

ETP NEWS

SECOND HALF 2011

MAPPS™ – the quintessential ETFs for retirement saving

The benefits and risks of NewFunds MAPPS™ explained
Your NewFunds MAPPS™ FAQs answered



New Component ETFs – a sneak preview

Exchange Traded Notes

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Vladimir Nedeljkovic
Head: Investments
Absa Capital

New MAPPS™ ETFs on the up

Absa Capital's two new, recently-listed multi-asset ETFs — NewFunds MAPPS™ Protect and NewFunds MAPPS™ Growth Portfolios are the main focus of this edition. We proudly listed these new portfolios on 25 May (see pictures on page 11) so thought it fitting that they take the main feature position in this edition of ETPNews.

The feature will look closely at the MAPPS™ ETFs highlighting their benefits, risks and role in the construction of one's portfolio. Since these are new portfolios, we thought it apt to include a section on frequently asked questions, which we hope will answer your questions surrounding these ETFs. As always your comments on these issues are most welcome and should you have any further questions, please send them to etpnews@absacapital.com. We'll be happy to address these directly with you.

In this edition, we also offer you a sneak preview into the five new Component ETFs which we plan to list simultaneously in the coming months. This new series of ETFs has been designed with a specific objective — to provide simple and cost-effective market-based (beta) and enhanced market (beta plus) building block components for institutional investors. See more on these ETFs on page 12.

Our second major article for this edition discusses Exchange Traded Notes (ETNs) — the latest entrant into the investment arena in South Africa. With several new products having been listed over the last year or so, we have found that potential investors have many questions that they want answered. We have attempted to explore several of these questions including what ETNs are, how they differ from ETFs and what their benefits and risks are. We hope this article on page 13 gives you a greater understanding of the world of ETNs.

I hope that you enjoy this edition and find it useful when making your investment decisions. We strive to keep the content of ETPNews relevant and useful so would value your comments and input. Be sure to click through on the links provided in each article to send us your thoughts.

Until next time.

Vladimir Nedeljkovic
Head: Investments
Absa Capital

send your comments to etpnews@absacapital.com

Passively consider it

By Colourfield Liability Solutions and Absa Capital

If they've grown quicker than the waistline of the average American, if they're more popular than some social networking sites, if some are worth their weight in gold, then surely ETFs are worthy of further consideration.

An ETF, or Exchange Traded Fund, is recognised globally as an efficient way to access a diversified mix of investments via the stock exchange. The global ETF market has grown rapidly and is fast approaching the US\$1.5 trillion mark¹. To contextualise this number, it is more than double the size of our FTSE/Johannesburg Stock Exchange (JSE) All Share Index's total market capitalisation. Yet, local interest in the investment vehicle has remained relatively subdued. Is the slow uptake because of a lack of understanding of ETFs? Or is it because the South African investor believes that their chosen active managers will consistently deliver market-beating returns over the long term — thus outperforming their passive counterparts? Or maybe is it because ETF providers have not yet come to the party with appropriate solutions for retirement funds?

ETFs in South Africa have traditionally tracked only certain asset classes or sectors such as the Satrix40 which is an equity-only investment or Investec's GOVI which tracks only the nominal bond market. Other ETFs track niche sectors such as Absa Capital's NewGold ETF which follows the gold price. ETFs have therefore, been of limited use to retirement funds. Only by combining ETFs with other more diversified investment strategies, could a retirement fund possibly incorporate them into their investment strategy.

In reality, all of the above are feasible explanations as to why South African institutional funds and in particular, retirement funds, have not yet embraced ETFs. It will take time for the market to educate itself about the power of compounding after-fee returns, where high active asset management and performance fees erode an individual's ultimate retirement benefits.

