

Pro-active Passive Management

JSE Power Hour

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Nerina Visser, CFA

■ Consulting & Advisory Work

- Financial Services Conduct Authority (FSCA)
- Johannesburg Stock Exchange (JSE)
- OUTvest (Outsurance)
- Satrix Managers
- Cloud Atlas Investing
- Botswana Stock Exchange – Bond Indices
- Ecobank Middle Africa Bond Index
- Rwanda Stock Exchange
- S&P Dow Jones
- Nigerian Stock Exchange
- Nedbank CIB & Private Wealth
- World Bank / IFC

■ Academic & other Qualifications

- BSc Applied Mathematics & Mathematical Statistics
- MBA (Financial Management specialisation)
- CFA Charterholder
- FAIS Key Individual

■ Training and Education Initiatives

- ASISA Academy: CIS Short Course
- ASISA Academy and University of Johannesburg: CIS@UJ
- ASISA Academy Investment Management Work Ready Programme
- Financial Services Conduct Authority (FSCA): Exchange Traded Products (ETPs) training workshop
- Nigerian Stock Exchange (NSE): ETF Workshop & Index Training Course
- The ETF Investor: podcast host
- Passive Investment Management Mastery School (PIMMS): online course
- Journalist Training Academy (JTA) for FinWrite – Wits Journalism

■ Industry Volunteer Involvement

- CFA Society South Africa – President
- CFA Institute Presidents Council Governance Committee – member
- CFA Institute Annual Conference Advisory Council – member
- ASISA Investments Board Committee – ETF Standing Committee – chairperson
- JSE Issuer Regulation Advisory Committee – member
- Women in ETFs – South Africa chapter co-founder
- Collective Insight publication Editorial Advisory Committee – member
- NSE – ETF Product Advisory Committee – member

How to get (pro)active with your passive investments

- What is pro-active passive management?
- Upfront design of your investment strategy
- Getting intimate with what you have
- “Mind the gap” – how to get from what you have to where you want to be



This is going to be an
Excel-lent
presentation

Pro-active passive management

- **Design** is Pro-active
 - Upfront design of your **desired portfolio strategy** (to suit your investment goals)
 - Identification of **appropriate investment instruments** (e.g. ETFs)
 - Conscious **selection of investment accounts** (e.g. tax-free, RA)
- **Implementation** is through “passive” building blocks
 - **E**fficiency (especially costs)
 - **T**ransparency (know what you’re invested in)
 - **F**lexibility (liquid, accessible, “democratic”)

“Passive” vs. “Active”

← Minimise risk (tracking error to strategy)

*Managing passive
building blocks
passively*

*Managing **active**
building blocks
passively*

*Managing passive
building blocks
actively*

*Managing **active**
building blocks
actively*

Lowest
Costs
Highest

Potential to maximise return
↓

Passive building blocks: Index-tracking portfolios e.g. ETFs

***Active** building blocks: Actively managed portfolios e.g. unit trusts*

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Rules-based, Modular Portfolio Construction – Multi-Asset Classes

Balanced Fund: Strategic Allocations into Multi-Asset Classes

| Equities | Fixed Income | International | Alternatives |
|----------------|---------------------|-------------------|-----------------------|
| Large Cap | Inflation-linkers | Developed Markets | Commodities |
| ESG | Vanilla Bonds | Emerging Markets | Currencies |
| High dividends | Cash | Fixed Income | Infrastructure |
| (Property) | (Preference Shares) | Real Estate | (Structured Products) |

Part I

Design your Desired Investment Strategy

Five broad asset classes

- **Equities**
 - Inflation-beating capital growth (and some dividends), but volatile
- **Interest-bearing**
 - More stable returns, supported by higher income
- **Real Estate / Property**
 - Includes direct property
 - “Hybrid” between equities & interest-bearing
- **Physical commodities**
 - Alternative assets and pay-off profile
- **Cash**
 - Nominal capital guarantee
 - Liquidity



What? How much?

Equities

- 25%-80% of overall portfolio
- Home market (SA)
 - 10%-40%
- Developed markets (DM)
 - 10%-30%
- Emerging markets (EM)
 - 5%-30%
- Special interest – sector / theme
 - 0-20%

Interest-bearing

- 0%-60% of overall portfolio
- Bonds (SA)
 - 0%-40%
- Preference shares (SA)
 - 0%-20%
- Currency notes (global, rand-hedge)
 - 0%-20%
- Bonds (global)
 - 0%-20%

Real Estate / Property

- 0%-50% of overall portfolio
- Direct property (SA)
 - 0%-40%
- Listed property (SA)
 - 0%-20%
- Listed property (global)
 - 0%-20%

Other

- Physical commodities
 - 0%-20% of overall portfolio
- Cash (SA)
 - 5%-25% of overall portfolio

