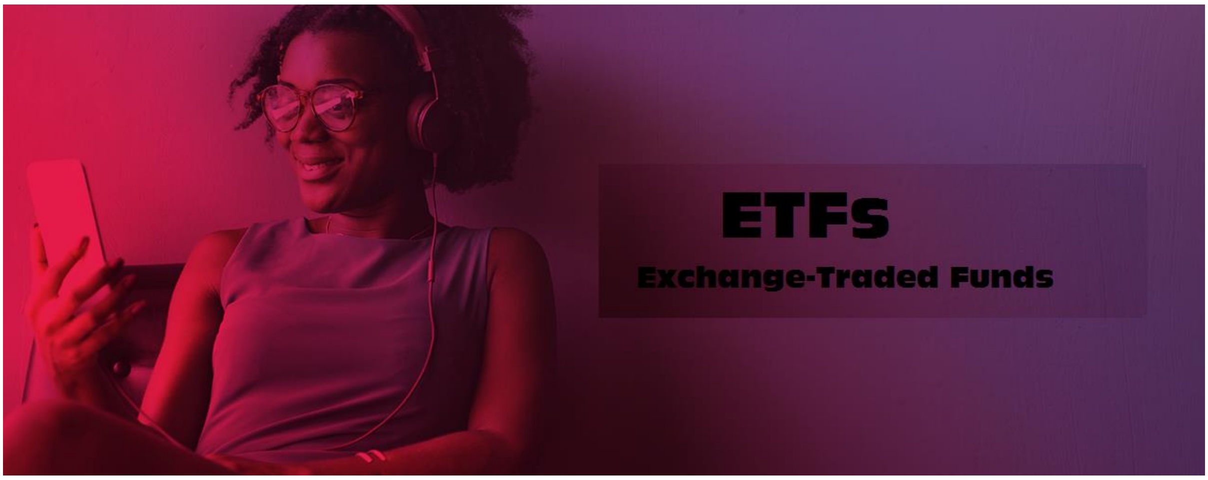


May 2019

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 April?

- ANC wins the majority vote and the market now waits for it to deliver on growth
- New round of tariff hikes raises the ante in the trade war between the US and China

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. We then add a category for equity ETFs with an income theme.

What's happened in the markets?

We delayed releasing this note because of two important events which took place last week: the South African elections and the outcome of the US-China trade talks. On one hand, the election results where the ANC claimed 57.5% of the vote at national level were greeted warmly by local investors with South African banks and retailers benefiting from the positive sentiment. On the other hand, US President Donald Trump raised the ante on trade talks with China, turning the global markets into their gloomiest state for months. For most major global markets, the week ending May 10 was their worst so far this year.

The month of April produced some of the best equity performances in recent memory both at home and offshore, in keeping with the momentum since the beginning of the year. Some US equity indices even hit their historical highs. Two weeks into May, this seems like a distant memory as the two superpowers go at it on tariffs and global markets have given up a chunk of their gains since the beginning of the year. The US raised tariffs on $200bn worth of Chinese goods in the middle of two-day trade talks, while China reciprocated on $60bn worth of US goods, effective 1 June. What's confounding is that both parties say the talks ended on a "constructive" note and promised to meet again but no date was set for the next meeting. Meanwhile the US has threatened a further round of tariffs on the remaining $300bn worth of Chinese imports if an agreement is not reached in the coming month. At best the markets will remain

Our picks should provide an investor with a relatively diversified portfolio, even if it is 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 objectives. Multi-asset ETFs, which are already diversified among asset classes, are analysed as a separate category.