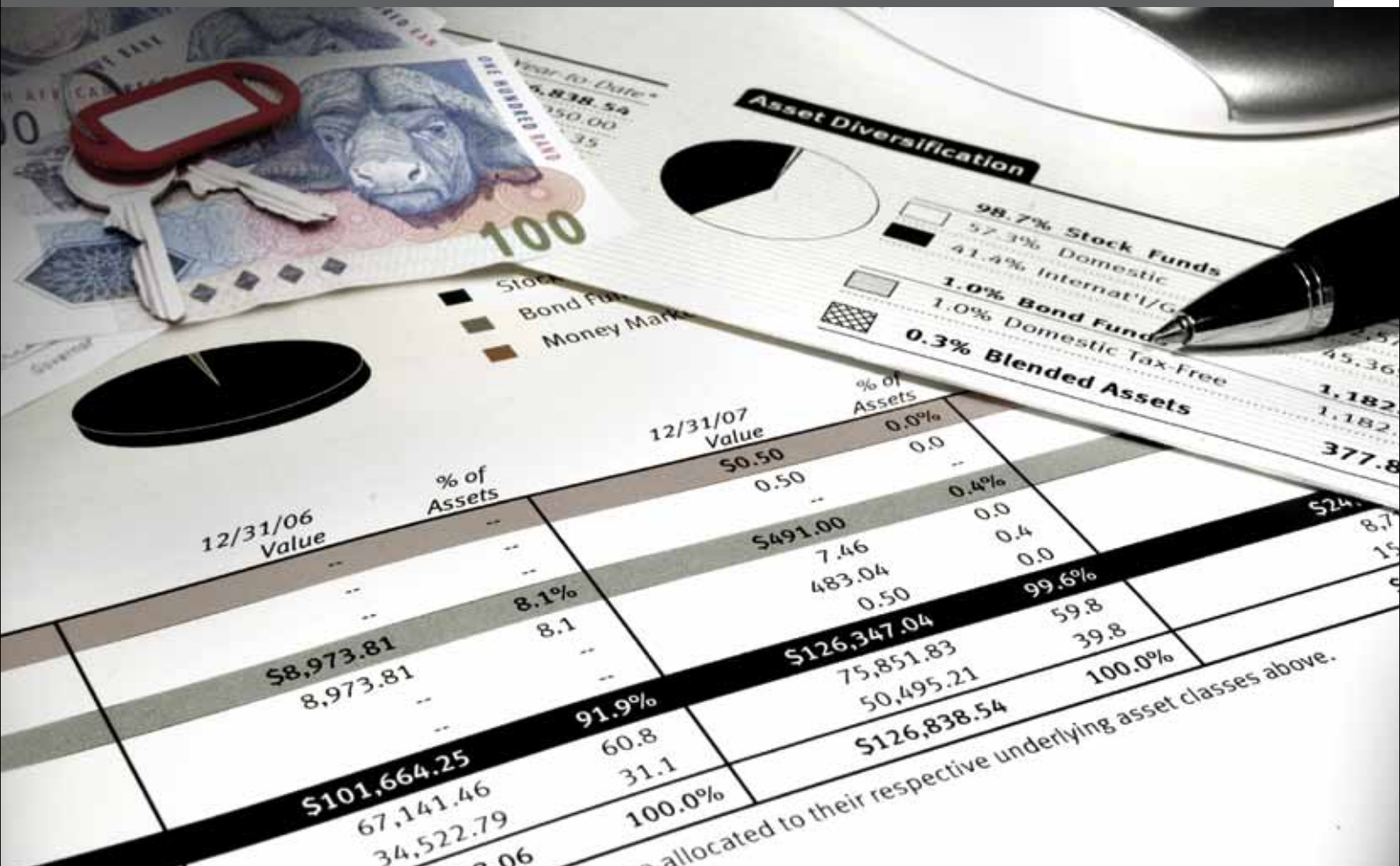
It will also take time for ETFs to prove themselves with a credible, sufficiently long South African track record in order to show their active counterparts that investors prefer a 'banked' fee reduction over 'hopeful' alpha.

But it takes much more than just time to address why retirement funds have not yet embraced this type of investment strategy. It requires an in-depth understanding of the needs of a typical retirement fund. Specifically, most retirement funds adopt investment strategies which seek to target a particular post-retirement pension benefit. As an example, the benefit targeted could be a pension of some 60% of salary after 30 years of service, which will escalate in line with inflation once the pension is in payment. There are other objectives they seek to address. For example, protecting members' capital as they approach retirement, or protecting members' savings against the risk of inflation over the long term. These objectives are often in conflict with one another. A strategy which would seek to mitigate one, might exacerbate another. Balancing these objectives can prove challenging and setting such strategy requires certain specialised and often actuarial expertise.

