Prescient

FUND SERVICES

ETF EVOLUTION

Insights into South Africa's Investment Landscape

2025 ETF REPORT

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List of abbreviations

AMC	Actively Managed Certificate
AMETF	Actively Managed Exchange Traded Fund
CIS	Collective Investment Scheme
CTSE	Cape Town Stock Exchange
ETF	Exchange Traded Fund
ETN	Exchange Traded Note
ETP	Exchange Traded Product
EU	European Union
EY	Ernst & Young
FSCA	Financial Sector Conduct Authority
ICAV	Irish Collective Asset-management Vehicle
iNAV	intra-day Net Asset Value
IPO	Initial Public Offering
JSE	Johannesburg Stock Exchange
LISP	Linked Investment Service Provider
ManCo	Management Company
NAV	Net Asset Value
SARB	South African Reserve Bank
SENS	Stock Exchange News Services
TER	Total Expense Ratio
UCITS	Undertakings for Collective Investment in Transferable Securities
UK	United Kingdom
US/USA	United States of America
UT	Unit Trust
WEF	World Economic Forum

01 Foreword

CRAIG MOCKFORD
Chief Executive Officer, Prescient Fund Services

This year marks 25 years since the first ETF was launched in South Africa. In an ecosystem that has long been dominated by active investment managers, it has been interesting to watch as the discussions over this time have moved from “active versus passive” to the strategic and tactical integration of ETFs into active manager product suites.

> This special report commemorates that journey while casting a deliberate eye forward. In line with our name, we aim to anchor this report in both foresight and industry experience.

> Foresight, because ETFs have always been about anticipating the changing needs of investors and the shifts in global markets; and experience, because a successful ETF ecosystem requires continuous learning. That reaches from product innovation to investor education, and from regulation to market structure. These two principles, foresight and experience, are at the heart of the ETF value proposition and, indeed, at the core of our ethos at Prescient Fund Services.

Over the past two and a half decades, the industry has laid a strong foundation - expanding access to diversified investment opportunities, reducing costs, and improving transparency.

In recent years, we've seen clear signs that the next wave of innovation is underway: Actively Managed ETFs; thematically focused ETFs; inward-listed strategies that bring global exposure to local investors; ESG-linked products; and more nuanced approaches to liquidity and market-making have all helped to expand the size and diversity of the ETF sector in South Africa.

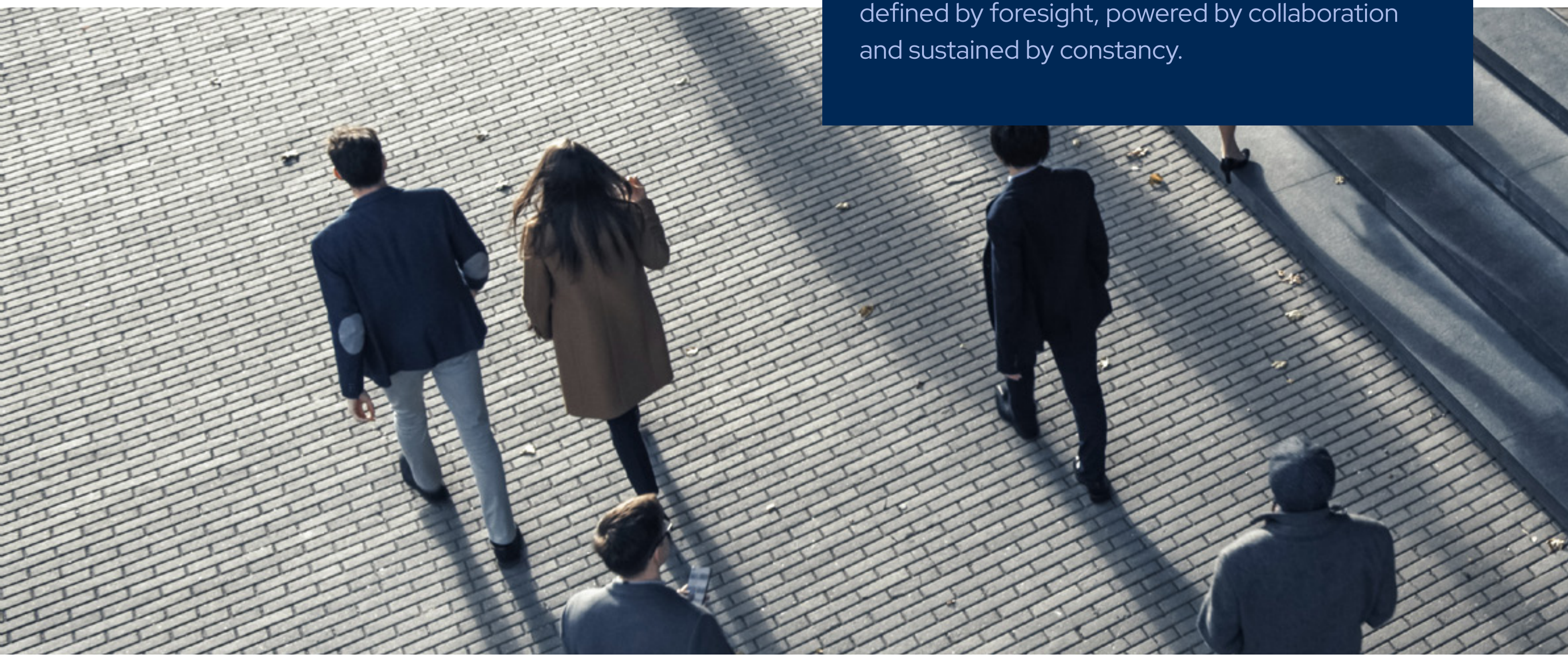
At Prescient Fund Services, we are proud to be contributing to this next chapter. Through partnerships with market participants, regulators, and index providers, we've sought to challenge the status quo and help shape the ETF landscape. We believe that our role extends beyond launching new funds; it includes catalysing industry dialogue, improving operational standards and driving institutional adoption that goes beyond the traditional retail base.

We also recognise that no business or issuer operates in isolation. The progress of the South African ETF industry is the result of collaboration - across exchanges, custodians, regulators, advisors, media, and investors. We extend our sincere appreciation to industry stakeholders and contributors who have dedicated expertise to facilitating the broader ETF ecosystem.

It is your combined efforts that have transformed ETFs from a niche concept into a cornerstone of modern investing for South African investors.

This special report is both a reflection and a provocation. It reflects on where we've come from and invites the reader to consider where we might go next. It celebrates past achievements, but also asks tough questions about scale, relevance, and accessibility. Most importantly, it underlines the critical role ETFs will continue to play in South Africa's investment future.

> Empowering our clients for global investing success remains at the core of what we do. We hope you find the insights contained within both valuable and thought-provoking. As we look to the future, we remain committed to a path defined by foresight, powered by collaboration and sustained by constancy.



02

The evolution of the South African ETF market

BEN MEYER
Managing Director, Prescient Capital Markets

On 27 November 2000, in partnership with the JSE, the first ETF was listed on the JSE - the Satrix 40 ETF. This was 10 years after the world's first ETF, the Toronto 35 Index Participation Units (TIPs) listed in Canada and the same year the first ETF listed in Europe. The Satrix 40 ETF's launch represented a pivotal moment for South African investors and would set the foundation for another 25 years of innovation.

While the US had a 10-year head-start on building an ETF ecosystem, the rest of the world was only beginning to understand the opportunity. Both South Africa and Europe started to build their own domestic ETF sectors at roughly the same time.

> "When looking at ETF trends, one must rather focus on Europe as opposed to the USA – we see increased institutional adoption and different retail distribution models in their markets."

> Today, the South African ETP ecosystem has a total market capitalisation of over R250bn and is a key part of South Africa's investment landscape. To fully appreciate the direction of South Africa's ETF development, it is important to understand where it has come from.

When ETFs were originally launched in South Africa, they were not categorised as CISs. This meant that, unlike unit trusts within which the buying or selling of underlying securities does not trigger a tax event, the first local ETFs were taxed during re-balancing or trading activities. This added complexity for both investors and managers.

Nevertheless, growth in the market was inevitable. **In 2002,** two new ETF products were added in the form of the Satrix Fini and Satrix Indi, marking the first evolution in terms of product expansion.

In 2004, Index Tracking ETFs were converted into the CIS structure – a move that would ultimately pave the way for ETFs to move into the mainstream. That same year also saw the listing of the Absa NewGold ETF (although not a CIS but a Debenture structure) – representing one of the simplest and cost-efficient ways to invest in gold.

