

# 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

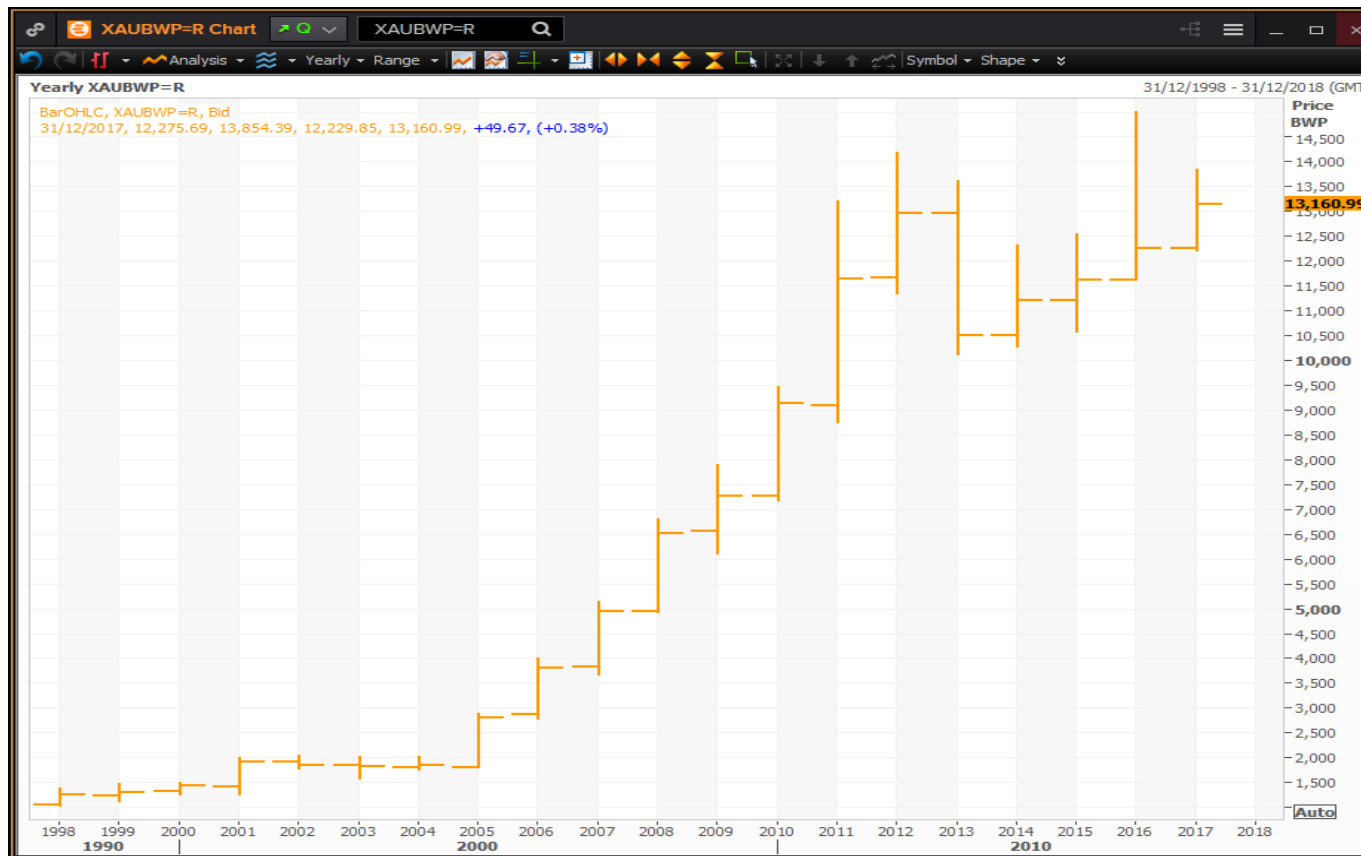
Gold is Money – Ancient Wisdom

- 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)