¹Source: BlackRock

“The global ETF market has grown rapidly and is fast approaching the US\$1.5 trillion mark.”

It is therefore, appropriate that Absa Capital teamed up with Colourfield Liability Solutions to create the quintessential 'retirement funds' ETF. It is hoped that the collective skills, insights and industry knowledge will prove to address the current low usage of ETFs in the retirement fund industry. The investment has been expertly constructed with a view of targeting certain post-retirement pension benefits and the low cost offering that the investment comes with, provides a significant advantage, particularly for smaller retirement funds. Absa Capital and Colourfield Liability Solutions proudly present the first-of-its-kind multiple asset class ETF which allows individuals and retirement funds to access the broad spectrum of asset classes, namely equities, bonds and cash through the purchase of a single stock on the JSE.



About Colourfield Liability Solutions

Colourfield's people are leading retirement fund experts with years of experience in structuring investment strategies and solutions for retirement funds.

“The NewFunds MAPPS™ suite of ETFs is designed to provide investment returns based on the appropriate asset allocation for investors at different stages of life.”

About the Multi-Asset Passive Portfolio Solutions (MAPPS™)

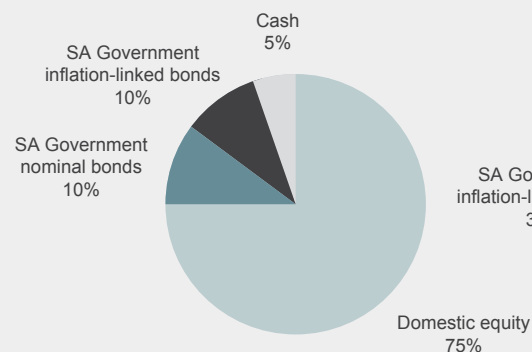
The NewFunds MAPPS™ suite of ETFs is designed to provide investment returns based on the appropriate asset allocation for investors at different stages of life. In addition, it offers risk diversification benefits due to its exposure to a spectrum of asset classes. The underlying asset allocation combines proprietary research and investment expertise into a cost-effective, easy-to-understand investment solution managed within the framework of Regulation 28 of the Pension Funds Act, 1956 (Regulation 28).

Initially, two ETFs are available under the NewFunds MAPPS™ banner: the MAPPS™ Growth ETF and the MAPPS™ Protect ETF. The MAPPS™ Growth ETF is aimed at investors with a longer time horizon (e.g. younger investors) who are willing to accept higher variability of returns in exchange for the prospect of long-term real investment returns. The MAPPS™ Protect ETF is aimed at investors with a shorter time horizon (e.g. closer to retirement) and a lower tolerance for return variability. Investors in the MAPPS™ Protect ETF would prefer a more stable return stream.

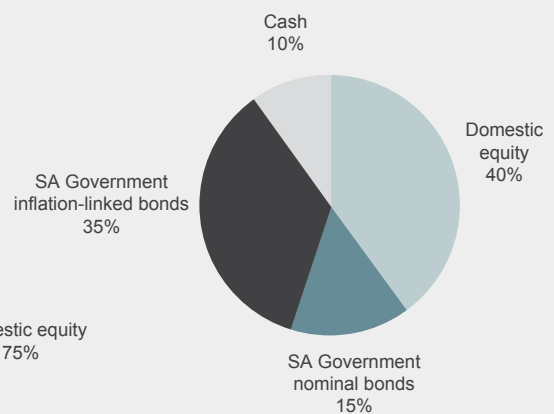
MAPPS™ Protect is the more conservative of the two portfolios, allocating 40% to domestic equity, 15% to South African Government bonds, 35% to South African Government inflation bonds and 10% to cash. MAPPS™ Growth has been designed to give investors a greater longer-term growth potential, by giving them higher exposure to domestic equity (75%), while also investing in South African Government Bonds (10%), South African Government inflation bonds (10%) and cash (5%).

