

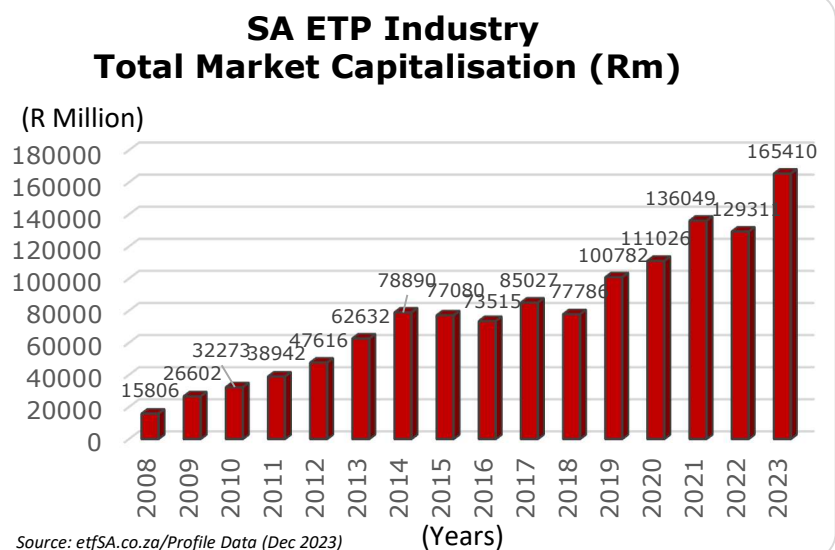
State of the South African Exchange Traded Product (ETP) Industry – as at 29 December 2023

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INDUSTRY OVERVIEW

The total market capitalisation of the ETP industry in South Africa, as at end-December 2023, amounted to R165,4 billion, an increase of 28% on the market capitalisation at the end of 2022.

This is a record figure for the index tracking Exchange Traded Products, listed on the JSE and the total increase of R36,1 billion during the course of last year, was the biggest realised since the first ETF was listed in South Africa in 2000.



Several features emerging during the course of the past year, that assisted in the sharp growth in the industry.

- Actively managed exchange listed products became readily available to investors. By the end of the year, 44 Actively Managed Certificates (AMCs) and 5 Actively Managed ETFs (AMETFs) were listed on the JSE.
- Demand for foreign referenced ETFs and ETNs increased significantly, as global equity markets recovered in the second half of last year and rand depreciation promoted rand hedge strategies.
- Higher interest rates, particularly in long-dated bonds, both globally and locally, boosted the use of ETFs offering portfolios tracking the major bond indices.

These trends are likely to continue in 2024.

NUMBER OF ETPs IN ISSUE

Table A

Number of Exchange Traded Products in Issue (end of period)					
	2019	2020	2021	2022	2023
Exchange Traded Funds (ETFs)	73	78	86	95	92
Exchange Traded Notes (ETNs)	29	59	82	66	69
Actively Managed Certificates (AMCs)	-	-	-	22	44
Actively Managed ETFs (AMETFs)	-	-	-	-	6
Totals	102	137	168	183	211
<i>Source: etfSA.co.za (Dec 2023)</i>					

The total number of Exchange Traded Products increased from 183 at the end of 2022, to 211 by end-December 2023. The chief gain was in the number of Actively Managed Certificates (AMCs) issued on the JSE.

In October 2022, the JSE amended its Listing Requirements to introduce AMCs as a new listing category. These certificates allow for portfolios that benchmark indices to be listed, so opening the way for actively managed products to be traded on the open secondary market.

AMCs are debt-type instruments, so they require the backing of an investment bank, or large asset manager, to ensure their creditworthiness. To date, only the Union Bank of Switzerland (UBS) and Standard Bank of South Africa have issued AMCs, but other issuers are reported to be considering the listing of AMCs.

The AMC listing requirements require that "third party" asset managers be utilised by the issuer of the AMC notes. This creates an opportunity for independent asset managers to list "white label" products, which can then trade on the JSE as actively managed portfolios.

The asset manager of the portfolio is accordingly able to use the JSE with its electronic trading, settlement and custodian systems, at a very low cost, to have these products traded on a secondary market.

This provides an interesting alternative to white label unit trusts, which can only be traded through the primary issuer.

By end-2023, 44 AMCs were in issue and there appears to be a strong line-up of further AMC products in the pipeline.

Actively Managed Exchange Traded Funds (AMETFs)

These products have also been introduced from October 2022, resulting from the changes to the JSE listed requirements. As ETFs, the products require that all holdings be physically held and that the underlying portfolio acts as the collateral for the valuation of the portfolio, so an underwriter is not required. The listing requirements for AMETFs are stringent and rigorously applied, so the product design and structure has to be rigorous to ensure that the NAV of the portfolio is known at all times and that AMETFs can trade at no premium or discount to their NAVs.

