NewFunds ILBI Exchange Traded Funds
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Exchange Traded Funds (ETFs)

The NewFunds ILBI Exchange Traded Fund is currently listed on the JSE (South Africa) soon to be listed on the BSE (Botswana) and will be easily obtained through a BSE member stockbroker (Motswedi Securities).

Exchange Traded Funds (ETFs) are open-ended passive investment vehicles that track the performance of an index, or a basket of securities.

- ETFs are listed instruments and are traded like shares on the exchange
- ETFs enable investors to gain broad exposure to: stock markets, sectors, asset classes and investment themes
- ETFs are usually offered at lower costs than actively managed investment funds
- ETFs are transparent as the underlying assets and Index methodology are fully disclosed, so you know where your money is invested
- ETFs are easy to buy and sell, and a market maker is always in place to ensure there is liquidity at all times.
NewFunds IBLI ETF

Fund Overview

NewFunds IBLI ETF (the IBLI ETF) is a product, providing investors with a convenient and cost-efficient way to get exposure to performance of de-facto South African government inflation-linked bond benchmark index - the Barclays/Absa South African Government Inflation-Linked Bond Index (the ILBI Index).

The ILBI Index is a total return index comprising bonds issued by the South African government that are linked to the South Africa Consumer Price Index (CPI). Inflation linked bonds differ crucially from conventional bonds in that the nominal value of the inflation-linked bond changes in line with the South Africa CPI. Thus the real value, not the nominal value, of the bond’s notional remains constant. As coupons are expressed in terms of the notional, they too increase in line with the CPI.

Since the IBLI ETF replicates a total return index, all coupons received on monthly basis are automatically re-invested back into the fund so as to increase the total net asset value of the fund and consequently increase the value of each unit.

The IBLI ETF is suitable for investors seeking low-cost, convenient alternatives to traditionally non-listed products. The IBLI ETF can act as a building block for investors to use when constructing their own portfolios.

Index Methodology

The Index constituent securities are comprised of bonds issued by the South African government which are linked to the South Africa Consumer Price Index (CPI) and meet the Index methodology criteria. The ILBI Index is a total return index which is calculated based on the general methodology of the Barclays Government inflation-linked indices. The Index uses standard settlement and ex-dividend conventions for all calculations. South African inflation-linked bonds currently settle on a T+3 basis and have an ex-dividend period of 10 calendar days.

On non-business days the security price, accrued and analytical values are carried over unchanged from the previous day, this ensures that the Index has no local currency performance on days when the local market is closed. Income from coupon is held in cash and earns a return of (the Johannesburg Interbank Average Rate) Jibar -15bps on a daily basis until the next rebalancing date, when it’s re-invested into the Index. The Jibar from the last business day of the previous month is used, (Jibar is used as the interest rates benchmark in South Africa). Once a month on the last calendar day the indices are reviewed and rebalanced.

Fund Facts

<table>
<thead>
<tr>
<th>The Issuer</th>
<th>NewFunds Collective Investment Scheme (NewFunds CIS)</th>
<th>ISIN</th>
<th>ZAE000162244</th>
</tr>
</thead>
<tbody>
<tr>
<td>Manager</td>
<td>NewFunds (Pty) Ltd</td>
<td>Offer Price</td>
<td>Approximately 1/10th of the average ILBI Index level</td>
</tr>
<tr>
<td>Originators</td>
<td>Absa Corporate and Investment Bank, a division of Absa Bank Limited</td>
<td>Index Rebalancing Frequency</td>
<td>Monthly</td>
</tr>
<tr>
<td>Index</td>
<td>Barclays/Absa South African Government Inflation-Linked Bond Total Return Index (ILBI)</td>
<td>Investment Objective</td>
<td>NewFunds IBLI ETF tracks the Total Return performance of the Barclays/Absa South African Government Inflation-Linked Bond Index, an index comprised of bonds issued by the South African Government which are linked to the South Africa Consumer Price Index</td>
</tr>
<tr>
<td>Listing</td>
<td>Johannesburg Stock Exchange (“JSE”), Botswana Stock Exchange (“BSE”)</td>
<td>Base Currency</td>
<td>BWP</td>
</tr>
<tr>
<td>Sector</td>
<td>Exchange Traded Funds</td>
<td>Distribution Frequency</td>
<td>Monthly</td>
</tr>
</tbody>
</table>
Trading

At what currency will the NewFunds ILBI Exchange Traded Fund be traded?
In Botswana Pula

How often during a trading session will Absa provide liquidity to the market?
Absa CIB, as a market maker, will provide liquidity to the market daily through its local executing broker, (Motswedi Securities) during the South Africa JSE trading hours, i.e. 09h00 to 17h00.

How often will the traded prices be published on the BSE website?
The previous day’s closing prices will be published on the BSE website daily.

Quarterly distribution

a. When there is a coupon (dividend) re-investment the promoter will need to provide the relevant information (dividend amount, cum-date, ex-date etc.) to the BSE and CDS. The last cum-date on BSE should be three business days before the record date.
b. On the record date, CDS will make available to the Registrar and Transfer Agent of the ETF an Entitlement Schedule (text file) which contains all the relevant details of the ETF securities holders.

Fees

Management fee: Total Expense Ratio (TER), this fee is built in to the bid/offer spread.

TER is a measure of the fund’s assets that have been sacrificed as a payment for services rendered in the management of the fund, expressed as a percentage of the daily average value of the portfolio and calculated over a 12 month rolling period and the TER varies on quarterly or monthly basis. TER as of September 2015 is 0.28%

Trading Fees (incl. VAT):
• 0.02112% BSE fee
• 0.01408% CSD fee

The total transaction fee is 0.03520% subject to a minimum fee of P17.60 per trade.