Portfolio Weightings

NewFunds MAPPS™ Growth ETF



NewFunds MAPPS™ Protect ETF



The benefits of NewFunds MAPPS™ ETFs

There are numerous benefits to investing in NewFunds MAPPS™ ETFs, some of which include the following:

Simple access to a life-stage strategy

NewFunds MAPPS™ ETFs provide investors with access to an investment strategy designed around the financial needs of an investor at various stages of life. Before the creation of NewFunds MAPPS™ ETFs, an investor would have to have paid an active asset manager to achieve a diversified mix of asset classes.

Traded like a share

ETFs are funds listed and traded like ordinary shares on a stock exchange. Profits or losses are made from the difference between buying and selling prices. Like any other security, ETFs carry the risk of a loss or profit as its value changes. The advantage of NewFunds MAPPS™ ETFs is that they can readily be bought or sold as with any listed security. They can be traded throughout normal JSE trading hours and their actual value can be calculated at any time, unlike an unlisted collective investment scheme (unit trust) or other actively managed fund where the unit price is calculated internally and is reported weekly, monthly or sometimes only quarterly.

Asset allocation

Most investments provide access to a single asset class. A typical ETF offers investment performance which tracks a stated index. In order to gain the desired diversification across asset classes, an investor could buy various ETFs tracking different asset class indices and monitor their allocation and performance themselves. However, this is a manual process which requires attention to the ongoing movements of each underlying component. NewFunds MAPPS™ bundles the various asset classes into a single investment and the strategic weights are automatically balanced quarterly. This way, the investor is spared the administrative burden of having to manually rebalance the exposure.

In terms of Regulation 28, pension funds must comply with certain asset allocation limits. NewFunds MAPPS™ ETFs are designed and managed to be fully compliant with these Regulation 28 asset limits. However, any pension fund must obtain and carefully consider its own independent advice in this regard before investing.

Spreading the risk

With NewFunds MAPPS™, an investor automatically gains exposure to a broad range of asset classes. NewFunds MAPPS™ is an effective and secure means of investing in multiple asset types, which are further diversified by investing in a range of securities within each asset type through a single transaction. For example, both MAPPS™ ETFs provide exposure to equities, bonds and cash and within the equity building block, all 40 of the largest shares listed on the JSE and comprising the SWIX40 index are physically held.

Easily verifiable

Another advantage of ETFs is its record keeping process. All purchases, sales and creations are through an exchange, which provides an additional reconciliation for funds. The JSE stipulates that an ETF can only track a publicly traded index. This means the performance of NewFunds MAPPS™ can easily be measured against its stated index. The prices quoted can be reconciled and verified, making the investment totally transparent.

send your comments to etpnews@absacapital.com

FOCUS FEATURE

“NewFunds MAPPS™ offer exposure to a broad range of different markets through a single investment transaction and responds to market movements on the securities exchange throughout the trading day.”

Liquidity

ETFs are easy to buy and sell. NewFunds MAPPS™ make use of Absa Capital, a reputable market maker, to ensure that liquidity is always maintained. If there is no willing buyer or seller at the other end of the trade, the market maker will step in as the counterparty. Those investors, who do not wish to receive cash for their shares, will always have the right to get their proportionate holding of the actual underlying assets instead (subject to minimum size limits).

Lower fee structure

Tracking the performance of an index or market is deemed to be passive investing. Passive investment products are usually associated with lower costs. Active investing attempts to outperform a given market or index. In return for the promise of premium performance, active investment managers and advisors charge fees over and above the usual investment costs. The management fee for NewFunds MAPPS™ ETFs is tiered and is based on the size of the investment using a sliding fee scale. (See table below)

First R0m – R5m	0.80% p.a. (80 basis points)
Next R5 – R25m	0.60% (60 basis points)
Next R25 – R50m	0.50% p.a. (50 basis points)
Next R50m – R100m	0.40% (40 basis points)
Next R100m – R500m	0.30% p.a. (30 basis points)
Over R500m	0.20% (20 basis points)
Brokerage and statutory fees	Standard brokerage and statutory fees

Convenience and flexibility

NewFunds MAPPS™ offer exposure to a broad range of different markets through a single investment transaction and responds to market movements on the securities exchange throughout the trading day. Active funds, on the other hand, require the active attention of investment managers. Therefore, investors generally are not in a position to know when and at what prices the shares in their portfolios are being traded.

