
Analyst: Sabelo Mnisi

# Absa NewFunds Low Volatility ETF (JSE:NFEVOL)

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## Fund suitability

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

## Fees

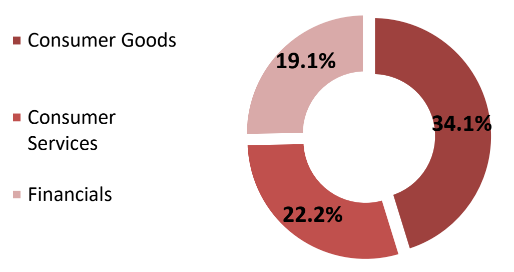
The fund has a total expense ratio of 0.50%.

## Alternative funds

Absa NewFunds Volatility Managed High Growth Equity ETF (TER:0.50%)
Absa NewFunds Volatility Managed Defensive Equity ETF (TER:0.50%)

**"Like cars, some stocks offer smoother rides than others. A low volatility ETF is beneficial for diversifying a broader portfolio."**

## Sector allocation– top 3 (%)




The investment environment has been challenging as rising inflation and interest rates have dampened the pace of economic growth and spurred volatility.

High volatility can be unnerving for risk-averse investors and discourage them from investing. Low volatility ETFs offer peace of mind. These ETFs are designed to perform less poorly during market downturns, however, they may underperform non-minimum volatility funds with similar asset class exposures when the broad market is on an upward trend.

Like cars, some stocks offer smoother rides than others. A low volatility ETF is beneficial for diversifying a broader portfolio. For example, if an investor holds a portfolio consisting of cyclical stocks, a low volatility ETF would diversify some risk exposure.

Low volatility ETFs have exhibited a tendency to outperform their benchmarks over mid- to long-term periods on a risk-adjusted basis, according to S&P Global. This phenomenon is known as the low volatility anomaly because it runs counter to traditional investment theories which argue that low volatility stocks limit upside potential.

About a year ago the world was still reeling from Covid and global supply disruptions. Inflation was rising steadily and the Federal Reserve dubbed it as transitory and reassured markets of a soft landing in 2022. The inflationary pressures have been compounded by the war in Ukraine this year, which left central bank policy officials with no alternative but to reverse their decade-long accommodative stance and raise interest rates aggressively.

Market participants and policy makers around the world always look to the Fed for any clues about the path of interest rates. The Fed has increased interest rates six times this year, four of which were of 75 basis points, aggravating uncertainty in the markets. This is because higher interest rates increase the discount rate used in company valuation models, which leads to lower expected earnings. Locally, the SARB took the cautious route and started its rate hiking cycle in November 2021.

Inflation in the US surprised on the downside to an annualised 7.7% in October from 8.2% in September, which was its fourth consecutive monthly decline. Core inflation – which excludes volatile items such as food and energy – remained sticky on the upside, coming in at an annualised 6.3% from 6.6%, meaning that high inflation is widespread. What's worrying the Fed and investors is that wage growth was reported at 8.2%, implying that inflation might be higher for longer. But producer price inflation slowed an annualised 8.% from 8.4% in September, adding to the narrative that inflation has peaked. Core PPI recorded its first dip since May 2020, shedding just 0.1%. This is an important indicator as it passes through to consumer prices.

The Absa NewFunds Low Volatility ETF invests in 20 highly liquid stocks that exhibit low volatility and low correlation with the overall market. It holds defensive sectors such as consumer goods and services, financials, healthcare and telecommunications.

The consumer goods industry is less correlated with the performance of the overall economy as goods such as food, beverages tobacco and hygiene products are purchased out of necessity. Generally, companies in consumer staples have steady cash flows and predictable earnings. Similarly, healthcare stocks provide a consistent returns regardless of the performance of the economy.

