

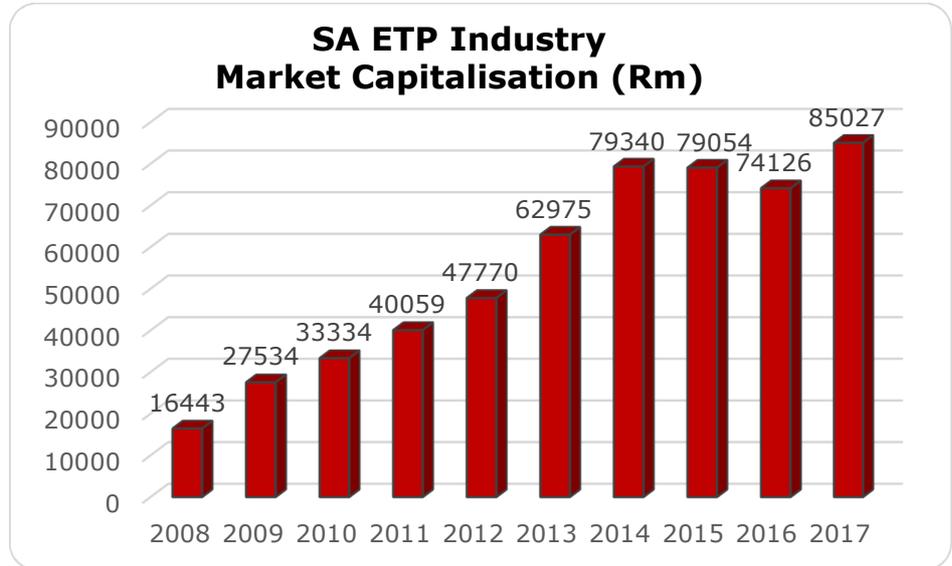


## State of the South African Exchange Traded Product (ETP) Industry – As At 31 December 2017

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### Market Capitalisation

The total market capitalisation of the 82 ETFs/ETNs, listed on the JSE, as at 31 December 2017, was R85,0 billion. This constituted an increase of 14,7% on the market capitalisation of all ETPs, at the end of 2016.



Following 3 years of relative stagnation, between 2014 and 2016, when the total market capitalisation of the ETPs listed on the JSE, remained pegged below R80 billion, the rise in the size of the industry in 2017 was most encouraging. The number of ETPs in issue also rose from 73 at the end of 2016 to 82 at the end of 2017.

### The ETP Industry in 2017

The South African Exchange Traded Product Industry (as at 31 December 2017)						
	Issuer	Value (Market Cap) of Shares in Issue (Rm)		Number of Products		New Capital Raised/Redeemed (Jan-Dec 2017) (Rm)
		ETFs	ETNs	ETFs	ETNs	
1.	Absa Bank	28 970,2	944,3	16	5	(893,1)
2.	Satrix Managers	15 652,2	-	13	-	1 029,1
3.	Sygnia/Itrix	14 960,8	-	10	-	2 779,6
4.	Standard Bank	6 535,8	1 482,4	4	10	(1 561,2)
5.	Deutsche Bank	-	5 012,6	-	3	-
6.	Standard/Liberty	3 021,1	-	3	-	61,9
7.	CoreShares	2 831,3	-	9	-	932,0
8.	Ashburton	2 095,3	-	4	-	509,3
9.	Investec Capital	-	1 918,4	-	2	-
10.	First Rand	1 588,2	-	2	-	1 876,4
11.	Cloud Atlas	14,2	-	1	-	14,2
<b>Totals</b>		<b>75 669,1</b>	<b>9 357,7</b>	<b>62</b>	<b>20</b>	<b>4 748,2</b>

Source: etfSA.co.za / JSE / Profile Data (31/12/2017).

**Absa Bank** remains by some way, the largest issuer of ETPs in South Africa, both in the number of ETPs listed (21) and the market capitalisation of such products (R29 914 million).

