



**THE Nigerian
STOCK EXCHANGE**

EXCHANGE TRADED FUNDS WORKSHOP 2016

**STOCK EXCHANGE HOUSE
2/4 CUSTOMS STREET
LAGOS ISLAND.**

**NOVEMBER 7, 2016
9:00 a.m. - 2:30 p.m.**

In partnership with:



Stanbic IBTC
Asset Management



Lotus Capital
HALAL INVESTMENTS



VETIVA
EQUITY MANAGEMENT

NSE EXCHANGE TRADED FUNDS WORKSHOP 2016

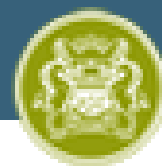
THE ROLE AND EVOLUTION OF INDEXES

Gareth Allison

Executive Director

MSCI Sub-Saharan Africa

November 7 2016



Overview

- Index Evolution & Best Practice
- The Changing Face of Markets
- The MSCI Approach
- Why NSE/MSCI Partnership?
- Q&A

INDEX EVOLUTION & BEST PRACTICE

WHAT ARE INDEXES USED FOR?

1. Policy benchmarks

- Indexes serve as benchmarks for the relevant investment universe

2. Accurate gauge of “the market” and various asset classes

- Statistics provide a useful gauge of markets and their economic outlook
- Performance, fundamental & valuation ratios

3. Performance measurement

- Measurement of a security’s or fund’s performance vs “the market”
- Measurement is only possible relative to an objective reference point and frame of reference
- Performance attribution to identify and explain the sources of over or under-performance
- Identify under/over-performing funds, asset managers, internally or external portfolio managers
- Indices can serve as the basis for fee-based performance fees

4. Assist with asset allocation and (equity) portfolio construction

- Determine asset allocation – indices provide “building blocks” and define the opportunity set
- Provides a universe of securities for analysis purposes, or stock picking
- Historical data to back-test effectiveness of different investment approaches

4. Basis for indexed investment products

- Passive funds, ETFs, ETNs,
- Futures contracts, structured products

WHAT MAKES A GOOD INDEX?

MSCI continuously consults with clients on index changes of potential impact to ensure relevance and adoption. Examples of such consultations include:

CHARACTERISTIC	HOW
1. Completeness	Broad exposure to asset classes, and broad within a given asset class
2. Investability and replicability	Ease of access to underlying securities in an index, taking into account investment restrictions and liquidity
3. Transparency	Clear and transparent rules, methodology, governance and index governance principles, publicly available. Predictable.
4. Accuracy and completeness of data	Availability of historical data. Daily price, net, total return indices; reliable data, timely release of data and index changes.
5. Acceptance by investors	Implies understanding clients needs through regular interaction
6. Crossing opportunities, availability of (cheap and liquid) derivatives	For hedging, securitization, transitions in portfolio
7. Low turnover, transaction costs	To lower transaction costs, the index needs strong rules to reduce turnover

Source: Northern Trust

BUILDING EFFECTIVE BENCHMARKS

Benchmark Best Practice

Benchmarks are a subset of the broader and looser world of indexes, and are usually designed to be investable.

Benchmark Objectives

*Accurate and objective
Replicable and investible*

*Fair to all investors
Current and reliable*

Cost effective

Robust Governance

Developing a proper committee structure, quality assurance, and other aspects of governance that are not only designed to ensure high benchmark quality but also independence from inappropriate investor influence.

Advanced Methodology and Quality Data

Benchmark indexes should be defined, constructed and maintained with the objective of reflecting, in a timely, consistent and cost-effective manner, the evolution of the underlying investment universe.

High Transparency

Benchmark, its governance and its methodology are all established, documented, predictable and clear.

Continuous Innovation

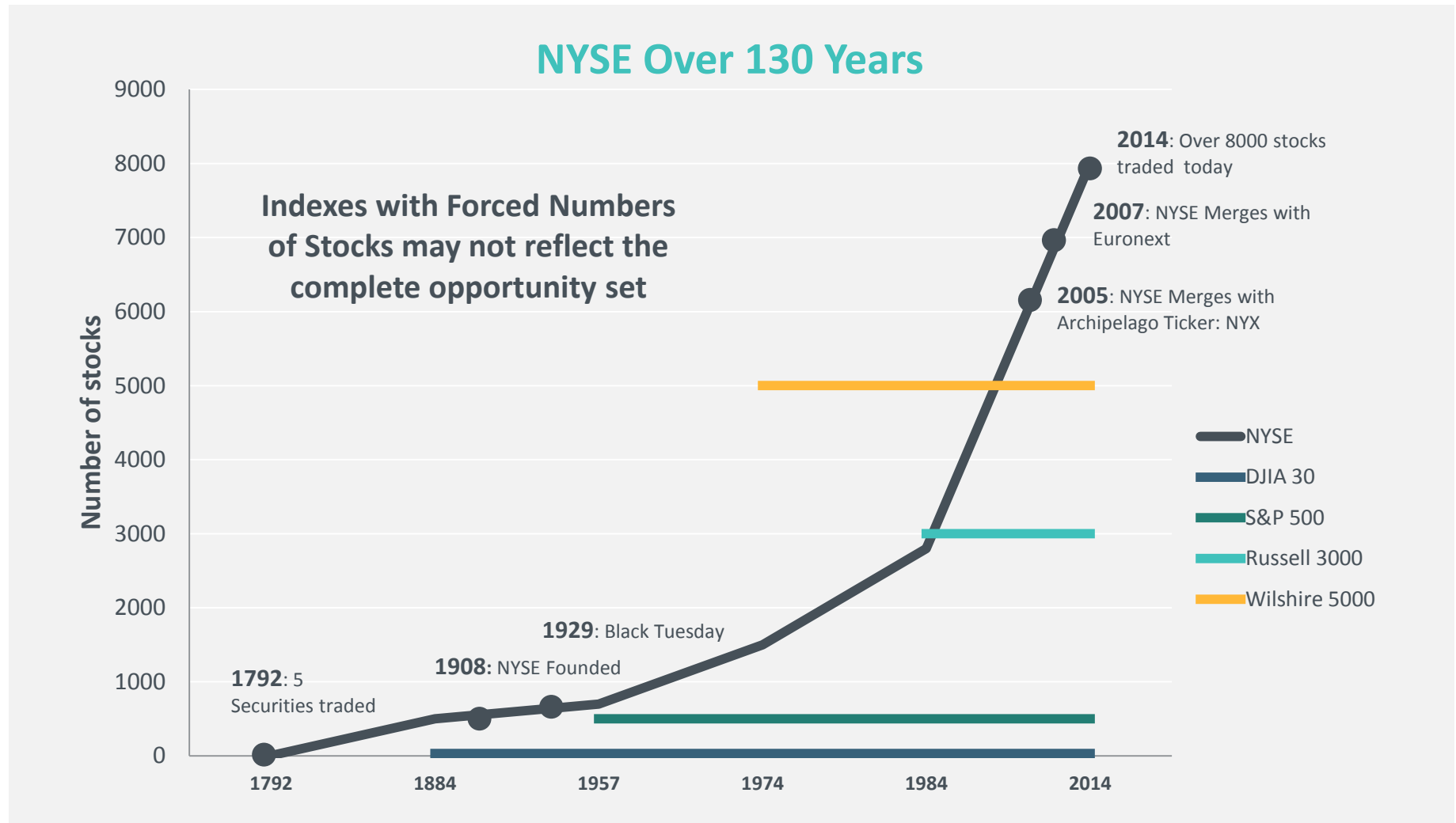
Commitment to improvement, both for currently provided indices and for developing new benchmarks that reflect fundamental market and investment developments.

Broad Consultation and Superior Client Service

Broad consultation and client service facilitate accountability and they allow investors to understand potential benchmark improvements so that there is no ad-hoc rebalancing or stealth methodology changes.

THE CHANGING FACE OF MARKETS

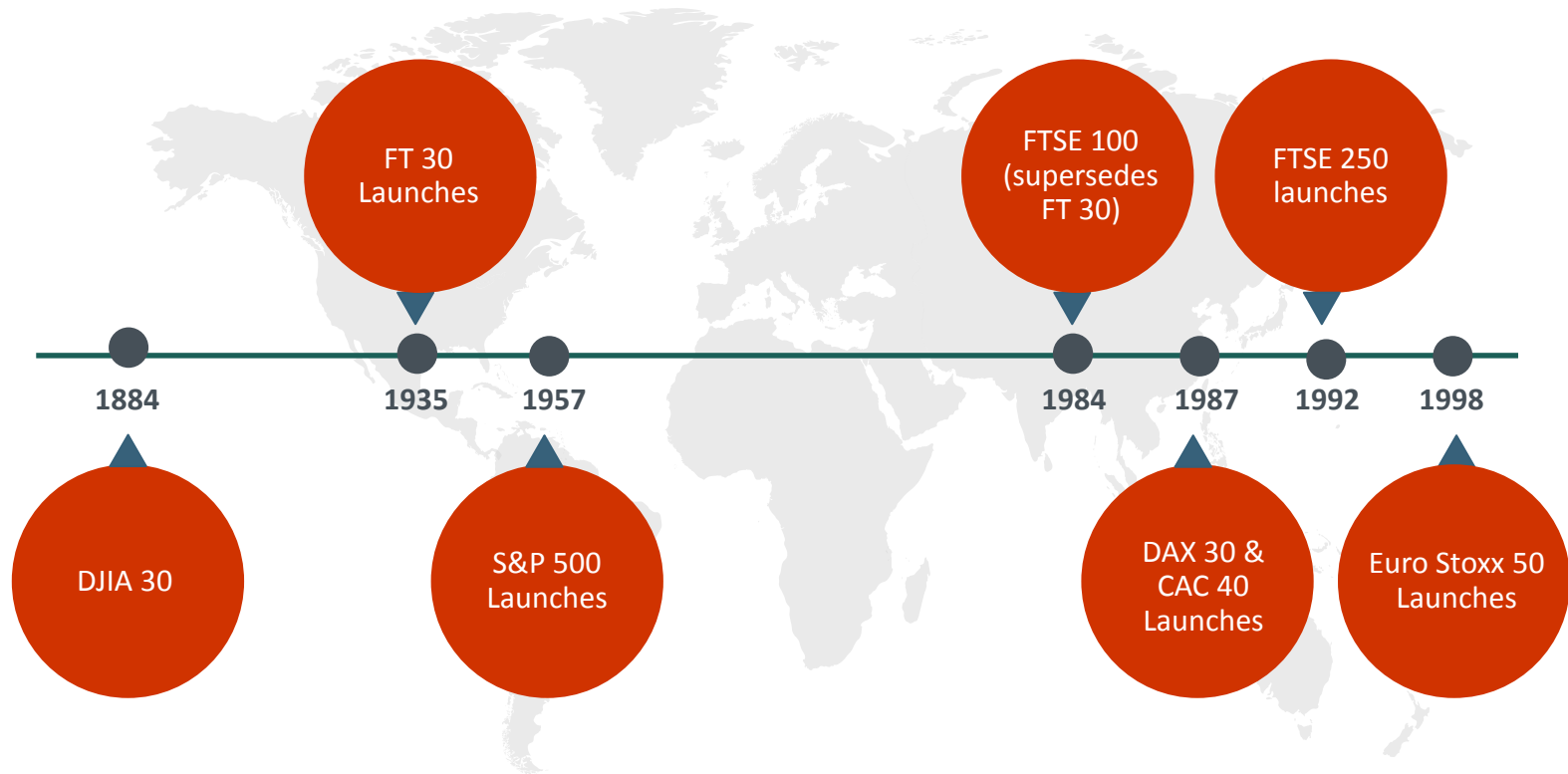
HOW HAVE STOCK MARKETS EVOLVED?



HOW HAVE INDEXES EVOLVED?

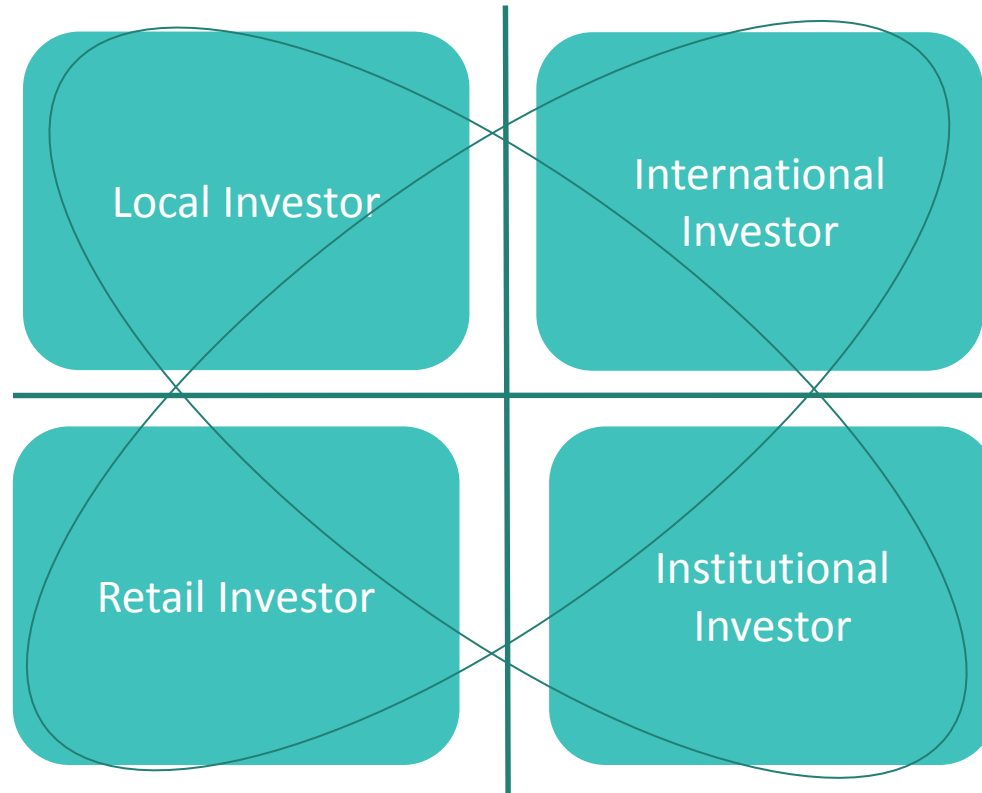
The world today is now more global – with changing and challenging choices

What is a modern benchmark ?

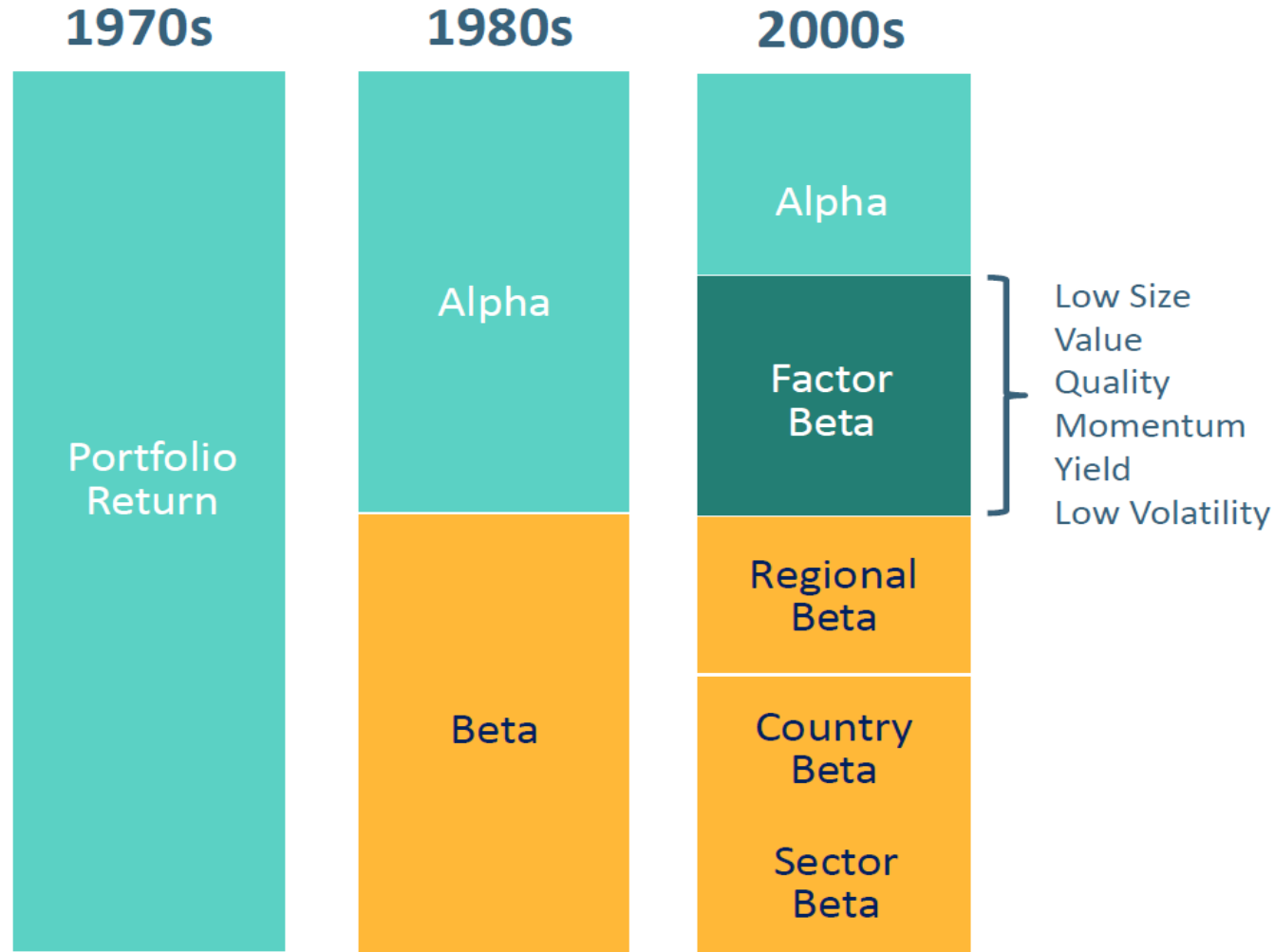


THE INVESTOR MATRIX

- Ability to access a market is not consistent for **local** investors versus **international** investors
- Ability to access a market is not consistent for **retail** investors versus **institutional** investors



