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Q&A: Exchange-traded funds



What is an exchange-traded fund (“ETF”) really?

Think of an **ETF** as a **basket of investments** (like stocks, bonds, or even gold) that you can **buy and sell on a stock exchange**, just like you would a single company’s share. It’s an easy way to own a little bit of a lot of things.



So, what’s the difference between an actively managed ETF and a passive one?

Imagine two types of chefs.

- **Passive ETFs:** This chef follows a well-established recipe exactly as written, aiming to reproduce the same result every time. Similarly, a passive ETF seeks to mirror the performance of a specific market index by holding the same securities in the same proportions.
- **Actively managed ETFs:** This chef applies their own expertise to refine the recipe, carefully selecting ingredients, adjusting techniques, and striving to achieve a better outcome than the original. In the same way, an actively managed ETF relies on portfolio managers who use their skill and judgement to select investments with the aim of outperforming the benchmark or index.



Why would I want an actively managed ETF? What are the benefits?

An actively managed ETF combines professional investment management with the flexibility of an exchange-traded fund. Active managers aim to **beat the market or index**.

The potential benefits of AMETFs include:

- **Professional expertise:** Investment decisions are made by experienced portfolio managers who use research and analysis to identify opportunities and manage risks.
- **Diversification:** Like all ETFs, they provide exposure to a broad range of investments, helping to spread risk across different sectors or asset types.
- **Flexibility:** They can be bought and sold throughout the trading day, just like individual shares, offering convenience and liquidity for investors.



What are the differences between an actively managed ETF and a unit trust?

While both ETFs and unit trusts are pooled investment vehicles, there are some key **differences** in how they operate:

- **Trading flexibility:** ETFs can be bought and sold throughout the trading day at market prices, similar to individual shares. Unit trusts, on the other hand, are traded once a day based on the fund's end-of-day price.
- **Accessibility:** Investors can typically purchase ETFs through stockbrokers or online ETF platforms or on Linked Investment Service Provider (LISP) platforms (within share portfolios).
- **Investment entry point:** You can invest from as little as the cost of a single ETF share. Some ETF platforms may even allow fractional share purchases, reducing the minimum investment further and making them more accessible to a wide range of investors.

At Ninety One, our active ETFs and unit trusts have the same underlying investment strategies and have no difference in the cost of management. This means you can choose the investment vehicle that works best for you and how you like to invest.



How do I actually buy an ETF?

Purchasing an ETF is a straightforward process. Here's how it typically works:

- **Open an investment account:** You'll need to open an account with a stockbroker who is a member of the JSE (Johannesburg Stock Exchange). If you need assistance in finding a broker, please click [here](#).
- **Trade through your broker:** Once your account is set up, you can buy and sell ETFs during the JSE's trading hours, in the same way you would trade company shares.
- **Use an investment platform:** ETFs are also available via a number of online investment platforms — such as EasyEquities, ETFSA, Shyft, Vault22 — as well as LISPs like the Ninety One Investment Platform.



What are the costs involved when I buy or sell an ETF?

When you trade ETFs, you'll usually see a few small costs:

- **Brokerage fees:** This is what your stockbroker charges you for making the trade.
- **Bid/offer spread:** This is a fee built into the price at which you buy or sell the ETF.
- **Small levies:** There are small fees for investor protection and for the system that handles the trading (STRATE).
- **VAT:** Value Added Tax on those fees.
- **Good news:** You don't pay securities transfer tax (STT) on ETFs!
- Always double-check the exact fees with your broker before you hit that "buy" or "sell" button, as they can differ!



How often do ETFs tell us what they own?

Disclosure frequency varies between ETFs. Some ETFs publish their full list of holdings daily, while others do so quarterly, typically within 30 days after the end of each quarter.

At Ninety One, the disclosure approach for active ETFs is aligned with that of our unit trusts. This ensures consistency across investment vehicles, meaning our actively managed ETFs disclose their holdings on a quarterly basis.



Can I use ETFs in my retirement fund, unit trust or TFSA (tax-free savings account)?

In most cases, yes — ETFs can be included in a range of investment vehicles, including:

- **Tax-free savings accounts (TFSAs)**
- **Unit trust portfolios**
- **Retirement funds**, such as pension or provident funds, provided they comply with **Regulation 28** guidelines
- **Living annuities**

However, there may be limits on how much you can allocate to certain types of investments, and individual providers may have their own rules. It's always best to confirm the details with your financial adviser or platform provider before investing.



Some platforms offer solutions where model portfolios are chosen. Can active ETFs be used in these bundles?

Absolutely. Our active ETFs can also be purchased on their own.



What if I need to sell my active ETF? Will I be able to do so? And how do I ensure I get a fair price?