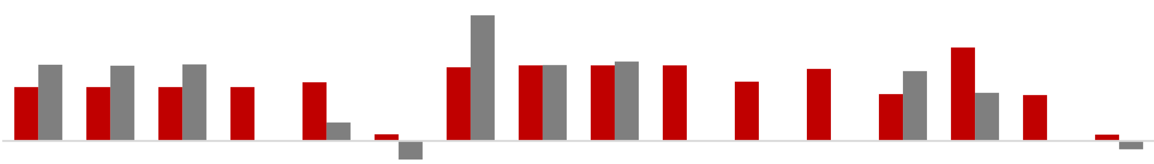
As a rule of thumb, we like ETFs that follow a simple but watertight investment philosophy. They should also be tax smart, which means they should qualify to be in a tax-free savings account. To avoid overconcentration, a good ETF should cap its exposure to a single sector and/or a single counter. While ETF costs are still coming down as competition among local providers intensifies, 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 May favourites:

Domestic equity: Satrix SA Quality ETF

The uncertainty building before the announcement of the new cabinet and the trade war between China and the US means investors should park their money in quality assets. The Satrix SA Quality ETF remains our preferred choice. The ETF selects constituent companies using a set of quality metrics, including return on equity, liquidity and leverage.
Empirical evidence shows that portfolios created on factors such as profitability and earnings quality generate high risk-adjusted returns relative to a

Domestic equity ETFs performance (returns in %)
(annualised for period longer than one-year)



	ASHT40	STX40	STAN40	SYGT40	CSEW40	NFSH40	NFSWIX	STXSWX	STANSX	SYGSW4	STXMMT	STXQUA	STXRAF	NEWFSA	CTOP50	GIVISA
1-month	4.52%	4.52%	4.51%	4.52%	4.93%	0.56%	6.18%	6.33%	6.35%	6.33%	4.97%	6.04%	3.93%	7.84%	3.84%	0.54%
5-year	6.39%	6.31%	6.42%	0.00%	1.55%	-1.55%	10.56%	6.38%	6.66%	0.00%	0.00%	0.00%	5.85%	4.05%	0.00%	-0.69%

subdued; at worst, we will be faced with a massive rout.

SA markets: April performance

In April the all-share index rose 3.66%, propelled by local retailers (up 10.01%) and banks (+6.82%) on the back of an anticipated ANC election victory. In an April UBS report, SA-focused stocks were expected to benefit if ANC won the election by at least 55% of the vote.

Little wonder that the best-performing local equity ETFs were NewFunds SA (+7.84%) and Satrix Fini (+7.46%), which have huge financial and retail exposure. Swix-weighted funds also did well. The equally weighted portfolio of JSE listed ETFs, excluding commodity ETFs, rose 2.53% while Intellidex's portfolio was up 2.25%.

However, this month has started on the back foot with top resources stocks shedding 4.63% by close of business on 10 May. With the renewed global trade tensions, market gains since the beginning of the year are under threat.

For post-election SA, what comes next in terms of policy will be important in driving growth and markets. Intellidex's head of capital markets research, Peter Attard Montalto, says President Cyril Ramaphosa will need to effectively deploy political capital to boost growth.

This rings true as the SA economy remains on murky grounds. Manufacturing and mining activity for March were poor, compounded by the

market portfolio. However, the size of the premium varies, depending on the metrics used to calculate the quality score. The Satrix fund is a good bet in a volatile local equity market. It rose 6.09% during April.

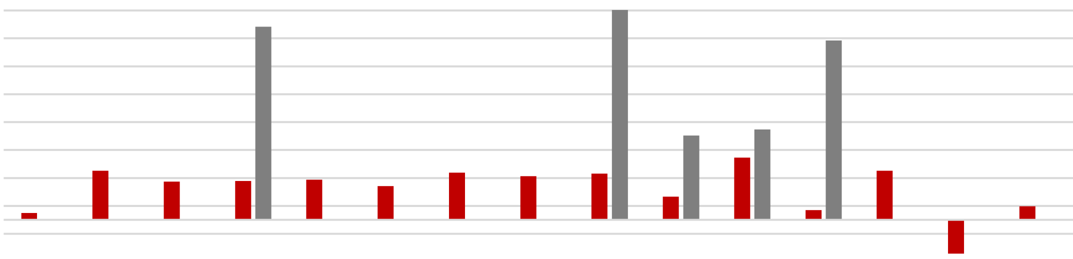
Investors should also consider the smart beta funds recently launched by Absa. These ETFs manage volatility and drawdowns and aim to address the issue of high short-term volatility displayed by general equity ETFs that are weighted by market capitalisation. However, they accumulate higher trading costs as they are regularly rebalanced, thus they have relatively high total expense ratios.

