrix – maintains its position as the second biggest ETP provider in South Africa. It has shown limited growth in 2023, probably because of some profit-taking by successful investors in its foreign referenced ETFs.

During the third quarter, Sygnia delisted some R2 billion of its Emerging Markets 50 ETFs. This appears to have been because of an asset allocation strategy switching away from emerging markets to developed market exposure. Simultaneously, R1,8 billion new Sygnia Itrix MSCI World ETFs were created.

Sygnia Itrix listed its first actively managed ETF in late-September, the Sygnia Itrix FANG.AI AMETF. This product provides access to a portfolio of companies using advanced technologies such as artificial intelligence, cloud storage, big data, social media and e-commerce. Rather than confining itself to the recognised mega-FANG companies, it has a wider universe of some 30 companies that use innovative digital technologies. The FANG AMETF also breaks new ground in that performance fees can be charged if return benchmarks are achieved. The possible use of fee enhancement for performance indicates that actively managed products could deliver higher margins for issuing houses, if this practice is followed elsewhere in the industry.

Invest – the Invest brand houses the ETFs originally issued by Standard Bank and the Standard Liberty Group. It has historically issued ETFs tracking precious metal prices, including gold and PGMs, plus the major local and global equity indices. In 2022, Invest started introducing ETFs which looked to fill gaps in the South African market, including a World SRI index, Asian stock exchanges and a short-term US Treasury bill ETF. These products have gained some market acceptance.

The most successful Invest product, in terms of capital raising in 2023, has been the Invest Platinum ETFs which raised over R2 billion in new money, most of it in the first quarter of 2023. The impetus for this interest in the platinum market has come from its potential use in hydrogen fuel conversion for energy. Whilst widespread use of platinum fuel cells for this purpose seems to be some years away, this potential demand has generated some investor interest in this metal.

The other popular ETF in the 1invest stable in 2023, has been the 1invest S&P Information Technology ETF, which tracks the high tech shares in the US S&P 00 indices. This index also captures the current and expected impact of Artificial Intelligence (AI) in a number of mega-counters included in the S&P index.

No new ETFs have been issued by 1invest to date in 2023.

CoreShares/10X – the absorption of the CoreShares ETF business by 10X has created the fourth largest issuing house, based on AUM.

This house has been the most active issuer of ETP products in 2023, including 3 new ETFs and 2 AMETFs listed during the course of this year. Three new ETFs, two of which track the JSE Top 20 and Next 40 indices, appear to have been issued to meet the specific investment requirements of Old Mutual.

CoreShares/10X was the first issuer to introduce an actively managed ETF to the South African market. The two such products it has listed to date this year, are the CoreShares/10X Income AMETF, which is an income fund, made up of fixed interest and inflation-linked bonds, both locally and globally as well as private credit and other income bearing instruments. The other product is the All Asia AMETF, which actively manages a basket of shares listed on the Asian stockmarkets, plus Australia and New Zealand, but excluding Japan, to provide Asia Pacific coverage. Both of these products have raised some R700 million in new capital during their short existence.

Union Bank of Switzerland (UBS) – UBS have been very active in using their balance sheet to support the listings of Exchange traded Notes (ETNs) on the JSE, where the creditworthiness of the issuer is of critical concern to the investor.

UBS now have 22 “themed” index tracking ETPs which track global indices, many of them offering unique exposure to unique themes or sectors, not available elsewhere in the South African market. During 2023, UBS has boosted its range by listing new ETNs tracking such themes as global Biotechnology companies, global Luxury Goods companies, Oil and Gas companies, companies involved in the Space and Aerospace industry and a Metaverse ETN. A total amount of R616 million is invested in these index tracking ETNs.

UBS has also been a pioneer in the development of the Actively Managed Certificate (AMC) market in South Africa. They converted 19 of the actively managed ETNs they were operating, to AMCs, when the JSE published its new listing requirements for such products. This helped kick-start the AMC business and acceptability in the local market. Since then, UBS have listed a further 13 AMCs in 2023 to date. These actively managed portfolios have been listed, through the UBS platform and structure, by 20 different asset managers, both local and global.

At the end of September 2023, R8 279 million was invested in these UBS AMCs, with R1 973,6 million new capital raised on the JSE in 2023 for such products.

Standard Bank – Standard Bank, which has been an issuer of ETNs, under its own brand, for the past number of years, also embraced the opportunities offered by AMCs. By lending its balance sheet to extend the creditworthiness of such notes, Standard Bank has now listed a total 11 AMCs to date. Eight different local asset managers have used this mechanism to “white label” their portfolios for listing on the JSE. R850 million new capital was raised by Standard Bank backed AMCs in the first nine months of 2023.

Prescient Management Company – Prescient are a new addition to the issuing houses for ETPs in South Africa. They have developed a platform to facilitate the pre-listing process for such products, as well as the post-listing administration.

To date, the Prescient structure has been used to list two global property index tracking ETFs and, very recently, an actively managed ETF, which also focusses on global property, was listed. The asset manager for all these products is Reitway Global (Pty) Ltd, a Cape-based financial services provider.

Easy Equities – First World Tracker (Pty) Ltd T/A Easy Equities, has purchased 100% ownership of Cloud Atlas, who has been issuing ETFs on the JSE since 2017. Cloud Atlas had listed two ETFs tracking African equities and bonds respectively, neither of which have gained any traction in the market. Easy Equities have announced that they intend delisting these two products, which had a combined market capitalisation of some R6 million, as they are not economically viable. They are currently suspended on the JSE.

Easy Equities have announced that they intend using the MANCO license, acquired from Cloud Atlas, to list a series of actively managed ETFs and developments in this regard are awaited with interest.

Note: full details for each Exchange Traded Product is available on the quarterly reports available on the etfSA website: www.etfsa.co.za:

- All South African ETFs, ETNs & AMCs – Market Capitalisation Totals – December 2013 to September 2023.
- ETP survey – Securities in Issue and New Capital Raised/Redeemed (for period ended 29 September 2023).



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