September 2019

The ETF Review

Welcome to this month's ETF Review, a neat update of market news affecting ETFs, as well as a set of favourite funds chosen by the Intellidex team. We collaborate with Intellidex to bring you the latest insights on ETFs – probably the niftiest way to invest!

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What happened in the markets in September?

- Global sector rotation buoys equities
- SA GDP grows faster than expected but outlook remains bleak
- Incoming third quarter economic data point to a continued slowdown in the global economy

Our favourite ETFs

- Domestic equities: CoreShares Scientific Beta Multifactor Index ETF (new selection!)
- Foreign equities: Satrix MSCI World ETF and Satrix MSCI Emerging Markets
- Bonds and cash: NewFunds TRACI 3 Month (short term); Satrix ILBI ETF, Stanlib Global Bond ETF (long term)
- Dividend/income funds: Satrix Property ETF and Sygnia Itrix Global Property ETF
- Commodities: Standard Bank Africa Rhodium ETF

Intellidex's favourite ETFs

Each month the investment gurus at Intellidex scan the market to come up with a list of their favourites.

Orin Tambo, CFA, explains:

We classify all ETFs into six broad categories:

- domestic equities
- international equities
- bonds and cash
- dividend or income-focused
- multi-asset
- commodities

Various empirical studies show that the bulk of equity returns stem from diversification among broad asset classes rather than from individual stock picking. As such, our grouping is done with a diversified portfolio in mind, ensuring appropriate exposure to different asset classes. First, we group the ETFs according to the three widely recognised asset classes – equities, bonds and cash. We further split equities into geographic groupings, then add a category for equity ETFs with an income theme.

Our picks should provide an investor with a relatively diversified portfolio, even if it was made up only of ETFs. However, asset allocation is not a one-size-fits-all concept. You need to make sure

What's happened in the markets?

September was characterised by a global investor rotation from havens to riskier asset classes. This saw equities bouncing back from a soft performance in August to post the strongest performance among the major asset classes. The MSCI World Index grew 2.2% while the JSE All Share Index ended 1.01% higher. There was a bit of a selloff of bonds and commodities with the JP Morgan Global Aggregate Bond Index shedding 0.8%. The rand was volatile as usual but closed the month near its September opening valuation.

Against this backdrop the equally weighted portfolio of all JSE-listed ETFs returned 0.61%. Intellidex's ETF portfolio outperformed the market, posting growth of 0.16%.

Local ETFs

The JSE all share gained marginally as gains from industrials, health care, consumer services and financials offset declines from resources, consumer goods, telecommunications and technology.

The Satrix Fini 15 ETF was the top-performing non-commodity ETF after its share price rose 4.2% but has lost -4.8% year to date (YTD). The CoreShares S&P South Africa Dividend Aristocrats ETF was next best with growth of 3.2% (YTD: - 4.7%). The NewFunds S&P GIVI South Africa Financials ETF (3.1%), the NewFunds S&P GIVI South African Industrial ETF (2.8%) and the Satrix Property ETF (2.7%) complete the top five performers for the month.

that weights of different asset classes in your portfolio meet your unique risk-and-return objectives. Multi-asset ETFs, which are already diversified among asset classes, are analysed as a separate category.

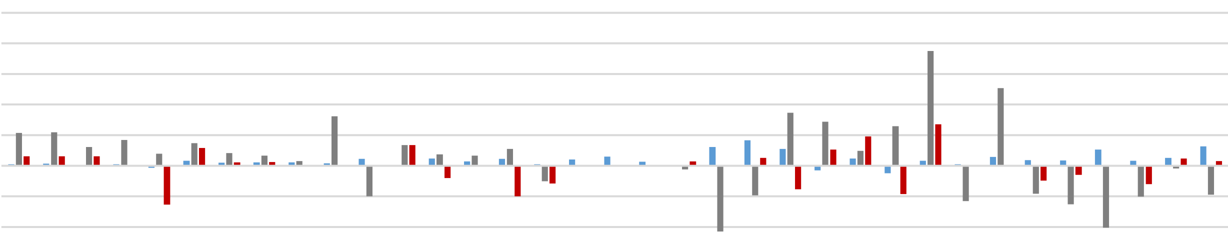
As a rule of thumb, we like ETFs that follow a watertight investment philosophy. They should also be tax smart, which means they should qualify to be in a tax-free savings account. To avoid overconcentration, a good ETF should cap its exposure to a single sector and/or a single counter. While competition among providers is intensifying and ETF costs are coming down, we look at this metric closely and prefer ETFs with low total expense ratios (TERs). An overview of our favourite funds for each category follows.

