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CoreShares by 10x Income Actively Managed ETF (JSE:INCOME)

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Fund suitability

This ETF is suitable for investors who seek exposure to sovereign bonds.

Fees

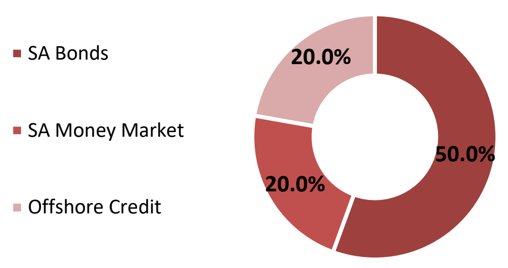
The fund has a total expense ratio of 0.38%.

Alternative funds

None

"We believe that SA bonds remain relatively attractive because they offer a higher yield than developed markets and they have a low risk of default."

Sector allocation – top 3 (%)



What's happening in the markets?

As we approach the midpoint of the year, inflation in SA and across developed markets remains high while GDP growth forecasts look bleak. SA's idiosyncratic risks such as loadshedding, infrastructure bottlenecks and policy uncertainty are a drag on equity returns.

This implies that investors should diversify their portfolios. The newly JSE-listed CoreShares Income Actively Managed ETF aims to provide investors with income and long-term stability through investing in multi-asset classes.

Investment environment

The introduction of actively managed ETFs on the JSE is a positive development for investors as it will provide exposure to flexible investment products that are not constrained to index tracking.

The difference between unit trusts and actively managed ETFs is that the former are priced once per day while the latter are traded on the JSE throughout the day. Unit trusts can be purchased directly from a fund manager or a linked investment service provider, while ETFs are available to any investor who has an online trading account.

The CoreShares Income AMETF invests in SA nominal bonds (35%), the SA money market (20%), SA inflation-linked bonds (15%), SA credit (10%), offshore investment-grade credit (10%) and offshore high-yield credit (10%).

Government bonds are an important part of a country's financial system. The demand for government bonds depends on a multitude of factors, such as political stability, issuer's creditworthiness, liquidity, interest rates, inflation and GDP growth.

Political instability dampens investor confidence, which reduces demand for bonds and increases yield. Bonds typically pay a fixed coupon and as a result, high inflation reduces the real return of coupon payments. There is an inverse relationship between the value of a bond and interest rates. When interest rates increase, bonds decline in value.

Liquidity – the ability to turn an asset quickly into cash at a fair market value - plays a key role in attracting investors. SA's government bonds are among the most traded bonds in emerging markets. GDP growth influences the demand for government bonds. Low GDP growth reduces investors' confidence in government's ability to enact growth-enhancing policies.

A good credit rating is essential to attract capital flows because it is associated with a lower risk of default. There are funds that are mandated to invest only in investment-grade bonds, among other criteria. The FTSE World Government Bond Index measures the performance of fixed-rate, local currency investment-grade bonds from over 20 countries.

SA was welcomed to the index in October 2012, which saw foreign ownership of our bonds rise to 35.18% from 32%, according to RMB. Moody's downgrade of SA ejected our sovereign bonds from the index, which equated to a $5bn selloff. This led to an increase in debt service costs for the government, which means higher yields for investors. S&P downgraded its outlook for SA's debt rating to "stable" from "positive" and maintained its sub-investment rating of "BB-" during an unscheduled rating in early March this year. The backdrop of this decision was "particularly severe electricity shortages."

Moody's has generally been less pessimistic about SA's economy over the last decade. The agency has held SA's credit rating at "Baa2" since November 2020. It also has a stable outlook for SA, which has not changed since April 2022

We believe that SA bonds remain relatively attractive because they offer a higher yield than developed markets and they have a low risk of default.

