

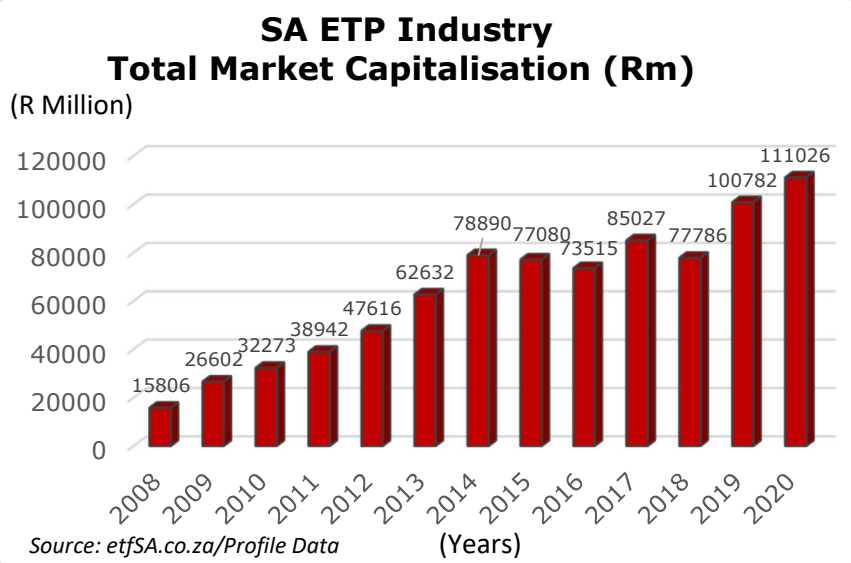
State of the South African Exchange Traded Product (ETP) Industry – as at 31st December 2020

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Market Capitalisation

The total market capitalisation of all ETFs/ETNs, listed on the JSE, rose from R100,8 billion at the end of 2019 to R111,0 billion as at 31 December 2020, an increase of 10,1%.

The past year was a mixed one for the South African ETP industry. Although financial markets were relatively favourable, with global equity markets recovering well from the COVID-19 crash of March 2020 and South African equity indices ending the year strongly, profit-taking, it appears, led to a sharp reduction in the number of commodity ETFs in issue on the JSE.



As a result, although the market price of many ETPs rose during the course of 2020, the reduction in the shares in issue helped dampen the rise in total market capitalisation of the industry, which is, of course, a function of the number of shares in issue and the price of the security.

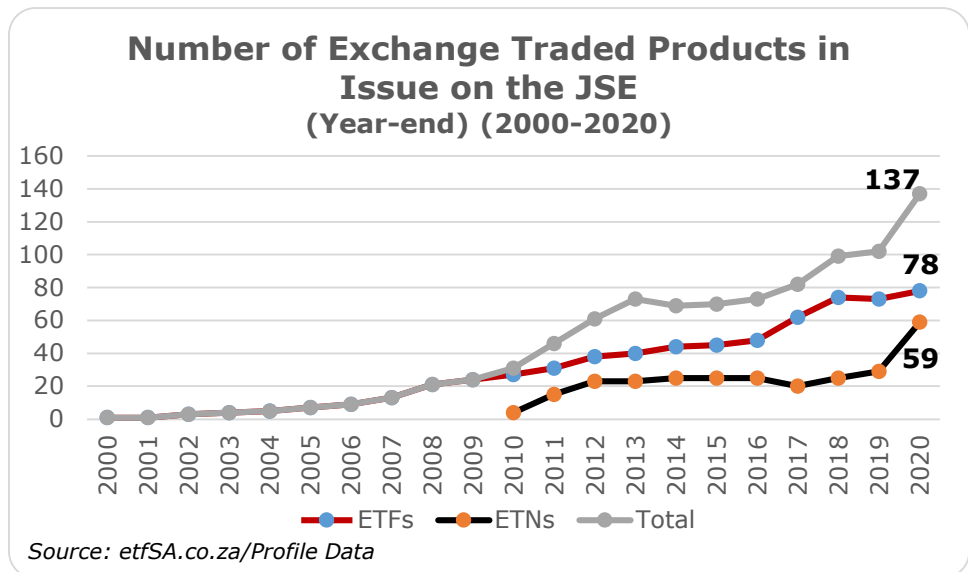
Accordingly, the 10% increase in the total value of JSE-listed passive index tracking securities, perhaps understated the growing awareness and increased use of ETPs in portfolio construction by both institutional and retail investors. The sharp increase in the values and volumes traded of many ETPs, reflected this.