The first ETFs to offer offshore exposure were launched through a collaboration between the JSE and Deutsche Bank, called Itrix ETFs **in 2005.** Not only did this bring a new player into the market in the form of Deutsche Bank, but it also delivered a new tool for local investors to access international markets. That year, the South African National Treasury, which sets exchange control policies, introduced the Excon relaxation with the goal of expanding market capitalisation, enhancing liquidity on the JSE, and promoting foreign diversification through domestic investment channels. The SARB also supported this initiative, as the JSE's daily reporting of ETF flows aids in policy formation from a Balance of Payments perspective. In contrast, traditional CIS funds report foreign flows only on a quarterly basis. This preferential treatment was intended to drive growth in the South African ETF market to provide retail investors with easier access to foreign reference assets.

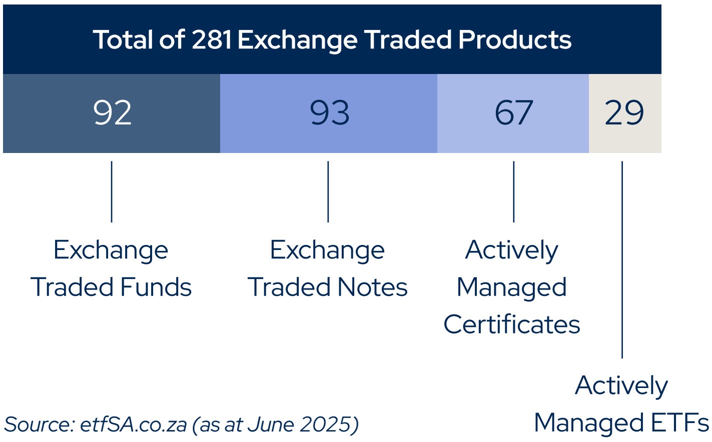
In 2008, the JSE stepped back from its direct participation in Satrix and Itrix – a move that gave credibility to the industry, enabling it to grow without the JSE's caretaking and sending a clear message that the sector could stand on its own two feet.

The South African investment management sector showed its wider recognition of the advantages of the ETF structure when Sygnia began negotiating to buy Deutsche Bank's ETF range **in 2016.** Sygnia saw a growth opportunity by combining ETFs alongside its traditional CIS to add scale to its business.

Since then, other issuers have also come to the market in the form of Stanlib, RMB, Investec and Coreshares (who were later sold to 10X). These new issuers brought both distribution capabilities and marketing budgets into the ecosystem, driving increased awareness of the opportunities that ETFs presented.

Up until 2022, the JSE Listings Requirements only allowed for index tracking strategies, but in that year the JSE amended the Listings Requirements to allow for AMETFs. The first AMETFs listed in May 2023. Shortly after this Prescient launched their "co-named" ETF platform – an initiative allowing active managers to partner with Prescient to launch their own ETFs or AMETFs.

According to ETFSA as at the end of June 2025, there were 281 ETPs listed on the JSE, including 92 ETFs, 29 AMETFs and a solid pipeline of new products under development.



Source: etfSA.co.za (as at June 2025)

While new issuers have come to the party, other stakeholders have not rested on their laurels – particularly on the distribution front.

Satrix recognised early on the importance of creating a simple and frictionless distribution channel for retail investors to participate in the market and launched the SatrixNow platform. Other platforms offered by ETFSA, EasyEquities and Wealthport, contributed to the accessibility and flows of ETFs from retail investors and assisted in educating the market around the role of ETFs in portfolios. These new distribution channels are challenging the traditional distribution models in South Africa that have been dependent on LISP platforms for fund flows from financial advisors and asset consultants. In turn, LISPs themselves are having to identify ways to add ETFs to their platforms.

With 25 years of ETF industry development under our belts, the South African investment management industry has developed a sound foundation on which to build further innovation. Industry names such as Satrix, Sygnia, NewGold, 1vest and 10X are no longer seen as outliers in South African markets. Rather, they are regarded as key stakeholders in a rapidly evolving segment of local financial services.

Some might say that at 25, the ETF market in South Africa is mature...the reality is that it is just getting started.

The evolution of South Africa's ETF market

A TIMELINE FEATURING SOME OF PRESCIENT'S MILESTONES

ETF Highlights	Year	Prescient Highlights
The world's first ETF, the Toronto 35 Index Participation Units (TIPs), launched in Canada.	1990	
	1998	Prescient is founded, setting the stage for future innovation in fund solutions, investment management and stockbroking in South Africa, Europe and China.
First ETFs listed in Europe: The iShares Core EURO STOXX 50 UCITS ETF and the iShares STOXX Europe 50 UCITS ETF began trading on Deutsche Börse. Managed by Merrill Lynch at the time, both funds tracked STOXX benchmarks and remain active today, with more than EUR 17 billion in assets under management. **The very first ETF in South Africa,** the Satrix Top 40, lists on the JSE, making index investing accessible to local investors for the first time.	2000	
Satrix Fini and Satrix Indi list on the JSE, marking the first evolution in terms of product expansion.	2002	
	2003	Prescient establishes Prescient Management Company and a CIS in securities.
Some ETFs were converted into the CIS structure – a move which would ultimately pave the way for ETFs to move into the mainstream. **South Africa welcomes its first commodity ETF:** NewGold, giving investors an easy way to invest in gold without holding physical bars.	2004	First co-named fund launched on the Prescient Management Company platform.

The evolution of South Africa's ETF market

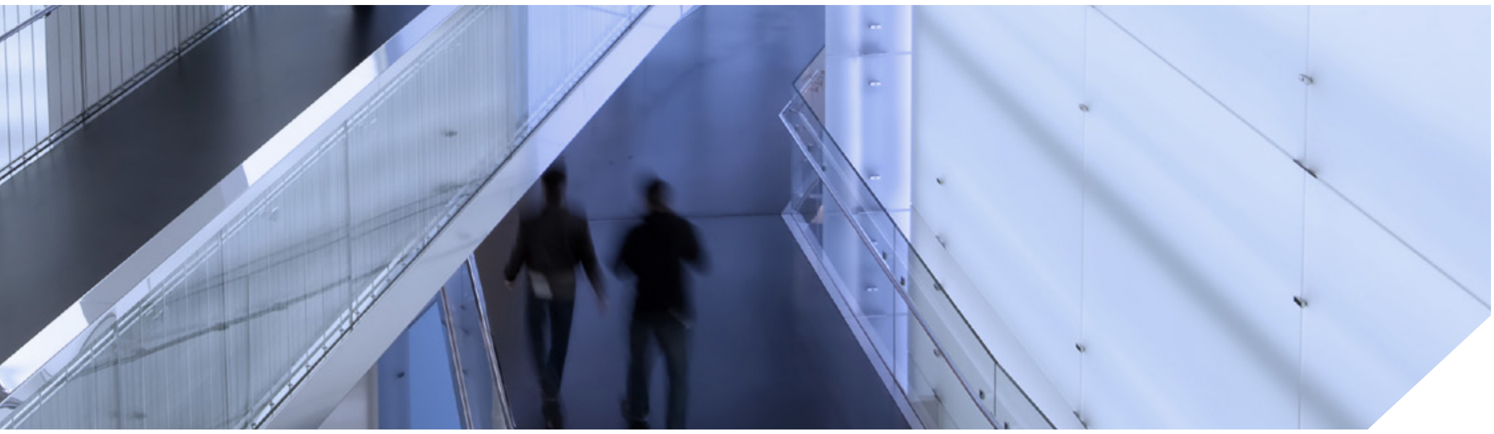
A TIMELINE FEATURING SOME OF PRESCIENT'S MILESTONES

ETF Highlights	Year	Prescient Highlights
New player in the market, Deutsche Bank, launches the iTrix / Xtracker range of products enabling offshore access to investors.	2005	
JSE steps back from its direct participation in Satrix and the ETF market.	2008	Launched Prescient Global Funds plc (now ICAV).
The first bond ETF (NewFunds GOVI) launches, opening up fixed-income exposure to the market.	2010	Prescient Administration Services is established as an independent third party administrator – now known as Prescient Fund Services.
	2011	Prescient is approved as a UCITS manager and administrator in Ireland.
New smart-beta and multi-factor ETFs hit the JSE, giving investors more tailored options beyond plain vanilla indices.	2011–2014	
SA's first sustainability-focused ETF launches. The BGreen ETF enabled local investors to access ESG-focused strategies through ETFs for the first time.	2012	
EasyEquities goes live to address the inequality in access that millions of South Africans face when it comes to investing in the financial markets.	2014	Prescient approved as an Alternative Investment Fund Manager in Ireland.
SatrixNOW goes live, removing minimum investment barriers and bringing ETF investing to a new generation of retail investors.	2015	

