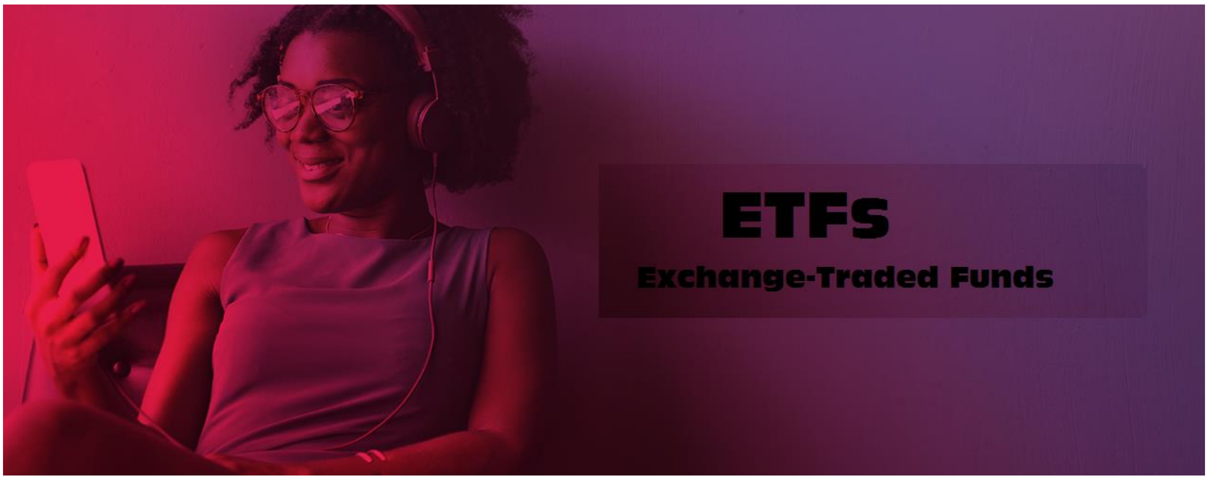


July 2019

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!

IN THIS ISSUE:

What happened in the markets in June?

- Fitch Ratings, Moody's and Business Unity South Africa issue credit warnings on SA
- The South African Reserve Bank and the US Fed cut interest rates
- China and the US trade relations sour further

Our favourite ETFs

- Domestic equities: Satrix SA Quality ETF
- 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 and Ashburton World Government Bond ETF (long term)
- Dividend/income funds: Stanlib SA 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.

Phibion Makuwerere, 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 that weights of different asset classes in your portfolio meet your unique risk-and-return

What's happened in the markets?

Financial markets were subdued in July. The equally weighted portfolio of JSE-listed ETFs shed 0.8% while the Intellidex portfolio gained a pedestrian 0.46% (+10.38% year-to-date, YTD).

Local assets came under pressure as sentiment towards SA deteriorated further amid concerns of a worsening fiscus outlook, heightened political risk underpinned by factional battles within the ANC and no implementation of reforms. Moody's, the only major ratings agency that still grades South African debt higher than junk, warned that National Treasury's plan to double financial support for Eskom was "credit negative". Similar sentiment was echoed by Fitch Ratings which downgraded its outlook for SA. These and other negative events somewhat overshadowed the sentiment-positive repo rate cut by the South Africa Reserve Bank. Local equities suffered the most. The all share index regressed 2.37% with the underperformance noticeably pervasive across all sectors and somewhat pronounced among SA-facing sectors such as financials. Bonds softened marginally. Commodities, particularly the platinum group of metals, performed relatively well.

Growth in international markets slowed as US-China trade tensions escalated and fears of global economic slowdown increased. However, most asset classes delivered positive returns. The MSCI World index jumped 1.2%, thanks to growth in developed markets which more than offset losses from most emerging markets. Global government bond indices posted modest gains.

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.

