

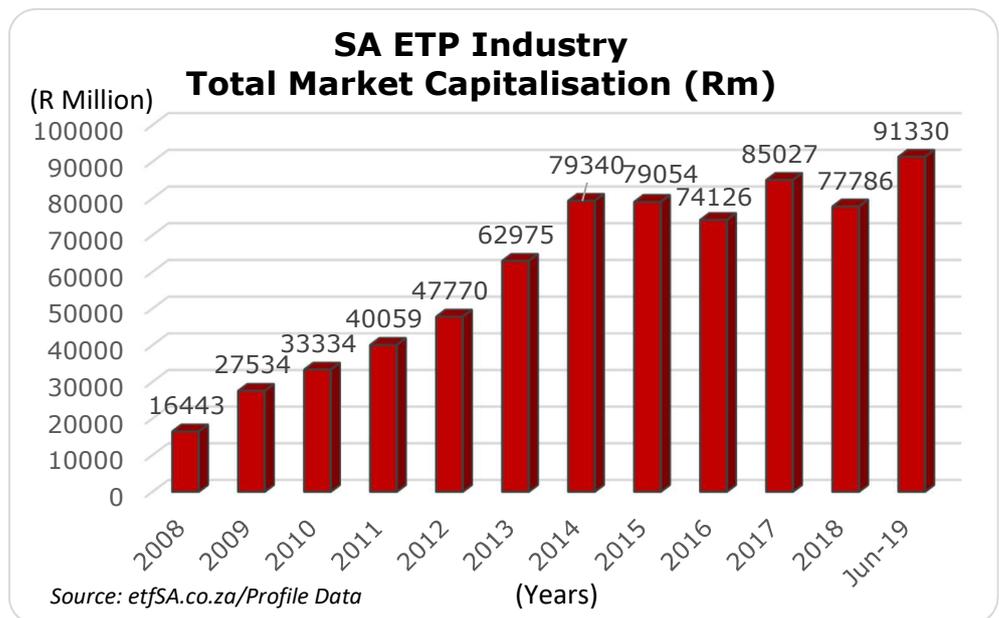
State of the South African Exchange Traded Product (ETP) Industry – as at 30 June 2019

Mike Brown, Managing Director, etfSA.co.za

Market Capitalisation

At the end-June 2019, the total market capitalisation of all the listed Exchange Traded Products in South Africa amounted to R91,3 billion. This implies a substantial increase from the total market capitalisation of R77,8 billion at the end of 2018, a rise of 17,4%.

This jump in the overall size of the South African ETP industry stems from some market recovery - the FTSE/JSE All Share index rose by 12,8% in the first six months of 2019 – but also reflects R5,1 billion in new capital raised by the industry in the past 6 months.



New Capital Raised

The R13,5 billion increase in the market capitalisation of all ETFs and ETNs, listed on the JSE, during the first half of 2019, was largely a function of the general revival in equity markets.

However, there was also a sum of R5,1 billion capital raised by the issue of new ETP securities during the period. ETFs and ETNs are open-ended instruments and the primary issuers of such products can list or redeem securities at any stage to meet market demand.

The main issuer of new ETF securities in the past 6 months was Absa NewGold with the New Platinum ETF, which tracks the rand price of physical platinum bullion. R4,1 billion additional NewPlatinum ETFs were issued in this period, apparently reflecting a belief in the local markets that there might be some catch up in the platinum price with other PGM metals, like Palladium and Rhodium. However, this has not eventuated and, whilst the Palladium and Rhodium ETFs, available on the JSE, continue to move up to record highs, platinum ETF prices have stagnated. It would appear that the scarcity of the other PGMs, relative to platinum, which is still in oversupply, might be the key fundamental determinant of the prices of such precious metals.

Satrix Managers, now with 15 ETFs in issue, continued to bring in new capital in the 6 months to June 2019. A total R1 671,3 million new ETFs were issued by Satrix over this period, mostly in the offshore ETFs they now offer, notably the Satrix S&P 500 ETF and the Satrix World ETF. Despite the good recovery in SA equity indices to date in 2019, this has not translated into strong demand for the South Africa equity-listed ETFs, issued by Satrix.

Sygnia Itrix, which had led the way in new listings of ETFs in 2018m has suffered a net redemption of R523 million in the ETFs it has in issue on the JSE during the past 6 months. It would appear that some profit taking in certain global ETFs, issued by Sygnia Itrix, has occurred.

The South African ETP Industry as at 30 June 2019

Table A provides a snapshot of the local ETP industry at mid-year 2019. Twelve companies issue ETPs on the JSE, providing a total number of 105 products (78 ETFs and 27 ETNs).

