

State of the South African Exchange Traded Product (ETP) Industry – as at 31 March 2022

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INDUSTRY OVERVIEW

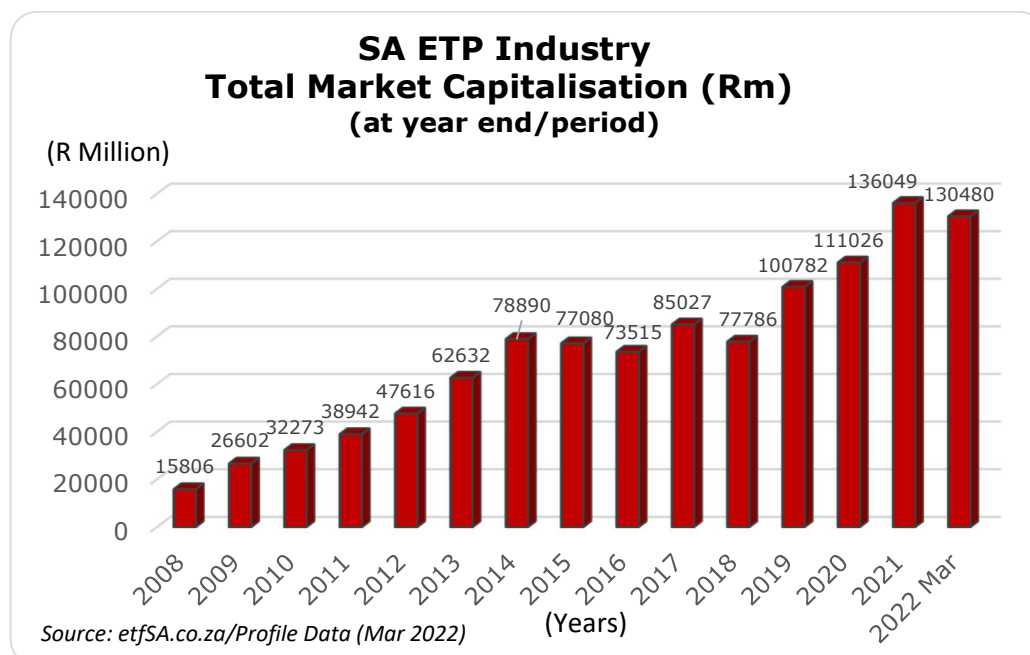
The total market capitalisation of all ETFs and ETNs, listed on the JSE, at the end of March 2022, amounted to R130 479,9 million, a drop of R5 569 million, or 4,1%, on the market capitalisation of the ETF industry at the end of 2021.

The drop in the total value of the Exchange Traded Product industry in South Africa was due to the fall in prices of notably offshore ETFs and ETNs listed on the local stock exchange. Over the 3-month period to end-March 2022, the MSCI World index (in rands) fell by 13,4%, reflecting the global equity market decline, faced by unexpectedly high rises in inflation and the impact of the Russia/Ukraine War, both on economic growth and on the world inflation rates.

As the majority of the bigger ETPs listed on the JSE reference foreign assets, this has had a negative impact on the total market value of many ETPs over the past three months.

By contrast, the South African equity market has provided positive returns over the last 3 month period, helped by good corporate earnings and dividend growth by most major SA companies.

The fact that the SA ETP industry is skewed in favour of foreign rather than local markets, explains the decline in total market capitalisation of the industry over the last quarter.



New Capital Raised

The decline in the overall market capitalisation of all ETFs/ETNs in the first quarter of 2022, was not due to delistings or redemptions of these products on the JSE. To the contrary, total new issues of ETPs in the past three months amounted to R2 451,9 million.

This indicates continued demand for ETPs in the local market, sufficient to require new listings of existing products. The only new ETP issued during the quarter, was the Satrix MSCI India ETF. The table below shows the net total new capital raised, or redeemed, for all products issued by local issuing houses.

New Capital Raised / Redeemed - South African ETP Issuing Houses For First Quarter 2022		
Issuing House		Total Capital (R million)
1.	Satrix Managers (ETFs)	1 828,2
2.	Sygnia Itrix (ETFs)	1 769,6
3.	FNB (ETFs)	179,6
4.	FNB (ETNs)	175,0
5.	Absa Capital (NewWave ETNs)	32,5
6.	CoreShares (ETFs)	24,4
7.	Cloud Atlas	(0,5)
8.	Absa Capital (NewFunds, NewGold ETFs)	(412,4)
9.	Invest	(1 145,0)
Total		2 451,9
<i>Source: etfSA.co.za Quarterly Securities in Issue and New Capital Raised Survey March 2022).</i>		

Satrix and Sygnia Itrix had a close tussle to be the top issuing house for the first three months of this year, raising R1,83 billion and R1,77 billion new capital respectively,

Bringing up the rear, were Invest and NewFunds, who both registered significant delistings of commodity ETFs during this period.

Individual ETF/ETN Listings For First 3 Months of 2022	
ETF/ETN	Amount (R million)
Satrix MSCI World ETF	825,7
Satrix S&P 500 ETF	544,2
Sygnia Itrix Emerging Markets 50 ETF	474,8
Sygnia Itrix Eurostoxx 50 ETF	466,9
Satrix Capped SA All Share ETF	267,5
Sygnia Itrix S&P 500 ETF	232,1
Invest SA Property ETF	(242,6)
Satrix Capped INDI ETF	(295,5)
Invest Platinum ETF	(976,8)
NewGold Platinum ETF	(987,2)
<i>Source: etfSA.co.za Quarterly Securities in Issue and New Capital Raised Survey March 2022).</i>	

The overview of the best, and worst, individual ETPs, in terms of raising or redeeming new capital in the markets in the above Table, is instructive. Most new capital was raised for foreign referenced general equity market ETFs and the biggest redemptions came from precious metal ETFs. The investment performance actual returns were the exact opposite, which indicates, as has been shown in the past, that the local market is not particularly good at “top down” investment strategies.