Pricing structure of the portfolio

• A Total Expense Ratio is charged on the fund and this fee differs on monthly quarterly basis. TER is a measure of the fund’s assets that have been sacrificed as a payment for the services rendered in the management of the fund, expressed as a percentage of the daily average value of the portfolio and calculated over a 12 month rolling period.

• The Net Asset Value (NAV) price is calculated as:
  \[ \text{NAV} = \frac{\text{Fund Assets} - \text{Liabilities}}{\text{Outstanding Shares}} \]

Example

\[ \text{NAV} = \frac{\text{Cash} + \text{Equity} + \text{Income} - \text{Expenses}}{\text{Outstanding Shares}} \]
The Role of the Market Maker

How does the market maker ensure liquidity on the BSE?

Absa CIB, who is the originator and SA market maker has an obligation as required by the BSE Listing Requirements, to make a market and provide liquidity for the securities in Botswana, through its local executing broker (Motswedi Securities).

Absa CIB, as the market maker in South Africa provides continuous liquidity to the local market during Continuous Trading and Closing Auction. In Botswana, Absa CIB through Motswedi Securities will provide liquidity to the market during trading hours. Absa CIB will hold limited securities at its account at the CDS, however in the situation that an investor requires purchasing a greater amount than Absa CIB has in its account, Absa CIB will then transfer additional securities from South Africa to Botswana to facilitate the trade settlement. Execution in this example will only occur once the additional securities have settled in Absa CIB’s account at the CDS in Botswana. Absa CIB will provide continuous indicative NewFunds ILBI ETF bid/offer spread/prices to Botswana website (www.bse.co.bw), Reuters and to Bloomberg.

How are bid and offer prices determined?

Absa CIB, as a market maker, continuously calculates bid / offer spread for the NewFunds ILBI ETF in each jurisdiction / secondary listing using the underlying price levels and known fees to create the final bid / offer spread of the ETF. The spread is a function of brokerage spread and the liquidity of the underlying shares (Bid/Offer spread of the underlying shares). As an example, NewFunds ILBI ETF and exchange rates can be viewed by all market participants by price reporting agencies such as Reuters or Bloomberg.
Fund Benefits

Traded like a share
ETFs are funds listed and traded like ordinary shares on a stock exchange. Profits or losses are made from the difference between buying and selling prices. Like any other security, ETFs carry the risk of a loss or profit as its value changes. The advantage of ETFs is that they can readily be bought or sold as with any listed security. They can be traded throughout normal BSE trading hours and their actual value can be calculated at any time, unlike an unlisted collective investment scheme (unit trust) or other actively managed fund where the unit price is calculated internally and is reported weekly, monthly or sometimes only quarterly.

Lower fee structure
Tracking the performance of an index or market is deemed to be passive investing. Passive investment products are usually associated with lower costs. Active investing attempts to outperform a given market or index. In return for the promise of premium performance, active investment managers and advisors charge fees over and above the usual investment costs.

Easily verifiable
Another advantage of ETFs is its record keeping process. All purchases, sales and creations are through an exchange, which provides an additional reconciliation for funds. The BSE stipulates that an ETF can only track a publicly traded index. This means the performance of NewFunds ETF can easily be measured against its stated index. The prices quoted can be reconciled and verified making the investment totally transparent.

Liquidity
ETFs are easy to buy and sell. All NewFunds ETFs make use of Absa CIB, a reputable market maker, to ensure that liquidity is always maintained. If there is no willing buyer or seller at the other end of the trade, the market maker will step in as the counterparty. Those investors, who do not wish to receive cash for their shares, will always have the right to get their proportionate holding of the actual underlying assets instead (subject to minimum size limits of 1 000 000 NewFunds ILBI ETF securities) provided that the investor has got a central depository securities account in South Africa (STRATE).

Convenience and flexibility
NewFunds ETFs offers exposure to a broad range of different markets through a single investment transaction and responds to market movements on the securities exchange throughout the trading day. Active funds, on the other hand, require the active attention of investment managers. Therefore, investors generally are not in a position to know when and at what prices the shares in their portfolios are being traded.

Transparency
The holdings of NewFunds ETF track the underlying index as their benchmark, these components are fully disclosed.

Structured products
Since NewFunds ETFs are listed instruments, it is possible to write structured products against the performance of these securities to create a specific payoff profile. For example, a bank could guarantee the investor’s capital over a 12-month period whilst the investor could still benefit from the performance of NewFunds ETF up to a stated capped return.

Investor Protection
The assets of NewFunds ETFs are held in custody on behalf of investors and are part of a registered Collective Investment Scheme approved by the Financial Services Board and regulated in accordance with the provisions of the Collective Investment Schemes Control Act, 2002 (CISCA). Importantly, compliance and control is performed by a management company which is run by board of independent non executive directors. The assets of the investors are held by Standard Bank Trustees.
Risks

Although ETFs are generally regarded as lower-risk investments, particularly over the medium to long term, they are still based on securities, with the inherent risks of trading on any securities exchange.

Market risk
The value of ETF securities will rise and fall according to market changes. As with most investment vehicles, the investor’s capital is not protected in an ETF. Therefore, depending on market movements during the investment period, an investor is not guaranteed to get back their initial capital upon the sale of the ETF. Structured products can however be used to provide capital guarantees should this be a requirement.

Tracking error
The aim of an ETF is to track a stated index, but there may be times when slippage from the index is inevitable. This slippage is known as a ‘tracking error’ and can be caused by a number of different factors:

- Differences in dividend reinvestment
- Lack of liquidity in the underlying index
- Timing lags in rebalancing the underlying securities in line with the index
- Management fees and expenses in running the ETF
- However, a tracking error is usually quite small and detracts very little from the overall return.
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