Number of ETFs/ETNs in Issue

The number of ETPs in issue on the JSE increased from 102 in total at end-2019 to 137 at end-2020.

The main contributor was the new issue of 36 ETNs by First National Bank (FNB), which tracked single US listed shares, most of them high tech companies, which have dominated the US stockmarket in recent years, but also including old favourites like Coco Cola, McDonalds, Berkshire Hathaway, etc.

Only 5 new ETFs were issued in 2020, all of them by Satrix Managers, and all tracking foreign assets, utilising the inward listed exchange control concessions which apply to foreign referenced assets, provided they are listed and traded on public exchanges.



New Capital Raised

As mentioned earlier, significant reductions in the shares in issue of commodity-linked ETFs took place during the year. This was somewhat surprising because the prices of commodities, particularly precious metals, performed well in 2020, reflecting the demand for commodities as an alternative asset class in uncertain times, but also demonstrating a strong recovery in mineral orders and production, post-COVID-19 (first wave). For instance, during the course of last year, 1invest delisted over R4 billion palladium tracking ETFs and NewGold redeemed some R5,6 billion of platinum ETFs.

Furthermore, both Deutsche Bank and Standard Bank did not renew ETNs which come to the end of their issue life (ETNs are typically listed for specific periods, normally 5 years). So, the delisting of 3 Deutsche Bank ETNs led to an effective capital redemption of R5,7 billion and for Standard Bank, the delisting of 6 ETNs reduced capital in issue by R1,5 billion.

Whilst some new capital was raised by the issue of new ETNs and ETFs, as well as the creation of new units in already listed securities, the scale of the abovementioned delistings led to a net reduction in total capital of ETFs in issue by R2,3 billion and for ETNs by R3,3 billion, totalling an overall capital redemption of R5 699,4 million during the past year.

Table A below, shows the total capital raised or redeemed by issuing house for 2020.

Satrix Managers stood out over the past year by constantly, virtually on a daily basis, listing new securities for their foreign referenced ETFs, thereby feeding the public demand for investment in equity markets outside of South Africa.

The other major contributor to the raising of new capital in 2020, was the listing of 36 new single stock tracking ETNs by First National Bank later in the year. In total, over R2 billion new capital was raised by these ETN issues.

Table A

| Total Capital Issued/(Redeemed) in 2020 by ETP Issuers (Rm) | | |
|--|----------------------------------|--|
| | Issuing House | Total Capital Issued/(Redeemed) (R million) |
| 1. | Satrix Managers (ETFs) | 3 595,9 |
| 2. | FirstRand (ETNs) | 2 009,0 |
| 3. | Sygnia Itrix (ETFs) | 932,2 |
| 4. | Union Bank of Switzerland (ETNs) | 902,1 |
| 5. | Absa Capital (ETNs) | 766,7 |
| 6. | Ashburton (ETFs) | 398,5 |
| 7. | FirstRand (ETFs) | 47,0 |
| 8. | Cloud Atlas (ETFs) | (11,1) |
| 9. | CoreShares (ETFs) | (112,0) |
| 10. | Standard Bank (ETNs) | (1 346,6) |
| 11. | Absa Capital (ETFs) | (3 463,6) |
| 12. | Invest (ETFs) | (3 740,3) |
| 13. | Deutsche Bank (ETNs) | (5 672,2) |
| Total | | (5 694,4) |
| <i>Source: etfSA.co.za / JSE / Profile Data (31/12/2020).</i> | | |

Snapshot of the SA ETP Industry as at 31 December 2020

Table B shows a profile of the local listed-index tracking industry indicating the market share of all 11 ETP issuing houses.

Absa Capital retains its dominant position as the issuing house with the largest market capitalisation (R33 111 million). However, 88% of the AUM of Absa's ETFs are commodity ETFs and the sell-off of such ETFs by local investors in the past year has impacted on the market share of Absa in the local market.

Satrix Managers has made great strides in 2020. It was the only house to issue new ETFs last year and its positioning in providing feeder fund foreign referenced ETFs to the South African market has paid off well. It has now overtaken Sygnia Itrix again as the second largest issuer of ETFs in South Africa, with a total market capitalisation of R25 473,1 million.

