



Breakfast Seminar

EXCHANGE TRADED PRODUCTS

Contents

- Who we are?
- New generation for investing
- Global trends
- ETP structures
- ETFs evolution and expected drivers
- How ETFs can help develop capital markets in Africa
- Why invest in ETFs
- Uses of ETFs and ETFs in portfolio strategies
- Deep dive into NewGold, NewPlat and ILBI

Our market presence

21

ETFs and ETNs
listed

44%

of ETF assets in
SA are ours
(R34bn out of
R78bn)

#1

Platinum ETF
in the
world/NewGol
d in Africa

6

Countries in
Africa where
our ETFs are
listed

1st

ever
Morningstar
award for an
ETF - ours

5

Asset classes
covered - the
widest in SA

ETFs – the new generation of investing

- Exchange traded funds (ETFs) are open-ended index funds that are listed and trade on exchanges like stocks
- ETFs enable investors to gain broad exposure to
 - Entire stock markets
 - Specific sectors
 - Different asset classes
 - Investment themes
- ETFs are
 - Fast and efficient – real time access to markets
 - Liquid – market maker
 - Convenient – single purchase gives exposure to the whole market / market segment
 - Transparent
 - Cost-effective – lower cost than other forms of investing

Passive products

Transparency (full disclosure)

Simplicity and consistency

Affordability-lower costs

Listed products

Liquidity (market maker; as liquid as the underlying assets)

Flexibility – trading at any time the exchange is open, in real time

Lower costs of execution

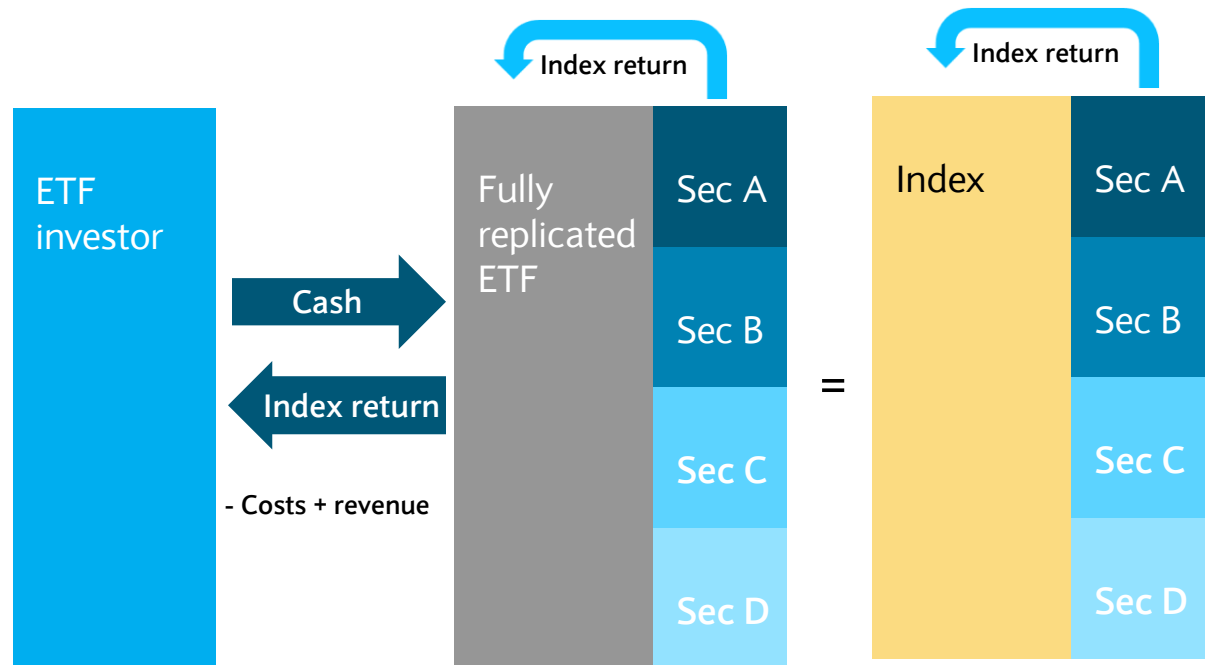
Guaranteed settlement – no counterparty risk

