

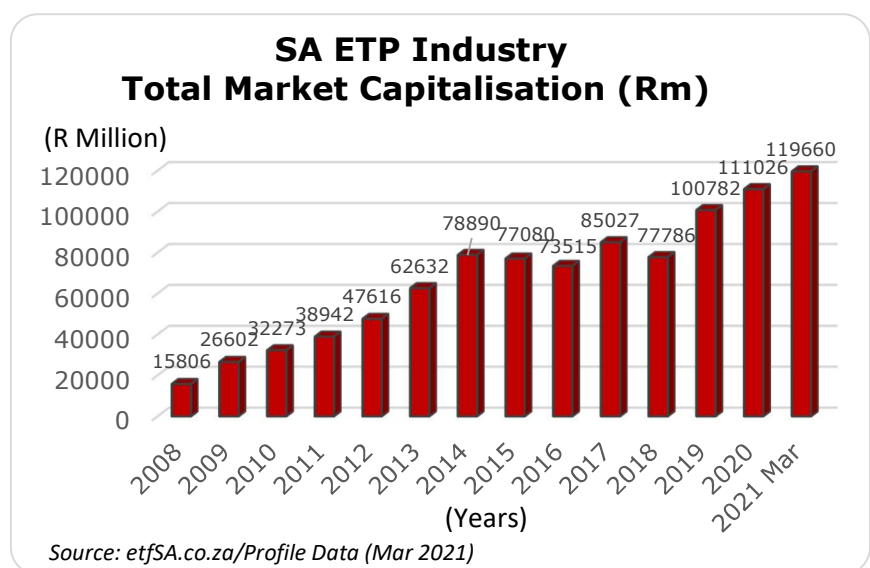
State of the South African Exchange Traded Product (ETP) Industry – as at 31st March 2021

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Market Capitalisation

The total market capitalisation of all ETFs/ETNs, listed on the JSE, rose from R111,0 billion at the end of 2020 to R119,7 billion at the end of first quarter of 2021. This is an appreciation of 7,8%.

Generally speaking financial markets performed favourably over the first 3 months of this year, as economic recovery from the COVID-19 pandemic now appears to be accepted. Global equities have responded well to the portents for international economic recovery and the South African equity market has continued its revival which started in the final months of 2020.



One signal of the improved sentiment towards South Africa, has been the relatively strong appreciation of the rand against the US dollar, in particular. This has led to a dampening effect on the rand prices of foreign referenced ETFs/ETNs, which has offset the increase in the dollar prices of these assets. For instance, the MSCI World index (for global equities), in rands, increased by only 4,9% over the first 3 months of 2021, whereas the FTSE/JSE All Share index (for local equities) appreciated by 13,1% over the same 3 month period.

The majority of ETFs/ETNs available on the JSE (more than two-thirds), track foreign assets rather than local equities or bonds. Whilst this has not appeared to impact the public demand for foreign referenced ETFs, and in fact may be providing a buying opportunity to pick up such assets at favourable rand prices, it has meant that the overall market capitalisation of all ETFs has been dampened by the impact of a stronger rand.

No new ETFs or ETNs were issued during the first quarter of this year, so the total number of ETPs remains at 137 (78 ETFs and 59 ETNs).

New Capital Raised

An important determinant of the health of the ETP industry is the amount of new capital that is raised by the issuers of ETPs, either through new listings (IPOs) or through additional securities issued to meet the demand for specific ETPs. Of course, both ETFs and ETNs are open-ended, so securities can be listed or redeemed at any time to meet market conditions. In this way, the issuers ensure that ETPs trade at their net asset value at all times, assisted by market makers, and do not show significant discounts or premiums to NAVs.

During the first quarter of 2021, a total of R3 068 million new capital was raised from the issue of additional securities during this period.

The table below shows the top ten individual ETFs/ETNs that raised the most new capital for the 3-month period ended 31 March 2021.

Table A

Capital Raised Through Additional Issue of Securities (for 3-months to end March 2021)	
Issuing House	Capital Raised (R million)
Invest Gold ETF	1 978,2
NewGold Palladium ETF	401,4
Sygnia Itrix MSCI World ETF	365,1
Sygnia Itrix S&P 500 ETF	340,3
Satrix MSCI China ETF	298,5
Sygnia Itrix 4 th Industrial Revolution ETF	264,9
Satrix Emerging Markets (EMG ETF	215,6
Satrix FINI 15 ETF	200,6
NewWave US Dollar ETN	191,3
Ashburton Top 40 ETF	172,4
<i>Source: etfSA.co.za Quarterly Securities in Issue and New Capital Raised Survey (March 2021).</i>	

Of interest is that only two of the top ten capital raising ETPs were for ETFs tracking South African assets. This is despite the outperformance of South African equities, relative to foreign based assets (in rands), particularly over the last 3-6 months.