The evolution of South Africa's ETF market

A TIMELINE FEATURING SOME OF PRESCIENT'S MILESTONES

ETF Highlights	Year	Prescient Highlights
	2016	Established retail and qualified investor hedge fund schemes under Prescient Management Company.
Deutsche Bank begins negotiating the sale of its ETF range to Sygnia.	2016/ 2017	
Offshore ETFs become more popular, reflecting the growing appetite for global diversification and responsible investing.	2017–2020	
The JSE gives the green light to AMETFs, paving the way for new strategies beyond pure indexing.	2022	
The first AMETF is listed on the JSE	2023	Prescient launches their South African ETF scheme allowing investment managers to list ETFs.
At the end of June 2025, 281 ETPs listed on the JSE, comprising 92 ETFs and 29 AMETFs.	2025	



03

The place for ETFs in an institutional investor's toolbox

BEN MEYER
Managing Director, Prescient Capital Markets

> Over the past 25 years, the ETF sector has built a credible track record of adoption and innovation. However, these products have yet to meaningfully influence the institutional financial services market in South Africa, and this is where we believe their impact will be most felt in the coming years.

From launching AMETFs to using ETFs in more sophisticated investment strategies, institutional adoption of ETFs is on the rise in South Africa, and we are eagerly watching developments in this space.

A fundamental change took place in 2022 with the introduction of AMETFs and the move away from pure index tracking ETFs. When Coronation – one of South Africa's largest active investment managers – entered the ETF market, it marked a pivotal moment in the ETF ecosystem. When one of the country's leading investment firms embraced the ETF structure as a fund wrapper, it prompted other active investment managers to take notice.

Up until 2022, one of the key sticking points discouraging active managers from launching AMETFs was around the disclosures of underlying assets in an ETF. For unit trusts, investment managers must only disclose their holdings on a monthly or quarterly basis, but ETFs had always disclosed their holdings daily. Many managers felt this could negatively impact their competitive advantage if their investment or trading strategies were effectively public. The JSE noted these concerns and amended its disclosure rules to say that AMETFs do not need to disclose underlying assets daily. Instead, they only need to publish an iNAV calculated by an independent provider (in most cases S&P Global).

> From a South African perspective, local institutional interest in ETFs has been two-fold and in line with developments in the European ETF market.

Firstly, investment managers see them as an opportunity to broaden their distribution and increase investments in their funds, using liquid products listed on the JSE. For example, we are seeing meaningful interest in income funds, that lends itself more to active management, as opposed to index trackers, as credit events can be better managed. With equity valuations looking stretched – particularly in sectors such as US technology – there is also an increased demand for higher quality income assets in both retail and institutional investor portfolios.

The second area of institutional interest is around how investment managers can utilise ETFs as part of their own product suites.

In South Africa, ETFs present a simple and efficient tool to gain offshore exposure both to broad markets and specific regions or themes. If we look across the ETF investment universe on the JSE, investors can now access a wide variety of exposures from developed markets like the US, UK and Japan, to emerging markets like China and India. Not only can they procure wider equity exposure than was possible even a few years ago, but investors can also hone in on specific themes including bonds, property, dividend strategies, global infrastructure and the fourth industrial revolution.

Asset allocators are also starting to see other opportunities due to the growth in the range of available ETFs. For instance, those who operate in a fund of funds environment now not only have a broader investment universe to choose from locally, but they also benefit from the ease of trade and cashflow management when they utilise ETFs, with their ability to trade in and out same day.

Liquidity and settlement benefits

If 2025 has taught us one thing, it is the importance of being able to trade and settle in response to changing market conditions. Whether it is geopolitical events or a politician commenting on social media, markets move quickly in response.

ETFs have a competitive advantage over traditional unit trusts in that investors can achieve immediate market exposure through intra-day trading and price transparency.

Another example of the wider opportunity set in ETFs is the so-called “transition trade”. Active managers are now seeing a unique opportunity to use ETFs for tactical asset allocations into new markets. Previously this was a costly and cumbersome exercise involving at times direct exposure to equities and difficult currency hedging operations. A broader range of ETFs allows investment managers the ability to trade in and out of strategic positions in a highly simplified wrapper.

> These are exciting times for all stakeholders. We anticipate the range of ETF choices on the JSE for investors, both retail and institutional, will continue to increase over the coming years with ETFs becoming fundamentally critical for the institutional market.

ETFs and financial advisors

Traditionally, financial products in South Africa are sold by financial advisors where commissions and remuneration structures are handled through LISP platforms. As investors in ETFs are becoming better educated about the market, they are challenging their advisors to incorporate ETFs into their portfolios. If LISPs are unable to accommodate ETFs, this could produce a tipping point under which the financial advisor remuneration model in South Africa is likely to change.

More about iNAVs

An **intra-day Net Asset Value (iNAV)** is a r**eal-time calculated** NAV per share of an AMETF published at regular intervals during trading hours, reflecting the estimated value of the underlying assets held by the AMETF.

On the JSE, iNAVs serve several important functions:

- **Transparency:**
  iNAVs help investors see whether an ETF is trading at a premium or discount to its actual value.
- **Price Discovery:**
  They assist market participants in determining fair value during the trading day.
- **Liquidity Support:**
  Agents use iNAVs to quote bid/ask prices on the market during trading hours.
- **Investor Confidence:**
  Real-time valuation helps retail and institutional investors make informed decisions.

04

LEVELLING THE PLAYING FIELD:

How ETFs are empowering South African retail investors

NIKI GILES
Head of Strategy, Prescient Fund Services

With the acceleration of global product innovation, South African retail investors are increasingly turning to ETFs as a strategic gateway to diversified asset exposure. From thematic sectors and country-specific plays to bonds, commodities, and even cryptocurrencies in some markets, ETFs offer a flexible and accessible route into the investment world.

ETFs have been praised for their simplicity and cost-effectiveness, but they are also becoming more sophisticated. Today's offerings include AMETFs, which provide hands-on fund management and targeted diversification features traditionally reserved for institutional investors or high-net-worth individuals.

One of the most transformative aspects of ETFs is their ability to democratise access. Unlike traditional unit trusts, ETFs listed on the JSE have a single fee class. This means every investor – whether allocating R100 via a mobile app or R10 million on behalf of a pension fund – has the same TER. It's a structural feature that promotes fairness and transparency, removing barriers that have historically prejudiced smaller investors.

But the benefits of ETFs go beyond cost and simplicity. Their listed nature introduces significant advantages over unlisted funds, particularly in terms of trading and settlement.

> ETFs trade like shares on the stock exchange, allowing investors to buy and sell throughout the trading day. This intra-day liquidity is a stark contrast to traditional unit trusts, which typically settle on a T+2 or longer basis and only price and trade once daily.

This immediacy is especially appealing to a younger cohort of retail investors who have cut their teeth on cryptocurrency platforms and expect instantaneous transacting. For these mobile-first investors, the ability to execute trades in real time, monitor price movements, and respond to market shifts is not just a preference; it's a baseline expectation.

According to the WEF's Global Retail Investor Outlook 2024, 77% of investors across 13 countries, including South Africa, cited the importance of easy-to-understand products when making portfolio decisions. According to the WEF report, a lack of understanding remains the top reason investors avoid asset classes like bonds, derivatives, mutual funds and ETFs.

This underscores the critical need for investor education. As ETF offerings expand, platforms can support user education by ensuring that users understand not just what they're investing in, but why. Fortunately, South Africa is seeing a rise in investor-friendly platforms from mainstream banks as well as fintechs such as EasyEquities, which now counts over 2 million registered users and more than 1 million active accounts. These platforms offer frictionless access to the JSE, often requiring nothing more than a smartphone and a small initial investment.

Historically, access has been one of the biggest hurdles for retail investors. LISPs have proved challenging, especially for the lower income retail investors, controlling fund availability and investment size. While LISPs still play an important role in the savings ecosystem, the rise of ETFs and digital platforms is shifting the dynamic – empowering investors to take control of their portfolios with easier access, greater transparency and lower costs.