ETFs are designed to be easy to buy and sell; in other words, they are liquid investments. This liquidity is supported in several ways:

- **Tradable on the stock exchange:** ETFs can be bought and sold throughout the trading day, just like individual company shares. Their liquidity comes both from the underlying investments they hold and from their listing on the exchange.
- **Liquidity providers:** A designated market participant (often called a liquidity provider) helps ensure there is always a buyer or seller available, giving investors confidence that they can trade when required during market hours.
- **Fair pricing:** A process known as *creation and redemption* helps keep the ETF's market price closely aligned with its underlying value, known as the Net Asset Value (NAV). In addition, an indicative NAV is published several times a day to provide transparency and help investors assess fair pricing.



How are ETF distributions taxed?

Like a unit trust, an ETF may make regular income distributions, such as dividends or interest. The way these distributions are taxed depends on the nature and source of the income received by the ETF:

- Local dividends are generally subject to dividend withholding tax.
- Interest income is taxed as interest in the hands of the investor.
- Foreign income, such as overseas dividends or interest, is taxed according to the relevant foreign income rules.

Important note: This information is intended as a general guide only. Tax treatment depends on your individual circumstances and may change over time. It's always best to consult a qualified tax advisor for advice specific to your situation.



How is the sale of ETFs taxed?

The tax treatment when selling an ETF depends on how long you've held the investment and your individual circumstances. In general:

- **Long-term holdings:** If you hold your ETF for at least 3 years before selling, any profit is typically treated as a capital gain, which is usually taxed at a lower rate than regular income.
- **Shorter-term holdings:** If you sell before three years, the profit may be taxed either as regular income or as a capital gain, depending on your specific situation.
- **No securities transfer tax (STT):** As with buying ETFs, selling them does not attract STT.

Important note: Tax rules can be complex and may change over time. This information is provided as a general guide only. Investors should seek advice from a qualified tax professional to understand how selling an ETF may affect their personal tax position. Ninety One does not provide tax advice or guarantee any specific tax outcomes.

Important information

Collective Investment Schemes in Securities (CIS) should be considered as medium to long-term investments. The value may go up as well as down and past performance is not necessarily a guide to future performance. CISs are traded at the ruling price and can engage in scrip lending and borrowing. The collective investment scheme may borrow up to 10% of the market value of the portfolio to bridge insufficient liquidity. A schedule of fees, charges and maximum commissions is available on request from the Management Company. There is no guarantee in respect of capital or returns in a portfolio. A CIS may be closed to new investors in order for it to be managed more efficiently in accordance with its mandate. CIS prices are calculated on a net asset basis, which is the total value of all the assets in the portfolio including any income accruals and less any permissible deductions (brokerage, STT, VAT, auditor's fees, bank charges, trustee and custodian fees and the annual management fee) from the portfolio divided by the number of participatory interests (units) in issue. Forward pricing is used. The Fund's Total Expense Ratio (TER) reflects the percentage of the average Net Asset Value (NAV) of the portfolio that was incurred as charges, levies and fees related to the management of the portfolio. A higher TER does not necessarily imply a poor return, nor does a low TER imply a good return. The current TER cannot be regarded as an indication of future TER's. During the phase in period TER's do not include information gathered over a full year. Transaction Costs (TC) is the percentage of the value of the Fund incurred as costs relating to the buying and selling of the Fund's underlying assets. Transaction costs are a necessary cost in administering the Fund and impacts Fund returns. It should not be considered in isolation as returns may be impacted by many other factors over time including market returns, the type of Fund, investment decisions of the investment manager and the TER.

Exchange traded funds are listed on an exchange and may incur additional costs.

Though the Management Company has appointed Ninety One SA (Pty) Ltd, FSP 587, an authorised financial services provider, under the Financial Advisory and Intermediary Services Act, 2002 as its investment manager, the Management Company retains full legal responsibility for any third party-named portfolio. Where foreign securities are included in a portfolio there may be potential constraints on liquidity and the repatriation of funds, macroeconomic risks, political risks, foreign exchange risks, tax risks, settlement risks, and potential limitations on the availability of market information. The investor acknowledges the inherent risk associated with the selected investments and that there are no guarantees.

Performance has been calculated using net NAV to NAV numbers with income reinvested .

Exchange Traded Funds vs Unit Trusts: Whilst both unit trusts and ETFs are regulated and registered under the Collective Investment Schemes Control Act, ETFs trade on stock exchanges just like any other listed, tradable security. Actively managed ETFs (AMETF) offer exposure to CIS and differ from other ETFs which track indices because the fund manager actively selects and adjusts the fund's holdings and asset allocation to try to outperform a benchmark. Unlike a unit trust, which can be bought or sold only at the end of the trading day, an ETF can be traded intraday, during exchange trading hours.

For any additional information such as fund prices, brochures and application forms please go to www.prescient.co.za.

This portfolio operates as a white label fund under the Prescient ETF Scheme, which is governed by the Collective Investment Schemes Control Act.

The Management Company may close the portfolio to new investors in order to manage it more efficiently in accordance with its mandate.

The Management Company (Prescient) and Trustee are registered and approved under the Collective Investment Schemes Control Act (No.45 of 2002). Prescient and Ninety One are members of the Association for Savings and Investments South Africa.

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