CHANGES IN APPROACHES TO INVESTING



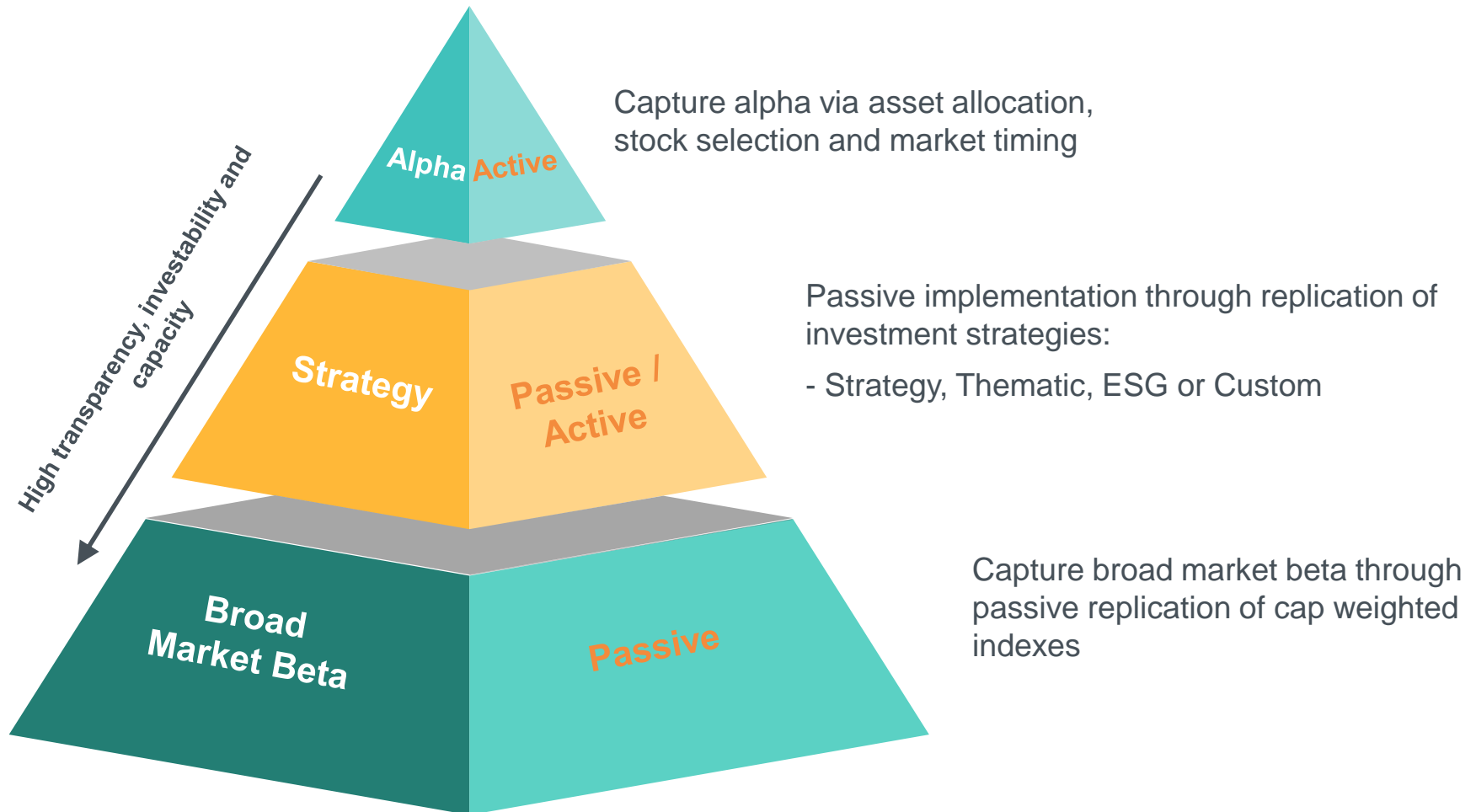
DEFINING THE GLOBAL OPPORTUNITY SET

MSCI ACWI & FRONTIER MARKETS INDEX										
MSCI ACWI INDEX						MSCI EMERGING & FRONTIER MARKETS INDEX				
MSCI WORLD INDEX			MSCI EMERGING MARKETS INDEX			MSCI FRONTIER MARKETS INDEX				
DEVELOPED MARKETS			EMERGING MARKETS			FRONTIER MARKETS				
Americas	Europe & Middle East	Pacific	Americas	Europe, Middle East & Africa	Asia	Americas	Europe & CIS	Africa	Middle East	Asia
Canada United States	Austria Belgium Denmark Finland France Germany Ireland Israel Italy Netherlands Norway Portugal Spain Sweden Switzerland United Kingdom	Australia Hong Kong Japan New Zealand Singapore	Brazil Chile Columbia Mexico Peru	Czech Republic Egypt Greece Hungary Poland Qatar Russia South Africa Turkey United Arab Emirates	China India Indonesia Korea Malaysia Philippines Taiwan Thailand	Argentina	Bulgaria Croatia Estonia Lithuania Kazakhstan Romania Serbia Slovenia	Kenya Mauritius Morocco Nigeria Tunisia	Bahrain Jordan Kuwait Lebanon Oman	Bangladesh Pakistan Sri Lanka Vietnam
MSCI STANDALONE MARKET INDEXES ¹										
				Saudi Arabia		Jamaica Trinidad & Tobago	Bosnia Herzegovina Ukraine	Botswana Ghana WAEMU ² Zimbabwe	Palestine	

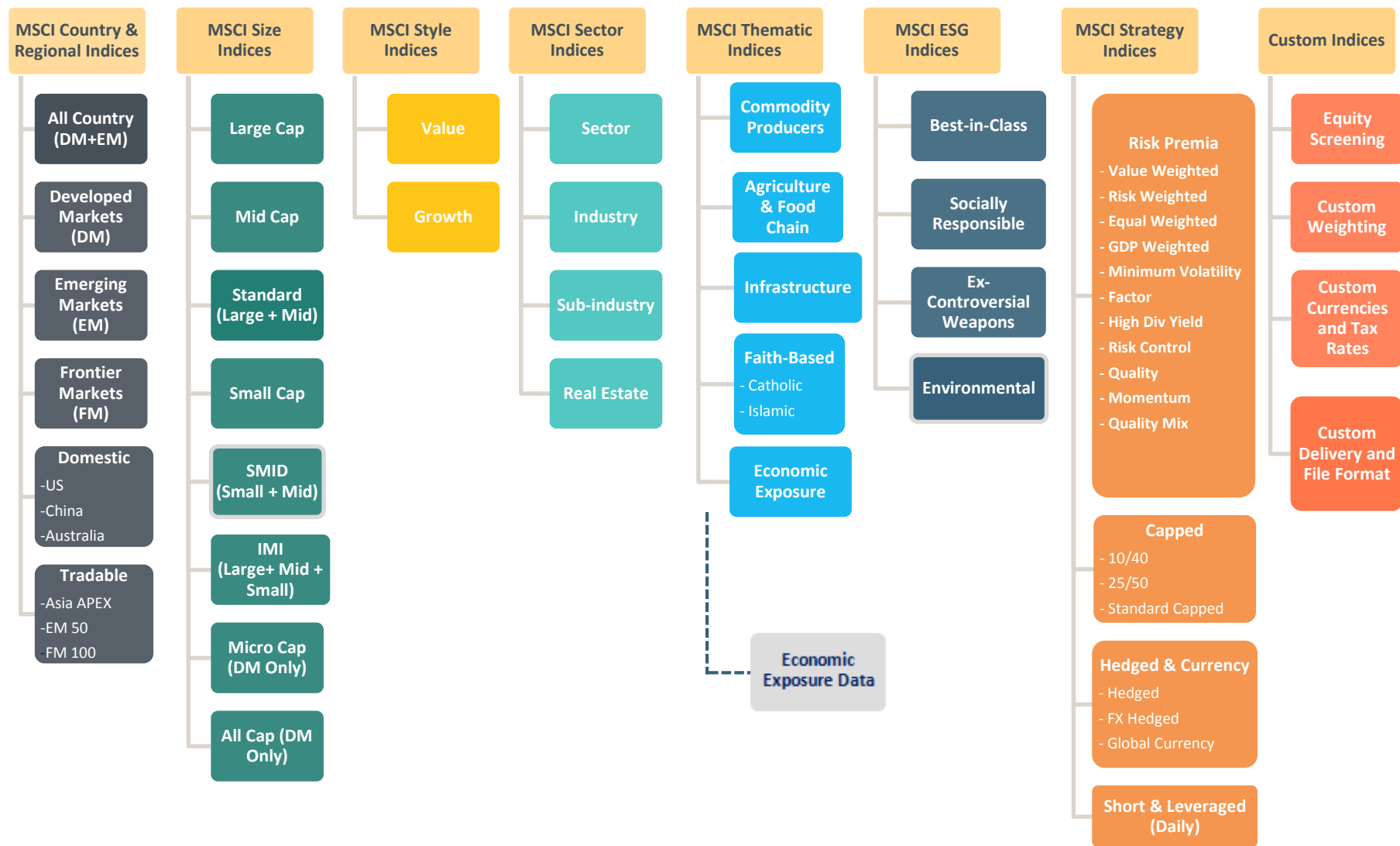
¹ The MSCI Standalone Market Indexes are not included in the MSCI Emerging Markets Index or MSCI Frontier Markets Index. However, these indexes use either the Emerging Markets or the Frontier Markets methodological criteria concerning size and liquidity.

² The West African Economic and Monetary Union (WAEMU) consists of the following countries: Benin, Burkina Faso, Ivory Coast, Guinea-Bissau, Mali, Niger, Senegal and Togo. Currently the MSCI WAEMU Indexes include securities classified in Senegal, Ivory Coast and Burkina Faso.

DEVELOP CONSISTENT BUILDING BLOCKS FOR INVESTOR NEEDS



MSCI INDEX FAMILIES

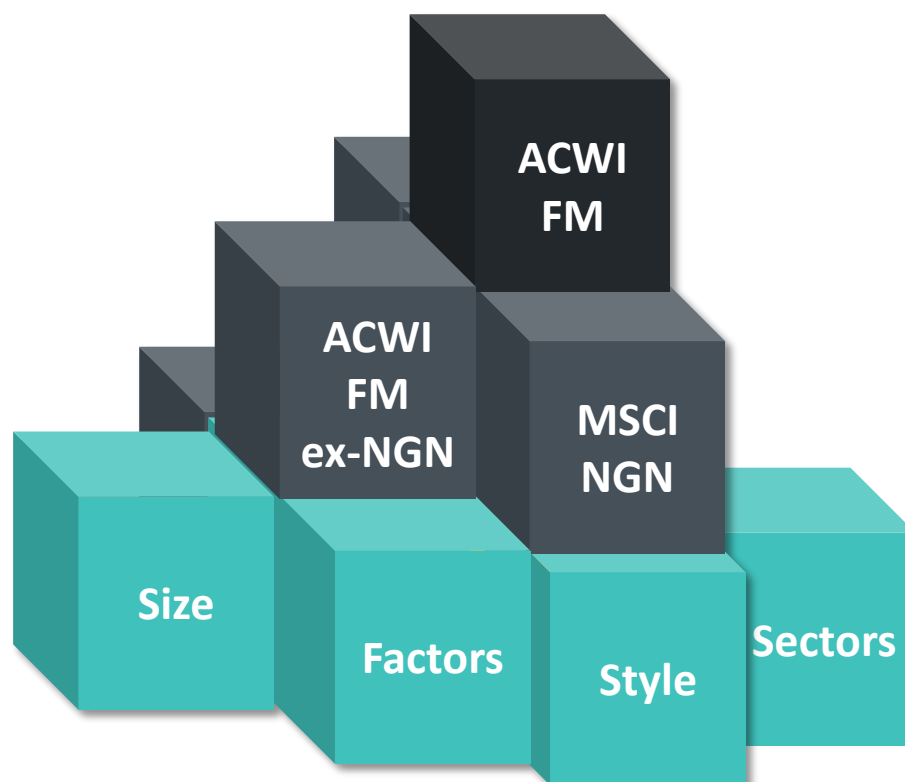


ALIGNING NIGERIA AND GLOBAL BENCHMARKS

MSCI ACWI FM Indexes offer a building block approach with a rules-based, consistent and transparent methodology

This robust foundation allows investors to measure exposure to all sources of equity returns using a **single global framework**

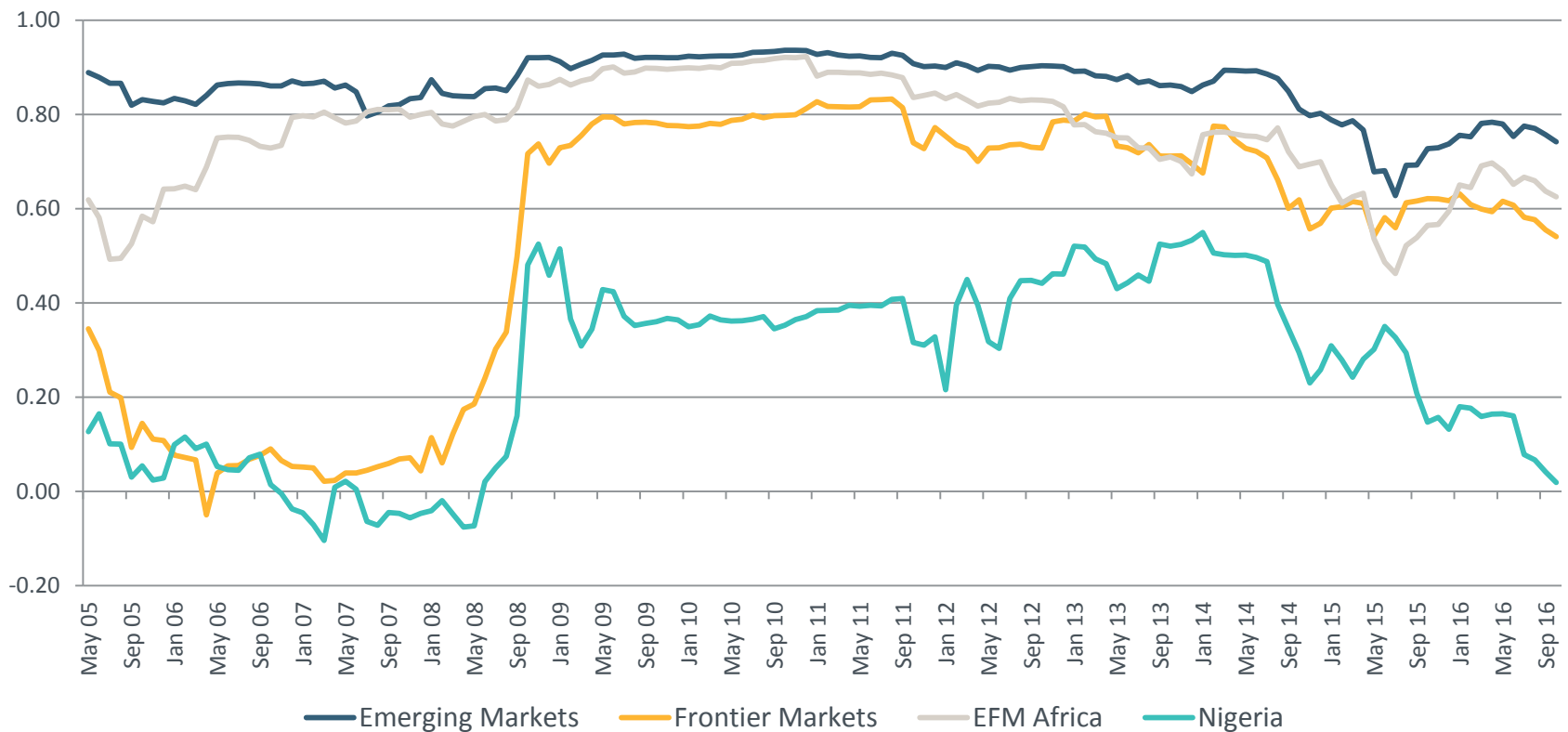
MSCI Nigeria is part of a single, modern seamless global benchmark solution



THE GLOBAL MARKETPLACE

CORRELATIONS TO MSCI DEVELOPED MARKETS

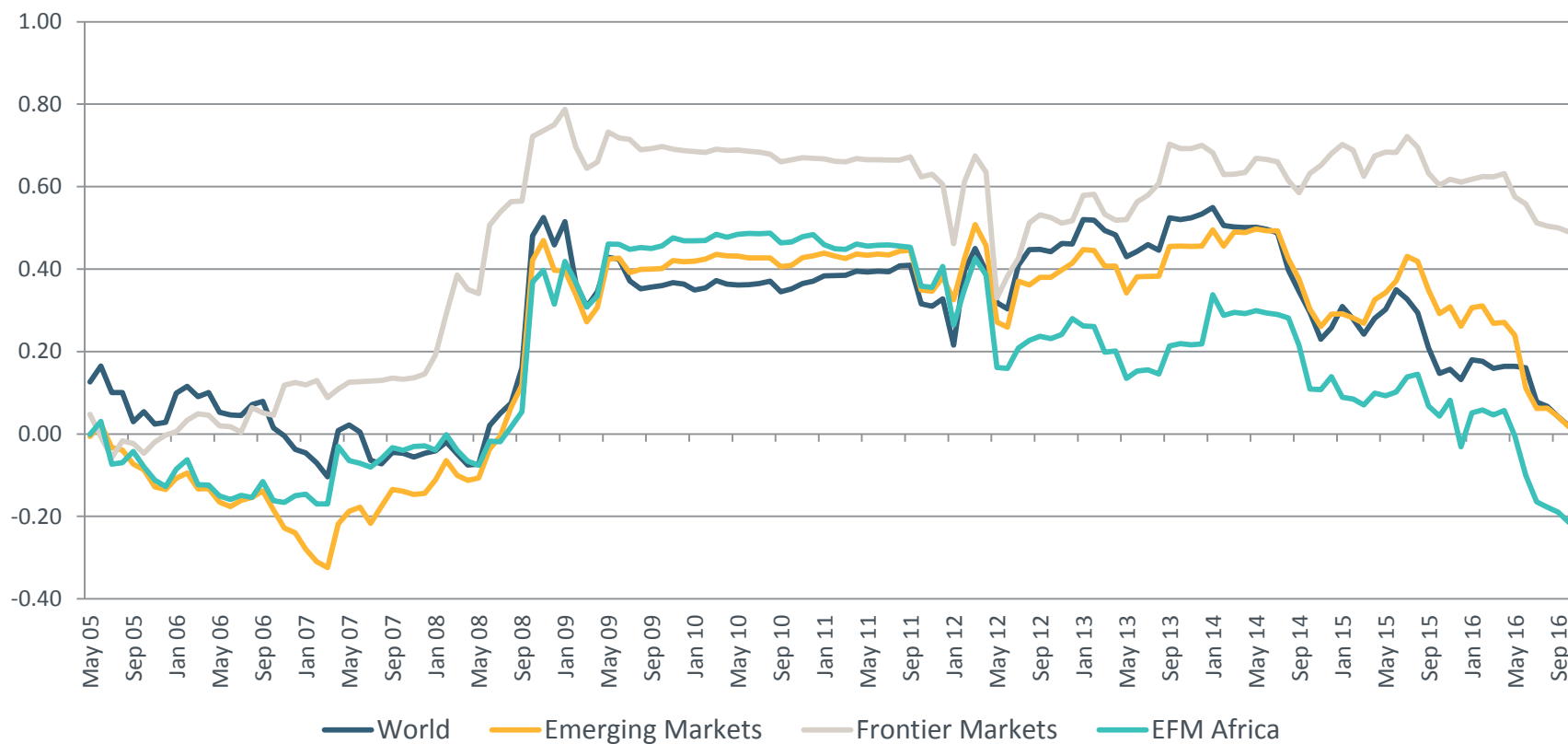
- Global stocks markets are increasingly connected
- Investors looking for diversification and alternative sources of alpha



¹ Correlations represent 36mth return correlations between MSCI World Index and the 4 main indexes mentioned.

