Using ETFs in Wealth Management and Retirement Portfolios

JSE Power Hour

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The Home of Retirement Funds

Agenda

- What are ETFs?
- What are Indices?
- Constructing ETF Portfolios:
  - Strategic asset allocation
  - Multi-asset Index Portfolios
  - Comparison with Multi-asset Unit Trust Portfolios.
- Tax Free ETF Investments.
- Retirement Funds – Default Options.
- Managed ETF Portfolios:
  - Local
  - Abroad

What Are ETFs?

- They are securities (shares) listed on the JSE that trade like any normal share on the Main Board.
- Instead of giving access to the performance of **single company**, they provide **multi-company** investment exposure.
- The portfolios offered by ETFs are the components of an **index** (passive investment) and not an **actively managed** investment portfolio.

So, ETFs are Index Trackers.

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What is an Index?

Index Weights – Basket of Constituents (as at August 2019) FTSE/JSE Top 40 Index			
	Market Cap Weighted (%)		Market Cap Weighted (%)
Absa Group Ltd	1,77	Compagnie Fin Richemont	10,23
Anglo Ashanti	2,18	Discovery	0,63
Anglo American Plc	5,56	Exxaro Resources	0,61
Anglo American Platinum Ltd	0,87	FirstRand Ltd	2,94
Aspen Pharmacare Hldgs	0,48	Foshini Group	0,58
BHP Billiton Plc	11,53	Goldfields	1,26
BID Corp Ltd	1,67	Growthpoint Properties Ltd	1,11
Bidvest Ltd	0,98	Investec Ltd	0,39
British American Tobacco	2,70	Investec Plc	0,84
Capitec	0,98	Mondi Plc	2,37
Clicks Group	0,85	Mr Price Group	0,71

What is an Index? (continued)

Index Weights – Basket of Constituents (as at August 2019) FTSE/JSE Top 40 Index			
	Market Cap Weighted (%)		Market Cap Weighted (%)
MTN Group	3,17	Sanlam Ltd	2,03
MultiChoice Group	0,95	Sappi Ltd	0,42
Naspers Ltd -N-	24,24	Sasol Ltd	2,72
NEDCOR	1,44	Shoprite Holdings Ltd	1,14
NEPI Rockcastle PLC	0,76	Spar Group Ltd	0,59
Old Mutual Plc	1,44	Standard Bank Group Ltd	3,59
PSG Group	0,56	Tiger Brands Ltd	0,60
Redefine Properties	0,80	Vodacom Group	1,13
Remgro Ltd	1,46	Woolworths Holdings Ltd	0,87
RMB Holdings Ltd	0,85		

Are Indices Worthwhile?

- They are **well diversified**.
- They typically only cover blue chip stocks (**reduces volatility and risk).**
- The index **always includes** only the best shares in the market or sector, **so is always a high quality investment.**
- You only pay brokerage and JSE charges **once** and not for the whole portfolio.
- They are **transparent** – you always know what is in the index.

Indices & ETFs Cover All Investment Sectors and Options

Local Shares	• Satrix Top 40. Ashburton Top 40 • CoreShares Capped Top 50 • Satrix Capped INDI, FINI 15, etc.
Foreign Shares	• Sygnia Itrix USA, Japan, World, etc. • DB China, Emerging Markets • Satrix World, S&P 500, Nasdaq
Listed Property	• PropTrax Ten, PropTrax SAPY • Satrix Property • CoreShares Global Property
Bonds	• NewFunds GOVI, ILBI, etc. • Ashburton World Government Bond • Stanlib Global Govt. Index Bond
Commodities	• NewGold • Standard Bank Africa Rhodium, Platinum, Palladium • Standard Bank Oil, Copper, Corn, Wheat, etc.
Smart Beta (Factor or Style)	• NewFunds Value, Low Volatility, Momentum. • Satrix DIVI Plus, CoreShares DivTrax • Satrix RAFI, NewFunds S&P GIVI

