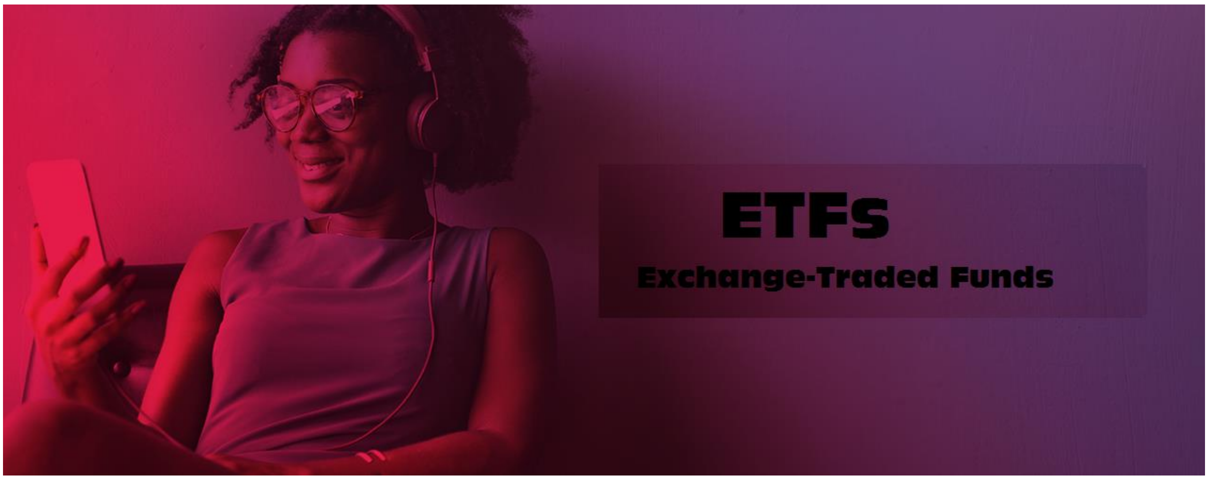


October 2018

The ETF Monthly 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's happened in the markets?

- Nhlanhla Nene loses the finance minister post for the second time in three years.
- South African economy remains weak
- The JSE suffered a sell-off in September
- A global equities market correction is brewing

Our favourite ETFs

- Domestic equities: CoreShares Equally Weighted Top 40 ETF
- Foreign equities: Satrix MSCI World ETF and Satrix MSCI Emerging Markets
- Bonds & 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: Satrix Property 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 five broad categories:

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

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

What's happened in the ETF market?

In September JSE-listed ETFs gave up gains made in the prior month. An equally weighted portfolio of non-commodity JSE-listed ETFs lost 2.87%, with most of the damage emanating from ETFs that derive their constituents locally. International asset ETFs were down marginally by 0.53%. Intellidex's September selection of seven equally-weighted ETF portfolio lost 1.97% (or 1.66% including cash).

Local markets

The local bourse came under pressure during September, losing a staggering 5.05% on the back of major losses in industrial stocks (down 8.17%) and financials (down 3.14%). The industrial index and JSE top 40 vanilla market-cap based ETFs felt the pain of overexposure to Naspers, which was under pressure given that its main asset, Chinese internet company Tencent, is being hit by negative regulatory developments and suffered its worst growth metrics since it listed in 2004. Poor macroeconomic indicators released during September also weighed down the equities market.

Most local funds were in the red and an unlikely top performer was the CoreShares PrefTrax fund, which gained 5.58%.

SA is experiencing an economic recession for the first time since 2009. Both the decision to keep

