

### Fund suitability

This ETF suits income-oriented investors with a moderate to high risk appetite and a long-term investment horizon.

### Fees

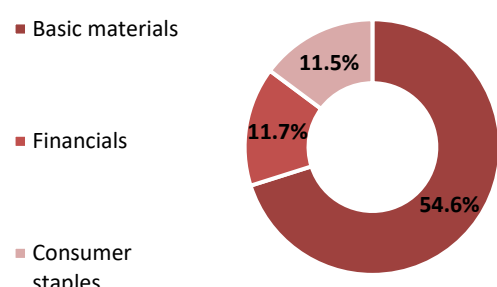
The fund's total investment charge is 0.59%.

### Alternative funds

None

**“From an investment style perspective, dividend yield has been shown to influence the return of stock prices”**

### Sector allocation – top 3 (%)



Dividends may be one good reason for investors to stomach current volatility in global equities. Dividend-paying stocks are also quite useful for investors that may want to remain in equities as opposed to other lower-risk asset classes (eg, bonds) without the higher risk of growth or deep-value shares.

The Satrix Divi Plus ETF, this week's ETF pick, tracks the performance of the FTSE/JSE Dividend Plus Index. The index selects stocks from the JSE-listed Top 40 and Mid Cap indices. In addition, potential constituents have to meet a liquidity requirement for inclusion, followed by a ranking by the one-year forecast dividend yield of each company.

The end result is an ETF with 30 of the most liquid stocks with the highest estimated forward dividend yields on the JSE. A drawback of the fund though is its steep total investment cost, which we estimate at 0.59%. It somewhat makes up for this with a healthy dividend yield of 5.0% and distributes income on a quarterly basis.

Its closest counterpart, the CoreShares Divtrax ETF, similarly uses a liquidity screen (median daily value traded of at least R5m in the last three months) to rank its universe of stocks. Companies must have increased their dividend every year in the past seven years to be included in the ETF or dividends must be stable – the decline in full-year dividends must not exceed 3% from the previous year.

On balance, investors can choose any one of the two ETFs as the drawback of an estimated forward dividend yield is forecast risk. With CoreShares Divtrax, it is key to note that historical dividend growth does not automatically imply

further growth in the future. The latter has a better dividend yield (6.6%) than the former (5.0%) but is more expensive, with a high TIC of 0.81%.

From an investment style perspective, dividend yield has been shown to influence the return of stock prices. Interestingly, while investors searched for yield through income-oriented equities after the global financial crisis (due to ultra-low interest rates), global index provider MSCI's research finds that the dividend yield style actually outperforms when interest rates are low and rising. This finding is important as current macroeconomic conditions suit the dividend yield factor perfectly, at least according to MSCI's research.

In SA, the central bank slashed rates to a decades-low 3.5% due to the Covid pandemic but since November last year has increased it three times to 4.25%. Moreover, the US Federal Reserve has signalled its intentions to end its sizeable asset purchase programme and increase interest rates to deal with rising inflation.

Of course, the Russia-Ukraine war complicates matters. The inflationary backdrop is expected to worsen, which justifies higher rates but also negatively affects economic growth. Given the uncertain outlook, we expect the International Monetary Fund to trim its global real GDP growth forecast of 4.4% downward in its next World Economic Outlook update.

We also re-emphasise the importance of diversified equities/ETF portfolios with exposure to both offshore and local equities as well as many themes, sectors and styles, including dividend yield. Given low to negative correlation, this

should improve the risk-adjusted returns of investors.

Coming back to the Satrix Divi Plus ETF, we find that it has a heavy tilt towards basic materials or mining companies. Global and local mining firms have been boosted by strong initial post-lockdown demand for commodities and this demand has soared even further as a result of the market's flight to safe haven assets and the tightness in energy markets due to the war.

The initial market conditions led to SA's exports of metal ores and coal increasing 10.1% and 18.1% annually in January 2022, according to Statistics SA. This positively influenced our current account, which is a key figure in SA's balance of payments – the surplus increased to R227bn in 2021 from R110bn in 2020. This equated to 3.7% of real GDP in 2021 (2.0% in 2020).

