

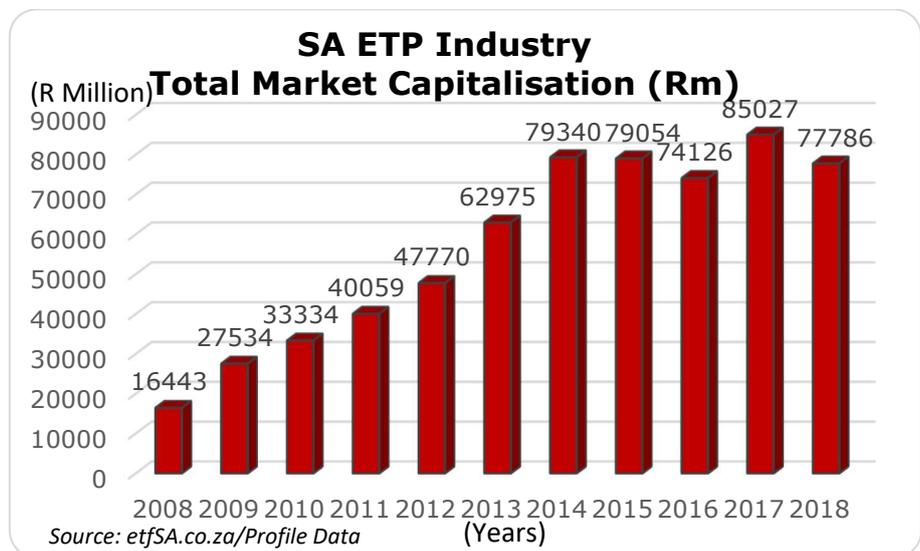
State of the South African Exchange Traded Product (ETP) Industry – as at 31st December 2018

Mike Brown, Managing Director, etfSA.co.za

Market Capitalisation

At the end of December 2018, the total market capitalisation of all ETFs and ETNs, listed on the JSE, amounted to R77,8 billion. This is a drop of 8,5% on the market capitalisation of the ETP industry at the end of 2017.

Most of the change in market capitalisation took place in the final quarter of 2018. The total market cap dropping from R83,9 billion in September 2018 to R77,8 billion at the end of December. The general decline in global and SA equity markets was responsible for most of this loss in



market capitalisation, but there were also significant redemptions of certain ETFs, namely commodity-based products, in the fourth quarter of last year.

New Capital Raised

Exchange Traded Products are open-ended, so securities can be issued or redeemed at any time, provided the issuers meet the JSE requirements for full physical backing of assets, in the case of ETFs, or meet the creditworthiness objectives in the case of ETNs. This leads to capital inflows or outflows for the change in the number of ETF securities listed.

Also, new listings of ETFs, of which 13 were recorded in 2018, or ETNs, 5 new listings, will raise additional capital, typically before listing in an IPO process.

Table A below shows the extent to which new capital was raised or redeemed by the different companies which issue Exchange Traded Products on the JSE.

Table A

New Capital Raised/(Redeemed) in 2018		
A)	Capital Redemptions	R million
	Absa Capital (ETFs)	(10 195,6)
	Standard Bank	(2 764,7)
	FirstRand	(939,2)
	Absa Capital (ETNs)	(465,8)
	Sub-total	(14 365,3)
B)	New Capital Raised	
	Sygnia Itrix	1 745,3
	Satrix	1 692,4
	Ashburton	1 182,8
	CoreShares	819,8
	Union Bank, Switzerland (ETNs)	618,3
	Stanlib	102,7
	Cloud Atlas	4,8
	Sub-total	6 166,1
Total Capital Raised/(Redeemed)		(8 199,2)
<i>Source: etfSA.co.za/JSE/Profile Data (31/12/2018)</i>		

2018 marked the first year in the past decade, when the ETP industry was not able to generate a positive capital inflow. As can be seen from Table A, there was a net redemption of R8 199 in capital for 2018. This net outflow of capital was a function, not only of the relatively poor performance of many of the major indices, particularly South African equity markets, but specifically because of a significant reduction in the number of listed ETF securities tracking commodities.

