

Why Invest in ETFs?

ETFs serve 2 main purposes in a portfolio:

- Strategic Allocation
 - Core holding in single asset class
 - ETF per asset class in balanced fund
 - Low cost of holding
 - Efficient representation of asset class returns
- Tactical allocation to asset classes, styles
 - Fast 'equitisation' of cash
 - Low cost of trading
 - Exempt from Stamp Duty

Why ETFs as opposed to Unit Trusts

ETFs are superior 'wrapper' for index trackers

- Live pricing – intraday liquidity
- Lower transaction costs
 - Intervention of market maker
 - No stamp duty on new assets
- Primary market operations – stock exchange back office
 - Most UT's use proprietary systems – lack economies of scale

NewFunds ETFs on the BSE

- Currently 3 products
 - NewGold ETF
 - NewPlat ETF
 - NewFunds ILBI ETF

- Provide access to asset classes that are difficult to access
 - Gold
 - Platinum
 - Inflation-Linked Bonds

NewGold Exchange Traded Fund

Gold is Money – Ancient Wisdom

- a. Solid
- b. Not radioactive
- c. Non-corrosive
- d. Robust
- e. Easily smelted (contrast with platinum)
- f. Rare, but not too rare
- g. Doesn't tarnish (like silver)

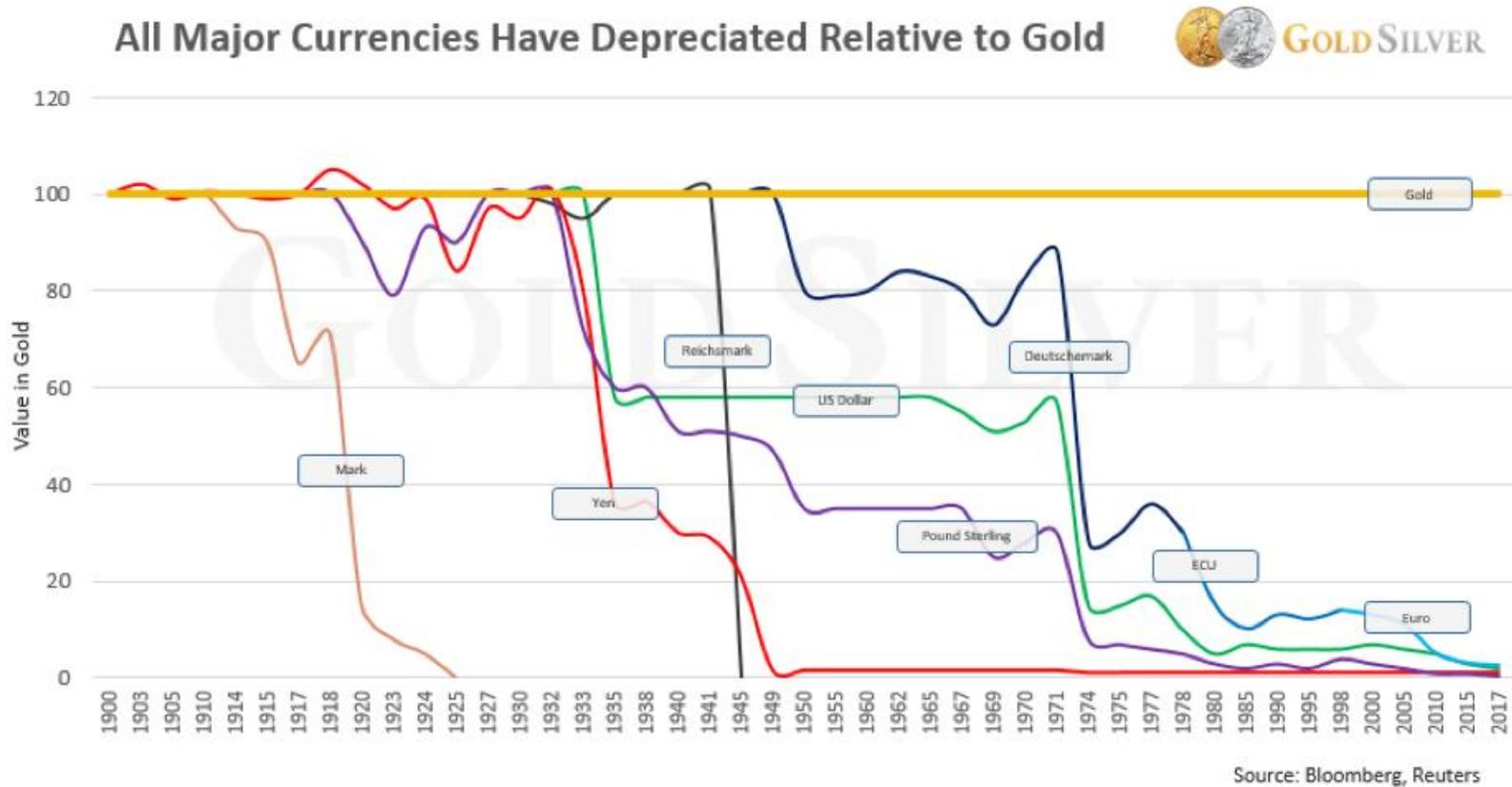
Gold as a Store of Wealth