Basic Portfolio Framework

| PORTFOLIO DESIGN | | | | | | | |
|------------------------|-----|-----|----|------------------------------------|-----|-----|----|
| ASSET CLASS | MIN | MAX | NV | CATEGORY | MIN | MAX | NV |
| Equities | 25% | 80% | | Home market (SA) | 10% | 40% | |
| | | | | Developed Markets (DM) | 10% | 30% | |
| | | | | Emerging Markets (EM) | 5% | 30% | |
| | | | | Special interest / sector specific | 0% | 20% | |
| Interest-bearing | 0% | 60% | | Bonds (SA) | 0% | 40% | |
| | | | | Preference Shares | 0% | 20% | |
| | | | | Currency notes | 0% | 20% | |
| | | | | Bonds (global) | 0% | 20% | |
| Real Estate / Property | 0% | 50% | | Direct property | 0% | 40% | |
| | | | | Listed property (SA) | 0% | 20% | |
| | | | | Listed property (Global) | 0% | 20% | |
| Physical commodities | 0% | 20% | | Precious Metals | 0% | 20% | |
| Cash | 5% | 25% | | Cash | 5% | 25% | |

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Initial Personal Portfolio Design

| PORTFOLIO DESIGN | | | | | | | |
|------------------------|-----|-----|----|------------------------------------|-----|-----|-----|
| ASSET CLASS | MIN | MAX | NV | CATEGORY | MIN | MAX | NV |
| Equities | 25% | 80% | | Home market (SA) | 10% | 40% | 10% |
| | | | | Developed Markets (DM) | 10% | 30% | 10% |
| | | | | Emerging Markets (EM) | 5% | 30% | 15% |
| | | | | Special interest / sector specific | 0% | 20% | 5% |
| Interest-bearing | 0% | 60% | | Bonds (SA) | 0% | 40% | 10% |
| | | | | Preference Shares | 0% | 20% | 0% |
| | | | | Currency notes | 0% | 20% | 5% |
| | | | | Bonds (global) | 0% | 20% | 5% |
| Real Estate / Property | 0% | 50% | | Direct property | 0% | 40% | 20% |
| | | | | Listed property (SA) | 0% | 20% | 0% |
| | | | | Listed property (Global) | 0% | 20% | 5% |
| Physical commodities | 0% | 20% | | Precious Metals | 0% | 20% | 10% |
| Cash | 5% | 25% | | Cash | 5% | 25% | 5% |

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Initial Personal Portfolio Design

| PORTFOLIO DESIGN | | | | | | | |
|------------------------|-----|-----|-----|------------------------------------|-----|-----|-----|
| ASSET CLASS | MIN | MAX | NV | CATEGORY | MIN | MAX | NV |
| Equities | 25% | 80% | 40% | Home market (SA) | 10% | 40% | 10% |
| | | | | Developed Markets (DM) | 10% | 30% | 10% |
| | | | | Emerging Markets (EM) | 5% | 30% | 15% |
| | | | | Special interest / sector specific | 0% | 20% | 5% |
| Interest-bearing | 0% | 60% | 20% | Bonds (SA) | 0% | 40% | 10% |
| | | | | Preference Shares | 0% | 20% | 0% |
| | | | | Currency notes | 0% | 20% | 5% |
| | | | | Bonds (global) | 0% | 20% | 5% |
| Real Estate / Property | 0% | 50% | 25% | Direct property | 0% | 40% | 20% |
| | | | | Listed property (SA) | 0% | 20% | 0% |
| | | | | Listed property (Global) | 0% | 20% | 5% |
| Physical commodities | 0% | 20% | 10% | Precious Metals | 0% | 20% | 10% |
| Cash | 5% | 25% | 5% | Cash | 5% | 25% | 5% |

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ETFs for consideration

■ Equities

- **SA**: broad-based equity market – Top 40, SWIX 40, Top 50
- **DM**: MSCI World, S&P 500 (US only), Global 1200 Equity (incl. some EM)
- **EM**: MSCI Emerging Market, MSCI China
- **Special / Sector**: Tech (Nasdaq, 4th IR), Dividends, Momentum

■ Interest-bearing

- **SA bonds**: government bonds, inflation-linkers
- **Preference shares**: PREFTX
- **Currency notes**: USD, GBP, EUR
- **Global bonds**: DM, US

ETFs for consideration

- **Property**
 - **Direct**: not with an ETF
 - **SA**: ETFSAP, STXPRO, CSPROP
 - **Global**: Global REIT, Global Property 40
- **Physical commodities**
 - **Gold**
 - **Precious** metals: Platinum, Palladium, Rhodium
 - **Commodity** notes: oil, wheat, corn
- **Cash**
 - **ETF**: NFTRCI
 - **Bank** savings account / money market (not an ETF)

“Diversification is the only
free lunch in town”

but beware “diworsification”



What is “diworsification”?

