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CoreShares S&P SA Top 50 ETF (JSE: CTOP50)

22.04.2022

Fund suitability

This ETF is suitable for investors seeking broad exposure to local equities over a long-term investment horizon.

Fees

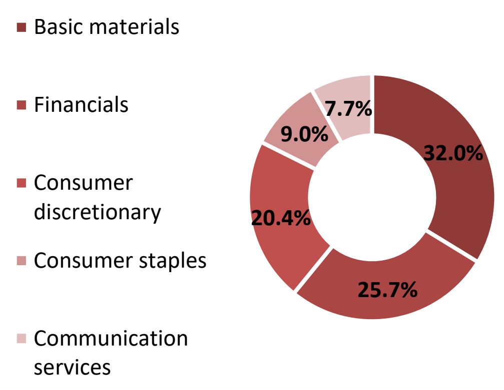
The fund's estimated total investment charge is 0.29%

Alternative funds

Satrix Top 40 (TIC:0.24%); 1nvest Top 40 (TIC:0.29%).

"The CoreShares Top 50 ETF is useful for investors that would like broad exposure to SA equities"

Sector allocation – top 5 (%)



Market-cap weighted ETFs invested in blue-chip shares (top-performing, most researched shares in a market) are a useful way for investors to gain broad exposure to equities. This is especially the case for first-time investors that may not have a particular view on sectors, investment styles or themes within an equity asset class.

This week's ETF pick, the CoreShares S&P SA Top 50 ETF fits the requirements of such an investment strategy. It tracks the performance of the S&P South Africa 50 Index, that uses the SA equity universe to invest in the top 50 shares by float-adjusted market capitalisation.

The float-adjusted market capitalisation method improves liquidity by removing shares that may be closely held (insiders, management etc.) and do not actively trade. From a risk management perspective, the fund caps the float-adjusted market cap weights to 10% for each share, which we believe is quite useful given the concentrated nature of SA equities.

Specifically, the fund itself (50 shares) covers 85% of SA's equity market which is indicative of this concentration. This is due to the market heavyweights Naspers and Prosus, which have held highly concentrated positions in SA's major indices historically, thus making a weight cap quite useful. Naspers and Prosus have come under serious pressure in the last 12 months though – Prosus (41% owned by Naspers) owns a 29% stake in China-based tech and gaming giant Tencent, which has been (and the broader sector) the subject of a regulatory crackdown due to market behaviour that Chinese authorities perceive as anti-competitive.

The Naspers and Prosus pair of share prices lost a whopping 56% and 53% over the last year, fuelled by the 39% loss in Tencent's share price over the same period.

This highlights the importance of diversification, which comes in the form of allocating investor funds over 10 more shares when investing in the CoreShares S&P SA Top 50. This enables it to combine the Top 40 exposure that investors can gain through a peer such as the Satrix Top 40 (or 1nvest Top 40) with the additional risk management benefit of capping exposure at 10%. The downside to this is that investors may miss out on a strong rally due to the capped weight, especially when the fund performs strongly close to the time it is due for rebalancing.

Overall, the fund has a total expense ratio of 0.29%, which is reasonable when compared to the Satrix Top 40 (0.24%) and 1nvest Top 40 (0.29%) ETFs. Its dividend yield is 3.8%, which again, is quite close to its Satrix (3.5%) and 1nvest (3.6%) peers.

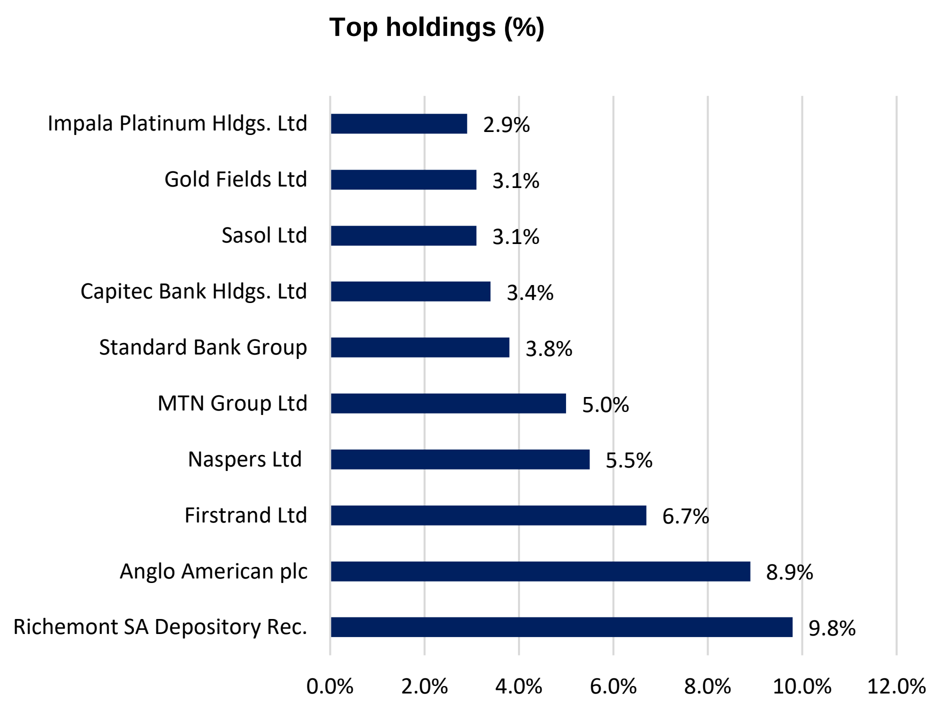
With the ETF specifics out of the way, our focus turns to the companies driving the fund and the economy in which they operate. While Naspers and Prosus struggled in Q1 2022, local mining companies' share prices were boosted by strong commodity prices due to strong demand in 2021, further augmented by Russia's invasion of Ukraine in late February 2022. As at end-February 2022, Statistics SA data show that SA's exports of coal and metal ore increased 21.8% and 14.8% respectively. We believe that these strong results will show in upcoming interim and final company results for 2022.