Security

The assets of NewFunds MAPPS™ ETFs are held in custody on behalf of investors and are part of a registered Collective Investment Scheme approved by the Financial Services Board (FSB) and regulated in accordance with the provisions of the Collective Investment Schemes Control Act, 2002 (CISCA). Importantly, compliance and control is performed by a management company which is run by board of independent, non executive directors. The assets of the investors are held by Standard Bank Trustees.

Transparency

The holdings of NewFunds MAPPS™ track the underlying combination of indices as their benchmark. These components are fully disclosed, in contrast to most active funds, which tend to disclose their top five to 10 holdings only.

Structured products

Since NewFunds MAPPS™ is a listed instrument it is possible to write structured products against the performance of these securities to create a specific payoff profile. For example, a bank could guarantee the investor's capital over a 12-month period while the investor could still benefit from the performance of NewFunds MAPPS™ up to a stated capped return.

Taxation

Any gain obtained from the acquisition and disposal of NewFunds MAPPS™ ETFs will be subject to income tax, capital gains tax or will not be taxable at all if the investor is tax exempt. Applicants are advised to consult with their tax advisors.

Understanding the main risks

Although ETFs are generally regarded as lower-risk investments, particularly over the medium to long term, they are still based on securities, with the inherent risks of trading on any securities exchange. The first risk worth mentioning is the market risk.

The value of ETF securities will rise and fall according to market changes. As with most investment vehicles, the investor's capital is not protected in an ETF. Therefore, depending on market movements during the investment period, an investor is not guaranteed to get back their initial capital upon the sale of the ETF. Structured products can, however, be used to provide capital guarantees should this be a requirement.

Tracking error should also be considered as one of the main risks. The aim of an ETF is to track a stated index, but there may be times when slippage from the index is inevitable. This slippage is known as 'tracking error' and can be caused by a number of different factors namely, differences in dividend reinvestment, lack of liquidity in the underlying index, timing lags in rebalancing the underlying securities in line with the index as well as management fees and expenses in running the ETF. However, tracking error is usually quite small and detracts very little from the overall return.

Benefits of NewFunds MAPPS™ ETFs	
Simple access to a life-stage strategy	Liquidity
Traded like a share	Convenience and flexibility
Asset allocation	Transparency
Spreading the risk	Structured products
Lower fee structure	Security
Easily verifiable	Taxation

Main Risks	
Marker risk	Tracking error



[send your comments to etpnews@absacapital.com](mailto:etpnews@absacapital.com)

“The price of the ETF is determined by how the underlying portfolio of assets performs. This portfolio of assets comprises equities, bonds and cash.”

Frequently Asked Questions (FAQs)

What differentiates NewFunds MAPPS™ from other passive products?

While other passive providers track the performance of a single asset class e.g. an equity index or a gold index, no other providers can offer a portfolio that combines the following into a single instrument:

- A diversified mix of asset classes which combines the performance of the underlying index in each asset class (multi-asset class);
- Cutting-edge retirement industry research of the optimal asset mix for members with different investment time horizons (thereby facilitating a low cost life-stage modelling approach);
- Cost-effective fees which are especially important in the context of a lower interest rate and expected return environment; and
- Daily transparency and liquidity, which is associated with a listed instrument (an ETF).

What would be the situation if the provider of the ETF becomes insolvent? Who effectively owns the underlying asset?

ETFs are portfolios within a registered Collective Investment Scheme (CIS). Their assets are held in custody with registered independent trustees (e.g. a registered bank in South Africa), eliminating any credit risks associated with the issuers or originators. If the originator of the ETF becomes insolvent, the investors still have access to the ring-fenced pool of assets underlying the ETF.

Is NewFunds MAPPS™ restricted to a fixed asset allocation, or is there an element of dynamic tactical asset allocation?

The asset allocation for NewFunds MAPPS™ is fixed but is rebalanced quarterly back to the strategic weightings.

