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iTransact
Investment Platform



**SOUTH AFRICAN
EXCHANGE TRADED
PRODUCTS REVIEW**

A LEADING SOUTH AFRICAN INVESTMENT PLATFORM

ITRANSACT IS A LICENSED FINANCIAL SERVICES PROVIDER

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DOCUMENT PURPOSE

The purpose of this document is to help investors and professional financial advisors understand and use of Exchange Traded Products (ETPs for short). ETPs are investment products and funds that are listed on the stock exchange just like a share. They are also known as index funds. Most index funds are structured as South African units trusts, providing investors with important protection mechanisms against insolvency of the fund manager or administrator for example.

ETPs are growing rapidly in popularity around the world, because they make investing simple and cost effective.

This document covers the basics of how ETPs work, their unique investment features, and how they fit into wealth creation strategies. It also covers how best to evaluate ETPs to identify the right products to fit most investment objectives allowing investors and advisors, big and small, to build institutional-calibre investment portfolios with management fees significantly lower than those typical of traditional unit trusts. High levels of transparency for both the holdings and the investment strategy help investors and advisors easily evaluate an ETP's potential returns and risks.

Welcome to the
world of low cost
exchange traded
products.

WHY ITRANSACT

Itransact makes investing simple by providing financial advisers and investors with access to a comprehensive range of high caliber low-cost investment products from leading South African and international asset managers and banks, all in one convenient place.

All investment products on our platform are regulated by the Financial Services Board for complete peace of mind.

Itransact was established in 2010 to address the high fees and costs of investing. And today, we're proud to be a leading low cost investment product platform.

We make the
market simple

PART ONE: INDEX FUND PORTFOLIO REPORT & PERFORMANCE

As at 30 September 2018

Justin Solms: Chief Investment Officer

The investment portfolios measured below comprise of multiple South African and inwardly listed International Exchange Traded Funds (ETFs) which are structured as regulated unit trusts which are listed on the Johannesburg Stock Exchange like a share.

Returns are after investment management fees which includes Index Solutions fees and the fees of the underlying index funds within each portfolio.

SEGREGATED PORTFOLIOS	1 YEAR	2 YEARS	3 YEARS	4 YEARS	5 YEARS	6 YEARS	SINCE INCEPTION	DATE OF INCEPTION
Conservative	5.81%	6.09%	5.51%	n/a	n/a	n/a	5.94%	2014-12-11
Cautious	4.74%	4.73%	5.32%	6.04%	6.86%	6.54%	7.29%	2012-04-17
Moderate	6.47%	6.86%	6.36%	8.07%	8.75%	8.64%	9.40%	2011-10-28
Growth	6.48%	8.00%	7.56%	7.16%	8.58%	9.41%	10.37%	2012-04-17
International	18.49%	13.80%	11.38%	12.00%	11.88%	n/a	10.29%	2013-04-03

RETIREMENT PORTFOLIOS (REG 28)	1 YEAR	2 YEARS	3 YEARS	4 YEARS	5 YEARS	6 YEARS	SINCE INCEPTION	DATE OF INCEPTION
Conservative	5.90%	5.90%	n/a	n/a	n/a	n/a	5.99%	2016-02-24
Cautious	1.31%	3.26%	4.08%	6.88%	6.45%	n/a	6.02%	2013-07-03
Moderate	1.47%	3.15%	4.36%	6.76%	7.39%	n/a	6.18%	2013-06-03
Growth	2.09%	5.67%	5.75%	7.96%	8.36%	n/a	6.97%	2013-05-15

Source: Index Solutions (*Annualised), 2018

Investment Portfolios and Retirement Portfolios vs South African Investment Sectors and CPI
5 Year Annualised Total Returns to 30 September 2018



Source: Index Solutions, Profile Data FE Analytics, 2018

REGIONAL ECONOMICS

South Africa is officially in a recession. The mismanagement of infrastructure by the Zuma administration over almost a decade has severely negatively impacted our economy and investor confidence whilst ratings companies continue to downgrade or threaten to downgrade our economic status levels. Similar mismanagement in Turkey and Argentina as well as Brazil have seen disinvestment as investors seek to reduce their risks. South African markets have certainly not been spared the contagion sweeping through emerging markets in general. Most vulnerable are the more liquid markets of South Africa and Brazil as investors find it easier to withdraw their capital from there. This has contributed to a much poorer exchange rate and with that looms the threat of higher inflation and a rise in interest rates.

Declining growth in our largest trading partner China raises the spectre of reduced exports to that country. As China imports South African commodities a slowing down of Chinese imports would also trigger a further shock to our already embattled economy.

Europe's economic fundamentals are softer this year than last. The overall economic growth of the region has been low. Consumer spending across the region was lower due to higher inflation and negative economic sentiment. A small rebound in export growth was dominated by the slowdown induced by U.S. trade tariff threats and the increasingly fragile tariff truce between Trump and the European Commission. In Italy there

persists a lack of political will to deal with an increasing debt pile. Fitch Ratings also posted a downgrade to this country in August which may have galvanised the Italian government to action. Contrasting to the Eurozone Germany's economic growth is on a firm footing due to solid domestic demand. European leaders have rejected the UK's most recent Brexit proposals raising the potential of a no-Brexit deal, further raising economic uncertainty in the UK and Europe.

The economy of the U.S. is experiencing strong growth with a near four year high in the second quarter. The manufacturing sector is running at full capacity with orders that should keep it productive for the coming months. Job creation and wage growth has led to consumer confidence which has had a positive effect on private spending. It is expected that Chinese trade tariffs may have some negative affect on the economy. The near term looks bright with tax cuts and increased federal expenditure expected through the rest of the year. Looming on the horizon is a full scale trade war between the U.S. and China. This could place a severe dampener on the U.S. economy should this transpire.