Financials, specifically banks were similarly strong, underpinned by the re-opening of the economy and the ongoing rate-rising cycle by the South African Reserve Bank. In addition to the cumulative 75 basis points increase since November 2021, Intellidex economists expect a further 75 basis points increase in the repo rate to 5% this year and another 75 basis points increase to 5.75% in 2023. This bodes well for banks that will be able to charge higher interest on loans, thus benefiting their net interest margins.

However, SA's structural economic problems persist – low consumer confidence may lead to a decline in demand for new credit, especially given SA's stubborn unemployment rate of 35.3%. The current inflationary backdrop is also hurting consumers through higher food, fuel and electricity costs. Regarding the latter, the return of stage 4 blackouts in mid-April is a stark reminder of SA's increasingly weak economy, which any prospective investor in SA equities should be well aware of.

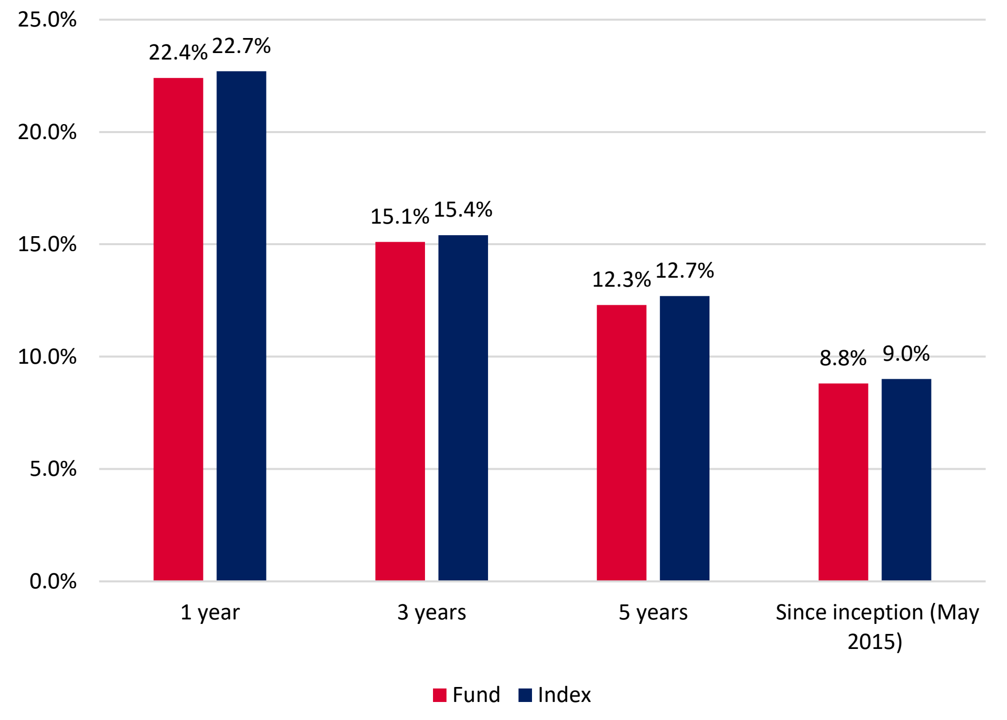
Investment approach and portfolio composition

The CoreShares S&P SA Top 50 ETF tracks the performance of the S&P SA Top 50 Index before fees and expenses.



Performance

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



Fund information: 31 March 2022

Launched on	13 May 2015
Trading symbol (JSE)	CTOP50
Weighted average market cap.	R1.4bn
Total expense ratio (total investment charge)	0.25% (0.29%)
Risk rating	High
Benchmark	S&P South Africa 50 Index

Market data: 21 April 2022

Spot price	R30.05
One-year high	R32.33
One-year low	R25.20
Average monthly volume	450,952
Gross dividend yield	3.8%

Source: Infront, yahoo finance