A February 2025 report by EY exploring the trends shaping the European Investment Landscape found that momentum is strongest among younger investors – estimating that three in four investors now hold an ETF – driven by inheritance trends and digital engagement. These cohorts are more self-directed, spend more time online, and are increasingly influenced by financial websites, forums, and social media.

> In this context, ETFs are not just levelling the playing field – they're redefining it. By offering equal access, real-time trading, and transparent pricing, ETFs are bridging the gap between institutional and retail investing. Whether you're starting with R100 or R10 million, you're investing on the same terms, with the same tools, and with the same opportunities.

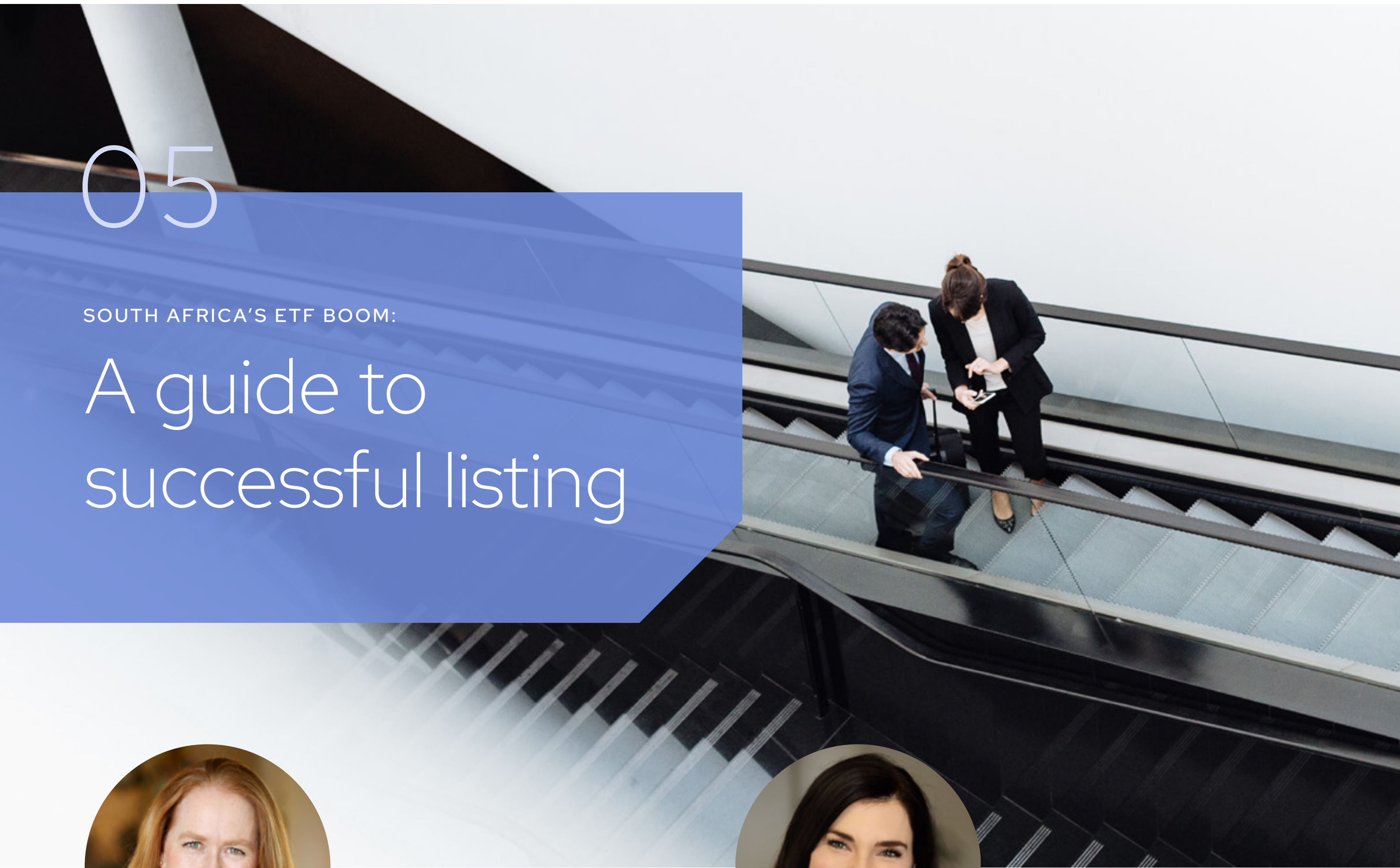
That's how we move from inclusion in theory to inclusion in practice.

Bridging the savings gap in South Africa through ETFs:

One of the biggest challenges that South Africa faces is a poor savings culture. Democratising access to investments through ETFs could, however, be a gamechanger.

The poor savings culture is well-documented, with just 6% of South Africans expected to be able to afford to retire, according to a study by National Treasury. The latest data from StatsSA reports that the household savings rate sits at negative 1.20% - in other words households are spending more than they receive in income. Some of the reasons for this include lack of financial education, distrust in complicated financial products and a financial ecosystem which often incentivises the sale of products skewed in favour of advisors and product developers.

While this savings crisis reflects broader economic challenges beyond individual financial discipline, it highlights the urgent need for saving and investment channels that are innovative, accessible, and easy to understand. This is where ETFs can present a valuable opportunity for long-term savings and wealth creation, particularly for those without access to traditional investment vehicles or significant capital to invest upfront.



05

SOUTH AFRICA'S ETF BOOM:

A guide to successful listing

NIKI GILES
Head of Strategy, Prescient Fund Services

KIM GIBB
Chief Executive Officer, Prescient Management Company

> South Africa's ETF industry is vibrant, innovative, and drawing attention from both local and international investment managers. With a growing appetite for diversified investment vehicles and a regulatory environment that supports some offshore exposure, the country offers a potentially compelling value proposition for those looking to list ETFs.

As of 30 June 2025, the total market capitalisation of South Africa's ETP industry stood at R258.1 billion, marking a 14.5% increase from the end of 2024. ETFs continue to dominate, accounting for 82.5% of the market value of all ETPs in issue. This growth was driven by new capital inflows from additional issues of existing ETF securities, and new listings.

Despite the JSE's challenges in attracting traditional company listings, the ETF space is thriving, with further ETFs approved by the FSCA expected to launch this year.

But what does it take to launch a successful ETF in this environment?

SOME PRACTICAL CONSIDERATIONS INCLUDE:

01

Clarify your purpose:

Before listing, issuers must ask: *Why are we doing this?* Who is the target investor, and what problem is the ETF solving? The FSCA expects investment managers to demonstrate feasibility, outline their distribution strategy, and justify the fund's market relevance prior to listing.

02

Evaluate product suitability:

Not every strategy belongs in an ETF wrapper. Consider whether the product requires daily liquidity and transparency and if it aligns with investor needs. Some strategies may still be better suited to traditional unit trusts.

03

Plan for scalability:

The economics of ETFs depend on scale. Funds that remain too small risk becoming inefficient and costly to run. Issuers should project the fund size realistically over one, two, and three years, ensuring expenses stay market-related and that investors benefit from reduced costs as assets grow.

04

Understand market structure and investor constraints:

The ability to reference foreign assets in an ETF is a significant advantage, offering local investors exposure beyond the limited domestic market. Income-focused and balanced ETFs are also gaining popularity, providing alternatives for those looking to reduce volatility and earn stable yields. While Regulation 28 restricts retirement fund offshore exposure to 45%, retail investors can use ETFs either directly or via a tax-free savings account to expand their offshore allocation. ETFs offer an accessible way to build globally diversified portfolios that complement traditional retirement savings.

05

Get your cost and pricing right:

Clear and competitive fee structures are non-negotiable. Investors are increasingly cost-conscious and expect transparency on TERs and management fees, particularly when these are put next to the ease and flexibility ETFs offer.

06

Choose the right partner:

A strong operational and listing partner can make or break a new ETF. Prescient, for example, assisted in listing the highest number of AMETFs in South Africa in 2024 and has deep experience managing operational complexities and regulatory compliance. A strong partner allows asset managers to focus on their investment strategy and distribution, rather than backend hurdles.