The trade war with the U.S. has started to affect economic growth in China. Despite strong domestic demand and high consumer confidence, higher energy commodity prices, increased volatility and softer exports cause the region's economy to lose steam in the third quarter.

SOUTH AFRICAN LISTED PROPERTY

Domestic listed property has always been an integral part of our market tracking investment philosophy due to its strong diversifying presence as a major asset class. Listed property has delivered its worst performance in a decade and fund managers do not expect the sector, which has been a reliable investment for several years,

to gain much momentum before 2019. The domestic JSE listed property index has suffered severe negative returns whilst global property indices have performed moderately well since the global property recovery in March.

SOUTH AFRICAN LISTED BONDS

After nearly three months of unabated selling, foreign investors are making a cautious return to South Africa's bond market. South Africa's local-currency bonds are rated Baa3, the lowest investment level, at Moody's Investors Service. While the threat of more tariffs between two of the largest economies in the world still lingers, South Africa's yields are high enough to compensate for the uncertainty in global markets.

RE-ALLOCATION OF PORTFOLIO CAPITAL

Domestic and regional markets have altered significantly in the last two years. Despite the passive nature of our investment philosophy, our analysis of market structure and performance has indicated that to successfully track a changing global market we have to significantly alter both our domestic as well as our international capital investment allocations to reflect these market changes or face the consequences.

Our quarterly asset allocation revision yielded the following outcomes:

1. Our analysis of domestic property indicates that global is preferable if we are to maintain property as an important diversifier and major asset class. We have withdrawn entirely from domestic property and have moved much of this to global property, increasing the overall offshore exposure of many of our products.
2. Domestic bonds have become too risky and analysis indicates that inclusion of domestic bonds would hurt the portfolios. This condition may change soon which would see domestic bonds slowly creep back into our asset allocation. The consequence of this is a higher exposure to the money market Traci index.
3. For now our analysis shows that Asian markets are too inefficient to invest in.
4. Our analysis for our international portfolio indicates that Eurozone and Emerging markets have become largely inefficient to U.S. markets. Japan is however a strong diversifier in the portfolio product and is included. What is unusual

and at first unintuitive is the inclusion of the MSCI world index in this product, but its efficiency and diversification power cause it to be included, especially when dropping the Eurozone from the product.

5. Due to these movements in asset allocation there is a general increase in offshore allocation. This was not as strong an increase for our prudential portfolios due to the offshore limit of a maximum of 30% of capital.
6. This movement has also resulted in a more homogeneous asset allocation structure across all our domestic products. This has the advantage of offsetting the trading costs incurred by the reallocation of assets due to increased bulk trade efficiency.

This was by far our largest revision to date and involved a turnover of slightly over R100m and an additional 4.5 bips in transaction fees to clients (based on our administrators advised cost of 8bips per trade volume). This revision was applied over 11 separate trade instructions sessions (trade days) to keep individual trade orders under R4m as there is a definite lack of liquidity in the small SA ETF market, especially in the afternoons.

It should also be noted that this revision was considered absolutely necessary and not a moment too soon. The revision has already paid off as the exchange rates have moved poorly against South Africa in the recent month and the market woes above have only increased since.

NEW PRODUCTS

Our long awaited Living Annuity product has arrived. In keeping with our investment philosophy the living annuity product will again be a range of risk adjusted portfolio products to choose from.

We have a living annuity range which does not restrict itself to prudential guidelines and thus has a better chance of achieving inflation beating performance. Although not meant for saving as such, the term "Savings" in the product name is merely there to indicate that the portfolio asset allocation is based on its identically named, pre-existing, savings portfolio product counterpart, all of which have an already lengthy track record with good performance. The product names are:

- Conservative Savings Living Annuity
- Cautious Savings Living Annuity
- Moderate Savings Living Annuity
- Growth Savings Living Annuity

We have a special living annuity version of our International Savings product which exposes the

investor entirely to non-domestic indices called the International Savings Living Annuity

We have a living annuity version of our Satrix Moderate Savings portfolio called Satrix Moderate Savings Living Annuity

For investors constrained to prudential asset allocation (Regulation 28) we have created living annuity versions of our prudential portfolios. These too have identical counterparts in our retirement annuity products and are based on the identical asset allocation that has a long and proven track record.

- Conservative Prudential Living Annuity
- Cautious Prudential Living Annuity
- Moderate Prudential Living Annuity
- Growth Prudential Living Annuity

Lastly we have included a prudential living annuity version of our Satrix Moderate prudential portfolio called Satrix Moderate Prudential Living Annuity.

SOUTH AFRICAN ECONOMIC INDICATORS

Economic forecasts for South Africa including a long-term outlook for the next decades, plus medium-term expectations for the next four quarters and short-term market predictions for the next release affecting the South Africa economy.

OVERVIEW	MEASURE	Actual	Q4/18	Q1/19	Q2/19	Q3/19	2020
GDP Growth Rate	%	-0.7	1	1.1	1.3	1.5	2
Unemployment Rate	%	27.5	27.4	27.6	27.8	28	24
Inflation Rate	%	4.9	4.8	5.7	5.9	5.8	5.4
Interest Rate	%	6.5	6.75	6.75	6.75	7	7.75
Balance of Trade	ZAR (m)	-2950	472	-1578	-1307	-1408	-1700
Government Debt to GDP	%	53.1	54	55	55	55	56
MARKETS	MEASURE	Actual	Q4/18	Q1/19	Q2/19	Q3/19	2020
Currency	%	14.39	14.58	14.78	14.99	15.19	16.05
Government Bond 10Y	%	9.19	9.09	9.19	9.28	9.38	9.77
Stock Market	%	51249	55104	54428	53759	53095	50531

Source: Trading Economics 2018

PART TWO: INDEX FUND PERFORMANCE

As at 30 September 2018

The index funds measured below are South African and inwardly listed International Exchange Traded Funds (ETFs) which are structured as regulated unit trusts which are listed on the Johannesburg Stock Exchange like a share.