Gold is a Store of Wealth

- Hedge against Pula weakness v USD

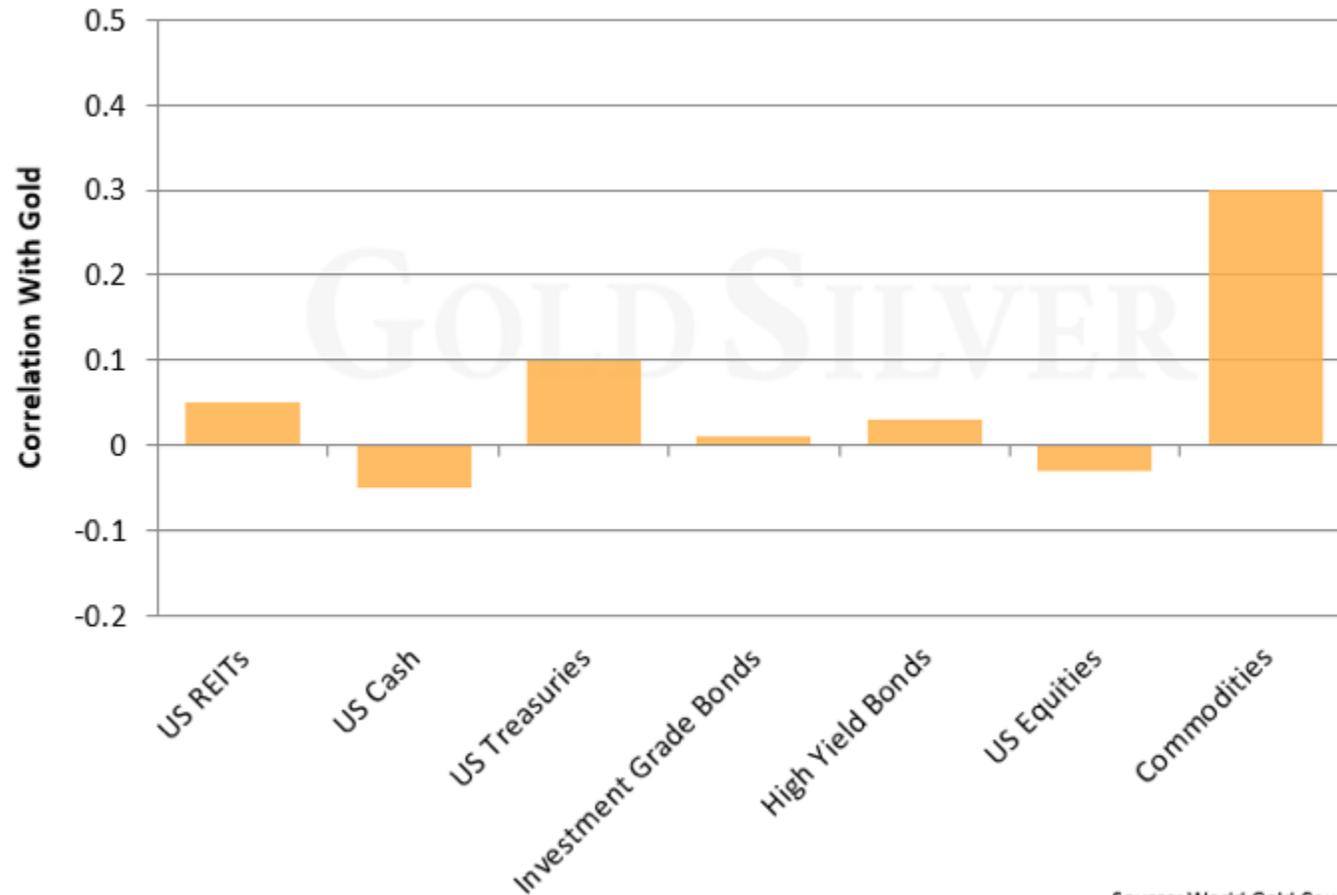


Gold as a Currency Hedge



Gold as a Risk Diversifier

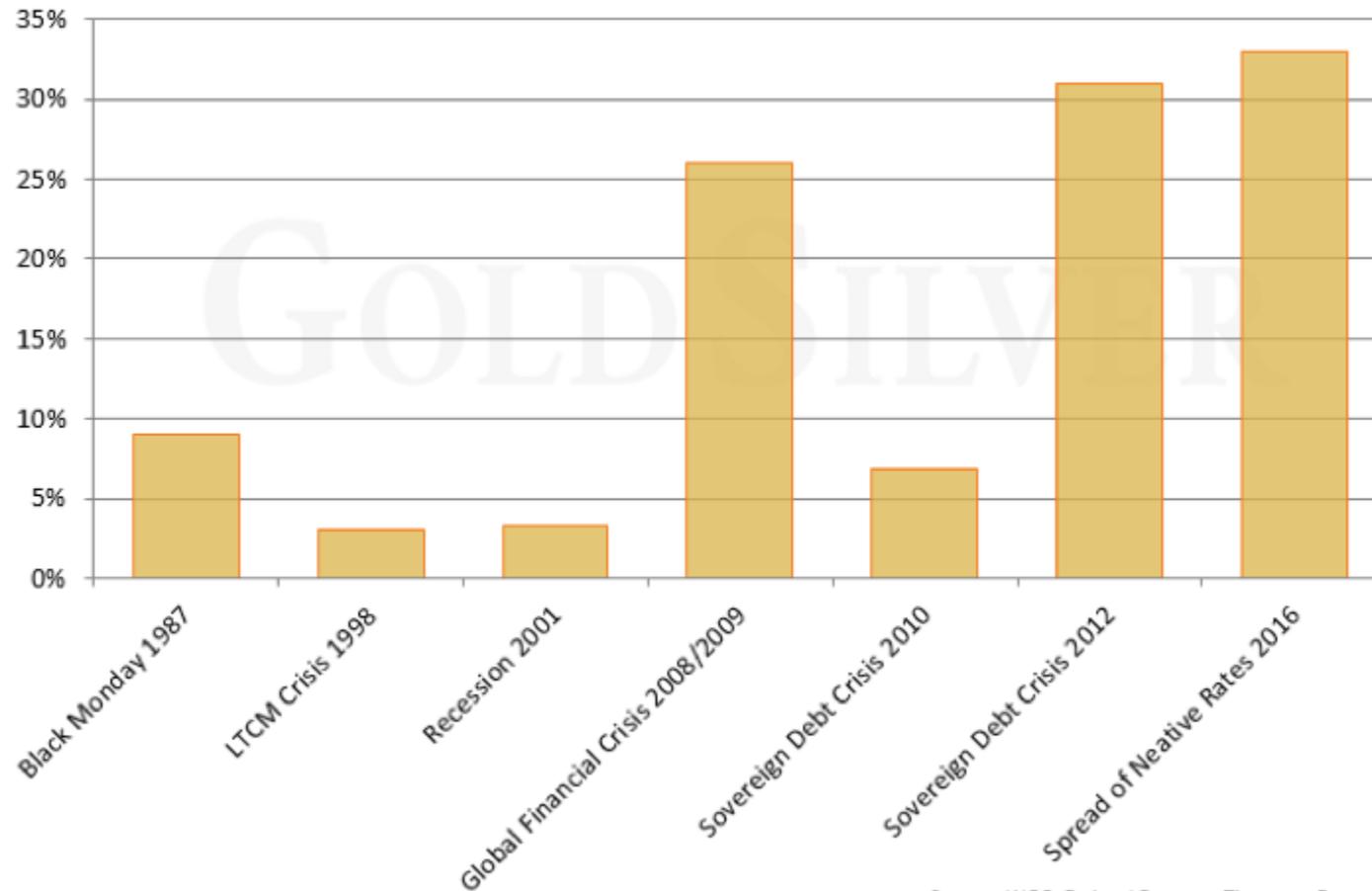
Stocks Have A Negative Correlation To Gold



Source: World Gold Council

Gold as a Safe Haven

Gold Performance During Periods of Systemic Risk GOLD SILVER



Source: WGC, Federal Reserve, Thomson Reuters

Criticism of Gold

1. Gold has no yield

- No physical money has a yield
- Yield is paid to compensate for risk taken
- Cash v deposit
- No credit risk

2. Gold has no industrial utility

- Not subject to supply and demand based on industrial activity
- It is money, not an industrial commodity
- It is a precious metal not an industrial metal

NewPlats Exchange Traded Fund

Despite their similarities, Platinum is quite different from Gold

- 10% of world gold production – trades at a premium
- Has utility – price very sensitive to supply and demand due to industrial use
- Speculative – precious- and industrial metal
- Defensive but more volatile than gold
- 65% correlation with gold
 - Diversification benefit of holding both

NewFunds ILBI ETF

- Tracks the performance of the Barclays SA ILBI Total Return Index
- Designed to provide a real return over inflation (currently ~2.5%)
 - equities and gold do an ok job over the long-term only
- Capital : nominal amount increases based on printed inflation
 - good for preserving real wealth
- Income : coupon is based on adjusted nominal
 - good for hedging inflation linked expenses
- Not for taking a view on inflation!
 - designed to make you indifferent to inflation
- Watch the real yield!

Trends in Equity Index Products

- Smart Beta is the hot topic
 - Constituents selected by parameters other than market capitalisation
 - Low Volatility, Momentum, Value, Growth are most popular
- NewFunds has designed proprietary indices - Momentum, Value, Low Volatility
- Differentiator from Competitors? Indices not weighted by market cap
 - Weighted according to inverse of Shares volatility
 - Each share contributes equally to portfolios risk, as measured by volatility
 - Equal Risk Contribution

Rules-Based Asset Allocation

- Indices to manage equity risk
- Target Volatility Indices – allocate to equity and cash
- Proportions determined by [Target Volatility](#) relative to investor chosen volatility

Thank You!

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