NIGERIA IN THE GLOBAL ARENA

- Nigeria has low correlation to global markets
- Decreasing correlation offers diversification benefits



THE MSCI APPROACH

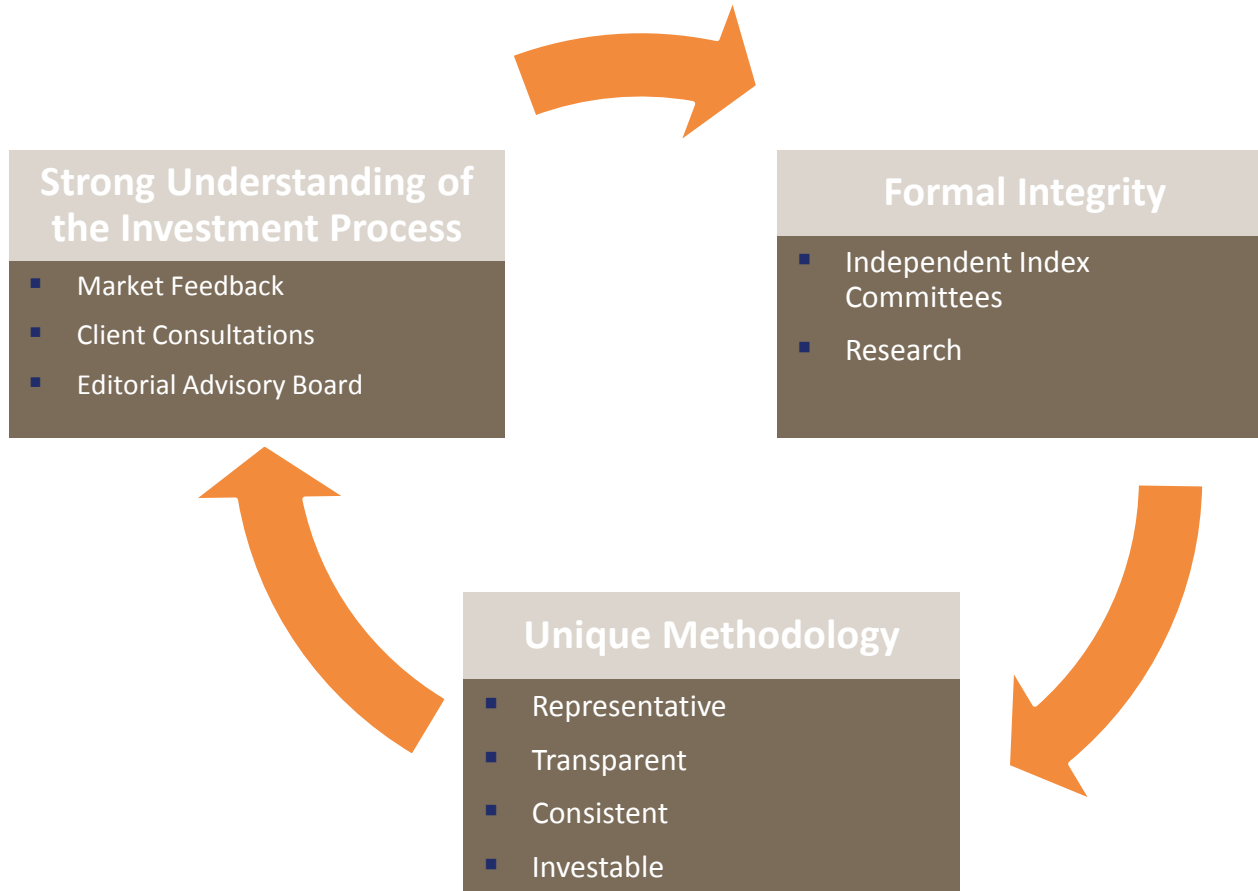
MSCI INDEX PHILOSOPHY

To address the variety of investment use cases for indexes, MSCI has constructed a set of industry- leading, branded indexes that:

- **Represent the relevant investment opportunity set**
 - Comprehensive range of benchmarks across regions, countries and sectors
- **Measure precisely the performance of the segment or style they track**
 - Timely reflection of corporate events
 - Regular index reviews
 - Robust value and growth style methodology
 - Country eligibility criteria
 - Extensive history
- **Are replicable and consistent**
 - Transparent index construction and maintenance methodologies
 - Investability screens (Free Float adjustment, minimum size, liquidity)
 - Leading industry classification (GICS®)
 - Index turnover management

MSCI INDEX PROCESS

MSCI regularly assesses market developments and trends to assure the quality and usability of its indexes



MSCI MARKET CLASSIFICATION FRAMEWORK CRITERIA

- The MSCI Classification Framework places a high degree of emphasis on market accessibility criteria particularly for Developed and Emerging Markets classification

Criteria	Frontier	Emerging	Developed
A Economic Development			
A.1 Sustainability of economic development	No requirement	No requirement	Country GNI per capita 25% above the World Bank high income threshold* for 3 consecutive years
B Size and Liquidity Requirements			
B.1 Number of companies meeting the following Standard Index criteria Company size (full market cap) ** Security size (float market cap) ** Security liquidity	2 USD 635 mm USD 47 mm 2.5% ATVR	3 USD 1269 mm USD 635 mm 15% ATVR	5 USD 2538 mm USD 1269 mm 20% ATVR
C Market Accessibility Criteria			
C.1 Openness to foreign ownership C.2 Ease of capital inflows / outflows C.3 Efficiency of the operational framework C.4 Competitive landscape C.5 Stability of the institutional framework	At least some At least partial Modest High Modest	Significant Significant Good and tested High Modest	Very high Very high Very high Unrestricted Very high

* High income threshold for 2015: GNI per capita of USD 12,736 (World Bank, Atlas method)

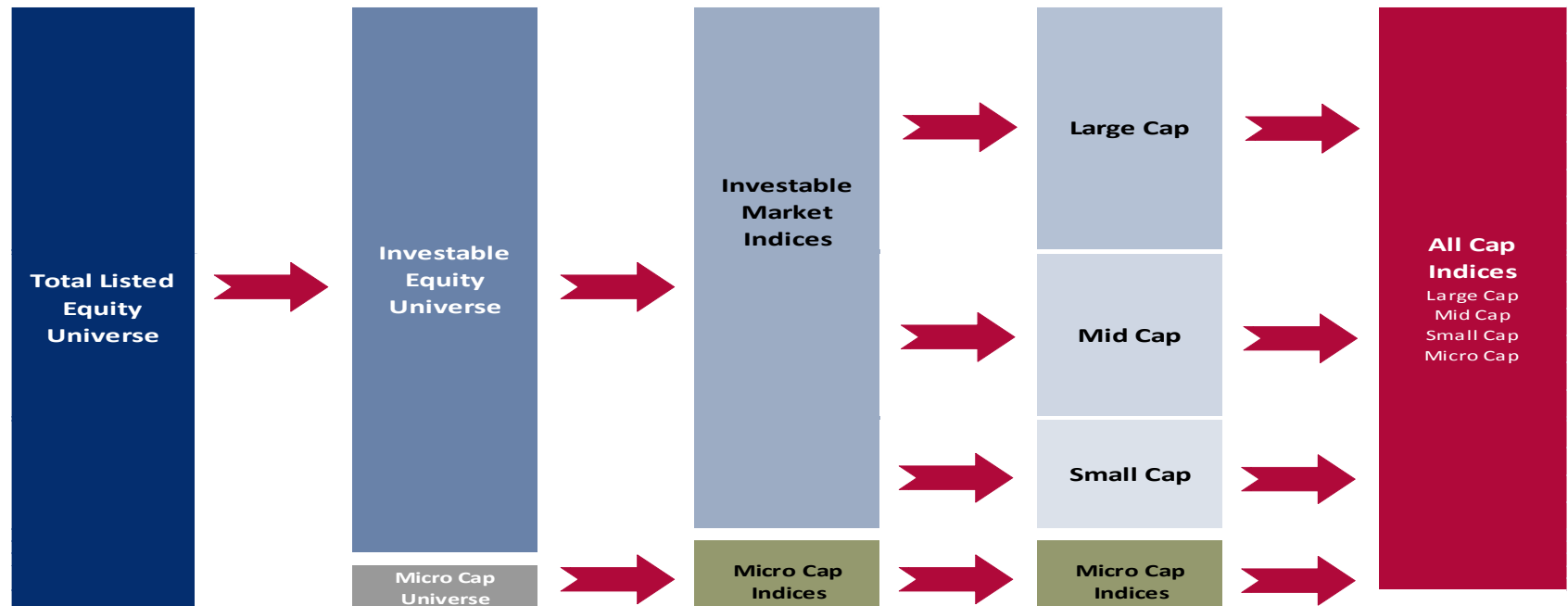
** Minimum in use for the May 2016 Semi-Annual Index Review, updated on a semi-annual basis

FROM LISTED EQUITIES TO AN EQUITY INDEX

The total listed equity securities do not always represent the available equity opportunity set

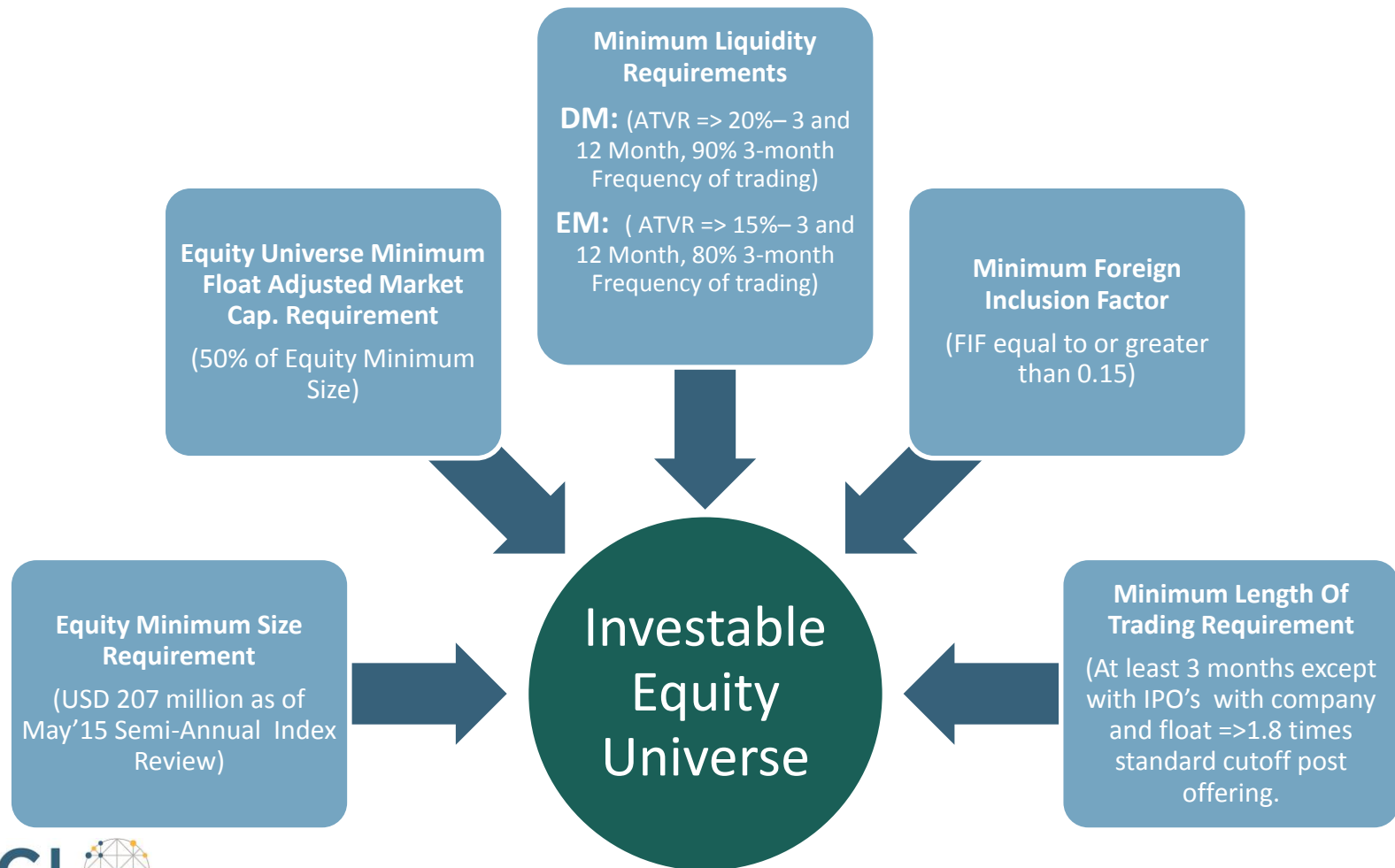
The available equity opportunity set does not always represent what an equity market index is

To reflect these different investor sets, MSCI employs a range of methods to carve out the actual equity market index constituents

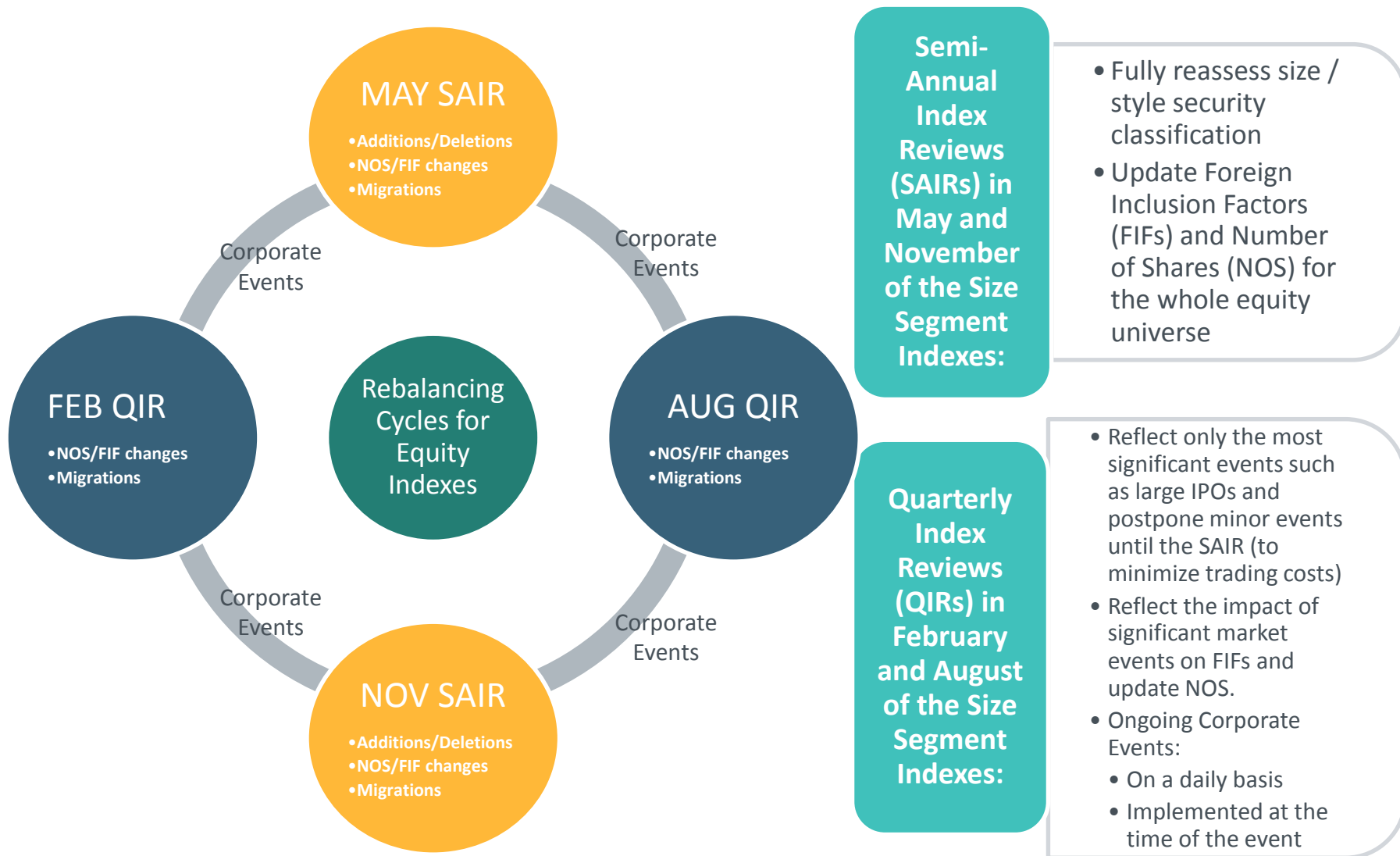


DETERMINING THE INVESTABLE EQUITY UNIVERSE

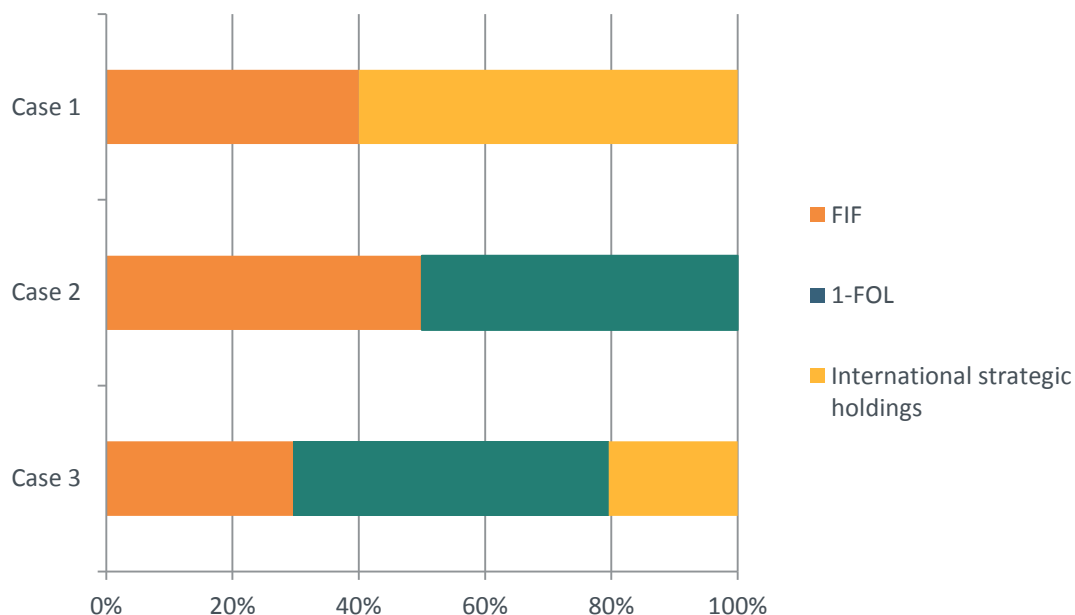
Multiple investability screens ensure that the index represents the investable opportunity set for international institutional investors



EQUITY INDEX MAINTENANCE



FOREIGN INCLUSION FACTOR, FOREIGN OWNERSHIP LIMIT AND FOREIGN ROOM



	FIF	FOL	International strategic holdings
Case 1	40%	n/a	60%
Case 2	49%	49%	0%
Case 3	29%	49%	20%

Case 1:

- 1,000 shares in existence
- 600 held strategically
- 400 is available as Free Float

Case 2:

- 1,000 shares in existence
- Foreign Ownership Limit of 49% (490 shares max)
- No strategic holdings
- This translates to 490 shares of Free Float available to Foreign Investors

Case 3:

- 1,000 shares in existence
- Foreign Ownership Limit of 49% (490 shares max)
- Strategic holdings by Foreign Investors are 200 shares
- This translates to 290 shares of Free Float available to Foreign Investors

NOT ALL INDEXES ARE CREATED EQUAL!

