

# NewFunds Multi-Asset Passive Portfolio Solutions (NewFunds MAPPST™)

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# Exchange Traded Funds (ETFs)

ETFs are open-ended, listed investment vehicles, enabling investors to gain diversified exposure to entire stock markets, specific market sectors, different asset classes or various investment themes by purchasing a single security listed on a stock exchange such as the JSE.

ETFs are:

- Fast and efficient - giving investors real-time access to markets.
- Convenient - purchase of a single security gives exposure to the whole market or market segment.
- Transparent - the underlying investments are fully disclosed on a daily basis; the investment/index methodology is published and easily replicable.
- Safe - ETFs are mainly structured as Collective Investment Scheme portfolios and are fully regulated by the Financial Services Board (FSB) and the Collective Investment Schemes Control Act (CISCA), 2002. In addition, as JSE listed

securities, they are regulated by JSE's ETFs rules. The underlying assets held by the ETF portfolios are physically held in custody on behalf of the investors. ETFs in South Africa do not have any exposure to derivatives.

- Cost effective - as ETFs employ passive investment methodology (i.e. index-tracking), they are generally more cost effective than the comparable active funds (e.g., unit trusts/unlisted collective investment schemes).

Importantly, ETFs combine all the benefits of a collective investment scheme (unit trust) such as investor protection (since the assets are held in custody on behalf of investors), full disclosure and tax benefits, with the convenience and efficiency of trading a listed security.

Traditionally, individuals have been major investors of ETFs. Internationally, this trend is changing as institutional investors recognise the benefits of these low cost and efficient investments and incorporate them into their investment strategies.

## Fund Overview

NewFunds MAPPS™ is a new family of exchange traded funds (ETFs) created by Absa CIB, a division of Absa Bank Limited. They are issued under the NewFunds Collective Investment Scheme (NewFunds CIS), a collective investment scheme registered in terms of the Collective Investments Schemes Control Act, 2002.

NewFunds MAPPS™ ETFs have been designed with the intention of providing investors with simple and cost effective access to a diversified portfolio of asset classes through the holding of a single security listed on the JSE Limited (JSE).



# NewFunds MAPPS™ ETFs

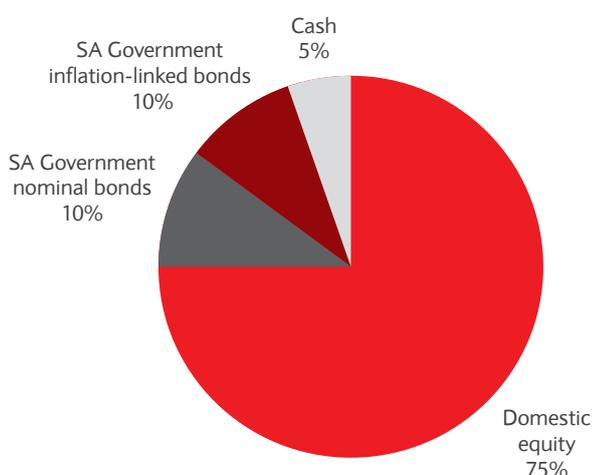
NewFunds MAPPS™ Protect and NewFunds MAPPS™ Growth ETFs are the first in the series of ETFs to be issued out of the NewFunds CIS and first such products in the SA market, designed with the intention of providing exposure to diversified portfolios of multiple asset class securities in a single listed instrument. Further, the MAPPS™ ETFs provide

investors with a cost-effective and convenient alternative to non-listed, actively managed structures currently available.

The asset allocation exposure for the NewFunds MAPPS™ Growth ETF and NewFunds MAPPS™ Protect ETF are shown below.