Absa Capital, which issues ETFs, 100% physically backed by precious metals (gold, platinum, palladium) and Standard Bank with its similar precious metal ETFs (including rhodium), recorded net capital reductions and therefore a repayment of capital of R10,2 billion and R2,8 billion respectively for 2018.

This sell-off of commodity based ETFs last year was curious because these products provided market-leading investment returns in 2018, following on equally good performance in 2016 and 2017. This was particularly true of palladium and rhodium, but even gold, which in rand terms, delivered a return of over 15% in 2018. Why then this sell-off in the best performing asset classes available in South Africa?

- Profit-taking by institutional investors might be part of the story as gains in commodity investments were used to offset losses elsewhere.
- A mis-reading of the market for precious metals.
- Some stories of commodity ETFs being used for short-term speculation purposes and for lending activities in metal markets.

On the positive capital inflows side, Sygnia Itrix led the way with a net capital raising of R1 745,3 million, closely followed by Satrix (R1 692,4 million). Ashburton and CoreShares, as usual, consistently added new capital to their stables of ETFs.

A new entrant to the market in 2018 was Union Bank of Switzerland which listed a series of actively managed ETNs on the JSE. These are portfolios of securities that meet the specific requirements of various clients that are listed on the exchange, presumably to provide transparency, enhance price discovery and generate liquidity, if required. These are in many ways quite different from traditional index-tracking ETPs.

The South African ETP Industry at the End of 2018

Table B summarises the South African ETP industry, which now has 12 separate issuers of Exchange Traded Products, with a total of 101 ETPs in issue on the JSE. The total market capitalisation of the industry at the end of 2018 was R77,8 billion, of which R68,5 billion was ETFs and R9,3 billion ETNs.

During the course of 2018, 13 new ETFs were listed on the JSE, of which ten track global and local equity indices and three are smart beta products. In addition, five new ETNs were listed by UBS.

55 out of the total 101 ETFs/ETNs, now listed on the JSE, track global indices and assets (equities, bonds, listed property, commodities and currencies). The balance track South African indices and assets, so the ETP industry now offers a wide choice of products to enable the focus of investments on specific asset classes and market sectors, as well as allowing the construction of multi-asset class balanced portfolios for private and institutional clients.

Table B

The South African Exchange Traded Product Industry (as at 31 December 2018)						
		Number of Products		Value (Market Cap) of Shares in Issue (Rm)		Total Market Capitalisation (Rm)
	Issuer	ETFs	ETNs	ETFs	ETNs	
1.	Absa Capital	18	5	21 091,1	560,2	21 651,3
2.	Sygnia/Itrix	10	-	17 449,7	-	17 449,7
3.	Satrix Managers	15	-	15 499,1	-	15 499,1
4.	Standard Bank	4	10	4 507,1	1 578,5	6 085,6
5.	Deutsche Bank	-	3	-	4 790,2	4 790,2
6.	CoreShares	11	-	3 393,6	-	3 393,6
7.	Ashburton	5	-	3 046,5	-	3 046,5
8.	Stanlib	8	-	2 721,8	-	2 721,8
9.	Investec	-	2	-	1 723,3	1 723,3
10.	FirstRand (RMB)	3	-	772,3	-	772,3
11.	UBS	-	5	-	633,0	633,0
12.	Cloud Atlas	2	-	20,1	0	20,1
Totals		76	25	68 501,3	9 285,2	77 786,5
<i>Source: etfSA.co.za / JSE / Profile Data (31/12/2018).</i>						

Absa Capital – remains the largest issuer of ETPs in South Africa with a total of 23 products and a market capitalisation of R21 651,3 million. This market dominance is, however, under threat as Absa’s market capitalisation has fallen from R36,4 billion in 2014 (46% of the total SA ETP industry), to R21,6 billion in 2018, 28% of the local industry. Absa Commodity ETFs, which in 2014 had a market cap of R35,6 billion, have now fallen to R19,6 billion, a drop of 45%.