SA GENERAL EQUITY

Definition: General equity ETFs provide exposure to the largest companies in South Africa.

FUND	1 YEAR	3 YEAR	5 YEAR	10 YEAR
Absa NewFunds SWIX 40	0.30	4.52	7.09	-
Absa NewFunds S&P GIVI SA Top 50	-6.12	-2.26	2.18	8.35
Ashburton MidCap	-1.41	5.21	6.57	-
Ashburton Top 40	4.26	6.58	7.82	-
CoreShares Top 50	6.27	7.73		-
Satrix 40	4.91	6.58	8.31	11.89
Satrix SWIX TOP 40	2.37	5.33	8.46	12.13
Stanlib Swix 40	1.14	5.42	7.93	-
Stanlib Top 40	4.55	6.97	8.06	-
Sygnia Itrix SWIX 40	-	-	-	-
Sygnia Itrix Top 40	-	-	-	-

Source: Profile Data, Fund Analytics. Annualised

SA SECTOR

Definition: Sector ETFs provide investors with instant diversification to parts of the market at opportune times where investors can capture underlying trends in the economy.

FUND	1 YEAR	3 YEAR	5 YEAR	10 YEAR
Absa NewFunds S&P GIVI SA Financial	-0.18	-6.45	2.93	-
Absa NewFunds S&P GIVI SA Industrial	-22.08	-5.83	3.07	-
Absa NewFunds S&P GIVI SA Resource	21.20	30.32	10.97	-
Satrix Capped INDI	-6.22	2.99	8.79	17.45
Satrix FINI	14.26	5.85	11.90	14.02
Satrix RAFI 40	7.29	9.74	7.09	-
Satrix RESI	28.88	15.75	1.04	2.93

Source: Profile Data, Fund Analytics. Annualised

SA STYLE ETFS

Definition: Style ETFs use additional screening criteria and filters to fulfill a specific investment strategy through varying degrees of exposure to multiple sectors and indices in order to capture certain underlying market trends.

FUND	1 YEAR	3 YEAR	5 YEAR	10 YEAR
Absa NewFunds Value	-	-	-	-
Absa NewFunds Equity Momentum	-7.56	2.08	6.04	-
Absa NewFunds Low Volatility	-	-	-	-
Absa NewFunds MAPPS Growth	1.00	4.74	6.69	-
Absa NewFunds MAPPS Protect	1.45	4.39	6.00	-
Absa NewFunds NewSA	4.70	2.53	5.41	-
CoreShares Preftrax	6.31	8.25	5.88	-
CoreShares SA Dividend Aristocrats	1.48	4.71		-
Satrix Quality South Africa	13.39	-	-	-
Satrix RAFI 40	7.29	9.74	7.09	-
Satrix DIVI Plus	21.44	1.89	7.04	12.57
Absa NewFunds Shariah Top 40	8.26	5.55	1.17	-

Source: Profile Data, Fund Analytics. Annualised

SA REAL ESTATE

Definition: Property ETFs provide investors with exposure to products that provide yields (that can grow with inflation), whilst still being exposed to capital growth.

FUND	1 YEAR	3 YEAR	5 YEAR	10 YEAR
CoreShares PropTrax SAPY	-16.44	-1.45	6.39	12.50
CoreShares PropTrax Ten	-18.43	-1.15	7.79	-
Satrix Property	-11.21	-	-	-
Stanlib Property	-14.39	-0.57	7.19	-

Source: Profile Data, Fund Analytics. Annualised

SA FIXED INCOME

Definition: Fixed income ETFs provide investors with exposure to instruments that provide yield. Whereas cash ETFs provide investors with exposure to cash interest rates which makes it suitable to park money in.

FUND	1 YEAR	3 YEAR	5 YEAR	10 YEAR
Absa NewFunds Government Inflation (GOVI)	6.71	7.47	7.01	-
Absa NewFunds Inflation Linked Bond (ILBI)	1.07	2.90	4.97	-
Ashburton Government Inflation (GOVI)	0.32	2.60	4.72	-
Satrix Inflation-Linked Bond (ILBI)	0.69	-	-	-

Source: Profile Data, Fund Analytics. Annualised

SA MONEY MARKET

Definition: Cash ETFs provide investors with exposure to cash interest rates which makes it suitable to park money in.

FUND	1 YEAR	3 YEAR	5 YEAR	10 YEAR
Absa NewFunds TRACI	6.91	6.97	6.44	-

Source: Profile Data, Fund Analytics. Annualised

SA COMMODITIES

Note that despite being called an ETF, the below funds are not regulated unit trusts because they own a single commodity (as opposed to multiple diverse assets) and therefore do not conform to the rules of a regulated unit trust. The investor therefore accepts the solvency risk of the bank that issues the commodity.

Definition: Commodity ETFs provide investors with physical ownership of commodities.

FUND	1 YEAR	3 YEAR	5 YEAR	10 YEAR
Absa New Gold	-3.45	1.42	4.09	-
Absa New Plat	-7.40	-4.11	(4.52)	-
Absa NewGold Palladium	22.96	18.79	-	-
Standard Bank Africa Gold	-3.24	1.56	-	-
Standard Bank Africa Palladium	22.62	19.62	-	-
Standard Bank Africa Platinum	-6.88	3.87	-	-
Standard Bank Africa Rhodium	29.04	-	-	-

Source: Issuer Fact Sheets. Annualised.

