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Satrix MSCI World ESG Enhanced ETF (JSE:STXESG)

11.11.2022

Fund suitability

This ETF is suitable for investors with a high risk appetite seeking offshore exposure to companies listed on MSCI World ESG Index.

Fees

The fund has a total expense ratio of 0.34%.

Alternative funds

Satrix MSCI EM ESG Enhanced Feeder ETF
(TER:0.40%)

“Broadly, this ETF designed for investors looking to screen out controversial business areas while maintaining a risk profile similar to traditional benchmarks.”

Environmental, social and governance (ESG) investing is often used interchangeably with the term sustainable investing. BlackRock – an asset management company - defines sustainable investing as being the practice of analysing a company’s environmental, social and governance risks, as well as assessing its opportunities and progress, using ESG data and fundamental insights, to inform the allocation of capital.

The asset manager notes that there has been a paradigm shift of capital towards sustainable investing with investors moving their money into sustainable investments at six times the growth rate of traditional funds.

The Satrix MSCI World ESG Enhanced Feeder ETF includes securities of companies with the highest ESG ratings representing 50% of the market capitalisation in each sector of the MSCI ACWI Index. In addition, companies showing qualifying involvement in alcohol, gambling, tobacco, nuclear power, civilian firearms, fossil fuels extraction, thermal coal power and weapons are excluded.

The fund’s investment strategy limits the types and number of investment opportunities available to the fund and, as a result, the ETF may underperform other funds that do not have an ESG focus, thus investors should be wary of missing out on other companies that do not form part of the index.

Morningstar estimates that there is \$4tn of global assets across all ESG categories and believes the growth will accelerate through 2022 and beyond. However,

there is cause for concern as governments and regulatory bodies regulate the market, which might hinder the growth of the industry.

There are over 600 ESG reporting standards, according to Ernst and Young. Some companies use their own custom frameworks without any regulatory oversight, leading to inefficiencies. Despite the reporting imperfections, ESG is here to stay. The US Securities Exchange Commission announced its plans to formulate a comprehensive ESG disclosure framework, which will likely lead to enhanced disclosures and greater transparency.

ESG debt and ESG ETF instruments tracked show no signs of slowing, according to Bloomberg Intelligence. Bloomberg further estimates that ESG assets may account for one-third of total assets under management globally by 2025. Europe accounts for a sizeable share of global ESG assets and dominated the market until 2018 while the US is taking the lead with more than 40% growth over the past two years and is expected to exceed the \$20tn mark by the end of this year.

ESG ETFs’ cumulative inflows exceeded Bloomberg’s expected \$121bn in 2021, which was the firm’s bull case scenario. In addition, these funds had expanded for more than 38 consecutive months by January 2022.

ESG flows have the potential to not only improve climate action but may also address social and governance issues such as fair treatment of workers, diversity and inclusion, transparency and reporting

standards of organisations. The growth in these funds is widespread in that individual investors are also seeking to allocate their investments toward sustainable strategies for a greener world.

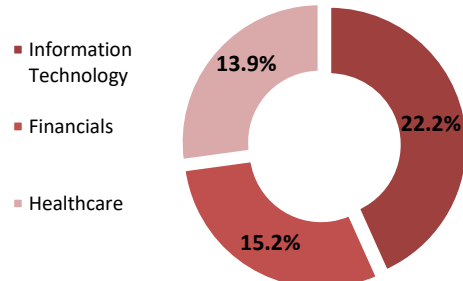
Moreover, individual investors are seeking more valuable insights into whether businesses are advancing ESG principles. Technology and artificial intelligence make it possible to analyse sustainable investments.

Private equity firms are also adopting ESG strategies for their funds as are portfolio companies in order to maintain a good image and reputation, attract talent and counter anticipated regulation.

Broadly, this ETF designed for investors looking to screen out controversial business areas while maintaining a risk profile similar to traditional benchmarks. Investors should therefore carry out a personal ethical assessment of the fund’s ESG screening prior to investing.

This fund tracks the value of the MSCI World ESG Enhanced Focus CTB Index in ZAR, which includes large and midcap stocks globally. In line with global equities, the fund is in the red year-to-date. It has yielded a 4.58% return since inception, which was just over two years ago. This is a mild return by the standards of the constituents of the index, which signals that high interest rates have weighed heavily on equity markets. The fund has a total expense ratio (TER) of 0.34% per annum, which is lower than the Satrix MSCI EM ESG Enhanced Feeder ETF’s TER of 0.40%.

