

Exchange Traded Products – State of the Industry Review – Third Quarter 2013

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New Capital Raised

In the first nine months of 2013, R9,3 billion was raised in new capital by the ETP industry through new listings on the JSE.

Absa Capital has been the main raiser of fresh capital, accounting for R8,3 billion of the total capital raised on the JSE this year. The main contributor has been the **NewPlat ETF**, listed in May 2013, which had raised R9,4 billion in new security issues by the end of September. NewPlat ETF, which physically holds platinum bullion and issues securities 100% backed by this physical holding, is now the largest platinum ETF in the world. **NewGold ETF** has delisted securities amounted to R1,1 billion in 2013, thereby reducing the net capital raised by Absa Capital to just over R8,2 billion. The other ETF issuers have raised relatively small amounts of new capital as shown in Table 1.

Table 1

New Capital Raised on the JSE* (January – September 2013)		
Issuer	Total New Capital Raised (Rm)	Total Market Capitalisation** (Rm)
Absa	8 201,0	28 007,9
Satrix	133,1	13 945,9
Deutsche Bank	729,1	7 298,9
STANLIB	70,0	3 079,9
Rand Merchant Bank	53,1	2 078,5
Investec Bank	15,0	1 850,5
Standard Bank	-	1 355,5
Grindrod Bank	62,2	437,6
Nedbank Capital	69,4	265,8
Totals	9 332,9	58 320,5
Source: etfSA.co.za; JSE; Profile Data (30 September 2013).		
* Capital raised by issue/redemption of ETP securities on the JSE.		
** Total market capitalisation at 30/9/2013.		

Market Capitalisation

The total market capitalisation of all 63 ETPs listed on the JSE amounted to R58,3 billion as at 30 September 2013, an increase of R10,5 billion or 22% on the market capitalisation of R47,8 billion at the end of 2012.

With approximately R7 Billion invested in index tracking unit trusts in South African and an estimated R90 billion invested in South Africa by international ETFs, mainly emerging market funds, the total identifiable passive investment in South Africa now accounts for some R150 billion.

Investment Performance

Table 2 shows a summary of the top performing index tracking products over periods of 3 months to 5 years. The full Performance Survey of all 63 ETPs and 15 index tracking unit trusts is available on the etfSA website (http://www.etfsa.co.za/docs/perfsurvey/perfsurvey_sept2013.pdf).

The dominant performer over most periods has been the **Satrix INDI 25 ETF**, which tracks the FTSE/JSE 25 index, and has no mining or financial shares in its portfolio which reduces volatility. The Satrix INDI 25 ETF also has strong rand hedge qualities which has enhanced long-term performance. There is growing evidence that the Industrial index, as elsewhere in the world, should be the benchmark index in South Africa.

The **DBX Tracker funds**, which give direct access to global stockmarkets, but which are listed as “inward investments” on the JSE, so do not require access to foreign exchange allowances, nor tax clearances, are also amongst the best performing products over the past three years. Rand hedge considerations have been the key factor generating investment in DBX Tracker products and this could continue to be the case in future.

More recently, sector tracking ETFs, like the **Satrix RESI 10 ETF** and the **NewFunds eRAFI RESI 20 ETF**, have come to the fore. Also, nearly all the commodity tracking ETPs have shown positive growth performance over the past months. This may indicate the early stage of a recovery in the commodity price cycle, as well as inherent rand weakness, and such commodity linked products might be worth considering in present market conditions going forward.

Table 2

Table 2

etfSA.co.za Monthly Performance Survey						
Best Performing Index Tracker Funds – 30 September 2013						
(Total Return %)*						
Fund Name	Type	5 Years (per annum)		Fund Name	Type	3 Years (per annum)
Satrix INDI 25	ETF	25,67%		DBX Tracker MSCI USA	ETF	29,75%
Prudential Property Enhanced	Unit Trust	20,36%		Satrix INDI 25	ETF	29,15%
Proptrax SAPY	ETF	18,51%		DBX Tracker MSCI World	ETF	25,27%
Satrix DIVI	ETF	18,36%		DBX Tracker FTSE 100	ETF	23,10%
		2 Years (per annum)				1 Year
Satrix INDI 25	ETF	40,97%		DBX Tracker MSCI Japan	ETF	59,47%
DBX Tracker MSCI USA	ETF	37,41%		DBX Tracker Eurostoxx 50	ETF	54,15%
NewFunds eRAFI FINI 15	ETF	34,21%		DBX Tracker MSCI World	ETF	45,50%
DBX Tracker MSCI World	ETF	33,83%		DBX Tracker MSCI USA	ETF	44,30%
		6 Months				3 Months
DBX Tracker Eurostoxx 50	ETF	29,93%		NewFunds eRAFI RESI 20	ETF	18,09%
DBX Tracker MSCI Japan	ETF	21,25%		Satrix RESI 10	ETF	17,85%
DBX Tracker MSCI USA	ETF	19,65%		DBX Tracker Eurostoxx 50	ETF	17,49%
Satrix INDI 25	ETF	19,28%				
Source: Profile Media FundsData (30/09/2013)			* Includes reinvestment of dividends.			
The etfSA.co.za Performance Survey measures the total return (Net Asset Value (NAV to NAV)) changes including reinvestment of dividends) for index tracking unit trusts and Exchange Traded Funds (ETFs) available to the retail public in South Africa. The performance tables (attached) measure the 1 month to 5 years total return for a lump sum investment compared with the benchmark index returns (including reinvestment of dividends). All indices are shown in total return format. Note, as the FTSE/JSE calculates the index without taking into account any brokerage or other transaction costs, index tracking products will typically underperform the index because of their transaction and other running costs. Please Note: future performance will not necessarily repeat historic performance data.						

Passive Retirement Funds

The National Treasury's call for greater use of passive investment products in its Retirement Fund Reform papers has elicited some response from the South African industry.

Passive investment products, particularly ETFs which now cover all asset classes and market sectors, can add considerably to long-term investment performance, because of low costs and consistency of performance. Over extended periods of time, 90% or more of investment returns are typically derived from asset allocation and not from stock picking. ETPs can be used in the construction of multi-asset solutions to deliver balanced portfolio asset allocation.

The etfSA RA Fund, which offers 3 risk adjusted portfolios, using purely Exchange Traded Products, with the assets managed by Nedbank Capital, is one of the new products. The etfSA RA Fund offers low "clean" costs, complete transparency, ease of access, and full investor flexibility. It is one of the first new generation funds to meet the demands of the 21st Century. For more information or detail, please contact Mike Brown, contact details below.

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