Corporate and
Investment Banking

ABSA

NewFunds Shari'ah Top 40 Index Exchange Traded Fund

Member of BARCLAYS

Islamic Banking from Absa

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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

The NewFunds Shari'ah Top 40 Index ETF is an investment instrument created to comply with Islamic ethical investing, it gives investors diversified exposure to the broad market through investing in one Shari'ah compliant ETF share and earning a market related performance. The NewFunds Shari'ah Top 40 Index ETF tracks the price performance of FTSE/JSE Shari'ah Top 40 Index which is jointly established by FTSE International Limited (FTSE) and JSE Limited (JSE).

The FTSE/JSE Shari'ah Top 40 Index is designed to reflect the Shari'ah compliant companies identified from the FTSE/JSE Africa Top 40 Index by Yasaar Limited (Yasaar), which provides independent Shari'ah compliance solutions in terms of stringent Shari'ah standards and principles. The Shari'ah Top 40 Index ETF has been certified Shari'ah compliant by Absa Bank's Shari'ah Board.

NewFunds Shari'ah Top 40 Index ETF is structured as a portfolio within NewFunds CIS, an FSB approved Collective Investment Scheme, and listed on the JSE Limited. NewFunds Shari'ah Top 40 Index ETF is a cost efficient, transparent, and easy-to-access investment product that conforms to the principles of Shari'ah Law.

NewFunds Top 40 Shari'ah Index ETF securities go through an appropriate purification of dividends, by donating 5% of the dividends to charity. Absa Islamic Banking's Shari'ah Supervisory Board ("SSB") approves a list of charitable institutions.

Fund Facts

Issuer	NewFunds Collective Investment Scheme (NewFunds CIS)	**JSE Code**	NFSH40
Manager	NewFunds (Pty) Ltd	**ISIN**	ZAE000130431
Originators	Absa Bank Limited acting through the Absa CIB division	**Offer Price**	Approximately 1/1000th of the average Shari'ah Top 40 Index level
Index	FTSE/JSE Shari'ah Top 40 Index	**Distributions/ Rebalancing**	Quarterly
Listing Date	6 April 2009	**Investment Objective**	NewFunds Shari'ah 40 ETF is created with the objective to track the performance of the Shari'ah Top 40 Index, an index comprised of Shari'ah compliant companies included in the FTSE/JSE Africa Top 40 Index.

Index Description or Methodology

FTSE/JSE Shari'ah Top 40 Index Screening Methodology

1. Qualitative Screening: Analysing the major business lines of a company with a view to ensuring that they are not repugnant to Shari'ah and filtering them out.
2. Quantitative Screening: The remaining companies are further screened on a financial basis.

The universe is of FTSE/JSE Africa Top 40 Index. Initially, companies involved in any of the following activities will be filtered out as non-Shari'ah compliant.

Qualitative Screening
Alcohol
Conventional Finance (non-Islamic Banking, Finance and Insurance, etc.)
Pork related products and non-halal food production, packaging and processing or any other activity related to pork and non-halal food
Entertainment (Casino's, Gambling and Pornography)
Tobacco
Weapons, arms and defence manufacturing or related

The remaining companies are further screened on a financial basis. The following financial ratios must be met for companies to be considered Shari'ah compliant.

Quantitative Screening
Debt is less than 33% of total assets
Cash and interest bearing items are less than 33% of total assets
Accounts receivable and cash are less than 50% of total assets
Total interest and non-compliant activities Income should not exceed 5% of total revenue
Appropriate purification of dividends at 5%

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 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).

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 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)

1. What is an ETF (Exchange Traded Fund)

   Exchange Traded Funds (ETFs) are passively managed index funds that are listed and traded on a securities exchange. An ETF tracks the performance of (and/or gains a broad exposure to) a particular index, sector or a commodity for individual and institutional investors.

2. What is the difference between a Shari'ah Top 40 ETF and any other equity ETF?

   A Shari'ah Top 40 ETF is designed to reflect the Shari'ah compliant companies and to comply with Islamic ethical investing.

3. Within the index screening methodology, what do you mean by appropriate purification of dividends at 5%?

   Total interest and non-compliant activities income should not exceed 5% of total revenue to qualify as a compliant company within the FTSE/JSE Shari'ah Top 40 Index. As a result there is a level of purification needed for each dividend declared in order for the remaining portion of interest income (5% max) to be purified. Every time that a dividend is declared we will advise all investors of the need to purify (donate to a charity) 5% of the dividend declared.

4. Which Shari'ah board is overseeing this fund?

   Shari'ah Top 40 ETF is certified by Absa Bank's Shari'ah Board and verified by Yasaar Ltd.

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