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Sygnia Itrix MSCI Japan Index ETF (JSE:SYGJP)

10.03.2023

Fund suitability

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

Fees

The fund has a total expense ratio of 0.87%.

Alternative funds

None

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Equity markets had a challenging 2022 and Japan equities were no exception, as indicated by the Nikkei 225 Index which lost 11%. The country removed Covid restrictions in late 2022, a move which set a positive tone for 2023 and sent equity markets higher.

Investment environment

The Nikkei 225 Index is up 9.4% year-to-date and 30% over the past five years. In addition, various asset managers such as Lombard, Schroders and Invesco are bullish on Japanese equities.

The MSCI Japan Index is trading at a price to earnings ratio (PE) of 15.6x with a dividend yield of 2.5%, which is better than the MSCI USA Index's PE of 20.5x and a dividend yield of 1.7%.

The **Sygnia Itrix MSCI Japan Index ETF** weightings are tilted towards industrials (22.1%) and consumer discretionary (18%) with information technology (13.7%), financials (12%) and healthcare (9.4%) also strongly represented. The consumer discretionary sector is poised for growth after a challenging two years due to the lockdown restrictions. Companies in the industrials sector have set aside significant amounts for capital expenditure to ramp up automation, according to Invesco, a move that might potentially benefit investors over the long term.

Toyota, the fund's largest holding, grew revenue 18% for the nine months to 31 December 2022. However, operating profit dropped 17.1% due to rising input costs as well as supply chain disruptions. The company expects its operating

income to decrease 19% in FY23. Despite this, the automaker stuck to its forecast for the financial year to produce 9.7-million vehicles this fiscal year due to strong residual demand.

Japanese households are not used to inflation. As a result, the government has applied populist measures, including subsidies and regulatory controls on energy prices. In late October 2022, the government announced that it will spend \$200bn (39tn yen) on an economic stimulus package to tame inflation and soften the blow from rising input costs. The stimulus includes subsidies to cut household electricity bills by 20% from January to September 2023. These measures will curtail Japan's inflation by 1.2 percentage points, according to the government.

A panel consisting of about 100 business executives, academics, key government councils and union officials has expressed concern that the BOJ's policy tool of managing the yield curve has become unsustainable and is causing distortion as well as making the bond market dysfunctional. The panel advocates for interest rates to be hiked in line with economic fundamentals and interest rates around the globe, as well as to normalise the country's bond market.

Prime Minister Fumio Kishida has signalled the possibility of reviewing the policy accord, given the public outcry. He mentioned that the government and the central bank must discuss their relationship in guiding economic policy once he appoints a new central bank governor in April.

The downside with the a combination of extraordinary monetary easing and rapid expansionary fiscal spending is that it creates a policy mix that erodes market trust in the yen. The weaker yen will have an unintended negative outcome of increasing inflation due to higher import prices. In addition, Japan's debt:GDP ratio is among the highest in the world, at 263.9% in 2022, according to the ministry of finance.

This ETF aims to provide investors with exposure to large and mid-cap segments of the Japanese market. It is suitable for risk-tolerant investors who want to diversify their portfolio outside of SA.

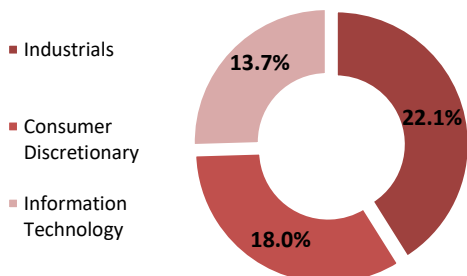
The fund returned 2.7% over the past year and 11% over the last 10 years. The underlying index is up 8.9% year-to-date.

This EFT has a portfolio size of R953m, which implies that it can contend with market volatility. However, it has a steep total expense ratio of 0.87% as it is the only JSE-listed fund that tracks the MSCI Japan Index.

Investment term of the week: Imported inflation

Imported inflation is a general and sustainable price increase due to an increase in costs of imported products. This price increase concerns the price of raw materials and all imported products or services used by companies in a country. Imported inflation is also referred to as cost inflation.