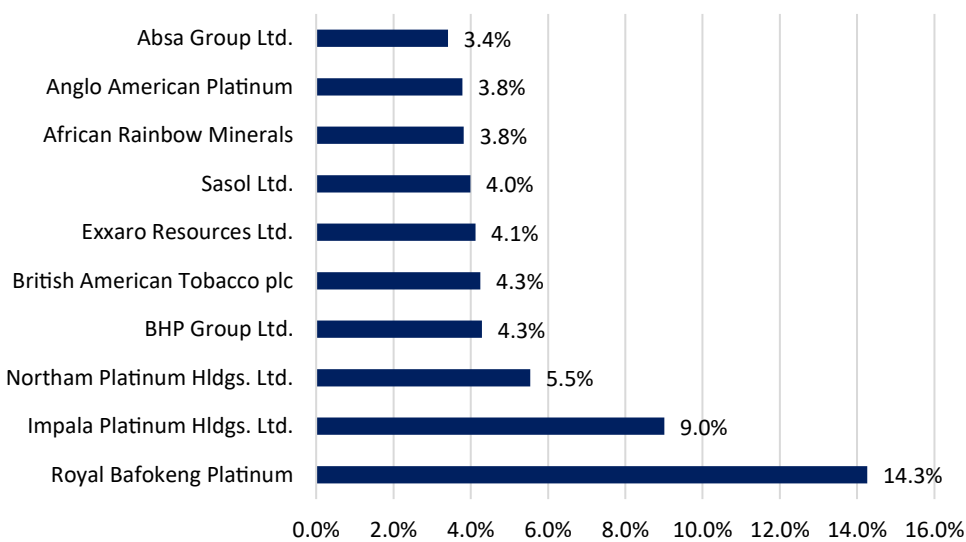
One of the strong-performing companies in the ETF which contributed to SA's current account surplus is Exxaro Resources. The coal miner, which is a key supplier to Eskom, benefited from steep energy prices due to supply constraints in the UK and EU – this was before Russia's invasion of Ukraine. It grew FY21 earnings 58% to R46.83/share and declared a final dividend of R11.75/share.

This brings total dividends for FY21 to R32.52/share and Exxaro's dividend yield to a whopping 14.4%, which is quite attractive relative to SA's repo and inflation rates.

## Investment approach and portfolio composition

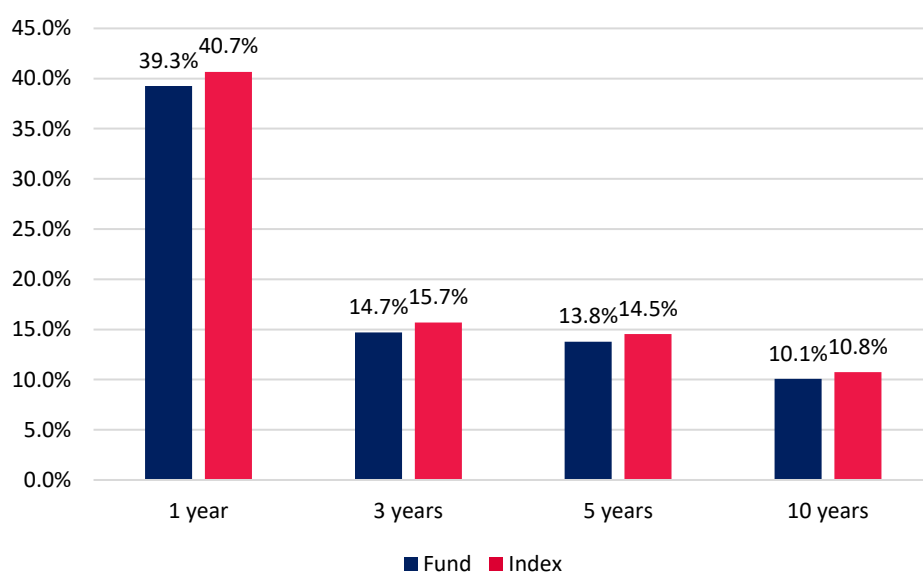
The Satrix Dividend Plus ETF tracks the performance of the FTSE/JSE Dividend Plus Index before fees and expenses.

### Top holdings (%)



## Performance

**ETF and index performance to end-January 2022 (annualised for periods longer than one year; with dividends reinvested).**



## Fund information: 31 January 2022

Launched on	29 August 2007
Trading symbol (JSE)	STXDIV
Weighted average market cap.	R2.1bn
Total investment charge	0.59%
Risk rating	High
Benchmark	FTSE/JSE Dividend Plus Index

## Market data: 31 March 2022

Spot price	R3.55
One-year high	R3.72
One-year low	R2.60
Average monthly volume	12,978,423
Dividend yield (estimated)	5.0%

Source: [www.etfsecurities.com.au](http://www.etfsecurities.com.au), yahoo finance

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