“Diworsification”

- When you hold **many** investments, thinking you are diversified, but the **underlying** holdings are so **similar** that your portfolio suffers from **unintended concentration** or **duplication**
- **Examples**
 - MSCI World and S&P 500 (or any other broad-based US index)
 - S&P 500 and MSCI US
 - Top 40 and INDI
- Check the **fact sheets**. Check the **Top 10 holdings**. Check the **sector / regional exposure**.

Initial Personal Portfolio Design, with ETF options

| PORTFOLIO DESIGN | | | | | | | | |
|------------------------|-----|-----|-----|------------------------------------|-----|-----|-----|----------------|
| ASSET CLASS | MIN | MAX | NV | CATEGORY | MIN | MAX | NV | e.g. ETFs |
| Equities | 25% | 80% | 40% | Home market (SA) | 10% | 40% | 10% | CTOP50 |
| | | | | Developed Markets (DM) | 10% | 30% | 10% | STXWDM, STXNDQ |
| | | | | Emerging Markets (EM) | 5% | 30% | 15% | STXEMG, STXCHN |
| | | | | Special interest / sector specific | 0% | 20% | 5% | NFEMOM, SYG4IR |
| Interest-bearing | 0% | 60% | 20% | Bonds (SA) | 0% | 40% | 10% | NFGOVI |
| | | | | Preference Shares | 0% | 20% | 0% | PREFTX |
| | | | | Currency notes | 0% | 20% | 5% | NEWGBP |
| | | | | Bonds (global) | 0% | 20% | 5% | ASHWGB, DCCUSD |
| Real Estate / Property | 0% | 50% | 25% | Direct property | 0% | 40% | 20% | |
| | | | | Listed property (SA) | 0% | 20% | 0% | CSPROP |
| | | | | Listed property (Global) | 0% | 20% | 5% | ETFGRE |
| Physical commodities | 0% | 20% | 10% | Precious Metals | 0% | 20% | 10% | GLD, ETFPLD |
| Cash | 5% | 25% | 5% | Cash | 5% | 25% | 5% | |

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Investment Account Options

- **Four** main account types
 - (Pre) Retirement savings (RA)
 - Tax-free Investments (TFSA)
 - Discretionary account
 - Bank savings / money market account
- Direct / physical **property**
- **Other** options – beyond the scope of this discussion

Investment Account Considerations

- (Pre) Retirement savings (RA)
 - managed on a **pooled** basis, **Reg. 28**-compliant
 - **limited control** over choice of underlying investments
- Tax-free Investments (TFSA)
 - use for investments with **highest potential tax** implications
- **Discretionary** account
 - **completion** strategy – make up for everything you can't do elsewhere
- Bank savings / **money market** account
 - for **cash** / **emergency** funds
- Direct / physical **property**
 - low liquidity
 - “chunky”
 - high turnover costs

Part II

Know and Understand
What you Have and Hold



What do I actually hold across all my investment accounts?

Inventory – What accounts do I have?

- Retirement savings (**RA**)
 - etfSA RA Fund – current value R1m
- Tax-free Investments (**TFSA**)
 - etfSA Tax-Free Investment account – current value R200k
- **Discretionary** account
 - etfSA Investor Hub account – current value R450k
- Bank **savings** / money market account
 - Current cash holdings – R350k
- Physical investment **property** (not my primary home!)
 - Net asset value – R500k (market value minus outstanding bond)

Actual Portfolio Holdings

| ACTUAL PORTFOLIO HOLDINGS | | | | | | | | | | | |
|---------------------------|------------------------------------|--------------|------------|------|----------|---------------|----------|------|----------|-----------------|----------|
| ASSET CLASS | CATEGORY | RA / Pension | | TFSA | | Discretionary | | Cash | | Direct property | |
| Equities | Home market (SA) | | R0 | | R0 | | R0 | | R0 | R0 | |
| | Developed Markets (DM) | | R0 | | R0 | | R0 | | R0 | R0 | |
| | Emerging Markets (EM) | | R0 | | R0 | | R0 | | R0 | R0 | |
| | Special interest / sector specific | | R0 | | R0 | | R0 | | R0 | R0 | |
| Interest-bearing | Bonds (SA) | | R0 | | R0 | | R0 | | R0 | R0 | |
| | Preference Shares | | R0 | | R0 | | R0 | | R0 | R0 | |
| | Currency notes | | R0 | | R0 | | R0 | | R0 | R0 | |
| | Bonds (global) | | R0 | | R0 | | R0 | | R0 | R0 | |
| Real Estate / Property | Direct property | | R0 | | R0 | | R0 | | R0 | R0 | |
| | Listed property (SA) | | R0 | | R0 | | R0 | | R0 | R0 | |
| | Listed property (Global) | | R0 | | R0 | | R0 | | R0 | R0 | |
| Physical commodities | Precious Metals | | R0 | | R0 | | R0 | | R0 | R0 | |
| Cash | Cash | | R0 | | R0 | | R0 | | R0 | R0 | |
| | | 0% | R1 000 000 | 0% | R200 000 | 0% | R450 000 | 0% | R350 000 | 0% | R500 000 |

For illustrative purposes only

Inventory – What is inside these?