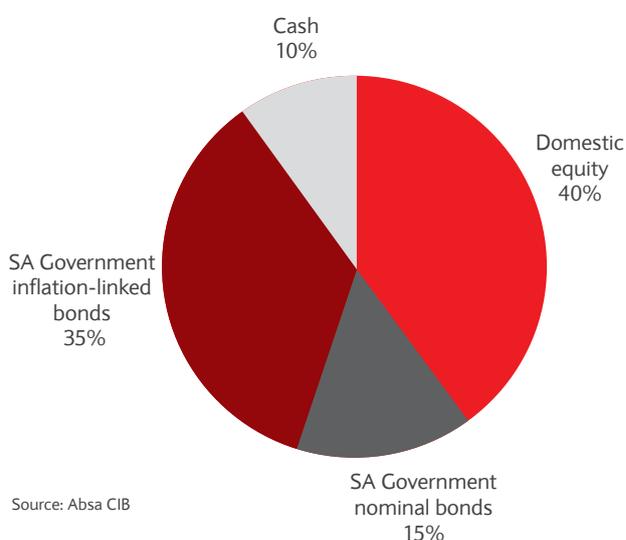
## Portfolio Weightings

NewFunds MAPPS™ Growth ETF



Source: Absa CIB

NewFunds MAPPS™ Protect ETF



Source: Absa CIB

The portfolio weightings are rebalanced to the strategic weights on a quarterly basis.

The underlying building blocks representing each asset class and their associated investable indices are as follows:

## Portfolio Components

Asset Class	Index
Domestic equity blue chip shares	FTSE/JSE Top40 Shareholder Weighted Total Return Index (SWIX40)
Fixed income: South African Government issued nominal bonds	SA Government Bond Total Return Index (GOVI)
Fixed income: South African Government issued inflation-linked bonds	Barclays/Absa SA Government Inflation-Linked Bond Total Return Index (ILBI)
Assets in liquid form	Cash and allowable money market instruments

# Rationale for NewFunds MAPPS™ ETFs

Recognising the potential benefits of ETFs and the need for investors to have efficient access to multiple asset classes, Absa CIB has developed the unique NewFunds MAPPS™ suite of ETFs which is managed by NewFunds CIS.

**NewFunds MAPPS™ is a uniquely designed portfolio range of ETFs. Unlike traditional ETFs which provide exposure to one index or asset class, the NewFunds MAPPS™ range allows an investor to purchase a single security on the JSE and access the performance of numerous asset classes.**

The NewFunds MAPPS™ suite of ETFs is designed to provide investment returns based on the appropriate asset allocation for investors at different stages of life. In addition, it offers risk diversification benefits due to its exposure to a spectrum of asset classes. The underlying asset allocation combines sophisticated research and investment expertise into a cost-effective, easy-to-understand investment solution managed within the framework of Regulation 28 of the Pension Funds Act, 1956 (Regulation 28).

NewFunds MAPPS™ ETFs contain investments in a variety of asset classes called 'building blocks'. These building blocks include South African equities, South African Government issued nominal bonds, South African Government issued inflation-linked bonds and cash.

Each building block seeks to provide investment results that generally correspond to the full economic performance (before fees and expenses) of the associated investable market index including capital performance and distributions, which are automatically reinvested. For example, the equity building block is designed to track the FTSE/JSE Shareholder Weighted Top 40 Total Return Index (the SWIX40 index).

An alternative strategy for creating diversified portfolios by using single asset class ETFs as building blocks is not as efficient as it would add an extra layer of costs (i.e. the fees associated with the underlying ETFs and the fees associated with managing the composite portfolio of ETFs).

Initially, two ETFs are available under the NewFunds MAPPS™ banner: the MAPPS™ Growth ETF and the MAPPS™ Protect ETF. The MAPPS™ Growth ETF is aimed at investors with a longer time horizon (e.g. younger investors) who are willing to accept higher variability of returns in exchange for the prospects of long-term real investment returns. The MAPPS™ Protect ETF is aimed at investors with a shorter time horizon (e.g. closer to retirement) and a lower tolerance for return variability. Investors in the MAPPS™ Protect ETF would prefer a more stable return stream.

Both strategies aim to generate capital growth and limit volatility by exploiting the correlations between the asset classes they contain.

