

Investment in Passive Investment Products Now Close to R150 Billion

Mike Brown, Managing Director, etfSA.co.za

31 January 2013

As at the end of December 2012, the total market capitalisation (assets under management) of ETFs listed on foreign markets that track South African equities, plus locally listed or registered index tracking ETPs and unit trusts, amounted to R148,0 billion.

This passive investment exposure is made up as follows.

Foreign Investors

There are 6 South African dedicated equity ETFs listed on international stockmarkets, together with some 80 Broad Emerging Market Equity ETF funds, which typically have at least 7% of their portfolios allocated to South African equities, to replicate the emerging market index weightings.

This investment by foreign investors in South African equities, through offshore ETFs, totalled some R93,6 billion at end of 2012.

Local Investors

As at 31st December, there were 61 ETPs listed on the JSE with a R47,8 billion total market capitalisation. In addition, 15 index tracking unit trusts had R6,6 billion in assets under management.

Table 1

Summary Assets Under Management* for Passive Funds (as at 31/12/2012)		
	US\$ million	Rand million
Foreign ETFs		
South Africa only funds	864,4	7 816
Broad Emerging Market funds (7% allocated to South Africa)	9 533,3	85 800
Sub-Total	10 397,7	93 616
Domestic ETPs		
Exchange Traded Funds		41 663
Exchange Traded Notes		6 107
Sub-Total		47 770
Index Tracking Unit Trusts		6 630
Grand Total		148 015
* Asset under management – total market capitalisation for ETPs.		
Source: Blackrock ETP Landscape (Dec 2012). etfSA.co.za/Profile Data (Dec 2012). ASISA Quarterly Unit Trust Survey (June 2012).		

South African Domestic Passive Market

The market for passively managed products can be assessed in the following two categories:

- Assets Under Management (AUM) for Index Tracking Exchange Traded Products (ETFs/ETNs).
- AUM for index-tracking Unit Trusts

1) AUM in Exchange Traded Products (ETPs)

As at 31st December 2013, there were 61 ETPs issued on the JSE, with total assets under management of R47 700 million.

This part of the passive market has grown rapidly over the past 5 years from 10 ETFs in 2007, with R12,6 billion AUM, to 61 ETP funds and R47,8 billion AUM at the end of 2012.

Table 2

Summary Market Capitalisation ETFs/ETNs (R million)							
A) Market Cap (R millions)	2006	2007	2008	2009	2010	2011	2012
Exchange Traded Funds (ETFs)	11 966	12 561	16 444	27 503	32 832	36 662	41 663
Exchange Traded Notes (ETNs)	-	-	-	-	465	3 397	6 107
Total	11 966	12 561	16 444	27 503	33 297	40 059	47 770
B) Number of Products	2006	2007	2008	2009	2010	2011	2012
Exchange Traded Funds (ETFs)	9	10	17	23	26	30	38
Exchange Traded Notes (ETNs)	-	-	-	-	4	16	23
Total	9	10	17	23	30	46	61
Notes <i>End of period</i> <i>Source: JSE/etfSA.co.za</i>							

2) AUM in Passively Managed Index Tracking Unit Trusts

At present, 15 index tracking unit trusts are registered in South Africa, which have passive mandates. Most track the Top 40 or All Share Index, but there are also unit trust products, tracking property, dividend plus and the RAFI 40 indices. As at June 2012, the total assets under management for the passive index tracking funds was R6 630 million (R6,6 billion) (see attached Appendix A).

3) Foreign Passive Market for South African ETFs

An approximation of the extent of foreign investment in South Africa's equity markets, can be established by looking at the Funds invested in ETFs, which either:

- Directly track a South African index, typically the MSCI South Africa 50 or the FTSE/JSE Top 40; or
- Broad emerging market index ETFs, which track, for instance, the MSCI Emerging Market Index. This index allocates approximately 7% of its total portfolio weighting to South African equities.

4) South African ETFs Listed on International Markets

There are 6 ETFs dedicated to investing in South African indices listed and traded on stockmarkets in Europe and the USA. Only one of these is listed in the USA. The total assets under management, as at December 2012, were US\$868,4 million, approximately R7 815,6 million at current exchange rates.

Table 3

South African ETFs Listed in Europe and USA	
Europe	AUM (US\$ millions)
Lyxor ETF South Africa	197,0
CS ETF MSCI South Africa	67,2
iShares MSCI South Africa	51,6
RBS Market Access FTSE/JSE Top 40	21,0
HSBC MSCI South Africa	13,1
Total Europe	349,9
United States	
iShares MSCI South Africa	518,5
Total USA & Europe	864,4
Rand Value (ZAR/US\$ 9,00)	7 815,6
<i>Source: Blackrock – ETP Landscape Global Handbook (December 2012).</i>	

5) Broad Emerging Market ETFs

This category of ETFs, which invests across some 21 Emerging Nations, including South Africa, is one of the most popular ETF sectors, accounting for some 14% in AUM of all equity ETFs around the world.

Details of the broader ETFs for all emerging markets are shown in Appendix B (for Europe and United States). Some 30 Broad Emerging Markets ETFs, with US\$21 596,6 million AUM are listed in Europe and around 50 Broad Emerging Market Equity ETFs are listed in the USA, with US\$114 592,7 million AUM. In rand terms, at the current exchange rate of R9 to the US dollar, the total assets under management in such funds is R1 225 703,7 million or R1,225 billion.