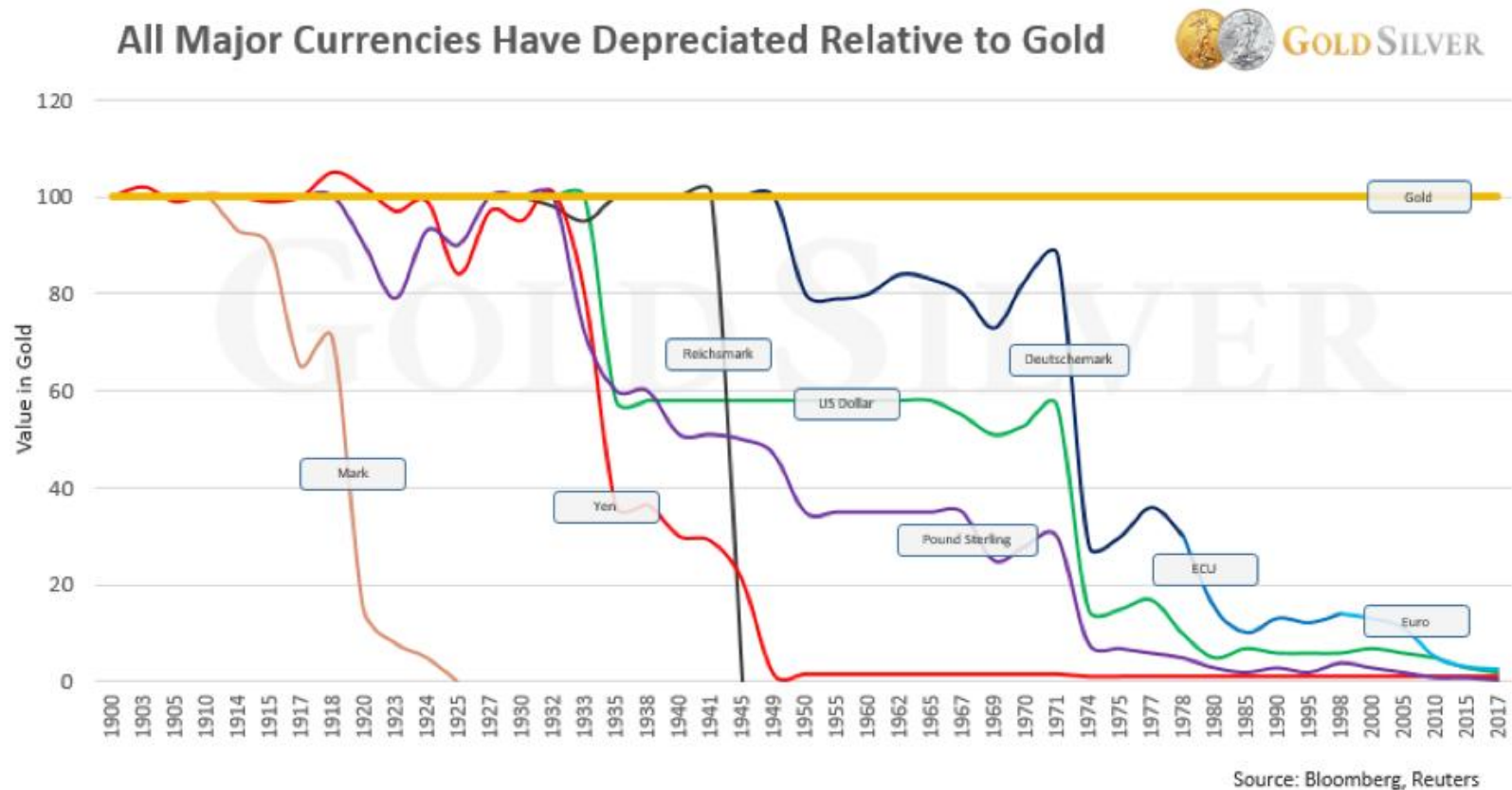
# Gold as a Store of Wealth

Gold is a Store of Wealth

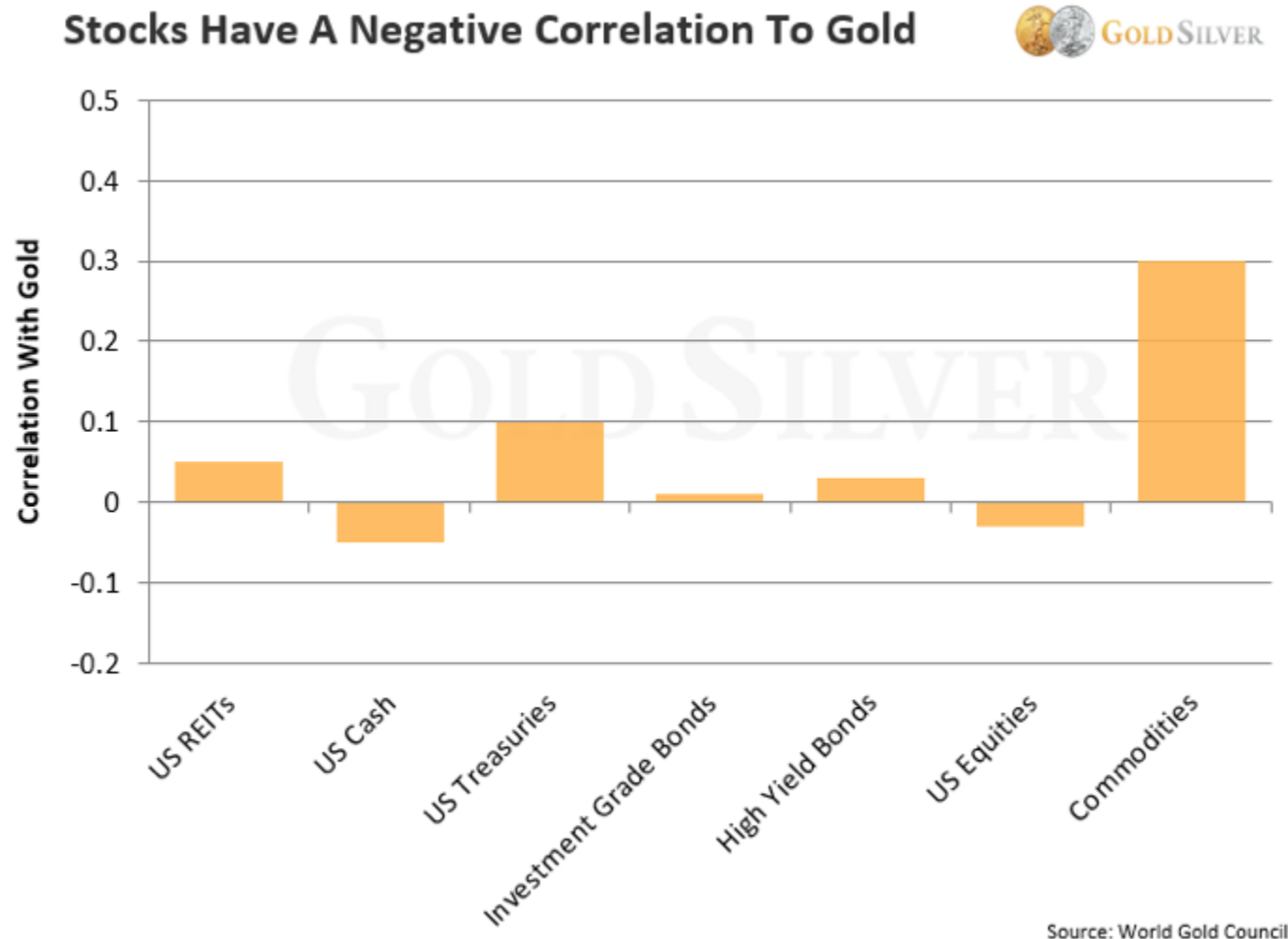