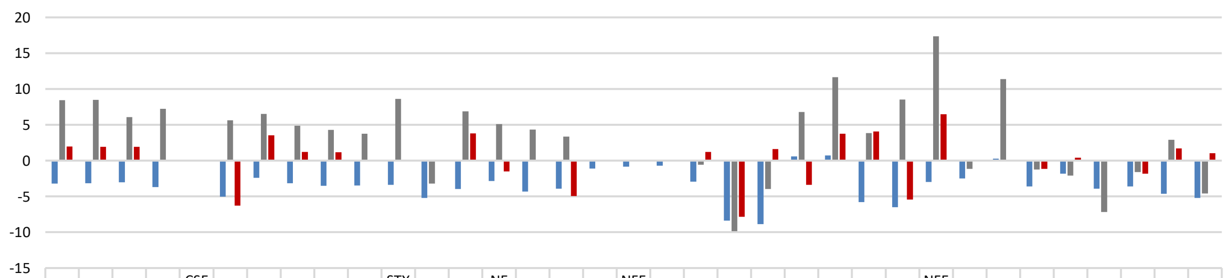
The August favourites:

Domestic equity: Satrix SA Quality ETF

SA's outlook remains weak and the political economy is in too much discord to inspire investor confidence. As such, sticking with tried-and-tested stocks is important. The Satrix SA Quality ETF selects constituent companies using a set of quality metrics, including return on equity, liquidity and leverage. Such stocks tend to be resilient to economic shocks and volatility. The ETF declined 5.22% during July.

There are extensions to this core local equity exposure that can be added for tactical reasons as a satellite fund. The NewFunds Equity fund is worth

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



	ASHT40	STX40	STAN40	SYGT40	CSEW40	NFSH40	NFSWIX	STXSWX	STANSX	SYGSW4	STXMMT	STXQUA	STXRAF	NEWFSA	CTOP50	GIVISA	NFEHGE	NFEMOD
1-month	-3.2	-3.1	-3.0	-3.7		-5.0	-2.3	-3.1	-3.5	-3.4	-3.3	-5.2	-3.9	-2.8	-4.3	-3.9	-1.0	-0.8
YTD	8.45	8.49	6.09	7.23		5.61	6.51	4.88	4.29	3.75	8.63	-3.2	6.87	5.12	4.32	3.36		
5-year*	1.97	1.95	1.91			-6.3	3.52	1.24	1.18				3.79	-1.5		-4.9		

	NFEDEF	ASHMID	GIVFIN	STXFIN	GIVIND	STXIND	GIVRES	STXRES	NFEMOM	NFEVAL	NFEVOL	PTXSPY	PTXTEN	STXPRO	STPROP	STXDIV	DIVTRX
1-month	-0.7	-2.9	-8.3	-8.8	0.61	0.71	-5.7	-6.4	-2.9	-2.4	0.29	-3.6	-1.8	-3.9	-3.5	-4.6	-5.2
YTD		-0.5	-9.8	-3.9	6.78	11.6	3.82	8.51	17.3	-1.1	11.3	-1.2	-2.0	-7.1	-1.6	2.90	-4.5
5-year*		1.19	-7.8	1.63	-3.3	3.78	4.05	-5.4	6.49			-1.1	0.39	0.00	-1.8	1.70	1.03

**Excludes funds which are less than one-year old*

Local markets: June performance

The average return on local-equity ETFs was -2.88%. The top five performers were commodity ETFs led by Standard Bank Africa Rhodium (+6.96%), Standard Bank Africa Platinum (+6.26%) and Absa NewPlat (+5.82%). Standard Bank Africa Rhodium is now up a staggering 45.85% so far this year.

The Satrix FINI 15 and NewFunds S&P GIVI South Africa Financial ETFs were the laggards with losses of 8.86% and 8.37% respectively. Resources funds, which topped the performance table in June, were among July's worst performers. Satrix Resi shed 6.49% (YTD: +8.51%) while the NewFunds S&P Givi South Africa Resources ETF fell 5.78% (YTD: +3.82%).

International markets: June performance

JSE ETFs tracking international equities and bonds fared better than their counterparts that track domestic stocks. Cloud Atlas Africa Real Estate ETF, which tracks property stocks in Africa excluding SA, had the best performance with a return of 17.32%. The fund is now up 11.08% this year. Stanlib S&P 500 Info Tech Index Feeder came second with a return of 6.58% (year-to-date: +32.3%). Cloud Atlas AMI Big50 ex-SA ETF, was the worst performer with a loss of 10.4% followed by Sygnia EU (-2.8%) and Sygnia UK (-2.5%).

considering. It has performed ahead of other equity funds under both market extremes in the past two months. However, the sample period is too short to draw strong conclusions.

