Analyst: Sabelo Mnisi

1nvest S&P500 Info Tech Index Feeder Fund (JSE:ETF5IT)

05.06.2023

Fund suitability

This ETF is suitable for investors who seek exposure to offshore info tech stocks.

Fees

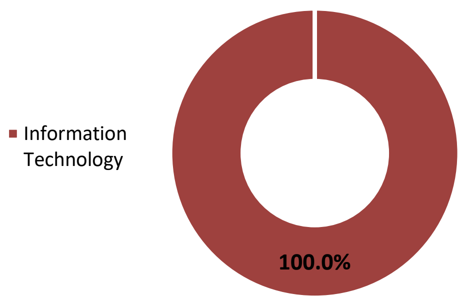
The fund has a total expense ratio of 0.50%.

Alternative funds

None

"Overall, the US tech sector's impressive performance this year is driven by a confluence of factors, which are higher demand for tech, Apple's investment in the US tech industry, as well as prospects for lower interest rates over the medium to long term as inflation cools off."

Sector allocation – top (%)



What's happening in the markets?

US information technology stocks had a difficult year in 2022, dragged down largely by surging inflation as well as high interest rates. As a result, stock prices for big tech companies such as Meta, Amazon and Alphabet dipped by double digits.

Investment environment

The US tech sector has fared better this year, with the S&P 500 Information Technology Index up 35.1% year-to-date and it looks poised to return double-digit growth by the end of 2023. The iShares S&P 500 Information Technology Sector UCITS ETF aims to provide investors with exposure to the US tech sector, as defined by the Global Industry Classification Standard.

The underlying fund of this ETF invests in listed tech companies such as Apple (26.7%), Microsoft (18.4%), Nvidia (10.8%), Broadcom (3.9%), Salesforce (2.6%), Cisco Systems (2.4%), Accenture (2.2%) and Adobe (2.2%).

Apple has a market value of about $2.83tn and its stock is currently trading at about $180.09/share, an appreciation of 44% year-to-date. The surge comes on the back of Apple striking a multiyear deal with Broadcom – a US-based manufacturer of a wide range of semiconductor and infrastructure software products.

Essentially, the agreement entails that Broadcom will supply Apple with various 5G radio frequency components and other wireless connectivity products. This is a positive move for Apple as it will reduce reliance on Chinese manufacturers for supplies of crucial parts and components. Another attractive feature about this deal is that it will help limit the effects of supply chain disruptions that may arise in the future.

Nvidia – a designer and developer of tech hardware such as graphic processing units that are essential for performing high-quality graphics for computers and gaming – is among the tech giants that have pushed the US tech sector upward this year. The company has a market capitalisation of $982.32bn with its stock rising by about 178% this year which, as the third-largest holding, bodes well for this ETF.

Nvidia's core business is designing high-performance chips that are used by artificial intelligence (AI) companies. As a result, excitement about the company began in November 2022 when OpenAI released ChatGPT – an AI-powered chatbot. This prompted other companies to step-up their chatbots.

Nvidia holds over 80% market share in specialist AI chips, according to The Economist. However, this dominance and rosy outlook may invite competition from startups as well as big tech companies and chipmakers such as Intel and Amazon. S&P Dow Jones Indices increased the weighting of Nvidia in the S&P 500 Information Technology Sector UCITS by 6.24% this year.

A significant risk to the AI industry may come from governments and regulators who are concerned about the dangers of AI to society and national security.

Despite this risk, the AI industry is set for growth as it provides a platform for innovative technology. While regulation may reduce this growth, it will in all likelihood not extinguish it completely.

From a macro point of view, the US tech sector is back in favour this year based on a positive outlook on interest rates and inflation. US inflation eased to 4.9% in April, which is a tenth consecutive decline. Speaking at a press conference in May, Federal Reserve Chair Jerome Powell signalled that the Federal Open Market Committee will likely leave rates unchanged in June.

Overall, the US tech sector's impressive performance this year is driven by a confluence of factors, which are higher demand for tech, Apple's investment in the US tech industry, as well as prospects for lower interest rates over the medium to long term as inflation cools off. Although this sector is volatile, it generally outperforms the S&P 500 during upswings. This ETF is suitable for risk-tolerant investors who have a long-term investment horizon. It has a total expense ratio of 0.50%.