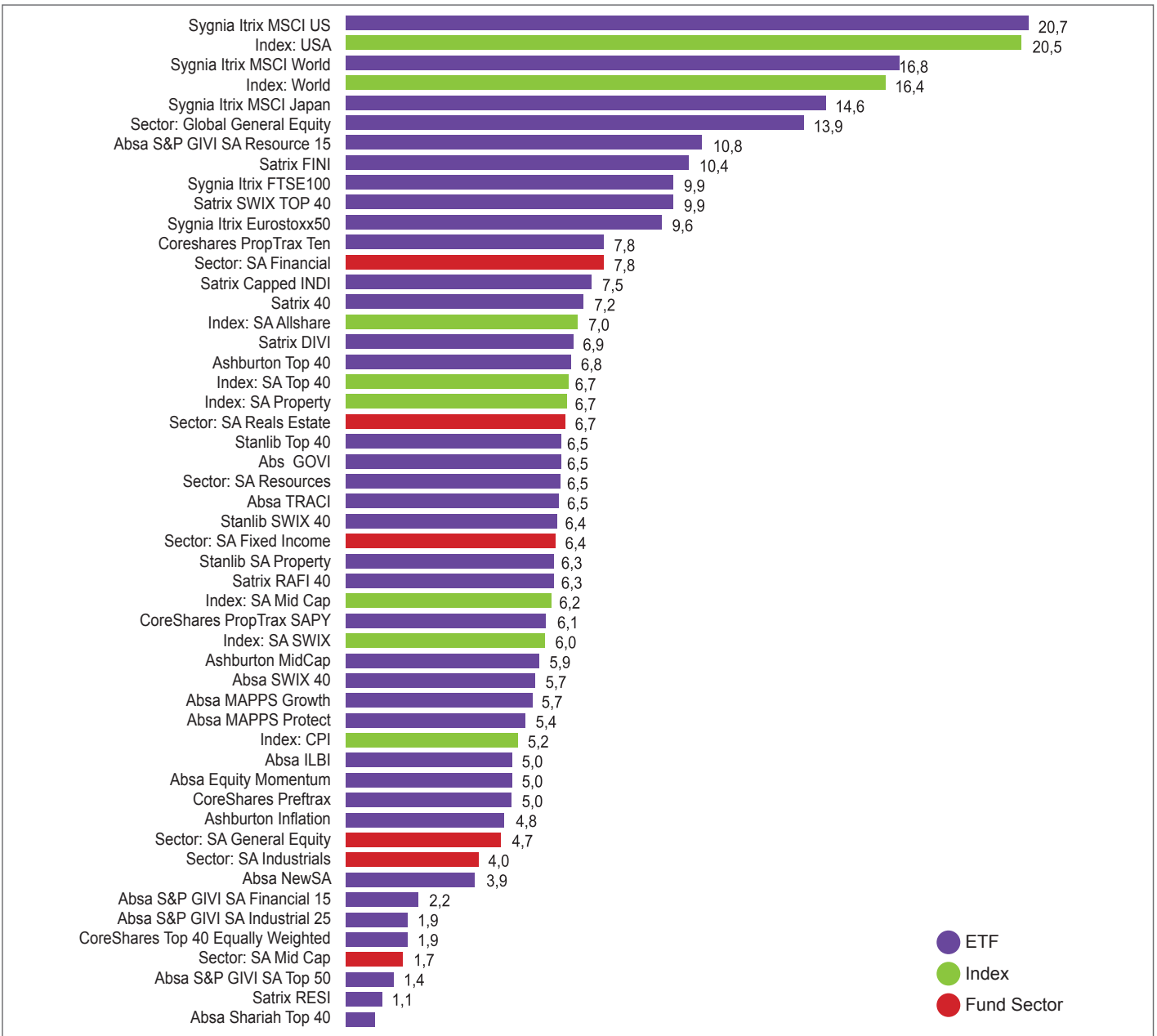
FOREIGN

Definition: International ETFs provide investors access to global markets and protection against periods of currency weakness

FUND	1 YEAR	3 YEAR	5 YEAR	10 YEAR
Ashburton Global 1200	-	-	-	-
Cloud Atlas AMI Big50 ex-SA	-3.12	-	-	-
CoreShares S&P 500	23.40	-	-	-
Satrix MSCI Emerging Markets	3.37	-	-	-
Satrix MSCI World	15.79	-	-	-
Satrix Nasdaq 100	-	-	-	-
Stanlib MSCI World	-	-	-	-
Stanlib S&P 500	-	-	-	-
Sygnia Itrix Eurostoxx50	-0.35	8.44	10.17	7.15
Sygnia Itrix FTSE100	7.81	6.71	9.40	10.00
Sygnia Itrix MSCI Japan	15.50	13.21	13.82	10.94
Sygnia Itrix MSCI US	22.70	17.47	20.93	17.61
Sygnia Itrix MSCI World	16.64	14.61	16.87	13.92
Sygnia Itrix S&P 500	-	-	-	-
Cloud Atlas AMI Real Estate ex-SA	-	-	-	-
CoreShares S&P Global Property	5.13	-	-	-
Coreshares Global Dividend Aristocrats	-	-	-	-
CoreShares Top50	6.27	7.73	-	-
Stanlib Global Property	-	-	-	-
Sygnia Itrix Global Property	-	-	-	-

Source: Profile Data, Fund Analytics. Annualised

Performance of all regulated ETFs over 5 years as at 30 September 2018



Source: Profile Data, Fund Analytics. Annualised

PART THREE: EXCHANGE TRADED NOTE (ETN) PERFORMANCE

The index funds measured below are South African and inwardly listed International Exchange Traded Notes (ETNs) which are structured as a note (as opposed to a unit trust) that synthetically tracks the performance of a particular commodity, sector or currency. The investor therefore accepts the solvency risk of the bank that issues the note. ETNs are listed on the Johannesburg Stock Exchange like a share.

SA COMMODITY ETNs

Definition: Commodity ETNs provide investors with synthetic exposure to commodity prices.

