

Analyst: Sabelo Mnisi

## Satrix MSCI World ESG Enhanced Feeder ETF (JSE:STXESG)

24.03.2023

### Fund suitability

This ETF is suitable for investors with a high risk appetite seeking exposure to offshore-listed stocks.

### Fees

The fund has a total expense ratio of 0.34%.

### Alternative funds

Satrix MSCI EM ESG Enhanced Feeder ETF (TER:0.39%)

**“Global sustainable fund flows in in Q4-2022 attracted \$37bn (about 50% higher than Q3-2022’s \$24.5bn) of net new money, according to Morningstar.”**

There has been a steady increase over the past decade in the demand for investment funds that incorporate environmental, social and governance (ESG) factors, according to JP Morgan Asset Management.

### Investment environment

There are two main schools of thought that support ESG investing. The first entails risk management while the second focuses on the role of investors in deploying capital for a good cause.

Investors who choose ESG funds as a risk management vehicle look for companies that can manage multiple risks such as sustainability, regulatory and governance risk. Investors who take the second approach feel a sense of responsibility to make a positive contribution to the wider society.

**The Satrix MSCI World ESG Enhanced Feeder** ETF focuses on the first method of risk screening. It includes securities of companies with the highest ESG ratings representing 50% of the market capitalisation in each sector of the MSCI ACWI Index. In addition, companies invested in alcohol, gambling, tobacco, nuclear power, civilian firearms, fossil fuels extraction, thermal coal power and weapons are excluded.

The fund’s investment strategy limits the types and number of investment opportunities available to the fund and, as a result, the ETF may underperform other funds that do not have an ESG focus, thus investors should be wary of missing out on other companies that do not form part of the index.

The worldwide impact investing market is estimated to be \$2.5tn, according to Morningstar. The OECD, in its global outlook on financing for sustainable development 2023 report, states that the sustainability financing gap, or the capital amount needed to achieve the UN’s Sustainable Development Goals, increased 56% to \$3.9tn in 2020 from pre-Covid 2019. This suggests there is room for growth for ESG funds. The Satrix ETF is one of the cost-efficient ways to gain exposure to ESG flows.

Global sustainable fund flows in in Q4-2022 attracted \$37bn (about 50% higher than Q3-2022’s \$24.5bn) of net new money, according to Morningstar. This was amid rising interest rates, high inflation and recessionary fears.

Morningstar noted that there is disparity on the allocation of funds across different regions. Asia (excluding China) saw net outflows while New Zealand and Australia recorded inflows during Q4-2022. Furthermore, Morningstar revealed a trend in Japan which showed that newly launched funds tend to attract inflows. Seven out of the top 10 funds that attracted the most inflows were introduced in 2022.

Europe was the flavour of the quarter, adding \$40bn of fund flows, an 80% increase from Q3-2022. Equity funds were the most preferred asset class, accounting for \$21.1bn of the new funds.

Morningstar expects Europe to continue to dominate sustainable fund flows in 2023.

In contrast to Europe, US sustainable funds had a net outflow of about \$6.2bn

due to poor returns, impending recession and higher risk, according to Morningstar. In addition, concerns about tougher regulation and greenwashing led investors to limit their exposure to ESG funds in the US. Sustainable fixed income funds were preferred to their non-sustainable counterparts in Q4.

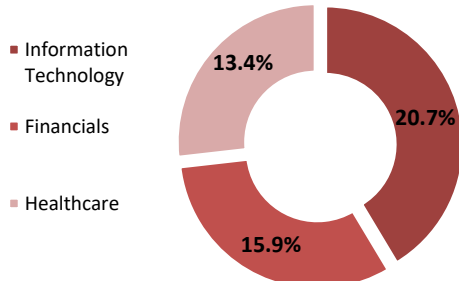
Broadly, this ETF is designed for investors looking to screen out controversial business areas while maintaining a risk profile similar to traditional benchmarks. Investors should therefore carry out a personal assessment of the fund’s ESG screening prior to investing.

