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Researching Capital Markets and Financial Services

ETF Insights.

Prepared for clients of EasyEquities

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NewFunds S&P GIVI SA Top 50 ETF (JSE:GIVISA)

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Fund suitability

The ETF is suitable for investors seeking broad exposure to SA equities.

Fees

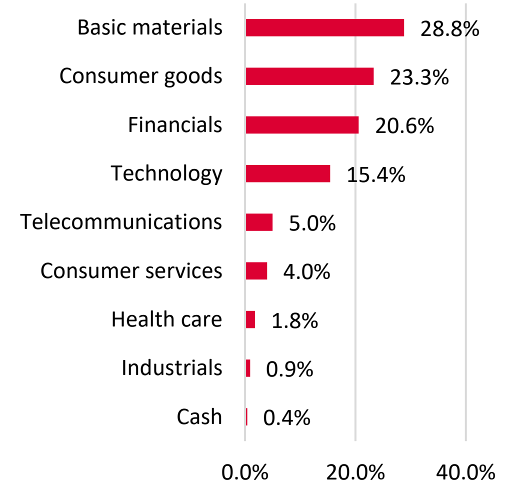
Total investment cost:0.49%

Alternative funds

CoreShares Top 50; SA-listed Top 40 ETFs

"The ETF differs from its top 40 and 50 peers in that shares are weighted according to intrinsic value rather than market capitalisation."

Top 5 sectors in the index (%)



What's happening in the markets?

Global equities have been upbeat over the past few weeks as inflation in major economies shows signs of abating. In the US, markets gained further momentum from the November consumer inflation reading of 7.1%, which was lower than the 7.3% consensus.

As such, investors are increasingly hopeful that the US Federal Reserve (Fed) hikes rates by 50 instead of 75 basis points, signalling less aggressive future monetary tightening. The Fed will announce its latest monetary policy decision on 14 December.

In addition, China recently announced a gradual reopening of its economy and measures to support its crucial property sector. This is expected to support SA's consumer rand-hedge companies that have exposure to the Asian giant. In addition, the expected increase in commodity demand from China may also be beneficial for some of SA's listed miners.

What is the opportunity?

Investors can gain low-cost, passive access to attractively valued, low volatility shares. The basic materials and consumer goods sectors, containing numerous rand hedges, underpin the opportunity given expectations of a gradual recovery in China.

ETF pick

The NewFunds S&P GIVI SA Top 50 ETF tracks the performance of the S&P GIVI SA Top 50 Index, which represents 50 shares from the S&P GIVI SA composite with the highest intrinsic value and lowest volatility. To reduce portfolio volatility relative to the market, the ETF excludes 30% of the local market capitalisation with the highest risk and caps the weight of each share at 10% of the portfolio.

However, the most interesting feature of this ETF, which sets it apart from other local top 40 and 50 ETFs, is that it assigns weights to each share by its estimated intrinsic value rather than market capitalisation. The **intrinsic value** of a share is defined as the value investors assign to a share based on their research and assumptions of key financial, operational and broader economic drivers that influence the company and its share price. This often differs from the broader market, where spot prices of shares are observed on a daily basis.

In the broader listed equities market, the spot price of any share multiplied by the number of its shares outstanding is the **market capitalisation** of a company. This is the most commonly used method of assigning weights to shares in an index for ETFs.

Given its specialised nature, we think the fund's total investment cost of 0.49% is reasonable. However, it is somewhat inefficient at tracking its benchmark, with a relatively high tracking error of 0.7%.

From an economic perspective, China's gradual reopening is beneficial on two fronts. First, government is providing stimulus to the struggling property sector which is plagued by high debt levels, unfinished projects and low demand.

Initial efforts over the past few months included cutting interest rates and urging major banks to extend 1-trillion yuan ($140bn) of financing to property developers, according to the South China Morning Post. Additional policy changes include a temporary easing of restrictions to bank lending previously designed to curb excessive leverage.

The developments are quite important as the property sector accounts for 25%-30% of China's GDP, according to the Peterson Institute for International Economics. Moreover, any recovery in building activity is expected to boost commodity demand. The construction sector typically consumes 56% of steel, 49% of aluminium and 41% of copper in China, according to data from global research group CRU.

Second, we expect consumer spending to recover from the sweeping relaxations of China's zero-Covid restrictions. These include the negative test requirement for entering public places and allowing citizens with mild cases to quarantine at home instead of in quarantine centres.

On the flipside, both the property sector and consumer market may not recover without a lag. Regarding the former, house prices dropped 1.6% yearly across China's 70 major cities in October. This was the sixth straight month of annual decline in housing prices.

Consequently, the lag between reopening, stimulus and economic recovery may be further lengthened by weak consumer sentiment. Specifically, data from the National Bureau of Statistics show that Chinese consumer confidence dipped to a value of 86.8 in October from 87.2 in September. Given that a value of 100 and beyond indicates neutral and positive sentiment, the latest figure highlights continued uncertainty among consumers.