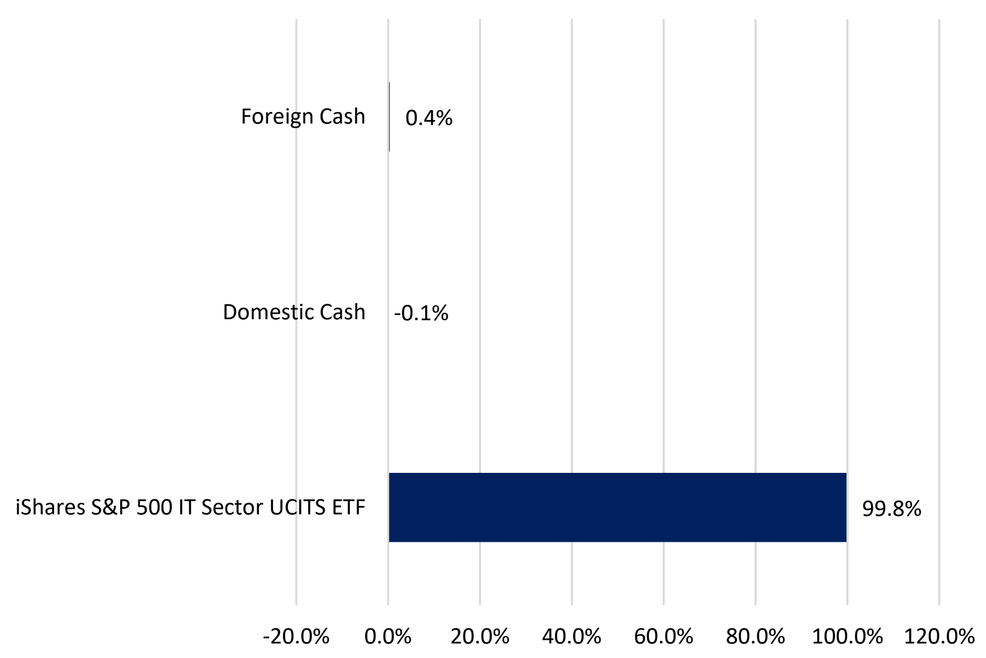
Investment term of the week: Feeder Fund

A feeder fund is a type of investment fund that does most of its investments through a master fund, using a master feeder relationship. It is similar to a strategy called fund of funds, but the main difference is that the master fund does all the investing.

Investment approach and portfolio composition

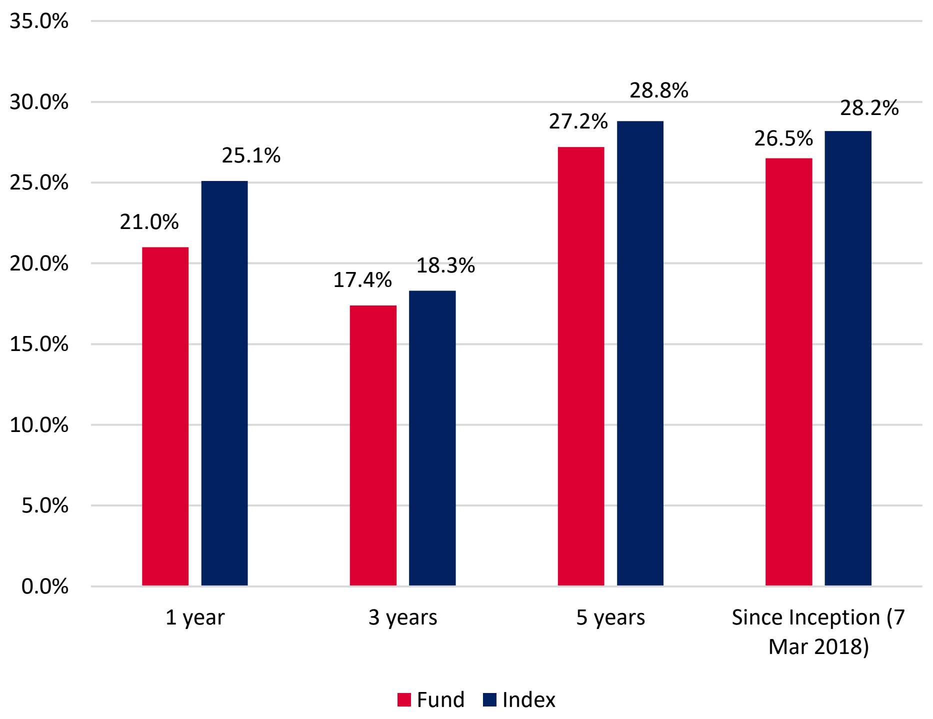
The ETF seeks to track the performance of the S&P 500 Capped 35/20 Information Technology Index by holding the equity securities, which make up the Index, in similar proportions to it.

Top holdings (%)



Performance

Performance to end-April 2023
(annualised for periods longer than one year)



Fund information as at 30 April 2023

Launch date	07 March 2018
Trading symbol (JSE)	ETF5IT
Weighted average market cap.	R296.1m
Total expense ratio	0.35%
Risk rating	High
Benchmark	S&P 500 Capped 35/20 Information Technology Index

Market data: 31 May 2023

Spot price	R20.46
12-month high	R22.50
12-month low	R12.25
Average monthly volume	61,717
Gross dividend yield	N/A