- Bank **savings** / money market account
 - Cash
- Physical investment **property**
 - Direct property

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Actual Portfolio Holdings

| ACTUAL PORTFOLIO HOLDINGS | | | | | | | | | | | |
|---------------------------|------------------------------------|--------------|------------|------|----------|---------------|----------|------|----------|-----------------|----------|
| ASSET CLASS | CATEGORY | RA / Pension | | TFSA | | Discretionary | | Cash | | Direct property | |
| Equities | Home market (SA) | | R0 | | R0 | | R0 | | R0 | | R0 |
| | Developed Markets (DM) | | R0 | | R0 | | R0 | | R0 | | R0 |
| | Emerging Markets (EM) | | R0 | | R0 | | R0 | | R0 | | R0 |
| | Special interest / sector specific | | R0 | | R0 | | R0 | | R0 | | R0 |
| Interest-bearing | Bonds (SA) | | R0 | | R0 | | R0 | | R0 | | R0 |
| | Preference Shares | | R0 | | R0 | | R0 | | R0 | | R0 |
| | Currency notes | | R0 | | R0 | | R0 | | R0 | | R0 |
| | Bonds (global) | | R0 | | R0 | | R0 | | R0 | | R0 |
| Real Estate / Property | Direct property | | R0 | | R0 | | R0 | | R0 | 100% | R500 000 |
| | Listed property (SA) | | R0 | | R0 | | R0 | | R0 | | R0 |
| | Listed property (Global) | | R0 | | R0 | | R0 | | R0 | | R0 |
| Physical commodities | Precious Metals | | R0 | | R0 | | R0 | | R0 | | R0 |
| Cash | Cash | | R0 | | R0 | | R0 | 100% | R350 000 | | R0 |
| | | 0% | R1 000 000 | 0% | R200 000 | 0% | R450 000 | 100% | R350 000 | 100% | R500 000 |

For illustrative purposes only

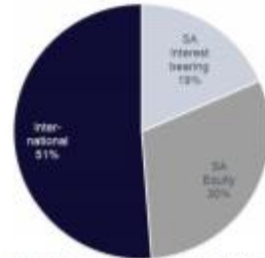
Inventory – What is inside these?

- Bank **savings** / money market account
 - Cash
- Physical investment **property**
 - Direct property
- Retirement savings (**RA**)
 - Pooled investment
 - Managed by an external manager
 - Look at the fact sheet to know what's inside

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Benchmark Asset Allocation



International includes physical commodities and currency notes

Key Information

ASISA Sector

SA Multi-Asset – High Equity (Reg 28 compliant)

Composite Benchmark

5% STeFI + 5% ALBI + 40% Capped SWK + 15% SAPY + 35% MXWR

Return Target

CPI+7% over rolling five years

Risk Profile

Medium to High (MH)

Minimum investment

Monthly debit order: R300 p.m

Lump sum: R5,000 initial

Subsequent investments: R1,000

Portfolio Fees

TER: 0.30% p.a. incl. VAT

TIC: 0.30% p.a. incl. VAT

Portfolio size

R416.1m

Launch date

Jul-2013

Contact Us

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Market Commentary

There is evidence of a break in global synchronicity, as different countries and regions find themselves in disparate phases of both economic recovery and physical lockdown. Despite a further deterioration in the near-term growth outlook (the IMF is now projecting a -4.9% full-year contraction in global growth, which would be the worst recession since the Great Depression of the 1930s and far worse than the 2008 recession), markets continued to recover from their March lows. Although emerging-market economies – led by China – are expected to contract by less than developed markets, SA's growth is expected to be a relative laggard, so investors are advised to seek growth elsewhere, if possible. Inflation is expected to remain under control, giving scope to interest rates staying lower for longer. SA equities outperformed bonds and cash in July, led by Resources. However, the MSCI SA index underperformed the MSCI EM index, as domestic sectors lagged the global recovery. Our preference is for global cyclical sectors including Commodities and Technology, but the growing disconnect between "Wall Street and Main Street" present downside risk, so caution and broad-based diversification remain advisable.

