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## **INVESTMENT IN SOUTH AFRICAN PASSIVE INVESTMENT PRODUCTS GROWS BY R100 BILLION OVER PAST TWO YEARS TO R247 BILLION**

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The total investment in passive index tracking products, either based in South Africa, or with links to South Africa in the form of foreign listed ETFs tracking South African assets now amount to R247 billion. The passive investment exposure in South African assets is measured as follows.

### **Investors in Foreign Based South African ETFs**

There are currently five dedicated Exchange Traded funds (ETFs) listed on stockmarkets in the USA (1) and in Europe (4) that track, either the MSCI top 50, or the FTSE/JSE Top 40 indices of South African equities. As at end August 2015, the total assets under management (AUM) in these ETFs was US\$428 million, or R5777 million.

In addition, there is significant foreign investment in emerging market ETFs, which invest in broad emerging market indices. The MSCI (Morgan Stanley Composite Indices) emerging market index, for instance, covers 23 emerging markets in Asia, Europe, Africa and South America. South Africa currently makes up 8% of the index weighting of this MSCI Emerging Market index. Currently, over 20 ETFs in Europe offer exposure to broad emerging market indices and 60 USA funds track these indices. Total AUM is US\$90,2 billion. The 8% share of South Africa in the weighting of emerging market indices accounts for US\$7,2 billion, or R97,4 billion.

### **South African Index Trackers**

There are **70 ETPs** listed on the JSE (ETFs and ETNs), which as at 30 June 2015, had a market capitalisation of R128 billion. In addition, **28 index tracking unit trusts** are currently available to retail investors in the local market, accounting for AUM of R15,4 billion.

The South African passive industry in mid-2015, therefore, accounted for a value of R143,4 billion AUM, well up on the R54,4 million AUM as at the beginning of 2013. The passive investment product industry is one of the fastest growing investment sectors in the South African market.

### **Total Passive Assets Under Management**

Table 1 summarises the total assets held in passive products, both South African and, through exchange listed products in South African assets offshore.

The offshore holdings, either directly or indirectly, in South African equities has fallen from US\$10,4 billion in early 2013 to US\$7,6 billion at present. This largely reflects the declining attraction for the global investor of emerging market equity investments, but this is likely to be cyclical and should recover in time. Of course the depreciation of the rand (from ZAR9 to the dollar between early-2013 and mid-2015 (ZAR13,5 to the US dollar), has absorbed this decline in rand terms.

The South African passive management industry has grown from R54,4 million to R143 million over the past two and half years.

**Table 1**

<b>Summary - Passive Investment Funds – Total Assets Under Management (AUM)</b>			
<b>As at 30 June 2015</b>			
<b>1. South African Index Trackers</b>	<b>US\$ (million)</b>	<b>Rand (million)</b>	<b>January 2013 (R million)</b>
<b>A) SA Exchange Traded Products (ETPs) (Listed on the JSE)</b>			
Exchange Traded Funds (ETFs)	-	69 403	41 663
Exchange Traded Notes (ETNs)	-	58 612	6 107
Sub-total	-	128 015	47 770
<b>B) Index Tracking Unit Trusts</b>		15 456	6 630
<b>Total South Africa</b>	<b>-</b>	<b>143 471</b>	<b>54 400</b>
<b>2. Foreign ETPs</b>			
<b>A) South Africa only funds</b>	428	5 777	7 816
<b>B) Emerging Market ETFs (SA allocation 8%)</b>			
Europe (US\$) 8 056 million	644	8 694	
USA (US\$) 82 131 million	6 570	88 695	85 800
<b>Total Foreign ETP Investment in SA</b>	<b>7 642</b>	<b>103 167</b>	<b>93 616</b>
<b>GRAND TOTAL</b>		<b>246 638</b>	<b>148 016</b>
Source: <a href="http://etfSA.co.za">etfSA.co.za</a> / Profile Data <a href="http://www.etf.com">www.etf.com</a> ; <a href="http://www.iustetf.com">www.iustetf.com</a>			

### A) South African Passive Investment Market

### A 1. Assets Under Management (AUM) in Exchange Traded Products (ETPs)

Since 2006, the local ETP industry has grown from 9 products, with R12 billion under management to the present total of 70 products with R128,0 billion AUM.