Substantial
differences
may exist,
even for the
same country/
regional
exposure

- **Intelligence** about local markets
- Length of **experience** of the indexer
- Countries' **classification & weights**
- Market **coverage**
- **Accuracy** levels
- **Turnover** ratios

- Differences can impact index:

- ✓ **Exposure**
- ✓ **Performance**
- ✓ **Cost of replication**
- ✓ **ETF fees**
- ✓ **Fairness to fund managers**

✓ For example, a 10% increase in turnover could lead to a 5bp reduction in index performance

WHY MSCI/NSE PARTNERSHIP?

NSE & MSCI – GOALS & STRATEGY

Nigerian Stock Exchange

GOAL

- Become Africa's foremost securities exchange driven by regulation, efficiency, liquidity and innovation

STRATEGY

- Increase new listings across 5 asset classes
- Increase order flow across 5 asset classes
- Operate a fair and orderly market

MSCI

GOAL

- Be the global leader in providing content, research and services to the institutional investment community to support their portfolio management, benchmarking and asset allocation investment processes

STRATEGY

- Capture globalization of asset flows
- Create index licensed products
- Develop new ways of investing

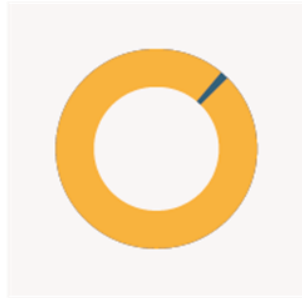
JOINT GOALS STATEMENT

Nigerian Stock Exchange and MSCI Joint Goals

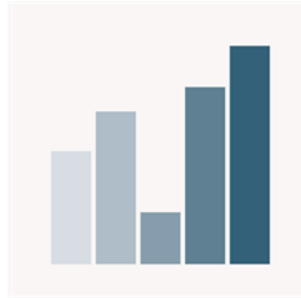
Combining MSCI's expertise in index development, calculation and commercialization and MSCI's internationally recognized brand and global sales & marketing capabilities with the Nigerian Stock Exchange's position as the center of Africa's largest economy and its ability to act as a catalyst of local capital markets and economic development MSCI and the Nigerian Stock Exchange will together work on developing a joint index business that will:

- a. Play a positive role in increasing access to and participation in the market domestically, regionally and globally
- b. Increase international recognition of and participation in the Nigerian equity market
- c. Increase international asset flows into the Nigerian equity market
- d. Further develop a domestic and offshore product ecosystem to be used as exposure and risk management tools by market participants
- e. Promote liquidity development in the Nigerian equity market
- f. Grow subscription and asset based fee index licensing revenue on the joint indexes

MSCI'S RECOGNITION AS THE INDEX LEADER AND INDUSTRY STANDARD



97 of top 100
global investment
managers are MSCI
clients¹



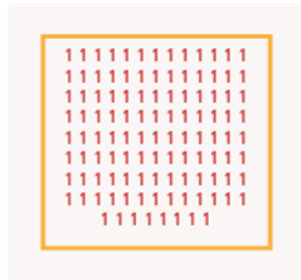
850+
ETFs are based on
MSCI indexes, more
than any other index
provider²



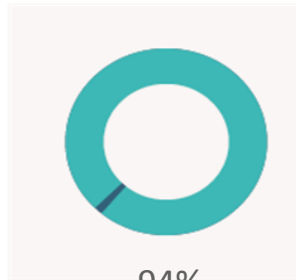
Over
USD 10 trillion
in assets are
benchmarked to
MSCI Indexes³



180,000
Indexes calculated daily
10,000
in real time



99.96%
accuracy rate⁴



94%
of US pension fund assets
invested in global equities
are benchmarked to MSCI⁵

Awards

Pensions Age 2016

Index Provider of the Year



Structured Retail Products Awards 2016

Best Propriety Index Provider of the Year



Hedgeweek Awards 2016

Best Global Index Provider of the Year



ETF Risk Rankings 2015

Index Provider of the Year 2015



Structured Products Awards 2015

Index Provider of the Year 2015

ETF.com 2014 (awarded in 2015)

Index Provider of the Year

European Pensions Awards 2015

Index Provider of the Year 2015

¹ Based on P&I report published in May 2016 and MSCI clients as of June 2016.

² As of June 30, 2016; defined as each share class of an exchange traded fund, as identified by a separate Bloomberg ticker. Only primary listings, and not cross-listings, are counted.

³ As of December 31, 2015, as reported on March 31, 2016 by eVestment, Morningstar and Bloomberg.

⁴ Accuracy calculated based on the number of corrections performed over total number of securities or data points covered.

⁵ As of Dec 2015, according to Intersec LLC.

MSCI: THE INDEX-FAMILY OF CHOICE BY SIGNIFICANT ASSET OWNERS FOR POLICY BENCHMARKS

Fund Name	Country	Benchmark used	Total AUM USD	Equity AUM USD	Is it public information
Florida State Board Administration	USA	ACWI IMI	121	67	Yes
Teachers Retirement of Texas	USA	ACWI	80	45	Yes
Boeing	USA	ACWI	74	36	Yes
State of Wisconsin Investment Board	USA	ACWI	71	36	Yes
Oregon Public Employees Retirement Fund	USA	ACWI IMI	46	21	Yes
Massachusetts PRIM	USA	ACWI	43	23	Yes
Pennsylvania Public School Employees Retirement System	USA	ACWI IMI	43	15	Yes
Virginia Retirement System	USA	ACWI IMI	39	13	Yes
United Nations Joint Pension	USA	ACWI	37	23	Yes
Exxon Mobil	USA + other	ACWI IMI	28	9	Yes
PKA	Denmark	ACWI IMI (ESG exclusion)	22	11	Yes
Employees Retirement System of Texas	USA	ACWI	20	13	Yes
Lockheed Martin Corporation	USA	ACWI IMI	20	5	Yes
3M	USA	ACWI	18	4	Yes
Indiana Public Retirement Systems	USA	ACWI IMI	16	7	Yes
Stichting PGB (Dutch Printers)	Netherlands	ACWI IMI (ESG exclusion)	15	Na	Yes
AP 7	Sweden	ACWI	14	7	Yes
Church Commissioners	UK	ACWI	10	6	Yes
Missouri State Employees Retirement System	USA	ACWI IMI	9	3	Yes
Laerernes	Denmark	ACWI IMI - World GDP weighted	5.6	Na	Yes
Kapitalska Druzba	Slovenia	ACWI	3.5	50%	Yes
Oroshikikin Pension	Japan	ACWI	0.6	Na	Yes
Fonds de Compensation de la Securite Sociale	LUX	ACWI	10	3	Yes
Guardians of New Zealand Superannuation	NZ	ACWI ex EM SC	NZ\$3	NZ\$1.3	Yes
Government Pension Fund of Thailand	Thailand	ACWI	15	1.3-2	Yes
London Pension Fund Authority	UK	ACWI	5.8	Na	Yes

LEADING INDEX PROVIDER TO THE ETF MARKET

Equity ETFs linked to MSCI indexes ranked #1 globally for Q2'16 in the following categories:

MSCI



#1

in net cash inflows linked to indexes with U.S. exposures

#1

in net cash inflows linked to factor indexes

#1

in assets linked to indexes with non-U.S. exposures

#1

in assets linked to minimum volatility indexes

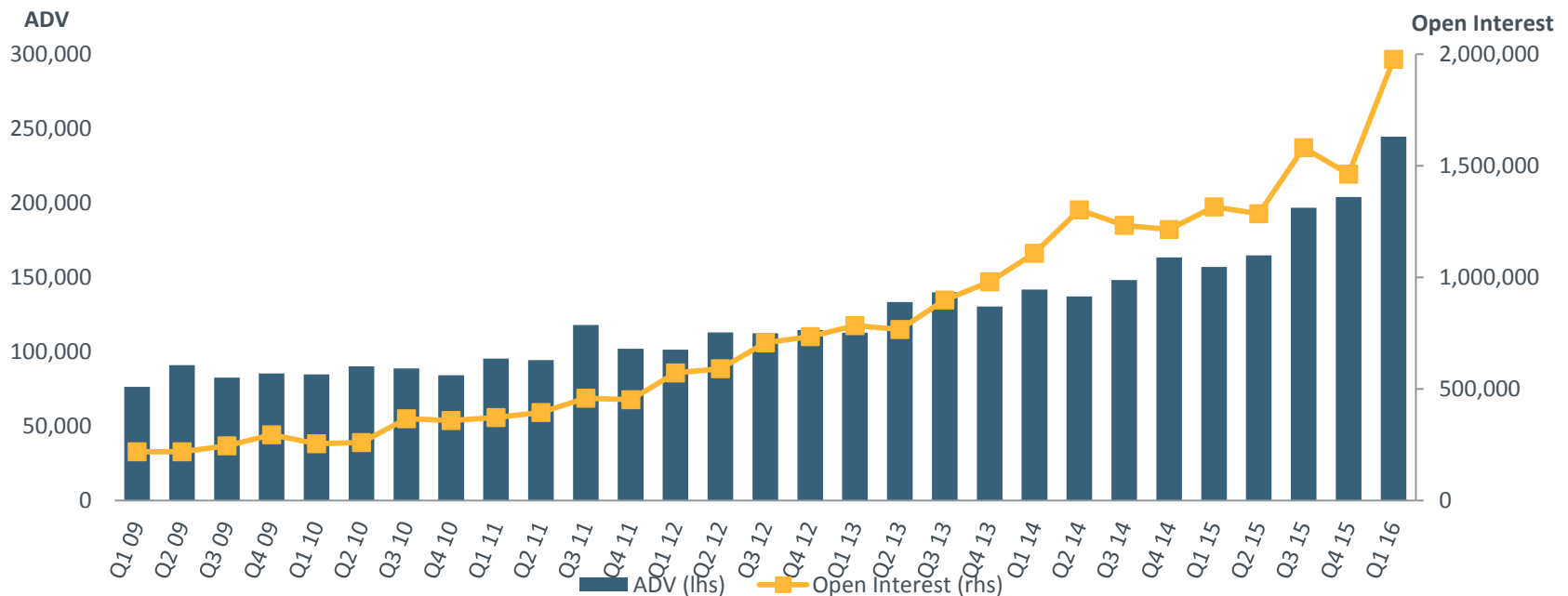
#1

in number of equity ETFs

Data from Bloomberg as of June 30, 2016

ASSETS OF FUTURES & OPTIONS TRACKING MSCI INDEXES

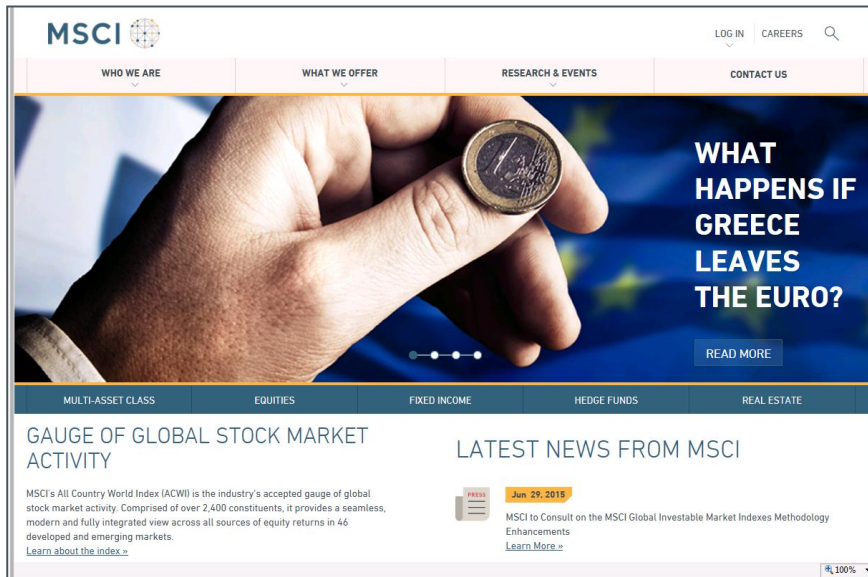
- Average daily volume of MSCI index based listed derivatives in Q1 2016, +54% YoY at 248,290
- Open Interest of 1.98 million contracts, +50% YoY
- Total \$ value traded in Q1 2016 was **\$595 billion**, +26% YoY



Source: MSCI, ICE, EUREX, SGX, JSE and DGCX

PRODUCT

- MSCI/NSE Indexes will have a dedicated landing page on www.msci.com with links also the www.nse.com.ng
 - Availability of information will include historical index level performance, methodology book, Index factsheets and client presentations



THANK YOU

Q&A



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VETIVA
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CONSTRUCTING SUCCESSFUL EXCHANGE- TRADED FUNDS (ETFs)

ETF Workshop 2016

Nigeria Stock Exchange

7 November 2016

CONTENTS

- ▶ What are ETFs and why are they attractive?
 - ▶ What is needed to set them up?
 - ▶ Advantages of ETFs, incl. Pricing
 - ▶ How do you make ETFs easy to trade?
 - ▶ ETFs in Africa
 - ▶ Product development & the Future of ETFs in Nigeria
- 

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EXCHANGE TRADED FUND (ETF) DEFINED

- ▶ Listed (necessarily) index-tracking (usually) collective investment scheme (sometimes)
- ▶ Listed: Securities listed and traded like normal shares on the stock exchange
 - ▶ But give access to a portfolio of investments rather than a single security
 - ▶ Ensures real time prices during the trading day
 - ▶ Allows for buying and selling at market prices
- ▶ Index-tracking: Fund replicates the make up of the reference index
 - ▶ The ETF portfolio matches exactly the components and weightings of an index or asset (full replication, asset backed, not synthetically created)
 - ▶ Allows the investor to gain exposure to the diversified basket of securities with a single trade, or get access to investments that would otherwise not be possible (e.g. physical commodities)
- ▶ Collective Investment Scheme (CIS) / Mutual Fund (MF) / Unit Trust (UT):
 - ▶ Provides an investment vehicle through a known regulatory framework
 - ▶ The unit price represents the value of the underlying basket, per unit
 - ▶ The unit price changes intraday in line with the changes in the value of the underlying portfolio

WHAT IS AN ETF?

- ▶ Many ETFs are registered as Collective Investment Schemes / Mutual Funds
 - ▶ BUT: not all ETFs are CISs! (and later we'll discuss ETNs)
 - ▶ It gives exposure to assets that might otherwise be difficult to access efficiently, i.e. physical commodities, international indices, illiquid futures market etc.
 - ▶ Allow investors to gain or reduce exposure to equity sectors, country, sector and style indices as well as fixed income and commodity indices via a single listed share / unit
 - ▶ It is classified as a share (participatory interest) – not a derivative
- ▶ Open-ended fund backed by a basket of physical securities
 - ▶ The underlying basket for the ETF can be exchanged for participatory units in the ETF
 - ▶ Creation and / or redemption in specie – only available in “size” – typically a minimum of 1 million units
- ▶ A market maker ensures that there is always a buyer and seller in the market at the live fair value (NAV) of the ETF

Investor is guaranteed to be able to buy or sell at the market price on demand!

WHAT CONSTITUTES A CIS ETF?

Investment Product

Participatory units in an Exchange Traded Fund

Stock
broking
account
exchange
(NSE –
ETF.
regulator
(SEC –
CIS
regulator
)

Product Wrapper

– Collective Investment Scheme (CIS)

ETF Issuer

Trustee /
Custodian

Asset manager

(incl. fund administration)

Index Provider

Index
Calculation
Agent

WHAT CONSTITUTES A NON-CIS ETF?

Investment Product

Participatory units in an Exchange Traded Fund

(ETF) that are listed on a stock exchange (NSE – ETF. Author for regulator (SEC – CIS regulator)

Product Wrapper

– Insolvency remote SPV (special purpose vehicle)

ETF Issuer

Trustee / Custodian

Asset manager

(incl. fund administration)

Index Provider

Index Calculation Agent

ETF COMPARED TO (UNLISTED) CIS

- ▶ When an ETF is a “listed unit trust”, the listing offers
 - ▶ Live and fair value pricing (guaranteed liquidity)
 - ▶ Electronic transfer, registration, custody on a single central register in individual investor’s name
 - ▶ Additional investor protection and regulation of the stock exchange
- ▶ ETFs are NOT:
 - ▶ Futures, options or derivatives
 - ▶ Created through 100% synthetic replication
 - ▶ Geared, leveraged instruments (depends on regulations, but not recommended)
- ▶ ETFs are best used to access beta returns at low cost
 - ▶ Gives the desired exposure with a very high level of certainty
 - ▶ Actively managed funds can offer alpha returns, usually at a higher cost
 - ▶ Both exposure and (relative) performance is less predictable

Note: Don’t confuse *certainty* with *low risk*!

