

## State of the South African Exchange Traded Product Industry Review – Second Quarter 2013 – Article for InvestSA Magazine

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### Net Capital Raised

Over the six months to June 2013, some R5,1 billion additional capital was raised by the issue of new ETPs or by the issue of further securities by existing ETPs. Exchange Traded Products, like unit trusts, are open-ended securities listed on the JSE, that can issue new securities or redeem securities at any time to meet investor requirements.

Table 1 summarises the capital raising activities of the nine companies that currently issue ETPs. Absa was the most successful issuer, raising a net R4,6 billion new capital on the JSE. This included R5,35 billion new capital raised through the issue of over 43 million shares by the **NewPlat ETF**, which invests directly in platinum bullion. This R5 billion new capital, raised in less than 6 weeks, has been one of the most successful capital raising ventures on the JSE in recent years. Redemptions of R716 million (R0,71 billion) of NewGold ETFs, brought the net capital amount raised by Absa products to R4,6 billion over the six month period.

**Table 1**

New Capital Raised on the JSE* (January – June 2013)			
Issuer	ETFs (Rm)	ETNs (Rm)	Total (Rm)
Absa	4 636,9	53,0	4 689,9
Rand Merchant Bank	116,5	-	116,5
Grindrod Bank	69,9	-	69,9
Satrix	65,5	-	65,5
STANLIB	50,4	-	50,4
Investec Bank	47,3	-	47,3
Nedbank Capital	46,1	-	46,1
Deutsche Bank	33,0	-	33,0
Standard Bank	0	-	-
<b>Totals</b>	<b>5 065,6</b>	<b>53,0</b>	
<i>Source: etfSA.co.za; JSE; Profile Data (28 June 2013).</i>			
<i>* Capital raised by issue/redemption of ETP securities on the JSE.</i>			

Two new ETFs, the **STANLIB Property ETF** and the aforementioned **NewPlat ETF** were issued during the first half of this year.

### Market Capitalisation

The market capitalisation of the entire ETP industry increased steadily from R47,8 billion at the end of 2012 to R49,8 billion on 28 June 2013. During the second quarter, the aggregate market capitalisation of the ETP industry grew only marginally from R49,1 billion to R49,8 billion, reflecting the general decline in major market indices over the time. However, in due course, when the market recovers, the additional securities listed by the ETP industry over the past six months, should promote a more rapid growth in market capitalisation in future.

## Investment Performance

The total return performance of the major indices on the JSE showed little overall growth in the first half of 2013. The FTSE/JSE All Share index grew by 1,9%, and the Top 40 index by 1,7% over the six month period.

Over the three months ended 28 June 2013, the All Share index fell by 0,22% and the Top 40 declined by 0,15%. This apparent stability, however, concealed significant market volatility during the period as the JSE advanced to record highs and then reversed all such gains due to rapid changes in the rand's value, plus changing market sentiment and investor expectations.

Fortunately, with local ETFs and ETNs now covering numerous asset classes, market subsectors as well as global markets, it has been possible to escape the impact of overall market stagnation over the past three, six and twelve months, as shown in Table 2 below.

**Table 2**

<b>Top Performing ETFs/ETNs</b>	
<b>Total Returns with Dividends Reinvested (%)</b>	
	<b>3 Months</b>
<b>FTSE/JSE All Share Index</b>	<b>(0,22%)</b>
DBX Tracker MSCI Japan ETF	12,20%
NewWave EURO ETN	10,51%
DBX Tracker MSCI USA ETF	10,41%
NewWave US Dollar ETN	9,58%
DBX Tracker MSCI World ETF	8,70%
Standard Bank Oil ETN	8,26%
	<b>6 Months</b>
<b>FTSE/JSE All Share Index</b>	<b>1,90%</b>
DBX Tracker MSCI Japan ETF	35,11%
DBX Tracker MSCI USA ETF	33,89%
DBX Tracker MSCI World ETF	26,58%
Standard Bank Oil ETN	22,64%
RMB Oil ETF	21,90%
NewWave EURO ETN	15,81%
	<b>12 Months</b>
<b>FTSE/JSE All Share Index</b>	<b>22,67%</b>
DBX Tracker Eurostoxx 50 ETF	48,81%
Satrix INDI 25 ETF	45,68%
DBX Tracker MSCI Japan ETF	44,28%
DBX Tracker MSCI USA ETF	43,04%
RMB Oil ETF	42,53%
DBX Tracker MSCI World ETF	41,39%

*Source: etfSA.co.za; JSE; Profile Data (Monthly Performance Survey 28 June 2013).*

The above table shows that "rand hedge" ETFs and ETNs were most able to provide significantly better performance than the overall market for the periods surveyed. Perhaps, too little attention is paid to the merits of seeking protection against exchange rate volatility through the use of "inward investment" JSE listed ETPs, giving direct access to international markets and assets. These products trade in rands, so do not require individual investors to seek foreign exchange control or tax clearance to access global markets, with significant cost savings and ease of access being amongst the benefits.

## LONGER-TERM TRENDS

### ETP Portfolios

With 63 ETPs now listed on the JSE (40 ETFs and 23 ETNs), there is abundant choice for investors to utilise index tracking benchmark investments, with low cost and high transparency across all asset classes and sectors. This is leading to an increasing tendency for investors to put together portfolios of ETPs to create multi-asset portfolios, with often better performance and significantly lower costs than multi-asset unit trust portfolios. Although, only one ETP issuer, Absa, has to date issued multi-asset class ETPs, some further product development in this area is foreseen.

### Product Choice

The "one size fits all" approach to choosing only one ETF for long-term investment is being replaced, not only by the growing use of portfolios of ETPs, but also by much clearer recognition of the performance advantages to be gained through careful product selection.

Table 3 below, for instance, shows that an investor who chose the **Satrix INDI 25 ETF**, rather than the **Satrix 40 ETF**, would have realised significantly better investment performance returns over the past 5 and 10 years.

A 10 year investment in Satrix INDI 25 ETF would be currently worth almost double the capital value of an investment in the Satrix 40 ETF, reflecting the lower volatility of the industrial index over the period.

**Table 3**

<b>Long-Term Investment Performance (R100 000 Lump Sum Investment)</b>				
	<b>5 Years (% p.a.)</b>	<b>10 Years (% p.a.)</b>	<b>Current Value After 5 Years (R)</b>	<b>Current Value After 10 Years (R)</b>
Satrix 40 ETF	6,88%	19,26%	139 450	581 810
Satrix INDI 25 ETF	22,11%	27,07%	271 520	1 097 650

*Source: etfSA.co.za; JSE; Profile Data (28 June 2013).*

### Product Development

The rapid advance in the listing of new ETPs seems to have stagnated to date in 2013, with only two new products being listed so far this year. However, it is understood that there are a number of new products in the pipeline. It would appear though that there are some bottlenecks constraining such additional listings.

- General market uncertainty could delay the decision to launch new products.
- The authorities are reviewing the conditions for listing and registering foreign products in the SA market.
- The JSE is still reviewing its listing requirements for ETNs.
- The classification of ETFs and ETNs for FAIS license purposes is still subject to some confusion and misinterpretation.

For more information or detail, please contact Mike Brown, contact details below.

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