The September favourites:

Domestic equity: CoreShares Scientific Beta Multifactor Index ETF

With the local economy facing numerous challenges, robust risk management practices should be employed in portfolios. While we feel the Satrix SA Quality fund implicitly achieves this through its multi-dimensional approach to the selection of its constituents, there is a new (rebranded) multifactor ETF which explicitly takes volatility into account as one of six factors it employs in fund construction. The CoreShares Scientific Beta Multifactor Index ETF fits our

Domestic equity ETFs performance (share price returns annualised for periods of more than one-year %)



	ASH T40	STX 40	STA N40	SYG T40	NFS H40	NFS WIX	STX SWX	STA NSX	SYG SW4	STX MMT	STX QUA	STX RAF	NE WFS A	CTO P50	GIVI SA	SMA RT	NFE HGE
1-month	0.3%	0.4%	0.0%	0.2%	-0.3	0.8%	0.5%	0.6%	0.6%	0.4%	1.1%	-0.1	1.2%	0.7%	1.1%	0.2%	1.0%
YTD	5.4%	5.5%	3.0%	4.2%	2.0%	3.7%	2.0%	1.7%	0.8%	8.1%	-5.0	3.4%	1.9%	1.7%	2.7%	-2.5	0.0%
5-year	1.5%	1.6%	1.5%	0.0%	-6.4	2.9%	0.6%	0.6%	0.0%	0.0%	0.0%	3.4%	-2.0	0.0%	-5.0	-2.9	0.0%

	NFE MO D	NFE DEF	ASH MID	GIV FIN	STX FIN	GIVI ND	STXI ND	GIV RES	STX RES	NFE MO M	NFE VAL	NFE VOL	PTX SPY	PTX TEN	STX PRO	STP ROP	STX DIV	DIV TRX
1-month	1.5%	0.6%	0.0%	3.1%	4.2%	2.8%	-0.8	1.2%	-1.2	0.8%	0.2%	1.5%	0.9%	0.9%	2.7%	0.8%	1.3%	3.2%
YTD	0.0%	0.0%	-0.6	-10.	-4.8	8.6%	7.2%	2.5%	6.5%	18.8	-5.8	12.7	-4.6	-6.3	-10.	-5.1	-0.4	-4.7
5-year	0.0%	0.0%	0.7%	0.0%	1.3%	-3.8	2.7%	4.8%	-4.6	6.8%	0.0%	0.0%	-2.4	-1.5	0.0%	-3.0	1.2%	0.8%

The Satrix Resi ETF, which shed 1.2%, was the laggard. However, the fund is up 6.5% YTD, a credible number on the JSE. Other big losers were the Satrix Indi 25 (-0.8%), Satrix Inflation-Linked Bond ETF (-0.3%), NewFunds Shariah Top 40 ETF (-0.3%) and Satrix Rafi 40 ETF (-0.1%).

Commodity funds had a mixed month. Rhodium and Palladium continued their strong run while gold- and platinum-based funds closed in the red. The Absa NewGold Palladium was the star performer, surging 7.8%. The two platinum funds – Standard Bank Africa Platinum ETF and Absa NewPlat ETF – tanked 4.5% each. The Standard Bank Africa Rhodium ETF has been the most rewarding fund on the JSE with a return of 123.6% since the beginning of the year.

International ETFs

The Sygnia Itrix MSCI Japan ETF topped the performance table of foreign asset funds with a return of 4.4% (YTD: 16.5%) while the Sygnia/Itrix FTSE 100 shrugged off the Brexit noise to close the month in second position with a return of 4% (YTD: 11.7%). The Stanlib Global REIT Index ETF (2.6%), the Sygnia Itrix MSCI World Index (2.4%) and the CoreShares S&P 500 Dividend Aristocrat (2.2%) were also in the top five.

