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Satrix MSCI Emerging Markets Feeder ETF (JSE:STXEMG)

03.06.2022

Fund suitability

This ETF is suitable for investors with a high risk appetite seeking broad exposure to emerging market equities over a long-term horizon

Fees

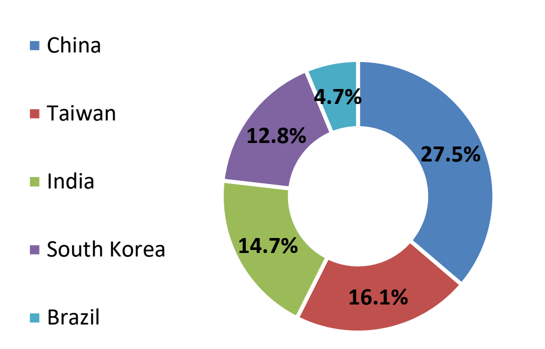
The ETF has a total investment cost of 0.62%.

Alternative funds

Satrix MSCI EM ESG Enhanced Feeder (TIC:0.66%); Sygnia Itrix MSCI Emerging Markets 50 (TIC:0.40%)

"Emerging market equities are under-valued relative to their developed market peers"

Country allocation – top 5 (%)



Emerging market equities have been under pressure, as their economies face the effects of contractionary monetary policy in developed nations and rising inflation from strained supply chain conditions, including the commodity price shock induced by the Russia-Ukraine war

While economies like Brazil and SA have benefitted from elevated prices of some commodities (iron ore, coal etc), it has come at the cost of skyrocketing consumer prices from others such as oil. Unlike their developed market counterparts, emerging market consumer price indices consist of a larger proportion of food and energy, with the resultant price rises putting consumers under pressure.

According to data from S&P Global Ratings' Q2 emerging markets outlook, food made up more than 30% of the consumer price index (CPI) for India, Thailand, the Philippines and Russia.

In addition, 10 of the 16 companies included in the outlook are energy importers, indicating that rising energy costs are negatively affecting consumers' disposable income.

While data from global asset manager Schroders shows that a significantly lower number of emerging market economies are in poor fiscal shape now than in 2013 (which implies more readiness for monetary tightening in the US), we believe that rising interest rates locally in response to hikes in developed markets is adding further pressure to emerging market consumers.

These are some of the factors that have caused nervousness towards emerging market equities. However, China, the largest equity component within emerging market indices, has had its own troubles to deal with.

Negative developments within the technology sector throughout 2021 spilled into 2022 – these include antitrust regulators slapping Chinese food delivery giant Meituan with a USD527m fine for abusing its dominant market position.

The crackdown continued with shares in the JSE-listed duo Naspers and Prosus slumping after news emerged that Tencent (the Chinese internet and tech giant that is 29% owned by Naspers/Prosus) faced a record fine for violating money laundering regulations. These developments unnerved investors, sending Chinese equities down 23% in 2021 (USD).

However, there may be cause for optimism, starting with valuation levels. According to data from local fund manager Anchor Capital, emerging market equities are under-valued relative to their developed peers.

Specifically, their two-year forecast indicates an 8.6% decline in earnings growth and forward price:earnings ratio of 13.0x in 2022 for the MSCI EM Index. While the earnings growth estimate is poor relative to the MSCI World (16%) and S&P 500 (16.8%), year two is of particular interest.

Accordingly, Anchor estimates 13% earnings growth and a price: earnings ratio of 11.6x, with both metrics being better than those of the MSCI World and S&P 500. We believe that the recent underperformance of Chinese equities underpins this relative undervaluation, given its weight in emerging market indices.

What's more, global asset manager Russell Investments' Q2 2022 outlook highlights its expectations that Chinese authorities will have to stimulate the economy to reach its 5.5% real GDP growth target for 2022 – especially in the year in which the National People's Congress is expected to be held.

The recent lockdowns in response to the Omicron variant led to a decline in China's fixed investment, industrial production and retail sales in April, with the latter slipping 11.1% yearly, according to the Bureau for Economic Research.

Given that the People's Bank of China subsequently pushed banks to increase lending through a 15 basis point reduction in the mortgage lending rate, we believe that Russell Investment's expectations of more stimulus towards the end of this year is increasingly likely – this is a plus for Chinese and possibly, emerging market equities.