This fund tracks the value of the MSCI World ESG Enhanced Focus CTB Index in rands, which includes large and mid-cap stocks globally. It has yielded a 9.84% return since inception just over two years ago. The underlying index has yielded an annualised return of 9.35% over 10 years. The fund has a total expense ratio (TER) of 0.34% per annum, which is lower than the Satrix MSCI EM ESG Enhanced Feeder ETF’s TER of 0.39%.

### Investment term of the week: Greenwashing

Greenwashing is an exaggerated claim about sustainability. It involves making an unsubstantiated claim to deceive stakeholders and investors into believing that a company’s products are environmentally friendly or have a greater positive environmental impact than they actually do.

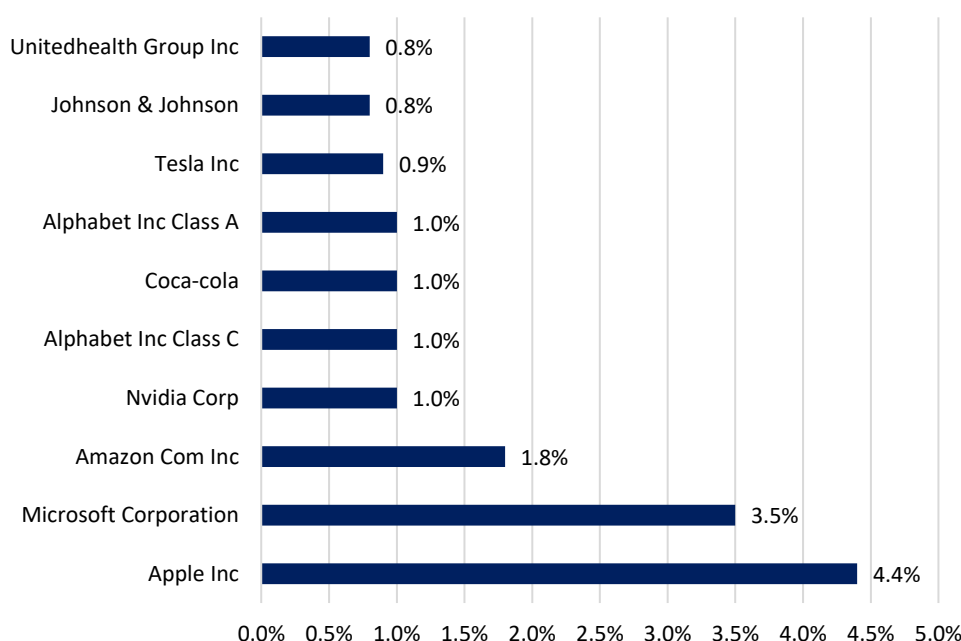
### Sector allocation – top 3 (%)