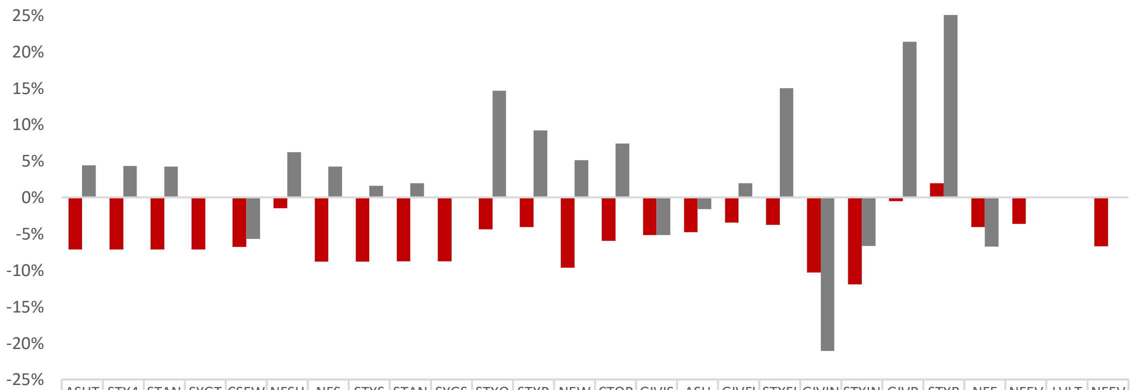
further split equities into geographic groupings. We then add a category for equity ETFs with an income theme.

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 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.

Domestic equity ETFs return in %



	ASHT 40	STX4 0	STAN 40	SYGT 40	CSEW 40	NFSH 40	NFS WIX	STXS WX	STAN SX	SYGS W4	STXQ UA	STXR AF
September	-7.14	-7.14	-7.16	-7.15	-6.78	-1.50	-8.81	-8.82	-8.80	-8.79	-4.39	-4.09
1-year	4.40%	4.31%	4.24%	0.00%	-5.70	6.22%	4.23%	1.59%	1.95%	0.00%	14.62	9.18%

	NEW FSA	CTOP 50	GIVIS A	ASH MID	GIVFI N	STXFI N	GIVIN D	STXIN D	GIVR ES	STXR ES	NFE MOM	NFEV AL	LVLT RX	NFEV OL
September	-9.67	-5.96	-5.16	-4.79	-3.45	-3.75	-10.3	-11.9	-0.52	1.94%	-4.07	-3.64		-6.71
1-year	5.10%	7.38%	-5.16	-1.62	1.96%	14.99	-21.0	-6.69	21.36	28.33	-6.74	0.00%		0.00%

rates unchanged by the Reserve Bank and the R50bn stimulus package announced by President Cyril Ramaphosa failed to inspire enthusiasm in the market.

Prospects remain bleak. We do anticipate a rate hike in November, while the Absa Purchasing Managers' Index, an important measure of confidence in the economy, remained below the positive threshold for two consecutive months, dashing hopes of meaningful economic recovery for 2018.

We forecast that the economy will grow by 1% this year but with significant risks to the downside. Intellidex believes that the economy will struggle to grow above 2% in the medium run, unless structural issues impeding the economy are addressed.

New Finance Minister Tito Mboweni meets our key test of someone who will enable and defend National Treasury staff and its core conservatism. But we do not see much beyond that to inspire growth before the 2019 elections. Given this backdrop, local equities and thus local-asset based ETFs are likely to remain under pressure in the short term.

The September favourites:

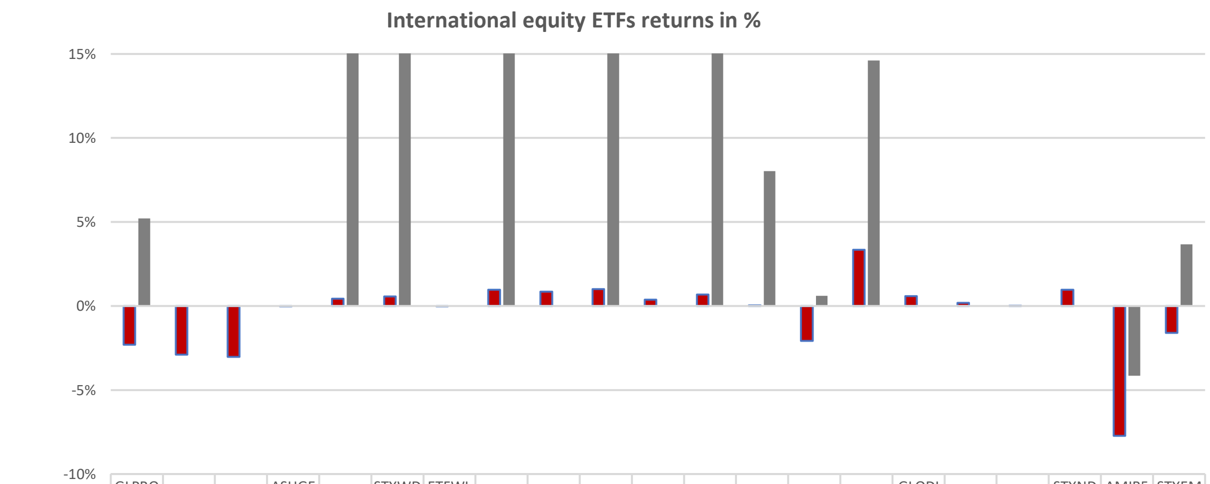
Domestic equity: CoreShares Equally Weighted Top 40 ETF

