

State of the South African Exchange Traded Product (ETP) Industry – as at 31 December 2019

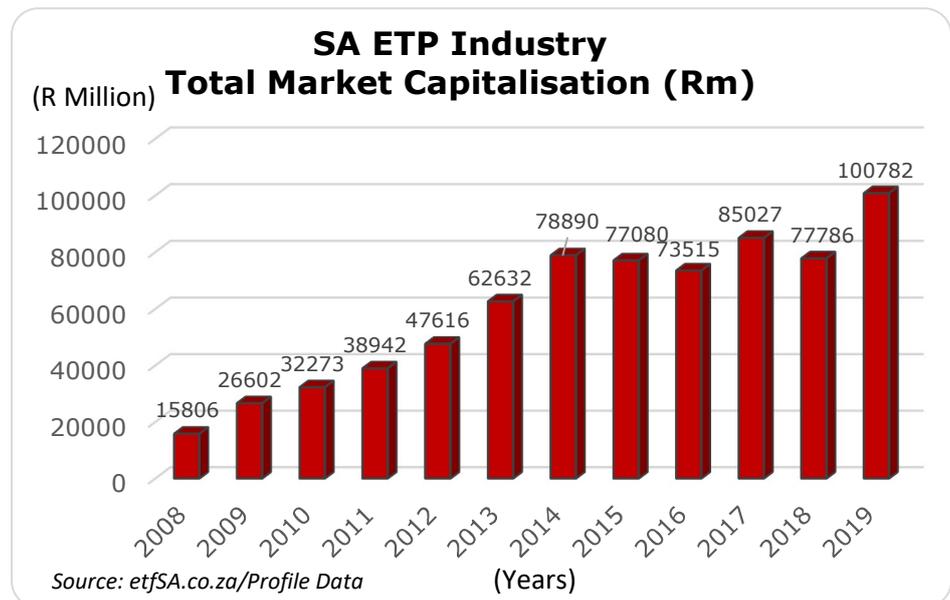
Mike Brown, Managing Director, etfSA.co.za

Market Capitalisation

The total market capitalisation of the all Exchange Traded Funds (ETFs) and Exchange Traded Notes (ETNs), listed on the JSE, rose to over R100 billion by the end of 2019. This amounted to an increase of 29,6% in the total value of listed ETPs at the end of 2018.

This is the first time the overall assets under management (AUM) of all ETPs, listed on the JSE, has climbed above R100 billion, which is a watershed for the ETP industry.

Behind this growth were the following contributors:



- **General market trends were favourable in 2019.** The JSE All Share index was up by 12,05% (including dividends reinvested) for the year; the MSCI World index rose by 21,65% (in rands); certain commodity prices, particularly platinum group metals, rose sharply during the year.
- **New capital raised** by ETP issuers amounted to R10,5 billion over the year.

In all, the overall increase in market capitalisation of the ETP industry by some R23 billion in 2019, bodes well for the future of listed index tracker products in South Africa.

New Capital Raised

Total new capital raised in 2019 amounted to R10 521,7 million, R9 918,6 million ETFs and R603,1 million for ETNs.

New capital can enter the ETF/ETN industry through the listing of new products, in which case IPOs and other capital raising efforts can take place as part of the listing process. In addition, the providers of already listed ETP products can issue new securities to meet market demand, as ETFs and ETNs are open-ended and can accommodate new creations or redemptions at any time.

In recent years, there has been a trend towards issuing or redeeming new securities in smaller amounts, 100 000 securities or less, whereas in the earlier days of the ETF industry, creation/redemption baskets of a minimum of 1 million securities was the practice. The much more regular creations or redemptions which now take place in the market, assists the market makers who no longer have to hold open positions of significant size.

Delistings of ETPs, of which there were eight in 2019, can result in a repayment of capital to investors, unless the ETF is merged into a new listed product.

Noteworthy capital raising or redemptions in 2019 included:

NewFunds (Absa Capital)

R5 780,5 million, or 55%, of all new capital raised in 2019, came from the ETP products issued under this brand. The main capital raiser was the NewGold Platinum ETF, which issued a substantial number of new securities in the first quarter of 2019, as institutional investors saw opportunities in PGM metal markets.

Later in 2019, renewed interest in gold, as a defensive investment, saw R1 175 million additional NewGold securities issued on the JSE.

In the fourth quarter of 2019, NewFunds delisted a number of its "fundamental" ETFs, which used value searching technology to construct portfolios of undervalued shares. In all, five ETFs of this type were delisted, leading to a net capital redemption of R169 million.

NewFunds also issued three new smart beta products during the year, the managed volatility ETFs, which use various formulas involving momentum and percentage drawdowns to trigger shifts between cash and equities. These partially actively managed parameters bridge the gap between purely passive and active management and they are an interesting addition to the choice of ETFs available in South Africa. These three new "smart beta" products drew some institutional support and raised over R150 million in new capital in 2019.

Later in the year, NewFunds listed a Namibian Bond ETF, which gives exposure to the Top 10 Sovereign Bonds issued by the Government of Namibia. The product is listed on both the JSE and the Namibia Stock Exchanges. This ETF offered a meaningful "yield sweetener" compared with South African Government bonds and R249 million new capital was raised.

