

An RMB initiative

**BIPS**

Beta Investment Performance Securities



# 01

## What Is An Exchange Traded Fund?

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An Exchange Traded Fund (ETF) is a portfolio that holds assets that are represented in financial indices, including equities, bonds and other assets. This results in ETFs tracking the performance of specific baskets of assets in the domestic and international markets.

During the past decade the world's markets have seen the evolution of Exchange Traded Funds (ETFs). Internationally, ETFs are well-established, dynamic financial instruments that are contributing to the rapid changes in the investment landscape for individuals and institutional investors alike.

ETFs provide a simple, cost-effective mechanism for investors to participate in selected markets and asset classes with the additional benefits of diversification, liquidity and transparency.

As listed, open-ended funds, they enable investors to increase their holdings in the ETF with the same ease as trading a share.

### Product features:

- Exchange Traded (Johannesburg Stock Exchange)
- Trades like an ordinary share
- Passively managed (track a specific index)
- Exposure to market risk of a particular asset class
- Low cost

# 02

## What is Bips?

Rand Merchant Bank (RMB) is well established as the investment banking arm of FirstRand Bank Limited, one of South Africa's largest JSE-listed financial services groups.

Consistent with RMB's reputation for insightful product innovation, it has developed a suite of Exchange Traded Funds (ETFs), branded as Bips, short for Beta Investment Performance Securities.

Bips offers investors a range of ETFs that track various indices. The combination of securities on these indices gives the Bips ETF investor a diversified investment base.

Inflation-X is the latest addition to the Bips product suite and will offer investors access to Inflation-Linked Bonds.

## Benefits of Bips ETFs

Bips ETFs represent a convenient and efficient method of investing in both domestic equity and bond markets. Bips ETFs offer four key benefits to South African investors, namely:

### Low cost – simple fee structure

Bips ETFs are passive investments and are the ideal product to reflect the daily returns offered by the market. Passively managed funds typically have lower transaction costs and fees than those associated with actively managed funds.

### Highly liquid – simple to buy and sell

Just like individual shares, Bips ETFs are priced constantly throughout the trading day and can be bought and sold at any time during JSE trading hours.

### Transparent – simple to get to know the details

Bips ETFs are highly transparent in nature - investors are able to see exactly which securities make up each ETF, including the weightings and sectors represented. Investors should review the constituents of the individual ETFs before selecting the ETF they believe is best suited to their own investment style and level of acceptable risk.

### Efficient access – new markets and opportunities

Bips ETFs, and the underlying assets broaden investment horizons. They provide an effective method of accessing markets which individual investors may not be able to access through direct investment.



## Advantages of BIPS ETFs

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### Asset diversification

Bips ETFs provide investors with exposure to an entire market through one liquid traded instrument, in a convenient and cost effective way. This broader investment scope makes it possible to achieve investment returns that are consistent with the growth performance of specific asset classes.

Using a blend of these asset classes, investors are able to reduce the risk in their portfolios by diversification.

### Trade Bips like any share

Incorporating Bips ETFs into a portfolio allows an investor to invest in them just as they would with a share: allowing you to use a market order to buy, place a limit order to specify an exact buy price, limit exposure with a stop loss, or to sell them short if the view is that the price will fall. Hence Bips ETFs provide portfolio liquidity and flexibility.

### Simple to transact

Bips ETFs are listed on the JSE and offer investors guaranteed settlement and a regulated trading environment. They are simple to transact on the JSE through a registered stock broker.

### Advanced trading strategies

Given their index-based structure, Bips ETFs can be used as the core of a portfolio to provide a higher likelihood of returns consistent with the market performance of the index being tracked. Investors are then able to allocate their remaining investment capital to satellite investment opportunities in the pursuit of superior returns over and above the performance of the index.

ETFs have seen exponential growth in size globally due to investors seeking low cost investment funds which track the return of a particular index.

In South Africa, there are currently 21 ETFs with R16,5 billion of funds under management as at the end of 2008. Approximately R4.5 billion of new ETF units were created in South Africa in 2008.