These emerging market ETFs typically track the MSCI Emerging Markets index, but as can be seen from Appendix B, other indices or sub-indices are also utilised. The MSCI Emerging Market Index allocates 7% of its portfolio weighting to South African equities. Using this benchmark, the allocation to South Africa would be about R85,8 billion.

Summary – Emerging Market & South African ETFs Listed in Europe & United States		
	Assets Under Management	
	US\$ million	Rand million
South Africa only ETFs	864,4	7 815,6
Broad Emerging Market ETFs (7% allocation to South Africa)	9 533,3	85 799,3
Totals	10 397,7	93 614,9
<i>Source: Blackrock ETP Landscape Global Handbook (December 2012).</i>		
<i>Rand value (ZAR/US\$9,00)</i>		

Combined, these two ETF categories account for around R93,6 billion investment in South African equities, significantly larger than the assets invested in ETFs listed on the JSE.

For more information or detail, please contact Mike Brown, contact details below.

Mike Brown

Managing Director, etfSA.co.za

Phone: 011 561 6653

Email: mikeb@etfSA.co.za

Terms and conditions: Redistribution, reproduction, the resale or transmission to any third party of the contents of this article and this website, whether by email, newsletter, internet or website, is only possible with the written permission of etfSA.co.za. 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 is the registered trading name of M F Brown, an authorised Financial Services Provider (FSP No 39217). Professional Indemnity Insurance is maintained. etfSA.co.za®, etfSA The Home of Exchange Traded Funds® and etfSA Investor Scheme® are registered trademarks in the Republic of South Africa.

Appendix A

Index Tracking Unit Trust Funds In South Africa	
	AUM (R millions)
Grindrod RAFI Enhanced SA Strategy	131
Kagiso Top 40 Tracker	68
Momentum Top 40 Index	260
Old Mutual Top 40 Fund	374
Old Mutual RAFI 40 Tracker	459
Prudential Enhanced SA Property Tracker	2 220
Sanlam All Share Index Fund	120
SIM Dividend Plus Index Fund	225
SIM Equally Weighted Top 40 Index Fund	172
SIM Index Fund	1 528
SIM RAFI 40 Index Fund	95
STANLIB ALSI 40 Fund	822
STANLIB Index Fund	127
Gryphon All Share Tracker	29
SIM Property Index Fund	N/A
Total	6 630
<i>As at June 2012.</i>	
<i>Source: ASISA Unit Trust Survey</i>	

Appendix B

Europe Emerging Market Equity ETFs	
	US\$ millions
iShares MSCI Emerging Markets	9 884,7
DBX Trackers MSCI Emerging Markets	4 765,6
Lyxor MSCI Emerging Markets	1 843,9
UBS MSCI Emerging Markets	1 432,6
CS ETF Emerging Markets	1 312,7
MSCI Source Emerging Markets	336,4
Amendi ETF MSCI Emerging Markets	370,5
iShares Emerging Markets (ACL)	321,7
iShares Emerging Markets (Small Cap)	249,6
HSBC MSCI Emerging Markets	220,0
iShares S&P Emerging Markets Infrastructure	152,6
Comstage ETF Emerging Markets	149,4
iShares DJ Emerging Markets Dividend	148,1
Easy ETF BNP Paribas Emerging Markets	101,9
SPDR Emerging Markets Dividend	75,8
SPDR MSCI Emerging Markets	36,9
DBX Trackers MSCI Emerging Markets Consumer Staples	33,1
SPDR Emerging Market Small Cap	26,2
Vanguard FTSE Emerging Markets	21,8
Ossiam ETF Emerging Markets	21,6
ETFLAB MSCI Emerging Markets	19,8
PowerShares FTSE RAFI Emerging Markets	18,3
DBX Trackers MSCI Healthcare	10,5
Julius Baer Smart Equity Emerging Markets	13,3
DBX Tracker (various equity sector emerging markets)	29,6
Total	21 596,6

Source: Blackrock ETP Landscape Survey (December 2012).

United States Emerging Market Equity ETFs	
	US\$ millions
Vanguard MSCI Emerging Markets	67 351,5
iShares MSCI Emerging Markets	37 245,4
Wisdom Tree Emerging Market Equity Income	4 423,6
Wisdom Tree Emerging Market Dividend	1 035,8
SPDR S&P Emerging Markets Small Cap	897,4
Schwab Emerging Markets Equity	545,2
iShares MSCI Emerging Markets Minimum Volatility	499,4
EG Shares DJ Emerging Markets	450,4
PowerShares FTSE RAFI Emerging Markets	366,0
BLDRS Emerging Markets	341,6
SPDR Emerging Markets Dividend	301,5
PowerShares DNP Emerging Markets Technical Leaders	174,1
SPDRS S&P Emerging Markets	166,0
Guggenheim Frontier Markets	152,5
iShares S&P Emerging Markets Infrastructure	124,4
First Trust Emerging Markets	118,3
PowerShares Emerging Markets Infrastructure	94,7
EG Shares Low Volatility Emerging Markets Dividend	81,0
iShares Emerging Markets Dividend	42,1
PowerShares Emerging Markets Low Volatility	13,6
EG Shares Gems Composite	13,5
Rydex MSCI Emerging Markets Equal Weight	13,5
iShares MSCI Frontier 100	13,0
EG Shares DJ Emerging Markets Metals	12,7
EG Shares Energy Gems	12,0
iShares Emerging Markets EMEA	10,8
Other (24 funds)	92,7
Total	114 592,7