FUND	5 YEAR
Absa New Wave Platinum	-3.4
Absa New Wave Silver	-1.39
Standard Bank Africa Commodity Basket	2.49
Standard Bank Gold Linker	5.77
Standard Bank Silver Linker	-2.58
Standard Bank Palladium Linker	17.11
Standard Bank Platinum Linker	-4.29
Standard Bank Copper ETN	3.82
Standard Bank Corn	-6.28
Standard Bank Oil	-5.3
Standard Bank Wheat	-8.64

Source: Issuer Fact Sheets. Annualised

FOREIGN ETNs

Definition: International ETNs provide investors with synthetic exposure to global markets and protection against periods of currency weakness.

FUND	5 YEAR
db x-trackers China	13.0
db x-trackers Emerging Markets	8.0
db x-trackers Africa Top 50	3.8
Standard Bank Africa Equity	-1.1

Source: Issuer Fact Sheets. Annualised

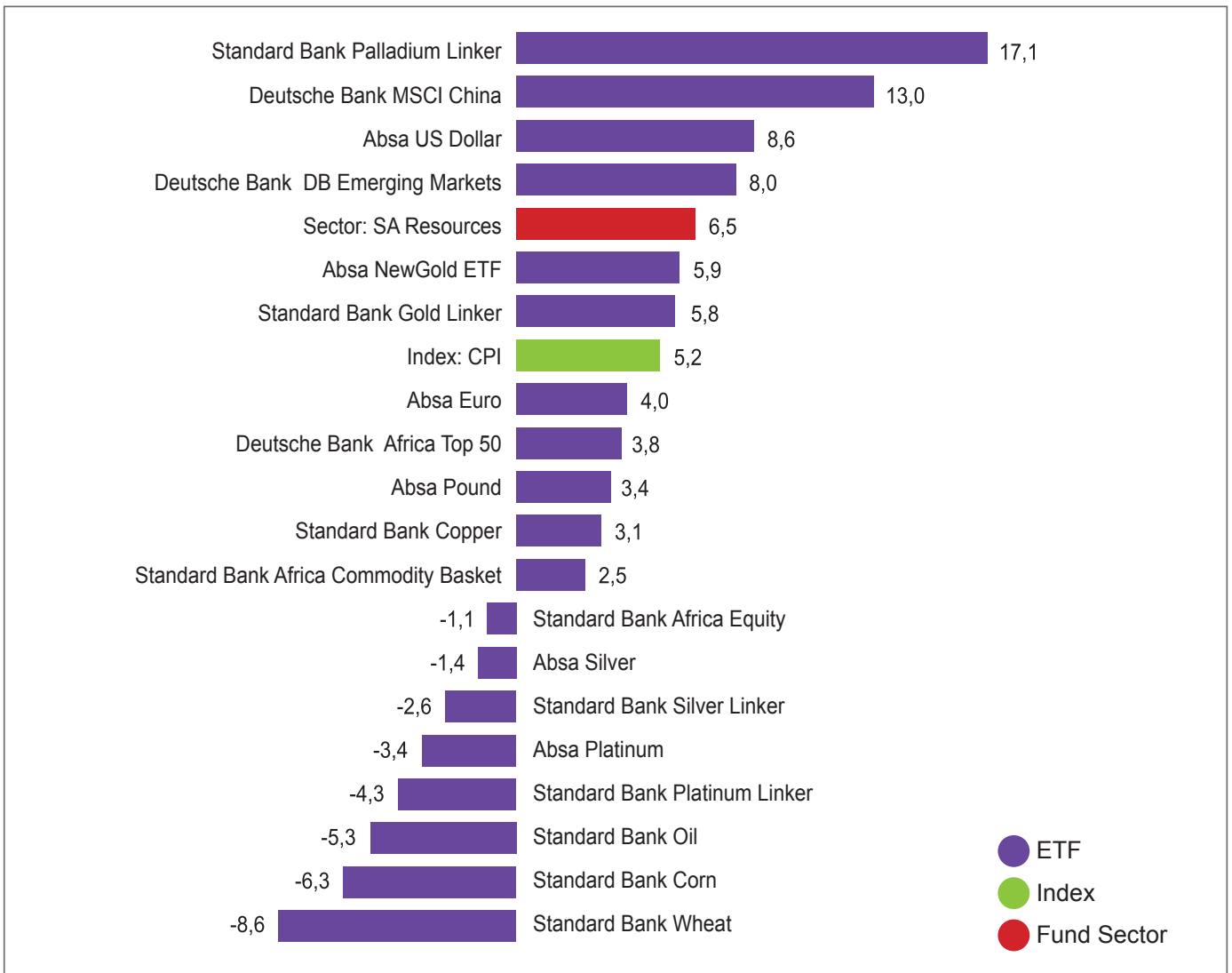
CURRENCY ETNs

Definition: Currency ETNs provide investors with synthetic exposure to global currencies and protection against periods of currency weakness.

FUND	5 YEAR
Absa New Wave Euro	4.0
Absa New Wave Pound	3.4
Absa New Wave US Dollar	7.7

