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Satrix Shari'ah Top 40 ETF (JSE:STXSHA)

21.07.2023

Fund suitability

This ETF is suitable for investors with a high-risk appetite seeking exposure to companies that comply with Shari'ah investment principles.

Fees

The fund has a total expense ratio of 0.40%.

Alternative funds

None

“Overall, while the principles that govern Shari'ah funds are attractive, one needs to be mindful of concentration risk and potentially missing out on companies that may outperform”

Central banks in developed markets such as the US Federal Reserve, Bank of England and European Central Bank have been sounding the alarm about a possible recession in their respective regions in 2023 due to high interest rates.

Eurozone GDP was flat in the first three months of this year against the previous quarter, according to Eurostat which revised a previous reading of a 0.1% quarter-on-quarter contraction. The UK narrowly escaped a recession as its GDP grew 0.1% in Q4 2022 and Q1 2023 respectively. The US economy grew an annualised 2% in Q1 2023 from 2.6% in Q4 2022.

Despite recessionary fears, equity indices such as the S&P 500, Nasdaq 100 and Stoxx Europe 600 are up 18.6%, 42.4% and 8.1% this year respectively. Locally, economic growth prospects look dim mainly due to loadshedding, however, the JSE All Share index has gained 5.2% since the start of 2023.

Commodities such as gold tend to increase in value during times of heightened uncertainty. This year, gold has risen 7.8%.

This week we shift our focus to the Satrix Shari'ah Top 40 ETF. This ETF invests in various sectors such as basic materials (78.1%), industrials (9.8%), telecommunications (2.8%) and healthcare (2.7%).

Anglo American offers investors with a diversified exposure to various commodities such as diamonds, copper, iron ore, nickel and coal. The company has operations in 15 countries with a total

number of 56 sites. In its Q2 2023 production report, the company indicated that it witnessed production increases in many segments except for nickel, rough diamonds and platinum group metals (ruthenium, rhodium, palladium, osmium, iridium and platinum).

Copper production rose by 56% in Q2 2023 largely driven by the new Quellaveco mine in Peru. Steelmaking coal production grew by 28% due to solid performance from mine operations that were previously closed in Q2 2022 because of unseasonal wet weather. Iron ore production ticked up 9% on the back of a strong performance from Minas-Rio.

Platinum group metals production dipped 9% as a result of short-term operational challenges as well as planned infrastructure in Amandelbult and Kroondal. This is in line with StatsSA data which showed that platinum group metals production declined by 4.6% and 7.2% in April and May 2023 respectively. These declines can be attributed to energy constraints.

Most companies that this ETF invests in earn significant revenue offshore, which bodes well for investors given the rand's weakness. The local currency has weakened by 5.6% against the dollar this year.

These companies are appealing in the current environment given elevated commodity prices. Moreover, these companies are interesting to investors who abide by Shari'ah investment principles. Essentially, Shari'ah principles prohibit investing in companies that earn revenue from selling alcohol, drugs, pork

products, gambling and weapons.

Under Shari'ah principles, one is not allowed to pay or receive interest on a loan. For example, a bank that follows Shari'ah principles cannot charge interest on a mortgage. Instead, the bank will purchase a house and rent it to the client. The rental income received by the bank will be distributed among the depositors of the bank as a way of sharing profits.

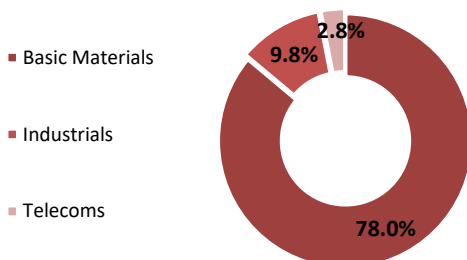
Shari'ah principles promote the distribution of wealth. Shari'ah compliant investing stipulates that one must donate a certain percentage of one's wealth to charity. This is similar to households and businesses paying taxes to the government for redistribution.

Shari'ah principles permit one to invest in stocks and mutual funds. The principles also govern risks and returns such that no one party must be the only one who bears the risks of a transaction or the only one who benefits from returns. Parties to a transaction must share risks and returns.

Overall, while the principles that govern Shari'ah funds are attractive, one needs to be mindful of concentration risk and potentially missing out on companies that may outperform.

This ETF is suitable for investors who have a medium-term investment horizon. It has a total expense ratio of 0.40% and is the only JSE-listed fund that follows Shari'ah investment principles.