Why Simple is Smart

SOUTH AFRICA

PERCENTAGE OF SOUTH AFRICAN EQUITY FUNDS THAT UNDERPERFORMED THE S&P SOUTH AFRICA DSW

Data as of Dec 2018

FIVE-YEAR

93.23%

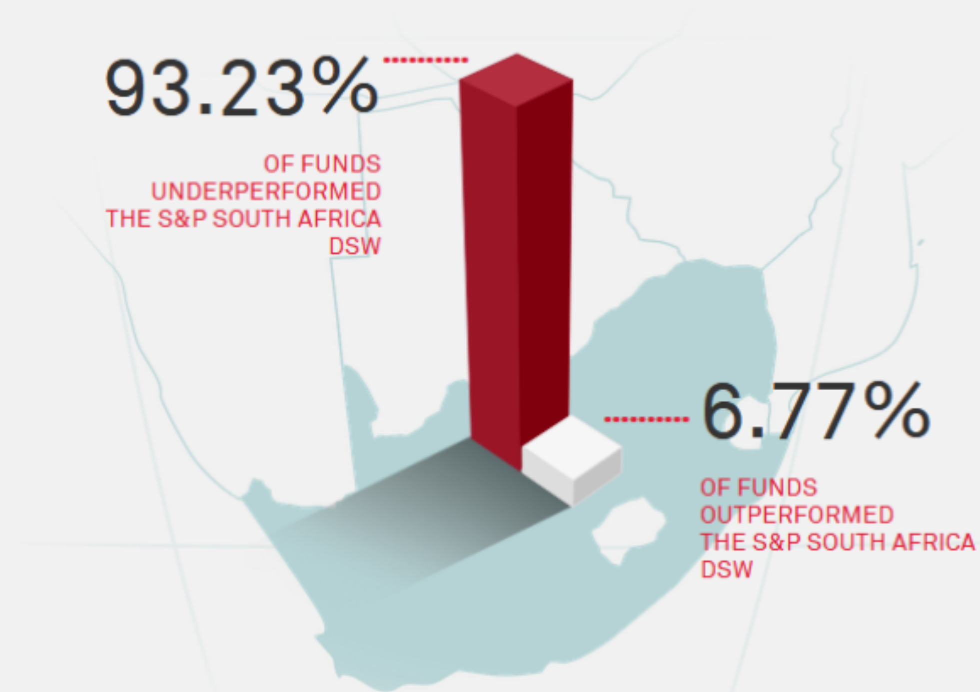
THREE-YEAR

96.27%

ONE-YEAR

95.92%

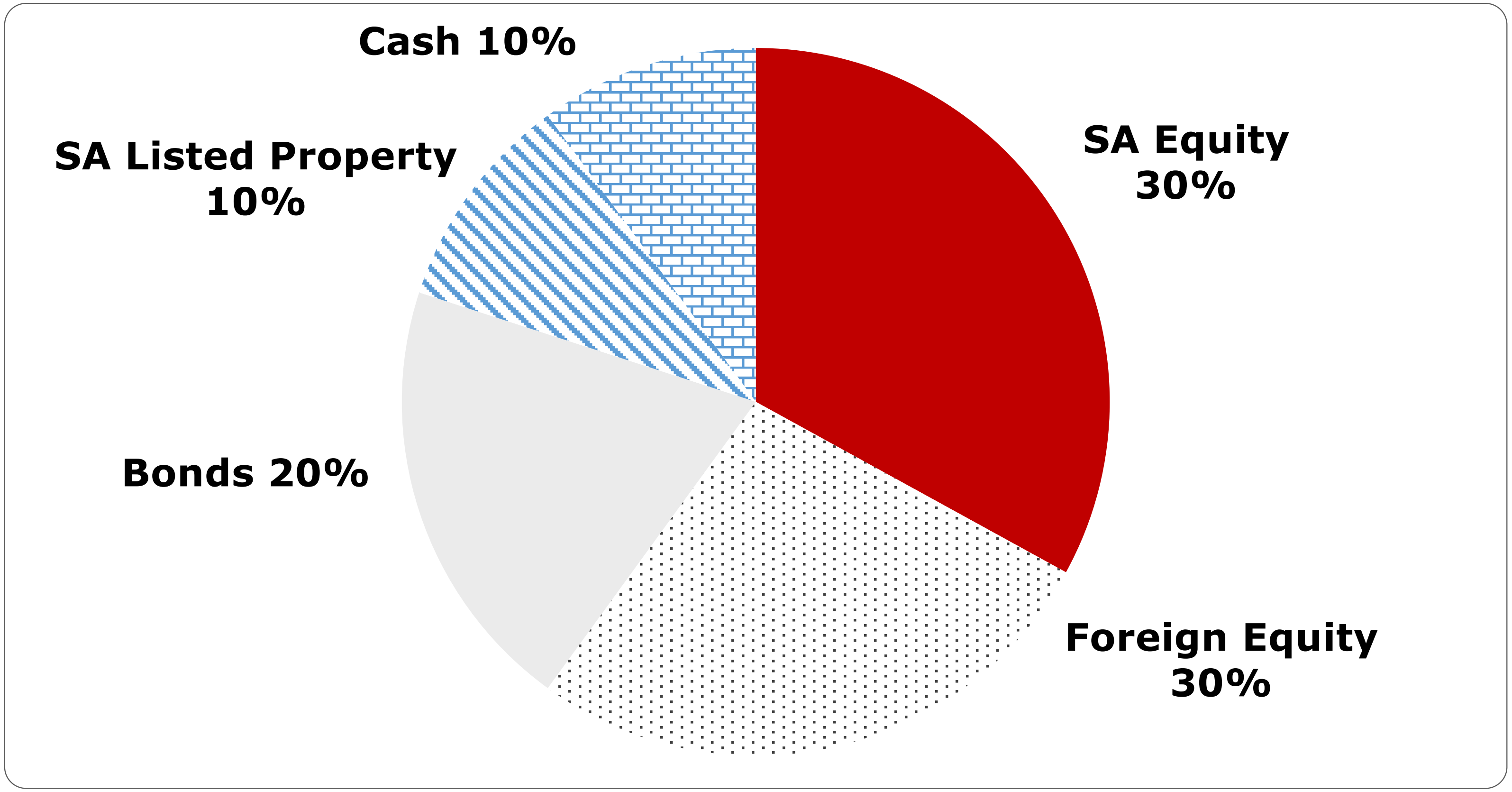
GET STATS FOR OTHER MARKET SEGMENTS >



Passive outperforms active 93% of the time in SA.

Constructing Portfolios

Strategic Asset Allocation



90% of all investment returns, over time, come from asset allocation.

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Strategic Asset Allocation Portfolio

Multi-Asset Index Portfolio				
	Allocation	Weighted Average Return* (% p.a.)		
		3 Years	5 Years	10 Years
Cash (STEFI)	10%	0,71%	0,68%	0,65%
SA Bonds (ALBI)	20%	1,76%	1,64%	1,76%
SA Equity (FTSE/JSE ALSI)	30%	1,69%	1,54%	3,63%
Offshore Equity (MSWR)	30%	2,72%	3,33%	4,34%
SA Listed Property (SAPY)	10%	(0,37%)	0,50%	1,20%
	100%	**6,51%**	**7,70%**	**11,58%**

* *Data to 30 June 2019. Profile Data/etfSA.co.za.*

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Multi-Asset SA Balanced Portfolios

Comparison with Balanced Unit Trusts

	3 Years	5 Years	10 Years
etfSA.co.za Multi-index Strategic Asset Allocation	**6,51%**	**7,70%**	**11,58%**
Average Multi-Asset **Medium Equity Unit Trusts**	4,32%	5,17%	9,10%
Average Multi-Asset **High Equity Unit Trusts**	3,94%	5,09%	10,10%

Source: Quarterly Unit Trust Performance Survey (June 2019).

Outperforming* Multi-Asset Unit Trusts

Medium Equity

	3 Years	5 Years	10 Years
Number of Unit Trusts outperforming index portfolio	2	0	0
Total number of unit Trusts	74	52	36
Percentage out-performance	2,7%	-	-

** Total annual returns higher than multi-asset index portfolio.*

Source: Quarterly Unit Trust Performance Survey (June 2019).