Does the NewFunds MAPPS™ ETF have any offshore exposure?

The NewFunds MAPPS™ Growth and Protect ETFs only have local exposure. A fund wanting to access offshore exposure can achieve this in two ways:

1. Invest in an offshore ETF (currently an international multi-asset class ETF is not yet available on the JSE) to obtain international exposure; or
2. Invest in a note referencing international assets issued by a bank known as an Exchange Traded Note.

When the NewFunds MAPPS™ ETFs are traded in the market, is there a guaranteed buyer and price, or does the free market prevail with a bid and sell price, as with any other JSE traded instruments?

As the ETF instrument is exchange traded, free markets prevail. However, NewFunds MAPPS™ ETFs make use of Absa Capital as the market maker to ensure that liquidity is always available. If there is no willing buyer or seller at the other end of the trade, the market maker will step in as the counterparty. The price of the ETF is determined by how the underlying portfolio of assets performs. This portfolio of assets comprises equities, bonds and cash. To the extent that the investor is not satisfied with the price offered, the investor has the right to instead get his/her proportionate holding of the actual underlying assets held.

New MAPPS™ portfolios listed

Absa Capital's NewFunds MAPPS™ Protect and NewFunds MAPPS™ Growth Portfolios were listed on the JSE on the 25th of May with much celebrating.



The team involved in the listing of Absa Capital MAPPS™ included (from left) Vladimir Nedeljkovic, Batsile Ngomane from Absa Capital Investments, Tarri Gavson, Costa Economou and Shaun Levitan from Colourfield Liability Solutions and Wayne Dennehy, Absa Capital: Head of Institutional Structuring (back row).

The Absa Capital Investments team (from left) Trinisha Chanka, James Taylor, Vladimir Nedeljkovic, Steven Bayne, Batsile Ngomane, Ann van der Westhuizen and Michael Mgwaba.



Component ETFs: A Preview

By Vladimir Nedeljkovic, Absa Capital

Exchange Traded Funds have been applied successfully both in the retail and in the institutional arenas. Absa Capital's objective is to be a thought leader and a product provider of choice in both these markets. A new series of ETFs by Absa Capital, to be listed in coming months, has been designed with a specific objective — to provide simple and cost-effective market-based (beta) and enhanced market (beta plus) building block components for institutional investors.

These new products will provide:

- Coverage of multiple asset classes
- Building block components that can be blended easily according to an investment mandate into full multi-asset solutions
- Tracking of market benchmark and innovative indices / investment strategies (some designed in co-operation with Barclays Capital)
- Simple-to-transact and fully-transparent investment products
- Full regulatory compliance
- Significant costs savings — translating into after-fee performance gains over the traditional investment methods

The first products to be listed out of the Component ETF range will comprise five exchange traded funds. The first four will track benchmark market indices:

- Domestic equity blue chip shares represented by the FTSE/JSE Top 40 Shareholder Weighted Total Return Index (SWIX40)
- South African Government issued nominal bonds represented by the SA Government Bond Index (GOVI)
- South African Government issued inflation linked bonds represented by the Barclays Absa Government Inflation-Linked Bond Index (ILBI)
- Money market instruments, represented by the new Barclays Capital / Absa Capital ZAR Tradable Cash Index (TRACI-3m)

In addition, following the successful launch of the eRAFI™ series of fundamental indexation ETFs, a new style ETF attempting to capture one of the most persistent market anomalies — price momentum — will be listed under the name Equity Momentum ETF and will track the Barclays Capital / Absa Capital South Africa Equity Momentum Index, consisting of the top 40 SA equity market shares ranked by their relative price momenta.

All five Component ETFs will be listed simultaneously and more information will be provided upon their listing.

send your comments to etpnews@absacapital.com

“A new series of ETFs by Absa Capital has been designed with a specific objective — to provide simple and cost-effective market-based and enhanced market building block components.”