Source: Issuer Fact Sheets. Annualised

Performance of all ETNs over 5 years as at 30 September 2018



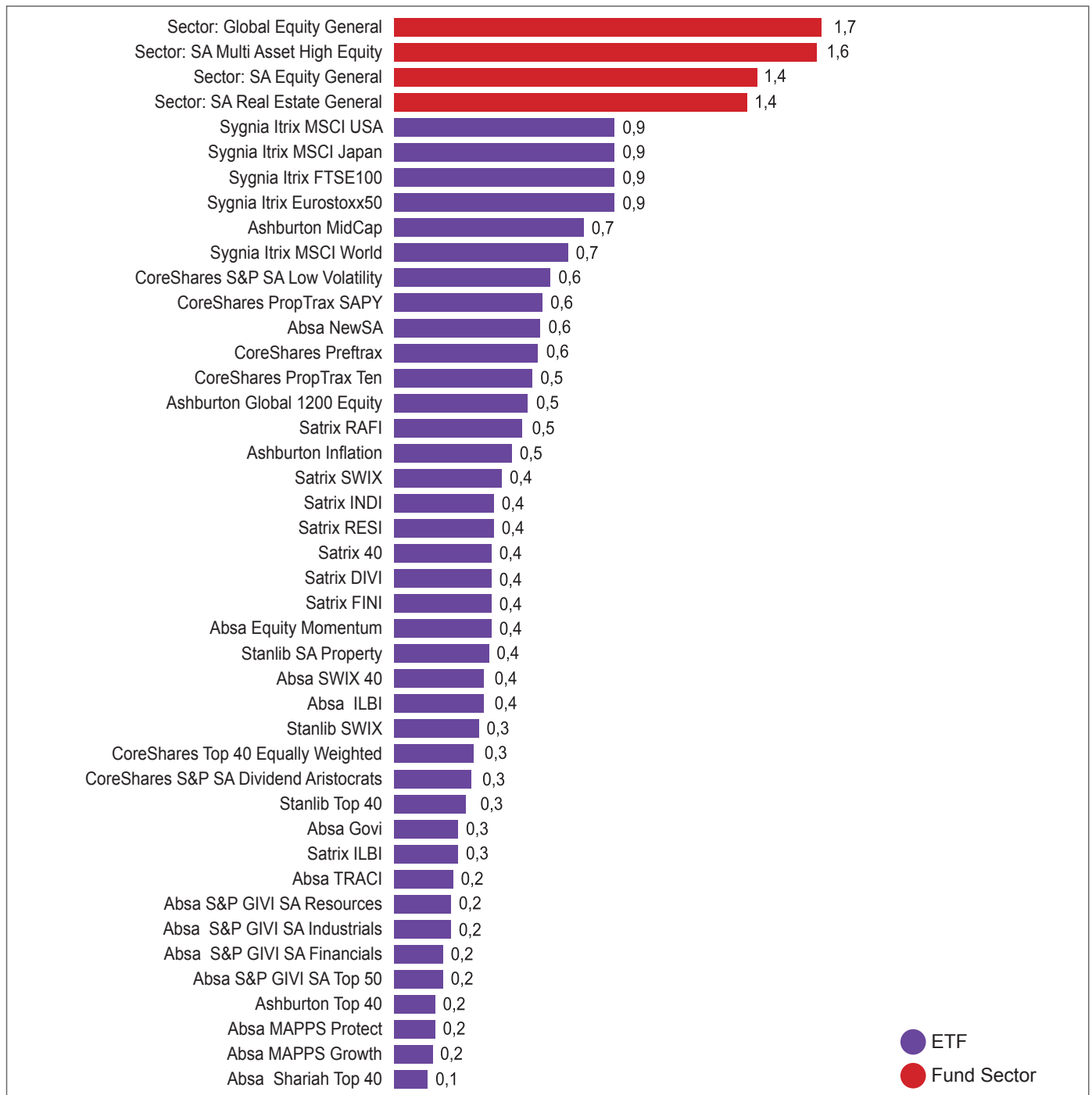
Source: Issuer Fact Sheets. Annualised

PART FOUR: FEES AND COSTS

ETF total expense ratios as at 30 September 2018

The fees and costs measured below show the costs of the fund manager and are expressed as a total expense ratio (or TER for short). TERs exclude other costs such as trading, financial advice and investment platform administration costs.

TERs of passively managed funds vs sector average of actively managed funds



Source: Profile Data, Fund Analytics. Annualised

TERs as a Percentage of Returns

Investors should note that fund management costs are deducted from the gross return of the fund.

For example, if fund management costs are 1% and a funds return before costs is 10% its stands to reason that the costs are actually 10% of the funds return.

Irrespective of positive or negative market returns, the costs of passively managed funds are on average **significantly cheaper** than actively managed funds.

Actively managed general equity funds over 1 year as at 30 September 2018	
1-year average return before fees	-6.5 %
Average TER (Costs)	1.41 %
Costs expressed as a % of the 1 year return	21.6 %
Passively managed broad market ETFs as at 30 September 2018	
1-year average return before fees	-5.8 %
Average TER (Costs)	0.52 %
Costs expressed as a % of the 1 year return	8.6%

Source: Profile Data, Fund Analytics. Annualised

PART FIVE: SOUTH AFRICAN AND GLOBAL GENERAL EQUITY vs THEIR BENCH

Despite there being a diverse menu of benchmarks which fund managers try to beat, the main benchmark is to see whether a fund manager has the ability to beat the market it competes in. Global research shows that on average, most actively managed funds struggle to beat the markets despite the high fees they charge in an attempt to beat the market.

This research suggests that simply investing in the markets via a low cost index fund or ETF may be a better choice

Actively managed South African and Global general equity funds vs their respective indices

As at 30 June 2018

REGION	INDEX	1 YEAR	3 YEAR	5 YEAR
South Africa	S&P South Africa DSW Index *	15.84 %	13.53 %	11.35 %
United States	S&P 500 Index **	36.54 %	21.36 %	23.51 %
Europe	S&P Europe 350 Index ***	41.17 %	37.18 %	25.70 %

Source: Standard & Poors. *This index adjusts the weights of the companies in the S&P South Africa Composite Index in order to reflect the level of ownership by South African investors. **This index is a market-capitalization-weighted index of the 500 largest U.S. publicly traded companies by market value. *** This index consists of 350 leading blue-chip companies drawn from 16 developed European markets.

PART SIX: ACTIVE FUNDS VS INDEX FUNDS COMPARISON

Passively managed Index Funds and/or ETFs are often left out of unit trust fund comparisons. The tables below include both passively managed and actively managed domestic and global general equity funds for comparative purposes.

