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**CoreShares S&P Dividend Aristocrats ETF (DIVTRX:JSE)**

05.12.2022

**Fund suitability**

This ETF is suitable for investors seeking exposure to income-generating equities.

**Fees**

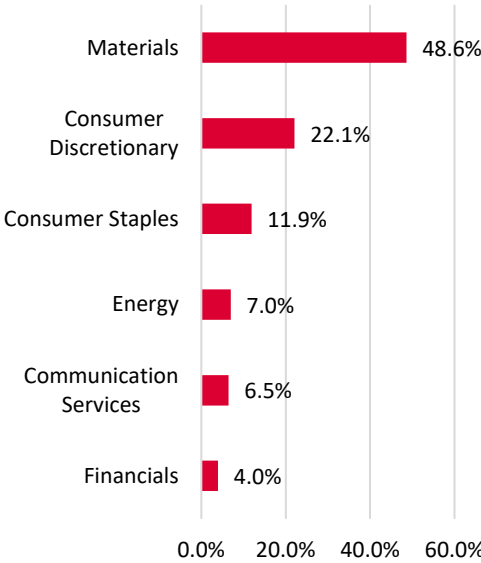
The fund has an estimated total investment cost of 0.75%.

**Alternative funds**

Satrix Divi Plus ETF (TIC:0.62%)

**“One key reminder from the performance of both global and offshore equities markets this year is that equities tend to be volatile in the short-term, leading to temporary losses.”**

**Top 5 sectors (%)**



In its Q4 2022 investment outlook published in October, local fund manager Anchor Capital reported its positive outlook on SA equities and accordingly forecasted a 16.0% return over the next 12 months.

Indeed, the local bourse had a strong start to Q4 thus far with the All Share index up 17.4% over October-November. As such, local investors will be hoping that the market can continue this positive momentum and end the year positively given the 1.5% return year-to-date to end-November.

One key reminder from the performance of both global and offshore equities markets is that equities tend to be volatile in the short-term, leading to temporary losses. This was especially the case earlier this year, with the All Share index losing 13.5% in the nine months to end-September.

Given Anchor Capital’s 16.0% expected return, we find the split between the All Share index’s price and income return over the last five years particularly insightful. Specifically, the All Share index returned an annualised 8.6% return using daily data over the last five years. The price proportion of return was 4.6%, which implies that the income return from dividends was the balance at 4.0%.

At a notable 46.5% of the total return of the market, the simple decomposition of the All Share index return shows that dividends made up almost half of the total return, highlighting the importance of dividends as part of investor’s returns.

Furthermore, academic studies both locally and abroad find a strong relationship between dividends and the performance of share prices. In SA, a study on the dividend yield as a superior investment strategy by Fakir (author) in 2013 shows that the high yield portfolio cumulatively outperformed its low-yield portfolio counterpart.

In the study, the high yield portfolio strategy - which favours companies with a consistent dividend history – generated almost double (1.78) the cumulative returns of a low-yield portfolio strategy over nine years (2004-2012).

In a global example, authors Kang, Kim and Oh (2017) add the reputation effect to analyse the relationship between dividend yields and share price returns. Firms are grouped according to the track record of dividend payments to capture the reputation effect. They find supporting evidence that the reputation effect is higher for established firms with a good track record of dividend payments than for firms with a short history of dividend payments or for firms with an unreliable history of dividend payments.

As such, we believe that the dividend strategy can be used as part of an equity (or ETF) portfolio to improve risk-adjusted returns over medium to long-term periods. More importantly, the short-term volatility exhibited by equities further highlights the importance of the dividend strategy.

Accordingly, the CoreShares S&P SA Dividend Aristocrats ETF tracks the performance of the S&P SA Dividend Aristocrats Index. The index measures the equal-weighted performance of companies within the S&P South Africa Composite that have increased or maintained stable dividends for seven consecutive years.

As a buffer rule, a company is considered to have maintained a stable dividend if the sum of dividends per share for the year have not decreased by more than 3.0% from the prior year.

One drawback of the CoreShares S&P SA Dividend Aristocrats ETF is its total investment cost of 0.75%, which we think is relatively high for an ETF. This is especially the case as its peer the Satrix Divi Plus ETF

has a TIC of 0.62%. Also, the fund has a tracking error of 0.43%, which suggests some inefficiency in tracking its benchmark. Generally, the lower the tracking error, the better an ETF tracks its index.

The fund’s historical dividend yield of 7.9% in October looks unfavourable relative to SA’s annual inflation rate in October (7.6%). However, it appears more attractive when considered against Intellidex economist’s forecast of inflation at 5.8% in 2023.

Also, the ETF’s yield is only slightly lower than its peer Satrix Divi, which has a dividend yield of 8.1%. What’s more, the yield holds its own against the CoreShares, Satrix and 1invest SA property ETFs that yield 7.5%, 8.2% and 9.1%.