Portfolio Investment Returns compared to Market Performance

| (%) | 6m | 1yr | 3yrs (pa) | 5yrs (pa) | 10yrs (pa) |
|---|-------------|------------|------------|------------|------------|
| Cash - ST Fixed Income Index (STeFI) | 3.0 | 6.5 | 6.9 | 7.1 | 6.4 |
| FTSE/JSE All Bond Index (ALBI) | -0.2 | 4.2 | 7.8 | 7.4 | 7.9 |
| FTSE/JSE Capped SWK Index (Capped SWK) | -4.0 | -3.4 | -1.5 | 1.0 | 9.0 |
| FTSE/JSE SA Listed Performance Index (SAPY) | -37.6 | -41.2 | -10.2 | -10.5 | 3.7 |
| MSCI World Index (MXWR) | 11.9 | 25.4 | 15.0 | 9.8 | 17.0 |
| etfSA Wealth Enhancer RA Fund | -2.5 | 4.7 | 3.9 | 4.1 | |
| Composite Benchmark | 2.7 | 9.9 | 4.7 | 4.5 | |

Refer to note 1 on back page

Actual Portfolio Holdings

| Asset class | Reg. 28 Category | Description | Weight (%) |
|---------------------|--|--------------------------------------|--------------------|
| SA Interest bearing | Cash (max 100%) Debt (max 75%) | Cash | 4.2 |
| | | NewFunds GOVI ETF | 14.4 |
| SA Equity | Equities (max 75%) | CoreShares SA Top50 ETF | 6.0 |
| | | Satrix INK25 ETF | 5.5 |
| | | Satrix RES10 ETF | 6.3 |
| | | Ashterton Mid Cap ETF | 3.8 |
| | | NewFunds Equity Momentum ETF | 8.7 |
| | | Satrix Nasdaq ETF | 3.1 |
| | | iShares MSCI World ESG Enhanced ETF | 3.3 |
| | | iShares S&P 500 Consumer Staples ETF | 3.3 |
| | | Satrix MSCI Emerging Market ETF | 4.0 |
| | | iShares MSCI China ETF | 5.8 |
| Offshore | Foreign exposure (max 30% + 10% in Africa) | iShares MSCI Korea ETF | 3.4 |
| | | Cloud Atlas Africa ex SA Big 50 ETF | 2.5 |
| | | iShares JP Morgan EM Bond ETF | 3.3 |
| | | iShares Global Infrastructure ETF | 3.2 |
| | | NewWave US Dollar ETN | 2.5 |
| | | NewWave Pound Sterling ETN | 2.7 |
| | | NewWave Euro ETN | 3.5 |
| | | NewGold ETF | 7.2 |
| | | NewPlatinum ETF | 3.2 |
| | | Commodities | Physical (max 10%) |

Historical Performance



Actual Portfolio Holdings

| Asset class | Reg. 28 Category | Description | Weight (%) |
|---------------------|--|--------------------------------------|--------------------|
| SA Interest bearing | Cash (max 100%) | Cash | 4.2 |
| | Debt (max 75%) | NewFunds GOVI ETF | 14.4 |
| SA Equity | Equities (max 75%) | CoreShares SA Top50 ETF | 6.0 |
| | | Satrix INDI25 ETF | 5.5 |
| | | Satrix RESI10 ETF | 6.3 |
| | | Ashburton Mid Cap ETF | 3.8 |
| | | NewFunds Equity Momentum ETF | 8.7 |
| | | Satrix Nasdaq ETF | 3.1 |
| | | iShares MSCI World ESG Enhanced ETF | 3.3 |
| | | iShares S&P 500 Consumer Staples ETF | 3.3 |
| | | Satrix MSCI Emerging Market ETF | 4.0 |
| | | iShares MSCI China ETF | 5.8 |
| Offshore | Foreign exposure (max 30% + 10% in Africa) | iShares MSCI Korea ETF | 3.4 |
| | | Cloud Atlas Africa ex SA Big 50 ETF | 2.5 |
| | | iShares JP Morgan EM Bond ETF | 3.3 |
| | | iShares Global Infrastructure ETF | 3.2 |
| | | NewWave US Dollar ETN | 2.5 |
| | | NewWave Pound Sterling ETN | 2.7 |
| | | NewWave Euro ETN | 3.5 |
| | | Commodities | Physical (max 10%) |
| NewPalladium ETF | 3.2 | | |

