



JOHANNESBURG STOCK EXCHANGE

Equity Market

Exchange Traded Funds

Whether you are a first time investor who is new to the world of investing or an experienced professional who wishes to manage his/her risk, ETFs offer a hassle free and cost effective investment in a broad range of securities. With its incredible growing popularity in the United States of America (USA) and Europe, South African investors are sure to realise what exciting opportunities this relatively new product can offer them.

What are ETFs?

An ETF is defined as a listed investment product, which tracks the performance of a particular index (e.g. FTSE/JSE Top 40 Index) or “basket” of shares, bonds or a single commodity. These are known as underlying securities or assets.

Investors save time and money as ETFs allow an investor to invest in a wide variety of asset classes by means of a single listed investment product, thus offering a well diversified investment without having to do extensive research or spend huge amounts of money on buying each of the underlying securities that the ETF is tracking.

The exchange traded price of an ETF reflects approximately 1/1000th of the index level, which each ETF tracks. For example, if the value of the FSTE/JSE Top 40 Index is 23 000 then an ETF tracking that particular index will have an exchange traded price of approximately R23.

ETFs are traded on an exchange just like an ordinary share and the price of a particular ETF will be determined by the demand and supply of the ETF.

How to invest in ETFs

Through a stockbroker

A JSE authorised stockbroker is a well qualified person who buys and sells securities and offers investment advice to investors. Opening a brokerage account will allow investors to invest in a variety of JSE listed products not just ETFs.

Through an investment plan

Contact an ETF provider to start an investment plan. An investment plan allows an individual investor to easily access ETFs via a monthly debit order or a single lump sum investment.

Through etfSA (www.etfsa.co.za)

etfSA is an internet based information website which makes it easy for investors to transact in ETFs via a lump sum or debit order through the etfSA Investor Scheme.

etfSA also offers a commission structure to financial advisors utilising etfSA on behalf of clients.

itransact (www.itransact.co.za)

itransact is an ETF investment product platform that offers its innovative ETF products and wealth solutions through accredited financial advisors. These advisors are in a position to provide investors with appropriate financial advice and good service.

Through the itransact platform investors will be able to invest in ETFs and ETF wrap funds via a lump sum or debit order.

Benefits of investing in ETFs

Diversification

ETFs give investors exposure to a wide variety of securities or assets, avoiding the risk of “putting all your eggs in one basket”.

Regulation

ETFs are well regulated by the Johannesburg Stock Exchange (JSE) and Financial Services Board (FSB). Investors therefore have added protection against unjust treatment.





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Cash flow distributions (dividends)

Even though owning an ETF does not give you direct ownership of the shares of the index being tracked, owners of an ETF are still eligible to receive dividends should shares in the tracking index pay dividends.

Liquidity

Buying or selling ETFs can be done quickly and at a low cost on the JSE.

Tax

ETFs are exempt from Securities Transfer Tax (STT) upon purchase of the ETF.

Hassle free investment

Investors can gain exposure to a wide variety of securities or assets without having to do extensive research or without actively managing the underlying securities.

Some things to consider

Fees

Besides the price of the ETF itself, there is a once off trading fee for the transaction when the ETF is bought or sold. Should you make use of a stockbroker a monthly maintenance fee is payable. Through an investment plan an annual administration fee will apply.

Share ownership rights

Owning an ETF does not give the investor the right to vote at Annual General Meetings (AGMs) of the underlying securities, as you own a portion (unit) in the fund and not the securities themselves.

Tax

Capital gains (profits) from the sale of an ETF are subject to Capital Gains Tax.

Exchange Traded Price

Bear in mind that the price of an ETF will vary slightly from the Net Asset Value (NAV)¹ of the underlying fund. This difference is due to all applicable fees upon the purchase/sale of an ETF as well as other market forces, such as demand and supply.

Market Risk

ETF exchange prices fluctuate, as do the prices of its underlying securities. However, because of the advantage of diversification, the risk of losing money is lowered.

Types of ETFs

Top 40 Equity ETFs

Track the performance of the Top 40 performing companies, based on market capitalisation or as measured by a number of base factors such as dividends, cash flow or the top Shari'ah compliant companies listed on the JSE.

Equity ETFs

Track the performance of other equity shares listed on the JSE, eg. resource company shares.

International Equity ETFs

Track the performance of international shares (equities).

Dividend ETFs

Track the performance of the highest dividend paying companies.

Bond ETFs

Track the performance of government bonds.

Property ETFs

Track the performance of property shares listed on the JSE.

Commodity ETFs

Track the performance of the spot gold price.

Currency ETFs

Track the performance of companies that benefit from constant Rand strength.

Multi-Asset Class ETFs

Track the performance of shares, nominal bonds, inflation-linked bonds and cash within a single ETF.

Visit www.jse.co.za for a list of ETFs traded on the JSE.

¹ NAV is the total value of the shares, bonds or commodity that makes up each ETF.

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