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Researching Capital Markets and Financial Services

ETF Insights.

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Analyst: Gershwyn Benjamin

Sygnia Itrix New China Sectors ETF

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Fund suitability

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

Fees

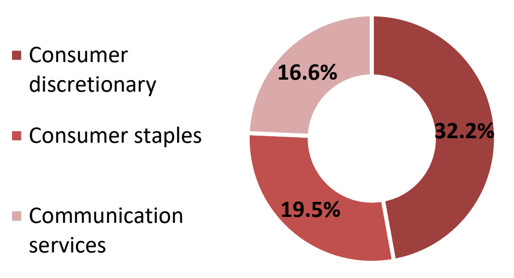
The fund will have a total expense ratio of 0.50%

Alternative funds

None

"China's major economic reforms have led to average real GDP growth of almost 10% each year"

Sector allocation – top 3 (%)



China's well-documented economic journey includes its transformation from a mainly agriculture-based economy into an industrial and export-driven powerhouse.

The careful planning and implementation of structural reforms from the Den Xiaoping era included targeted reduction in government intervention; increased incentives for farm workers who were enabled to sell and profit from their produce; expanding research and education; industrial expansion; and enabling foreign trade and investment.

Consequently, China's increasingly modernised economy started to experience a rapid increase in economic output – real GDP growth has since averaged almost 10% each year, according to data from the World Bank.

However, the rapid growth has also come at the cost of economic, social and environmental imbalances of which we'll focus on the former. Within its population, estimated at 1.4-billion, approximately 55% of citizens are ranked in the low-income segment, followed by an estimated 33% in middle income and the balance (12%) in the high-income segment.

Accordingly, local fund manager Anchor Asset Management (Anchor) describes this wealth distribution as "pyramid-shaped" and reports that the Chinese government aims to change the distribution into an "olive-shaped" pattern in which more citizens move up into the middle class.

Government's plans to change the distribution are known as the "common prosperity" strategy which President Xi Xinping first described as a pledge to "reasonably regulate excessively high incomes, and encourage high-income people and enterprises to return more to society".

However, China's common prosperity objective hurt the tech sector in 2021 as authorities cracked down on businesses it viewed as having monopolistic practices. The regulatory changes first started with authorities halting a $37bn listing of Ant Group. In addition, food delivery group Meituan Dianping was fined $527m (3% of 2020 domestic sales) by Beijing's anti-trust regulator for abusing its dominant market position.

The crackdown continued into this year as Naspers and Prosus shares slumped after news emerged that Tencent (the Chinese internet and tech giant that's 29% owned by Naspers/Prosus) faces a record fine for violating money laundering regulations. Given the regulatory developments and negative sentiment, Chinese equities lost a substantial 23% in 2021 (USD) and given the events so far this year, downside risk remains.

The regulatory events described above also highlight the Chinese government's focus on other areas of the economy, as highlighted in its 14th Five-Year Plan. The plan includes ambitions to research and complete projects related to new generation artificial intelligence, quantum information, integrated circuits (semiconductors), genetics and neurology.

Overall, we believe China's latest plans represent a shift from investment-led growth to consumption-led growth.

Given the above, China aims to grow its economy by 5.5% this year. While this is lower than in recent times, it still represents decent growth off a high base.

However, renewed outbreaks of the Omicron variant are stalling China's progress, especially due to its zero-Covid strategy. This has led to hampering lockdowns in key cities such as Shanghai, Shenzhen and Beijing.