## Investment approach and portfolio composition

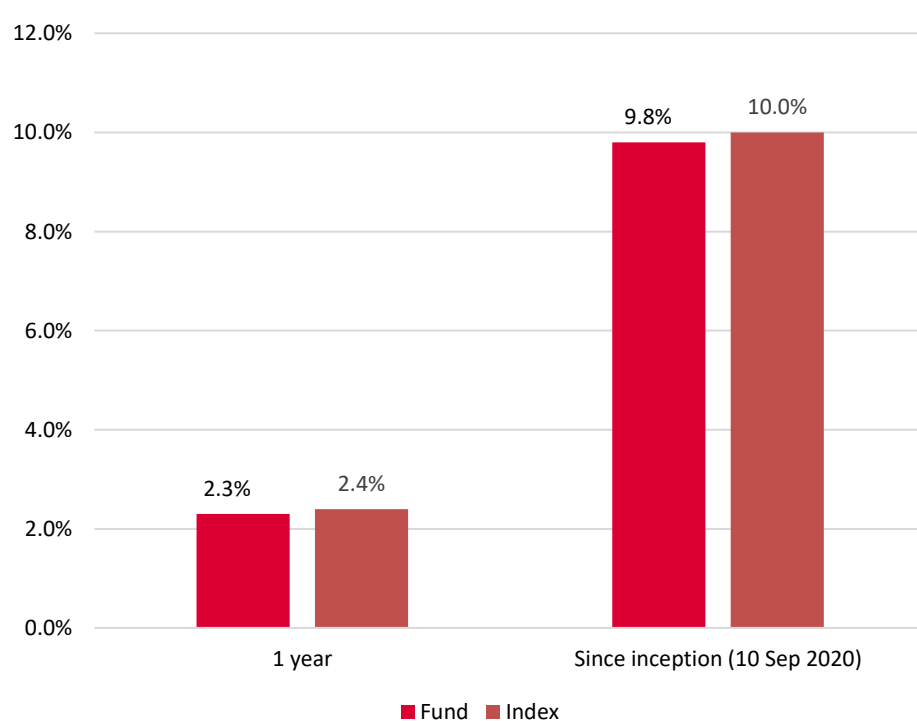
The Satrix MSCI World ESG Enhanced Feeder ETF tracks the value of the MSCI World ESG Enhanced Focus CTB Index in rands, which includes large and midcap stocks globally.

### Top holdings (%)



## Performance

### Index performance to end-January 2023 (annualised for periods longer than one year; with dividends reinvested)



## Fund information as at 31 January 2023

Launch date	10 September 2020
Trading symbol (JSE)	STXESG
Weighted average market cap.	R185m
Total expense ratio	0.34%
Risk rating	High
Benchmark	MSCI World ESG Enhanced Focus CTB

## Market data: 23 March 2023

Spot price	R60.53
12-month high	R63.97
12-month low	R48.31
Average monthly volume	5,479
Gross dividend yield	N/A

Source: Infront, yahoo finance

### Intellidex Disclaimer:

This research report was issued by Intellidex (Pty) Ltd. Intellidex aims to deliver impartial and objective assessments of securities, companies or other subjects. This document is issued for information purposes only and is not an offer to purchase or sell investments or related financial instruments. Nor is it a ratings product or ratings advice.

Individuals should undertake their own analysis and/or seek professional advice based on their specific needs before purchasing or selling investments. The information contained in this report is based on sources that Intellidex believes to be reliable, but Intellidex makes no representations or warranties regarding the completeness, accuracy or reliability of any information, facts, estimates, forecasts or opinions contained in this document. The information, opinions, estimates, assumptions, target prices and forecasts could change at any time without prior notice. Intellidex is under no obligation to inform any recipient of this document of any such changes. Intellidex, its directors, officers, staff, agents or associates shall have no liability for any loss or damage of any nature arising from the use of this document.

### Remuneration:

The opinions or recommendations contained in this report represent the true views of the analyst(s) responsible for preparing the report. The analyst’s remuneration is not affected by the opinions or recommendations contained in this report, although his/her remuneration may be affected by the overall quality of their research, feedback from clients and the financial performance of Intellidex (Pty) Ltd. Intellidex staff may hold positions in financial instruments or derivatives thereof which are discussed in this document. Trades by staff are subject to Intellidex’s code of conduct which can be obtained by emailing mail@intellidex.co.za. Intellidex may also have, or be seeking to have, a consulting or other professional relationship with the companies mentioned in this report.

### Guide to recommendations:

A buy recommendation is made where the target price is 10% above the current price, a sell when it is 10% below the current price, and a hold recommendation when it is within 10% of the current price. The risk measure is a subjective determination guided by the beta of the share price. We also examine the financial and operating leverage of the business. ©This document is copyrighted by Intellidex (save for information contained in this document provided by third parties which may be copyrighted to them) and may not be distributed in any form without the express prior written permission of Intellidex.

### Analyst declaration:

The research analyst who prepared this report (or a member of his/her household) has no financial interest in the securities, or derivatives thereof, issued by this company.