

Introduction to Exchange Traded Funds



JOHANNESBURG STOCK EXCHANGE
Equity Market

What is an Exchange Traded Fund (ETF)?

- An ETF is
 - an investment product **listed** and **traded** on the JSE and can be bought and sold like an ordinary share
 - usually registered as a **Collective Investment Scheme** with the FSB, meaning that the ETF and its investor is protected should something happen to the ETF issuer
 - **tracks the performance** of certain underlying assets such as:
 - a **basket of shares**,
 - a **basket of bonds**,
 - a **commodity**



What is an Exchange Traded Fund (ETF)?

- These “**baskets**” of shares or bonds are known as indices, for example:
 - FTSE/JSE
 - Top40; Financial 15; Industrial 25; Resources 20; South African Property Index
 - GOVI; Government Inflation-Linked Bond Index
 - FTSE 100, DJ Eurostoxx 50; MSCI Japan; MSCI World; MSCI USA

 Plexus rafi



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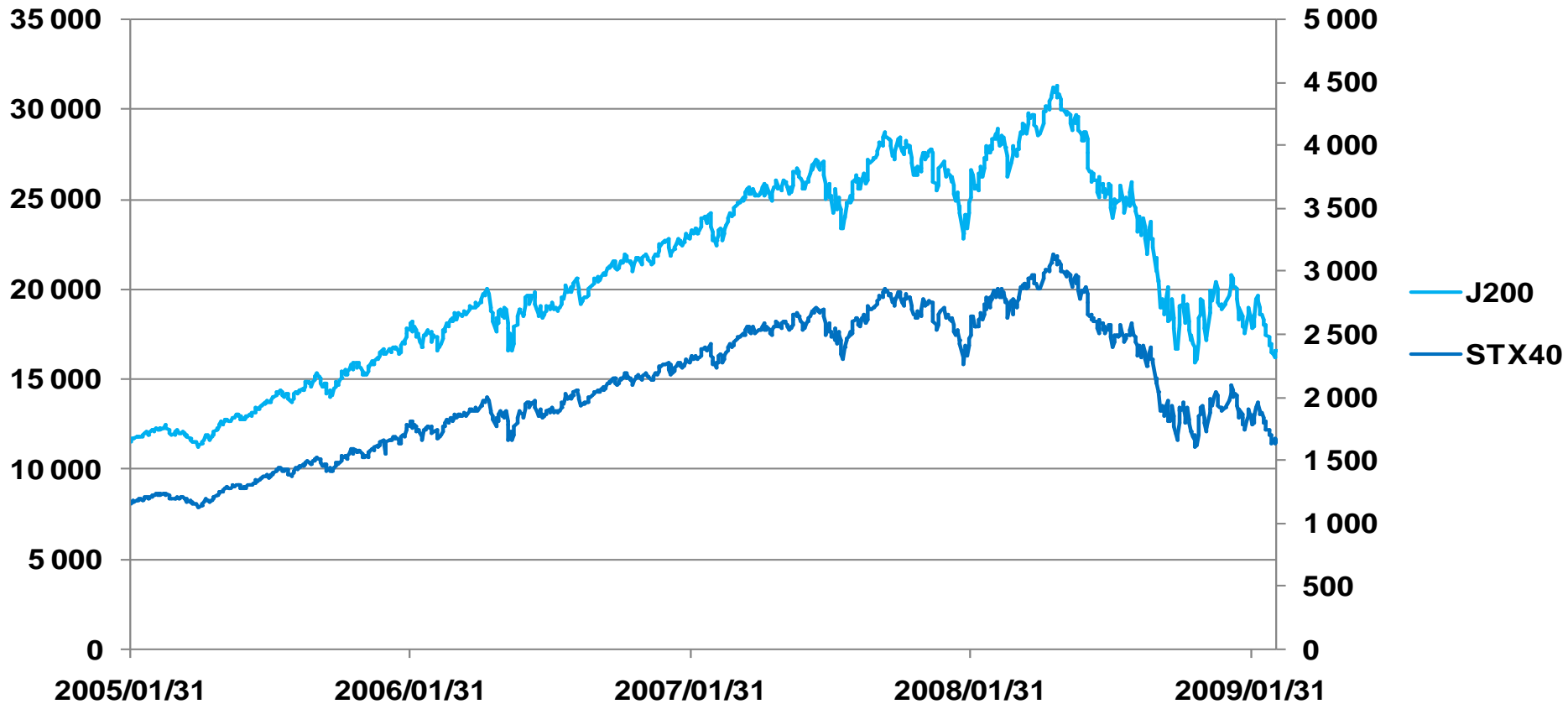


- Commodity, for example:
 - Gold and oil



How does it work?

- Example of how ETFs track an index (Satrix 40 ETF vs. FTSE/JSE Top 40)



Global growth of ETFs

As at end **April 2011** the global ETF industry had:

- **2,670 ETFs**
- assets of **US\$1,469.8 Bn** from **140 providers** on **48 exchanges** around the world.