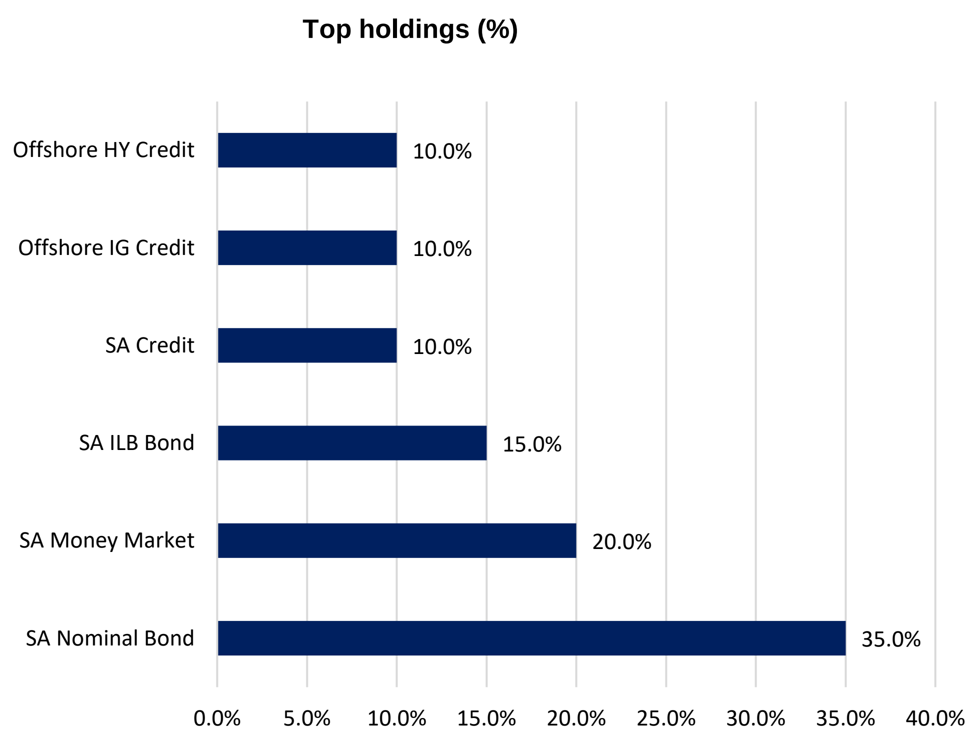
This ETF is suitable for investors who seek regular income and have a medium risk appetite. It comes at a total expense ratio of 0.38%. Back-tested performance by CoreShares shows a 9% annualised return and 2.8% volatility between September 2003 and March 2023.

Investment term of the week: Credit rating notching

It is the practice in which credit rating agencies give different credit ratings to the particular obligations or debts of a single issuing entities. Rating distinctions among obligations are made based on differences in their security or priority of claim.

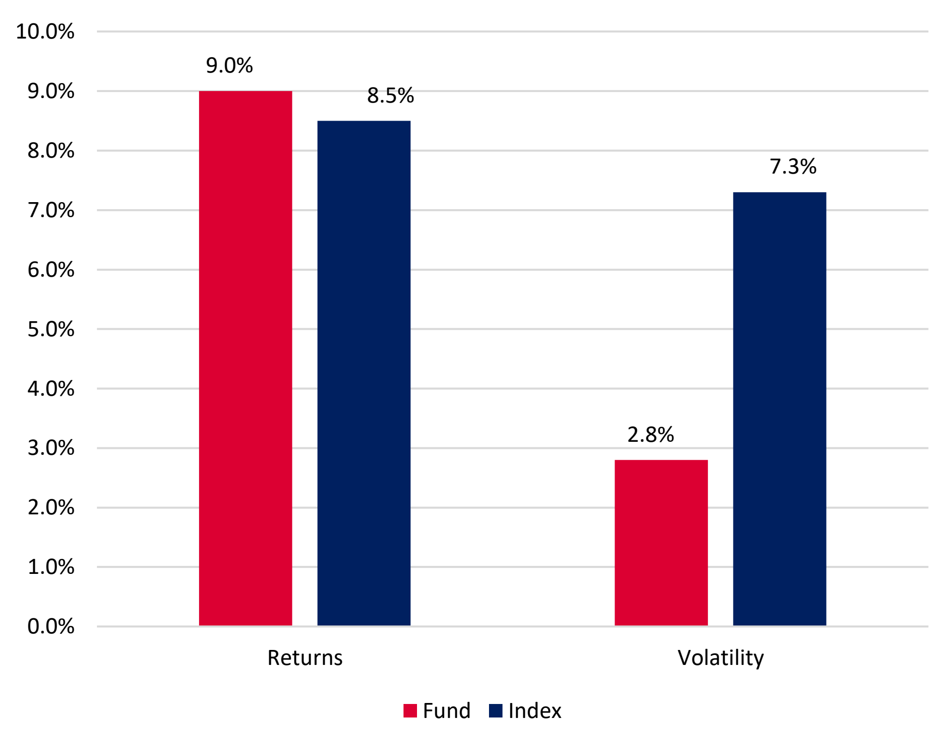
Investment approach and portfolio composition

The CoreShares by 10X Income Actively Managed ETF aims to provide investors with income and long-term stability on capital invested, through investing in multi-asset classes.



Performance

Back-tested performance from September 2003 to end-March 2023 (annualised for periods longer than one year)



Fund information as at 28 April 2023

Launch date	18 May 2023
Trading symbol (JSE)	INCOME
Weighted average market cap.	R500m
Total expense ratio	0.38%
Risk rating	Medium
Benchmark	STeFI Composite +1%

Market data: 25 May 2023

Spot price	R10.06
12-month high	R10.50
12-month low	R10.02
Average monthly volume	N/A
Gross dividend yield	9.2%