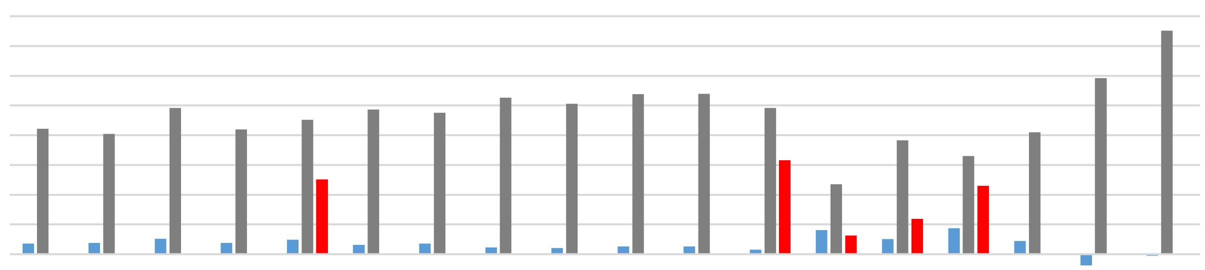
Africa-focused funds – Cloud Atlas Africa Real Estate ETF and Cloud Atlas AMI Big50 ex-SA ETF –were the worst performers with losses of 13.4% and 5.1% respectively.

mould of a good investment philosophy as it is built with risk factors in mind. It was launched in May and has a great back-tested track record. We thus change our main choice for local broad-based equity exposure to this new multifactor fund. The fund was largely flat in September. There are extensions to this core local equity exposure that can be added in a tactical sense as a satellite fund. The NewFunds Equity Momentum fund (up 0.8% in September) is worth considering. It has performed far ahead of other equity funds under all market extremes in the past four months and has a year-to-date return of 18.8%.

Developed markets Foreign equities: Satrix MSCI World ETF

We maintain our exposure to the broad-based Satrix MSCI World Equity Feeder ETF which is dominated by US equities. We think US stocks are more resilient than other developed market equities during turbulence, given the relatively stronger US economy. We are, however, cognisant of the elevated US valuations relative to other developed markets. The Satrix MSCI World Equity Feeder ETF grew 1.6% in September. A good alternative, though, is the Ashburton Global 1200 Equity ETF (up 1.9%) but it has a higher total expense ratio.

International equity ETFs performance (share price returns annualised for periods of more than one-year %)



	GLPROP	SYGP	ETFGRE	ASHGEQ	SYGWD	STXWDM	ETFWLD	CSP500	SYG500	STX500	ETF500	SYGUS	SYGUK	SYGEU	SYGJP	GLODIV	SYG4IR	ETF5IT
1-month	1.8%	1.9%	2.6%	1.9%	2.4%	1.6%	1.8%	1.2%	1.0%	1.3%	1.3%	0.7%	4.0%	2.5%	4.4%	2.2%	-1.9%	-0.3%
YTD	21.1%	20.2%	24.6%	21.0%	22.6%	24.3%	23.8%	26.3%	25.3%	26.9%	27.0%	24.6%	11.7%	19.1%	16.5%	20.5%	29.6%	37.6%
5-year	0.0%	0.0%	0.0%	0.0%	12.6%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	15.8%	3.1%	5.9%	11.5%	0.0%	0.0%	0.0%

September macroeconomic review

South Africa's macroeconomic calendar for September kicked off with positive news of better-than-expected GDP numbers for 2019Q2. Stats SA reported that the country's real GDP grew 3.1% quarter on quarter (annualised), driven mostly by the mining and finance industries while agriculture and construction contracted.

But subsequent data readings were less palatable. The RMB/BER Business Confidence Index fell to a 20-year low in 2019Q3. Manufacturing production, which contracted 3.6% in June, declined 1.1% year on year in July. Mining production increased 2.4% year on year in July but off a low base.

The consumer price index (CPI) accelerated in August, printing at 4.3%, up from the 4% in July and fractionally higher than consensus forecasts of 4.2%.

