NewGold ETF– Another first

The NSE is gearing up to list the country's first ever Exchange Traded Fund (**ETF**) on **27th March 2017.** The ETF shall track the performance of **Gold**. The ETF is to be issued as **Gold Bullion Debentures** by **NewGold**, a South African special purpose vehicle owned fully by NewGold Owner Trust. The proceeds from the sale of debentures shall be used to acquire **Gold Bullion.**

Demystifying the ETF

According to the CFA Institute, an ETF is a hybrid investment product where an investor buys shares in it to own a proportional interest in the pooled assets. ETF shares (in this case debentures) are traded in continuous markets on global exchanges and can be bought and sold through brokerage accounts. ETF's have continuous pricing and liquidity throughout the trading day.

In Kenya, any capital gains made on the ETF will not be subjected to capital gains tax. Depending on the particular circumstances of each holder of the Gold Bullion Debentures, gains from the disposal of the Gold Bullion Debenture may be subject to income tax.

The NewGold ETF

The ETF launched on the JSE (Johannesburg Stock Exchange) on 1st November 2004 and is the 7th largest gold ETF in the world. NewGold ETF has done some secondary listings across Africa in (Botswana—July 2010, Nigeria—November 2011, Mauritius—July 2013 and Ghana—August 2012).

The ETF shall not bear interest. The debenture only evidences the financial indebtedness of NewGold to the relevant Debenture Holder. The holder shall not own the Gold Bullion held by NewGold.

Timelines

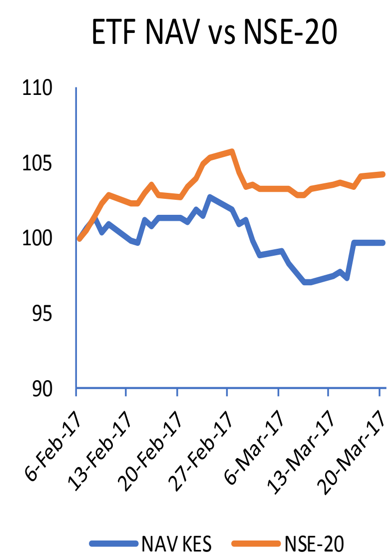
Activity	Date
Date of publication of the supplemental prospectus **("the Publication Date")**	24th March 2017
Pre-listing road-show	20th March 2017 to 24th March 2017
Listing Date/1st day of trading	27th March 2017 (two days after the Publication Date)

Note that dates proposed in the table above are tentative in nature and subject to change subject to the approval of the CMA, the NSE and any other relevant authority in Kenya.

Salient features

Listing day (LD)	27th March 2017
ETF NAV	To be determined on LD
Number of debentures	0.4M
Use of the proceeds	Buying Gold Bullion

Price Trend



Source: (NSE, NewGold, ApexAfrica Research)

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Pricing of the ETF

The pricing of the ETF will be based on the real-time value of the underlaying asset (Gold Bullion). The value of a 1 New Gold ETF will be computed as :

*The allocation factor * Gold price (USD) * USD/KES exchange rate*

The Gold price and the exchange rate to be used shall be the spot prices.

The allocation factor for one debenture is given as

*1/100*0.95221565*

Each security references about 1/100 troy ounces of gold bullion. According to the London Bullion Market, one fine troy = 31.1034768 grams of gold

The **gold price** will be issued by the issuer. This price shall be the previous day's closing price of the ETF on the JSE in South African Rand, being reflective of the price of gold in international markets for that day.

There will be no intra-day price limit on the ETF and there will be no price limits between trading sessions.

NewGold Execution

Bloomberg Chat: ABSA's designated broker, Barclays Financial Services Limited (BFSL), will collate orders on behalf of the market and shall call ABSA Commodity ETF Trading to request bid and/or offer pricing. If the price is accepted by the investor's broker (either BFSL or other local stock broker representing their own respective clients), then BFSL matches the agreed transaction on behalf of ABSA Bank Ltd on CDSC, no differently than any other local security. Note: ABSA, as market maker, faces the market on the half hour from 09h30 to 14h30 Kenya time.

Note liquidity limit: Only equity stock held by ABSA Bank Ltd can be traded facing ABSA Bank Ltd acting as the market maker / liquidity provider. Any size greater than held stock, will necessitate ABSA transferring additional securities from the primary market of South Africa, and can only subsequent to settlement on the NSE, be traded from this later date. This does not negate any secondary market trading activity between local brokers

Our 2 cents:

Reasons for:

- **Stability:** In this fast paced environment, fluctuations are inevitable which may result to losses. Over time, Gold has emerged as the most reliable safe haven of wealth, remaining largely unchanged in the long-run despite the short-term volatilities.
- **Hedging:** Gold can be used as a hedge against inflation, deflation and currency risk. Gold has a direct relationship with inflation, with its value rising as inflation goes up.
- **Diversification:** In the past, Gold has had a negative correlation to stocks and other financial instruments making it a viable component of a diversified portfolio.
- **Market volatility:** Global markets are very volatile and in times of large announcements, investors are likely to liquidate their positions, opting for gold. During these times, the value of gold shoots up, resulting in gains for the investor.

Reasons against:

- **Price taking:** In Kenya, partakers in the ETF will be price takers, trading on the dictated price of the issuer. The issuer shall be the supplier of liquidity and as such, will dictate the price.
- **Fed rate hikes and global market optimism:** The Fed eral Reserve has planned an additional 2 Fed Rate hikes this year. A hike in the fed rate has an inverse relationship with gold prices. In addition, there's a lot of investor optimism on global equities market which may dampen the demand for gold bringing down prices.
- **Capital gains are the only reward:** The ETF does not pay dividend or interest to the debenture holder leaving the investor with capital gains as the only reward.
- **Highly priced:** With the price formula given, a single ETF will trade north of KES 1,000. This lofty price per unit makes it difficult for initial investors to leave the market at will.

This being a new product in the market, we expect a sluggish uptake. As such, we advise a wait and see approach on the issue.

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