Table B

| The South African Exchange Traded Product Industry (as at 31 December 2020) | | | | | | |
|--|-----------------|--------------------|-----------|--|----------------|----------------------------------|
| | 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 | 31 893,1 | 1 218,4 | 33 111,5 |
| 2. | Satrix Managers | 20 | - | 25 473,1 | - | 25 473,1 |
| 3. | Sygnia/Itrix | 10 | - | 24 546,2 | - | 24 546,2 |
| 4. | Invest | 13 | - | 11 143,3 | - | 11 143,3 |
| 5. | CoreShares | 8 | - | 4 365,9 | - | 4 365,9 |
| 6. | FirstRand | 3 | 36 | 1 150,3 | 2 329,7 | 3 480,0 |
| 7. | Ashburton | 5 | - | 3 341,0 | - | 3 341,0 |
| 8. | UBS | - | 12 | - | 2 739,9 | 2 739,9 |
| 9. | Investec | - | 2 | - | 2 062,4 | 2 062,4 |
| 10. | Standard Bank | - | 4 | - | 755,0 | 755,0 |
| 11. | Cloud Atlas | 2 | - | 8,1 | - | 8,1 |
| Totals | | 78 | 59 | 101 921,0 | 9 105,4 | 111 026,4 |
| Source: etfSA.co.za / JSE / Profile Data (31/12/2020). | | | | | | |

Sygnia Itrix continues to swap places with Satrix to hold the number two position in the South African ETP industry. Sygnia Itrix has failed to list any new ETFs in the past few years, seemingly concentrating in bringing new products to the market in the form of segregated over-the-counter portfolios, rather than listed ETPs. Recent revisions to the inward listed foreign exchange controls may entice them back into the ETF market as there are clear benefits to listing products under these regulations.

Invest, like Absa Capital, suffered from the redemption of commodity ETFs in 2020, including palladium and rhodium. However, demand for these and other PGM metals remains strong in global markets, so this set-back might be temporary.

CoreShares continues to hold on to its fifth place in the ETF industry (by size), but had a quiet year, with creation/redemption activity subdued and its lack of innovative products – other than in the smart beta space which has not gained much traction – is weighing against Coreshares.

First National Bank, which up until now, had issued only the certified ETF notes covering Krugerrands and 2 or 10 year US dollar bonds, in late-2020, introduced single stock tracking ETNs to the JSE. In all, 36 ETNs, covering well-known US securities, were listed as inward listed products on the JSE. This enables local retail and corporate investors to buy these US shares without any impact on their foreign exchange allowances and with the convenience and low cost of trading them on local exchanges.

At this stage, it is uncertain whether local institutions can utilise such inward listed stocks without exchange control restrictions, but this should be cleared up by the regulatory authorities in due course. This could benefit, not only FNB, but other potential issuers of single stock tracker ETNs.

Twenty Year Anniversary

The ETP industry recently celebrated the twenty year anniversary of the first listing of an Exchange Traded Fund on the JSE in November 2020. Fittingly, as this first product was the Satrix 40 ETF, Satrix Managers had a good year in 2020 and was able to demonstrate its commitment to the local ETP market with some conviction.

etfSA.co.za has published a study of the 20-year history of the ETF industry in South Africa, which is obtainable through its website, www.etfsa.co.za in electronic form or printed copy, on request.

Note: full details for each Exchange Traded Fund and Exchange Traded Note are available on the quarterly reports available on the etfSA website: www.etfsa.co.za:

- All South African ETFs & ETNs – Market Capitalisation Totals – December 2009 to December 2020.
- ETFs & ETNs survey – Securities in Issue and New Capital Raised/Redeemed (for period ended 31 December 2020).

Disclaimer: The Exchange Traded Products (ETPs) contained herein are mainly Collective Investment Schemes in Securities (CIS) and other listed securities which are generally medium to long-term investments that contain elements of risk and can be affected by market values, interest rates, exchange rates, volatility, dividend yields and issuer credit ratings. ETPs are listed on the Johannesburg, or other Stock Exchanges, and trade at ruling prices on such Exchanges.

The price of ETPs can go up as well as down and past performance is not necessarily a guide to the future. The ETP's herein are listed on the Johannesburg Stock Exchange Limited and trading in ETP securities will incur trading and settlement costs. ETF securities are traded at ruling prices and can engage in scrip lending.

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