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New PrefEx ETF Offers High Dividend Income Through a Listed Security

Mike Brown, Managing Director, etfSA.co.za

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Grindrod Bank, on 28th March 2012, listed an innovative ETF on the JSE which tracks the FTSE/JSE Preference Share Index. This index (J251) covers 17 listed preference shares.

The PrefEx ETF will pay an estimated gross dividend yield of 7,5% per annum. The income distributed by Preference shares is classified as dividends and so the new 15% withholding tax will apply to most investors, although retirement funds, SA companies, certain trusts and foreign entities, can apply for withholding dividend tax exemptions.

After the deduction of the withholding tax on dividends, the after tax yield of the PrefEx ETF, at around 6,4% per annum, is very competitive with money market funds and other interest bearing assets, which typically pay lower yields and, once the R22 800 per year interest income allowance is exceeded, are taxed at the marginal rate of the taxpayer.

Preference shares are JSE listed stocks that provide a specific dividend yield that is paid before any other dividends are paid to ordinary shareholders and which enjoy precedence over common stocks in the claims on a company's assets.

The PrefEx ETF provides investors with easy access to a portfolio of the best quality preference shares on the JSE. The issuer, Grindrod Bank, offers a market making facility, so will always provide liquidity in the PrefEx ETF, which helps eliminate one of the problems with Preference shares in that they trade relatively seldom as they are firmly held by investors. Gareth Stobie, Head of Grindrod Capital Markets, advises that the market capitalisation of the Preference Share sector of the JSE is over R30 billion, so the sector provides good overall liquidity.

The FTSE/JSE Preference Share Index and weightings are shown in the Table below. PrefEx ETF will hold this portfolio of preference shares in exactly the same weightings, so as to fully replicate the total return (capital plus yield) of the index.

FTSE/JSE Preference Share Index (J251)			
Instrument Name	Weight in Index	Instrument Name	Weight in Index
Standard Bank Group Ltd Non-Redeem Pref	18,56%	Discovery Holdings Ltd Pref	3,04%
		Grindrod Ltd Pref	2,52%
Absa Bank Ltd Pref	15,39%	Africa Bank Inv Pref	2,35%
FirstRand Ltd B Pref	14,87%	Network Healthcare Cp	2,05%
Nedbank Ltd Pref	13,64%	Imperial Holdings Pref	1,55%
Investec Bank Pref	8,84%	Capitec Bank Hldgs Pref	0,96%
Investec Ltd Pref	5,15%	Investec PLC Pref	0,88%
Steinhoff Invest Hldg Pref	4,85%	Sasfin Holdings Ltd Pref	0,60%
PSG Financial Serv Pref	4,26%	Astrapak Ltd Pref	0,48%

Preference shares are issued at a par value and their capital value only varies with the supply and demand for such shares in the market. The dividend yield is typically linked to the prime rate of interest, so as the prime rate rises so does the yield of preference shares, but without the loss of capital value associated with other fixed interest products, such as Government bonds for example. Having their yield linked to the **lending rate** of banks, rather than to the **borrowing rate** of banks (such as in the case of money market funds) means that the preference shareholder is always receiving a superior interest rate to most rates in the general market.

Product Details Grindrod Bank PrefEx ETF	
JSE Code	PREFEX
Anticipated Yield	7,5% per annum
Anticipated Total Expense Ratio	0,45%
Index Tracked	FTSE/JSE Preference Share Index (J251)
Listing Price	R10,80 per security

The new PrefEx ETF offers investors a good alternative to money market and fixed interest funds. It is also an ideal replacement product for the so-called "dividend schemes" issued by certain unit trust companies, which have come under fire from the SA Finance Minister Pravin Gordhan in recent times. PrefEx ETFs are transparent, liquid, easy to transact in and understand and provide both capital protection as well as very competitive yields. They can be purchased through any JSE member stockbroker or from etfSA Investor Scheme™ (www.etfsa.co.za) from as little as R1000 for lump sums and R300 per month for debit order investments.

Investment Seminar

To find out about the PrefEx ETF, its portfolio, investment advantages and factors, you are welcome to attend a free seminar at the JSE on Tuesday, 10th April 2012. Details are:

**Invite to Investor Seminar
10th April - JSE, Sandton**

**Learn about an Exciting and Innovative New ETF
The Grindrod Bank Preference Share ETF
(PrefEx ETF)**



PrefEx ETF

- Tracks the FTSE/JSE Preference Share Index of 15 Preference Shares listed on the JSE.
- Preference shares pay fixed dividends (normally linked to the prime interest rate).
- Preference shares are tax effective dividend payers with high yields.
- Current PrefEx ETF dividend yield 7,5% per annum (versus around 5,5% for money market funds).
- Offers an investment in a quality portfolio of preference shares, with a high yield and limited capital risk, for the first time in an ETF.

To find out more, you are invited to attend a free investment Seminar at the JSE. Details are:

SPEAKERS

Mike Brown
Managing Director
etfSA.co.za

Using ETFs as an avenue to interest rate investments – Government bonds, inflation linked bonds, money market and preference shares.

Gareth Stobie
Head: Capital Markets
Grindrod Bank

All about the new PrefEx ETF, what it offers, the preference share portfolio, the case for preference shares, tax status and more.

Date	Tuesday, 10th April 2012	
Venue	JSE Auditorium, cnr Maude Street & Gwen Lane, Sandton	
Programme	17h30 for 18h00	Arrival & Registration
	18h00 – 19h00	Presentations
	19h00 – 19h30	Q & A Session
	19h30	Refreshments

For more details on venues, parking and directions go to www.etfsa.co.za

How to book your seat

Phone: etfSA 011 561 6649

Email: info@etfsa.co.za

Direct: www.etfsa.co.za, click on ETF seminar window

There is no fee for attendance, but we need to know you are coming for catering purposes.



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For more information, please call Mike Brown, contact details below.

Mike Brown
Managing Director, etfSA
mikeb@etfSA.co.za

Phone: 011 561 6653

Email:

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