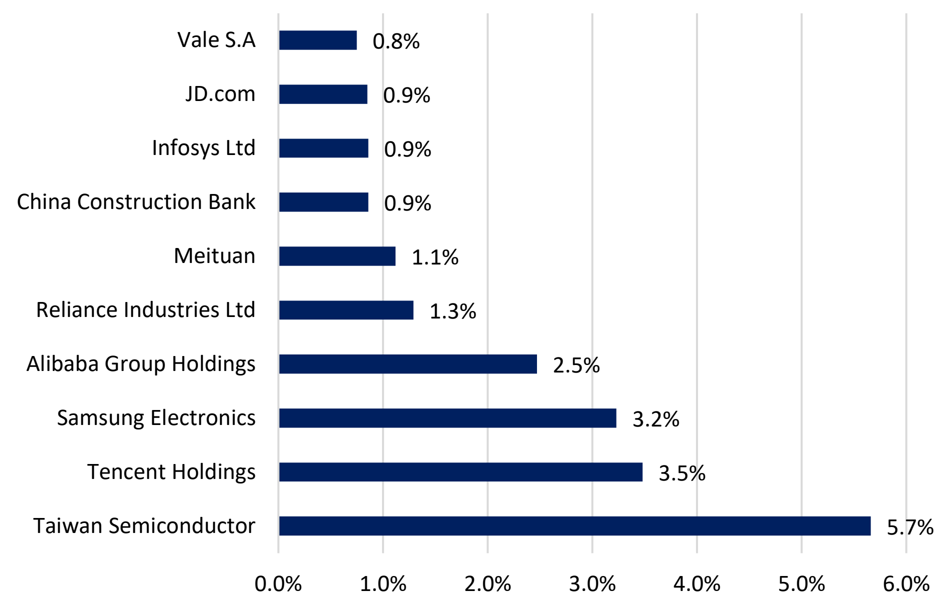
The Satrix MSCI Emerging Markets Feeder ETF, which invests in the iShares Core MSCI EM Investable Market Index UCITS ETF, provides investors with exposure to emerging market equities.

The feeder fund - which tracks the performance of the MSCI EM Investable Market Index - invests in over 2,800 emerging market companies using the free-float adjusted market cap method, which excludes non-tradeable shares. This ensures broad and diversified exposure. Finally, the fund has a total investment cost of 0.62%.

Investment approach and portfolio composition

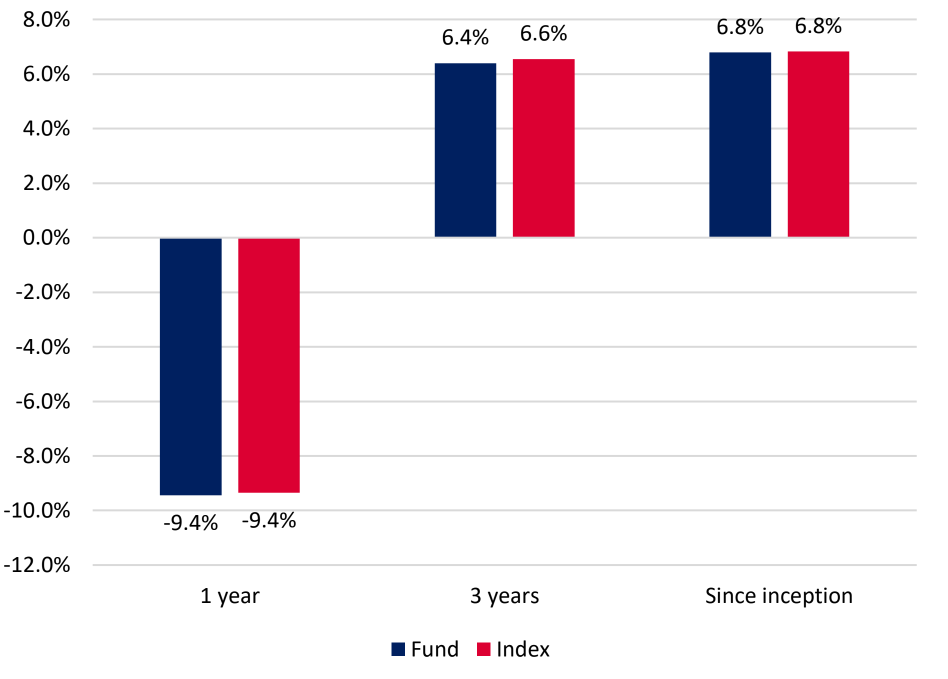
The Satrix MSCI Emerging Markets Feeder ETF, which invests in the iShares Core MSCI Emerging Markets IMI UCITS ETF, tracks the performance of the MSCI EM Investable Market Index (before fees and expenses).

Top holdings (%)



Performance

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



Fund information: 30 April 2022

Launched on	25 July 2017
Trading symbol (JSE)	STXEMG
Weighted average market cap.	ZAR1.8bn
Total investment cost	0.62%
Risk rating	High
Benchmark	MSCI EM Investable Market Index

Market data: 03 June 2022

Spot price	R48.40
One-year high	R58.50
One-year low	R44.65
Average monthly volume	1,603,805
Estimated dividend yield	N/A

Source: Infront, yahoo finance