Foreign equities developed markets: Satrix MSCI World ETF

In this category we like the Satrix MSCI World Equity Feeder ETF (up 3.12% in April) and the Ashburton Global 1200 Equity ETF (up 2.74%). They diversify their exposure across the US, Europe, Japan, Canada and Australia. With more than half of the funds invested in US stocks, investors will still have substantial exposure to the US.

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.

International equity ETFs performance (returns in %)



	GLPROP	SYGP	ASHGEQ	SYGWD	STXWDM	CSP500	SYG500	STX500	SYGUS	SYGUK	SYGEU	SYGJP	SYG4IR	AMIB50	STXEMG
1-month	0.49%	3.51%	2.74%	2.78%	2.87%	2.41%	3.39%	3.12%	3.30%	1.65%	4.45%	0.69%	3.51%	-2.42%	0.96%
5-year	0.00%	0.00%	0.00%	13.83%	0.00%	0.00%	0.00%	0.00%	17.51%	6.05%	6.47%	12.84%	0.00%	0.00%	0.00%

resumption of loadshedding. It is therefore encouraging that Ramaphosa is expected to reinstate a policy and research advisory unit in the presidency. The initiative is meant to give him a clear line of sight over the government, particularly the design and implementation of economic and investment policies.

In the short term we think trading on the local bourse will remain thin – as has been the theme since the beginning of the year – as the market awaits reforms and cabinet appointments and observes political machinations within ANC.

In commodity markets, platinum (+6.2%) is turning a corner as supply is tightening. In contrast rhodium tanked 9.23%. Against this backdrop, the Absa New Platinum ETF rose 3.41% while Standard Bank Africa Rhodium ETF lost 9.99% in April.

International markets: April performance

Most global equity indices performed well in April. Notably, Germany's Composite Dax index climbed 7.26% followed by Japan's Nikkei 225 (up 4.97%) and the Nasdaq composite (+4.74%).

The best-performing international equity fund listed on JSE, the Stanlib S&P 500 Info Tech Index Feeder, increased 5.46%, helped by better-than-expected reported average earnings in the tech sector.

However, the trade tensions between the US and China have acted as a reset button and since the beginning of May, most indices are in the red. This has seen the most anticipated IPO of the year, Uber on 10 May, recording the worst performance of any IPO on its first day of trading in recent memory.

The markets will remain skittish until the trade impasse between China and the US is resolved. This makes the case for ETFs more compelling as they are more likely to perform better during periods of high market volatility.

Foreign equities, developing markets: Satrix MSCI Emerging Markets ETF

The choice in this segment is limited to two funds: Satrix MSCI Emerging Markets (+0.96%) and the Cloud Atlas AMI Big50 (+5.44%). Unlike the Cloud Atlas fund which invests in African stocks only, the Satrix fund invests in a wider range of emerging economies, including some of the fastest-growing markets such as China and India. In addition, the fund is the cheapest within its category with a TER of 0.4%.

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. We maintain our choice of the **Stanlib SA Property ETF** (+1.07%). The Stanlib fund boasts the lowest TER in the segment. For foreign property funds, the **Sygnia Itrix Global Property ETF** (+3.51%) is the cheapest in this category.

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 (0.64%) 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 (+3.37%), 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 (-1.29%) which tracks investmentgrade 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.

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 (+3.91%) is more conservative, usually suitable for older savers. Mapps Growth ETF (+5.17%) suits investors with a longer-term horizon.

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 excellent portfolio diversifiers.

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. However, gaining exposure to both commodities is not a bad idea.

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