

## ETF AND INDEX INVESTING

I was struggling for ideas for my September column so I asked people (via Twitter) what Personal Finance issues they were most interested in. Investing in Exchange Traded Funds (ETF's) was the clear favourite so I decided it was time to review this topic. I also wanted to see whether the unit trust industry has finally started catching up to ETF's by offering low-cost, indexed unit trusts.

I am happy to report that there are some great, low cost indexed unit trusts that are giving the ETF industry a run for its money, especially for smaller monthly debit orders.

### RESTING ON THEIR LAURELS

I believe Satrix 40 should be the lowest cost equity ETF in South Africa as it has been going the longest and has accumulated a lot of investors' money, nearly R8 billion. It has already achieved economies of scale, so the fixed investment costs of the ETF are being spread across a massive pool of money. Satrix 40 has a Total Expense Ratio (TER) of 0.45%, which I feel is too high for such a large ETF. By comparison, the RMB Top 40 ETF is tiny with assets of R676m but the TER is only 0.20% - half the cost of Satrix! In this industry, size gives you a big advantage and usually makes your product cheaper so I am at a loss to explain the higher fees of Satrix. As one of their earliest investors, I am disappointed. However, I was happy to read recent reports on Moneyweb that Satrix are launching unit trusts too, let's hope their costs are going to be low.

In the paragraphs below I have provided my favourite indexed investments for a range of different types of investors. At the outset, I would like to clarify (especially to the product providers who will email me after this article) that these are my preferred indexed investments based on a range of factors including: cost, ease of use, personal preference and quality of service.

### My best option for a small monthly debit order (R200 or more)

Sanlam Equally Weighted Top 40 Index unit trust. It will cost you 0.57% per year with no debit order fees or other administration costs. Yes, it is more expensive than Satrix 40 which has a TER of 0.45% but you still need to include administration costs (for Satrix) which will make Satrix more expensive.

### My best option for an indexed Retirement Annuity with a smaller monthly debit order

The company "10X" has a silly name but great products. Their Retirement Annuity has a total cost of 1.1%. This is a good option for people investing small lump sums or smaller monthly debit orders.

### My best option for a large lump sum into an indexed investment

Nedgroup Investments is one of SA's largest unit trust companies. They have quietly been operating in the index space for the last three years. Their Core Diversified index unit trust has a TER of 0.47% for very large investments which I think is unbeatable at the moment for a diversified portfolio, which includes offshore indices.

### My best option for large lump sums invested in ETF's

Open a stock broking account with a low cost broker who charges you a small transaction cost and a low monthly fee. If you trade in large amounts and plan to hold the investment for long periods of time, this will work out cheaper for you. You will need to review which ETF's to choose and you should consider their TER's before making a decision. I like combining ETF's; for example a Top 40 or a Swix with a Rafi or Divi or something similar.

There are an increasing number of indexed unit trusts being launched by a range of product providers, let's hope that their costs will be lower than the current range of funds. Other than the

Sanlam Equally Weighted and the Nedgroup Core funds, most of the existing index tracker funds have TER's approaching 0.70% which is still too high.

In summary, if you are a fan of index investing, you need to investigate unit trusts *and* ETF's. Try to ensure that you understand all the costs, including debit order fees, administration fees, advice fees (if applicable) and the TER's. Sometimes a fund with a low TER can still be expensive because of the other costs of buying the actual investment.