

STATE OF THE EXCHANGE TRADED PRODUCT INDUSTRY REVIEW – FIRST QUARTER 2013 – Article for InvestSA Magazine (April 2013)

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Market Capitalisation and Net Capital Raised

The Exchange Traded Product industry realised solid growth in the first quarter of this year. Market capitalisation of all 62 ETPs listed on the JSE grew by 2,8% from R47 770 billion at the end of 2012 to R49,09 billion at 28 March 2013.

Only one new ETF was issued, the STANLIB Property ETF, which tracks the FTSE/JSE SA Listed Property Index (SAPY). This product now joins the Proptrax SAPY ETF and Proptrax Ten ETF, bringing to 3 the number of property based ETFs, reflecting the growing acceptance of listed property as a core component of any portfolio.

During the first quarter, there was a net redemption of capital by ETP issuers on the JSE. Exchange Traded Products are open-ended, so the issuers can create or redeem units at any stage to cater for large new investments or disinvestments. NewGold, which issued R300 million NewGold ETFs in January, followed up with a major redemption of close to R500 million in February. Deutsche Bank delisted R265 million of its DBX World ETF securities, only partially offset by a listing of R41 million of the DBX USA ETFs. Satrix 40 also delisted R108 million of its securities, but there was a net listing of R125 million new Satrix INDI ETFs during the quarter.

The overall result was a net redemption of capital of R155,8 million in listed ETPs over the first 3 months of 2013.

There are currently nine issuers of Exchange Traded Products, licensed by the FSB to provide such ETF products, under the Collective Investment Scheme legislation. To date, these FSB Manco issuers have also listed all the ETNs available on the JSE. The table below summarises the current ETP issuers on the JSE.

Exchange Traded Product Issuing Company (as at end March 2013)				
Issuer	Brand	No of ETFs	No of ETNs	Total Market Capitalisation (R million)
Absa	NewFunds NewWave	15	5	21 963,1
Sanlam	Satrix	7		12 972,3
Deutsche Bank	DBX Tracker	5	3	5 541,7
Standard Liberty	STANLIB	3	-	2 751,2
Rand Merchant Bank	RMB	3	2	2 048,6
Investec Bank	Investec	1	3	1 779,9
Standard Bank	Standard Bank	1	10	1 362,6
Grindrod Bank	Proptrax and PrefEx	3	-	437,6
Nedbank Capital	BettaBeta	2	-	232,2
Totals		39	23	49 089,2

Source: etfSA.co.za; JSE; Profile Data (28 March 2013).

First Quarter Investment Performance

Rand hedge ETPs dominated the first quarter total return performance data. In particular, the DBX Tracker ETFs, covering the USA, Japan and World markets provided returns of 21,27%, 20,42% and 17,22% for the three month period.

Commodity-based ETNs, such as the Standard Bank Platinum, Palladium, Oil and Corn linker ETNs, also performed extremely well, as shown below in the Top Ten performance table for the first three months of 2013.

Offshore based ETPs listed on the JSE are classified as “inward investments” for foreign exchange control and listing regulation purposes. This means that, although they provide direct exposure to foreign equities or other foreign asset classes, they are traded in rands on the JSE and do not impinge on foreign exchange allowances for individual investors. Also, no asset swap capacity is involved and all asset management, administration fees, and foreign exchange costs are contained within the 0,4% to 1,0% per annum total expense ratio of such offshore ETPs.

These costs are significantly cheaper than equivalent “foreign” unit trusts or taking money offshore, not to mention hassle free as exchange control/tax clearance, etc. issues are avoided.