Some specialised platforms have been developed to support the listing of Actively Managed ETFs and, although only 5 such products had been listed by the end of 2023, a number of new issues are expected during the course of the coming year.

NEW CAPITAL RAISED

The R36 billion increase in the market capitalisation of the ETP industry in 2023, arose in two ways:

- Global equity indices recovered strongly in the second half of 2023 – the MSCI World Index (in rands), for instance, increased by 30,8% over 2023, so the market value of many of the ETFs listed on the local exchange benefitted significantly from the market gains.
- New capital can be raised, or redeemed, for ETFs, which are open-ended and can create or delist, at any time. Such listings actively raised R10,2 billion during the course of the year, a fact which is not always realised by critics of the JSE, who point to the consistent delistings by corporate issuers on the market.

Table B shows the total net new capital raised by the ETP issuing houses in 2024.

Table B

Net New Capital Raised / (Redeemed) - South African ETP Issuing Houses		
2023		
Issuing House		Total Capital (R million)
1.	10X (CoreShares) (ETFs)	5 314,8
2.	Satrix Managers (ETFs)	3 250,4
3.	Union Bank of Switzerland (AMCs)	1 990,7
4.	Invest (ETFs)	1 176,1
5.	Standard Bank (AMCs)	950,0
6.	FNB (ETFs)	654,5
7.	Prescient Management Company (ETFs)	187,0
8.	Union Bank of Switzerland (ETNs)	125,0
9.	FNB (ETNs)	(78,3)
10.	Absa Capital (NewWave ETNs)	(188,0)
11.	Absa Capital (NewFunds ETFs, NewGold ETFs)	(1 585,1)
12.	Sygnia Itrix (ETFs)	(1 669,6)
Total		10 127,5
<i>Source: etfSA.co.za Quarterly Securities in Issue and New Capital Raised Survey (Dec 2023).</i>		

Topping the table for capital raising from issuers of both new and existing ETPs, is **10X**, which in 2023 completed its purchase of the CoreShares ETF business. 10X has Old Mutual as its major shareholder and has benefited from being the “in-house” issuer of listed index tracking products for South Africa’s major domestic asset manager.

Although still relatively small, in comparison with some of the more established issuing houses, 10X is making its presence felt and should continue to grow in relevance in future years.

Satrix Managers, which remains the largest participant in the South African ETP industry by some distance, in 2023, raised R3,2 billion in new capital for its products. Satrix's focus during the past year appears to have been the consolidation of the 13 ETFs that were taken over from Absa Capital. Most of these ETFs, as well as other smaller ETFs in issue under the Satrix brand, have recorded net redemptions in 2023, but the foreign referenced ETFs, like the Satrix World, Satrix S&P 500 and Satrix Nasdaq raised significant new capital during the past year.

UBS raised just under R2 billion from the issue of AMCs in 2023, and has clearly marked out its positioning as an underwriter of third party actively managed portfolios. They should continue to raise new capital for independent asset managers looking to list their portfolios on the JSE, using the creditworthiness of UBS as the underwriter.

At the other end of the scale, **Sygnia Itrix** delisted R1,67 billion ETFs over the course of the past year, as asset allocation strategies appear to have encouraged profit-taking in some of its offshore products, listed on the JSE.

Absa Capital experienced significant delistings of the NewGold ETF in 2023 (nearly R3 billion), which was ironic, given the good performance of the gold price in both US dollars and rands over the past 12 months.

Table C

Analysis of Capital Raised/Redeemed for Individual Exchange Traded Products (2023)	
ETF	Amount (R million)
Satrix MSCI World ETF	2 959,8
Sygnia Itrix MSCI World ETF	1 653,9
Absa NewGold Platinum ETF	1 307,2
CoreShares/10X Global Dividend Aristocrat ETF	1 201,5
10X Wealth GOVI ETF	1 177,3
10X All Asia AMETF	822,8
10X Income AMETF	690,7
Sygnia Itrix Eurostoxx 50 ETF	(636,4)
Satrix GOVI ETF	(671,6)
Sygnia Itrix Emerging Markets 50 ETF	(2 259,9)
NewGold ETF	(2 923,6)
Source: etfSA Quarterly Survey Securities in Issue and Capital Raised/Redeemed (Dec 2023).	

Table C highlights that the MSCI World ETFs, issued by Satrix and Sygnia Itrix, attracted the most new capital. Satrix MSCI World ETF raised R2 959,8 million for issues of new securities and Sygnia Itrix raised R1 653,9 million for its MSCI World ETF.