Absa’s dependence on commodity ETFs has left it vulnerable and its future strategy will be watched with interest.

Last year, Absa launched two new ETFs, both smart beta single factor products in the SA equity market, tracking volatility and value indices respectively. Smart beta has yet to establish itself in South Africa and these products generated limited interest amongst investors.

Sygnia Itrix – only entered the South African ETP industry in June 2017, when it purchased five offshore ETFs from Deutsche Bank. Since then, it has added a further five ETFs to its stable and has overtaken Satrrix as the second largest issuer of ETFs in South Africa.

Satrrix Managers – for many years the dominant ETF provider in South Africa, Satrrix fell behind Absa, when the commodity products of Absa gained market acceptance and has now dropped below Sygnia Itrix as well in the market capitalisation ranking tables.

Satrrix continues to issue new ETF products, the Satrrix Nasdaq 100 ETF and the Satrrix Momentum ETF in 2018, and continues to be the most widely recognised passive brand in the retail investment market in South Africa.

Standard Bank – with four commodity ETFs under issue, it suffered, like Absa, from the sell-off in commodity ETFs by local investors. Particularly curious is the Standard Bank Africa Rhodium ETF, which is a unique product, not available anywhere else in the world, and which has produced an investment return of 82% per annum for the past 2 years, but continues to suffer from investors cashing in their units. The Rhodium ETF securities in issue dropped from 3 815 555 in December 2017, to 945 555 securities in December 2018, a fall of 75%, despite providing an investment return of 64,6% for the year.

FirstRand (RMB) – issued three ETFs under this brand, namely Custodial Certificates (CC) tracking the price of Krugerrands and dollar denominated bonds. The Krugerrand CC ETF recorded a fall of 52 000 units (61% of the units in issue), with a value of R912 million in 2018, as investors cashed in their Krugerrand holdings.

Ashburton, another branch in the First National Bank stable, has steadily established itself in the local ETF market and now has five ETF products in issue accounting for a market capitalisation of R1,183 million.

The **Stanlib** ETFs, managed under the Liberty Life asset management license, were particularly active in 2018. Four new ETFs tracking global indices, were launched, including one of the first Global Government Bond based ETFs, listed on the JSE and the Stanlib S&P Information Technology ETF, which tracks only the IT companies in the S&P 500 index.

Union Bank of Switzerland – UBS launched a programme of portfolio notes, tracking various global indices, under an Exchange Traded Note programme. These portfolios are actively managed, under certain parameters and five such notes have now been issued with Absa and Momentum as the asset managers.

Using the JSE ETN listing requirements to provide actively managed portfolios, listed on the exchange, is a fresh initiative, which could be pursued by other providers in due course.

Disclaimer: The Exchange Traded Products (ETPs) contained herein are mainly Collective Investment Schemes in Securities (CIS) and other 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. ETPs are listed on the Johannesburg, or other Stock Exchanges, and trade at ruling prices on such Exchanges.

The price of ETPs can go up as well as down and past performance is not necessarily a guide to the future. The ETP's herein are listed on the Johannesburg Stock Exchange Limited and trading in ETP securities will incur trading and settlement costs. ETF 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.

etfSA.co.za is managed by M F Brown, who is a registered financial services provider (FSP No. 39217). M F Brown has Professional Indemnity Insurance as required by FAIS. The etfSA Investment Services Company (Pty) Ltd (FSP No 40107) provides asset management as well as financial intermediary and advice services. It uses Exchange Traded Products to construct portfolios for use in Retirement Annuity, Tax Free and Discretionary investments. It holds Professional Indemnity insurance and Fidelity Guarantee insurance as required by FAIS.

All opinions and information on this website may be changed at any time without notice. Redistribution, reproduction, the resale or transmission to any third party of the contents of this website, whether by email, newsletter, internet or website, is only possible with the written permission of etfSA. etfSA.co.za, 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® and etfSA The Home of Exchange Traded Funds® are registered trademarks in the Republic of South Africa.