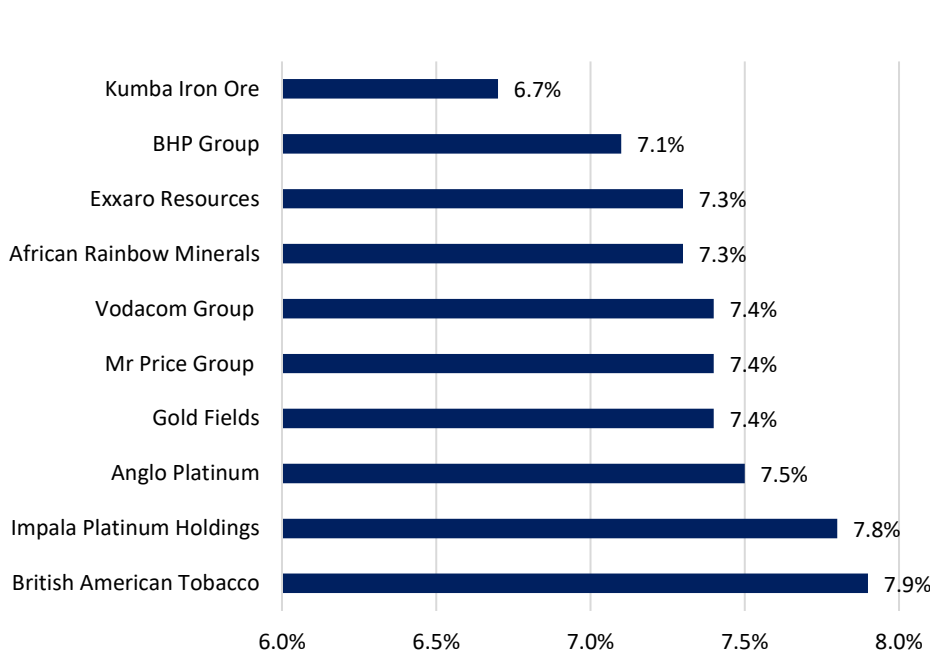
Another reason we think incorporating the dividend strategy into ETF and equity portfolios may be useful is the possibility of more volatile market conditions next year. US consumer inflation dipped below 8.0% for the first time since February this year, coming in at 7.7% annually in October. While this indicates progress by the Fed in cooling down inflation, price increases remain significantly higher than the 2.0% inflation target previously set by the Fed, which means inflation and interest rates may remain higher for longer.

Locally, SA will be affected by global market developments as well as negative shocks of our own making (such as policy error and load-shedding), worsening the generally weak economic conditions. Against this backdrop, we think a diversified ETF portfolio with some consideration to income would be beneficial to investors.

**Investment approach and portfolio composition**

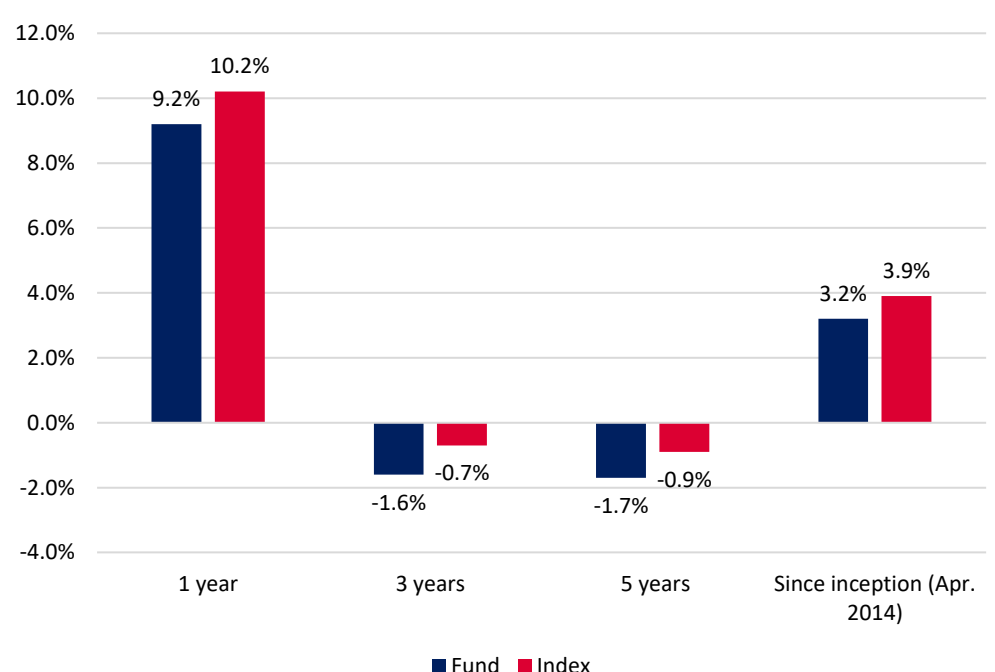
The CoreShares S&P SA Dividend Aristocrats ETF tracks the performance of the S&P SA Dividend Aristocrats Index (before fees and expenses).

**Top holdings (%)**



**Performance**

Fund and index performance to end-October 2022 (annualised for periods longer than one year).



**Fund information: 31 October 2022**

Launched on	14 April 2014
Trading symbol (JSE)	DIVTRX
Total assets	R157m
Estimated total investment cost	0.75%
Risk rating	High
Benchmark	S&P SA Dividend Aristocrats Index

**Market data: 02 December 2022**

Spot price	R22.72
One-year high	R24.68
One-year low	R19.39
Average monthly volume	305,236
Dividend yield	7.9%
Tracking error	0.43%

Source: Infront, yahoo finance

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