- Hedge against Pula weakness v USD



# Gold as a Currency Hedge

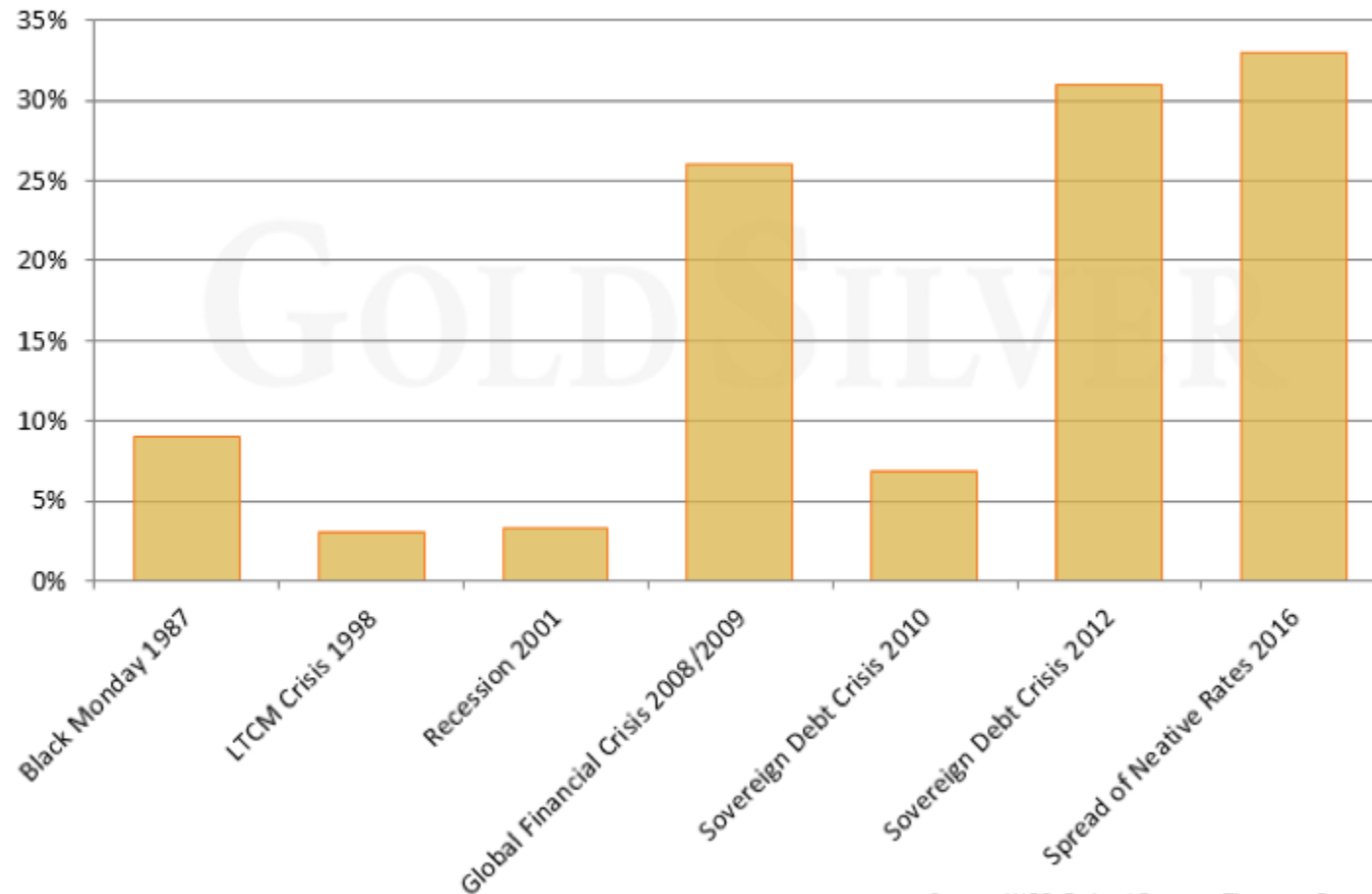


# Gold as a Risk Diversifier



# 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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