

State of the South African Exchange Traded Product (ETP) Industry – as at 28th September 2018

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Market Capitalisation

As at the end of September 2018, the market capitalisation of all ETFs and ETNs, listed on the JSE, totalled R83,9 billion. This was a slight decline on the market capitalisation of R85,0 billion at the end of 2017, a drop of 1,3% (full details of the market capitalisation of all individual 97 ETFs can be viewed in the Quarterly Market Capitalisation report downloadable from the etfSA website, www.etfSA.co.za).

There was some rebound from the total market capitalisation of R80,1 billion as at the end of March 2018, reflecting the recovery in rand hedge ETF securities on the JSE, particularly those tracking global equity markets.



The ETP Industry as at end-September 2018

The total number of ETFs and ETNs in issue rose from 82 at the end of 2017 to 97 by the end of September 2018. Four new Exchange Traded Notes (ETNs) were listed by Absa/UBS, tracking actively managed portfolios.

Of the twelve new ETFs listed to date in 2018, ten track foreign bond and equity indices and two provide South African smart beta coverage. Clearly, the volatility of the rand and its recent weakening against major currencies, has rekindled interest in offshore assets.

One ETF, the CoreShares Low Volatility ETF, a smart beta product, was delisted in this period.

New Capital Raised/Redeemed

Although the overall market capitalisation of the ETP industry, at the end of the third quarter of 2018, was only marginally down on the market capitalisation at the end of 2017, this conceals quite significant delisting of ETFs that took place over the past 9 months. The increase in the value of most foreign denominated ETFs (which now account for 55 of the 97 total ETFs/ETNs listed on the JSE), due to rand weakness and the rise in many global equity and commodity markets, offset the decline in the number of ETPs in issue, so the market capitalisation figures were boosted by the increase in prices of many foreign ETFs/ETNs.

In total, the capital value of redeemed (delisted) ETPs in the final three quarters of 2018, amounted to R5 464,5 million (R5,5 billion). Most of this was the delisting of commodity ETFs which is covered in greater detail later in this Report.

The underlying table provides a snapshot of the South African ETP industry as at end September 2018, analysed and ranked by all the companies that issue ETPs on the JSE.

Table 1

The South African Exchange Traded Product Industry (as at 28 September 2018)						
		Value (Market Cap) of Shares in Issue (Rm)		Number of Products		New Capital Raised/Redeemed (Jan-Jun 2018) (Rm)
	Issuer	ETFs	ETNs	ETFs	ETNs	
1.	Absa Bank	23 220,1	588,4	18	5	(7 512,9)
2.	Sygnia/Itrix	19 772,8	-	10	-	1 828,3
3.	Satrix Managers	16 123,9	-	14	-	1 128,9
4.	Standard Bank	5 023,8	1 749,4	4	10	(2 019,1)
5.	Deutsche Bank	-	5 053,8	-	3	-
6.	CoreShares	3 246,2	-	10	-	454,8
7.	Ashburton	3 040,5	-	5	-	748,2
8.	Standard/Liberty	2 867,6	-	8	-	95,2
9.	Investec Capital	-	1 808,4	-	2	-
10.	First Rand	783,9	-	3	-	(810,5)
11.	Absa/UBS	-	618,3	-	4	618,3
12.	Cloud Atlas	18,5	-	2	-	4,3
Totals		74 097,3	9 818,3	73	24	(5 464,5)

Source: etfSA.co.za / JSE / Profile Data (28/09/2018).

Absa Bank – is still the largest issuer of Exchange Traded Products in South Africa, measured both by total market capitalisation (R23 808,5 million) and by the number of products in issue (18 ETFs and 5 ETNs).

However, Absa's position as the dominant provider in the South African market is coming under some pressure, due to the sharp fall in the number of commodity based ETFs that it has in issue. Delisting of such ETFs, particularly NewGold, but also the NewGold Palladium ETFs, has meant a fall from over R36 billion market capitalisation for all Absa ETPs in 2014 to around R24 billion at present, a drop of 34,5%.

It is somewhat surprising that this decline in interest in commodity ETFs has taken place in a backdrop of generally rising commodity prices, notably in rands. This issue is discussed in further detail, later in this Report.

An interesting new initiative by Absa, in association with UBS London, has been the issue of Actively Managed Certificates (AMC), listed on the JSE as Exchange Traded Notes (ETNs). Four such ETNs were listed in the third quarter of 2018. They track the performance of actively managed portfolios of securities and include local as well as global portfolios.

These actively managed portfolios are issued at fees of 0,2475% per year (24,75bps) for the Portfolio Manager and 0,55% per year for the Issuer. A small adjustment fee is levied for the rebalancing of the portfolios. Although, the actively managed portfolios can be rebalanced at any stage by the Portfolio Manager, no more than 252 rebalances may be undertaken in a 12 month period. This effectively puts a cap of 25,2bps (0,252%) on the annual charge for such rebalances.

For an actively managed portfolio, particularly in the foreign investment space, the total maximum fee of 105bps per annum appears to be competitive in the marketplace.

The four new ETNs seem to be targeted at sophisticated institutional investors and limited product information has been released to the retail market.