Top Ten ETPs (Total Return with dividends reinvested)*			
3 Months		1 Year	
DBX Tracker MSCI USA ETF	21,27%	Standard Bank Corn ETN	48,09%
DBX Tracker MSCI Japan ETF	20,42%	Standard Bank Platinum Linker ETN	41,42%
Standard Bank Palladium Linker ETN	18,48%	Satrix INDI 25 ETF	38,28%
DBX Tracker MSCI World ETF	17,22%	NewFunds eRAFI FINI 15 ETF	37,52%
Standard Bank Oil ETN	13,29%	DBX Tracker MSCI USA ETF	34,28%
Standard Bank Corn ETN	12,82%	Proptrax SAPY ETF	33,37%
RMB Oil ETN	12,85%	DBX Tracker MSCI World ETF	32,09%
Standard Bank Platinum Linker ETN	11,81%	NewFunds NewSA ETF	28,19%
DBX Tracker FTSE 100 ETF	10,82%	Proptrax Ten ETF	27,60%
Proptrax SAPY ETF	7,87%	NewFunds Equity Momentum ETF	26,59%
FTSE/JSE All Share Index	2,13%	FTSE/JSE All Share Index	22,25%
2 Years		3 Years	
Satrix INDI 25 ETF	30,57%	Satrix INDI 25 ETF	26,44%
Proptrax SAPY ETF	27,60%	Proptrax SAPY ETF	21,95%
DBX Tracker MSCI USA ETF	27,48%	NewGold ETF	21,16%
NewFunds eRAFI FINI 15 ETF	27,09%	NewFunds eRAFI INDI 25 ETF	20,95%
Satrix FINI 15 ETF	25,07%	DBX Tracker MSCI USA ETF	19,28%
NewGold ETF	22,25%	NewFunds eRAFI FINI 15 ETF	19,23%
DBX Tracker MSCI World ETF	22,10%	Satrix FINI 15 ETF	16,85%
Standard Bank Gold Linker ETN	21,38%	Nedbank BettaBeta EWT 40 ETF	15,96%
NewFunds eRAFI INDI 25 ETF	20,68%	Satrix DIVI Plus ETF	15,70%
DBX Tracker FTSE 100 ETF	20,43%	DBX Tracker FTSE 100 ETF	15,48%
FTSE/JSE All Share Index	16,26%	FTSE/JSE All Share Index	15,11%
Source: etfSA.co.za / Profile Data – Monthly Performance Survey (28 March 2013).			

A number of the DBX Tracker "offshore" ETFs, also feature in the longer-term top performance figures. The DBX Tracker MSCI USA ETF, which invests in the top 600 listed companies in the US, through the MSCI 600 index, appears in the top five performers for 1 year, 2 years and 3 years, with annual total returns of 34,28%, 27,48% and 19,28% respectively over these three periods. Other consistent performers in this area are the DBX Tracker MSCI World ETF and DBX Tracker FTSE 100 ETF.

With many local investors now looking for offshore exposures in their portfolios, both for hedging and for investment performance purposes, inward invested ETFs, conveniently listed on the JSE in rands, with full transparency and low costs, are clearly products that should be taken into account.

Other consistent performers over periods of more than 1 year, have been the Satrix INDI 25 ETF, which is a portfolio of industrial shares, 70% weighted towards companies that are global multinationals and with no volatile mining or financial shares in its portfolio. Proptrax SAPY ETF is also a consistent performer, providing returns well in excess of the All Share Index over all periods measured.

The financial sector in South Africa has also recovered steadily, particularly insurance companies, and the NewFunds eRAFI FINI ETF and Satrix FINI 15 ETF are now amongst the top ten performers over 2 and 3 years. For a more broad market exposure to the Top 40 companies on the JSE, the Nedbank BettaBeta EWT 40 ETF, which equally weights funds amongst the top 40 shares on the JSE, has been the best performer amongst a dozen index tracking ETFs and Unit Trusts that follow the Top 40 index. For broad market exposure, the BettaBeta EWT 40 ETF is gaining credibility as the least volatile and most consistent performer in this area.

Over all time periods reviewed, it is clear that a consistent number of ETPs, available to the investment public in South Africa, are providing performance well in excess of the All Share index, which is the typical market benchmark. This large variety of ETPs, covering different asset classes and market sectors, enables the construction of portfolios, balanced to meet different risk and performance objectives but also enabling above average market returns. Passive investment products offer solutions to most investment objectives, as they now give exposure to all asset classes and markets, with not only low costs but also with above market performance in many cases.

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