ETFs

Other advantages – **diversification** (markets, sectors, asset classes), **investor protection** (no credit risk, backed by physical, regulated)

How ETFs work – structures

- Two major ETF structures
 - Physical based
 - Swap-based
- First physical-based structure introduced in 1993, when the first US-listed tracking S&P500 (SPDR) was launched. Currently, the majority of global ETF AUM held in physical based ETFs
- Features
 - Assets held in a ring-fenced segregated account / trust / ring-fenced fund company
 - No fund / issuer risk - securities fully backed by physical asset
 - High level of transparency



Global industry growth

- Global ETFs continued their remarkable growth during 2017, achieving a growth rate of **13%**.
- Global ETF assets surpassed **USD3trn** in 2015.
- Their rapid rise can largely be attributed to the growing acceptance of indexing, growing acceptance among more types of investors and the introduction of a wider variety of investment strategies.
- Approximately 2 years later the industry has more than **USD4.5trn** largely driven by inflows from smart beta ETFs.
- The US remains by far the world's most **successful ETF market**, distinguished not only by its size but also by its liquidity and its retail investor base.

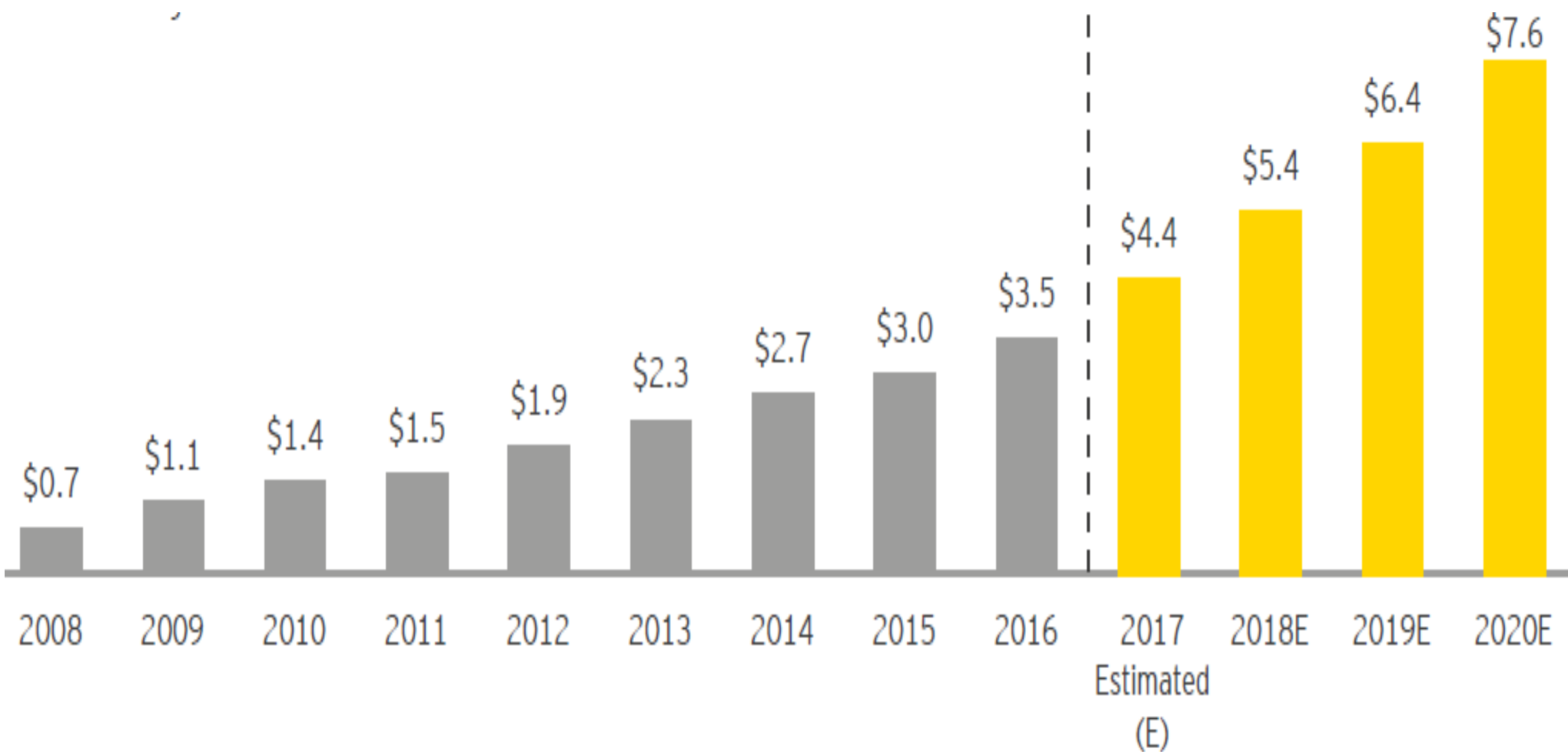
Source: Blackrock

ETP Assets and Flows By Listing Region

ASSETS BY LISTING REGION¹

(US\$bn)	Equity	Fixed Income	Commodity & others	Total
U.S.	2,619	543	91	3,253
Europe	503	174	72	749
Canada	75	30	3	109
Asia Pacific	364	9	28	402
Latin America	6	0	0	6
Middle East & Africa	4	0	2	6
Total	3,571	757	197	4,524

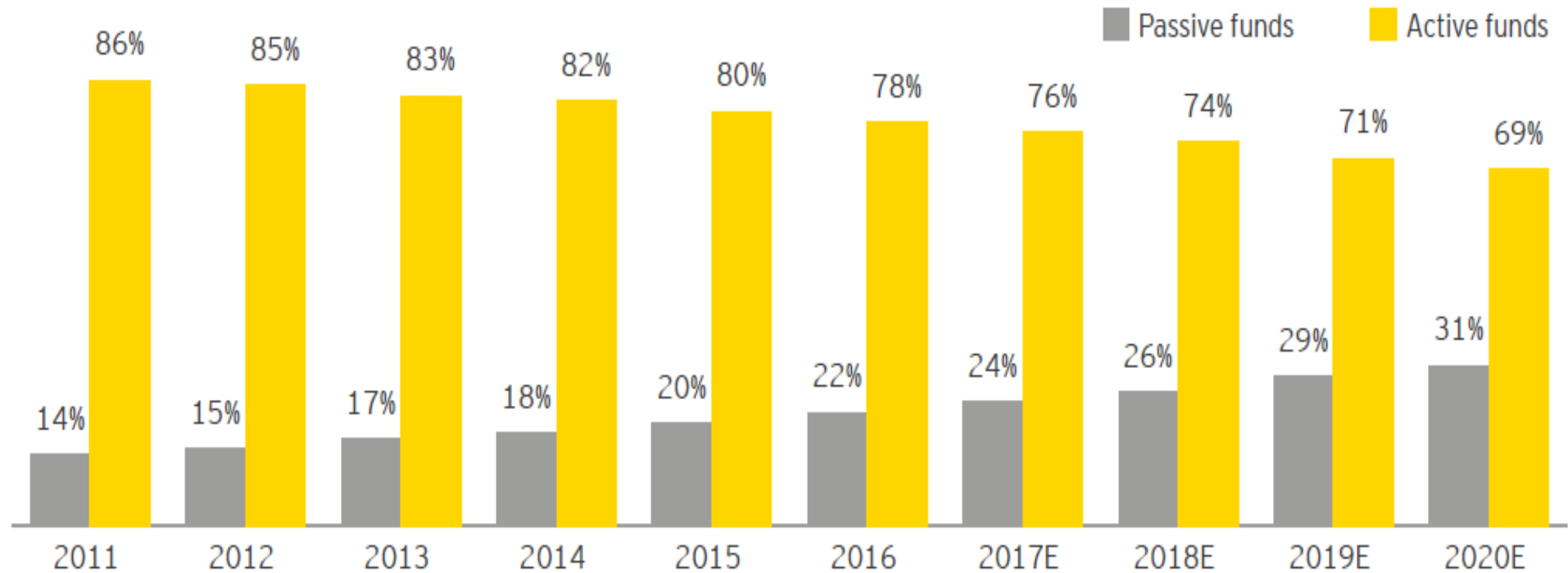
Future growth of ETFs – forecasts 2017-2020(US\$trns)