Of particular interest is the sharp increase in the number of Exchange Traded Notes (ETNs) and the assets under management in ETNs in the past few years. ETNs are popular with certain institutional and segregated portfolio holders because of their low cost, near zero tracking error and high liquidity when dealing through market makers.

## Table 2

	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>June 2015</b>
Exchange Traded Funds (ETFs)	11 966	12 561	16 444	27 503	32 832	36 662	41 663	56 091	75 247	69 403
Exchange Traded Notes (ETNs)	-	-	-	-	465	3 397	6 107	6 884	48 643	58 612
<b>Total</b>	<b>11 966</b>	<b>12 561</b>	<b>16 444</b>	<b>27 503</b>	<b>33 297</b>	<b>40 059</b>	<b>47 770</b>	<b>62 975</b>	<b>123 890</b>	<b>128 015</b>
<b>Number of Products</b>										
Exchange Traded Funds (ETFs)	9	10	17	23	26	30	38	35	44	45
Exchange Traded Notes (ETNs)	-	-	-	-	4	16	23	23	25	25
<b>Total</b>	<b>9</b>	<b>10</b>	<b>17</b>	<b>23</b>	<b>30</b>	<b>46</b>	<b>61</b>	<b>68</b>	<b>69</b>	<b>70</b>

## A 2. AUM in Passively Managed Index Tracking Unit Trusts

There has been a steady increase in the number of passively managed unit trusts in South Africa. In late 2012, there were 15 passive unit trusts with AUM of R6 630 million. As at 30 June 2015, this total had risen to 28 passive unit trusts with AUM of R15 456 million. Ten different asset managers are offering index tracking unit trusts to the South African retail investor (details are in Appendix A).

## B) Foreign Products Tracking South African Assets

### B 1. Specialised South African ETFs

There are currently five ETFs listed on foreign exchanges that track either the MSCI or S&P South African equity market indices. These Funds have US\$428 million (R5 777 million) AUM. This is down from US\$864 million in January 2013, reflecting the current slump in emerging markets.

**Table 3**

South African ETPs Listed in Europe and USA	
United States	AUM (US\$ million)
iShares MSCI South Africa	345
Europe	
HSBC MSCI South Africa	6
iShares MSCI South Africa	28
Lyxor South Africa – FTSE/JSE Top 40	38
RBS Market Access FTSE/JSE Top 40	11
<b>Total USA &amp; Europe</b>	<b>US\$428</b>
<b>Rand Value ZAR/US\$ 13,5</b>	<b>R5 778</b>

### B 2. Broad Emerging Market ETPs

Many global investors look to gain exposure in developing nation equity markets, through country-fund type ETFs, or else using the broader aggregate emerging market ETFs. The attached Appendix B shows the main emerging market ETFs listed in Europe and in the USA, accounting for AUM of US\$90,2 billion. South Africa contributes a weighting of 8% (behind China, Korea, Taiwan) in the broad emerging market MSCI index and so forms an important component of such global exposure to South African shares.



## APPENDIX A

<b>Market Capitalisation</b> <b>South African Index Tracking Unit Trusts</b> <b>(as at 30 June 2015)</b>		
Type	Product	Market Cap (Rm)
<b>Top 40</b>	Kagiso Top 40 Tracker Fund	76,8
	Momentum Top 40 Index Fund	311,6
	Old Mutual Top 40 Fund	646,1
	Satrix Equally Weighted Top 40 Index Fund	194,6
	Satrix Top 40 Index Fund	55,6
	Sygnia Top 40 Index Fund	59,6
	Sygnia SWIX Top 40 Index Fund	276,0
	Sub-total	1 620,3
<b>Other Equity Funds</b>	Gryphon All Share Tracker Fund	156,2
	Stanlib Index Fund	158,3
	Satrix ALSI Index Fund	118,7
	Satrix RAFI 40 Index Fund	190,4
	Satrix Momentum Index Fund	200,8
	Old Mutual RAFI 40 Tracker Fund	646,0
	Satrix Balanced Index Fund	1 106,0
	Satrix Low Equity Balanced Index fund	280,9
	Satrix Dividend Plus Index Fund	229,7
	Sygnia Dividend Index Fund	24,1
	SIM Index Fund	1 996,7
	Sub-total	5 108,4
<b>Bond Funds</b>	Milton Optimal Inflation-Linked Index Fund	80,5
	Satrix Bond Index Fund	332,8
	Stanlib ALBI Tracker Fund	96,8
	Sygnia All Bond Index Fund	951,9
	Sub-total	1 462,0
<b>Listed Property Funds</b>	Satrix Property Index Fund	636,8
	Prudential Enhanced SA Property Tracker Fund	4 876,9
	Sygnia Listed Property Index Fund	626,6
	Sub-total	6 140,3
<b>Global Funds</b>	Old Mutual Global RAFI Index Fund	754,7
	Sanlam Global Index fund of Funds	21,8
	Satrix MSCI World Equity Index Feeder Fund	348,1
	Sub-total	1 124,6
<b>GRAND TOTAL</b>		<b>15 455,6</b>
Source: Profile Data (June 2015).		



