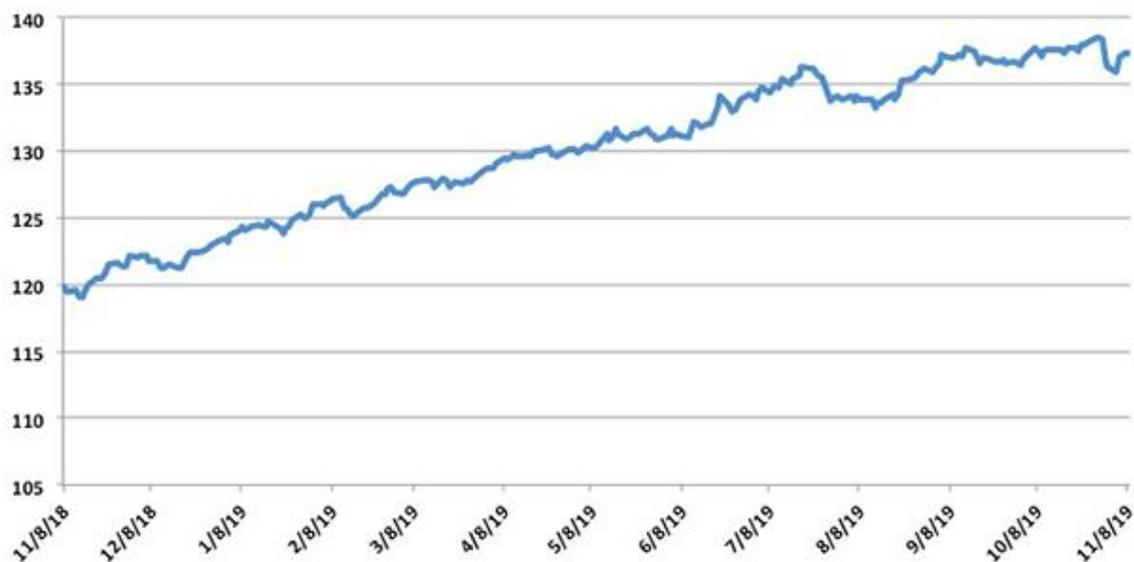


NSX to list first bonds' ETF

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S&P Namibia Sovereign Bond 1+ Year Top 10 Index



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NAMIBIAN and international investors will soon have the chance to invest in a diversified portfolio of Namibian government bonds in a highly cost-effective manner.

This will be done through what is called a bonds exchange traded fund (ETF) – where the fund holds a set of bonds determined by a set of rules, which bonds are changed and updated based on these rules over time.

Thus, while the bonds held by the fund change and mature, the fund itself does not. In addition, the structure creates liquidity for investors, and investors' coupons from their holdings will be automatically re-invested.

An ETF is formed out of a basket of assets, which can take various forms, from shares of different companies on a stock exchange, (overall or representing a certain industry,), bonds, currencies, commodities to a combination of the aforementioned.

Tracked through an index, investors receive a return on the movement of such indices. While the investor does not actually own the underlying assets, the fund must own such, and should the investor ever want to

convert their holding in the ETF for the underlying asset, they would be able to do so.

While the Namibian Stock Exchange (NSX) has a healthy operating ETF board, there is currently no such a fund traded for bonds – or Namibian bonds alone, on the NSX.

However, on the Johannesburg Stock Exchange, there are a number of listed ETFs, including a virtually identical South African government bond ETF.

It was this that led South African Absa NewFunds Index, Structured Solutions and Cirrus Securities (Pty) Ltd to create an ETF of the S&P Namibia Sovereign Bond Index.

The subset – S&P Namibia Sovereign Bond 1+ year Top 10 Index – is created and maintained by S&P Dow Jones Indices, which contains Namibian government bonds that has a maturity of greater than or equal to 12 months.

Namibian government bonds are at the moment largely owned by pension funds, with the Government Institutions Pension Fund holding an amount above N\$10 billion of the N\$30,8 billion domestic bonds balance.

While Namibia's credit rating is below “investment grade”, it remains better than other countries in the region. This gives investors a certain level of confidence in investing in an ETF with Namibian bonds as constituents, especially since for the same risk, investors tend to get better returns on Namibian bonds.

According to a disclosure document on the ETF, the portfolio will replicate the performance of the S&P index, but in the local currency, rebalance monthly in line with index when bonds become due, and the income earned on the portfolio will be re-invested into ETF holdings in line with the index constituent.

At inception, the portfolio will include constituent bonds - GC24, GC27, GC30, GC25, GC32, GC35, GC22, GC45, GC47 and the GC40 - which since 2016 carry a return of 11,28% above the South African similar portfolio with 13 constituent bonds at 8,71%.

The portfolio has no inflation linked bonds, and the GC22, GC24, GC27 and GC27 bonds carry at least 53% of portfolio weight.

The ETF is expected to be the cheapest among all the ETFs on the market, with a total expense ratio of 0,10%.

The norm is that, if one wants to invest in government bonds, they should have a minimum of N\$50 000, and thereafter buy in tranches of N\$10 000. Bonds are also listed on the NSX where secondary trading can take place.

OFFER

Following the announcement of the ETF last Wednesday, the public offer opened on Monday with participatory interest going for N\$10,00. The offer will close on 22 November.

According to an ETF supplement detailing the offer, applications for participatory interest must be based on the total monetary amount the applicant wishes to invest and not on a specific number of ETF units.

There is no minimum application amount for cash subscriptions, however, a minimum value may be set by the broker trading platform assisting the applicant to access the participatory interest.

The interests in ETF can also be applied for in specie (buying with actual constituent bonds), starting with a subscription to 100 000 participatory units.

The ETF will be listed on the NSX as well as on the JSE. The full disclosure and ETF supplement are available on NewFunds website.

According to Cirrus Securities, the local sponsor, the ETF is an important and valuable initiative for Namibia, as it will help bring foreign money into the Namibian bond market space, thus allowing easier access to external funding for the government when it comes to funding the budget deficit in local currency terms.

“It thus means that the cost of funding for the government can be improved, while allowing foreign buyers to earn a good yield pick-up on what is all-but rand denominated debt, when compared to the SA comparable ETF,” said Cirrus.

In addition to this, foreign fund flows into the Namibian economy will help support the country's foreign exchange reserves, injecting much needed external liquidity to aid in the country's growth recovery and development, Cirrus said.

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