The growth in ETFs globally has been largely driven by the equities market. However over the last 5 years there has been a strong growth in assets in fixed income ETFs, including those investing in Inflation-Linked Bonds.

## What is a Bond?

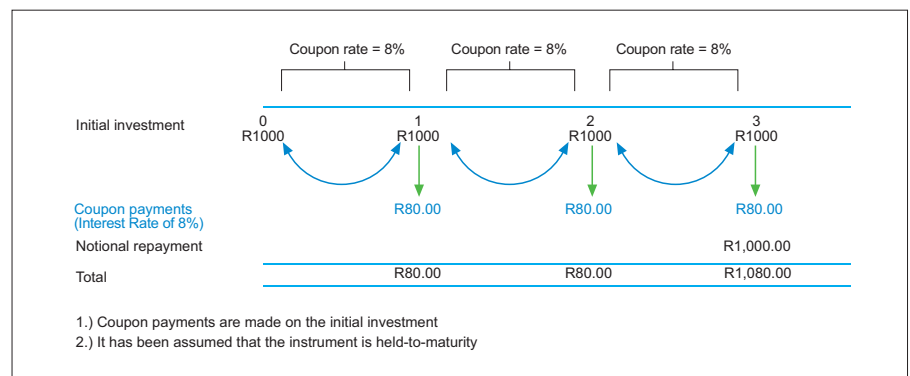
A bond is a debt security, in which the issuer owes the investor a debt and, depending on the terms of the bond, is obliged to pay interest (the coupon) and to repay the principal at a later date, termed maturity. It is a formal contract to repay borrowed money with interest at fixed intervals.

Thus a bond is like a loan: the issuer is the borrower, the bond holder is the lender, and the coupon is the interest.

The most important features of a bond are:

- nominal, principal or face amount — the amount on which the issuer pays interest, and which has to be repaid at the end.
- maturity date — the date on which the issuer has to repay the nominal amount.
- coupon — the interest rate that the issuer pays to the bond holders. Usually this rate is fixed throughout the life of the bond.

**Example:** An investment of R1 000 is made in a fixed interest nominal bond with a coupon rate of 8%



Bonds are commonly referred to as fixed-income securities and generally have a lower risk profile than that of equity instruments.

Bonds issued by the government are considered risk-free.

## What is an inflation-linked bond?

Inflation-Linked Bonds are financial instruments designed to protect an investor's capital against inflation. This is done by continuously adjusting the initial amount invested for inflation ('headline inflation' as published by StatsSA).

The primary effect of this is that if you invest a nominal amount of R1 000 into Inflation-Linked Bonds, the amount will be continuously adjusted for inflation (headline CPI as published by StatsSA) during the term of the loan and you will receive a higher nominal amount on the maturity date.

There is also a second, but equally important effect on your investment. The interest on your investment is calculated using a fixed interest rate (secured at the time of investing) which is then multiplied by your inflation adjusted investment. The interest that you receive is therefore also adjusted for inflation resulting in what is called a real yield (return in excess of inflation).

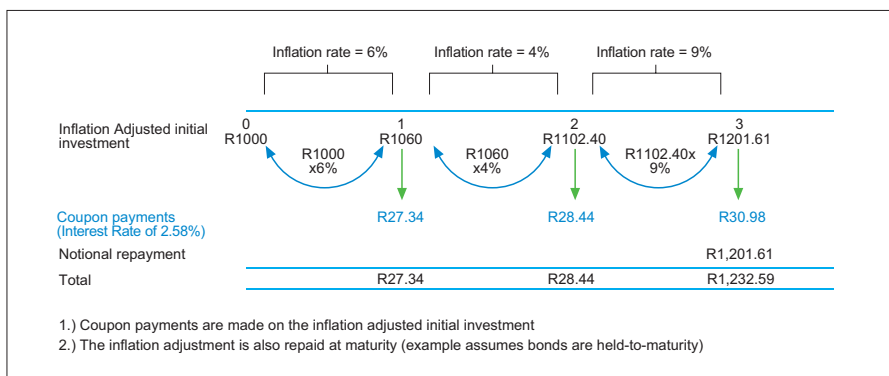
**Example:** An investment of R1 000 is made over 3 years in an inflation-linked bond paying an interest rate (i.e. coupon rate) of 2.58% annually. Simplified for illustrative purposes.

