
EXCHANGE TRADED FUNDS

WHAT ARE THEY?

Exchange Traded Funds (ETF) are funds that track an index but trade like a single security or share on a stock exchange. They are similar to unit trusts in that you can invest in a basket of securities with one transaction, but unlike unit trusts, they trade throughout the day on stock exchanges offering the flexibility of normal market-listed shares. In addition, investors can take advantage of intraday price movements that aren't available with unit trusts, which trade only once a day.

If you want to start investing in the market then ETFs are a practical way of doing so. If purchased as listed securities, they require less time and effort on the part of the investor and carry reduced costs, as annual fees and management costs are not payable if they are purchased through a stockbroker.

HOW DO THEY WORK?

ETFs are listed and registered on stock exchanges, just like any other listed security. However, instead of offering investors exposure to only one company, they provide investors with an entire portfolio of listed companies. Typically, this is one of the main indices on the stock exchange.

Accordingly, with the convenience of a single purchase of an ETF, the investor obtains an entire portfolio of shares, which offers the performance of an entire index. In addition, the investor reaps the benefits of obtaining a diversified portfolio of shares, typically the top companies on the market. The diversity and quality of the index-based portfolios is designed to both reduce risk and enhance performance.

There are also significant cost benefits in that the investor gains access to an entire basket of shares, but only pays brokerage and JSE transaction costs once. Transactions in ETFs are also exempt from UST (uncertificated securities tax), making transactions in ETFs particularly cost efficient.

Most ETFs in South Africa are also registered with the Financial Services Board (FSB) as Collective Investment Schemes. This provides additional investor protection and regulation, to the controls exercised by the JSE on ETFs as stock exchange listed entities.

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ADVANTAGES OF ETFs

Cost-effective

In terms of the expenses charged to investors, ETFs are considerably less expensive than the vast majority of actively managed funds.

Diversification

Because ETFs track the performance of an index which is made up of several different companies, you're able to spread your risk.

Transparent

When you invest in ETFs you know exactly which companies you are investing in and how much of each company makes up the index. The performance of the ETF can also be easily tracked.

Trading flexibility

Unlike unit trusts that trade at the end of the day, ETFs trade throughout the day, so you can buy and sell them at any stage.

Benchmarks

ETFs are structured to deliver the total performance of an index, which is the normal benchmark of stockmarket performance. Accordingly, they reduce the risk to the investor of under-performing the average market return.

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PERFORMANCE OF ETFs

The first ETF was introduced on to the United States market in the early 1990s. Since then the market has experienced huge growth with etftrends.com reporting that, as of June, there are more than 500 ETFs that hold US\$485.9 billion in assets. By 2011, total assets under management globally in ETFs are expected to surpass US\$2 trillion, according to a report by Morgan Stanley.

South Africa has also recently seen a keen interest from investors in ETFs. As a result, investors can expect the launch of many new ETFs coming to market which will no doubt attract huge attention and hopefully experience the same growth as the industry has internationally.

HOW DO I BUY ETFs?

ETFs can be bought through a stockbroker. A list is available at www.jse.co.za. Stockbroker commission is payable for purchase and sale transactions but usually no other management fees are payable. Satrix also offers an Investment Plan option where you can invest directly with a minimum lump sum of R1 000 or by a minimum monthly debit order of R300. Although discounted brokerage fees are offered, the administrator does charge a one percent annual management fee.

For more information on the ETFs listed on the JSE please visit:

Satrix at www.satrix.co.za

Itrix at www.itrix.co.za

Absa at www.absa.co.za

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ETFs LISTED ON THE JSE

The JSE launched its first ETF, Satrix 40, in 2000. Nine ETFs have since listed. These are:

Satrix 40	Gives investors the price performance and dividend yield of the FTSE/JSE Top 40 Index (the top 40 companies listed on the JSE)
Satrix Indi	Gives investors the price performance and dividend yield of the FTSE/JSE Industrial 25 Index (the top 25 industrial companies listed on the JSE)
Satrix Fini	Gives investors the price performance and dividend yield of the FTSE/JSE Financial 15 Index (the top 15 financial companies listed on the JSE)
Satrix Swix Top 40	Gives investors the price performance and dividend yield of the FTSE/JSE Swix Top 40 Index (a less volatile ETF)
Satrix Resi 20	Gives investors the price performance and dividend yield of the FTSE/JSE Resources 20 Index
Satrix Divi	Gives investors the price performance and dividend yield of the FTSE/JSE Dividend Plus Index
Absa NewRand	Tracks the NewRand Index which is an equity index comprising 10 rand hedge shares selected from the FTSE/JSE Africa TOP 40 Index. Aims to protect investors against the rand's depreciation against the United States dollar by providing a single, affordable way to participate in the growth potential of the top 10 South African rand hedge stocks shares as determined by Absa
Absa NewGold	Gives investors access to the rand gold price through a cost-effective, secure and efficient investment vehicle
Itrix DJ Euro Stoxx 50	Gives investors access to 50 highly liquid blue chip stocks from countries within the Eurozone
Itrix FTSE100®	Gives investors access to the 100 largest highly liquid United Kingdom blue chip stocks listed on the London Stock Exchange

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