Outperforming* Multi-Asset Unit Trusts

High Equity

	3 Years	5 Years	10 Years
Number of Unit Trusts outperforming index portfolio	9	5	7
Total number of unit Trusts	163	111	54
Percentage out-performance	5,5%	4,5%	13,0%

** Total annual returns higher than multi-asset index portfolio.*

Source: Quarterly Unit Trust Performance Survey (June 2019).

So, a simple passive index based multi-asset portfolio outperforms the great majority of actively managed Unit Trusts – why?

- High Unit Trust cost structures.
- Poor stock selection by active managers.
- Efficient markets support passive strategies.
- Low volatility of index trackers.

etfSA.co.za Multi-Asset ETF Portfolio

Asset Class	ETF	Allocation (%)	Total Return		Weighted Average Annual Return	
			3 Years (%p.a.)	5 Years (% p.a.)	3 Years (%p.a.)	5 Years (% p.a.)
Cash	Absa NewFunds TRACI	10	7,10%	6,78%	0,71%	0,68%
Bonds	Absa NewFunds GOVI	20	8,23%	7,68%	1,65%	1,54%
SA Equity	Satrix Top 40	30	6,28%	4,64%	1,88%	1,39%
Foreign Equity	Sygnia Itrix MSCI World ETF	30	10,92%	12,90%	3,28%	3,87%
SA Listed Property	CoreShares PropTrax Ten ETF	10	(4,44%)	6,0%	(0,44%)	0,61%
Totals		**100%**			**7,08%**	**8,09%**

Source: Profile Data/etfSA.co.za (June 2019).

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ETFs in Tax Free Accounts

- Over 70 CISCA registered ETFs qualify for Tax Free Investments.
- Give access to:
  - Local & global equities (including emerging markets)
  - Local & global bonds
  - Local & global listed property
  - High yielding dividend funds.
- More efficient than Unit Trusts
  - Lower costs
  - Pay higher dividends/interest which can be 100% reinvested.
  - Easier to understand.

Tips for Tax Free Accounts

- Some providers offer model portfolios which are often worth considering because of diversification which lowers risk.
- Best way to invest in:
  - **Listed property** (100% distributions can be reinvested) and not lost in income tax.
  - **Foreign markets** – no loss or filtering of dividends
  - **Capital gain** strategies.

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Retirement Funds – Default Regulations

- From 1 March 2019, Pension and Provident Fund providers are required to offer their members a default investment portfolio option for pre-retirement investors.

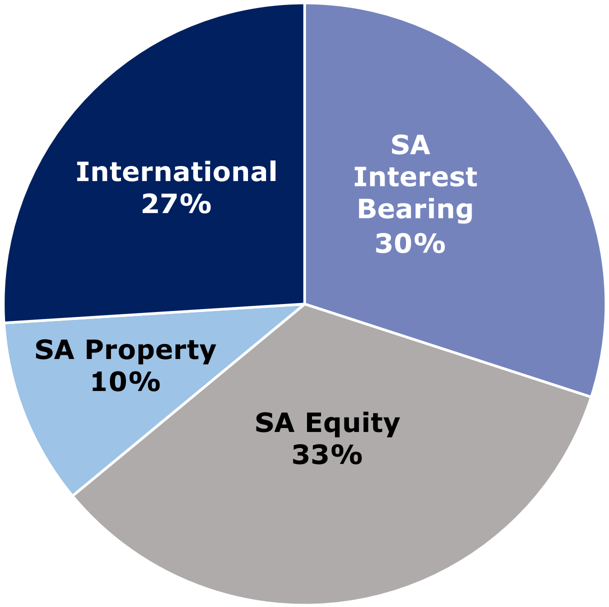
- They, together with Retirement Annuity and Preservation Funds, also have to offer a **default Living Annuity** option.