On the international scene escalating trade conflicts, increasing fears of a global economic slowdown and pre-emptive fiscal stimuli shaped risk attitudes and the performance of assets. In the US, the Federal Reserve delivered a second consecutive rate cut of 25 basis points, a move aimed at buttressing the economy. Europe expanded its stimulus package with the European Central Bank slashing its already negative interest rate and instigating quantitative easing. The economic bloc has committed to asset purchases to boost inflation which printed at 1.4% in August, towards its target of arround 2%.

In the UK, the twists and turns of the Brexit monster were on steroids with the British parliament clashing head on with its newly elected prime minister Borris Johnson. The parliament passed legislation that will force the government to ask for an extension if it can't agree to a deal with the EU. But Johnson remains adamant that he will not seek an extension even if he can't reach a deal.

The US-China trade war also flared up. Further tariffs are due to kick in by the end of the year unless renewed talks between make sufficient progress. The Chinese economy slowed further. Its industrial output rose 4.4% from a year earlier in August, the lowest for

Other more focused international equity themes include property, dividend and technology funds. These are worth considering for tactical or other investor-specific reasons.

Developing markets foreign equities: Satrix MSCI Emerging Markets ETF

We choose the Satrix MSCI Emerging Markets ETF (+2%) as our core portfolio for developing market exposure. It invests in a wide range of emerging economies including some of the fastest-growing markets such as China and India. The Cloud Atlas AMI Big50 (-5.1%), which focuses on African equities, can be used as a satellite fund to the core Satrix MSCI Emerging Markets fund. However, the Cloud Atlas AMI Big50 ETF has been extremely volatile since its listing on the JSE.

Diversified funds

If you find the process of diversifying your portfolio daunting, two ETFs can do it for you. They combine equities and bonds to produce a diversified portfolio for two investor archetypes with differing risk appetites: Mapps Protect ETF (0.6%) is more conservative, usually suitable for older savers. Mapps Growth ETF (0.9%) suits investors with a longer-term horizon. Notably, both funds invest in SA-listed assets, thus lack an offshore flavor.

Dividend or income-theme funds

If you rely on your investment income for day-to-day expenses, you may want to allocate a portion of your portfolio to ETFs that have a high distribution ratio. Property funds tend to have the highest payout ratios. Our pick here is the Satrix Property ETF which has a brilliant diversification approach. For foreign property funds we like the Sygnia Itrix Global Property ETF (+1.9%). It has an aggressively low total expense ratio (TER) of 0.19% that significantly undercuts its competitors, whose charges range from 0.29% to 0.69%.

a single month since 2002, while retail sales came in below expectations. Fixed-asset investment slowed to 5.5% in the first eight months.

Outlook

Incoming third quarter economic data point to a continued slowdown in the global economy. However, several authorities are pre-emptively putting measures in place in a bid to prolong the global economic expansion. The US is relying on monetary policy easing but the Trump administration has indicated it may cut taxes should a need arise.

China has a cocktail of economic stimulus measures ranging from cuts to banks' reserve ratios and taxes to issuance of special bonds. Earlier this month the People's Bank of China lowered the required reserve ratio by 0.5 percentage points (1 percentage point for some city commercial banks), which is expected to release about $126bn of liquidity. The EU and Japan are digging deeper into unconventional monetary policy tools to stimulate inflation and mitigate economic slowdown.

In SA, the ANC announced a stimulus policy aimed at resuscitating the stuttering economy.

The success of these packages in supporting economic growth depend a lot on trade developments between the US, China and now the EU. There is consensus that failure to prevent further tariffs will offset any benefits from these stimulus packages.

Fixed income and cash

Fixed income securities should find their way into a well-diversified portfolio due to their risk-diversification attributes. If you are investing for a short period, usually less than a year, then the NewFunds TRACI (up 0.3%) is a natural choice because it is least sensitive to adverse interest rate movements. For a longer investment horizon, protecting your investment against inflation is paramount. We maintain our choice of the Satrix ILBI ETF (0.2%), which has the lowest expense ratio in this category. Furthermore, nominal bonds add a unique risk-return dimension that differs from inflation-linked bonds and improves overall portfolio performance. The only option for local nominal bonds is the Newfunds GOVI ETF (+0.6%).

