ETFs – a simple and cost-effective way to access the stock market

Dean de Nysschen, Research & Investment Analyst at Glacier by Sanlam, speaks to Yusuf Wadee, Head of Exchange Traded Products at Satrix, about the benefits of ETFs.

Dean: Welcome to all our listeners. Today we're going to be discussing Exchange Traded Funds (ETFs). We feel it's very timely given the recent launch of ETFs on the Glacier platform, something that we're very excited about. Here to shed some light on that, we're joined by Yusuf Wadee, Head of Exchange Traded Products at Satrix. Thanks for joining us Yusuf.

Yusuf: Thanks Dean, it's good to be here.

Dean: I think a good point of departure for this discussion is just to go back to basics and give our listeners an idea of what an ETF is, and then maybe you can talk to the differences between a standard unit trust fund and an ETF.

Yusuf: Exchange Traded Funds, or ETFs, have been around in SA for quite some time. Interestingly, the first ETF was launched by Satrix and this was back in 2000. Ever since then ETFs have taken off in a big way, certainly in terms of trading on the Johannesburg Stock Exchange (JSE). So for a long time, investors who were wanting to buy exposure to different asset classes – for instance let's say they want exposure to the Top 40 index – they could go to the JSE through their stockbroker and they could buy Satrix 40, for example. They could do so at any point in the day. So for instance clients who want to take advantage of the midday price, could buy the ETF at 13:00 and they could sell it at 17:00. They would benefit from the price appreciation between 13:00 and 17:00. So certainly that's been the way ETFs have been adopted in SA and that's how they're used globally.

We're excited that these ETFs will be available on the Glacier platform. That's exciting because they've been widely used by individuals directly on the stock exchange but now investors can access them directly on the platform.

What is an Exchange Traded Fund?

Yusuf: An ETF is no different to a unit trust. You can think of an ETF as a listed unit trust. The way we build an ETF is the same way we would create a unit trust. All we simply do is we create a unit trust. We go to the FSCA and we register a unit trust. But unlike a unit trust, we then also go to the JSE and then we structure this particular vehicle as an ETF and it's listed on the exchange and clients can buy and sell it like a share. From a client's perspective, as well as from an intermediary's perspective, these are collective investment schemes and as such, they fall under the same licences an intermediary would need when selling a unit trust. It's the same licence.

How does one differentiate between an ETF and a unit trust?

Both are very useful instruments for clients. They both aim to give you the same type of experience. The Satrix Top 40 unit trust and the Satrix Top 40 ETF both deliver the same type of exposure, i.e. they both give clients exposure to the 40 biggest shares on the JSE. The difference though, is that they deliver that exposure in slightly different ways. A unit trust tends to have a higher liability administration fee because unit trusts live on liability administration platforms. You need those platforms to administer the unit trust. ETFs don't have that particular cost because they live on a stock exchange. What tends to happen is that most ETFs would have slightly lower total expense ratios (TERs) versus a unit trust, purely because of that. ETFs do have other costs that unit trusts don't have. For instance, an ETF would tend to have a brokerage cost, to enter and exit. ETFs may have slightly higher experience of entry and exit in terms of costing but probably lower annual TER. For clients to decide which will be best for them, it will be useful for them to consider the TER differences of the unit trust versus the ETF, taking into account the frequency with which they think they're going to be entering and exiting. That's one way of working out which vehicle is possibly more suitable for their needs.

Dean: It sounds like, for most clients, the big drawcard with ETFs is if they're investing over the longer term, the cost saving is going to accrue to them over time.

Yusuf: Yes. So if the intention is to buy and hold, again different ETFs have different fees and clients should review the TERs and the transaction costs. But certainly ETFs do have that advantage over unit trusts.

Cost savings

Dean: Could you give us an example of the type of cost saving we'd be looking at for an ETF relative to a unit trust?

Yusuf: It differs from unit trust to unit trust and from ETF to ETF. Our flagship Satrix Top 40 ETF is admittedly extremely efficiently priced – it's known as one of the most efficient instruments on the JSE. The TER is 10 basis points. The equivalent unit trust is around 32 basis points. Again, this talks to two things. It talks to the fact that this ETF is extremely efficiently priced. Secondly, it talks to the liability administration fee which is not a factor in the ETF. I wouldn't say this is a case for all ETFs versus unit trusts. If I take another example, the Satrix MSCI World, the ETF has a TER of 35 basis points and the unit trust has a 43 basis points TER, so there the difference is less stark.

What's also interesting and another difference is that with an ETF the transaction costs tend to be lower. This has got to do with the way ETFs handle inflows and outflows. They do so differently compared to unit trusts so, by and large, you'd always find that the transaction costs for any particular ETF would probably be lower than the transaction costs for unit trusts.

ETFs on the Glacier platform

Dean: Can you give us an overall idea of all of the ETFs that you've launched that are available on the Glacier platform?

Yusuf: We've brought five products to market – the Satrix Top 40 which is our flagship ETF and probably the most efficiently priced collective investment scheme in the country, with a 10 basis points TER. This is a great option for clients to get exposure to the markets. We've also brought the MSCI World to the Glacier platform. This is a great product for clients looking for global exposure. It gives clients exposure to the global developed markets. We've also brought the MSCI Emerging Markets ETF to the platform. This is the next tier of global funds – the more exciting countries where one would expect a lot more of the future growth opportunities to come through. It's got China, India – so certainly quite an interesting prospect to add if you're building a portfolio for growth. We've also added the Satrix S&P 500 ETF, for clients looking for exposure to the US, to simply the 500 biggest stocks on the US stock exchange. And lastly we've brought the Satrix Nasdaq ETF. We're seeing how the likes of Apple, Google, Microsoft are transforming our everyday landscape. This is a great ETF to give clients exposure to these fast-growing technology stocks so they can build good growth portfolios to take them forward.

Dean: That's very exciting for our clients and perhaps a good place for us to conclude the discussion. Thank you for joining us.

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