Retirement Funds – Default Regulations

- Default investment portfolios must be:
  - Fully transparent in investment holdings
  - Reasonably priced and competitive
  - All fees and charges disclosed
  - Both passive and active investment must be considered
  - No loyalty bonuses or other complex fee structures.

etfSA Retirement Annuity Funds
Wealth Default Portfolio

Default - Benchmark Asset Allocation



Actual Portfolio Holdings

Asset class	Reg. 28 Category	Description	Weight (%)
SA Interest bearing	Cash (max 100%)	Cash	10.6
	Debt (max 75%)	NewFunds GOVI ETF	19.9
SA Equity	Equities (max 75%)	CoreShares SA Top50 ETF	32.8
SA Property	Immovable Property (max 25%)	CoreShares Proptrax SAPY ETF	9.7
Offshore	Foreign exposure (max 30% + 10% in Africa)	Satrix MSCI World ETF	27.0

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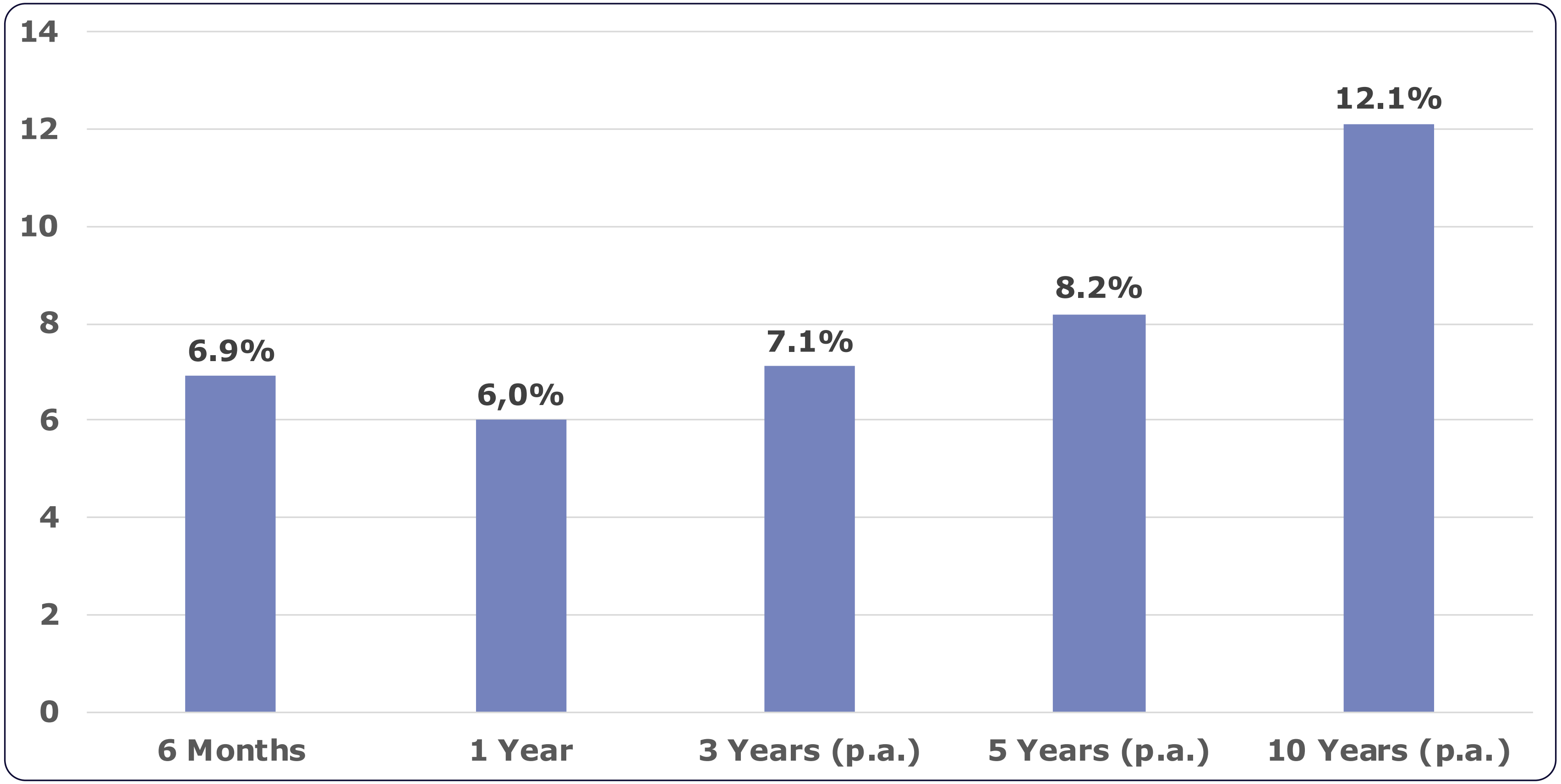
etfSA Retirement Annuity Funds

Wealth Default Portfolio



Source: July 2019 Fund Fact Sheet.