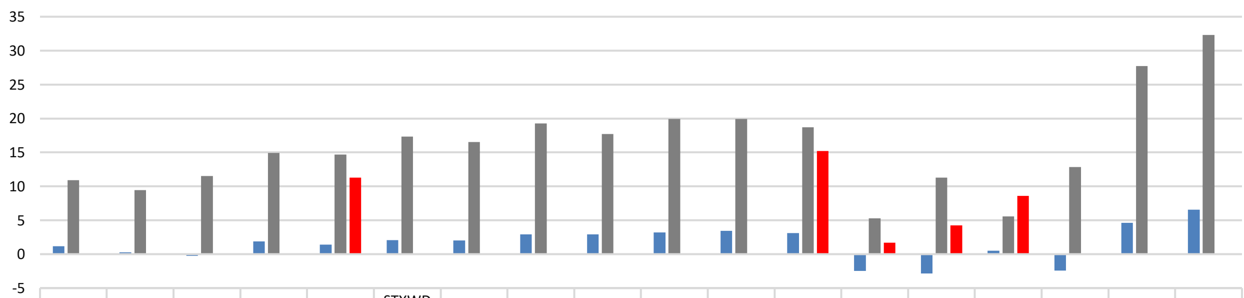
Developed markets Foreign equities: Satrix MSCI World ETF

As For core international exposures we like the Satrix MSCI World Equity Feeder ETF (up 2.06% in July and 17.33% up YTD) and the Ashburton Global 1200 Equity ETF (up 1.88% and 14.9% up YTD) due to their extensive geographic diversification. Satrix MSCI World beats Ashburton Global 1200 Equity ETF on costs. Other more focused international equity themes include property and technology funds. These are worth considering for tactical or other investor-specific reasons.

Developing markets foreign equities: Satrix MSCI Emerging Markets ETF

We Here we choose the Satrix MSCI Emerging Markets ETF (-1.25% and 6.29% up YTD) as our core portfolio for developing markets exposure. It invests in a wide range of emerging economies including some of the fastest-growing markets like China and India. The Cloud Atlas AMI Big50
(-10.4%), which focuses on African equities, can

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	1.17	0.28	-0.26	1.88	1.42	2.06	2.04	2.92	2.92	3.20	3.46	3.11	-2.48	-2.85	0.49	-2.44	4.62	6.58
YTD	10.89	9.45	11.51	14.90	14.70	17.33	16.54	19.25	17.70	19.93	19.93	18.70	5.26	11.26	5.55	12.84	27.74	32.30
5-year*					11.27							15.20	1.70	4.25	8.61			

**Excludes funds which are less than one-year old*

The performance of international assets was shaped by numerous factors including a rate cut cycle which is in motion for many economies, US-China trade relations, Brexit and economic data from some major economies. The US Federal Reserve followed many other central bankers and delivered a widely expected interest rate cut on the last day of July.

The European Central Bank gave strong hints that an easing package is on the way. The EU concluded nominations of its leaders for many of the top jobs in Brussels. Perhaps the most consequential outcome for investors was the nomination of Christine Lagarde to take over from Mario Draghi as ECB leader at the start of November. Lagarde is largely viewed as dovish and hence is expected maintain the accommodative stance on monetary policy.

In the UK, the appointment of Borris Johnson as British prime minister saw the pound coming under pressure as investors fret over the likelihood of a no-deal Brexit. The US economy grew an annualised 2.1% in the second quarter of 2019, ahead of an expected 1.8%, following a 3.1% uptick in 2019Q1. Contrarily, China's GDP growth in the second quarter slowed to 6.2%, its lowest growth since 1992.

Final thoughts

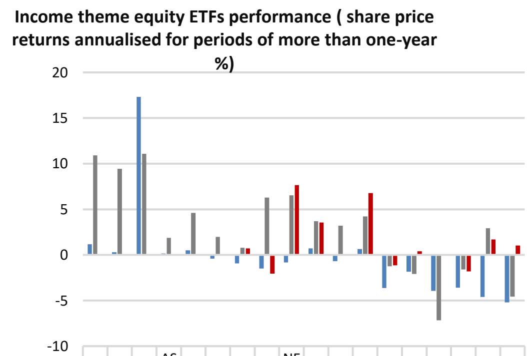
We are seeing the following key themes playing out in the markets: slow economic growth; low inflation; and lower interest rates. For SA, sentiment remains on the ropes because of the following factors:

- Extremely low economic growth with limited hope for positive per capita GDP growth, compounded by global growth issues and risk narratives;
- The sharp weakening of the rand;
- A sense that no reform is occurring, and politics and political egos are trumping rational and necessary policy making;
- A view that the government is not doing anything in response to the crises of low growth and rising unemployment;

be used as a satellite fund to the core Satrix MSCI Emerging Markets fund. as a satellite fund to the core Satrix MSCI Emerging Markets fund.