Exchange Traded Notes (ETNs): Risks, Benefits, Controversies

By **Vladimir Nedeljkovic, Absa Capital**

Exchange Traded Notes (ETNs) are the latest entrant into the investment arena in South Africa. Several new products have been listed over the last year or so — causing excitement, but also leaving potential investors with more questions than answers. What are ETNs? How do they differ from ETFs? After all don't both these products passively track market indices? How do they differ from other listed notes that are on offer? What are their benefits? Risks? Are they suitable for retail investors?

This article attempts to answer these questions.



What is an ETN?

Let us start with defining what an ETN is? There are multiple definitions but, for our purposes and, in accordance with their name, an ETN is a long-dated, fully-funded, listed note, generally issued by a bank, tracking the performance of an index or a pre-defined investment strategy.

What does this mean?

Long-dated suggests that ETNs have longer terms — normally 10 to 30 years — making them convenient for investors seeking a medium to long term investment vehicle. There is no need to re-invest or 'roll' the exposure, as is the case with the shorter-term investments.

HOT TOPICS

“Internationally, ETNs have proven to be very popular, in particular, amongst the institutional investors.”

Fully-funded is simply a term that means that there is no margin involved. For every R100 invested, the full R100 exposure to the underlying index is obtained. This is in sharp contrast to leveraged investments such as futures, contracts for difference or warrants. Obviously, this reduces the potential return, as there is no gearing involved. Importantly, however, it also reduces the potential risk associated with investing in leveraged products.

The concept that ETNs are generally issued by a bank is the main difference between ETFs and ETNs. ETFs (at least in the South African context) are issued out of ring-fenced, insolvency-remote vehicles such as Collective Investment Schemes (CIS) or similar. All the securities issued by the ETF are fully covered by the underlying assets, and the structure of the issuing vehicles is such that there is no credit risk involved. In other words, investors in ETFs rely on the ring-fenced portfolio of underlying assets to back the securities they hold.

In contrast, ETNs are generally unconditional, unsecured and unsubordinated obligations of an issuer, usually a bank. The investor does not rely on the underlying assets but on the balance sheet of the issuer. In other words, the investor is taking a credit risk on the issuer. If the issuer defaults, the investor would stand in line with all the other creditors.

Why, then, would anybody want to invest in such products? Simply put, there is only a limited range of exposures that can be generated through an ETF. As ETFs have to hold the physical portfolio of underlying assets (in South Africa, no derivative-based ETFs are allowed), some exposures, for example, broad commodity indices (containing exposures to, amongst others, energy, agriculture or even livestock) cannot just be achieved by holding the underlying assets.

Instead, the issuers would generate such exposures by investing in futures or similar listed derivative or over-the-counter markets. To put it differently, ETNs give investors more choice and issuers more flexibility in the product design and management.

This leads to the last part of the definition where ETNs track the performance of an index or a pre-defined investment strategy. Anything that can be expressed in the form of a tradable index or a pre-defined strategy (i.e. there are fixed, transparent rules – algorithms – specifying the investment strategy in advance or investment managers have no discretion in implementing the strategy) can be tracked by an ETN.

The table below summarises the main differences between the exchange traded funds and the exchange traded notes.

	ETNs	ETFs
Liquidity	Daily on exchange	Daily on exchange
Recourse	Issuer credit	Portfolio of securities
Principal Risk	Market and Issuer risk	Market risk

Source: Absa Capital

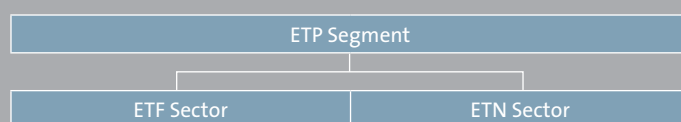
ETNs across the globe

Internationally, ETNs have proven to be very popular, in particular, amongst the institutional investors. There are ETNs on volatility, carbon credits, broad and single commodity exposures, currencies, fixed income, leveraged and short equity exposures, investment strategies such as currency carry, and many more.

Currently there are 1 149 such products globally, with 1 872 listings and assets of USD 201.1bn from 57 providers on 23 exchanges¹.

Of course, this is still quite small compared to the ETF assets under management of slightly more than a trillion USD (USD1,036bn). This is to be expected given that the first ETNs were only issued in 1999, six years after the first ETF.