The improvement in global equity markets during the course of 2023, coupled with the weaker rand, encouraged investor interest in global indices and the broadly based MSCI World Index, which invests in global developed country stockmarkets (67,3% in the USA), was preferred by many investors, rather than exposure to single countries, like S&P 500.

In early 2023, there was a significant increase in the issue of new securities by 1Invest and NewGold in platinum ETFs, which track the physical price of platinum bullion. Reports that the demand for platinum could surge because of its use in fuel cells to convert hydrogen to drive internal combustion engines, proved to be premature and the price of platinum metal has subsequently waned. The NewGold Platinum ETF fared better than the 1Invest Platinum ETF, which recorded redemptions of over R2,3 billion in the fourth quarter of 2023. For the year as a whole, the NewGold Platinum ETF was able to attract new capital of R1 307,2 million.

A further indication of the success of 10X in listing additional securities on its existing ETF, was the R1 177,3 million capital raised for the 10X Wealth GOVI ETF and the R1 201,5 million raised for the 10X Global Dividend Aristocrat ETF. Two new listings by 10X, the actively managed All Asia AMETF (R822,8 million) and the Income AMETF (R690,7 million), were clear indications that such innovative products are finding investor support.

With regard to delisting of existing ETF securities, the NewGold ETF, which tracks the gold bullion price, saw R2 923,6 million securities delisted, and the Sygnia Itrix Emerging Markets 50 ETF, which experienced a delisting of R2 259,9 million in capital, were the stand outs. The EM 50 delisting appears to be an asset allocation swap by institutional investors from emerging markets exposure to exposure in the Sygnia Itrix MSCI World ETF.

Snapshot of the SA ETP Industry as at 29 December 2023

Table D

The South African Exchange Traded Product Industry (as at 29 December 2023)										
	Issuer	Number of Products				Value (Market Cap) of Shares in Issue (Rm)				Total Market Capitalisation (Rm)
		ETFs	ETNs	AMCs	AM ETFs	ETFs	ETNs	AMCs	AM ETFs	
1.	Satrix Managers	37	-	-	-	52 333,5		-	-	52 333,5
2.	Sygnia Itrix	13	-	-	1	41 001,7		-	122,9	41 124,6
3.	Absa Capital	3	5	-	-	25 336,4	1 440,1	-	-	26 776,5
4.	10X (CoreShares)	12	-	-	2	11 225,6	-	-	1 566,3	12 791,9
5.	FNB/FirstRand	8	40	-	-	8 036,8	3 979,3	-	-	12 016,1
6.	UBS	-	22	32	-	-	670,6	8 716,3	-	9 386,9
7.	1invest	16	-	-	-	8 080,2	-	-	-	8 080,2
8.	Standard Bank	-	2	12	-	-	1 336,7	1 354,8	-	2 691,5
9.	Prescient Management	3		-	3	191,6	-	-	16,9	208,5
10.	Easy Equities	-	-	-	-	-	-	-	-	Suspended
Totals		92	69	44	6	146 205,8	7 426,7	10 071,1	1 706,1	165 409,7
Source: etfSA.co.za – Market Capitalisation – SA Industry Report (29/12/2023).										

As at 29 December, the total size (market cap) of the South African ETF industry, was R165 409,7 million, with 211 ETP products in issue. Table D, above, shows the dispersion of products amongst the 10 issuing houses that currently list ETPs on the JSE.

Satrix Managers, is the dominant force in the SA listed tracker fund industry and has increased its lead at the top of the table in terms of assets under management, which now total R52,3 billion.

Sygnia Itrix remains the second largest issuing house, but is falling steadily behind Satrix, as it has a smaller range of products, focussing mainly on global equity indices, compared with Satrix's far wider range of products.

Absa Capital, having disposed of most its ETFs to Satrix as part of the sale of Absa Asset Management to Sanlam, is holding its position as number three in the industry. However, its product range is limited, only focussed on the volatile commodity markets and its future strategy will be awaited with interest.

Strong competition exists for the next spot in the issuing house league table. **10X, formerly CoreShares**, has moved into fourth position, just ahead of First Rand/FNB.

Another close contest is between the **Union Bank of Switzerland (UBS)**, which has the largest number of ETPs in issue (54), with its family of index tracking ETNs and Actively Managed Certificates, and **FNB/First Rand**, which has 8 classic ETPs and 40 single stock tracking ETNs.

INDIVIDUAL ISSUING HOUSES

Satrix Managers – Satrix has a clear lead in terms of AUM, for the SA ETP industry. As the pioneer of the Exchange Traded Fund market, when it listed the first ETF on the JSE in 2000, it appears appropriate that, in recent years, Satrix has again become the dominant issuer of exchange listed products in South Africa.