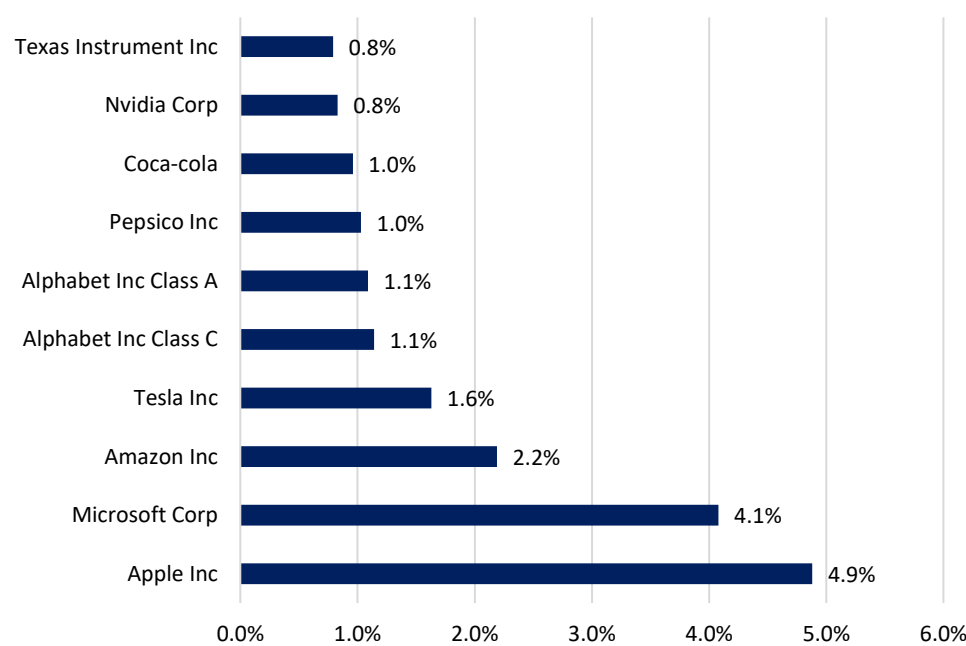
Sector allocation – top 3 (%)



Investment approach and portfolio composition

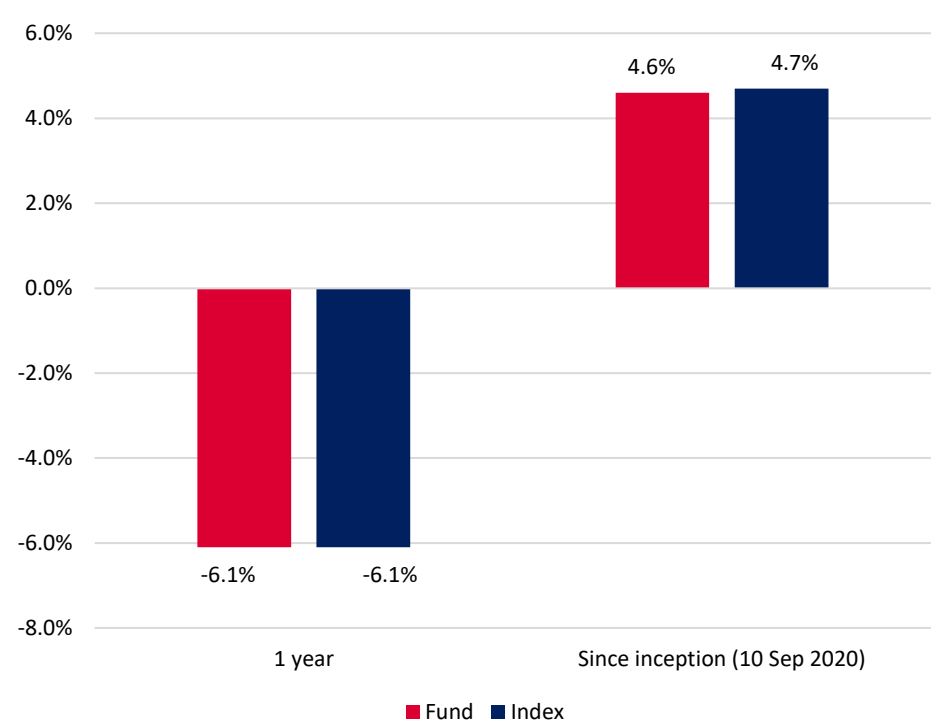
The Satrix MSCI World ESG Enhanced Feeder ETF tracks the value of the MSCI World ESG Enhanced Focus CTB Index in ZAR, which includes large and midcap stocks globally.

Top holdings (%)



Performance

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



Fund information as at 31 September 2022

| | |
|------------------------------|-----------------------------------|
| Launch date | 10 September 2022 |
| Trading symbol (JSE) | STXESG |
| Weighted average market cap. | R163m |
| Total expense ratio | 0.34% |
| Risk rating | High |
| Benchmark | MSCI World ESG Enhanced Focus CTB |

Market data: 08 November 2022

| | |
|------------------------|--------|
| Spot price | R54.78 |
| 12-month high | R68.60 |
| 12-month low | R48.31 |
| Average monthly volume | 2,488 |
| Gross dividend yield | N/A |

Source: Infront, yahoo finance

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