As at 30 September 2018

Top 30 SA general equity ETFs vs. general equity unit trusts over 5 years



 Index Funds
 Active Funds

RANK	FUND	5 YEAR	FUND TER %	% OF ACTIVE FUNDS BEATEN BY ETFS *
1	Fairtree Equity Prescient	8.83	1.73	
2	Anchor BCI Equity	8.61	1.18	
3	Prescient Aylett Equity Prescient	8.38	1.31	
4	PSG Equity	8.24	1.73	
5	Satrix Momentum Index	7.43	0.69	
6	Allan Gray Equity	7.11	2.27	
7	Investec Equity	6.98	1.16	
8	BCI 36ONE BCI Equity	6.87	1.55	
9	Marriott Dividend Growth	6.71	1.17	
10	Sanlam Counterpoint SCI Dividend Equity Fund	6.47	1.15	
11	Prescient ClucasGray Equity Prescient	6.29	1.90	
12	Kagiso Islamic Equity	6.20	1.46	
13	Bridge Equity Income Growth	6.17	1.21	
14	Prudential Dividend Maximiser	6.17	2.01	
15	Prudential Equity	5.91	2.02	
16	Stanlib SWIX	5.84	0.33	84 %
17	Sanlam Truffle Sanlam Collective Investments General Equity	5.81	1.38	
18	Satrix DIVI	5.78	0.38	82 %
19	RMB Ashburton Top 40	5.75	0.16	81 %
20	Absa Prime Equity	5.72	1.15	
21	RMB Ashburton MidCap	5.66	0.73	79 %
22	Sanlam Private Wealth Equity Fund	5.62	1.81	
23	Prescient 27four Shariah Active Equity Prescient	5.62	2.23	
24	Gryphon All Share Tracker	5.60	0.34	
25	Stanlib Top 40	5.60	0.28	75 %
26	Sanlam SIM Top Choice Equity	5.59	1.14	
27	H4 Focused Wealth	5.53	1.47	
28	Nedgroup Investments Entrepreneur	5.53	1.73	
29	NewFunds SWIX 40	5.48	0.33	71 %
30	Satrix 40	5.48	0.31	70 %

Source: Profile Data, Fund Analytics. Annualised

*Against 100 funds but report only shows top 30

Top 10 global equity index funds vs. Global general equity unit trusts over 5 years

	Index Funds
	Active Funds

RANK	FUND	5 YEAR	FUND TER %	% OF ACTIVE FUNDS BEATEN BY ETFS *
1	Sygnia Itrix MSCI USA	18.40	0.86	100 %
2	Old Mutual Global Equity	15.76	2.09	
3	Investec Global Franchise Feeder	15.58	1.38	
4	Nedgroup Investments Global Equity	15.57	1.56	
5	Discovery Global Value Equity	14.92	2.03	
6	Sygnia Itrix MSCI World	14.60	0.68	60 %
7	Alexander Forbes Investments Global Equity	13.95	0.99	
8	PSG Wealth Global Creator	13.64	2.57	
9	Satrix MSCI World Equity	13.42	0.89	
10	STANLIB Global Equity	13.21	1.81	

Source: Profile Data, Fund Analytics. Annualised

PERSISTENCY OF PERFORMANCE

SOUTH AFRICAN GENERAL EQUITY FUNDS	1 YEAR	3 YEARS	5 YEARS
Total number of actively managed funds in play over all periods	170	140	112
Number of actively managed funds beating the index over all periods	32	14	7

Source: Profile Data, Fund Analytics. Annualised

PART SEVEN: INTRODUCTION TO EXCHANGE TRADED PRODUCTS

Traditionally, investing in the market has meant searching for individual shares or investing in unit trusts that try and pick the winning shares in an attempt to do better than the market. This is known as active investing.

This style of investing requires great skill. That skill comes at a price. Strange as it may seem, it is this price that results in a large number of actively-managed funds underperforming, not outperforming, the market. Despite the share market's impressive long term growth, many investment professionals believe they can consistently outperform markets by picking stocks, and then buying them when the market dips, and selling when it peaks. Over many decades, around the world,

documented research has proven that approximately 80% of active funds that invest in the market will fail to do what they are paid to do – outperform the market.

When it comes to simplicity, one of the best investment products you can own doesn't try to pick the winners, but invests in all the shares of a market index. For instance, it is possible for you to own the top 40 or even 50 shares on the Johannesburg Stock Exchange with one simple investment. Because there is no "skill" involved in investing like this (a computer simply tracks and captures the best performing shares in the index it tracks), the costs are much lower than active funds. This way of investing also removes the risk of a manager getting it wrong and underperforming.

Exchange Traded Products don't try to do better than the market, but because of their lower costs they often end up beating the funds that try.

PART EIGHT: HISTORY OF EXCHANGE TRADED PRODUCTS

In 1975, a gentleman called John Bogle (founder of “Vanguard” one of the world’s largest investment companies) came up with a revolutionary way to invest.

Index (or passive) investing was born. In other words, John Bogle was using the entire market to grow the wealth of investors – and he was cutting the costs of their investing to the bone. Today, index investing – in the form of Exchange Traded Products – provides investors with the performance of the market, or a section of the market, no more and no less, but without the expensive costs of active management. You may say that it is possible to beat the market. In some cases you will be right. But the odds are heavily stacked against you.

Do not try to beat the market. Instead, invest in a fund that delivers exactly the performance of the market – but without active management and its associated costs.

PART NINE: DIFFERENT TYPES OF EXCHANGE TRADED PRODUCTS

ETPs are broken down into two main types.