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Managed ETF Portfolios

- 106 ETFs/ETNs listed on the JSE to cover all asset classes and sub-sectors.
- Access to some asset classes like commodities, currencies, themes, styles and smart beta is unique.
- ETPs give pure beta exposure, so lower risk.

Using ETFs/ETNs as building blocks in multi-asset portfolios makes sense.

Capital Growth Managed ETF Portfolio (Rand based)

	Allocation (%)	5 Year Total Return (% p.a.)	Weighted Total Average Return (% p.a.)
Foreign Equity (40%)			
Satrix S&P 500 ETF	10%	16,49%	1,65%
CoreShares Global Dividend Aristocrat ETF	10%	12,93%	1,29%
DB MSCI China ETN	10%	11,25%	1,13%
Satrix Nasdaq ETF	5%	17,05%	0,85%
Sygnia Itrix 4th Industrial Revolution	5%	16,95%	0,85%
Listed Property (10%)			
CoreShares Global Property ETF	10%	14,14%	1,41%
Commodities (20%)			
Standard Bank Africa Rhodium ETF	5%	65,00%	3,25%
NewGold Palladium ETF	10%	19,63%	1,96%
NewGold ETF	5%	7,58%	0,38%
SA Equity (30%)			
Satrix RESI 10 ETF	10%	15,36%	1,53%
CoreShares Top 50 ETF	5%	5,25%	0,26%
Satrix DIVI Plus ETF	10%	6,05%	0,60%
Satrix FINI 15 ETF	5%	5,93%	0,30%
Total	**100%**		**15,47%**

Source: *JSE Ltd ; etfSA.co.za / Profile Data – Monthly Performance Survey (July 2019).*

Note: *Historical returns may not be repeated in future.*

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Managed Offshore ETF Portfolio

Product	Size (million	Provider	Ticker	TER	5 Year* Performance (% p.a.)	Allocation	Weighted Return (% p.a.)
Developed Market Equities							
Core S&P 500 UCITS ETF (USA)	US$31 746	iShares	CSPX	0,07%	12,69%	10%	1,27%
Core NASDAQ 100 UCITS ETF	US$1 245	iShares	CNDX	0,33%	19,38%	10%	1,94%
Nasdaq Biotech ETF	US$8 595	iShares	IBB	0,47%	8,95%	10%	0,90%
Select Dividends ETF	US$17 161	iShares	DVY	0,39%	10,06%	10%	1,01%
						40%	
Emerging Market Equities							
China Large Cap UCITS ETF	US$4 728	iShares	FXC	0,74%	7,20%	10%	0,72%
MSCI Emerging Markets UCITS	US$49 080	iShares	EEM	0,14%	5,20%	10%	0,52%
MSCI India 50 ETF	US$742	iShares	INDY	0,68%	9,12%	10%	0,92%
						30%	
Bonds							
Global Infrastructure UCITS ETF	US$754	iShares	INFR	0,65%	5,80%	5%	0,34%
JP Morgan Emerging Market Bond	US$17 143	iShares	EMB	0,49%	3,99%	10%	0,75%
						15%	
Property							
US Property Yield UCITS ETF	US$721	iShares	IUSP	0,40%	6,89%	5%	0,34%
Developed Markets Property Yield UCITS ETF	US$3 185	iShares	IWDP	0,40%	7,52%	10%	0,75%
						15%	
Commodities							
Physical Gold ETF	US$905	iShares	SGLN	0,25%	1,62%	5%	0,08%
						5%	
						100%	
Total Annual Return (US Dollars)							**9,54%**
Total Annual Return (ZAR Rands)							**21,40%**