Actual Portfolio Holdings

| ACTUAL PORTFOLIO HOLDINGS | | | | | | | | | | | |
|---------------------------|------------------------------------|--------------|------------|------|----------|---------------|----------|------|----------|-----------------|----------|
| ASSET CLASS | CATEGORY | RA / Pension | | TFSA | | Discretionary | | Cash | | Direct property | |
| Equities | Home market (SA) | 21.7% | R217 000 | | R0 | | R0 | | R0 | | R0 |
| | Developed Markets (DM) | 9.7% | R97 000 | | R0 | | R0 | | R0 | | R0 |
| | Emerging Markets (EM) | 15.7% | R157 000 | | R0 | | R0 | | R0 | | R0 |
| | Special interest / sector specific | 8.7% | R87 000 | | R0 | | R0 | | R0 | | R0 |
| Interest-bearing | Bonds (SA) | 14.4% | R144 000 | | R0 | | R0 | | R0 | | R0 |
| | Preference Shares | | R0 | | R0 | | R0 | | R0 | | R0 |
| | Currency notes | 8.7% | R87 000 | | R0 | | R0 | | R0 | | R0 |
| | Bonds (global) | 6.5% | R65 000 | | R0 | | R0 | | R0 | | R0 |
| Real Estate / Property | Direct property | | R0 | | R0 | | R0 | | R0 | 100% | R500 000 |
| | Listed property (SA) | | R0 | | R0 | | R0 | | R0 | | R0 |
| | Listed property (Global) | | R0 | | R0 | | R0 | | R0 | | R0 |
| Physical commodities | Precious Metals | 10.4% | R104 000 | | R0 | | R0 | | R0 | | R0 |
| Cash | Cash | 4.2% | R42 000 | | R0 | | R0 | 100% | R350 000 | | R0 |
| | | 100% | R1 000 000 | 0% | R200 000 | 0% | R450 000 | 100% | R350 000 | 100% | R500 000 |

For illustrative purposes only

Inventory – What is inside these?

- Bank **savings** / money market account
 - Cash
- Physical investment **property**
 - Direct property
- Retirement savings (**RA**)
 - Look at the fact sheet
- Tax-free Investments (**TFSA**)
 - Look at my investment account

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| INSTRUMENT | % HOLDINGS |
|--|-------------------|
| <u>Invest Global REIT Index Feeder</u> | 11.91% |
| <u>Ashburton World Government Bond</u> | 9.55% |
| <u>CoreShares Top50</u> | 11.10% |
| <u>NewFunds GOVI</u> | 8.30% |
| <u>Satrix Capped INDI 25</u> | 6.30% |
| <u>Satrix Dividend Plus</u> | 8.64% |
| <u>Satrix MSCI Emerging Markets</u> | 16.46% |
| <u>Satrix MSCI World</u> | 26.18% |
| Subtotal | 98.44% |
| <u>Cash Account</u> | 1.56% |

etfSA Tax-Free Investment Account – actual holdings

Actual Portfolio Holdings

| ACTUAL PORTFOLIO HOLDINGS | | | | | | | | | | | |
|---------------------------|------------------------------------|--------------|------------|-------|----------|---------------|----------|------|----------|-----------------|----------|
| ASSET CLASS | CATEGORY | RA / Pension | | TFSA | | Discretionary | | Cash | | Direct property | |
| Equities | Home market (SA) | 21.7% | R217 000 | 18.4% | R36 800 | | R0 | | R0 | | R0 |
| | Developed Markets (DM) | 9.7% | R97 000 | 26.2% | R52 400 | | R0 | | R0 | | R0 |
| | Emerging Markets (EM) | 15.7% | R157 000 | 16.5% | R33 000 | | R0 | | R0 | | R0 |
| | Special interest / sector specific | 8.7% | R87 000 | 8.6% | R17 200 | | R0 | | R0 | | R0 |
| Interest-bearing | Bonds (SA) | 14.4% | R144 000 | 8.3% | R16 600 | | R0 | | R0 | | R0 |
| | Preference Shares | | R0 | | R0 | | R0 | | R0 | | R0 |
| | Currency notes | 8.7% | R87 000 | | R0 | | R0 | | R0 | | R0 |
| | Bonds (global) | 6.5% | R65 000 | 10.1% | R20 200 | | R0 | | R0 | | R0 |
| Real Estate / Property | Direct property | | R0 | | R0 | | R0 | | R0 | 100% | R500 000 |
| | Listed property (SA) | | R0 | | R0 | | R0 | | R0 | | R0 |
| | Listed property (Global) | | R0 | 11.9% | R23 800 | | R0 | | R0 | | R0 |
| Physical commodities | Precious Metals | 10.4% | R104 000 | | R0 | | R0 | | R0 | | R0 |
| Cash | Cash | 4.2% | R42 000 | | R0 | | R0 | 100% | R350 000 | | R0 |
| | | 100% | R1 000 000 | 100% | R200 000 | 0% | R450 000 | 100% | R350 000 | 100% | R500 000 |

For illustrative purposes only

The Home of Exchange Traded Funds®



Inventory – What is inside these?