During the course of last year, Absa was required to redeem some R1,4 billion of existing listed ETPs, mainly in the NewGold ETF. The relative lack of performance in the gold price, plus a stronger rand apparently caused profit taking by institutional investors in this ETF.

Absa was, however, successful in raising R544 million in new issues of its currency ETNs, which give broad access to offshore deposits in US Dollars, UK Pounds and Euros. These listed products, which are issued at zero total expense ratios, are becoming increasingly popular for rand hedge and other currency related strategies.

**Satrix Managers** remains the second largest issuer of ETFs in South Africa, with a total market capitalisation of R15,6 billion and 13 ETFs now listed on the JSE.

During the course of 2017, Satrix listed 6 new ETFs, covering SA listed property, SA inflation-linked bonds and offshore equity markets in the US, World and European markets. A total R1 029,1 million was raised in new capital by such new issues and further creations of existing ETFs during the course of the year.

**Sygnia/Itrix** – a new entrant to the market, Sygnia entered the ETP market in June 2017, when it purchased five ETFs, covering global equity markets, from Deutsche Bank. Later in the year, Sygnia/Itrix issued a further 5 ETFs, indicating their intention of becoming a major participant in the local ETP market.

Capital raised by the new listings and from further issues of securities in the products taken over from Deutsche Bank, totalled R2 779,6 million in 2017, making Sygnia the most successful raiser of new capital from such ETF issues.

**Standard Bank** – focusses mainly on ETFs and ETNs covering commodities. Significant profit taking in the second half of last year by investors in the Standard Bank Africa Palladium ETF was encountered. As a result, the market capitalisation of Standard Bank ETFs and ETNs fell by R1 561,2 million.

**First Rand** – another new entrant to the issuers of ETPs on the JSE was First Rand Bank which listed innovative custodial certificates as ETFs. These certificates cover Krugerrands and an investment in US Dollar based Government bonds. The bank appears to have been successful in convincing its clients who held physical Krugerrands into accepting the Krugerrand ETFs as a lower cost and safer option.

R1 876,4 million capital was raised by the issue of these new ETFs in 2017.

**CoreShares** – of the smaller issuers, CoreShares is the most active. It now has 9 ETFs in issue on the JSE and R932 new capital was raised by the new listings and additional ETF securities. CoreShares is the most active local issuer in smart beta ETFs and the acceptance of such factor-driven index tracking portfolios is growing in acceptance.

## Index Returns in 2017

The table below shows the total returns in the major local indices for the past year.

Total Returns (with dividends reinvested)	
Index / Asset	% Change
FTSE/JSE Industrial 25 Index	24,99
FTSE/JSE Financial 15 Index	20,54
FTSE/JSE Top 40 Index	22,96
FTSE/JSE All Share Index	20,89
FTSE/JSE Resources 10 Index	17,14
FTSE/JSE Property (SAPY) Index	17,86
All Bond (ALBI) Index	10,20
MSCI World Index (in Rands)	9,20
<i>Source: JSE Limited / Profile Data.</i>	

2017 turned out to be a year when the main market indices performed well, both locally and abroad, making it very hard for active investment managers to outperform such indices. With over 80 ETPs now listed on the JSE, the choice of listed securities giving access to such indices allows the passive investment manager to construct multi-asset balanced investment portfolios using ETPs, which have investment returns and cost structures very competitive to the traditional active investment managers, who rely more on individual stock picking and factor allocation for investment returns.

## Outlook for 2018

A continuation of new listings of ETPs in 2018 seems likely as most current issuers are looking to add to their product range. Some new issuers are also reported to be looking at listing ETPs on the JSE and the current trend towards greater product choice and product innovation looks likely to continue.

We would expect to see further developments in the smart beta ETP area, including multi-factor securities, as well as a growing number of ETFs, giving access to global markets and assets.

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