ETF VS. ETN

- ▶ Exchange traded note (ETN) sounds a lot like an Exchange traded fund (ETF), but it represents a very different type of investment
 - ▶ Only thing they have in common is that they are both listed on a stock exchange
- ▶ An ETN carries the credit risk of the issuer, and is not necessarily backed by physical assets
 - ▶ The issuer promises the investor to pay him a return based on the reference asset, but the investor runs the risk that the issuer will not be able to fulfil this promise
 - ▶ The issuer may choose to hedge his own risk by holding physical assets, but is not obliged to do so
- ▶ Examples of ETNs:
 - ▶ (International) index-tracking equity funds (i.e. very similar to ETFs)
 - ▶ Commodities
 - ▶ Currencies

CONTENTS

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- 

WHAT IS NEEDED TO SET THEM UP?

HOW TO CREATE AN ETF

- ▶ What regulatory constructs are needed: CIS? SPV?
- ▶ What type of ETF do you want to create?
 - ▶ Identify the target market and the product type
 - ▶ Identify the reference index
 - ▶ Identify all the stakeholders / role players / parties involved
- ▶ Application processes – parallel process between stock exchange (NSE) and capital markets authority(SEC):
 - ▶ Initialise process with stock exchange:
 - ▶ High Level proposal for 'in-principle' approval – product structure, stakeholders, etc.
 - ▶ Formal approval from SEC, if applicable (CIS)
 - ▶ Final approval for listing of participating units from NSE
- ▶ Listing process: IPO or seed capital?

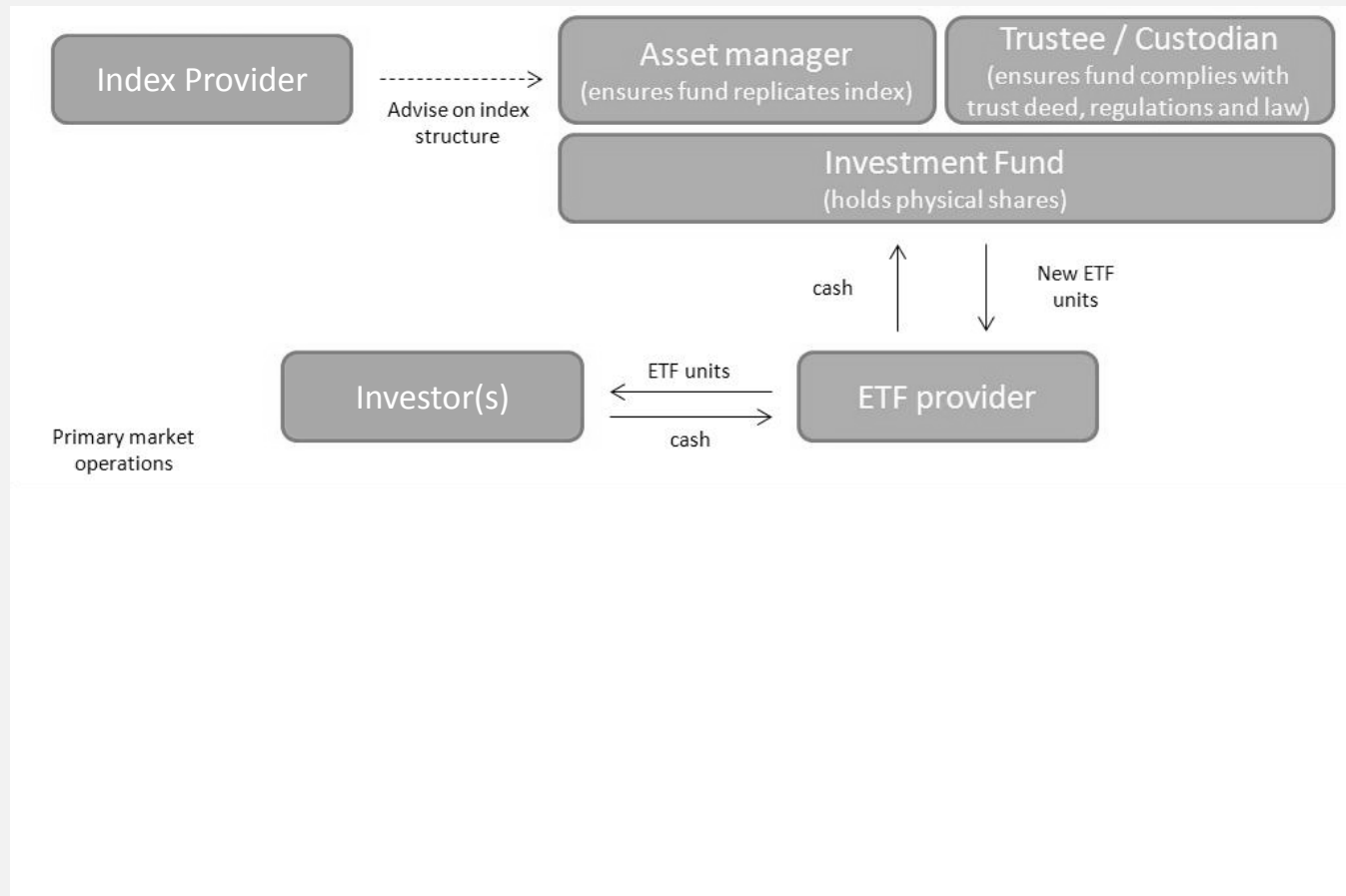
WHAT IS NEEDED TO SET THEM UP?

CRITICAL SUCCESS FACTORS

- ▶ Involvement and buy-in of all role-players / stakeholders
 - ▶ Regulators, Stock exchange, Asset owners, Investors, Financial services industry
- ▶ Regulations
 - ▶ Listing requirements for the participatory units (ETF / ETN)
 - ▶ Underlying investment vehicle (e.g. CIS regulations, SPV, etc.)
 - ▶ Mandate compliance for targeted investors
- ▶ Underlying / reference asset
 - ▶ Asset class: Equity vs. Bonds vs. Commodities?
 - ▶ Foreign vs. Local?
 - ▶ Style: “Vanilla” vs. “Smart”, themed?

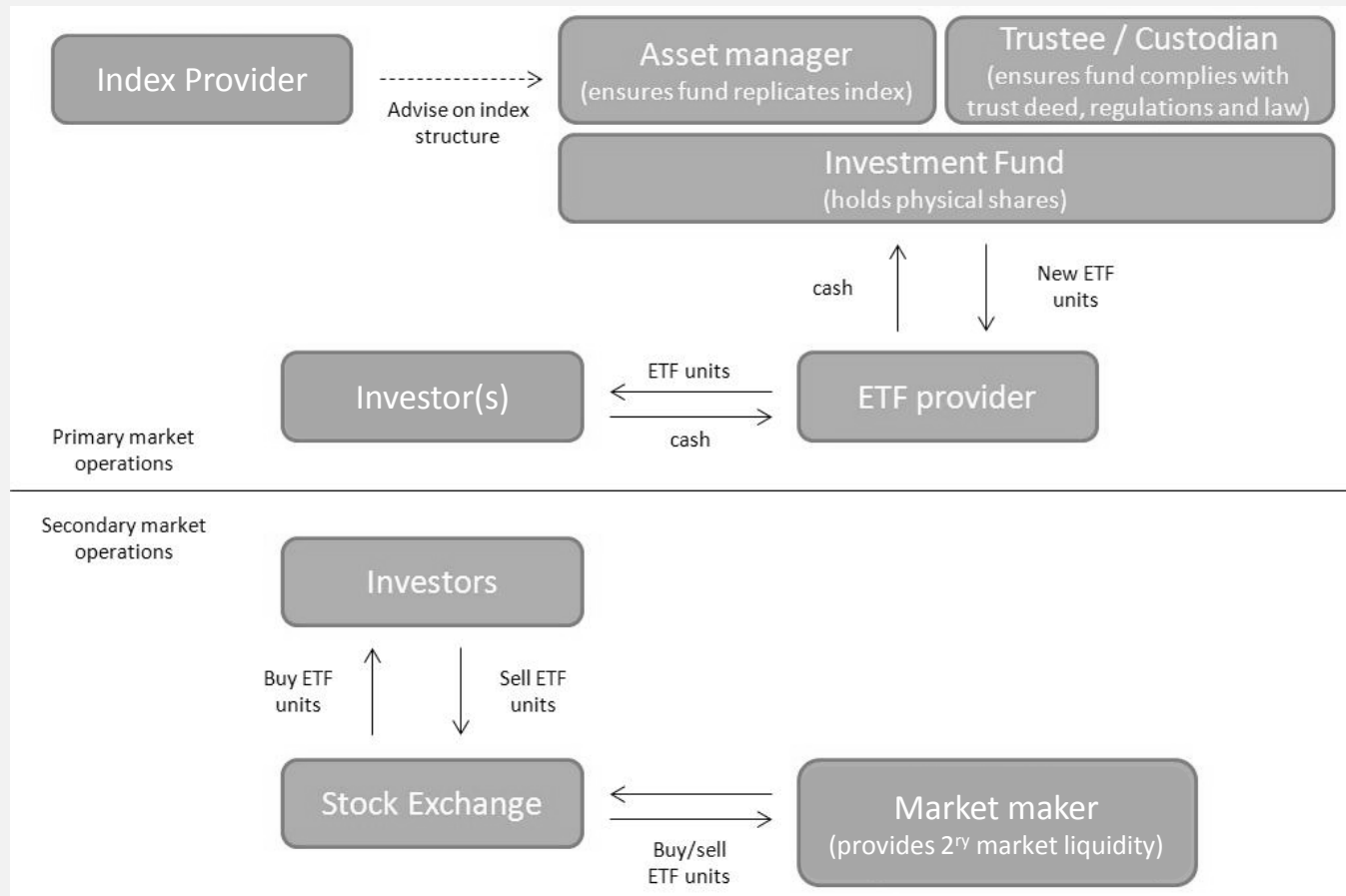
WHAT IS NEEDED TO SET THEM UP?

ROLE-PLAYERS & STAKEHOLDERS TO LIST AN ETF



WHAT IS NEEDED TO SET THEM UP?

ROLE-PLAYERS & STAKEHOLDERS TO LIST AN ETF



WHAT IS NEEDED TO SET THEM UP?

CONSIDERATIONS ON WHERE TO FOCUS YOUR EFFORTS

- ▶ Regulations & stakeholder buy-in (incl. financial support / commitment?)
- ▶ State of the market:
 - ▶ Does the current support a “home-grown” or an “imported” model?
 - ▶ Run the “chicken-and-egg” model in parallel
 - ▶ i.e. use an imported imperfect solution as a quick fix to assist the market in familiarising themselves with the concepts, whilst developing your home-grown offering
- ▶ Sustainable plan of action:
 - ▶ Define a medium term plan of what you want to achieve over the next five years
 - ▶ Ensure that any intermediate steps are supportive of the ultimate goal, even if in contradiction in the short term
- ▶ Where is the best “bang-for-your-buck”
 - ▶ Acknowledge your market's strengths and weaknesses, optimise your opportunities and minimise the threats

CONTENTS

- ▶ What are ETFs and why are they attractive?
 - ▶ What is needed to set them up?
 - ▶ Advantages of ETFs, incl. Pricing
 - ▶ How do you make ETFs easy to trade?
 - ▶ ETFs in Africa
 - ▶ Product development & the Future of ETFs in Nigeria
- 

PRICING OF ETF VS. CIS

PRIMARY MARKET – APPLIES MOSTLY TO CIS

- ▶ Primary market operations: creation and redemption of units
- ▶ Cost of creation / redemption typically paid by the investors
 - ▶ Trading costs of underlying basket of shares
 - ▶ Regulatory fees incl. applicable taxes
 - ▶ Accrued distributable amount
 - ▶ Negative impact to NAV for existing / remaining investors
- ▶ What about creation / redemption of ETF units?
 - ▶ Done by the market maker on behalf of the ETF provider / issuer
 - ▶ Market maker holds a stockpile of units to fulfil his obligations (offer both buy and sell intraday)
 - ▶ Creation / redemption costs are absorbed by the issuer, not by the investors

PRICING OF ETF VS. CIS

SECONDARY MARKET – APPLIES ONLY TO ETF

- ▶ Secondary market operations: trading in existing participatory units
- ▶ Trading in existing units has **NO cost impact** on the **underlying** fund value
 - ▶ Trading costs only for the listed participatory units
 - ▶ Regulatory fees and taxes – NSE trading costs
 - ▶ Trades at the NAV which includes the accrued distributable amount net of fees
- ▶ What about **index tracking unit trusts**?
 - ▶ Should have the same or lower product cost structure as the ETF
 - ▶ **BUT it may depend on the frequency of trading / creation and redemption of units!**
 - ▶ Lower regulatory fees – no NSE listing fees
 - ▶ Acquisition costs should be lower, especially if bought directly from the CIS Manco
 - ▶ No stock broking fee, no NSE costs

ADVANTAGES OF ETFs TO THE INVESTOR

- ▶ Regulation
 - ▶ First level of regulation is that of the stock exchange
 - ▶ Additional regulation may apply, depending on the investment vehicle (e.g. Collective Investment Scheme, Special Purpose Vehicle, etc.)
- ▶ Complete Transparency
 - ▶ Listed on the stock exchange, pricing is done on the market and is known to every investor
 - ▶ Underlying portfolio is always known
 - ▶ Settlement, trading, registration, transfer done through local CSCS
- ▶ Instant Liquidity & Tradability
 - ▶ ETFs trade like regular shares and can be bought or sold at any time on the stock exchange
 - ▶ Open-ended structure caters for large trades
 - ▶ Market maker ensures there is always a buyer / seller in the market at the live fair value (NAV)

ADVANTAGES OF ETFs TO THE INVESTOR (CONT'D)

- ▶ Passive Investments
 - ▶ Index-tracking ETF replicates the make up of an index
 - ▶ Index measures the average performance (beta) of a market, industry, sector, country etc.
 - ▶ The ETF gives the investor the same performance as the reference index – nothing more, but also nothing less (except for costs)!
- ▶ Diversification
 - ▶ Diversified portfolio
 - ▶ Provides full exposure to index shares / assets
 - ▶ Reduces risk / volatility
 - ▶ Ensures benchmark performance
- ▶ Very Cost Efficient
 - ▶ Average costs, Total Expense Ratio (TER) \approx one-third of actively managed unit trusts
 - ▶ ETFs usually include trading costs in the TER whereas many actively managed funds choose not to

ADVANTAGES OF ETFS TO THE STOCK EXCHANGE

- ▶ Offering
 - ▶ Expanded range of investment opportunities offered
 - ▶ Represent a good starting point for a derivatives market & structured products
- ▶ Liquidity
 - ▶ Market maker ensures liquidity in the ETF – represents both buying and selling
 - ▶ Creation and redemption of ETF units require trade in the underlying securities – local ETFs therefore have the potential to increase liquidity in the overall market
 - ▶ Settlement, trading, registration, transfer done through local CSCS
- ▶ Revenue
 - ▶ New sources of revenue, e.g. listing fees
 - ▶ Payment for CSCS services, including payment of distributions
 - ▶ Development of local financial services industry – stock broking, market making, structured products, etc.

ADVANTAGES OF ETFs TO THE ISSUER

- ▶ Putting Clients First
 - ▶ Demonstrate commitment to giving clients what they want, and need!
 - ▶ Close the knowledge gap, reduce information asymmetry
- ▶ Multiple sources of potential revenue
 - ▶ Management fees; Trading income – underlying securities & ETF units
 - ▶ Building blocks for structured products
- ▶ Cost savings
 - ▶ Reduce / remove requirement for back office client admin
 - ▶ Simplified distribution procedure
- ▶ Asset management edge
 - ▶ Ability to actively manage passive exposures / building blocks
 - ▶ Portfolio assemblers

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HOW DO YOU MAKE ETFS EASY TO TRADE?

TRADING & SETTLEMENT PROCESS

- ▶ ETF issuer can create or redeem additional ETF units at any time to match market demand and supply – open-ended structure
- ▶ Market maker
 - ▶ Purpose – always a willing buyer and seller at the fair value (NAV of the ETF)
 - ▶ ETF issuer is the primary market maker, transacting through executing stock brokers
 - ▶ Creation and redemption of units can only be undertaken by the ETF issuer
- ▶ Daily trading
 - ▶ Market maker offers a double throughout trading day
 - ▶ Demand or supply in excess of standard volume is facilitated with ETF issuer
 - ▶ Trade in the secondary market can occur between any two participating brokers without having to involve the ETF issuer
 - ▶ Q's: *What is an acceptable 'standard' volume? What is an acceptable bid-offer spread around the NAV (net asset value)?*
- ▶ Consider favourable trading costs (brokerage rates, etc.) to encourage trading activity

HOW DO YOU MAKE ETFS EASY TO TRADE?

IMPORTING LIQUIDITY

- ▶ Liquidity is of paramount importance to underlying stocks, to indices and to resulting ETFs
 - ▶ In the case of limited local liquidity, listing a local ETF is quite risky
- ▶ “Importing” liquidity:
 - ▶ Foreign listed stocks and investment products; foreign-referenced indices
 - ▶ Essentially what has been done with South African ETFs listed in Botswana, Mauritius, Namibia and Ghana and global ETFs in Mauritius
- ▶ Market participation and market makers provide liquidity:
 - ▶ Liquidity is provided and promoted in the local market
 - ▶ through actual trading, and
 - ▶ through ease of access to information (pre- and post-trade)
 - ▶ Request creation and redemption on demand from ETF issuer

CONTENTS

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ETFs IN AFRICA / AFRICAN ETFs

WHAT IS CURRENTLY AVAILABLE?

- ▶ ETFs listed on African stock exchanges:
 - ▶ South Africa – 74 Exchange Traded Products, covering all asset classes, incl. commodities, and several international ETPs
 - ▶ Botswana – 4: NewGold, NewPlat (commodity), CoreShares (SA equity), NewFund ILBI (bonds)
 - ▶ Nigeria – 8: ETFs listed (6 local equity, 1 local bond & 1 foreign commodity)
 - ▶ Mauritius – 6: NewGold, NewPlat (commodity), S&P GIVI (SA equity), CoreShares S&P500, Coreshares Global Property
 - ▶ Namibia – 4: NewGold, NewPlat & NewPalladium; Standard Bank Palladium (all commodity)
 - ▶ Ghana – 1: NewGold (commodity)
 - ▶ Egypt – 1: EGX30 (local equity)
 - ▶ Kenya, Morocco – in progress

ETFs IN AFRICA / AFRICAN ETFs

WHAT IS CURRENTLY AVAILABLE?