In conclusion, South Africa's ETF landscape is not only expanding in size but also maturing in sophistication. The surge in market capitalisation and the diversity of new listings reflect a robust appetite for accessible, cost-effective investment solutions. For asset managers, launching a successful ETF in this environment demands strategic clarity, operational foresight, and a deep understanding of investor needs and regulatory nuances. With the right partners and a well-considered approach, the South African market offers fertile ground for innovation and long-term growth in the ETF space.

06

BEYOND THE INDEX:

Debunking ETF misconceptions

KIM GIBB
Chief Executive Officer,
Prescient Management Company

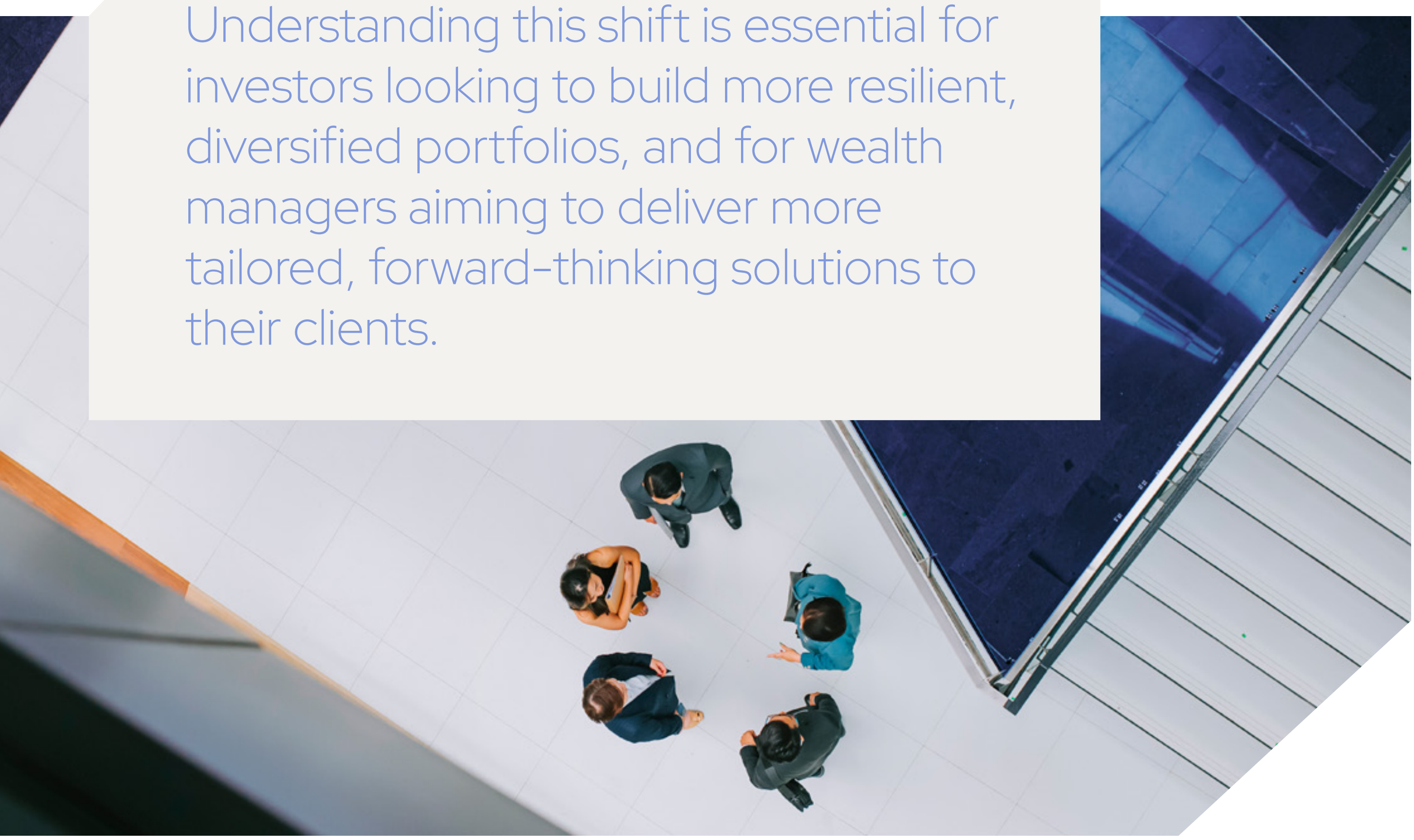
> "If you think ETFs are just low-cost tools to mirror the market, it's time to think again."

ETFs are viewed by some South African investors and wealth managers as simple, affordable ways to track an index like the JSE Top 40. This perception has helped ETFs gain traction locally, offering broad market exposure at lower costs than traditional funds.

However, this view has also limited how investors understand the true potential of these instruments today, with many advisers finding it challenging to communicate their full benefits clearly. The South African ETF landscape is evolving, introducing more sophisticated strategies, including AMETFs, that offer greater flexibility, transparency and the potential to outperform traditional benchmarks.

Since the JSE allowed the listing of AMETFs in 2022, 29 have already been listed, many geared towards offshore investing. In an interview with Citywire earlier this year, Ben Meyer, managing director at Prescient Capital Markets, noted that he wouldn't be surprised if another 25 AMETFs are listed in the next 12 months. This underscores the importance of challenging traditional perceptions of ETFs.

Understanding this shift is essential for investors looking to build more resilient, diversified portfolios, and for wealth managers aiming to deliver more tailored, forward-thinking solutions to their clients.



> The first step in breaking through outdated perceptions is understanding the difference between index tracking and active fund management. Index funds are designed to replicate the performance of a specific index as closely as possible, delivering market-matching returns. In contrast, actively managed funds aim to outperform that benchmark, relying on experienced managers to make tactical decisions and manage risk in different market conditions.

While ETFs in South Africa have historically been synonymous with index-tracking investing, this is no longer the case. The emergence of AMETFs has expanded the toolkit available to investors who want more than just to track the market, but to navigate it strategically.

A particularly attractive proposition is that AMETFs aren't just about trying to beat the market; they could also offer protection against downside risk. If markets are performing poorly, the investment manager of an AMETF is able to make changes to the portfolio instead of simply tracking every dip. Many AMETFs have capital protection as part of their investment policy, aiming to protect against losses and help investors stay on course, which is exactly what many people are looking for in uncertain times.

One of the defining advantages of ETFs, including actively managed ones, is the level of transparency they offer. Index Tracking ETFs and transparent AMETFs publish their holdings on a daily basis. And non-transparent AMETFS, unlike traditional unit trusts, which price once daily and often leave investors waiting for end-of-day valuations, have more transparency in pricing as they publish multiple iNAVs. This enables investors to know exactly what they are paying or receiving at the point of trade.

> For South African investors seeking greater control and real-time insight into their investments, this feature is a significant advantage, especially during periods of market volatility. However, the additional transparency and flexibility come at a cost, contradicting the common perception that ETFs are cheap.

If we consider that there are 121 ETFs currently listed on the JSE, representing a variety of asset classes, including local and foreign equities, bonds, property, and commodities, with a total market capitalisation exceeding R225 billion, there's no room for misconceptions. We need to instil a culture of understanding among investors and wealth managers if we are to not only see the vision of more listings realised but also ensure that the market embraces and leverages these instruments to their full potential.

5 common misconceptions about ETFs

01 ETFs are always cheaper:

While index-tracking ETFs are generally lower cost through their value chain, AMETFs are not automatically cheaper than traditional active funds. They involve research, oversight, and active management, which can mean associated fees, similar to traditional unit trust structures. However, added transparency and trading flexibility often justify these costs.

02 ETFs are harder to manage:

Some investment managers think launching an ETF, especially an active one, is operationally complex. In reality, the core investment process stays the same. With the right partner managing logistics and compliance, investment managers can focus on their investment strategy.

03 ETFs and unit trusts can't coexist:

Both have important roles. Unit trusts remain essential, especially within certain institutional mandates and traditional LISP platforms, where ETFs are not yet fully integrated. However, thanks to platforms like EasyEquities, ETFSA, and the ability to invest via various banking apps, ETFs, including AMETFs, are already widely accessible to retail investors in South Africa.

04 All ETFs are passive index trackers:

Many still believe ETFs can only mirror an index. The reality is that AMETFs allow investors to pursue outperformance and may provide downside protection, offering more strategic options than purely passive products. ETFs therefore give a lot more active opportunities and fund product types aligned to current traditional unit trusts.

05 ETFs are only suitable for broad market exposure:

ETFs, especially actively managed and thematic ones, can target specific sectors, regions, or strategies, making them highly versatile tools within a portfolio.