Given the clear sign of momentum in the local equity market, the failure of local asset managers to, at least lock-in the beta of local index movements, is puzzling. They could easily do this through the purchase of index market cap tracking local ETPs. This may help explain why over 90% of the active investment industry failed to outperform representative index benchmarks over the past 12 months, according to some recently released Surveys.

Snapshot of the SA ETP Industry as at 31 March 2021

Table B

The South African Exchange Traded Product Industry (as at 31 March 2021)						
	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	31 256,3	1 431,7	32 688,0
2.	Satrix Managers	20	-	28 517,2	-	28 517,2
3.	Sygnia/Itrix	10	-	27 047,3	-	27 047,3
4.	Invest	13	-	13 252,6	-	13 252,6
5.	CoreShares	8	-	4 657,9	-	4 657,9
6.	Ashburton	5	-	3 959,5	-	3 959,5
7.	FirstRand	3	36	1 058,5	2 370,0	3 428,5
8.	UBS	-	12	-	2 855,8	2 855,8
9.	Investec	-	2	-	2 326,6	2 326,6
10.	Standard Bank	-	4	-	919,6	919,6
11.	Cloud Atlas	2	-	7,2	-	7,2
Totals		78	59	109 756,5	9 903,7	119 660,2
Source: etfSA.co.za / JSE / Profile Data (31/3/2021).						

Table B shows the profile, as at 31 March 2021, of the 11 houses issuing ETPs; the number of ETP products in issue; and the AUM for each issuer.

Absa Capital retains its predominant position as the largest issuer of ETFs and ETNs, with a total of R32 688 million under management for 17 ETFs and 5 ETNs. But, three commodity ETFs, issued under the NewGold brand, account for 87% of the total market capitalisation of all Absa ETPs.

Absa's position as the top issuer of ETPs in South Africa, is therefore very dependent on the direction of commodity prices and they have made only limited inroads into the SA market for non-commodity ETFs.

Satrix Managers continues to consolidate its position as the second largest issuer of ETFs in South Africa, measured by market capitalisation.

Although Satrix did not issue any new ETPs in the first quarter of 2021, it has reported that it has a number of new ETF products it intends listing during the remainder of this year.

Satrix dominates the ETFs issued that track major indices in South Africa, so the revival in the local equity market has seen a strong rise in the prices of most of their locally referenced ETFs and boosted Satrix's AUM figures.

Satrix now appears to be closing in on Absa to be the top issuing house for ETFs in South Africa, a position held for the first decade of ETFs in South Africa, but surrendered to Absa when commodity ETFs started to dominate the local market.

Sygnia Itrix had a good first quarter of 2021, with total market capitalisation of the ETFs it issues, rising from R24 546 million in December 2020, to R27 047 million at the end of March 2021, an increase of R2 501 million. Only Satrix, with an increase of R3 044 million in AUM over the same period, was able to better the Sygnia Itrix achievement.

Sygnia Itrix, with R27 027 million in total market capitalisation, leaves them trailing Satrix by a relatively small amount and the contest between these two ETF providers to rise to the top of the issuing league tables, is a key driver of growth in the local ETP industry.

Sygnia Itrix have also announced that they are planning to issue a number of new ETFs in 2021. In fact, the first such new product, the Sygnia Itrix S&P Global 1200 ESG ETF, was listed on 12 April 2021.

Sygnia Itrix were highly innovative in listing the 4th Industrial Revolution ETF, back in 2017. This product tracks the Kensho New Economies Composite Index, which comprises companies listed around the world that embrace new technologies. As such, this was the first, and to date only, local ETF that provides a "thematic" exposure to a specific corporate theme or mega-trend.

Such thematic ETFs have proved very popular and provided top investment returns in other equity markets because they can provide consistent outperformance of the more general indices for extended periods of time, thereby delivering "systemic alpha".

Not only Sygnia, but also Satrix, have indicated that they are looking to list further such thematic ETFs on the JSE during the course of this year.

1invest had a good first quarter, increasing AUM by over R2 billion. The key factor was a flow of money into the 1invest Gold ETF early in the year.

1invest, which is an amalgamation of the ETF businesses of Standard Bank and Standard Liberty, has now established itself in a clear fourth place in the industry. It has indicated that it has expansion plans for 2021 and these will be awaited with interest.

First National Bank issued 36 new ETNs late in 202, tracking single stocks in the USA. It provides these trackers in two forms, the quanto products that effectively track the dollar price of the US share, and in compo form, which takes into account the rand exchange rate movements as well.

The South African market has been slow to realise that the quanto products offer exact tracking of the key US major stocks at very low cost and with instant liquidity. With many investors looking to participate directly in the US equity markets, the FNB solution is highly competitive. It would appear that a relatively limited marketing effort by FNB to date has failed to promote far greater acceptance of these ETNs by local retail investors.

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 March 2021.
- ETFs & ETNs survey – Securities in Issue and New Capital Raised/Redeemed (for period ended 31 March 2021).



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