1. Exchange Traded Funds (ETFs) Also known as Index Funds
2. Exchange Traded Notes (ETNs)

Exchange Traded Funds (ETFs)

ETFs are simply low cost unit trust funds that physically track (mirror) an index. This means that the fund owns the physical stock of the index and the investor purchases a participatory investment in the fund, which then trades as an ETF on the stock market. Most ETFs in South Africa are registered as Collective Investment Schemes (unit trusts), which are regulated by the Financial Services Board (FSB) under the Collective Investment Schemes Act (CISCA). This ensures that an investor’s assets are protected from any type of default by an ETF issuer (normally a bank).

Exchange Traded Notes (ETNs)

ETNs are not “funds” in the true sense of the word; they are unsecured debt obligations of the institution that issues them (normally a bank). They are structured as a promise to pay a pattern of returns based on the return of a particular index and therefore do not physically hold the assets in a trust like ETFs. ETNs are used to gain access to unique parts of the markets, such as commodities and currencies. Most ETN issuers have the ability to access many other exotic assets, such as oil, wheat, and corn via their global trading operations, and offer these opportunities to investors who cannot easily access these exposures directly.

PART TEN: ACTIVE INVESTING VS PASSIVE INVESTING

Investment Costs

Active Investing



Passive Investing

ACTIVE INVESTING	PASSIVE INVESTING
Actively managed funds try to beat the market. This costs more and therefore have higher fees associated with them.	Passively managed funds don't try to beat the market. They are the market and therefore have lower fees associated with them.
Active fund managers constantly buy and sell, looking for needles in the haystack – the star performers.	A passively managed fund buys the haystack. It buys all the shares in the index and holds them.
An actively managed fund's performance depends on the fund manager's skill and luck. It may or may not outperform its investment objectives.	A passively managed fund does not attempt to beat the market, it simply provides the performance of the index, no more, and no less.
Most actively managed funds do not disclose their holdings regularly – they would be disclosing in-formation to rival companies.	Passively managed funds are 100% transparent. The constituents of the index are published daily in the press.

PART ELEVEN: HOW INVESTMENTS COSTS DESTROY RETURNS

Exchange Traded Products are low cost because they are simple. Complexity results in higher costs. Costs destroy returns, and each percentage point saved can have a remarkable outcome over time.

“We never employ fund managers (some of the world's most highly paid people) since we discovered their best kept secret – they could never consistently beat the stock market index”

- Richard Branson

“Most institutional and individual investors will find the best way to own common stock is through an index fund that charges minimal fees. Those following this path are sure to beat the net results [after fees and expenses] delivered by the great majority of investment professionals.”

- Trevor Manuel

“It is a failure of the system when money managers are paid huge sums to move money around while nobody but the investors themselves suffer the costs of under-performance”

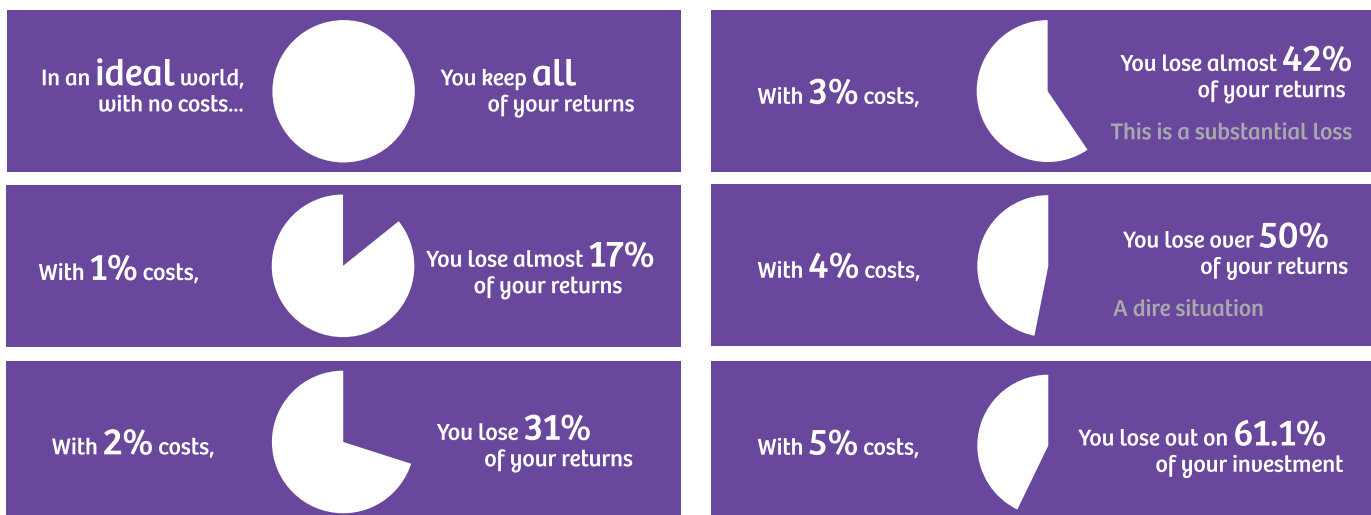
- Warren Buffett

THE EFFECT OF COSTS OVER TIME

The example below illustrates the devastating costs effect of costs over time.

Assumptions

- Amount Invested: R100 000
- Term: 20 Years
- Returns: Total Return of 15% Per Annum
- Inflation: 6% Per Annum



DISCLAIMER

Exchange Traded Products are subject to risks similar to those of shares. Investment returns will fluctuate and are subject to market volatility, and when bought or sold, may be worth more or less than their original value. Past performance is not necessarily a guide to the future. The information furnished in this publication, which may include opinions, estimates, indicative rates, terms, price quotations and projections, reflects the existing judgment of the various contributing authors and current market conditions, which judgment and conditions are subject to change without notice, modification or amendment.

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CONTACT DETAILS

Financial Advisors 0861 432 383

Investors 0861 468 383

info@itransact.co.za

www.itransact.co.za