Assume:

Inflation Year 1 = 6%

Inflation Year 2 = 4%

Inflation Year 3 = 9%



All investors should ultimately measure their realised returns against inflation. Returns in excess of inflation equate to 'real returns' and should be the targeted return for any investor.

Unlike most other assets, Inflation-Linked Bonds offer a real rate of return which is secured at the time of investing, plus a return to compensate for the effects of inflation.

This makes Inflation-Linked Bonds a very conservative, but attractive asset class.

Until now, Inflation-Linked Bonds have been largely inaccessible to retail investors as they have been listed and traded on the Bond Exchange of South Africa by wholesale institutional investors. Inflation-X now makes it possible to invest in this asset class through the JSE.

## What is Inflation-X?

As Inflation-X holds the underlying Government Inflation-Linked Bonds, the performance of the Inflation-X units should approximate that of the underlying assets.

This means that the Inflation-X units should continuously increase for inflation as well as pay out interest quarterly. The interest you earn is based on the real yield or interest rate at the time of purchasing Inflation-X units.

### Inflation-X Key Facts:

Current Interest Rate:	2.58%*
Interest Payments:	March, June, September, December
Expected Return:	2.58%* + Inflation
Listing:	JSE
Share code	BIPINF
FSB registered name	Bips Government Inflation-Linked Bond ETF

\* Variable as measured at March 09



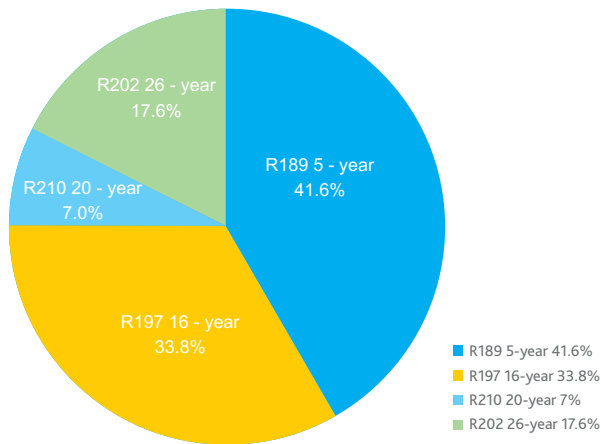
## What is the GILBx index?

The GILBx is made up of the 4 Government Inflation-Linked Bonds currently issued by the South African Government which have a market capitalisation of approximately R100 billion. The index constituents are weighted according to their issue size.

The index has the following characteristics;

Base Date: 2 Feb 2004  
 Base Price: 100  
 Publishing Frequency: Daily  
 Re-Weighting: Monthly  
 Re-constitution: Quarterly  
 Interest Payments: Quarterly  
 (March, June, Sept, Dec)