2023 appears to have been a more difficult year for Satrix. Of the 37 ETFs issued by Satrix, 18 of these ETFs experienced redemptions in capital during the past year. Much of this was associated with consolidating existing Satrix ETF products with ETFs taken over from Absa Capital, often tracking the same indices and markets. Possibly as a consequence of this, Satrix did not list any new ETFs last year and have, so far, not publically shown any interest in actively managed ETFs and certificates.

Where Satrix had some success last year was attracting new capital in global ETFs they issue, such as the World, S&P 500, Nasdaq and Global Aggregate Bond ETFs.

Sygnia Itrix – Total AUM for Sygnia increased from R32,8 billion at the end of 2022 to R41,1 billion in December 2023. This increase resulted from market movements, rather than attracting new capital, as a net R1 669,6 million was redeemed in Sygnia Itrix ETFs during the year.

The key reduction was in the number of MSCI Emerging Market 50 ETFs in issue (R2 259,9 million), but the Eurostoxx 50 ETF (R636,4 million), the MSCI USA ETF (R488,6 million) and 4th Industrial Revolution (R369,8 million), also experienced significant withdrawals.

The Sygnia Itrix MSCI World ETF, which attracted R1 653,9 million in new capital, mopped up some of the disinvestment from other Sygnia ETFs, but this was not sufficient to prevent a significant drop in the value of overall ETFs in issue.

In late-2023, Sygnia Itrix issue an innovative Actively Managed ETF on the JSE, the Sygnia Itrix FANG.AI AMETF. Although the “magnificent seven” FANG sectors form the basis of this actively managed product, the asset managers can also invest in other US listed securities that are engaged in high tech activities. To date, this AMETF has attracted R110,4 million in new capital.

The FANG.AI breaks new ground for an ETF by levying a 20% performance fee.

10X – 10X formally completed the purchase of the ETF business established by CoreShares, during the course of 2023. Since then, 10X have added four new ETFs to the ten ETFs taken over from CoreShares. These new products include two Actively Managed ETFs, the Income AMETF, which includes SA bonds, inflation-linked bonds, foreign bonds, plus a variety of income assets, as well as the All Asia AMETF, which actively tracks markets across the Asia Pacific region, excluding Japan, but including Australia and New Zealand.

10X was the most successful of the ten investment companies issuing ETPs, in raising new capital last year (R5 314,8 million). The emergence of a dynamic company that has a close relationship with Old Mutual, adds significant energy to the ETP industry and their further progress in 2024 and beyond will be followed with interest.

Union Bank of Switzerland (UBS) –This company both issues its own index tracking ETPs, often tracking indices that are unique, like the Metaverse, Global Luxury Goods, Big Data, Fintech, Robotics & Drones, Space, etc. which are finding a home with certain institutional and boutique investment managers.

It also lends its balance sheet to issuers of Actively Managed Certificates (AMCs), AMCs require that the asset manager be independent of the issuer. Some 20 asset managers have utilised the opportunity to list their actively managed portfolios on the JSE through UBS and it is understood that a number of other listings, including additional asset managers, are in the pipeline.

AMCs offer an opportunity to issue “white label” products, directly on the JSE, with lower costs, greater transparency and higher liquidity than the more traditional route of unit trusts and this new investment channel could expand significantly in future.

Prescient Management Company –The Prescient Collective Investment Scheme in ETF Securities (Prescient ETFs) was a newcomer in 2023.

To date, it has issued six ETP products, three being ETFs and the other three AMETFs.

The three ETFs are all issued by Reitway Global Property, a specialised issuer of collective investment schemes that cover the global property sector. One of the AMETFs is also operated by Reitway, which actively seeks global real estate opportunities, whilst the ETFs track GPR REIT global indices.

The other two AMETFs are:

- First, Prescient AQU Actively Managed Funds (AQUA), which has a top down Global tactical Asset Allocation strategy, seeking investment opportunities in multiple asset classes, countries and regions.
- Second, the Prescient Income Provider AMETF (PIPETF) invests in income bearing assets, including property and preference shares, both globally and locally.

The Prescient ETF platform has been developed to assist in third-party issuance of innovative exchange listed products and could be worth watching in future.

Easy Equities – Easy Equities acquired the business of Cloud Atlas during 2023. Cloud Atlas had listed two ETFs, specialising in Africa equities and bonds, outside of South Africa, but these had failed to gain traction.

Easy Equities has advised that it will be closing down these two ETFs and for the present, they are suspended on the JSE.

Apparently Easy Equities is developing a number of new products, including actively managed ETFs, for listing on the JSE and the entrance of this well-known brand to the world of ETP issuance should be of interest.

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

- All South African ETFs, ETNs & AMCs – Market Capitalisation Totals – December 2013 to December 2023.
- ETP survey – Securities in Issue and New Capital Raised/Redeemed (for period ended 29 December 2023).



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