07

The role of capital markets

BEN MEYER
Managing Director, Prescient Capital Markets

> ETFs are reshaping the South African investment landscape – and providers of capital markets solutions are at the forefront of this exciting change.

While ETFs fall under the CIS umbrella, their unique cashflow structures introduce important operational and compliance considerations that impact investment managers, compliance officers, and even how distributors are remunerated.

Bridging the operational gap – ETFs and UTs

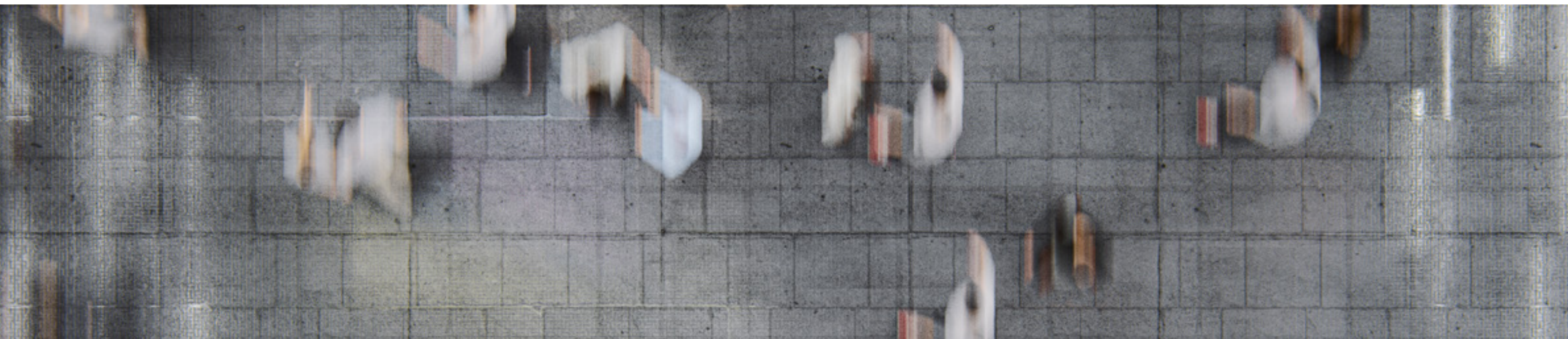
ETFs differ from traditional unit trusts in a few key respects, and this can be a challenge for investment managers not used to anonymous stakeholders actively trading or interacting with their products daily on a public market like the JSE. This creates an unfamiliar ecosystem that impacts the creation or cancellation of new securities, compliance with the JSE's listings requirements, cashflow and fund reporting practices.

One of the key functions of independent providers of ETF route-to-market solutions is to bridge the operational gap between ETF and unit trust management. The fund solutions provider aims to free up the investment managers to focus on portfolio management, while the technical (capital markets) advisory partner handles the associated administrative complexities of managing an ETF. Apart from ensuring that robust processes are in place, it is also important to establish and maintain relationships with all the key stakeholders in the process.

These capital markets advisors are responsible for a lot of the legwork or "plumbing" that ensures that an ETF meets regulatory requirements. This could include:

- Listings and prospectuses
- Facilitating creations and redemptions in the primary market
- Managing liquidity providers, such as market makers or agents
- Releasing SENS announcements
- Management of distributions to ETF holders

Many fund managers will initially be of the view that they can manage these functions in-house. As they start to unpack the listing and administrative processes, however, many begin to realise that managing a listing requires specialist skills both pre-listing and while listed. At this point, a cost-benefit analysis could show that outsourcing these functions is more efficient than managing them internally.

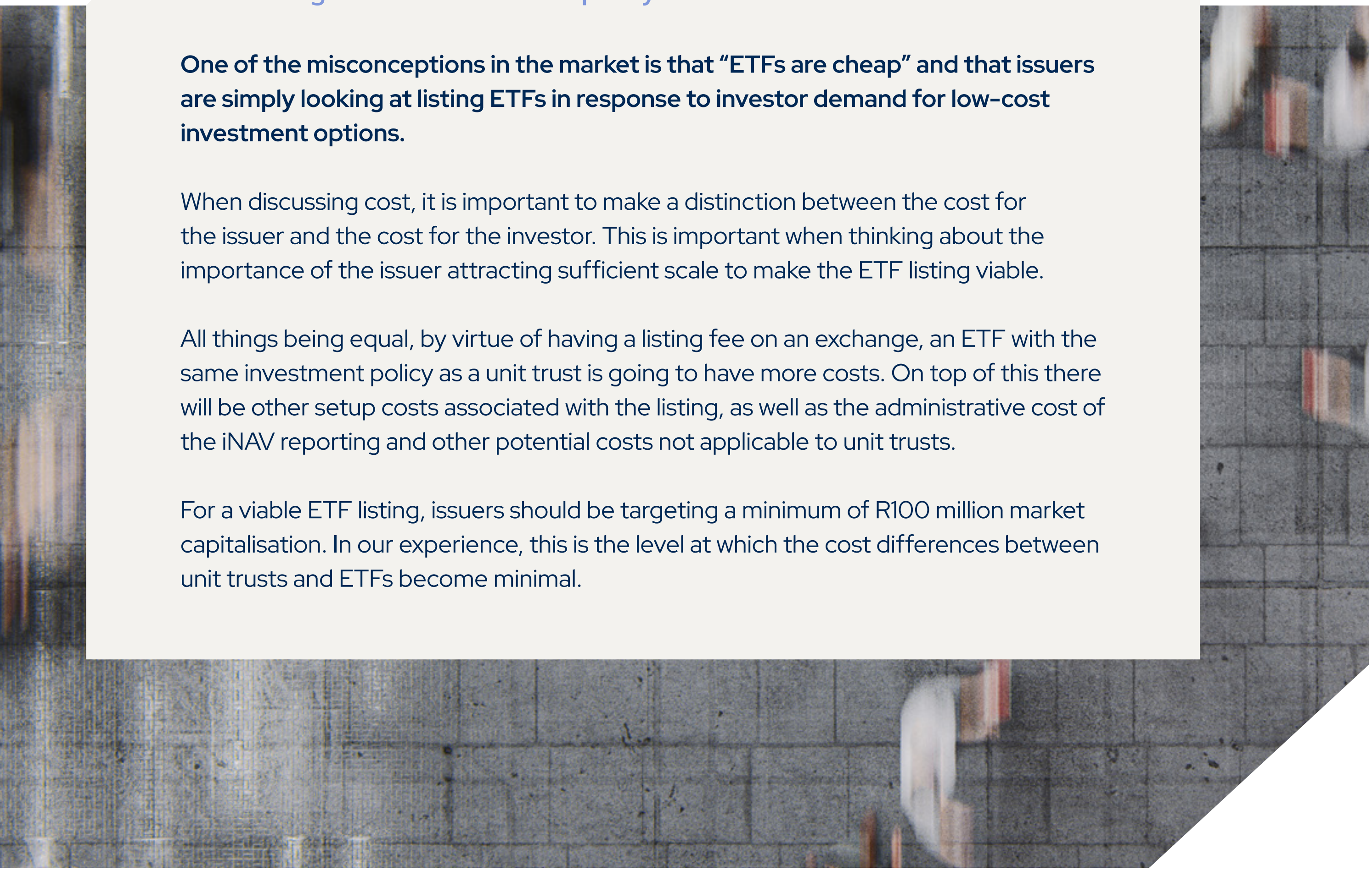


Disclosed vs non-disclosed ETFs

When thinking about bringing an AMETF to market, managers have an important choice to make: Do they disclose the underlying assets daily, or not?

Those who choose to disclose the underlying assets of their AMETF must appoint a market maker that ensures liquidity on the JSE. This is the same model that is used for index tracking ETFs.

For those that choose not to disclose the underlying assets of the AMETF, the JSE requires an iNAV to be independently calculated and published. Trading in the ETF then happens at a price that is derived from this iNAV. In this environment the AMETF itself ensures liquidity on the JSE as the fund will buy and sell securities at a price derived from the iNAV.



Debunking the "ETFs are cheap" myth

One of the misconceptions in the market is that "ETFs are cheap" and that issuers are simply looking at listing ETFs in response to investor demand for low-cost investment options.

When discussing cost, it is important to make a distinction between the cost for the issuer and the cost for the investor. This is important when thinking about the importance of the issuer attracting sufficient scale to make the ETF listing viable.

