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## 1 Invest SWIX 40 ETF (JSE:ETFSWX)

03.05.2023

### Fund suitability

This ETF suits investors with a high risk appetite seeking exposure to SA equities over a long-term investment horizon.

### Fees

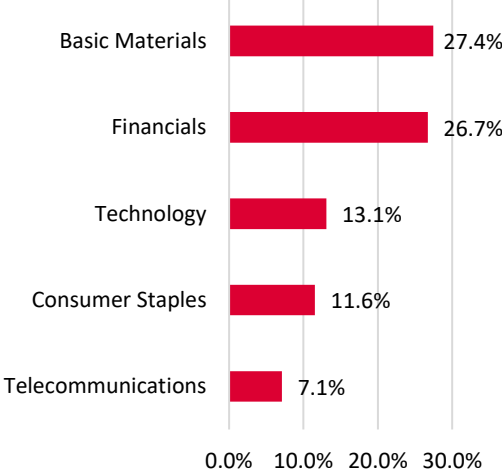
The fund has a total expense ratio of 0.29%.

### Alternative funds

Sygnia Itrix SWIX 40 ETF (0.28%)  
Satrix Swix Top 40 ETF (0.50%)

**“Tracking only the holdings of SA-based investors enables the Swix to reduce the outsized weights of leading shares.”**

### Top countries (%)



The 1 Invest Swix 40 ETF, which is a variation of the traditional top 40 index, tracks the FTSE/JSE Capped Shareholder Weighted (Swix) Top 40 Index.

It does this (using the JSE's share register) by reducing constituent weights held by foreign shareholders. This includes adjustments for intercompany and strategic holdings of the companies in the FTSE/JSE Top 40 index, and therefore represents holdings by SA investors only. The 1 Invest Swix 40 ETF is the capped version of the Swix Top 40 indices tracked by its peers (Satrix and Sygnia Swix Top 40 ETFs).

Tracking only the holdings of SA-based investors enables the Swix to reduce the outsized weights of leading shares. In particular, this was a headache for local investors especially pre-pandemic when tech giant Naspers (that has a 29% stake in Chinese tech company Tencent) dominated local indices with a weighting of 20% or more.

For some context on concentration, Naspers returned 26% to investors in 2019. Of course, this performance benefited investors when the share price was on the rise. However, its share price slumped 18.1% in 2021 when Chinese regulators clamped down on the activities of companies in the tech sector, including Tencent. This is the downside of highly concentrated (and potentially volatile foreign investor) index weightings which the Swix was formulated to solve.

Accordingly, the top 10 company share weights in the 1 Invest Swix 40 ETF, led by Naspers, FirstRand and Anglo American plc, make up only 49.3% of the fund. In contrast, the 1 Invest Top 40's top 10 make up a sizeable 62.5%.

The 1 Invest Swix 40 has a tracking error of 0.2%, which suggests relatively high efficiency at tracking its benchmark. It is also superior to our estimate of the Satrix Swix 40 and the reported Sygnia Itrix Swix 40 figure of 0.3%. Also, the 1 Invest Swix 40 has the highest dividend yield (4.1%), followed by the Sygnia Itrix Swix 40 (3.7%) and the Satrix Swix 40 (3.4%). However, all the ETF dividend yields are below consumer inflation, which came in at a sticky 7.1% annually in March.

Food and non-alcoholic beverage inflation, which accounts for 17% of Stats SA's CPI basket, is the main culprit behind SA's persistent inflation. Data on the food category alone for March show that consumers are paying 14% more for food than they did in March 2022. This increases the likelihood of additional interest rate hikes following the somewhat unexpected 50 basis points increase from the South African Reserve Bank in March. In addition, SA's electricity woes are expected to contribute to stickier inflation which is above the SARB's target band of 3%-6%.

As such, Intellidex economists expect further increases of 50 basis points in May and 25 basis points in July, bringing the repo rate to 8.5%. While higher interest rates increase the cost of credit and existing debt, they can also be beneficial to savers. From an equities perspective, commercial banks have been one of the main beneficiaries of higher interest rates.

A rising repo rate means that banks can charge higher interest rates on new loans (assets for banks) relative to the increased yields they offer on deposits (liabilities for banks). This is a broad definition of net interest income (NII) for banks.

Given that financials make up 26.7% of the fund, we take a closer look at the sector.

The positive effect of the SARB's rate-hiking cycle reflects across the sector. The results of major banks Absa, Standard Bank and Nedbank (FirstRand – interim) to end-December 2022 showed average growth of 7.2% to R298bn in total home loans advanced to customers. Given that home loans are a sizeable chunk of bank balance sheets, the increase in loans advanced positively affected NII which grew an average of 15.3% to R52.9bn across all four banks over the same period.

Conversely, the tough economic conditions ahead, which include higher interest rates, means that banks will face higher default rates and credit losses (impairment charges on loans as a percentage of total loans). The average credit loss ratio for the banks above increased to 84 basis points from 75 basis points previously.