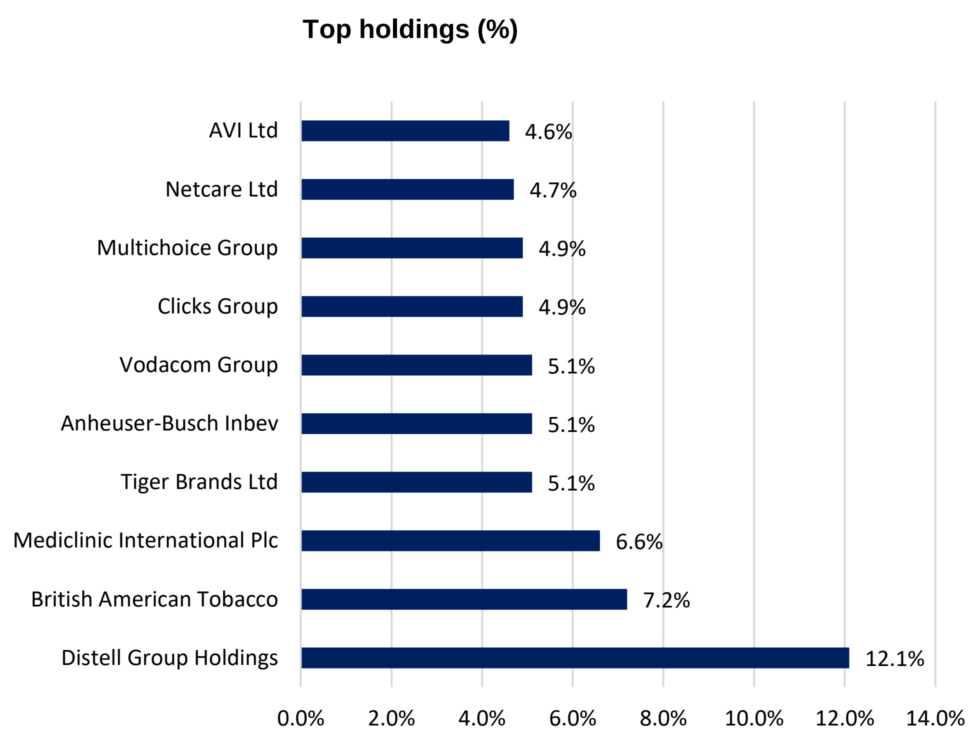
This ETF is relatively costly though with a total expense ratio (TER) of 0.50% and it has a fairly low net asset value of R124m.

It is one of the few select ETFs that have exhibited positive returns year-to-date, returning 3.31% and a one-year annualised rate of 5.2%. Other funds that put an emphasis on minimising downside risk are the Absa NewFunds Volatility Managed High Growth Equity and the Absa NewFunds Volatility Managed Defensive Equity which each have a TER of 0.50% and low returns of 0.24% and 0.26% respectively year-to-date.

## Investment approach and portfolio composition

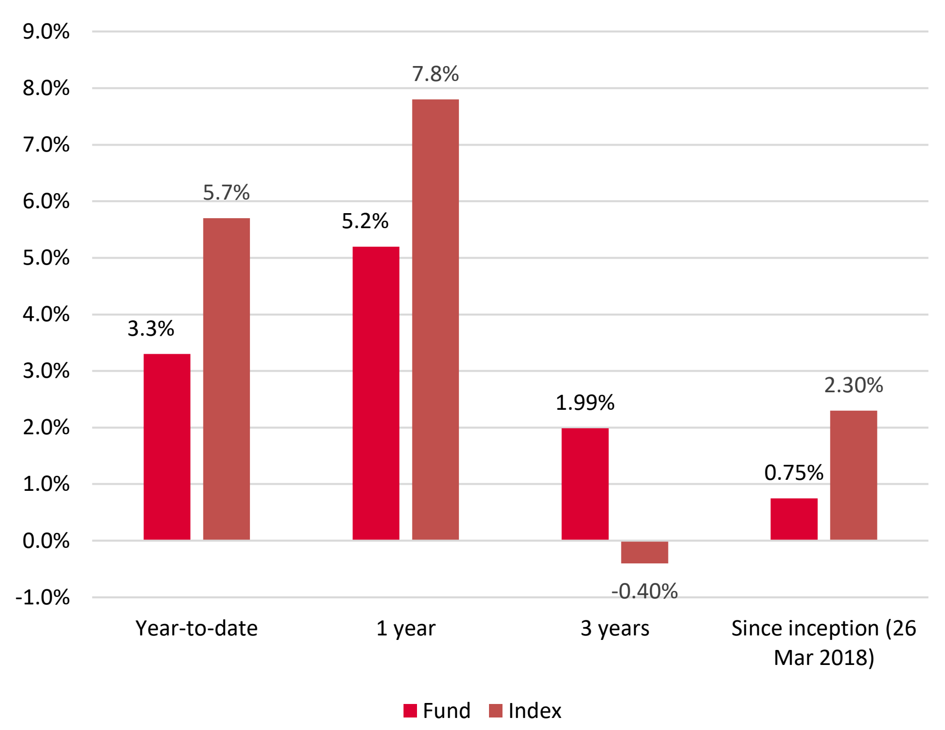
The Absa NewFunds Low Volatility ETF aims to provide investors with exposure to 20 highly liquid stocks that exhibit low volatility. All dividends and income are reinvested when received at each income distribution date.

**Top holdings (%)**




## Performance

**Index performance to end-October 2022 (annualised for periods longer than one year; with dividends reinvested)**




## Fund information as at 31 October 2022

| | |
|---|---|
| Launch date | 26 March 2018 |
| Trading symbol (JSE) | NFEVOL |
| Weighted average market cap. | R124m |
| Total expense ratio | 0.50% |
| Risk rating | Medium |
| Benchmark | Absa Wits Risk-Controlled SA Low Volatility Index |

## Market data: 15 November 2022

| | |
|---|---|
| Spot price | R10.22 |
| 12-month high | R11.08 |
| 12-month low | R9.09 |
| Average monthly volume | 566 |
| Gross dividend yield | 2.91% |

*Source: Infront, yahoo finance*