

CORESHARES™
Where smart money works.

LOW VOLATILITY INVESTING

LOWER THE RISK, NOT YOUR EXPECTATIONS





INTRODUCING LOW VOLATILITY INVESTING

In the aftermath of the 2008 financial crisis, investors face an environment of continued market uncertainty. Low volatility investing[1] seeks to answer the question "How do I maintain long-term equity exposure within my portfolio whilst reducing risk[2]?"

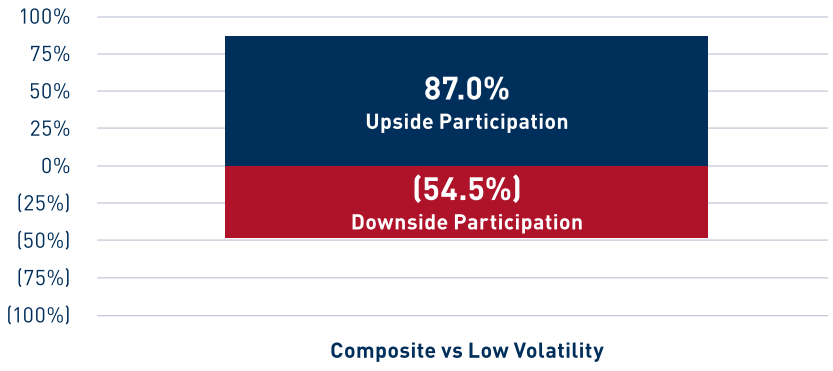
Although low volatility as an investment strategy has received increased attention post 2008 the concept is not new. Academic papers by Markowitz (1952) and Black (1972) cited the benefits of using a low volatility investment strategy.

WHY LOW VOLATILITY

- **Maintain Equity Exposure** –A common way to reduce volatility in a portfolio is to allocate a greater percentage to safe haven assets such as cash. In most cases these safe havens are not able to keep up with inflation in the long term and as such do not provide adequate protection of an investor's capital in real terms. Low volatility investing allows investors to stay invested in equities while reducing overall portfolio risk.
- **Protection** – Although low volatility investing seeks to provide protection in falling markets, it also provides investors the opportunity to participate when markets rise.

  The S&P SA Low Volatility Index has captured more upside of the broad market[3] than downside since May 2006.

Figure 1: Upside Participation[4], Downside Protection[5]



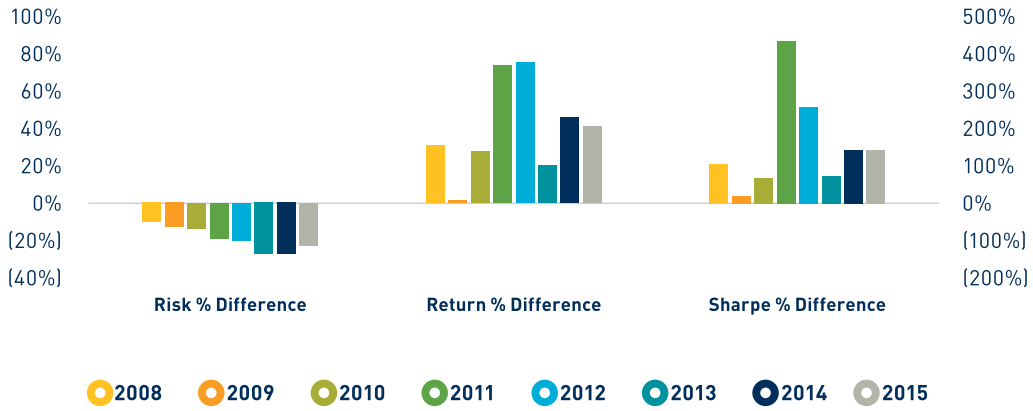
Source: S&P Dow Jones Indices. Based on monthly returns over the period May 2006 – May 2016. Past performance is not an indication of future performance