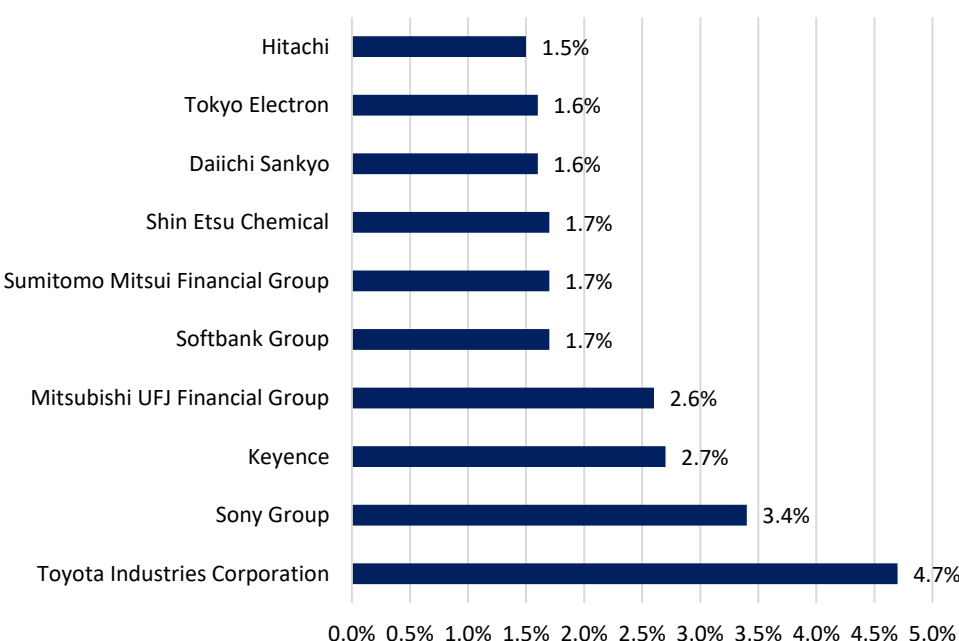
Sector allocation – top 3 (%)



Investment approach and portfolio composition

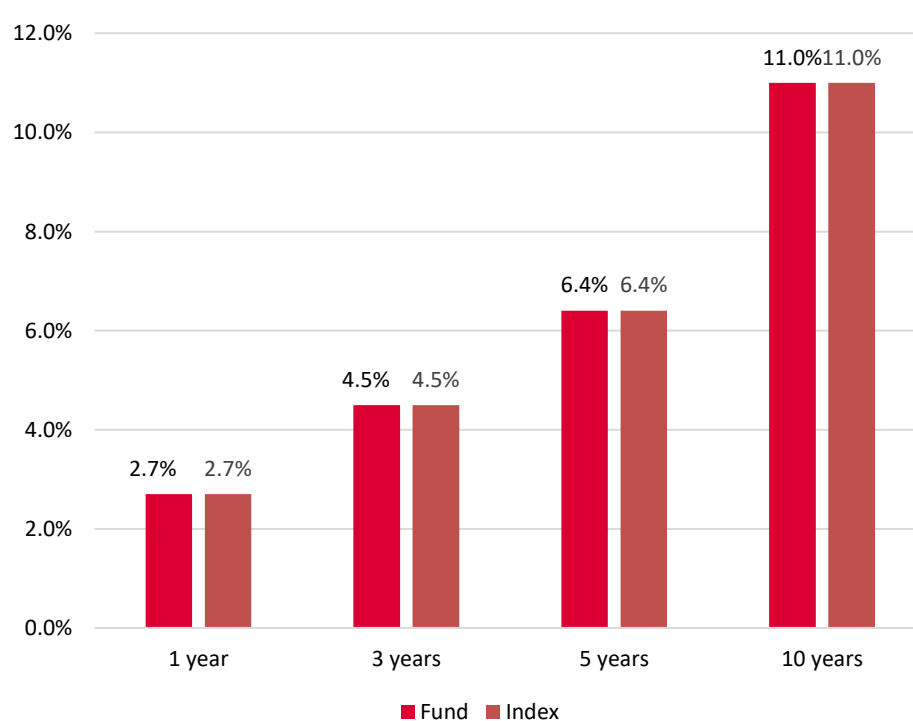
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Top holdings (%)



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	1 April 2008
Trading symbol (JSE)	SYGJP
Weighted average market cap.	R953m
Total expense ratio	0.87%
Risk rating	High
Benchmark	MSCI Japan Index

Market data: 09 March 2023

Spot price	R16.65
12-month high	R16.99
12-month low	R13.68
Average monthly volume	51,327
Gross dividend yield	1.2%

Source: Infront, yahoo finance

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