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**CoreShares South African Property Income ETF (JSE:CSPROP)**

18.05.2022

**Fund suitability**

This ETF is suitable for investors who want broad exposure to SA-listed-property in their overall ETF portfolio over a long-term horizon.

**Fees**

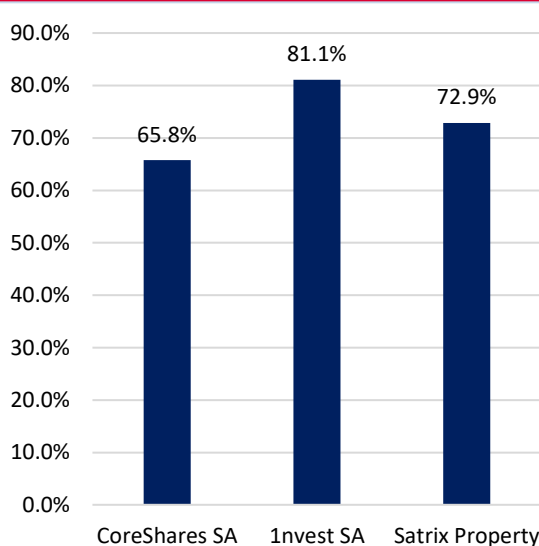
The fund's total investment cost is 0.48%.

**Alternative funds**

Invest Property ETF (TIC:0.29%)  
Satrix Property ETF (TIC:0.69%)

**“Ultimately, listed-property's fate is tied to the performance of underlying economic activity”**

**Top 10 constituents' share of total ETF assets**



Investors who were brave enough to hold local listed-property shares were rewarded handsomely in 2021 – the FTSE/JSE SA Listed Property Index soared 25.7% as the sector staged a recovery from the hammering it took in 2020. However, SA's listed-property sector returns were already weak in the two years leading up to when Covid-19 first hit our shores.

Factors affecting the sector's performance included issues around company shareholdings as well as accounting controversies. Moreover, SA's economic fundamentals started to deteriorate further just as company debt levels started to rise which made investors nervous.

Coming back to the present - the FTSE/JSE SA Listed Property index is down 7.3% year-to-date. Given the Russia-Ukraine war's effect on inflation and economic growth prospects globally, the volatility in equities, both local and global, comes as no surprise. In addition, some companies with exposure to east and central Europe also experienced pressure, due to the negative sentiment brought on by the war.

The rate hiking cycle by the South African Reserve Bank, which is a headwind for equities in general, is a particular headwind for listed-property companies (known as real estate investment trusts – Reits), which tend to have high debt levels as part of their capital structure.

This week's ETF pick, the CoreShares South African Property Income ETF, tracks the performance of the SA Property Income Index. The index, which is custom-made and calculated by S&P Dow Jones Indices, measures the performance of SA listed-property

companies with an emphasis on high-yielding companies.

The use of a custom index has two benefits. Firstly, it avoids the risk of assigning large weights to companies with high yields that may result from dropping share prices by making use of long-term historical data to assess yield-quality. Secondly, it uses a wider equity universe from which shares are chosen which enables a higher amount of shares to drive the return of the index/ETF – these measures improve the potential return quality and aid in reducing risk.

This appears to be the case when analysing the top 10 shares of two of its peers. Using the latest data of the Invest SA Property and Satrix Property ETFs, we find that the top ten shares made up 81.1% and 72.9% of total fund exposure to end-March 2021. In contrast, the CoreShares SA Property Income ETF's top 10 accounted for 65.8% of total assets, which is indicative of the lower concentration risk and potentially higher quality return.

Given its diversification benefits, it comes as no surprise that the fund's historical yield of 6.8% is lower than that of its Invest (7.4%) and Satrix (7.2%) counterparts. Finally, it has a slightly expensive total investment cost of 0.48%, which is somewhat tolerable, given the custom index the ETF tracks.

Fundamentally, listed-property exposure as part of an overall ETF portfolio is generally useful for income (given the yields above) and diversification purposes. Regarding the latter, data from the SA Reit Association indicates a correlation coefficient of 0.49 over the last five years to end-April (between SA-listed Reits and the FTSE/JSE All Share

index). This implies a weak-positive co-movement between share prices of Reits and the broader market, which is positive for diversification purposes.

Ultimately, the sector's fate is tied to the performance of underlying economic activity. Consequently, SA's weak economic prospects are a headwind for the listed-property sector, especially due to rising interest rates, which we expect to further affect the sector given debt levels. The effects of the pandemic continue to linger, especially given the work-from home trend, which affects office Reits. Specifically, global management consultant McKinsey & Company expects almost 10% of the workforce in emerging markets to continue working from home for at least three days a week.