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 pay-out ratios. We maintain our choice of the Stanlib SA Property ETF (-3.59% and -1.62% YTD). The Stanlib fund boasts the lowest TER in the segment. For foreign property funds, the Sygnia Itrix Global Property ETF (+0.28% and +9.45% YTD) is the cheapest in this category.



	GLPROP	SYGP	AMIRE	ASHWGB	DCCUSD	ETFGB	ASHINF	PREFTX	NFGOVI	NFILBI	STXILB	NFTRCI	PTXSPY	PTXTEN	STXPRO	STPROP	STXDIV	DIVTRX
1-month	1.1	0.2	17.	0.1	0.5	-0.	-0.	-1.	-0.	0.7	-0.	0.6	-3.	-1.	-3.	-3.	-4.	-5.
YTD	10.	9.4	11.	1.8	4.6	1.9	0.7	6.2	6.5	3.6	3.1	4.2	-1.	-2.	-7.	-1.	2.9	-4.
5-year*							0.6	-2.	7.6	3.5		6.7	-1.	0.3	0.0	-1.	1.7	1.0

**Excludes funds which are less than one-year old*

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 (-0.76% and +5.14%) is more conservative, usually suitable for older savers. Mapps Growth ETF (-1.72% and +6.17%) suits investors with a longer-term horizon.

- The view that prescribed assets (using pensions to fund public debt), national health insurance and land reform etc all skew risks to the downside;
- Increasing despair at the lack of action over Eskom; and
- A Moody's downgrade of SA's credit rating looking more and more likely

Given this backdrop, local assets are likely to be under pressure in the coming months. On the international markets, asset prices are likely to be supported by accommodative monetary policies. However, we expect to see some volatility being driven by the trade tensions between the US and China. This outlook argues for a balanced portfolio with local and offshore assets. Tactically, investors can go overweight in dividend-focused ETFs, quality ETFs and foreign ETFs.

Bond and cash funds

Bonds should find their way into a well-diversified portfolio due to their risk-diversification attributes. If you are investing for a very short period, usually less than a year, then the NewFunds TRACI 3 Month (0.63%) is a natural choice because it is least sensitive to sudden adverse interest rate movements. You can also park your funds in a money market fund if you've a lump sum that you wish to put down as a deposit for big-ticket item purchases like a house or car while you shop around. It's a better option than putting money in a current account that does not earn real interest.

For a longer investment horizon, protecting your investment against inflation is paramount. We maintain our choice of the Satrix ILBI ETF (-68% and +319%), 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.

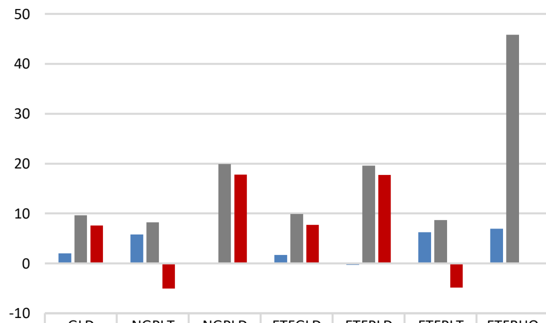
As with equities, investors also need to diversify their bond portfolios internationally. Our choice is the Stanlib Global Bond ETF (-0.42% and +1.96% YTD) which tracks investment-grade sovereign bonds mostly issued by the US, UK, Japan and selected European countries. The Stanlib Global Bond ETF has the lowest TER in this category.

Commodities: Standard Bank Africa Rhodium ETF

Adding a commodity ETF to your portfolio improves diversification because commodities march to the beat of their own drum when compared with broad markets, which makes them an excellent portfolio diversifier. 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 moderately over the medium term.

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



	GLD	NGPLT	NGPLD	ETFGLD	ETFPLD	ETFPLT	ETFRHO
1-month	1.98	5.82	0.03	1.71	-0.31	6.26	6.96
YTD	9.61	8.26	19.88	9.92	19.59	8.67	45.85
5-year*	7.58	-5.03	17.80	7.71	17.72	-4.88	

**Excludes funds which are less than one-year old*

***Important note: This ETF does not qualify for a tax-free savings account*.**