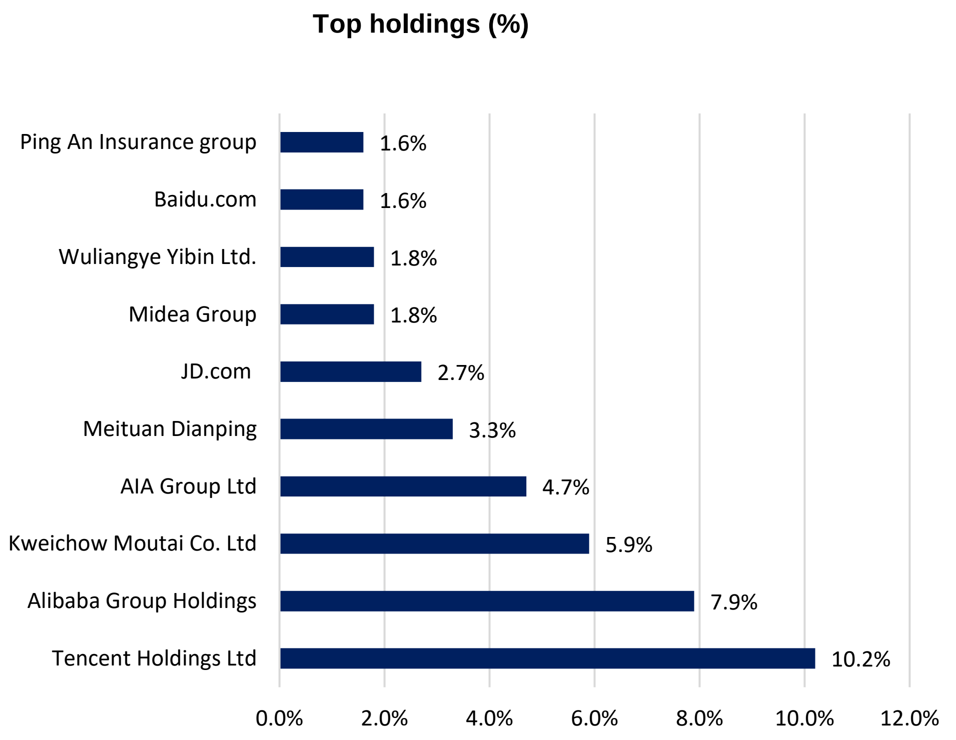
Against this backdrop, the newly-listed **Sygnia Itrix New China Sectors ETF** will invest in companies domiciled in China and Hong Kong within the consumption and service-oriented industries. It aims to track the performance of the S&P New China Sectors Index. The index is float-adjusted, which excludes non-tradeable shares, thus increasing liquidity. It will be slightly expensive with a total expense ratio of 0.50%.

Tencent is the ETF's largest holding, highlighting the potential risk of exposure to the fund. However, patient investors may reap rewards – China's goal to double its number of middle class citizens by 2030 implies a 7.2% growth in the specific population segment, according to Anchor's estimates.

Anchor also describes the Chinese middle class as the fastest growing luxury spending market with a lower penetration rate than its western counterparts, highlighting the potential upside over the long term.

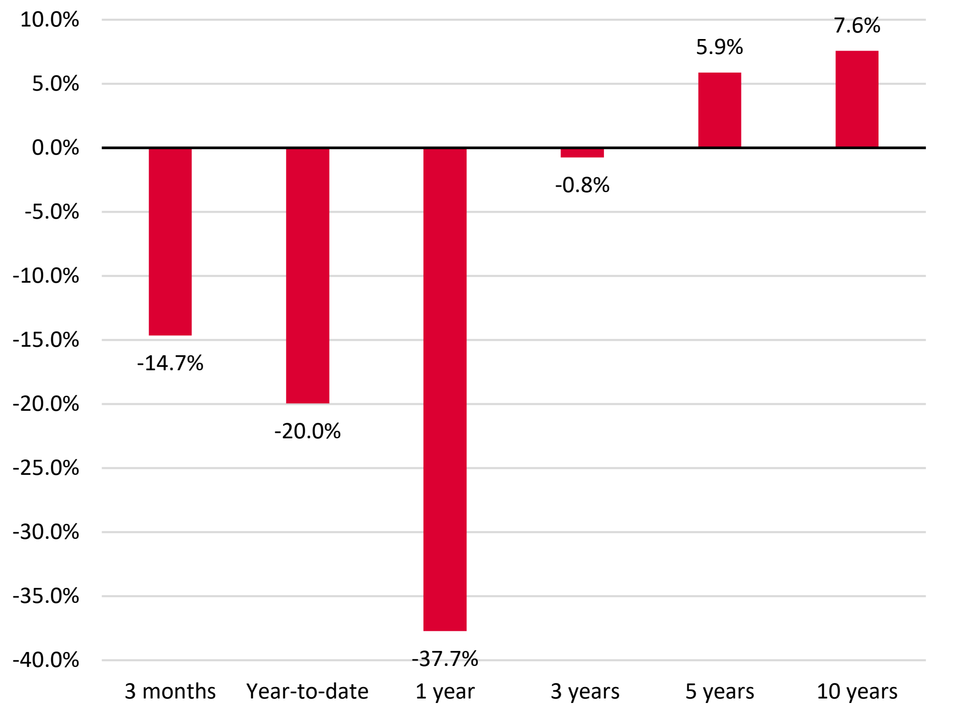
Investment approach and portfolio composition

The Sygnia Itrix New China Sectors ETF tracks the performance of the S&P New China Sectors Index before fees and expenses.



Performance

Index performance (in USD) to end-April 2022 (annualised for periods longer than one year; with dividends reinvested).



Fund information: 31 March 2022

Launched on	20 April 2022
Trading symbol (JSE)	N/A
Weighted average market cap.	R150m
Total expense ratio	0.50%
Risk rating	High
Benchmark	S&P New China Sectors Index

Market data: 29 April 2022

Spot price	R28.05
Weekly high	R29.45
Weekly low	R26.86
Average monthly volume	N/A
Gross dividend yield	N/A

Source: Infront, yahoo finance