- Bank **savings** / money market account
 - Cash
- Physical investment **property**
 - Direct property
- Retirement savings (**RA**)
 - Look at the fact sheet
- Tax-free Investments (**TFSA**)
 - Look at my investment account
- **Discretionary** account
 - Look at my investment account

Actual Portfolio Holdings

| ACTUAL PORTFOLIO HOLDINGS | | | | | | | | | | | |
|---------------------------|------------------------------------|--------------|------------|-------|----------|---------------|----------|------|----------|-----------------|----------|
| ASSET CLASS | CATEGORY | RA / Pension | | TFSA | | Discretionary | | Cash | | Direct property | |
| Equities | Home market (SA) | 21.7% | R217 000 | 18.4% | R36 800 | | R0 | | R0 | | R0 |
| | Developed Markets (DM) | 9.7% | R97 000 | 26.2% | R52 400 | 15.4% | R69 300 | | R0 | | R0 |
| | Emerging Markets (EM) | 15.7% | R157 000 | 16.5% | R33 000 | 19.9% | R89 550 | | R0 | | R0 |
| | Special interest / sector specific | 8.7% | R87 000 | 8.6% | R17 200 | | R0 | | R0 | | R0 |
| Interest-bearing | Bonds (SA) | 14.4% | R144 000 | 8.3% | R16 600 | 14.9% | R67 050 | | R0 | | R0 |
| | Preference Shares | | R0 | | R0 | | R0 | | R0 | | R0 |
| | Currency notes | 8.7% | R87 000 | | R0 | 10.2% | R45 900 | | R0 | | R0 |
| | Bonds (global) | 6.5% | R65 000 | 10.1% | R20 200 | | R0 | | R0 | | R0 |
| Real Estate / Property | Direct property | | R0 | | R0 | | R0 | | R0 | 100% | R500 000 |
| | Listed property (SA) | | R0 | | R0 | | R0 | | R0 | | R0 |
| | Listed property (Global) | | R0 | 11.9% | R23 800 | 8.4% | R37 800 | | R0 | | R0 |
| Physical commodities | Precious Metals | 10.4% | R104 000 | | R0 | 31.2% | R140 400 | | R0 | | R0 |
| Cash | Cash | 4.2% | R42 000 | | R0 | | R0 | 100% | R350 000 | | R0 |
| | | 100% | R1 000 000 | 100% | R200 000 | 100% | R450 000 | 100% | R350 000 | 100% | R500 000 |

For illustrative purposes only

Actual Portfolio Holdings



| ACTUAL PORTFOLIO HOLDINGS | | | | | | | | | | | | |
|---------------------------|------------------------------------|--------|------------|--------------|------------|-------|----------|---------------|----------|------|----------|-----------------|
| ASSET CLASS | CATEGORY | Total | | RA / Pension | | TFSA | | Discretionary | | Cash | | Direct property |
| Equities | Home market (SA) | 10.2% | R253 800 | 21.7% | R217 000 | 18.4% | R36 800 | | R0 | | R0 | R0 |
| | Developed Markets (DM) | 8.7% | R218 700 | 9.7% | R97 000 | 26.2% | R52 400 | 15.4% | R69 300 | | R0 | R0 |
| | Emerging Markets (EM) | 11.2% | R279 550 | 15.7% | R157 000 | 16.5% | R33 000 | 19.9% | R89 550 | | R0 | R0 |
| | Special interest / sector specific | 4.2% | R104 200 | 8.7% | R87 000 | 8.6% | R17 200 | | R0 | | R0 | R0 |
| Interest-bearing | Bonds (SA) | 9.1% | R227 650 | 14.4% | R144 000 | 8.3% | R16 600 | 14.9% | R67 050 | | R0 | R0 |
| | Preference Shares | 0.0% | R0 | | R0 | | R0 | | R0 | | R0 | R0 |
| | Currency notes | 5.3% | R132 900 | 8.7% | R87 000 | | R0 | 10.2% | R45 900 | | R0 | R0 |
| | Bonds (global) | 3.4% | R85 200 | 6.5% | R65 000 | 10.1% | R20 200 | | R0 | | R0 | R0 |
| Real Estate / Property | Direct property | 20.0% | R500 000 | | R0 | | R0 | | R0 | | R0 | 100% R500 000 |
| | Listed property (SA) | 0.0% | R0 | | R0 | | R0 | | R0 | | R0 | R0 |
| | Listed property (Global) | 2.5% | R61 600 | | R0 | 11.9% | R23 800 | 8.4% | R37 800 | | R0 | R0 |
| Physical commodities | Precious Metals | 9.8% | R244 400 | 10.4% | R104 000 | | R0 | 31.2% | R140 400 | | R0 | R0 |
| Cash | Cash | 15.7% | R392 000 | 4.2% | R42 000 | | R0 | | R0 | 100% | R350 000 | R0 |
| | | 100.0% | R2 500 000 | 100% | R1 000 000 | 100% | R200 000 | 100% | R450 000 | 100% | R350 000 | 100% R500 000 |



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Part III

Mind the Gap



How does this compare to what I want?