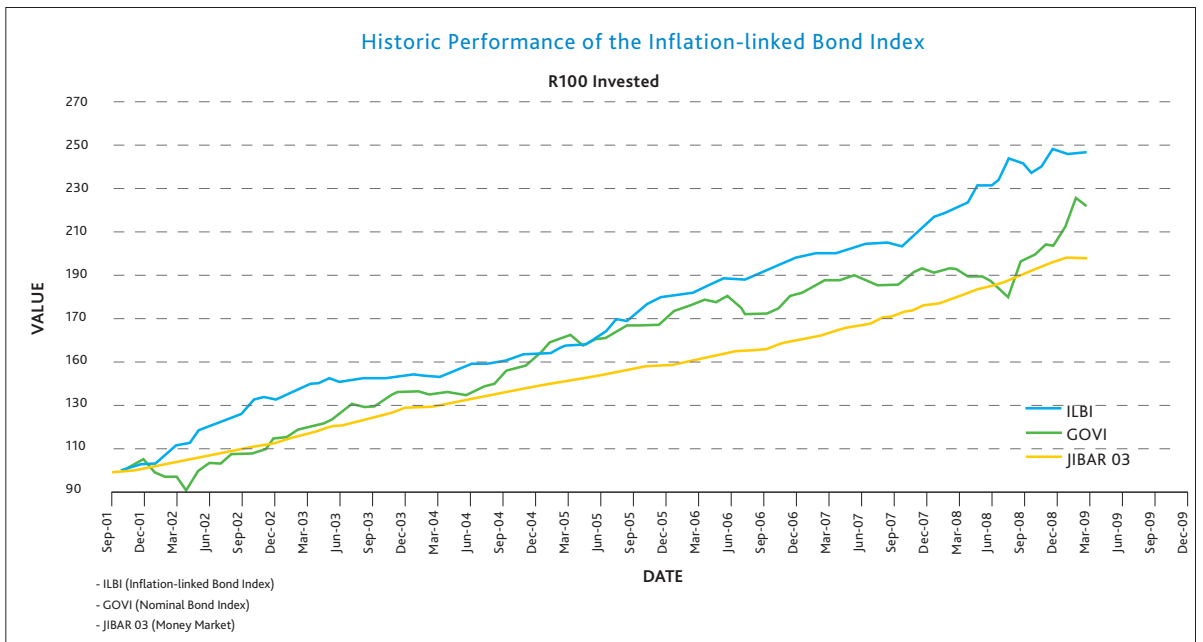
Figure 1 - Universe of Government ILB's



\*Date: March 2009  
 \*Source Bond Exchange of South Africa

Bond	Modified duration	Weight	Maturity	Coupon	Coupon dates
R189	3.6	42.8%	31-Mar-13	6.25%	Mar/Sept
R197	10.7	37.2%	7-Dec-23	5.50%	Dec/Jun
R210	14.8	15.7%	31-Mar-28	2.60%	Mar/Sept
R202	17.3	4.2%	7-Dec-33	3.45%	Dec/Jun

# How have Inflation-Linked Bonds performed?



The graph above shows the relative performance of Inflation-Linked Bonds compared to nominal bonds and a floating rate investment earning JIBAR. The table below illustrates the historic cumulative performance of Inflation-Linked Bonds.

Performance	Fund	Index
1 Year	n/a	11.75%
3 Year	n/a	35.5%
5 Year	n/a	72.07%

\* Past performance is not indicative of future performance

## Who should invest in Inflation-X?

Since inflation affects all investors in South Africa, Inflation-X is suitable and recommended for any individual's portfolio.

Summary of the benefits to investing in Inflation-X:

- Protects your wealth from inflation
- Provides you with a 'real rate' of return
- Pays interest each quarter (March, June, September, December)

- Credit risk free (bonds are backed by the South African Government)

- Can be traded daily on the JSE

- Is considered low risk

Inflation-X is particularly suited for those investors seeking capital preservation. It is therefore an ideal investment for retirement, educational and estate planning.

For further information on how to invest in Inflation-X, contact [inflationx@rmb.co.za](mailto:inflationx@rmb.co.za) or visit [www.bipsetf.co.za](http://www.bipsetf.co.za)



## Bips disclaimer

Exchange Traded Funds (ETFs) are Collective Investment Schemes in Securities (CIS) that trade on the JSE Limited. When trading in ETF's you may incur the normal costs associated with listed securities, including brokerage, settlement costs, Uncertificated Securities Tax (UST), other statutory costs and administrative costs. The price at which ETF's trade on the Exchange may differ from the Net Asset Value price published at the close of the trading day, because of intra-day price movements in the value of the constituent basket of securities.

The price at which a participatory interest trades on the JSE Limited may differ from the price at which Bips Investment Managers (Pty) Limited repurchases participatory interests and from the price published daily in the press in the listing of "unit trust prices"

Historic pricing is used to calculate the Net Asset Value of the fund.

Fluctuations or movements in exchange rates may cause the value of underlying international investments to go up or down.

### Portfolio Objectives

Each Bips portfolio aims to replicate or track, before expenses, the performance of an applicable Index (the Index) in terms of both the price performance and the income from the component securities of the Index. This allows investors the opportunity to obtain market exposure to the performance of the Index in an easily tradable form through the shares being listed on the JSE Limited.