## APPENDIX A

<b>South African Index Tracking Unit Trusts</b> <b>(By Issuer Company) (Market Capitalisation Ranked)</b> <b>(as at 30 June 2015)</b>			
	<b>Issuer</b>	<b>No of funds</b>	<b>Market Cap (Rm)</b>
1.	Prudential Portfolio Managers	1	4 876,9
2.	Satrix Managers (Pty) Ltd	11	3 695,0
3.	Old Mutual Unit Trust Asset Managers	3	2 046,8
4.	Sanlam Collective Investments	2	2 018,5
5.	Sygnia Collective Investments	5	1 938,2
6.	Momentum Collective Investments	1	311,6
7.	Stanlib Collective Investments	2	255,1
8.	Gryphon Collective Investments	1	156,2
9.	Milton Optimal Asset Managers	1	80,5
10.	Kagiso Asset Managers	1	76,8
	<b>Totals</b>	<b>28</b>	<b>15 455,6</b>
Source: Profile Data (June 2015).			



## APPENDIX B

Emerging Markets ETPs - Europe	
	US\$ millions)
Amundi MSCI Emerging Markets	233
Comstage MSCI Emerging Markets	53
DBX Tracker MSCI Emerging Markets	1 369
Deka MSCI Emerging Markets	14
HSBC Emerging Markets	203
iShares MSCI Emerging Markets (Accumulative)	221
iShares MSCI Emerging Markets (Distribution)	3 036
Lyxor MSCI Emerging Markets	875
Source MSCI Emerging Markets	138
SPDR MSCI Emerging Markets	93
UBS MSCI Emerging Markets	1 486
Ossiam Emerging Markets	166
SPDR S&P Emerging Markets Dividends	47
iShares S&P Emerging Markets Infrastructure	73
Others	49
<b>Total</b>	<b>8 056</b>
Source – <a href="http://www.justetf.com">www.justetf.com</a>	



Emerging Markets ETPs – USA	
	US\$ millions)
Vanguard FTSE Emerging Markets	36 380
iShares MSCI Emerging Markets	36 230
Wisdom Tree Emerging Markets	1 850
Schwab Emerging Markets	1 260
Wisdom Tree Emerging Markets Small Cap Dividend	1 040
EG Shares Emerging Markets Consumer	752
Proshares Emerging Markets	520
SPDR S&P Emerging Markets Small Cap	381
Powershares FTSE RAFI Emerging Markets	318
SPDR Emerging Markets Dividend	317
Schwab Fundamental Emerging Markets	278
iShares Currency Hedged Emerging Markets	212
Powershares Emerging Markets Low Volatility	205
Powershares Emerging Markets Momentum	202
SPDR S&P Emerging Markets	192
EG Shares Beyond BRICS	192
Flexishares Morningstar Emerging Markets	187
DBX Tracker MSCI Emerging Markets	175
iShares Emerging Markets Dividends	170
Direxion Emerging Markets (Bear)	167
Direxion Emerging Markets (Bull)	167
First Trust Emerging Markets	142
BLDRS Emerging Markets	132
Global X Emerging & Frontier Markets	114
33 other Funds (less than US\$100 million)	548
<b>Total</b>	<b>82 131</b>
Source – <a href="http://www.justetf.com">www.justetf.com</a>	