Exchange Traded Funds (ETFs) account for a total market capitalisation of R81 billion, with Exchange Traded Notes (ETNs) having a total market capitalisation of R10,3 billion.

Since 2008, the South African ETP industry has grown from R16,4 billion to R91,3 billion in mid-2019, a compounded annual growth rate of over 40% per annum.

Table A

The South African Exchange Traded Product Industry (as at 30 June 2019)						
	Issuer	Number of Products		Value (Market Cap) of Shares in Issue (Rm)		Total Market Capitalisation (Rm)
		ETFs	ETNs	ETFs	ETNs	
1.	Absa Capital	21	5	26 450,0	470,3	26 920,3
2.	Sygnia/Itrix	10	-	19 263,8	-	19 263,8
3.	Satrix Managers	15	-	19 028,8	-	19 028,8
4.	Standard Bank	4	10	5 236,1	1 787,9	7 024,0
5.	Deutsche Bank	-	3	-	5 193,0	5 193,0
6.	CoreShares	9	-	4 216,0	-	4 216,0
7.	Ashburton	5	-	2 990,6	-	2 990,6
8.	Stanlib	9	-	2 956,7	-	2 956,7
9.	Investec	-	2	-	1 923,1	1 923,1
10.	UBS	-	7	-	963,0	963,0
11.	FirstRand (RMB)	3	-	828,5	-	828,5
12.	Cloud Atlas	2	-	22,6	0	22,6
Totals		78	27	80 993,1	10 337,3	91 330,4

Source: etfSA.co.za / JSE / Profile Data (30/6/2019).

Absa Capital – with R27 billion assets under management in listed ETFs and ETNs and with 26 products in issue, Absa has consolidated its position over the past months as the largest issuer of ETPs in South Africa.

Absa Capital has recently listed three new smart beta ETFs, the managed volatility products, where the switching between cash and equities is triggered by targeted levels of drawdown and momentum. The various levels of volatility, which cause such switches between equity and cash, differentiate for the high growth, defensive and moderate strategies offered by the 3 Absa managed volatility ETFs that have been issued on the JSE.

This use of a control mechanism to cause active changes in the portfolio, together with the actively managed ETFs issued by Union Bank of Switzerland (UBS), on behalf of certain asset managers, could signal a movement towards more actively managed passive strategies, which is a critical step in the development of the index tracking industry in South Africa.

Sygnia Itrix – still remains in second place in terms of size for ETPs issued in South Africa, with R19,3 billion in total market capitalisation. However, there has been a net redemption in certain of the offshore ETFs provided by Sygnia Itrix in the past two quarters.

Satrix Managers – with R19,0 billion market capitalisation for the 15 ETFs it now offers on the JSE, Satrix has closed the gap on Sygnia Itrix in the past 6 months. A number of local ETF issuers now list products covering global markets and indices, including Satrix, CoreShares, Stanlib and Ashburton, so Sygnia Itrix is now facing greater competition in providing such products. Not only comparative Total Expense Ratios (TERs); but also the method of asset management (use of feeder funds or self-management of the underlying index constituents); location of tax jurisdiction, which can determine different dividend withholding tax rates; area of regulation, etc., can all impact on the “tracking error” of such global products.

The local market appears to be becoming more sophisticated in its analysis of the structures of the various ETFs available to the investment public, which has already, and will probably continue, to promote competitiveness in the ETF marketplace.

CoreShares – continues to attract new capital to its family of ETFs, raising over R500 million in new capital in the first six months of 2019.

A stand-out product is the CoreShares Top 50 ETF, which tracks the S&P index of South African Top 50 equities, but with the maximum exposure to any one stock capped at around 10% of the index. This reduces the concentration of large market cap. stocks, like BHP Billiton, Naspers, Anglo American and Richemont, in the Top 50 index. The impact is lower volatility and this capped approach has found favour with certain investors.

The CoreShares Top 50 has been by far the most successful South African equity-linked ETF in raising new capital on the JSE over the past 6 months.

CoreShares will shortly be replacing its Equally Weighted Top 40 ETF with a multi-factor indexed ETF, which equally weights funds to 6 different investment factors. This will be the first multi-factor product available in South Africa as an ETF.

CoreShares is also balloting the merger of its PropTrax SAPY and PropTrax Ten ETFs into a single product.

Standard Liberty – has now increased the number of ETFs it issues to nine products. The most recent listing was the Stanlib SA Bond ETF, which tracks the S&P SA Government Bond index. Stanlib now has just under R3 billion in assets under management in its 9 ETFs.



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