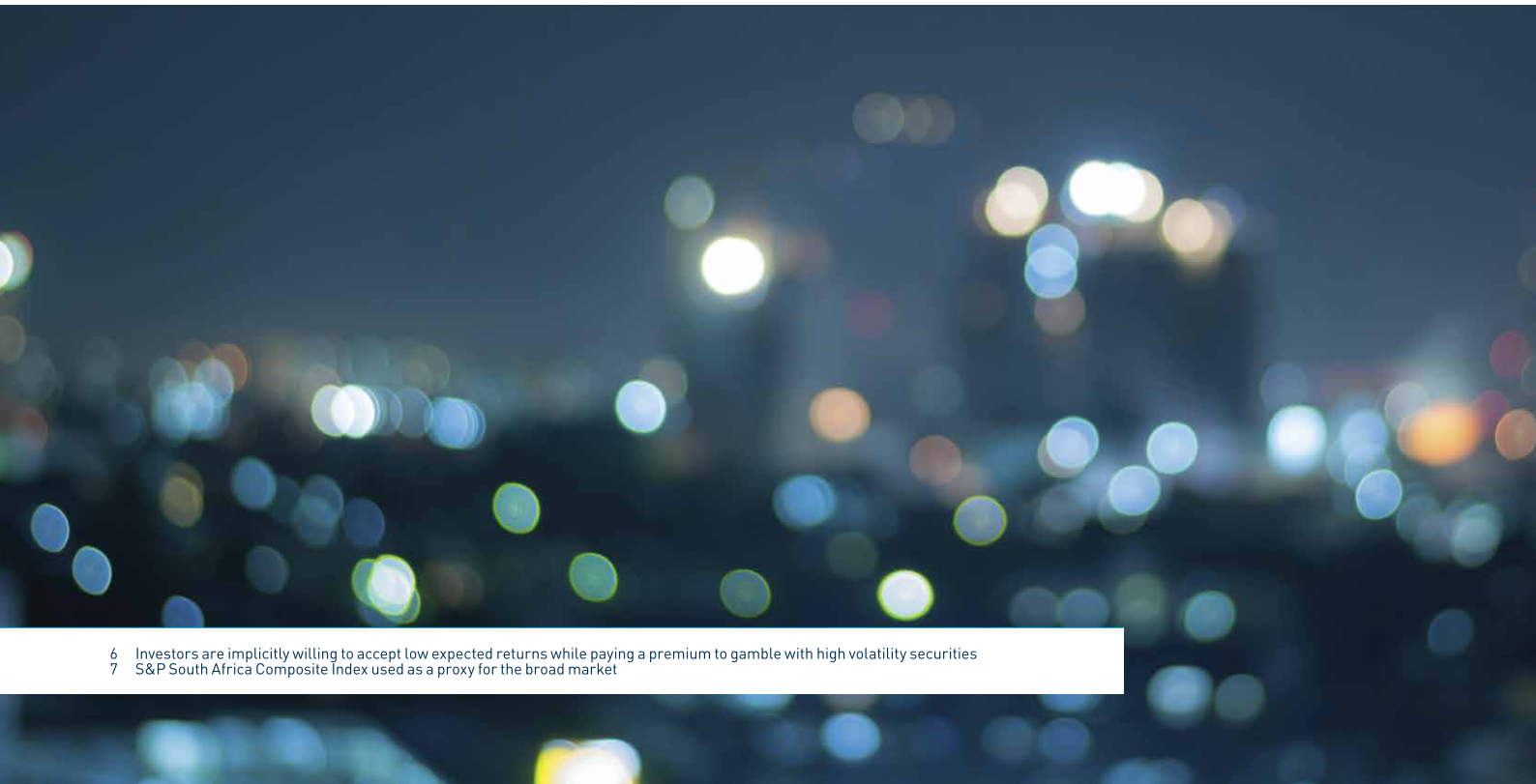
1 Low volatility investing seeks to select a portfolio of shares with the lowest levels of volatility in a given market.
2 Risk as defined by daily standard deviation of returns.
3 S&P South Africa Composite Index which is a float adjusted market cap weighted index that consists of c.140 large, mid and small cap companies
4 Upside participation is calculated by taking the fund's monthly return during months when the broad market had a positive return and dividing it by the broad market return during the same months.
5 Downside participation is calculated by taking the fund's monthly return during the periods of negative broad market performance and dividing it by the broad market return.

- **Potential to Outperform** - Globally and locally, low volatility portfolios have tended to outperform the broad market with lower volatility over time. This is known as the "low volatility anomaly" as it goes against traditional risk and reward finance theory. There have been many arguments put forward to explain the anomaly with the majority being behavioural, such as the lottery ticket effect[6] [Baker, Bradley and Wurgler (2011)]. These behavioural biases result in investors overpaying for high volatility stocks making low volatility stocks attractively valued.