Actual vs. Desired Portfolio Holdings



| ACTUAL PORTFOLIO HOLDINGS | | | | | |
|---------------------------|------------------------------------|-------------|---------------|-------------------|--------------------------------|
| ASSET CLASS | CATEGORY | NV | Total | Comments | |
| Equities | Home market (SA) | 10% | 10.2% | R253 800 | |
| | Developed Markets (DM) | 10% | 8.7% | R218 700 | I need a bit more DM equities |
| | Emerging Markets (EM) | 15% | 11.2% | R279 550 | I need more EM equities |
| | Special interest / sector specific | 5% | 4.2% | R104 200 | |
| Interest-bearing | Bonds (SA) | 10% | 9.1% | R227 650 | |
| | Preference Shares | 0% | 0.0% | R0 | |
| | Currency notes | 5% | 5.3% | R132 900 | |
| | Bonds (global) | 5% | 3.4% | R85 200 | I need a bit more global bonds |
| Real Estate / Property | Direct property | 20% | 20.0% | R500 000 | |
| | Listed property (SA) | 0% | 0.0% | R0 | |
| | Listed property (Global) | 5% | 2.5% | R61 600 | I need more global property |
| Physical commodities | Precious Metals | 10% | 9.8% | R244 400 | |
| Cash | Cash | 5% | 15.7% | R392 000 | I hold way too much cash |
| | | 100% | 100.0% | R2 500 000 | |

For illustrative purposes only

What should I do?

Take action!



| ACTUAL PORTFOLIO HOLDINGS | | | | | | |
|---------------------------|------------------------------------|-------------|--------|-------------------|--------------------------------|-----------|
| ASSET CLASS | CATEGORY | NV | | Total | Comments | Buy/Sell |
| Equities | Home market (SA) | 10% | 10.2% | R253 800 | | -R3 800 |
| | Developed Markets (DM) | 10% | 8.7% | R218 700 | I need a bit more DM equities | R31 300 |
| | Emerging Markets (EM) | 15% | 11.2% | R279 550 | I need more EM equities | R95 450 |
| | Special interest / sector specific | 5% | 4.2% | R104 200 | | R20 800 |
| Interest-bearing | Bonds (SA) | 10% | 9.1% | R227 650 | | R22 350 |
| | Preference Shares | 0% | 0.0% | R0 | | R0 |
| | Currency notes | 5% | 5.3% | R132 900 | | -R7 900 |
| | Bonds (global) | 5% | 3.4% | R85 200 | I need a bit more global bonds | R39 800 |
| Real Estate / Property | Direct property | 20% | 20.0% | R500 000 | | R0 |
| | Listed property (SA) | 0% | 0.0% | R0 | | R0 |
| | Listed property (Global) | 5% | 2.5% | R61 600 | I need more global property | R63 400 |
| Physical commodities | Precious Metals | 10% | 9.8% | R244 400 | | R5 600 |
| Cash | Cash | 5% | 15.7% | R392 000 | I hold way too much cash | -R267 000 |
| | | 100% | 100.0% | R2 500 000 | | |

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The Home of Exchange Traded Funds®



Where can I make the changes?

- Bank **savings** / money market account
 - Yes – very easy!
- Physical investment **property**
 - Not really viable
- Retirement savings (**RA**)
 - You can add money, but not control the allocation
- Tax-free Investments (**TFSA**)
 - You can change holdings, but not invest more than R36k p.a.
- **Discretionary** account
 - This is your “completion strategy” portfolio – make changes here

Annual Review

- **Annual planning** exercise (suggest in January)
 - **Tax** efficiency optimisation
 - Maximise TFSA contributions?
 - Maximise RA contributions?
 - Tax harvesting in discretionary portfolio
 - Re-visit portfolio **design**
 - Is it still fit for purpose?
 - Are there new opportunities to consider (e.g. new ETFs)
- **Mind-the-gap** exercise
 - Identify opportunities for portfolio **rebalancing**
 - Decide on your regular contribution **allocation**
 - How much into which account
 - What asset classes and ETFs

Bonus time

- **Ad hoc** additional lump sum contribution
 - **Mind-the-gap** exercise
 - Identify opportunities for **portfolio rebalancing**
- **General guidelines:**
 - Do not make changes because of **market movements**
 - Do not select investments (asset classes or individual ETFs) on the basis of **past performance**
 - When there is a **new listing**
 - does it fit in your plan?
 - how will you fund it?

Closing Thoughts

- There is **no such thing as “passive”** management – all investment decisions have an “active” component to it
- Be very selective about where you apply “active” strategies – we know trying to pick individual winning stocks is a **loser’s game***
- Pro-active investment management lies in the **“active” design** of a portfolio strategy that suits your investment objectives, and implement it using **“passively”** managed **building blocks** such as ETFs

**Read “The Loser’s Game” and “Winning the Loser’s Game” by Charles D. Ellis*

Question time



For ETF and index investment insights and news, follow me on Twitter: [@Nerina_Visser](https://twitter.com/Nerina_Visser)

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