The investment policy of each portfolio is to replicate the price movement and income yield of the index that it is designed to track. This is achieved by purchasing the constituent securities in the same weighting as they are included in the relevant index. The asset manager is not mandated, nor incentivised, to outperform the index. It is anticipated that tracking error will not exceed 0.10%.

### Risk factors

As with all investments, subscribing for, or purchasing shares in a Bips portfolio involves certain risks. Investors will be subject to the risks associated with equity and equity related securities, including tracking accuracy, secondary market trading risk, index risk, credit risk and those risks associated with the trading of derivatives.

### Calculation of the Net Asset Value

Collective Investment prices are calculated on an historic net asset value basis, which is the total value of all assets in the portfolio including any income accruals and less any permissible deductions (brokerage, UST, VAT, auditor's fees, bank charges, trustee/custodian charges and annual management fees) from the portfolio, divided by the number of participatory interests in issue. The Net Asset Value and the NAV per share will be calculated on each valuation day. The Net Asset Value and the NAV per share will be determined on the basis of the last closing prices on the business day immediately preceding the valuation day or the last available prices from the markets on which the investments of the applicable Bips portfolio are traded.

### Charges:

#### Quantifiable charges:

**Initial Fee:** 0%

**Managers Annual Management Fee:** up to 1.10%

#### Exchange Trading Fees:

- Brokerage
- Uncertificated Securities Tax (UST)
- Trading Fees (STRATE)
- Administration fees
- Statutory Fees

#### Non-quantifiable charges:

Auditor's fees, bank charges, trustee and custodian fees Brokerage and Uncertificated Securities Tax payable on the acquisition or disposal of the underlying assets in the portfolio.

The fund has been in operation for less than six months and therefore a Total Expense Ratio (TER) cannot be calculated. The ratio does not include transaction costs. A higher TER ratio does not necessarily imply a poor return, nor does a low TER imply a good return. The current TER can not be regarded as an indication of future TER's.

### Details of Service Providers:

#### Local Trustee

Absa Capital Investor Services  
Entrance 6E1, 6th Floor, Absa Towers North, 180 Commissioner Street, Johannesburg, 2001  
PO Box 61218, Marshalltown, 2107

#### Custodian

Absa Capital Investor Services  
Entrance 6E1, 6th Floor, Absa Towers North, 180 Commissioner Street, Johannesburg, 2001  
PO Box 61218, Marshalltown, 2107

#### Manager

Bips Investment Managers (Pty) Limited (Registration number 2006/036970/07)  
1 Merchant Place, Cnr Fredman Drive & Rivonia Road, Sandton  
P.O Box 786273, Sandton, 2146

The directors of Bips Investment Managers (Pty) Limited have no material interest in the shares or units of the funds. The directors are not remunerated for the discharge of their responsibilities and obligations.

The manager may borrow up to 10% of the market value of the portfolio for liquidity purposes. The manager may also engage in scrip lending of constituent securities of the fund, on the basis that collateral will at all times exceed the form and with the value of the loan, as prescribed by Collective Investment Schemes Control Act of 2002.

Historic pricing is used to value the shares and units.

At the date of this publication, no income has accrued in the portfolio and the various portfolios have made no distributions. Investors are able to obtain a figure of daily income accruals in each fund by visiting the Bips website ([www.bipsetf.co.za](http://www.bipsetf.co.za)).

The various portfolios are valued at 17:00 in the country in which the underlying assets are domiciled.

Notice of redemptions must be made to the manager by no later than 10:00 on the day prior to the intended trade day.

Bips Investment Managers (Pty) Limited is a member of the Association for Savings and Investments South Africa (ASISA) and the Collective Investment Scheme is regulated and approved by the Financial Services Board in South Africa.

### Contact

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Bips (Beta Investment Performance Securities) is an exchange traded funds offering brought to you by Bips Investment Managers (Pty) Ltd, an RMB initiative.

Bips is an authorised Collective Investment Scheme and is a member of the Association for Savings and Investments South Africa (ASISA).

Rand Merchant Bank is a division of FirstRand Bank Limited and is an Authorised Financial Services Provider.