Source: EY

Market share of total net assets of global open-end funds, 2027 - passive to overtake active (prediction)

Source: EY

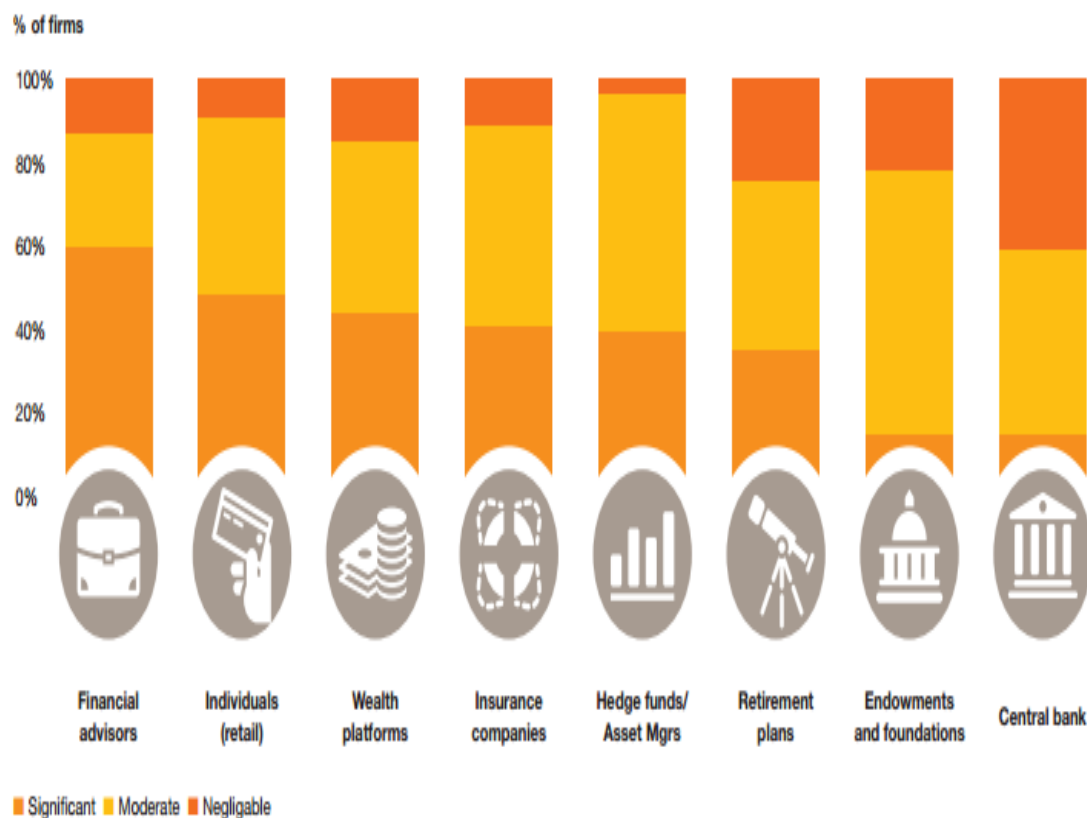


Source: EY

Expected drivers of ETFs growth

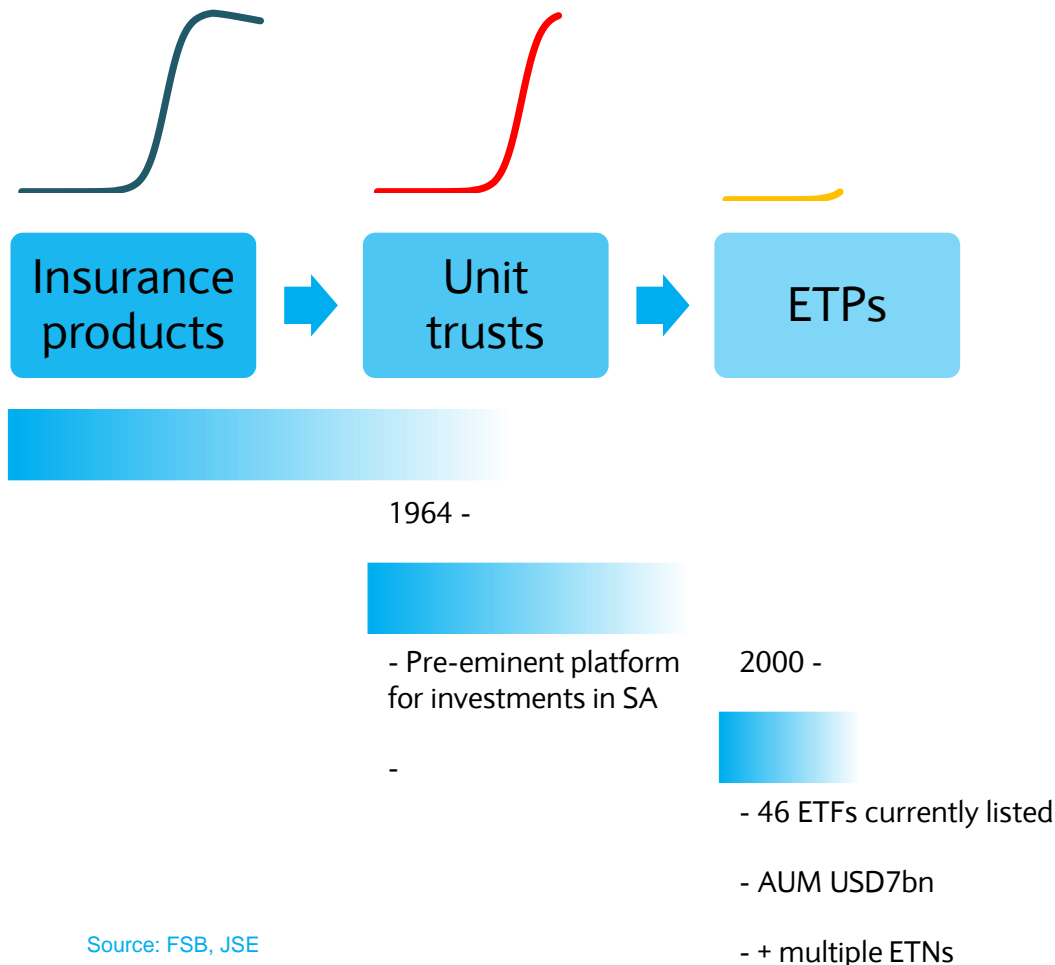
- Pension Funds, insurers and investment funds are likely to use it for liquidity management and sometimes to access selected exposure.
- Private Banks are most likely to use it as a building block or sometimes as selected exposure to international markets
- Wealth managers are likely to use it achieve core exposures via model portfolios
- Some hedge funds used leveraged and inverse ETFs to help them execute high conviction long and short position

Figure 2: Investor segments projected to generate significant demand (more than one response provided)