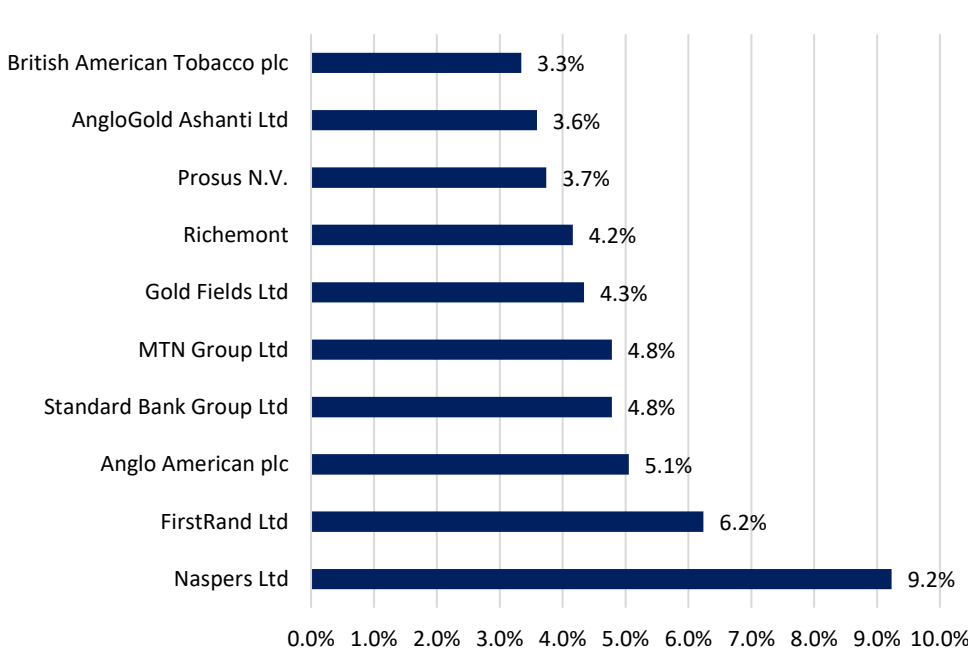
Overall, whether choosing a Swix 40 or Top 40 ETF to gain broad exposure to SA equities, we think that investors should once again consider all ETF holdings from a portfolio perspective.

**Investment term of the week: net interest income:** A profitability measure for banks calculated as the difference between income from interest made on loans (assets) and costs from interest paid on deposits (liabilities).

## Investment approach and portfolio composition

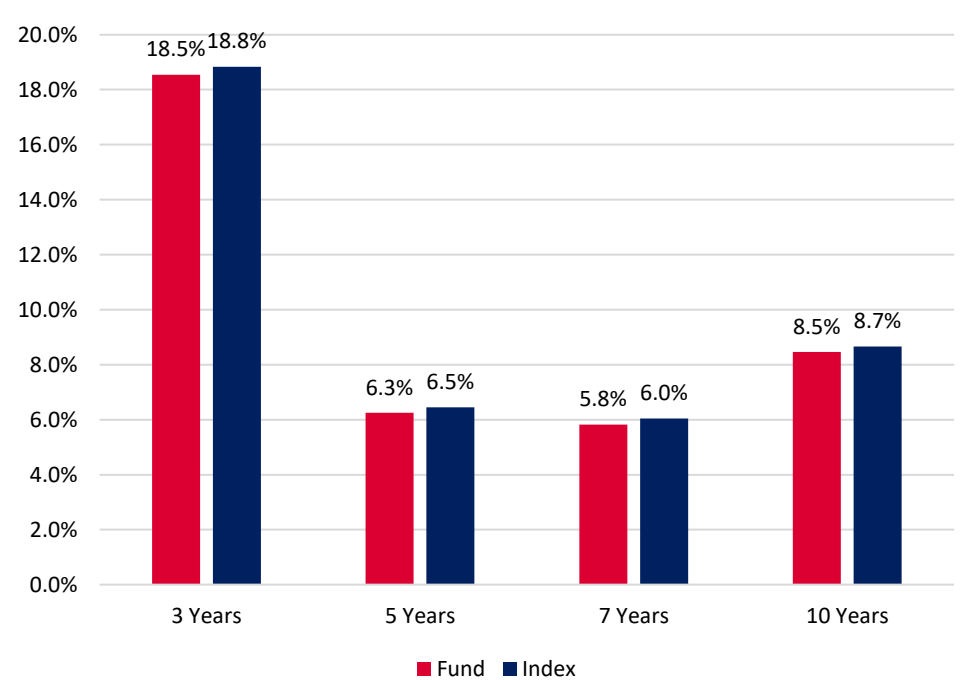
The objective of the 1 Invest SWIX 40 ETF is to track the FTSE/JSE Capped Shareholder Weighted Top 40 Index before fees and expenses.

### Top holdings (%)



## Performance

Fund and index performance to end-March 2023 (annualised for periods longer than one year; with dividends reinvested).



## Fund information: 31 March 2023

Launched on	18 October 2010
Trading symbol (JSE)	ETFSWX
Total assets	R1.54bn
Total investment cost	0.29%
Risk rating	High
Benchmark	FTSE/JSE Capped SWIX Top 40 Index

## Market data: 03 May 2023

Spot price	R13.33
One-year high	R14.35
One-year low	R11.21
Average monthly volume	118,924
Estimated dividend yield	4.1%
Tracking error (3-year)	0.2%

Source: Infront, yahoo finance

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