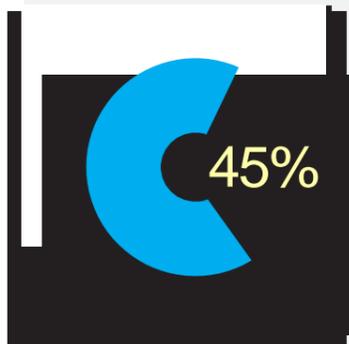


PASSIVE INVESTING 101

Understanding index tracking

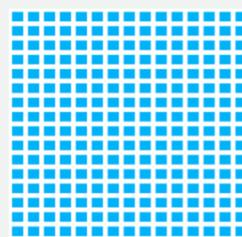


An investment of R10,000 in the SWIX over the last 10 years would have given you a return of R4,500 more than if invested in the ALSI. One's choice of index needs to take into account one's investment objective and risk tolerance, so choose wisely.

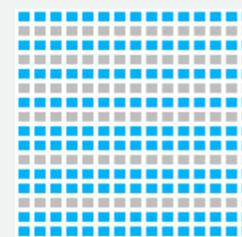


The choice is an active decision

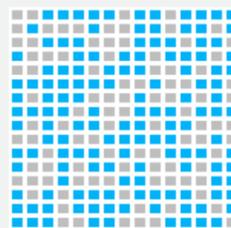
The ways to mimic performance



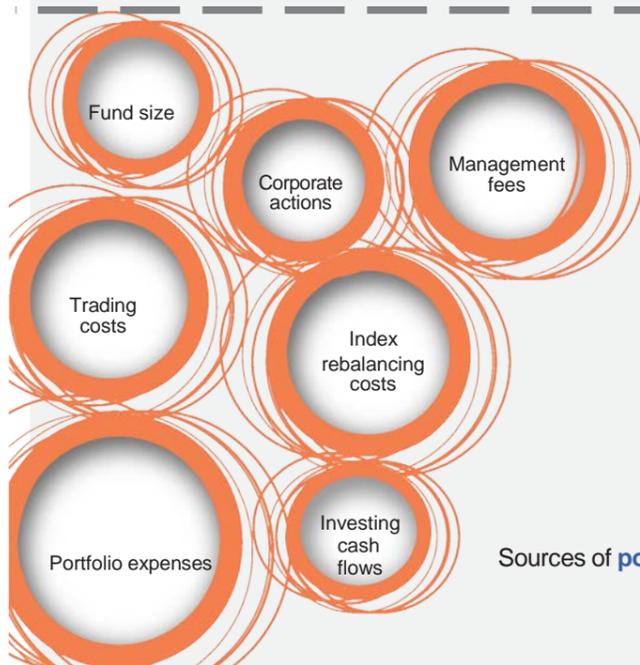
FULL REPLICATION
Each stock in the index is held by the index tracking portfolio.



STRATIFIED REPLICATION
Stocks in the index tracker are held along significant categories.



OPTIMISED REPLICATION
Stocks in the index tracker are held based on their risk characteristics.

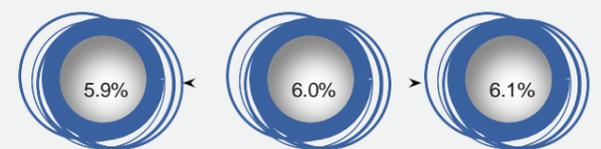


Sources of **portfolio drag** = fund less index performance

If the index returns 6% over a year and the portfolio that mimics the index has been positioned with a tracking error of 10 basis points (bps), then the expected range of error around the index will be between 5.9% and 6.1%.

What is a tracking error?

$$10 \text{ bps} = 0.1 \%$$



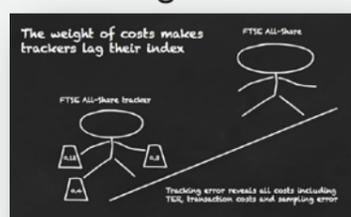
The challenges when tracking

#1 BIG data



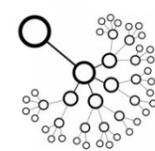
Coping with all the incoming data is mission critical. Assimilating index and portfolio information including cash-flows assists with decisive and timeous decisions necessary to reduce any drag. A supported and dedicated system infrastructure is mandatory.

#2 Counting the costs



Transacting in the capital market comes at a price. Taxes and brokerage are unavoidable costs along with a range of portfolio expenses. Leveraging off the respected and robust stakeholder relationships assists in minimising these costs.

#3 Index changes and corporate actions



+ 100 years of experience

trading network

When indices change or corporate actions occur the two vital ingredients are experience and an extensive trading network. An in depth understanding of the change and its implication is an imperative. Being able to benefit from a liquid trading network is the next imperative to efficiently effect the index's position.