- ▶ ETFs listed outside of Africa, giving exposure to Africa:
 - ▶ Three single country ETFs available: South Africa, Egypt, Nigeria
 - ▶ Emerging market and Frontier market ETPs have very limited exposure to Africa, even SA
 - ▶ Greater range of “African” ETFs available (incl. Middle East), but beware – “Africa” means different things to different people...
- ▶ What about “African ETFs” for African investors?
 - ▶ 2 ETPs listed in South Africa with exposure to Africa equities (3rd already approved)
 - ▶ Db x-tracker MSCI Africa Top 50 Capped ETN (incl. SA)
 - ▶ Standard Bank Africa Equity ETN (excl. SA but incl. 40% “African” companies listed outside of Africa)
 - ▶ Benefit accrues to financial institutions outside of country / continent (mostly US)
 - ▶ *Is the prevalence of the US\$ in Africa a form of neo-colonialism?*

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- 

PRODUCT DEVELOPMENT & THE FUTURE OF ETFS

POSSIBLE CONSIDERATIONS FOR THE NIGERIAN MARKET

► **Product expansion**

- Domestic: “Smart” Beta; Listed Property
- Offshore / International – geographic, sector, currency, asset class diversification

► **Distribution channel expansion**

- Institutional investment decision makers: portfolio managers / multi-managers / actuarial consultants / pension fund trustees – education, tools
- Financial planners / advisers – education, tools
- Online share trading platforms, also offering ETFs

► **Not recommended any time soon:**

- Synthetic replication (maybe maximum 10% but no more)
- Leveraged, geared, inverse, short ETFs
- Non-index tracking ETFs (e.g. actively managed ETFs)

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APPENDIX



ETF – FAQ

Frequently Asked Questions (FAQs)

What is an ETF? An Exchange Traded Fund (ETF) is an investment vehicle which provides an investor with direct access to a basket of shares traded on stock exchanges such as the Nigerian Stock Exchange (NSE) with the convenience of trading in a single security. Most ETFs track an index, such as the NSE30. ETFs are attractive as investments because of their low costs (Total Expense Ratio – TER) and the ability to purchase them like a normal exchange listed security. An ETF combines the diversified portfolio of a unit trust investment with the tradability features of a listed security allowing it to be bought or sold at the end of each trading day at the market ruling price.

What benefits do ETFs offer? Buying a basket of shares (an ETF) is less risky than buying a single listed company as the diversification and spread of investments reduces the risk exposure. ETFs typically track an index of the most liquid shares on the stock market. Indices are regularly rebalanced by the index providers to ensure that they reflect the most successful securities on the exchange.

Are ETFs cost effective? Yes. When you buy an ETF you only pay once for exposure to a basket of shares. If you bought this index basket yourself, via a stock broker, it would be more expensive, and you would pay brokerage and statutory charges and taxes for each of the shares purchased. When you buy an ETF, you only pay brokerage once and there is no additional taxes payable for ETF transactions. ETFs generally have lower costs than other investment products because most ETFs are not actively managed and the underlying portfolio of shares is not traded regularly. ETFs typically have lower marketing, distribution and administration expenses.

Are ETFs easily tradable? Yes. ETFs can be bought or sold at any time on the stock market just like any other listed security. The stock exchange trading system facilitates buying and selling prices at all times and there are market makers to provide liquidity (prices) for large orders. Alternatively, investors can transact ETFs via an investment platform such as www.etfSA.co.za where all orders are pooled and traded once a day.

Are ETFs transparent? Yes. Being listed on the stock exchange means that prices are updated at frequent intervals and are available to investors throughout the trading day, and not just once a day like a unit trusts. The ETF issuer discloses the underlying portfolio of shares in the ETF fund on a daily basis.

Do ETFs pay dividends? Yes, ETFs collect the dividends from all the companies in the index tracked and pay these dividends over to investors, normally four times a year at the end of each quarter. The accrued dividends in any ETF portfolio are published daily in the net asset value (NAV) figures by all ETF issuing companies.

Do I have ownership of my ETFs? Yes. Every ETF security own by an investor is registered in his name on the Central Securities Clearing & Settlement share register.

Are ETFs well regulated? Yes. Many ETFs are registered under the relevant Collective Investment Schemes (Mutual Fund, Unit Trust) legislation and are regulated and controlled by the financial market regulator. All ETFs are publicly listed securities and are also regulated by the stock exchange.

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**THE Nigerian
STOCK EXCHANGE**

EXCHANGE TRADED FUNDS WORKSHOP 2016

**STOCK EXCHANGE HOUSE
2/4 CUSTOMS STREET
LAGOS ISLAND.**

**NOVEMBER 7, 2016
9:00 a.m. - 2:30 p.m.**

In partnership with:



Stanbic IBTC
Asset Management



Lotus Capital
HALAL INVESTMENTS



VETIVA
EQUITY MANAGEMENT

TRADING & INVESTMENT STRATEGIES USING EXCHANGE-TRADED FUNDS (ETFs)

ETF Workshop 2016

Nigeria Stock Exchange

7 November 2016

CONTENTS

- ▶ Understanding “passive” investing
- ▶ Investment strategies using ETFs
- ▶ Trading strategies using ETFs

CONTENTS

- ▶ Understanding “passive” investing
 - ▶ Passive investment \equiv Index-tracking investment
 - ▶ Perception vs. Reality of “average”
 - ▶ “All investing is active”
 - ▶ What is “passive” at overall portfolio level?
- ▶ Investment strategies using ETFs
- ▶ Trading strategies using ETFs

PASSIVE INVESTMENT = INDEX TRACKING

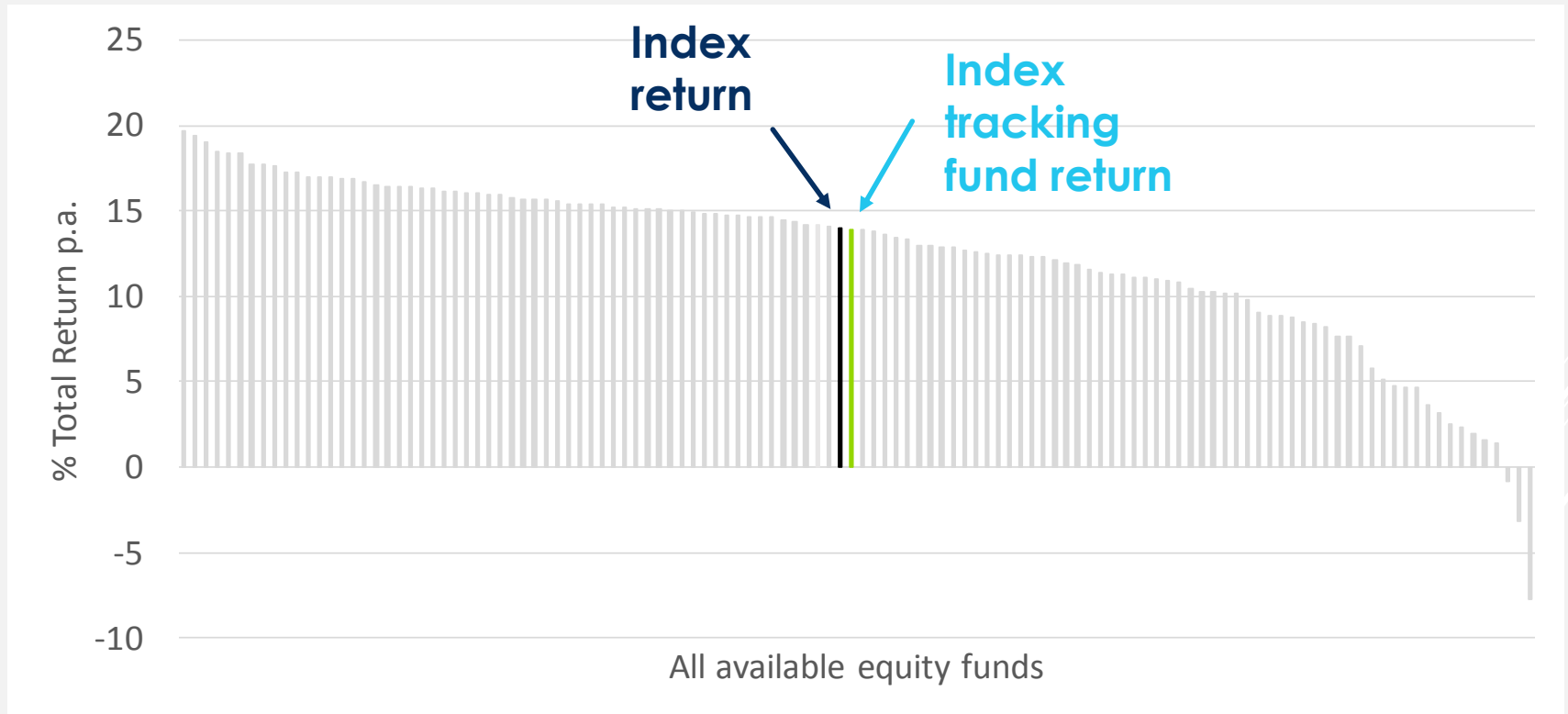
- ▶ “Index **tracking**” means “following a **recipe**”
- ▶ To bake a cake, your recipe specifies the **ingredients** and **quantities**



INDEX MEASURES “AVERAGE” PERFORMANCE

- ▶ An index reflects the **aggregate performance** (capital growth and dividends) of a **basket of shares**, e.g.
 - ▶ Nigerian equity market as a whole (NSE All Share or NSE 30)
 - ▶ Component of the equity market (NSE Banking or NSE Industrial)
 - ▶ Global equity market (MSCI World, FTSE All World)
- ▶ Can measure **different types of assets**:
 - ▶ Equities Commodities
 - ▶ Bonds Currencies
 - ▶ Listed Property Cash (money market)

PERCEPTION OF “AVERAGE”



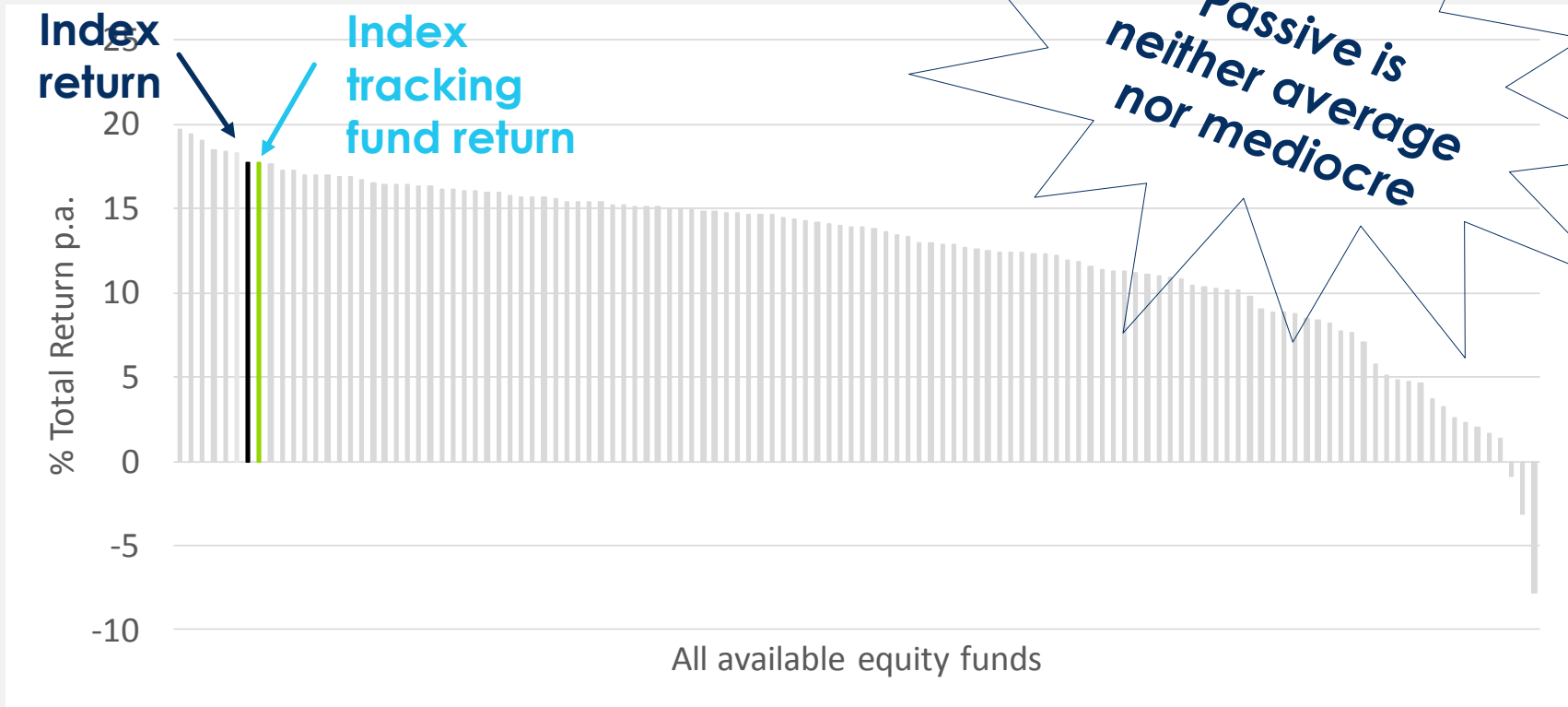
HOW WELL DO ACTIVELY MANAGED FUNDS PERFORM?

% of active managers who **failed** to outperform their benchmarks (broad-based market index)

	1 year	3 years	5 years
USA	85%	81%	92%
Europe	57%	73%	80%
South Africa	51%	63%	75%

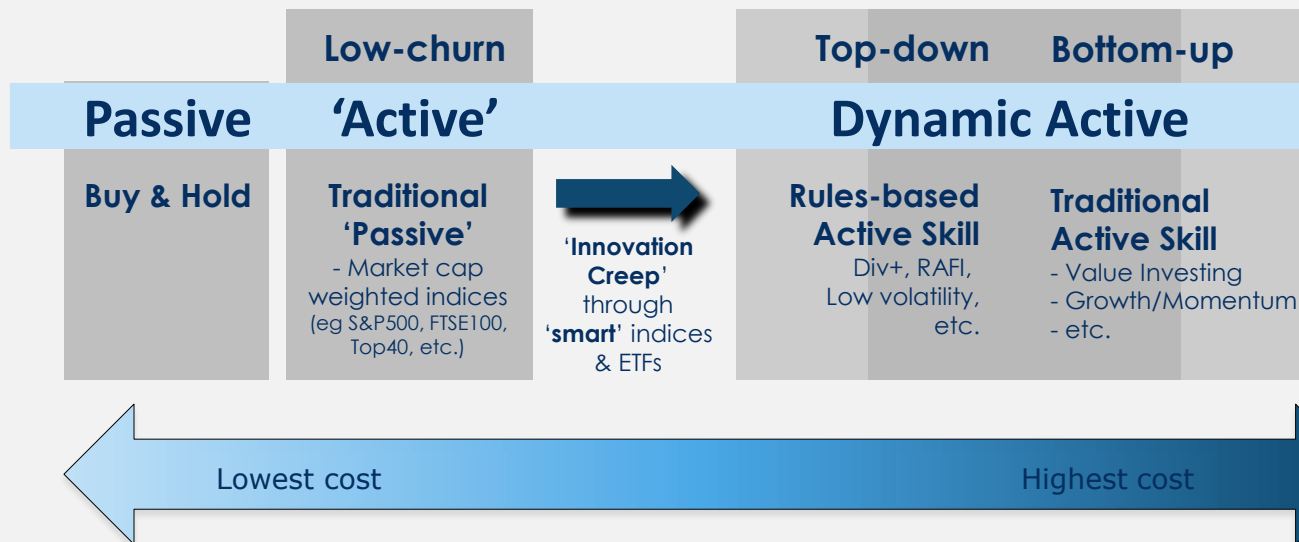
Source: S&P Dow Jones Indices (**SPIVA** Scorecard) (June 2016)

REALITY OF “AVERAGE”

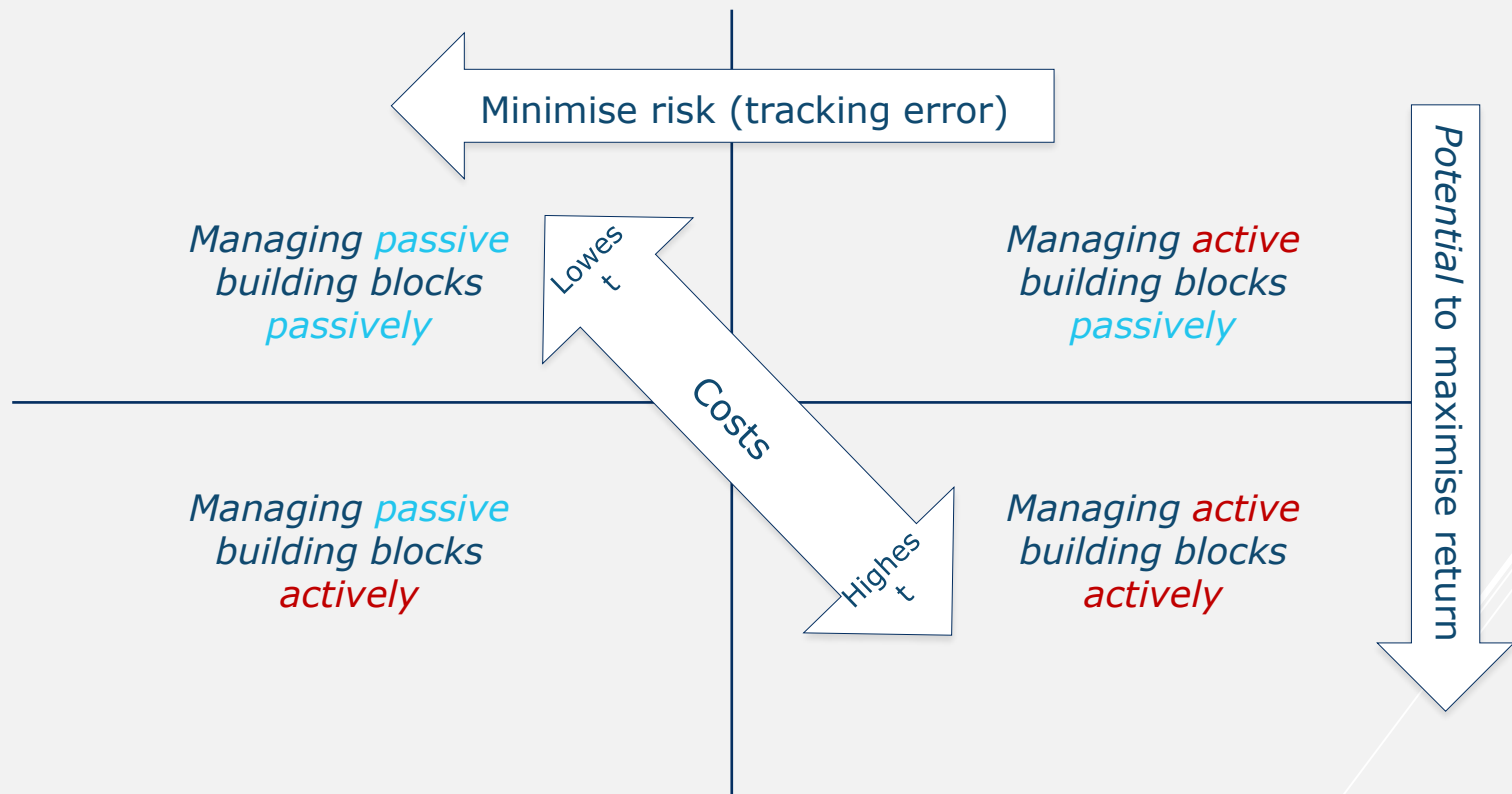


ALL INVESTING IS ACTIVE...