  Compared to the broad market, the S&P SA Low Volatility Index has provided higher returns with lower risk and high Sharpe ratios over a five year rolling period since 2008.

Figure 2: Five Year Rolling Comparison of the S&P South Africa Low Volatility Index and the Broad Market[7] Based on Annualised Risk and Performance





6 Investors are implicitly willing to accept low expected returns while paying a premium to gamble with high volatility securities
7 S&P South Africa Composite Index used as a proxy for the broad market

CORESHARES LOW VOLATILITY ETF (CORESHARES LOWVOLTRAX)

Figure 3: Quick Facts on the CoreShares Low Volatility ETF (LowVolTrax)

CoreShares LowVolTrax tracks the S&P South Africa Low Volatility Index. This index is made up of the 40 least volatile stocks on the JSE as measured by S&P Dow Jones Indices

Ticker	Weighting Method	Distributions	Historical Standard deviation[8]	TER	ETF Launch Date
LVLTRX	Inverse volatility	Quarterly – Mar, Jun, Sep, Dec	9.1%	0.40%	14 April 2014

CoreShares LowVolTrax will also be available as a conventional Unit Trust Collective Investment Scheme in Q3 2016.

METHODOLOGY

S&P uses the S&P South Africa Composite Index as a starting universe.

1. **Volatility** The trailing 1 year volatility (as measured by daily standard deviation) is computed for all stocks in the Composite Index.
2. **Liquidity** Having met the S&P South Africa Composite Index liquidity requirements, an additional filter is put in place to avoid selecting stocks that have low volatility as a result of infrequent trading. Stocks must have a minimum of three month average daily value traded of R10 million.
3. **Weighting** The 40 least volatile companies that pass the liquidity filter are chosen and are weighted inversely to their volatility i.e. of the 40 constituents those with higher volatility are down-weighted and those with lower volatility are up-weighted.
4. **Rebalance** The index is rebalanced quarterly.

The S&P methodology is simple, transparent and rules-based. This rules-based approach decreases exposure to stocks as their volatility rises and increases exposure as their volatility decreases.



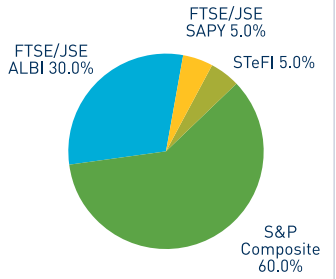
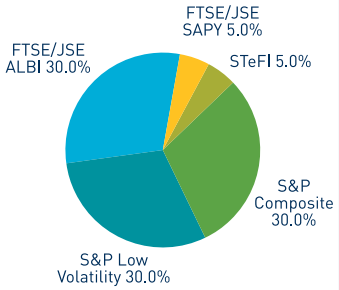
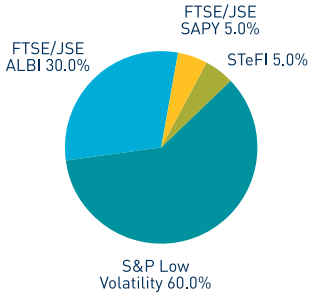
In keeping with international best practice, the calculation of the index is done independently by S&P Dow Jones, the index provider, with CoreShares being the implementer. This ensures segregation of duties and allows investors to monitor the performance of the ETF against an independent benchmark.

8 Index standard deviation calculated over a 5 year period ending 31 May 2016

HOW TO USE CORESHARES LOWVOLTRAX IN A PORTFOLIO

Figure 4 below is an example of how low volatility can be included in a multi-asset portfolio. When low volatility is included as either half of the equity component or the full equity component both scenarios result in lower risk, lower maximum drawdown, improved returns and higher Sharpe ratios when compared to the base case scenario.

Figure 4: Low Volatility Inclusion in a Multi-asset Portfolio Scenario.

Base		50% Broad Market / 50% Low Volatility		Low Volatility	
					
Annualised Performance	11.7%	Annualised Performance	13.0%	Annualised Performance	14.2%
Risk (Std deviation)	9.7%	Risk (Std deviation)	8.7%	Risk (Std deviation)	9.1%
Sharpe Ratio	0.27	Sharpe Ratio	0.59	Sharpe Ratio	0.70
Maximum Drawdown[a]	(22.97%)	Maximum Drawdown[b]	(19.33%)	Maximum Drawdown[c]	(18.58%)

(a) For the period 31 October 2007 – 28 February 2009
(b) For the period 31 October 2007 – 28 February 2009
(c) For the period 31 October 2007 – 30 June 2008

Source: CoreShares, S&P Dow Jones Indices and FTSE/JSE. Portfolio performance is calculated from the weighted index returns for the period June 2006 – May 2016 where the asset allocation is rebalanced semi-annually. Past performance is not an indication of future performance. Index performance is not an indication of ETF performance.