Source : PwC and EY

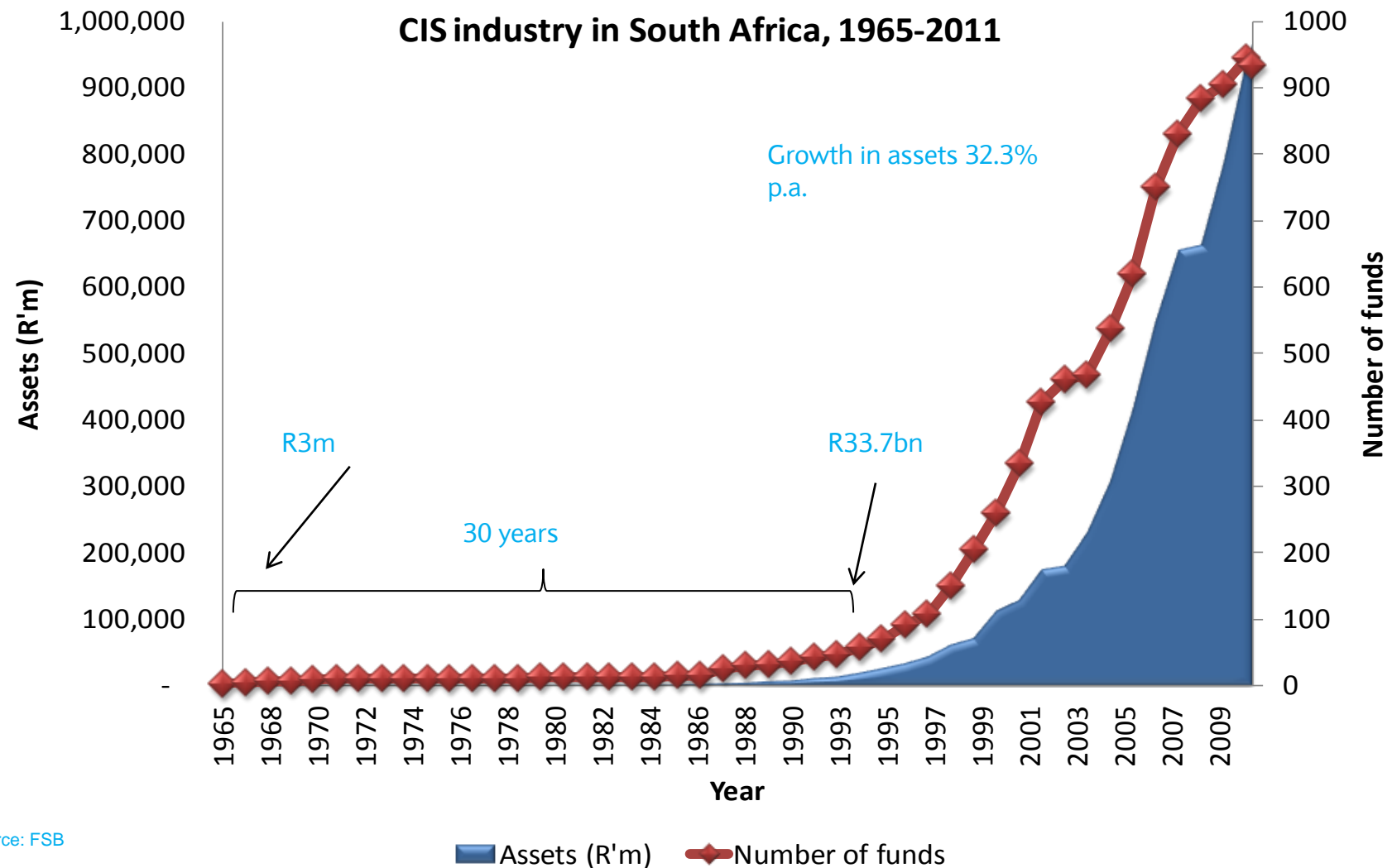
South African market - three investments paradigms...



- It takes a long time for a new category to be accepted, due to investor and institutional inertia
- In order to understand where the ETP industry is going, we need to understand where the unit trust industry is now...

Source: FSB, JSE

Unit trust industry in South Africa



Source: FSB

Challenges facing African exchanges and ETFs as a possible solution

- Several challenges facing African exchanges:
 - Lack of viable investment opportunities – generally, demand far outweighs the supply
 - Securities in issue are tightly held and the secondary – exchange mediated – trade is very thin and inefficient
 - Low market liquidity
 - Regulatory and system challenges
- ETFs would in principle provide retail and institutional investors with an easy, convenient and cost effective access to various assets, diversified portfolios of assets and whole markets.
- it would provide investors with an access to previously unavailable asset classes, thus improving diversification opportunities and reducing investment risk