This emphasises the need for diversified listed-property exposure in SA with an allocation offshore – where economic growth prospects are relatively stronger – further augmenting expected returns. In this regard, Growthpoint Properties, the ETF's leading company, has healthy global exposure with 43.1% of the total book value of properties being located in Australia, the UK and Eastern Europe.

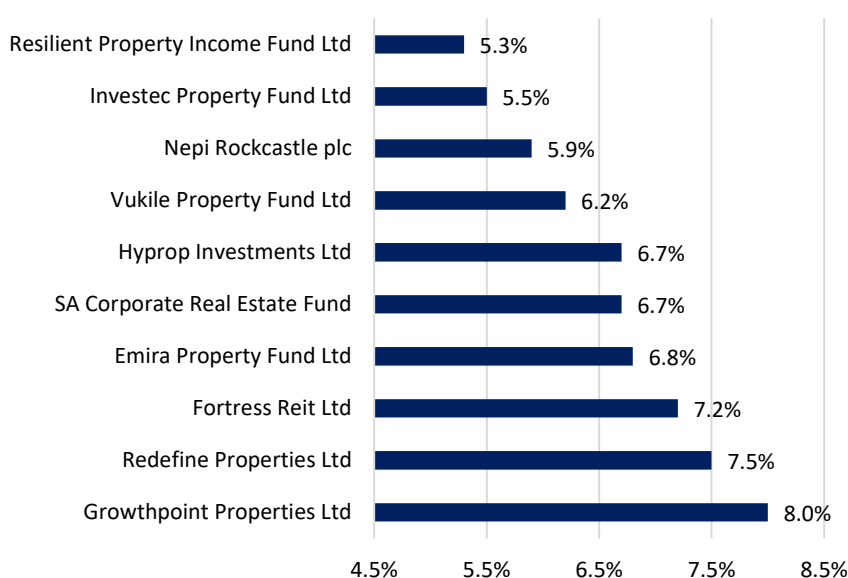
Given current global and local economic conditions, local fund manager Anchor Capital forecasts a 7.2% yield and 10.4% total return for the local listed-property sector in 2022.

It is also cautiously optimistic and expects the recent nervousness around Eastern European growth prospects to even out in the medium term. This highlights the potentially positive returns to be made from offshore exposure in local Reits.

**Investment approach and portfolio composition**

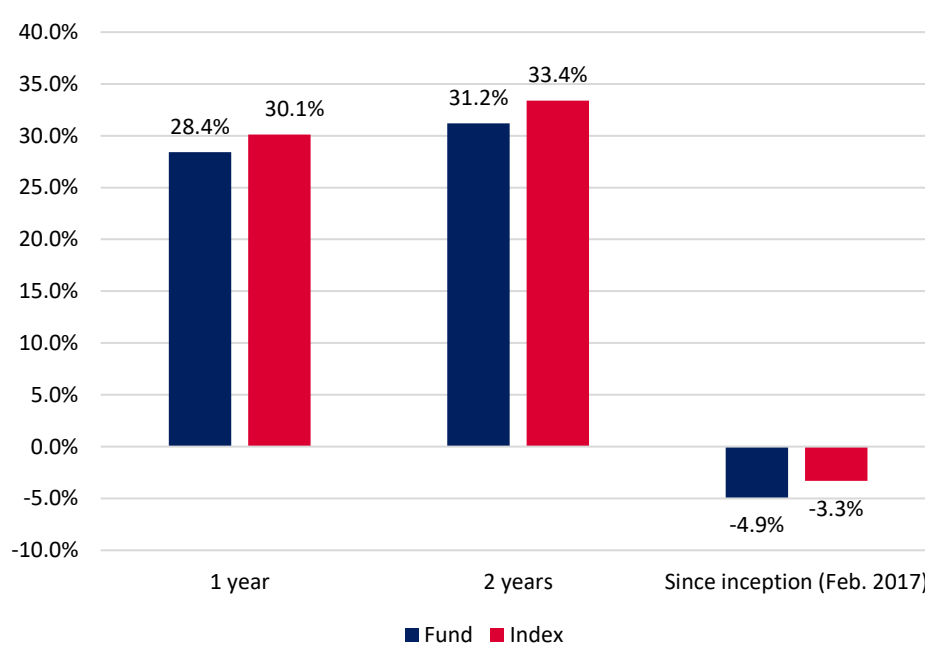
The CoreShares South African Property Income ETF tracks the performance of the SA Property Income Index, before fees and expenses

**Top holdings (%)**



**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	30 October 2019
Trading symbol (JSE)	CSPROP
Weighted average market cap.	R321.4m
Total expense ratio	0.48%
Risk rating	High
Benchmark	SA Property Income Index

**Market data: 17 May 2022**

Spot price	R10.66
12-month high	R11.90
12-month low	R9.75
Ave monthly volume	1,021,302
Dividend yield (estimated)	6.8%

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

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