WHY CORESHARES?

Innovative: CoreShares has been first to market (in ETFs) in a number of index strategies e.g low volatility, property, preference shares and other smart beta strategies.

Smart Beta: CoreShares is a leader in smart beta in the South African market.

Backing: CoreShares is powered by strong and dedicated shareholders (Grindrod Financial Services, Rand Merchant Investments (RMI) and Yellowwoods Capital) with expertise and insights in the financial services market.

Expertise: CoreShares has invested in talent and resources to deliver on various passive indexing services.

CoreShares Range of ETFs

Fund Name	Benchmark	Ticker
CoreShares Top50	S&P South Africa 50 Index	CTOP50
CoreShares Equally Weighted Top 40	FTSE/JSE Equally Weighted Top 40 Index	CSEW40
CoreShares DivTrax	S&P South Africa Dividend Aristocrats Index	DIVTRX
CoreShares LowVolTrax	S&P South Africa Low Volatility Index	LVLTRX
CoreShares PropTrax SAPY	FTSE/JSE SA Listed Property Index	PTXSPY
CoreShares PropTrax Ten	FTSE/JSE SA Listed Property Top 10 Equal Index	PTXTEN
CoreShares PrefTrax	FTSE/JSE Preference Share Index	PREFTX
CoreShares Green	Nedbank Green Index	CGREEN

Unit Trusts

In June 2016, CoreShares received permission from the FSB to launch unit trusts. These will be available in Q3 2016.



Disclaimer
CoreShares Index Tracker Managers (RF) (Pty) Ltd ("the Manager"), Registration number 2006/006498/07, is a company incorporated in South Africa acting as a manager of collective investments schemes in securities in terms of Section 42 of the Collective Investments Schemes Control Act and is supervised by the Financial Services Board. The registered address of the Manager is 5 Arundel Close, Kingsmead Office Park, Durban, 4001. The Trustee and Custodian is Société Générale Johannesburg Branch. The Investment Management of the portfolios is outsourced to Grindrod Asset Management (Pty) Ltd, an authorised financial services provider, FSP 29834. Both the Manager and Grindrod Asset Management (Pty) Ltd are members of the Grindrod Financial Services Group. Collective Investment Schemes in Securities (CIS) are generally medium to long term investments. The value of participatory interests may go down as well as up and past performance is not necessarily a guide to the future. CIS are traded at ruling prices and can engage in borrowing and scrip lending. Tracking error for each portfolio, a schedule of fees and charges is available on request from the company. Commission and incentives may be paid and if so, would be included in the overall costs. The portfolios track the performance of a particular index and so outperformance of the index is not the objective and, therefore, there are no performance fees at all. Unlike traditional unit trusts, Exchange Traded Funds (ETFs) are Collective Investment Schemes in Securities (CIS) that trade on stock exchanges. Trading in ETFs will incur the normal costs associated with listed securities, including brokerage, settlement costs, Uncertified Securities Tax (UST), other statutory costs and administrative costs. The price at which ETFs trade on an Exchange may differ from the Net Asset Value price published at the close of the trading day, because of intra-day price movements in the value of the constituent basket of securities. The portfolio is valued on every business day at 17h00. The current price means the net asset value, which is the total market value of all assets in the portfolio including any income accruals and less any quantifiable and non-quantifiable deductions from the portfolio divided by the number of participatory interests in issue.

The portfolio may borrow up to 10% of its net assets on a temporary basis. Such borrowings are permitted only to meet the portfolio's obligations in relation to (i) the administration of the Fund relating to purchase or sale transactions; and/or (ii) the redemption or cancellation of participatory interests in the portfolio. Borrowings in relation to (i) above are only permitted for a period of up to 8 calendar days, and 61 calendar days in respect of (ii). Past portfolio performance is measured on a rolling monthly basis. Brochures, prospectuses, Supplemental Trust Deeds, annual financial statements are available on our websites and/or office nearest to you free of charge.



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