We maintain our pick of the CoreShares Equally Weighted Top 40 ETF for domestic equities.

The CoreShares Equally Weighted Top 40 ETF is better diversified than most of its top 40 peers, which are concentrated in a few large counters. For instance, Naspers, which accounts for more than a fifth of the top 40 index, pulled back significantly during September which had a pronounced adverse effect on market-cap weighted top 40 funds. The CoreShares Equally Weighted Top 40 ETF overcomes this by investing equally in all 40 constituents. The fund declined 6.78% during September.

Foreign equities developed markets: Satrix MSCI World ETF

The international equities offering of the JSE has been expanding. It started off with broad-based themes but now includes property funds and, more interestingly, technology funds. These focused themes are worth looking at but our fund in the



	GLPROP	SYGP	ETFGRE	ASHGEQ	SYGWD	STXWDM	ETFWLD	CSP500	SYG500	STX500	ETF500	SYGUS	SYGUK	SYGEU	SYGJP	GLODIV	SYG4IR	ETF5IT	STXNDQ	AMIB50	STXEMG
September	-2.31%	-2.90%	-3.03%	-0.01%	0.44%	0.57%	-0.01%	0.97%	0.85%	1.01%	0.37%	0.68%	0.04%	-2.07%	3.34%	0.59%	0.18%	0.02%	0.97%	-7.73%	-1.60%
1-year	5.22%	0.00%	0.00%	0.00%	16.86%	16.02%	0.00%	23.27%	0.00%	22.52%	0.00%	22.84%	8.02%	0.60%	14.61%	0.00%	0.00%	0.00%	0.00%	-4.16%	3.67%

International markets:

Except for Japanese equities, global equities were largely flat during September. The Sygnia/Itrix MSCI Japan ETF gained 3.34%. In September Prime Minster Shinzo Abe – who came into power in 2012 on the promise of massive stimulus to the economy – was re-elected as president of the ruling Liberal Democratic party, putting him on track to become Japan's longest-serving premier. So far Japan has weathered the trade war storm reasonably well and posted economic growth of 3% in the second quarter, its strongest growth in two years. Both manufacturing and services purchasing managers' indices showed healthy growth in August. Furthermore, Abe and US President Donald Trump have agreed to start trade negotiations

The US Federal Reserve hiked its core interest rate by another 0.25%, as expected by the market. But as we write this report 11 days into October, the global marketplace look quite different from what it did at the end of September. A rout on global equities has begun on fears that the strong economic data that the US keeps churning out will see accelerated rate hikes. Plus, the Trump-sparked global trade tensions – especially between US and China –could spur a global economic downturn. However, the US corporate reporting season is imminent and is likely to influence direction of equities. Our own local market is taking cue from global markets and is trading at is weakest level since the beginning of the year. This might present a buying opportunity for a discerning investor.

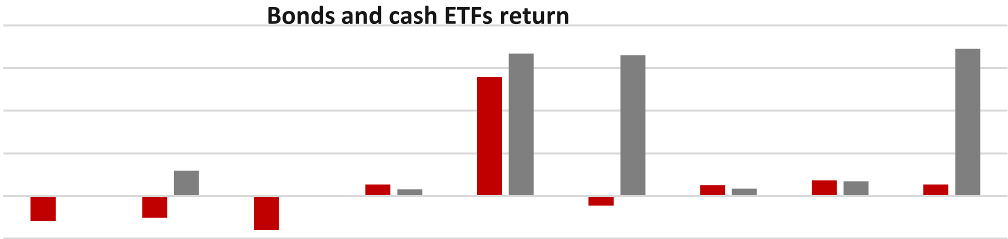
international ETF category is the Satrix MSCI World Equity Feeder ETF. It edged up 0.57% in September.
The Satrix MSCI fund has exposure to the developed markets of the US, Europe, Japan, Canada and Australia.