As an example, when an investor buys the NewFunds MAPPS™ Growth ETF, which targets higher real returns and is associated with higher variability, they will be exposed to the following:

- 75% exposure to a diversified range of the most liquid South African equities;
- 10% exposure to a range of nominal South African Government-issued bonds;
- 10% exposure to a basket of inflation-linked, South African Government-issued bonds; and
- 5% exposure to cash

# Fund Facts

<b>Issuer</b>	NewFunds Collective Investment Scheme (NewFunds CIS)	<b>Listing Date</b>	25 May 2011
<b>Manager</b>	NewFunds (Pty) Ltd	<b>ISIN</b>	ZAE000153763(MAPPS™ Growth) and ZAE000153711(MAPPS™ Protect)
<b>Originator</b>	Absa Bank Limited acting through its Absa Corporate and Investment Banking division ("Absa CIB")	<b>JSE Code</b>	MAPPSG (MAPPS™ GROWTH) and MAPPSP (MAPPS™ PROTECT)
<b>Listing</b>	JSE Limited ("JSE")	<b>Distributions/Rebalancing</b>	Quarterly (dividends are reinvested into the fund)
<b>Indices tracked</b>	SWIX40, GOVI and ILBI	<b>Investment Objective</b>	To give investors access to diversified multi-asset portfolios through a single listed security in a Regulation 28 compliant manner

# 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 JSE 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 JSE stipulates that an ETF can only track a publicly traded index. This means the performance of NewFunds ETFs 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).

## 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.

### Security

The assets of NewFunds MAPPS™ ETFs are held in custody on behalf of investors and are part of a registered Collective Investment Scheme approved by the FSB 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.

### Taxation

Investors maybe liable for Income Tax or Capital Gains Tax (CGT) at the time of sale, in addition, Dividend Withholding Tax (DWT) may be payable on dividends from the ETFs. Investors are advised to consult their tax advisors before investing.



# 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 '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, tracking error is usually quite small and detracts very little from the overall return.

# Frequently Asked Questions (FAQ's)

## What differentiates NewFunds MAPPS™ from other passive products?

Whilst other passive providers track the performance of a single asset class e.g. an equity index or a gold index, the MAPPs suite offer a portfolio that combines the following into a single instrument:

- A diversified mix of asset classes which combines the performance of the underlying index in each asset class (multi-asset class);
- Cutting-edge retirement industry research of the optimal asset mix for members with different investment time horizons (thereby facilitating a low cost “life-stage” modelling approach);
- Cost-effective fees which are especially important in the context of a lower interest rate and expected return environment; and
- Daily transparency and liquidity, which is associated with a listed instrument (an ETF).

## What would be the situation if the provider of the ETF becomes insolvent? Who effectively owns the underlying asset?

ETFs are portfolios within a registered Collective Investment Scheme (CIS). Their assets are held in custody with registered independent trustees (e.g. a registered bank in South Africa), eliminating any credit risks associated with the issuers or originators. If the originator of the ETF becomes insolvent, the investors still have access to the ring-fenced pool of assets underlying the ETF.

## Is NewFunds MAPPS™ restricted to a fixed asset allocation?

The asset allocation for NewFunds MAPPs™ is fixed but is rebalanced quarterly back to the strategic weightings.

## Does the NewFunds MAPPS™ ETF have any offshore exposure?

The NewFunds MAPPs™ Growth and Protect ETFs only have local exposure. A fund wanting to access offshore exposure can achieve this in two ways:

1. Invest in an offshore to obtain international exposure; or
2. Invest in a note referencing international assets issued by a bank known as an Exchange Traded Note.

## When the NewFunds MAPPS™ ETFs are traded in the market, is there a guaranteed buyer and price, or does the free market prevail with a bid and sell price, as with any other JSE traded instruments?

As the ETF instrument is exchange traded, free markets prevail. However, NewFunds MAPPs™ ETFs make use of Absa CIB as the market maker to ensure that liquidity is always available. If there is no willing buyer or seller at the other end of the trade, the market maker will step in as the counterparty.

The price of the ETF is determined by how the underlying portfolio of assets performs. This portfolio of assets comprises equities, bonds and cash. To the extent that the investor is not satisfied with the price offered, the investor has the right to get their proportionate holding of the actual underlying assets instead.

## Contact Details

General queries/administration  
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Absa CIB ETPs  
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