In South Africa, we are still at the beginning of the journey. The JSE has created a separate ETN sub-sector on the main board. In this structure, there is an Exchange Traded Products (ETP) functional segment with two sectors namely ETFs and ETNs (as below). There are several products listed at present.



Source: JSE

Entering the mainstream

There are still several open issues that will have to be resolved by the industry before ETNs start entering the mainstream.

Currently, there is no clarity with regards to the type of product that can be listed on the ETN sector. Even short-dated, geared, listed, structured products have been listed there, begging the question of where the difference between those and the similarly structured and geared listed products listed elsewhere on the exchange lies.

The second matter is the issue of suitability. Are ETNs suitable for retail investors, or should they be left to more sophisticated, institutional investors? Again, there is no consensus on the issue.

Absa Capital's approach to this is based on international precedents. If the ETN tracks a 'spot' or a 'cash' index (in other words, if it tracks a traded price of the underlying asset or a portfolio of assets), then it could be suitable for individual retail investors.

If, on the other hand, it tracks the performance of a 'future' index (in other words, if it tracks a performance of derivatives — futures — over the underlying assets) or a derivative-based strategy, then such a product would likely not be suitable for retail investors. This is because the future indices introduce additional risks into the equation (e.g. the issue of the 'negative roll-yield', where the futures index of a commodity can lag, in some cases significantly, the performance of its spot price). Such risks can generally only be best evaluated by professional investors.

So how does one invest in an ETN? Similar to ETFs, ETNs are listed and trade as any other share. ETNs have intra-day liquidity provided by a market maker and are very cost effective, with management fees of (on average) 0.5% per annum. Investors can invest in ETNs through a registered stock broker.

¹ Source: BlackRock – ETF Landscape – Industry Highlights, April 2011

UPCOMING DEVELOPMENTS

“Historically, gold has demonstrated its role as an effective portfolio diversifier, a store of value and a safe haven investment in uncertain economic times as well as an excellent currency hedge.”



NewGold makes headway into Africa

By Batsile Ngomane

With NewGold being the largest Exchange Traded Fund (ETF) listed on the JSE and with major institutional investors already invested in it in South Africa, the only logical growth potential for NewGold was availing it to more African markets. This growth strategy was fully aligned with Absa Capital's overall strategy to expand its suite of products and services in sub-Saharan Africa.



The growth drive started in 2010, with the very first secondary listing of an ETF outside South Africa in Botswana. The listing of NewGold on the Botswana Stock Exchange (BSE) was a milestone for all parties involved. For NewGold, it was a progression of its footprint

and distribution capability. For Absa Capital, the NewGold listing was aligned to its strategy of expanding its suite of products and services in sub-Saharan Africa. For the BSE it was a realisation of its mandate to drive and to develop Botswana's capital markets by widening the choice of assets classes available to local investors as well as increasing the liquidity on the exchange.

The successful listing of NewGold in Botswana, which currently has approximately R150m worth of gold backed debentures listed on the BSE, propelled NewGold's expansion drive. The second phase was to duplicate a similar model to more markets. The management team has therefore been in discussions with the regulators in Nigeria and Ghana to list NewGold in those markets. Discussions are at an advanced stage, which will likely see the secondary listing on both markets in the last quarter of 2011.

Many of the African capital markets face the challenge of a lack of viable investment opportunities in these markets i.e. securities in issue are tightly held which translates into a very thin and inefficient secondary market and low trading volumes.

The importation of liquid instruments to these markets provides the necessary 'jump start' to overcome the constraints highlighted. A product like NewGold provides a simple solution for these limitations.

NewGold, because of its structure, provides a convenient, liquid and cost-efficient way to access capital markets. It also is a good instrument as it provides the local investors with direct exposure to an asset class which they currently do not have access to.

Update: Regulatory approval to list the NewGold ETF on the Nigerian Stock Exchange has been received. The fund will be listing on the Nigerian Stock Exchange in late November this year.

CONTACTS AND DISCLAIMER

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NewFunds Exchange Traded Funds (ETFs)
Call Centre: 0861 BUY ETF (0861 289 383), Monday to Friday between 07:30 and 17:00

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