Sygnia/Itrix - now occupies a clear second position in the Issuer market capitalisation rankings of SA product providers . Sygnia Itrix entered the SA ETF market in June 2017, when it purchased five offshore index trackers from Deutsche Bank, with a marketing capitalisation of some R11 billion. It now has 10 ETFs in issue, with a market capitalisation of close to R20 billion.

An innovative new ETF listed by Sygnia Itrix in December 2017 is the 4th Industrial Revolution Global Equity ETF, which now has a market capitalisation of R317 million. It tracks the Kensho New Economies Composite Index which covers new technology companies in many global markets. Such companies include autonomous vehicles, cleantech, drones, 3D printing, robotics, nanotechnology, smart buildings, virtual reality, artificial intelligence, cybersecurity and others.

This ETF gives South African investors access to such new age companies in a tradable product with a total expense ratio of 0,7% per annum. It is gaining in popularity particularly amongst retail investors.

Ashburton – Ashburton Investments has moved above Standard Liberty as the 7th largest ETF issuer in South Africa.

There has been a strong flow of new capital into the Ashburton Top 40 ETF, which is one of the lowest cost ETFs on the local market. Ashburton Global 1200 ETF, which invests in global equities in both developed as well as emerging markets, offers a unique combination of seven different headline S&P indices covering the USA, Europe, Japan, Canada, Australia, Asia and Latin America.

Another new product introduced by Ashburton is the World Government Bond ETF, which tracks the Citi World Government Bank Index (WGBI). In due course, when world bond markets become more attractive as an investment asset for local investors, used to the higher yields on local Government bonds, this Ashburton ETF might be an attractive option.

Cloud Atlas – in June 2018, Cloud Atlas introduced a unique ETF to the South African market, namely the AMI Real Estate (ex-SA) ETF. This product invests in African real estate companies outside of South Africa.

Although it only has a market capitalisation of only R1 million, making it the smallest ETF on the JSE, when Africa investment becomes more compelling for local and foreign investors, this product could be of considerable interest.

Commodity Exchange Traded Products

There are now 7 ETFs and 10 ETNs, listed on the JSE, that track commodities as an asset class.

The seven ETFs track precious metals (gold and platinum group metals) where liquid spot markets enable the issuers to back the ETF shares in issue 100% with physical holdings of bullion, to fully cover their liability. Where physical backing is more difficult because of the size of the inventory, or because stocks could become stale, i.e. in the case of agricultural commodities, the JSE rules allow the issuer of Exchange Traded Notes (ETNs), to cover their liability in futures or forward commodity markets and the issuer of the ETN then accepts the obligation to provide pure tracking returns. In this case, the creditworthiness of the issuer needs to be taken into account. This is not necessary for commodity ETFs which are 100% backed by physical metal holdings.

One of the mysteries of recent times has been the significant decline in the shares in issue of such commodity ETFs on the JSE. The table below shows the redemption of such securities for the first nine months of 2018.

Commodity ETFs			
Fund	Shares in Issue*		Capital Raised/ (Redeemed) (Rm)
	Dec 2017	End-Sept 2018	
Absa			
NewGold ETF	103 277 939	65 377 939	(6 096,6)
NewGold Platinum ETF	79 800 000	78 400 000	(146,3)
NewGold Palladium ETF	25 684 696	16 684 696	(1 202,4)
Standard Bank			
Africa Palladium ETF	30 900 000	19 900 000	(1 209,3)
Africa Gold ETF	600 000	600 000	-
Africa Platinum ETF	14 800 000	12 600 000	(249,1)
Africa Rhodium ETF	3 815 555	1 325 555	(560,7)
Total			(9 464,4)
* Shares in issue on the JSE at end of period. Source: Profile Data/etfSA.co.za (30/9/2018).			

A total redemption of some R9 464 million (R9,5 billion) has taken place in such commodity ETFs to date in 2018.

This is curious because of the good investment performance of such commodity ETFs over this period. The Monthly Index Tracking Performance Survey, published by etfSA.co.za, indicates that for periods of 3 months to two years, the best performing index trackers in South Africa were almost exclusively commodity tracking ETFs and ETNs. As these products are typically used by institutional investors, why has there been this sell off?

- The institutional holders of such ETPs may be taking profits in these products to offset losses elsewhere in their portfolios. Of course, this is only a short-term strategy.
- Conflicting signals in commodity markets and their future prospects may be in play. The Trump Trade Wars, Brexit, etc. have created uncertainties in markets for export products, including commodities. The showdown in economic growth in China has also added to this negative sentiment.

Counter to this is the ample evidence that high infrastructural spending by the Chinese Belt & Roads projects in SE Asia, plus many large Indian infrastructural projects, indicate that demand for minerals should remain strong in this region.

- Regulation 28 regulations allow pension funds to hold commodities in retirement portfolios, for up to 10% of their total assets. It appears that very few retirement funds have taken advantage of this option.
- The issuers of commodity based ETFs, namely Absa and Standard Bank, may not be doing enough to educate investors about the benefits, including diversification and counter cyclical arguments, for holding commodities in portfolios. The rand hedge qualities of such products could also be stressed.
- A general antipathy to holding resource assets in investment portfolios because of the Mining Rights and other regulatory uncertainties in South Africa, may be affecting investment in commodity ETPs. However, these products focus investment in the physical markets and not in the local mining companies.

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.

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