All things being equal, by virtue of having a listing fee on an exchange, an ETF with the same investment policy as a unit trust is going to have more costs. On top of this there will be other setup costs associated with the listing, as well as the administrative cost of the iNAV reporting and other potential costs not applicable to unit trusts.

For a viable ETF listing, issuers should be targeting a minimum of R100 million market capitalisation. In our experience, this is the level at which the cost differences between unit trusts and ETFs become minimal.

Distribution insights

As with any business, marketing is critical to achieve scale, and your distribution team is remunerated based on flows. In a 'traditional' unit trust environment, most retail asset flows are going to be generated via LISP platforms who are able to provide aggregated investor information. But how do you measure the success of your efforts when you look at the daily trade on your ETF? How do you work out where the flows are coming from and what is driving them? These become important questions when investment managers look at the distribution dynamics of their ETFs. If you don't know where the flows are coming from, how can you measure the success of your distribution initiatives?

> This is where an experienced capital markets advisory partner with deep industry relationships plays such a critical role. The advisor can not only analyse the flows and engage with stockbrokers but also review the shareholder registry to identify other key stakeholders and carry out regular reporting to clients.

As the ETF market in South Africa continues to mature, investment managers have an opportunity to bring innovative, cost-effective products to a growing pool of institutional and retail investors. However, launching an ETF requires more than just a good investment idea – it demands operational precision, regulatory compliance, and trusted execution. A capital markets advisory partner can provide the infrastructure, insights, and experience to help investment managers navigate this complexity with confidence.

08

The Africa opportunity for ETFs

BEN MEYER
Managing Director, Prescient Capital Markets

> What comes first: The equity market or the ETF?

Despite the potential in many African markets, the reality is that outside of the JSE, equity markets within the region have remained under-developed.

In theory, if you build a promising equity market, an ETF could follow.

There is great potential here, but the reality is a bit different.

Liquidity challenges for pan-regional products

A good case study is the Cloud Atlas ETF listing on the JSE. In 2017, Cloud Atlas debuted the "Big 50" Africa ETF, aimed at giving investors exposure to the 50 biggest listed businesses on the continent, outside of South Africa. Unfortunately, this fund never gained meaningful traction, and when it was de-listed in 2024, it had to apply a 30% discount to the NAV of assets listed in Kenya and Egypt, and a 50% discount to those in Zimbabwe and Nigeria. This was primarily a result of a lack of liquidity.

On top of this, investors are still struggling to repatriate funds from Nigeria due to exchange control regulations.

This highlights the challenge for investors seeking out pan-regional African ETFs.

In adversity, there is opportunity

However, there is a different perspective to be considered here, as we can see from the Absa NewGold ETF which, in addition to its primary listing on the JSE, is listed in Nigeria, Namibia, Mauritius, Kenya, Ghana and Botswana as an inward listing.

In many of these geographies, this ETF is one of the most actively traded instruments on the bourse. In Botswana, NewGold is the second most valuable counter on the Botswana Stock Exchange, making up just over 4% of the exchange, while in Ghana it is the 16th largest listing.

Not only does this "unintended" liquidity create trading activity, which helps deepen African markets, each new inward listing helps regulators develop their systems and processes for future listings.

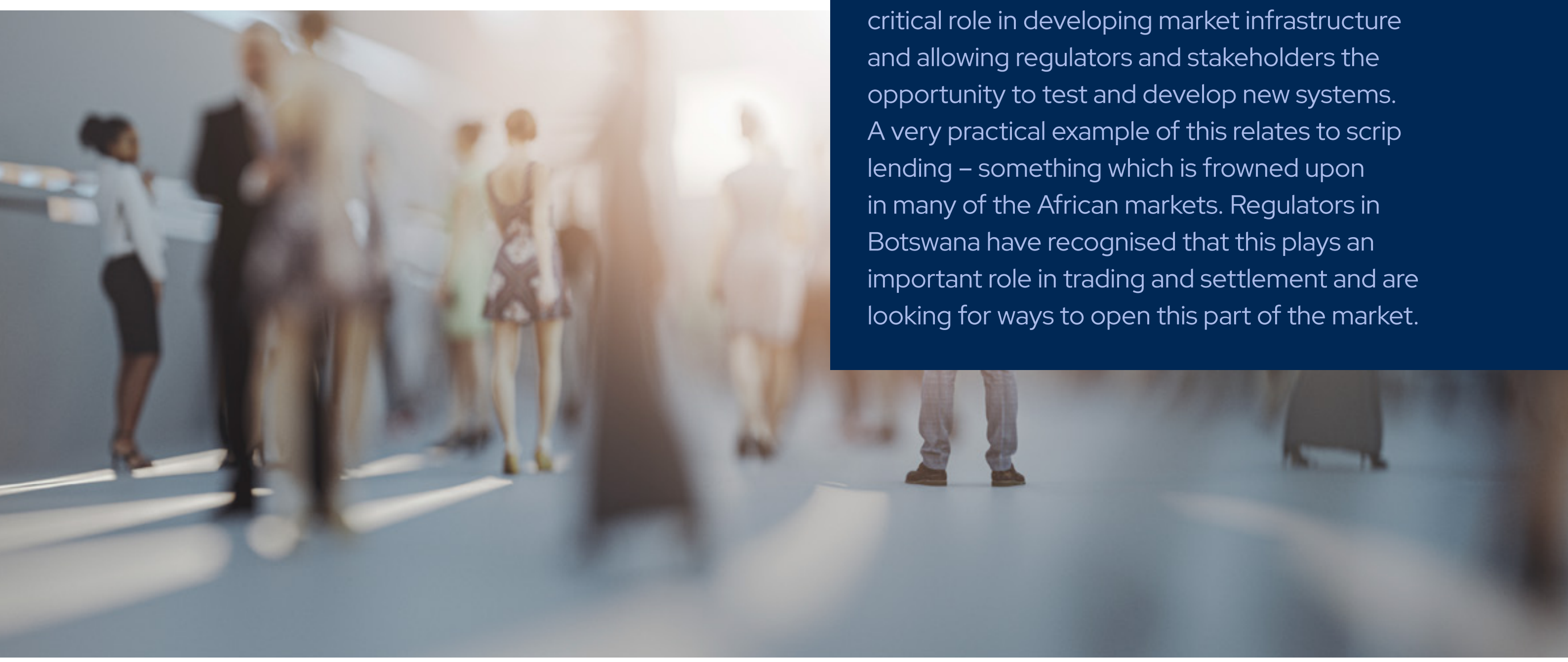
African markets to watch

While there are clear structural challenges that impact the development of ETFs in Africa, the lack of legacy infrastructure is also an opportunity. African countries can start with clean slates and develop ETF initiatives that will be fit for purpose in their markets.

We are seeing a lot of engagement from potential clients wanting to list in Namibia, Botswana and Kenya, for example.

Namibian capital markets are being boosted by oil exploration activities and stakeholders are looking to raise capital. This serves as a trigger for developing skills and capacity for future developments in the market.

In Botswana, ETFs are playing a critical role in developing market infrastructure and allowing regulators and stakeholders the opportunity to test and develop new systems. A very practical example of this relates to scrip lending – something which is frowned upon in many of the African markets. Regulators in Botswana have recognised that this plays an important role in trading and settlement and are looking for ways to open this part of the market.



Scrip lending (or securities lending) refers to the practice of lending or 'renting out' shares and other securities typically held in unit trust funds, ETFs, or retirement funds. If a fund engages in scrip lending, it must disclose this in its fund fact sheet. In South Africa, scrip lending is capped at 50% of the underlying fund's maximum exposure.

Further north, Satrix recently listed its MSCI World ETF on the Nairobi Securities Exchange. They stated that they view the Kenyan market as an important target for expanding their product offering, with the aim of democratising financial markets and providing retail investors with viable trading options.

If we return to the original question around which comes first – the equity market or ETFs – our view is that the African ETF market won't necessarily be driven by explosive growth in equity markets, but rather by the structural role they can play in developing investor appetite and improving trading systems.

A challenge to the A2X and Cape Town Stock Exchange

South Africa is in a unique situation where the market is served by not just a single stock exchange, but also two other competitive bourses – namely the A2X and the CTSE. While the JSE has a dominant position, these two exchanges should be challenged to think about integrating ETFs into their longer-term strategies.

Both offer either low or no listing fees, something which could potentially make them interesting to issuers. For the CTSE, the introduction of ETFs could help them tackle their liquidity challenges and expand their broker network, while A2X could move beyond an institutional platform.