Satrix Managers

Satrix raised R2 973,1 million, or 27,3% of all new capital raised by the ETP industry, from additional issues of securities in 2019. Satrix issued no new ETFs in the past year, but saw good growth in demand for many of its existing products, which resulted in the listing of additional securities. The standout product was the Satrix MSCI World ETF which listed new securities to the value of R1 691 million over the past year.

Sygnia Itrix

Sygnia Itrix redeemed R1 006,8 capital in 2019, as investors moved out of some foreign asset based ETFs issued by this company. It would appear that profit taking, probably by institutional investors, was the key factor.

The Eurostoxx 50 ETF and the 4th Industrial Revolution ETFs, both raised new capital, indicating that selected investments still had good investor support.

1invest

During the course of the year, the Standard Bank ETFs and the Standard Liberty ETFs, merged under a single brand, 1invest ETFs. The amalgamation has moved 1invest into a clear fourth spot in the rankings by size of ETF issuing companies. In 2019, R1 850,3 million new capital was raised for additional listings of existing ETFs issued by 1invest, of which 1investGold, with R1 357,1 million new capital raised, was the main contributor.

Snapshot of the SA ETP Industry as at 31 December 2019

Table A

The South African Exchange Traded Product Industry (as at 31 December 2019)						
	Issuer	Number of Products		Value (Market Cap) of Shares in Issue (Rm)		Total Market Capitalisation (Rm)
		ETFs	ETNs	ETFs	ETNs	
1.	Absa Capital	17	5	30 712,7	531,5	32 244,2
2.	Satrix Managers	15	-	19 904,0	-	19 904,0
3.	Sygnia/Itrix	10	-	19 674,3	-	19 674,3
4.	1invest	13	-	11 237,0	-	11 237,0
5.	Deutsche Bank	-	3	-	5 437,8	5 437,8
6.	CoreShares	8	-	4 440,5	-	4 440,5
7.	Ashburton	5	-	2 961,9	-	2 961,9
8.	Standard Bank	-	10	-	1 939,3	1 939,2
9.	Investec	-	2	-	1 925,6	1 925,6
10.	UBS	-	8	-	1 075,6	1 075,6
11.	FirstRand (RMB)	3	-	917,6	-	917,6
12.	Cloud Atlas	2	-	23,8	-	23,8
Totals		78	28	89 871,8	10 909,8	100 781,6
<i>Source: etfSA.co.za / JSE / Profile Data (31/12/2019).</i>						

Product Issuers

Absa Capital – with their NewFunds and NewGold brands, remains the dominant force in the local ETP industry, both in number of products in issue and in the assets under management. A key part of their success has been the commodity ETFs, the first of which, NewGold ETF, was listed back in 2004. The platinum and palladium tracking ETFs were listed in 2013/20014. These products track the price of a precious metal and are 100% backed by the holding of the physical bullion. These three commodity ETFs account for a market capitalisation of R28,3 billion, or 92% of the total AUM for Absa Capital ETFs.

Satrix Managers – have now overtaken Sygnia Itrix as the second largest issuer of ETP securities on the JSE. Satrix’s introduction of ETFs tracking global indices in 2017/2018, using international ETPs as feeder funds, has been a success and accounts for much of the growth in demand for Satrix products in recent times.

Satrix raised R2,87 billion in new capital from listings of additional securities in these ETF line-up in 2019. By contrast, Sygnia Itrix, returned capital of R1,0 billion to investors in 2019 from redemptions of their ETFs. This swing in capital formation appears to be the key factor in Satrix overtaking Sygnia Itrix in the rankings by size last year.

Sygnia Itrix – Remains closely behind Satrix as one of the top 3 issuers of ETFs in South Africa. It continues to issue the biggest ETFs, by market capitalisation, in many of the foreign markets and has a strong institutional following.

Invest – the merger of Standard Bank ETFs and Stanlib ETFs into a single brand, should bring efficiencies in economies of scale. With R11,3 billion assets under management, the Invest stable of ETFs has both size and spread in its favour as it covers global markets, commodities and the key South African indices.

CoreShares – continues to consolidate their offerings of ETFs. The Equally Weighted Top 40 ETF was replaced by the Sci Beta Multi Factor ETF in mid-year. Later in 2019, the PropTrax Ten and PropTrax SAPY ETFs were merged into a new CoreShares SA Property Income ETF, which focuses on high yielding listed property counters.

The CoreShares family of ETFs has grown steadily over the past eight years and total AUM now amounts to R4,4 billion, with R791,5 new capital raised in 2019.

Union Bank of Switzerland (UBS) Actively Managed ETNs – in August 2018, UBS launched a programme of issuing Portfolio Notes, under the JSE ETN Listing Rules, giving access to a series of local and international portfolios operated by various asset managers. This programme has now expanded to eight ETNs, of which the most recent listing was the Momentum Securities Global Shari’ah Portfolio ETN, targeted at Islamic investors.

The listing of actively managed portfolios under ETN note programmes, underwritten by investment grade banks, is a structure which could lead to further growth in the listing of actively managed portfolios.

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