As with equities, investors also need to diversify their bond portfolios internationally. Our choice is the Stanlib Global Bond ETF (-1.5%), which tracks investment-grade sovereign bonds mostly issued by the US, UK, Japan and selected European countries. The Stanlib Global Bond ETF has the lowest TER in this category.

Commodities: Standard Bank Africa Rhodium ETF

Adding a commodity ETF to your portfolio improves diversification because commodities

Income theme equity ETFs performance (share price returns annualised for periods of more than one-year %)

	GLPROP	SYGP	AMIRE	ASHWGB	DCCUSD	ETFGGB	ASHINF	PREFTX	NFGOVI	NFILBI	STXILB	NFTRCI	PTXSPY	PTXTEN	STXPRO	STPROP	STXDIV	DIVTRX
1-month	1.8%	1.9%	-13.4%	-2.5%	-1.1%	-1.5%	0.0%	2.5%	0.6%	0.2%	-0.3%	0.3%	0.9%	0.9%	2.7%	0.8%	1.3%	3.2%
YTD	21.1%	20.2%	-9.1%	10.1%	14.5%	11.6%	0.6%	8.3%	8.4%	3.1%	1.9%	5.2%	-4.6%	-6.3%	-10.1%	-5.1%	-0.4%	-4.7%
5-year	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.6%	-1.5%	7.5%	3.3%	0.0%	6.9%	-2.4%	-1.5%	0.0%	-3.0%	1.2%	0.8%

Locally, the pollical landscape remains shaky. Investors feel government is moving too much to the left, pushing populist policies including NHI and debt relief, which could be economically damaging. Topping it off is the ballooning debt of Eskom which recently reported a loss of R21bn in its year to end-March.

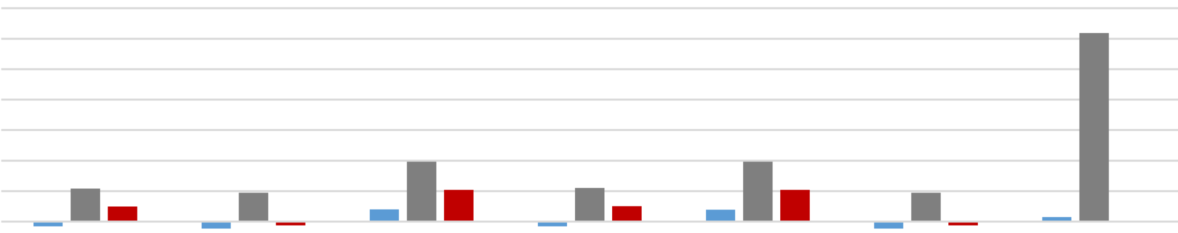
ETF strategy

Given this backdrop we think South African-facing stocks will remain under pressure, with the JSE generally marked by high volatility and low liquidity. This underscores a need for offshore diversification. Locally we think investors should tilt their portfolios towards income-focused assets.

march to the beat of their own drum – they are not in synch with broader markets. Traditionally, gold is the preferred addition to an investor's portfolio because over longer periods it has shown to be the least correlated with other assets. However, our preference based on our medium-term outlook is between rhodium and palladium.

The new vehicle emission laws in Europe and China are driving demand for both commodities and this is expected to continue in the foreseeable future. We are slightly more inclined towards rhodium because it is scarcer, with lower extraction rates from PGM ore. The primary production of rhodium is somewhat inelastic and is expected to decline moderate moderately over the medium term. Palladium funds gained northwards of 7.5% during September.

Direct commodities ETFs performance (share price returns annualised for periods of more than one-year %)



	GLD	NGPLT	NGPLD	ETFGLD	ETFPLD	ETFPLT	ETFRHO
1-month	-3.1%	-4.5%	8.0%	-3.1%	7.8%	-4.5%	3.0%
YTD	21.7%	19.0%	39.2%	22.0%	39.3%	18.9%	123.6%
5-year	10.0%	-2.5%	20.9%	10.1%	20.8%	-2.5%	0.0%