Competition is healthy for financial markets, and the ETF market is no different. If we want to take South African financial markets forward, it cannot be business as usual.

09

NEW MARKET, NEW OPPORTUNITIES:

Paving the way for inward ETF listings in South Africa

NIKI GILES
Head of Strategy, Prescient Fund Services

EMILY DAVY
Chief Executive Officer, Prescient Fund Services in Ireland

> At under 1% of the total global equity market, why should international investment managers consider South Africa as a destination of choice for their ETFs?

South Africa's wealth sector represents a fast-evolving marketplace for both active and passive ETFs with an appetite for new products. Offshore fund managers are often surprised by how sophisticated the South African market is, especially when it comes to retail access, investment platforms and investor education.

South Africa's vibrant and growing ETF market is starting to attract fund manager interest beyond local participants, but what are its core attractions?

While the market is still developing, early AMETF listings have proven that South African investors, both retail and institutional, have an appetite for greater offshore ETF exposure through inward-listed vehicles. These active management investment strategies, once listed in rands and made accessible on local platforms, are gaining traction. This is particularly true when ETFs offer access to asset classes or themes that are under-represented in the local market such as global income funds, ESG-focused investments, or sector-specific exposure like global tech or healthcare. South African investors are keen to use more meaningful tools that can assist with growing diversification needs.

An example of this is the TBI Global Multi-Asset Income AMETF (a UCITS ETF) which was inward-listed in January 2025 and was the first of its kind to list on the JSE. Investors are able to enjoy global exposure, a genuine rand hedge, multi-asset strategies with an income focus – all with the convenience and accessibility of working with a world-class stock exchange.

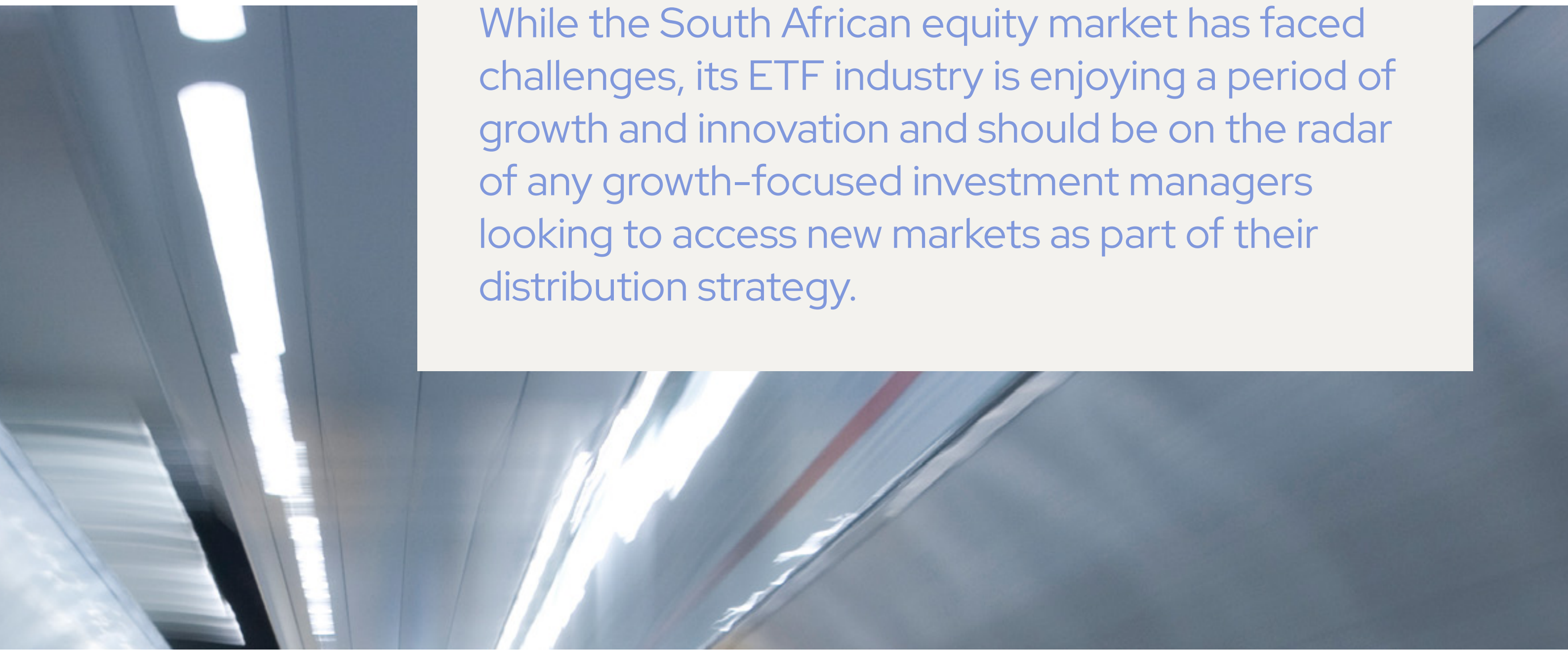
Importantly, inward-listed ETFs do not count against South African retail investors' offshore allowances. That means they can access global investment opportunities, including UCITS-compliant ETFs, without using up their individual foreign investment allowances. This structural advantage makes inward listings not only accessible but highly attractive in a market where offshore appetite continues to grow.

Industry heavyweights including BlackRock are also committing to South Africa. They currently have 24 ETFs approved by the FSCA for marketing in South Africa – but not yet trading on a local exchange. If we consider BlackRock's standing in the global ETF ecosystem, this will be a huge vote of confidence in the local market should they inward list.

> Looking into the future, it is important to understand the value proposition being created for international managers considering South Africa as a destination for their ETFs.

As a rule of thumb, it's often more efficient for managers to leverage a UCITS ETF structure than to create a parallel fund for the South African market. By doing so, you can avoid duplicating regulatory and operational overheads and benefit from economies of scale by combining the investments of South African investors into the same ETF as offshore investors, allowing you to scale distribution without adding unnecessary costs and complexity. This holds true for both the foreign manager looking to enter the South African market as well as the South African manager looking to market their investment expertise in Europe.

> While the South African equity market has faced challenges, its ETF industry is enjoying a period of growth and innovation and should be on the radar of any growth-focused investment managers looking to access new markets as part of their distribution strategy.



About the report

This report is an educational initiative by Prescient Fund Services to educate and empower the South African investment community on the evolving landscape of Exchange Traded Funds (ETFs). Drawing on the expertise of our ETF specialists and enriched by market data, client insights, and global perspectives, the report offers an exploration of South Africa's ETF ecosystem – from its origins to its emerging frontiers.

As ETFs continue to reshape portfolio construction globally, South Africa is experiencing a surge in innovation, accessibility, and investor interest. This report aims to bridge the knowledge gap by unpacking the structures, strategies, and regulatory frameworks that define the local market, while also highlighting opportunities for inward listings and thematic investing.

Whether you're an institutional investor seeking portfolio efficiency, a retail investor exploring transparent and cost-effective vehicles, or an investment manager considering a listing in South Africa or Europe, this report provides practical guidance and forward-looking insights to help you navigate the ETF opportunity with confidence.

Prescient Fund Services is proud to be a part of this conversation as a trusted partner to those in the ETF space. Through this report, we invite stakeholders across the financial ecosystem to engage, learn, and contribute to the growth of South Africa's ETF market.

About Prescient Fund Services

Prescient Fund Services is an established and trusted global fund administration and investment fund platform business with operations in South Africa and Ireland. Combining more than two decades of experience with top-tier technology, Prescient Fund Services provides investment management clients with comprehensive and reliable fund administration services and hosting platform arrangements.

Our relationship-focused model provides certainty to clients and underscores our commitment to delivering and maintaining personal client experiences. This allows managers to focus on their investment strategies while we form the administrative backbone in an ever-changing financial landscape, including the rapidly evolving world of ETFs.

Specific services offered by Prescient Fund Services relating to ETFs includes:

- Co-named ETF platform for launching ETFs and AMETFs in South Africa
- Capital Markets Advisory functions for listing ETFs in South Africa
- Fund Administration and Compliance services for third party ETF platforms in South Africa
- White label UCITS ETF platform for launching ETFs and Active ETFs in Europe*
- Management Company and Fund Administration services for third party ETFs in Ireland

**Expected to be operational by end of 2025*

List of sources

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