...it's just the **level of activity** that varies



WHAT CONSTITUTES “PASSIVE” AT THE PORTFOLIO LEVEL?



CONTENTS

- ▶ Understanding “passive” investing
- ▶ Investment strategies using ETFs
 - ▶ Evolution of ETF investment strategies
 - ▶ Investment strategies for various time horizons
 - ▶ Core-Satellite approach (top-down strategies)
 - ▶ ETF managed portfolios
- ▶ Trading strategies using ETFs

EVOLUTION OF ETF INVESTMENT STRATEGIES

- ▶ Exposure to **broad-based equity market** indices
 - ▶ Traditional “passive” investing
 - ▶ Efficient exposure to (market) beta
 - ▶ **Benefit**: *low cost, transparency, operational and tax efficiency*
- ▶ Expansion of “passive” to **other asset classes**
 - ▶ Application of indexation beyond equities
 - ▶ ETFs with non-equity underlyings allow for multi-asset class exposure via stock exchange
 - ▶ **Benefit**: *ease of transaction; security of custody, clearing, settlement*
- ▶ Rise of “**smart beta**” and **alternative** investment strategies
 - ▶ Rules-based investment decisions, commoditisation of active decision making
 - ▶ Index construction evolves from “performance benchmarks” to “allocation guidelines”
 - ▶ **Benefit**: *multi-factor performance drivers; exposure consistency & style purity*

STRATEGIES FOR DIFFERENT TIME HORIZONS

Strategic (multi-year)	
Core index or Enhanced index exposure	
Implementation of strategic investment policy	
Asset allocation / Top down investment strategies	
Strategy / factor / "smart" index as active manager alternative	

STRATEGIES FOR DIFFERENT TIME HORIZONS

Strategic (multi-year)		Tactical (<1 year)
Core index or Enhanced index exposure		Allocate cash inflows based on target exposure weights
Implementation of strategic investment policy		Active / tactical overlay to strategic allocation strategy
Asset allocation / Top down investment strategies		Completion strategy – fill gaps or change effective exposure
Strategy / factor / “smart” index as active manager alternative		Portfolio transition during manager or policy shift

STRATEGIES FOR DIFFERENT TIME HORIZONS

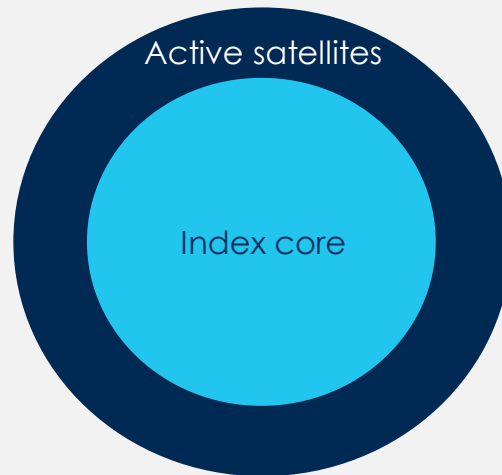
Strategic (multi-year)	Both strategic & tactical	Tactical (<1 year)
Core index or Enhanced index exposure	Achieve target exposures starting from active positions	Allocate cash inflows based on target exposure weights
Implementation of strategic investment policy	Over- or under-weight (tilt) relative to index exposures	Active / tactical overlay to strategic allocation strategy
Asset allocation / Top down investment strategies	Risk factor management – single or multi-asset	Completion strategy – fill gaps or change effective exposure
Strategy / factor / “smart” index as active manager alternative	Thematic or Style tilt investing	Portfolio transition during manager or policy shift

CORE-SATELLITE APPROACH TO PORTFOLIO CONSTRUCTION

Active approach



Core-Satellite approach



Index approach



Combines Best of Both Worlds!

SELECTING SATELLITES

- ▶ A **good** satellite investment should be **sufficiently different** from the core
- ▶ **Strategic** implementation
 - ▶ **Equity only** – different shares, sectors, size
 - ▶ **Other asset classes** – towards a diversified balanced fund
 - ▶ **Geographic** diversification – developed markets, other emerging / regional exposures
 - ▶ **“Smart”** exposures – beyond traditional passive investments
- ▶ **Tactical** satellites
 - ▶ **Active** fund managers with specific skills
 - ▶ Targeted exposure to **desired investment opportunities**
 - ▶ Shorter term portfolio **tilts**

ETF MANAGED PORTFOLIOS

- ▶ Investment strategies with **>50%** of portfolio assets invested **in ETFs**
- ▶ One of the **fastest growing segments** in the managed account universe:
 - ▶ Sep-11: 370 strategies holding \$27bn in assets, 43% growth over trailing 1 year
 - ▶ Jun-16: 787 strategies holding \$84bn in assets, 11% growth q-on-q
- ▶ **Reasons** for strong growth amongst financial advisers:
 - ▶ Growth in **fee-based** models (rather than commission-based)
 - ▶ **Fiduciary** responsibility is shifting towards adviser
 - ▶ ETF strategists facilitates access to **institutional-type** diversification and portfolio management; adviser can focus on gathering & retaining client assets and managing overall financial profile
- ▶ Provides access to a **broad range of strategies** – from stand-alone strategies to one-stop, complete-solution offerings

Source: Morningstar Inc.

ETF MANAGED PORTFOLIOS - CLASSIFICATION

Universe	Asset breadth	Portfolio Implementation	Primary ETF Exposure Type
Global	All asset (at least 10% in "other" assets)	Strategic	Broad market
International (non-US)	Balanced (mostly equity & fixed income)	Tactical	Sector
US	Equity	Hybrid	Country / region
	Fixed Income		All-inclusive
	Alternative		

Source: Morningstar Inc.

HOW DO YOU KNOW WHAT PERFORMANCE TO EXPECT FROM AN ETF INVESTMENT?

- ▶ An investment in a **physically-replicated index-tracking** ETF gives you the assurance that you will receive the **same** return as the underlying asset, which usually means an index such as the NSE30 or S&P500, after costs
- ▶ Although you do not know in advance what **absolute return** you will receive, you do know that you will receive the same return as the index
- ▶ This means that an ETF has **very low relative risk** when compared to the benchmark index
- ▶ However, one could still have **absolute risk** in your investment
 - ▶ If the index declines by 10%, your ETF investment will also decline by 10%
- ▶ Your ETF investment will have the **same return and risk** characteristics as the index it tracks

Make sure you know what that is!

CONTENTS

- ▶ Understanding “passive” investing
- ▶ Investment strategies using ETFs
- ▶ Trading strategies using ETFs
 - ▶ Cash equitisation
 - ▶ Sector / asset class rotation
 - ▶ Hedging
 - ▶ Efficient, Fast, Targeted trading

TRADING STRATEGIES USING ETFs

- ▶ Cash **equitisation**
 - ▶ Deploy cash inflows immediately into the market to avoid cash drag
 - ▶ Shift exposure from ETF to selected securities when opportunities arise
- ▶ Sector / asset class **rotation**
 - ▶ Get instant access to desired exposures on a tactical basis
 - ▶ Limited market / price impact
- ▶ **Hedging**
 - ▶ Limited value in a long-only environment
 - ▶ Short-selling of ETFs has less impact than stock-specific shorting
- ▶ **E**fficient, **F**ast, **T**argeted trading
 - ▶ Guaranteed liquidity via market maker / authorised participant
 - ▶ Risk sharing within the broader market

IMPORTANT CONSIDERATIONS IN USING ETFs

- ▶ **WISIWYG** – **W**hat's **I**n**S**ide **I**s **W**hat **Y**ou **G**et
 - ▶ Make sure you **know** what it is
- ▶ Do not select investments on the basis of **past performance**
 - ▶ Understand the **drivers** of past performance to look for clues on future performance
- ▶ Consider your portfolio on an **aggregate** basis
 - ▶ Beware unintended **concentration** risk and bias

LAST WORD FROM WARREN BUFFETT



*"My advice to the trustee could not be more simple: Put 10% of the cash in short-term government bonds and the rest in a **very low-cost S&P 500 index fund** (I suggest Vanguard's).*

I believe the trust's long-term results from this policy will be superior to those attained by most investors – whether pension funds, institutions or individuals – who employ high-fee managers"

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**THE Nigerian
STOCK EXCHANGE**

EXCHANGE TRADED FUNDS WORKSHOP 2016

**STOCK EXCHANGE HOUSE
2/4 CUSTOMS STREET
LAGOS ISLAND.**

**NOVEMBER 7, 2016
9:00 a.m. - 2:30 p.m.**

In partnership with:



Stanbic IBTC
Asset Management



Lotus Capital
HALAL INVESTMENTS



VETIVA
EQUITY MANAGEMENT LIMITED

S&P Dow Jones Indices

Evolving Trends in Indexing and ETFs

7 November, 2016



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Indices**

An **S&P Global** Division

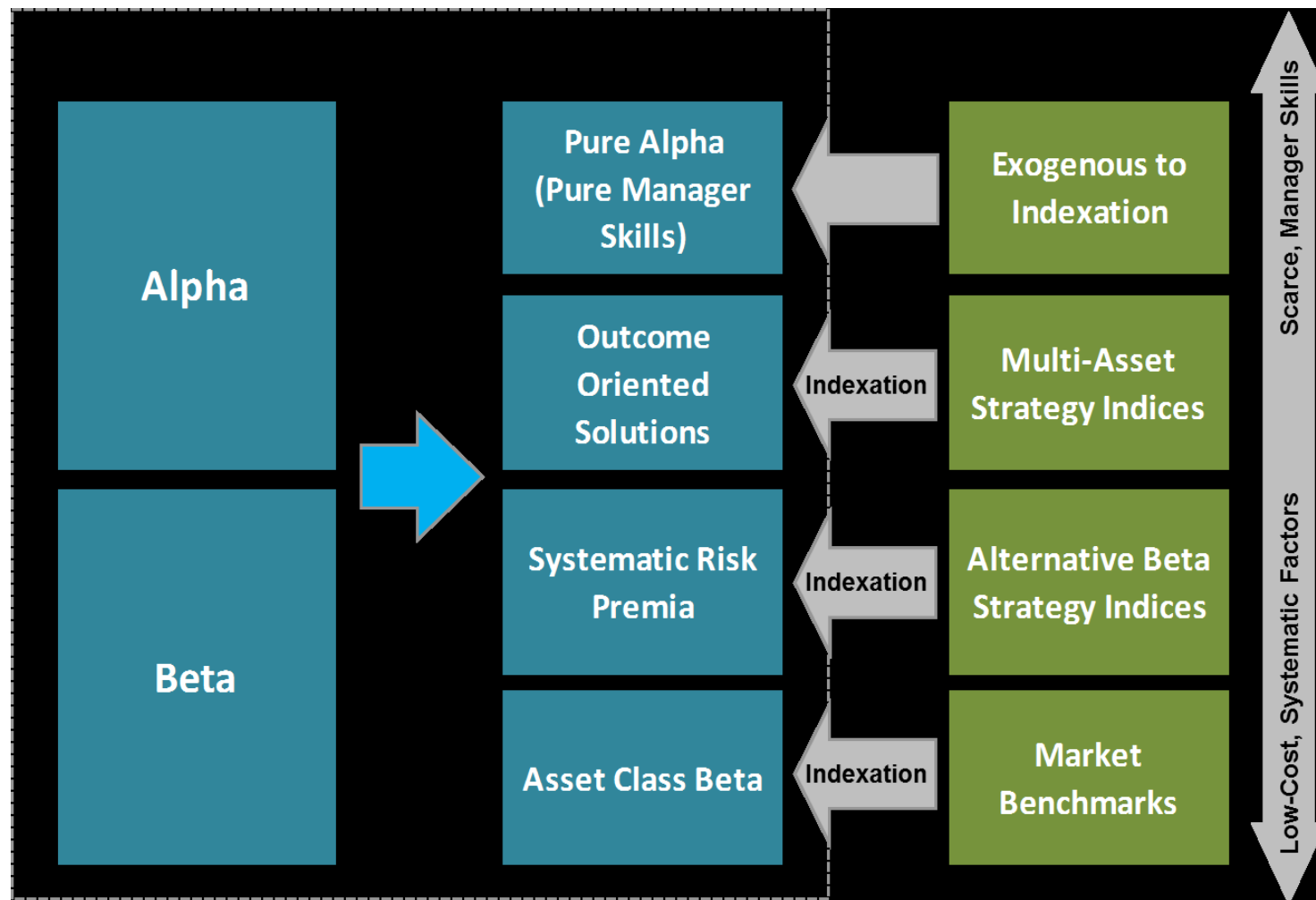
THE WORLD'S LARGEST PROVIDER OF FINANCIAL MARKET INDICES.

- S&P Dow Jones Indices is at the forefront of index change and innovation for the last 120 years.
- S&P Dow Jones Indices is the world's premiere multi-asset class index provider
- The only index provider to offer indices across Global equity, commodities, volatility, real estate & fixed income Indices.
- Today, more assets are invested in products (ETFs etc) based on our indices than any other provider in the world.
- Aligned with IOSCO principles for index providers
- Methodologies are freely available on www.spindices.com

Trends in the Market

- Active managers struggle to outperform benchmarks
 - Sustainability investing continues to gather momentum
 - Investors are becoming increasingly well versed in factor investing
 - Hunt for yield in a low-interest-rate environment
 - Downside Risk Management
 - Multi Asset Indices
 - Index trackers are being used as default investment options.
-
- Research Article: The rise of indices is changing the face of investing.

EVOLUTION IN THE ASSET MANAGEMENT INDUSTRY – INDEXATION OPPORTUNITY FOR MULTI ASSET SOLUTIONS



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ETF/ETP INDUSTRY

- The Global ETF/ETP industry had 6,526 ETFs/ETPs, with 12,386 listings, assets of US\$3,408 Bn, from 284 providers on 65 exchanges.
- ETFs linked S&P Dow Jones Indices have AUM's over \$900 bn as at 30 Sept 2016.
- We just saw ETFs on the S&P 500 and S&P Global Property 40 indices list on the JSE on the 4th November 2016.
- In Nigeria the 1st ETF linked to Nigerian Sovereign Bonds listed on the NSE on the 24th October 2016.
- Big potential to grow in Nigeria, as investors are looking to access the largest economy in Africa.

Source: ETFGI

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USES OF ETFs

- ETFs are used widely by institutional investors and increasingly by financial advisors and retail investors to:
- Equitize cash
- Implement diversified exposure to a market
- Comprise a core or satellite investment
- Be a long term strategic investment
- Implement tactical adjustments to portfolios
- Use as building blocks to create entire portfolios
- Use as an alternative to futures and other derivative products

Source: Web: www.etfgi.com

TRADEABILITY VS. REPRESENTATIVENESS

Figure 1: Common Criteria for Achieving Tradeability and Representativeness

	Methodology for Liquidity / Tradability	Methodology for Representativeness
Equity Indices	<ul style="list-style-type: none"> • Include limited number of stocks • Minimum float adjusted market cap • Minimum trading volume or value traded • Minimum turnover ratio • Frequency of trading • Use liquidity weighting instead of market cap weighting • Use liquid ADR/GDR instead of local listing 	<ul style="list-style-type: none"> • Include the largest stocks by market cap • Minimum market coverage ratio • Representation across equity risk factors such as countries, sectors and styles

Source: www.spdji.com Evaluating Index Tradeability. A brief cross-asset class Review