Investment in passive investment products is typically enhanced by “big picture” choices as an essential element of a strategic asset allocation strategy. Large market cap index tracking ETFs are ideal for top down driven asset allocation tactics. The South African asset management industry, as evidenced by the creations and redemptions of Exchange Traded Products, continues to miss major big picture changes in markets.

Snapshot of the SA ETP Industry as at 31 March 2022

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.	Satrix Managers	24	-	37 520,8	-	37 520,8
2.	Sygnia Itrix	13	-	32 043,7	-	32 043,7
3.	Absa Capital	18	5	27 899,5	1 537,7	29 437,2
4.	FNB/FirstRand	8	42	6 363,4	3 294,6	9 658,0
5.	Invest	13	-	7 032,4	-	7 032,4
6.	CoreShares	9		5 640,9	-	5 640,9
7.	UBS	-	31	-	5 366,7	5 366,7
8.	Investec	-	2	-	2 653,9	2 653,9
9.	Standard Bank	-	2	-	1 119,8	1 119,8
10.	Cloud Atlas	2	-	6,5	-	6,5
Totals		87	82	116 507,2	13 972,7	130 479,9
Source: etfSA.co.za / JSE / Profile Data (31/3/2022).						

Satrix Managers – has extended its lead over the other issuing houses as the largest listing company for ETPs in South Africa. It now has 24 ETFs in issue with a total AUM of R37 520,8 million. Satrix was able to put further daylight between it and its nearest competitor, Sygnia Itrix, over the first quarter, mainly due to its bigger portfolio of ETFs covering the South African equity market, which has been the best performing market to date this year. It has also been successful in raising money for new listings of many of its foreign referenced ETFs over this period, which might be due to investors realising that the strong rand offers a good buying opportunity for the acquisition of foreign assets through JSE listed ETPs.

Satrix was the only company to list any new products in the first three months of this year. This was the Satrix MSI India ETF, which tracks 107 shares listed on the Indian stock exchanges. The listing took place on 24 February 2022 and to date, R113 million new capital has been raised for this ETF in the IPO and through subsequent listings of additional securities.

Sygnia Itrix raised R1 769,9 million from the new issue of ETPs in the first quarter of 2022, but the decline in prices of many of the foreign referenced ETFs they have in issue, led to an overall decline in the market capitalisation of the Sygnia Itrix ETFs over this period.

However, targeting the issue of foreign referenced ETFs, which allow access to global assets for most investors, without foreign exchange control restrictions, is a strategy that makes sense and Sygnia has indicated that further new issues of such ETFs are in the pipeline.

Absa Capital – the purchase of Absa Asset Managers by Sanlam, will transfer the NewFunds ETFs across to Satrix in due course. This will further swell the size of the Satrix ETF business, but will also leave Absa, with only the NewGold commodity ETFs and the NewWave ETNs, in their stable. Absa's future strategy and areas of focus in the ETP industry will be watched with interest.

FNB – the consolidation of the South African ETP industry took another step forward as First National Bank incorporated the Ashburton range of ETFs under the FNB brand. The three ETF "certificates" issued as dollar deposits and tracking Krugerrand prices are also now incorporated in the FNB stable.

Together with the single-stock ETNs issued over a number of US individual securities, plus the index tracking ETNs issued for a selection of global indices late in 2021, this now makes FNB the issuer of the largest number of ETFs/ETNs in South Africa, namely 8 ETFs and 42 ETNs.

It appears likely that the FNB Group would have some plans in place for the expansion of its consolidated range of ETPs.

Invest – this is also a consolidation of the ETPs issued by Standard Bank and Stanlib, which took place some years ago, and brought about the issue of five new foreign referenced ETFs in 2018. No new issues of ETFs have taken place under this brand since then, which might change if Standard Bank recognises the challenge it now faces from FNB.

The first quarter of 2022 was marred by significant delistings of the Invest Platinum ETF (R976,8 million). The delisting of platinum ETF securities was mirrored by similar large delistings of NewGold Platinum ETFs, issued by Absa Capital (R987,2 million). This could be the realisation by the local market that increased demand for platinum for use in fuel cells, notably for hydrogen power generation, might still be some years away.

Union Bank of Switzerland (UBS) – encountered a sharp fall in the value of the ETNs it issues, in the last quarter, which was due to the relatively poor performance of global equity markets, which are tracked by these ETNs. This investment performance drop has not been helped by the relative strength of the rand/dollar exchange rate.

It is of interest that very few of the actively managed ETPs, issued by UBS, which track foreign equity markets, have been able to outperform the MSCI World benchmark over the past 1-month to 12-month period. UBS facilitates nine different asset managers listing actively managed portfolios in the form of ETNs, but their failure to provide consistent alpha returns over the past 12 months, indicates that further experience is needed in this area of the asset management industry.

The JSE has recently produced draft regulations for the listing of actively managed ETFs on their Exchange, which could open up the ETP industry further. It will be of interest to see if 100% physically backed ETFs, as opposed to the less rigorous regulations for ETNs, will provide better rewards for 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 2022.
- ETFs & ETNs survey – Securities in Issue and New Capital Raised/Redeemed (for period ended 31 March 2022).



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