**Taken from product fact sheets. **Since inception investment returns. Total returns with dividends reinvested. Historic investment returns may not be replicated in future*

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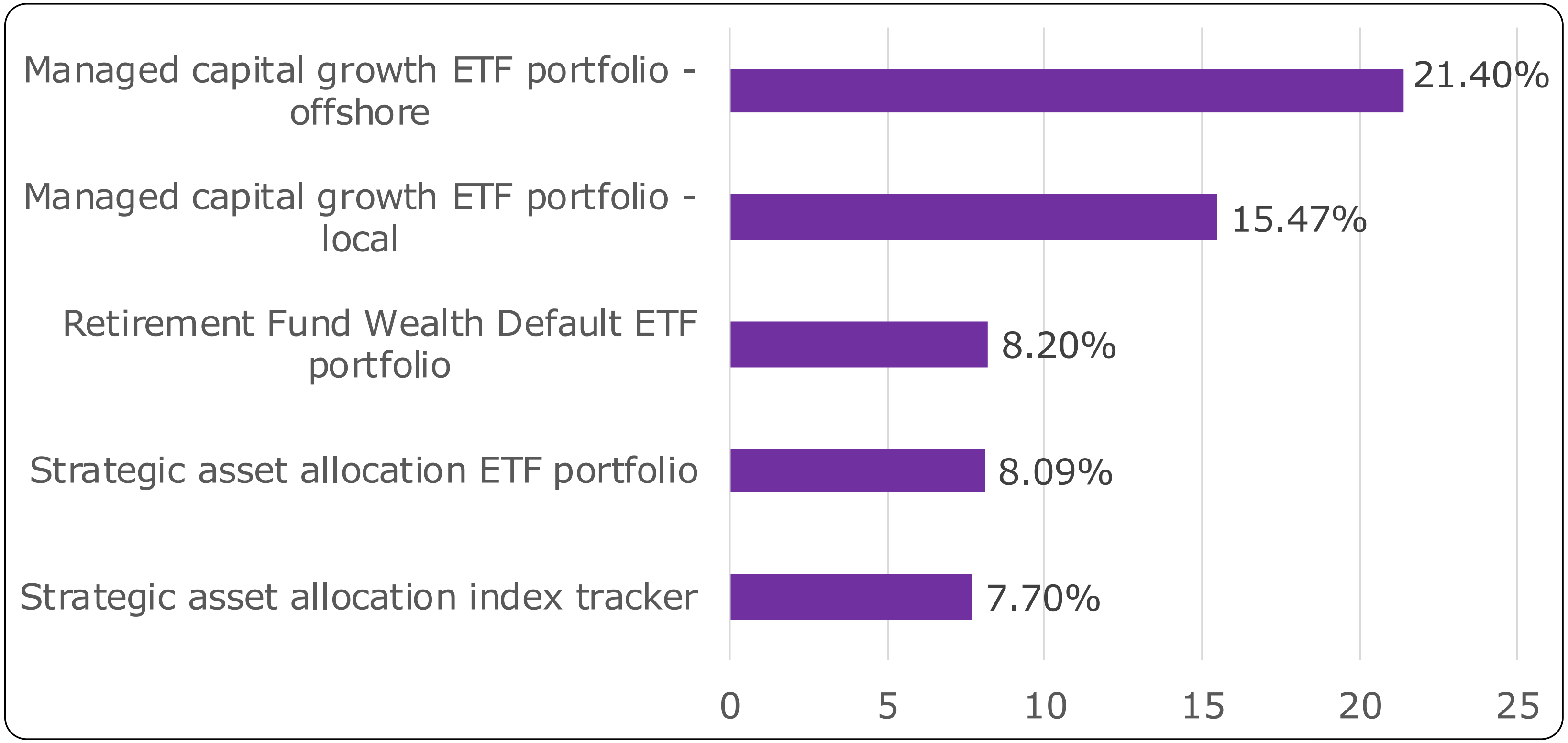
Different Investment Returns for Varying Risk Profiles & Exposures
(5 Year Total Rand Return % per annum)



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