COUNTRY AND REGIONAL INDICES

East Africa

Kenya

West Africa

Nigeria

Ghana

Cote d'Ivoire

North Africa

Egypt

Morocco

Tunisia

Southern Africa ex SA

Botswana

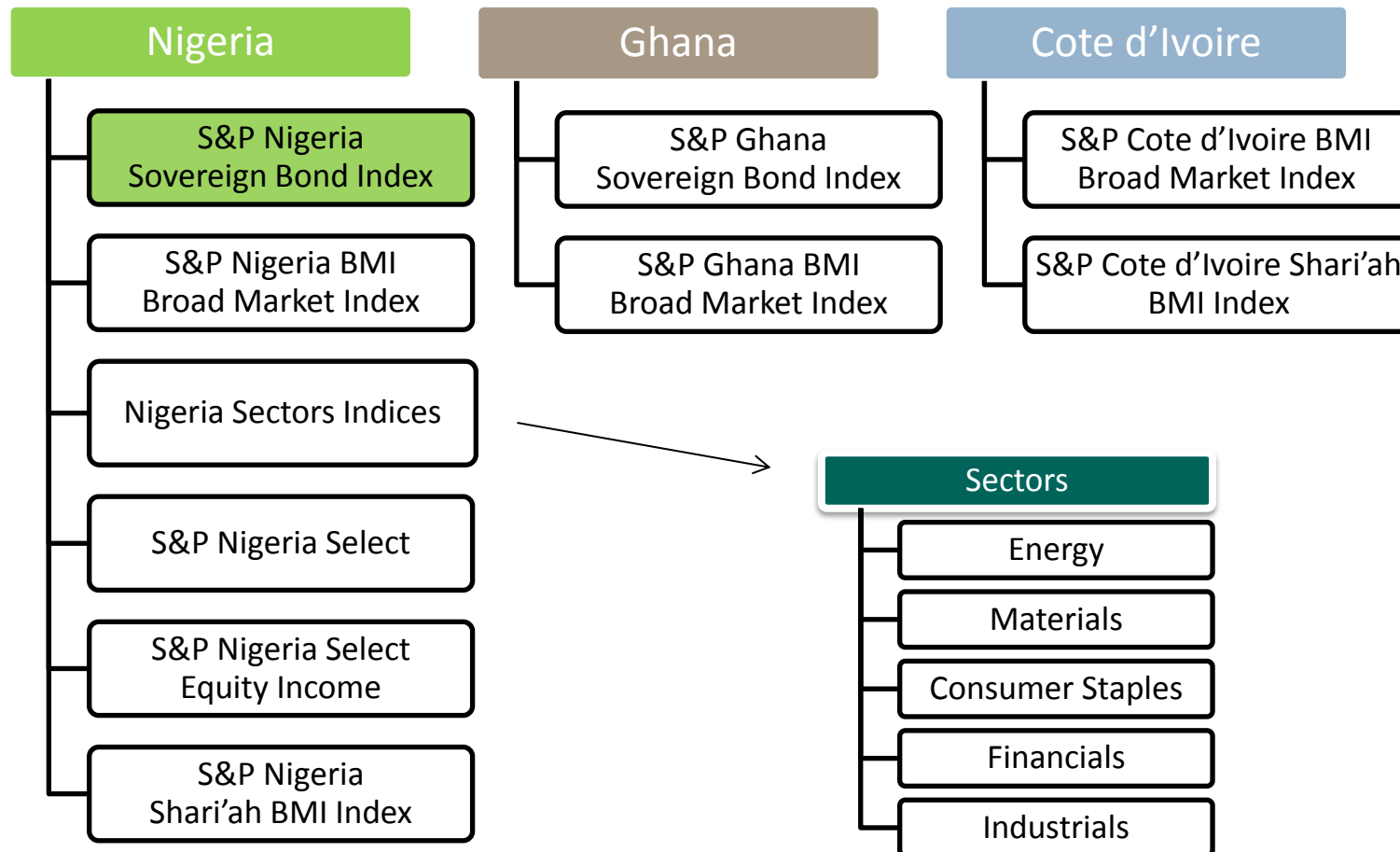
Namibia

Mauritius

Zambia

Zimbabwe

S&P West Africa Indices



TRADABLE INDICES

East Africa 10

West Africa 25

North Africa 15

Southern Africa ex SA 10

South Africa 50

Access Africa

Africa 40

All Africa Select

All Africa ex SA Select

Pan Africa ex SA Select

Sub Saharan Africa ex SA Select

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REGIONAL INDICES

Pan Africa BMI

Pan Africa ex SA BMI

Frontier Africa BMI

Pan Africa Shari'ah

Frontier Africa Shari'ah

All Africa

All Africa Capped

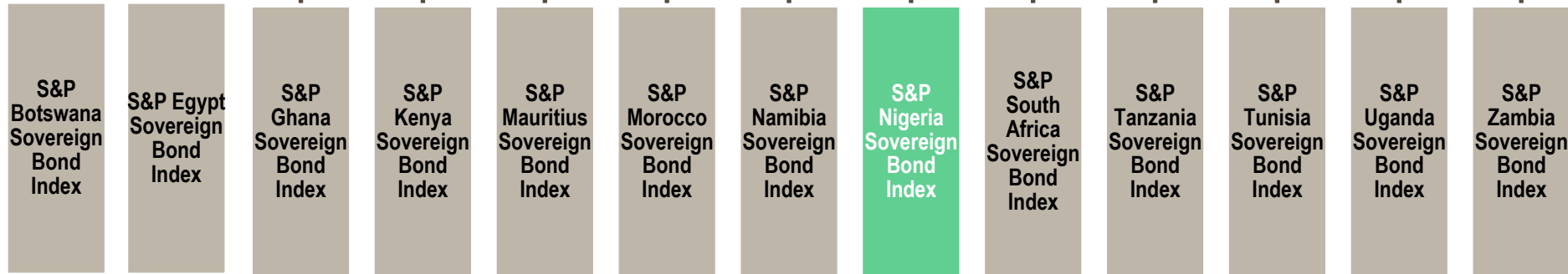
All Africa ex SA

All Africa ex SA Capped

All Sub Saharan Africa ex SA

All Sub Saharan Africa ex SA Capped

S&P Africa Sovereign Bond Index



- S&P Africa Euro Currency Global Sovereign Bond Index
- S&P Africa Japanese Yen Global Sovereign Bond Index
- S&P Africa U.S. Dollar Global Sovereign Bond Index
- S&P Africa Sovereign Ex-South Africa Bond Index
- S&P Africa Sovereign Bond ex Tanzania Bond Index
- S&P Africa Sovereign Bond ex SA ex Tanzania Bond Index
- S&P Africa Sovereign Bond ex Tanzania (15% Capped) Bond Index
- S&P Africa Sovereign Bond ex SA ex Tanzania (15% Capped) Bond Index
- S&P Africa Global Sovereign Bond ex Tanzania Bond Index
- S&P Africa Global Sovereign Bond ex Tanzania (15% Capped) Bond Index

Is Smart Beta Possible In Africa?

SOUTH AFRICA	3 Years pa	5 Years pa	7 Years pa
Market Cap Indices			
S&P South Africa Composite	6.56%	12.53%	10.55%
Alternatively Weighted Indices			
S&P Momentum South Africa Index	5.36%	18.06%	18.89%
S&P Quality South Africa Index	5.99%	14.27%	18.08%
S&P South Africa Dividend Aristocrats	11.91%	17.81%	17.94%
S&P South Africa Low Volatility	9.55%	17.15%	17.57%
S&P Low Beta South Africa Composite	8.20%	15.72%	15.74%
S&P GIVI South Africa Composite	7.33%	14.26%	14.96%
S&P South Africa 50 Equal Weight	7.68%	12.93%	13.97%
S&P Intrinsic Value Weighted South Africa Composite	5.02%	10.69%	12.04%
S&P Enhanced Value South Africa	6.00%	11.87%	9.98%

South Africa makes up about 90% of the market cap of African equities.
Large amount of stocks, and well diversified.

Source: S&P Dow Jones Indices LLC. Data as of October 31, 2016. Index performance based on total return in ZAR. Past performance is no guarantee of future results. Table is provided for illustrative purposes

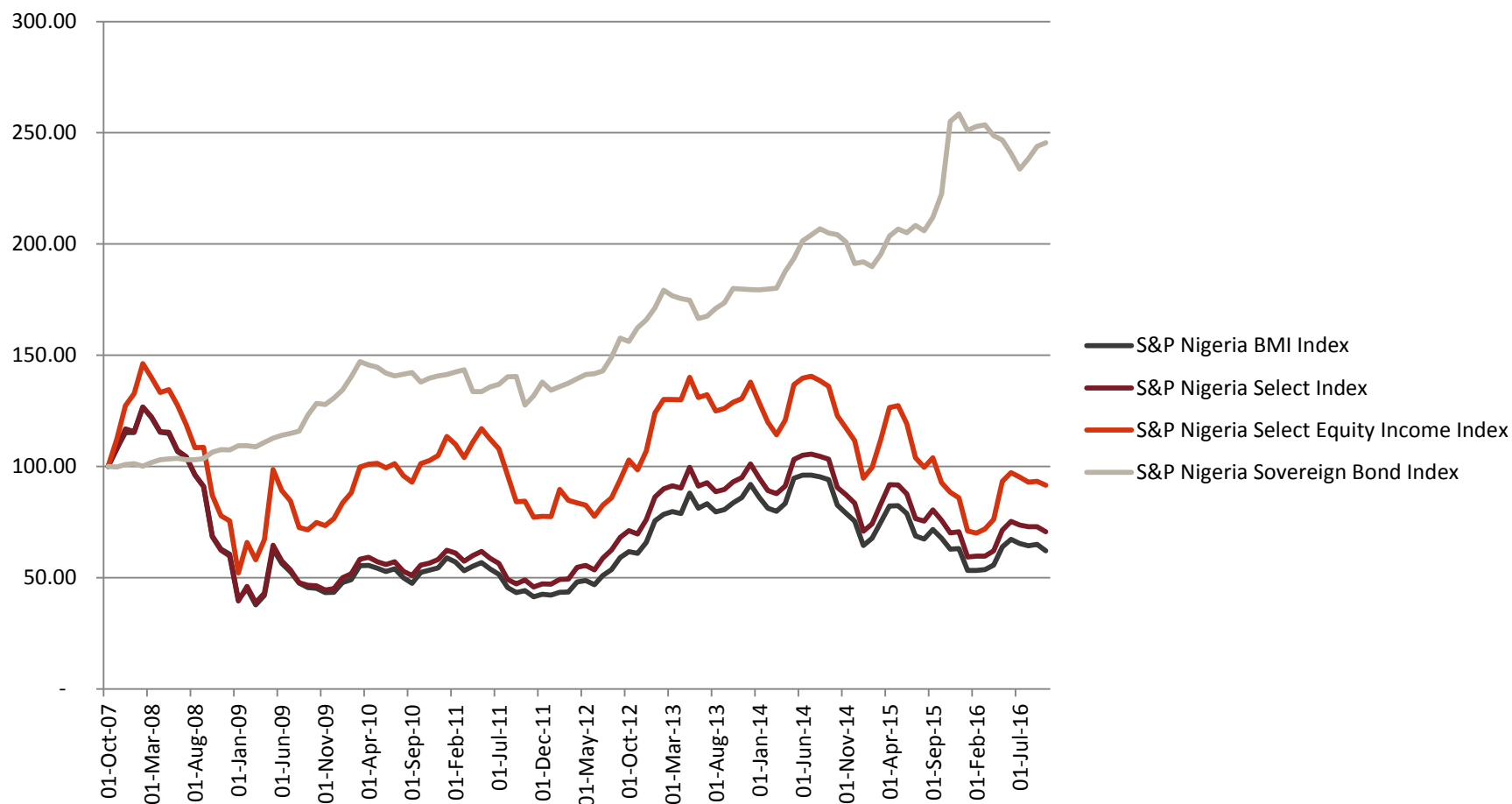
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Is Smart Beta Possible In Nigeria?



Source: S&P Dow Jones Indices LLC. Data as of Oct 31, 2007 to 31 Oct 2016. Index performance based on total return in NGN. Past performance is no guarantee of future results. Table is provided for illustrative purposes.

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S&P Nigeria Indices

Bond indices have delivered much better returns over the long run in Nigeria

31 Oct 2016 (Gross TR in NGN)	YTD	1 Year	2 Years pa	3 Years pa	5 Years pa	7 Years pa
Broad Market Indices						
S&P Nigeria BMI (Broad Market Index)	-1.5%	-8.3%	-13.3%	-9.4%	7.0%	4.6%
Sector Indices						
S&P Nigeria BMI Energy Index	-35.7%	-34.0%	-25.1%	2.4%	-7.5%	-9.9%
S&P Nigeria BMI Materials Index	-11.1%	-8.2%	-13.3%	-4.5%	12.6%	13.7%
S&P Nigeria BMI Industrials Index	-7.6%	-30.2%	-37.7%	-31.2%	-2.7%	-2.7%
S&P Nigeria BMI Consumer Staples Index	2.0%	3.6%	-6.2%	-9.9%	7.8%	12.9%
S&P Nigeria BMI Financials Index	7.8%	-6.7%	-13.2%	-8.5%	7.3%	2.5%
Shariah Indices						
S&P Nigeria BMI Shariah Index	-18.2%	-14.7%	-9.9%	-11.0%	9.4%	11.2%
Select Indices						
S&P Nigeria Select Index	0.2%	-6.7%	-11.6%	-8.7%	7.6%	6.2%
S&P Nigeria Select Equity Income Index	6.6%	-1.2%	-13.6%	-10.7%	1.7%	2.9%
Sovereign Bond Market Index						
S&P Nigeria Sovereign Bond Index	-5.0%	10.3%	9.7%	10.9%	14.0%	9.7%

Source: S&P Dow Jones Indices. Data as of 31 March, 2016. Charts are provided for illustrative purposes. Past performance is no guarantee of future results. This chart may reflect hypothetical historical performance..

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You have the idea, we'll create the Index.

CALCULATED BY
S&P DOW JONES
INDICES

Custom
Slice
& Dice

Custom
Hybrid

Custom
White
Label

Customized Variation on a Standard S&P Dow Jones Index

- Calculated by S&P Dow Jones
- Non-standard breakouts by country/region, size and sector
- Exclude certain stocks based on client criteria
- Alternative weighting and capping

Client's Proprietary Index Using or Referencing an S&P Dow Jones Index

- Calculated by S&P Dow Jones
- Client methodology uses an S&P Dow Jones Index as a universe, or a value of an index as an input
- Client owns the intellectual property; index carries the client's branding

Client's Proprietary Index

- Calculated by S&P Dow Jones
- Client methodology. No use of S&P Dow Jones intellectual property
- Client owns the intellectual property; index carries the client's branding

Source: S&P Dow Jones Indices. See the methodology document at www.spindices.com for more information.

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A WIDE VARIETY OF OPTIONS TO MEET YOUR NEEDS

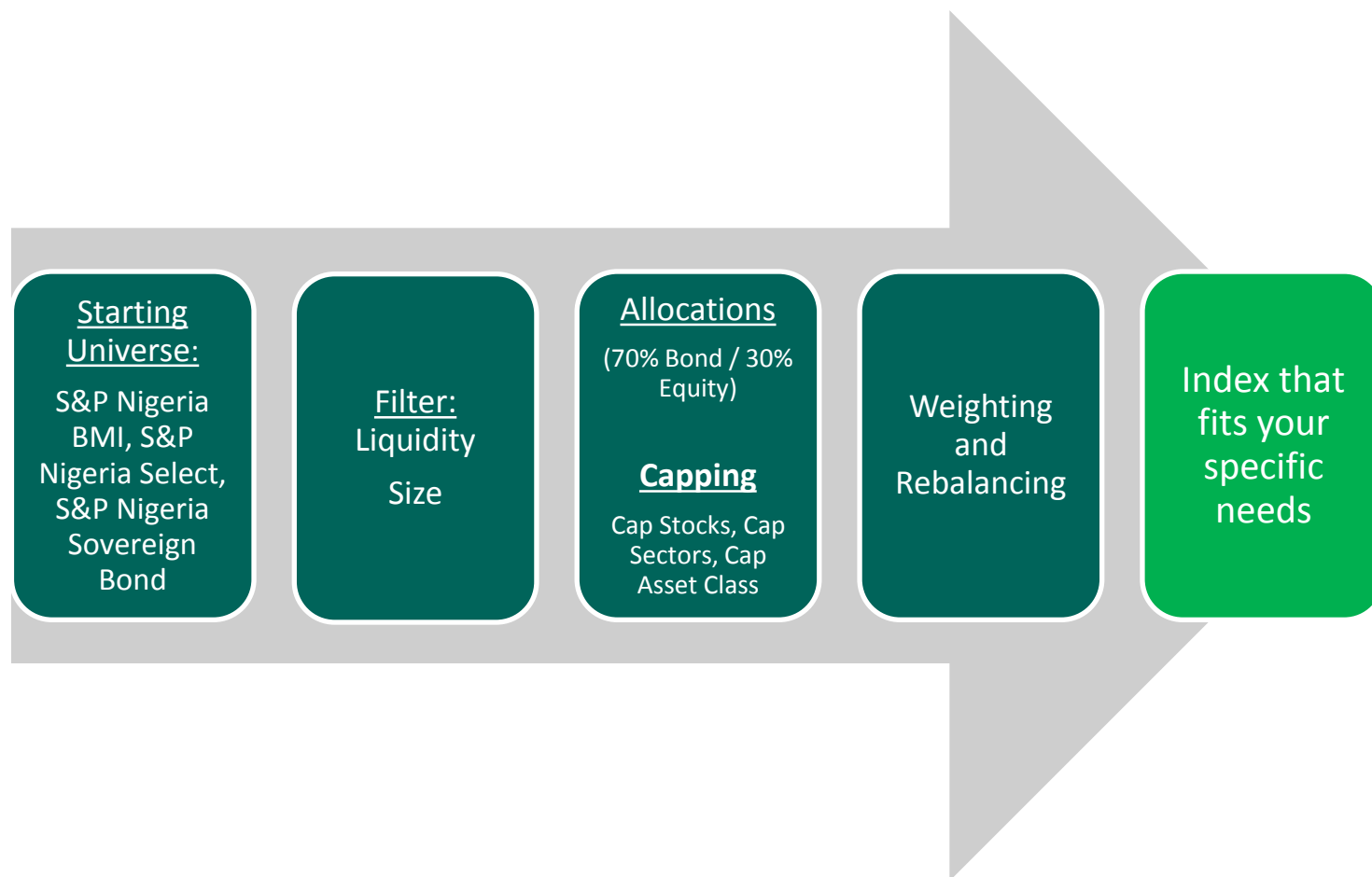
ASSET CLASS <ul style="list-style-type: none"> Equities Commodities Fixed Income Currencies Volatility 	SECTOR <ul style="list-style-type: none"> GICS Sector GICS Industry GICS Sub Industry GICS 	REGION <ul style="list-style-type: none"> All World North America Europe Asia Your Choice 	SIZE <ul style="list-style-type: none"> Large Cap Mid Cap Small Cap Custom Sizes 	WEIGHTING <ul style="list-style-type: none"> Market Cap Equal Weighted Price Weighted Fundamental Custom Weighting
CAPPING <ul style="list-style-type: none"> Constituent Capping Regional Capping Sector Capping Custom Capping UCITS Capping 	REBALANCING <ul style="list-style-type: none"> Daily Weekly Quarterly Annually Ad Hoc 	STYLE <ul style="list-style-type: none"> Growth Value 	CURRENCY <ul style="list-style-type: none"> Multi Currency Hedging Calculator Multi Currency Spot Calculator 	TOTAL RETURN <ul style="list-style-type: none"> Gross S&P Tax Rates Customized Tax Rates
GLOBAL <ul style="list-style-type: none"> New York Management London Management Beijing Management 	DISTRIBUTION <ul style="list-style-type: none"> Real-Time End-of-Day Via Vendors (BBG) 	STRATEGIES <ul style="list-style-type: none"> Risk Control Leverage & Inverse Dynamic Allocation Volatility Control Mechanism Momentum Based Strategies 	SHARIAH <ul style="list-style-type: none"> Shariah Compliance Shariah GICS Shariah by region 	INAV <ul style="list-style-type: none"> Fully Supported iNAVs for U.S. listed ETFs iNAVs for ETNs globally

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Building Solutions





S&P DJI utilizes a collaborative approach to build a index.




WWW.SPDJI.COM

 us.spindices.com

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DEVELOPED	INVESTMENT GRADE	S&P WCI		RISK CONTROL	
EMERGING	HIGH YIELD	STRATEGIC FUTURES	SPECIALTY	DIVIDEND INCOME	
FRONTIER	MONEY MARKET	EQUITY BASED	HEALTHCARE CLAIMS	VIX®	
ENVIRONMENTAL, SOCIAL & GOVERNANCE	U.S. TREASURY & U.S. AGENCY	RISK CONTROL	CONSUMER CREDIT DEFAULT	ASSET ALLOCATION	
PROPERTY & REIT	U.S. MUNICIPAL		TARGET DATE	INVERSE / LEVERAGE	
SHARIAH	U.S. MORTGAGE BACKED SECURITIES		TARGET RISK	CORPORATE CLUSTERS	
THEMATICS	CREDIT DEFAULT SWAP			CURRENCY	
	SENIOR LOAN			QUANTITATIVE STRATEGIES	
	PREFERRED & CONVERTIBLE				
	INFLATION-LINKED				

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