The link between consumer confidence and the property sector also shows in that 60% of family wealth in the country is in real estate (US: 31%), according to the People's Bank of China.

Moreover, Chinese consumers are doubling down on their saving habit. In a nationwide survey by global consultant McKinsey this year, 58% of urban households indicated their desire to save more money for future emergency purposes which is the highest level since 2014, and nine percentage points higher than in McKinsey's previous survey conducted in 2019.

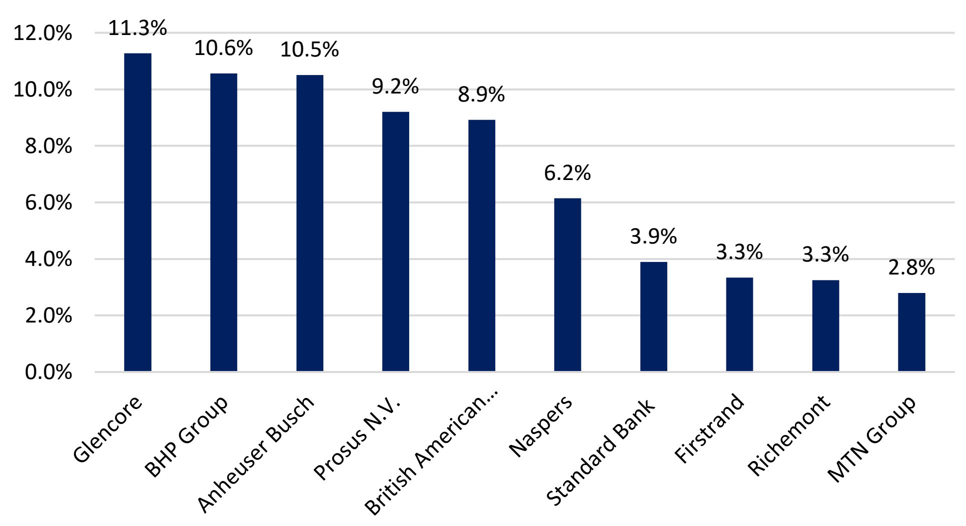
However, additional data from the McKinsey Global Institute indicate that the number of people earning more than $21,800 (R375,395) increased 18% annually to 138-million consumers during 2019-2021, which points to a strong and growing middle class.

Given our expectations and the risks, we believe that the NewFunds S&P GIVI SA Top 50 may be useful as part of investors' overall ETF portfolios over the medium to long term.

Investment approach and portfolio composition

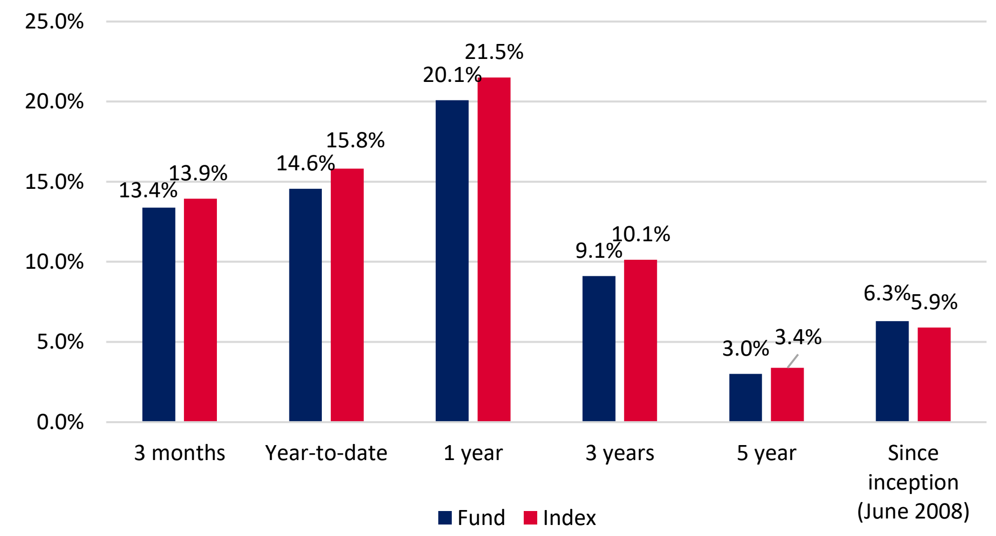
The NewFunds S&P GIVI SA Top 50 ETF tracks the performance of the S&P GIVI SA Top 50 Index (before fees and expenses).

Top holdings (%)



Performance

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



Fund information: 30 November 2022

Launched on	23 June 2008
Trading symbol (JSE)	GIVISA
Total assets	R100m
Total investment cost	0.49%
Risk rating	High
Benchmark	S&P GIVI SA Top 50 Index

Market data: 13 December 2022

Spot price	R47.71
One-year high	R47.74
One-year low	R38.34
Average monthly volume	17,896
Dividend yield	3.2%
Tracking error	0.7%

Source: Infront, yahoo finance