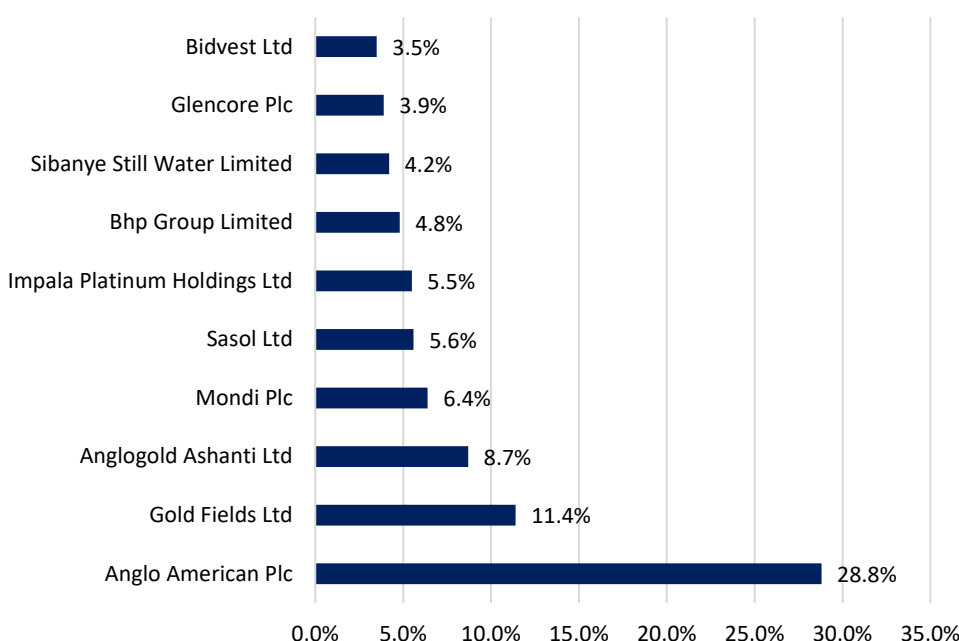
Sector allocation – top 3 (%)



Investment approach and portfolio composition

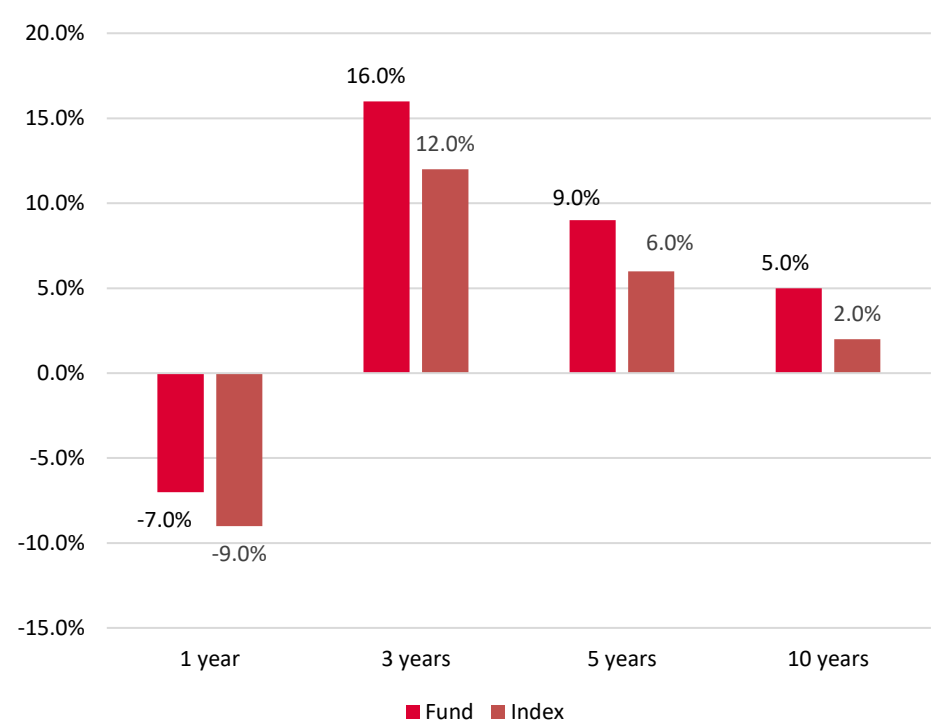
The Satrix Shari'ah Top 40 ETF is an investment instrument created to comply with Islamic ethical investing. It aims to provide investors with exposure to the broad market while still complying with the Shari'ah principles of investing.

Top holdings (%)



Performance

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



Fund information as at 31 May 2023

| | |
|------------------------------|--------------------------------|
| Launch date | 06 April 2009 |
| Trading symbol (JSE) | STXSHA |
| Weighted average market cap. | R50M |
| Total expense ratio | 0.40% |
| Risk rating | High |
| Benchmark | FTSE/JSE Shari'ah Top 40 Index |

Market data: 20 July 2023

| | |
|------------------------|--------|
| Spot price | R3.90 |
| 12-month high | R4.60 |
| 12-month low | R3.46 |
| Average monthly volume | 12,505 |
| Gross dividend yield | 3.89% |

Source: Infront, yahoo finance

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