Foreign equities, developing markets: Satrix MSCI Emerging Markets ETF

The choice in this segment is limited to two funds: Satrix MSCI Emerging Markets (down 1.6% in September) and the Cloud Atlas AMI Big50 (down 7.73% in September). Our choice of the Satrix fund is motivated by its diversification. It provides exposure to high-growth economies such as China and India, which are not included in any of the developed market funds, thus offering further diversification. The Satrix ETF, with a TER of 0.4%, tracks the MSCI Emerging Markets Investable Markets index, which captures companies across 23 countries. The Cloud Atlas AMI Big50 fund, with an African focus, has a higher TER of 0.75%.

Bond and cash funds

Bonds and cash are good additions to portfolios not only because of their diversification qualities but also for their ability to enhance returns. If you are investing for a very short period, usually less than a year, then the **NewFunds TRACI 3 Month** (up 0.54% in September) is a natural choice because it is least sensitive to sudden adverse interest rate movements. It is similar to



	ASHWGB	DCCUSD	ETFGGB	ASHINF	PREFTX	NFGOVI	NFILBI	STXILB	NFTRCI
September	-1.17%	-1.02%	-1.59%	0.54%	5.58%	-0.46%	0.51%	0.73%	0.54%
1-year	0.00%	1.19%	0.00%	0.32%	6.68%	6.61%	0.35%	0.69%	6.91%

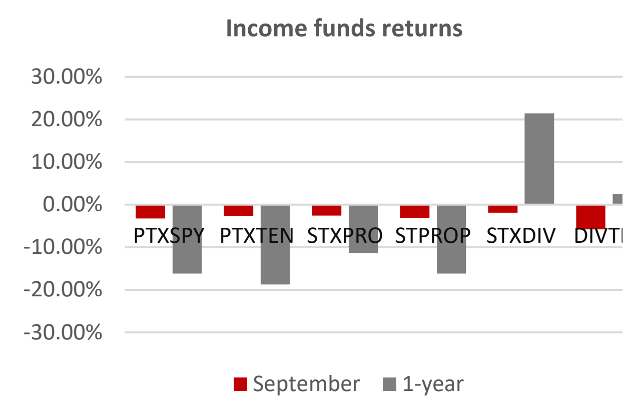
earning interest on your cash at the bank with a minimal possibility of capital loss.

However, for a longer investment horizon, protecting your investment against inflation is paramount. We therefore maintain our choice of the **Satrix ILBI ETF** (up 0.73% in September) 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 we did in equities, you also need to diversify your bond portfolio internationally. We have three options on JSE: Stanlib Global Bond ETF, Ashburton World Government Bond ETF and the FirstRand Dollar Custodian Certificate ETF. We think investors can choose any between **Stanlib Global Bond ETF** (down 1.59% in September) or **Ashburton World Government Bond ETF** (down 1.17% in September). They track investment-grade sovereign bonds mostly issued by the US, UK Japan, and selected European countries. Their TERs differ by just 0.05 percentage points with the Stanlib Global Bond ETF being the cheapest.

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. Naturally, Satrix Dividend Plus and CoreShares S&P South Africa Dividend Aristocrats come to mind here, but similarly, property funds are high dividend payers.



Property funds

There are two investable property indices available: SA listed property and the capped property index. We maintain our choice of the capped fund **Satrix Property ETF** (down 2.54% in September). It has a dividend yield of 6.35% and its TER is expected to be the lowest in the segment. However, investors can also consider foreign property ETFs. The Sygnia **Itrix Global Property ETF** (down 2.9% in September), with a TER of 0.25%, is by far the cheapest of the three.

Multi-asset ETFs

If you find the process of diversifying your portfolio daunting, two ETFs do it for you. They combine equities and bonds to produce a diversified portfolio for two investor archetypes. They are the **NewFunds Mapps Protect ETF** and the **NewFunds Mapps Growth ETF**. They are designed to meet two different risk appetites: Mapps Protect is more conservative, suitable for conservative, usually older, savers. Mapps Growth suits investors with a long-term horizon. They declined 3.45% and 6.63% respectively in September.