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ETFs in South Africa

- There are currently **8 ETF** providers

SATRIX
Own the market

An RMB initiative
Bips
Beta Investment Performance Securities



ABSA CAPITAL

 **Investec**
Capital Markets

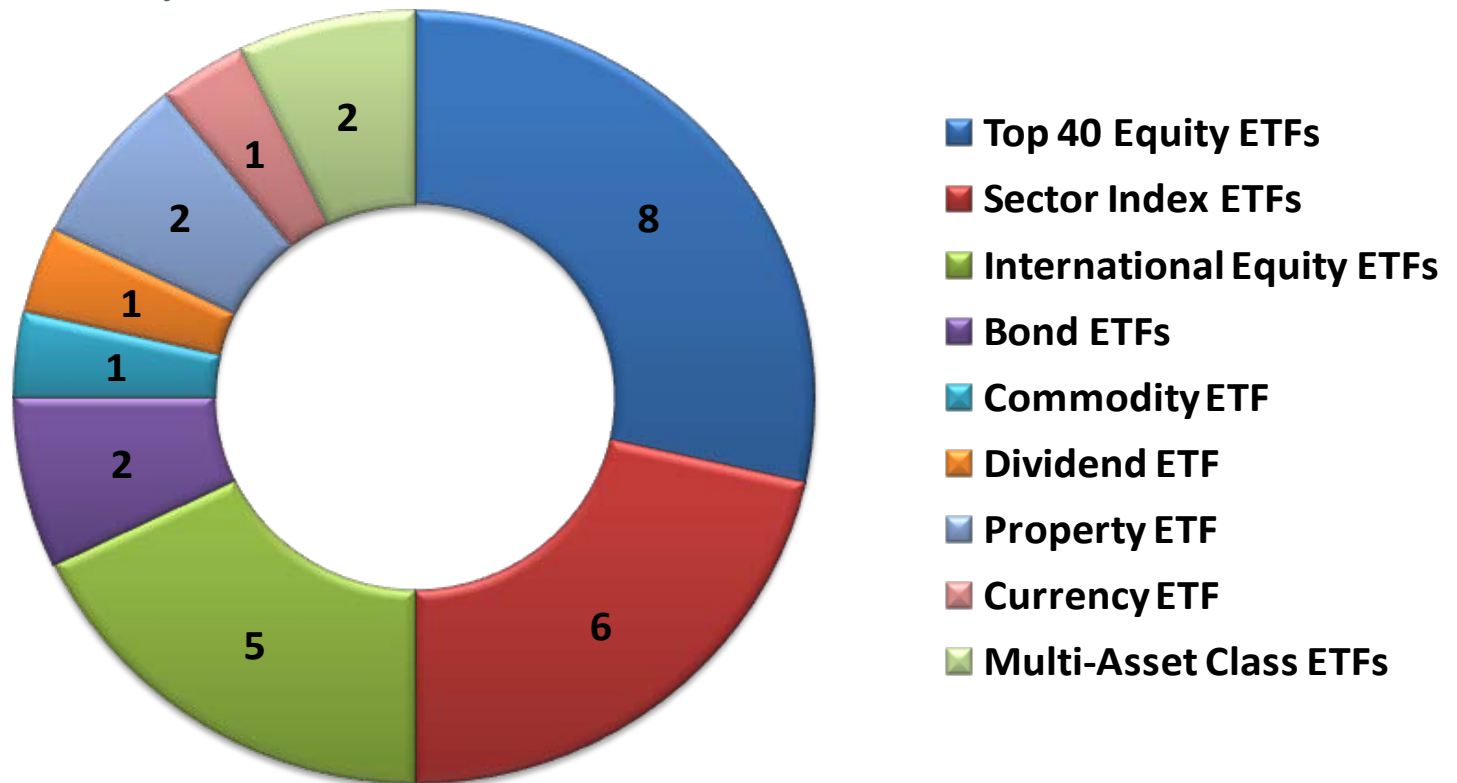
 **NEDBANK**
CAPITAL

db x-trackers
Simply buy the market

 **STANLIB**

ETFs in South Africa

- First South African ETF listed on the JSE in 2000
- 30 ETFs currently listed on the JSE



ETFs in South Africa

- Top 40 ETFs
- Sector/Style Index ETFs
- Commodity ETF
- Dividend ETF
- Property ETFs
- Currency ETF
- International Equity ETFs
- Bond ETFs
- Multi-Asset Class ETFs



Benefits of ETFs

- **Diversification**
 - Able to invest in a wide variety of shares etc by investing in a **SINGLE** investment product ...reducing the risk that that the investor is taking on had he/she only invested in one company.
- **Low Costs**
 - Fewer costs are involved in the management of the fund, making it a cost effective investment vehicle for investors
- **Cash flow distributions (dividends)**
 - ETF investors are entitled to a proportional dividend payout when companies within the fund pay out dividends



Benefits of ETFs

- **Transparency**
 - ETF prices and the constituents and weightings of the fund are made publicly available on the ETF issuer's website
- **Regulation**
 - Well regulated by the JSE and FSB to determine and correct any wrongdoing
- **Trading Flexibility**
 - Investors can buy ETFs any time during trading hours (9am to 5pm) at market prices
- **Liquidity**
 - ETF Market Makers are obliged to buy any ETFs which an investor wishes to sell and to sell any ETFs to an investor who wishes to buy ETFs

Benefits of ETFs

- **Securities Transfer Tax (STT) exempt**
 - This tax usually applies when purchasing individual stocks, this does not apply when buying ETFs
- **Hassle Free**
 - You don't need to do a lot of research about all the companies listed on the JSE

Some things to consider

- **Fees**
 - Once off trading fee and annual administrative fee (paid monthly)
- **Limited share ownership rights**
 - ETF investors do not become shareholders of the ETF's underlying company shares
 - Therefore ETF investors can not attend Annual General Meetings (AGMs) and have no shareholder rights
- **Capital Gains Tax**
 - Any profit that is made on an investment is taxed
- **Exchange Traded Price**
 - The ETF won't track its index perfectly due to expenses incurred in the management of the ETF
- **Market Risk**
 - ETF prices will go up and down as the share prices go up and down

Channels to use to invest in ETFs

- Through a stockbroker
- Through an ETF provider's Investment Plan
- Through an ETF Platform – etfSA and iTransact
 - Offers a trailing commission to financial advisors registered on the platform
 - Financial advisors may charge their clients an advice fee



The Home of Exchange Traded Funds™

