

## NewFunds S&P GIVI SA Financial 15

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### Fund information

Launch date	26 June 2009
Trading symbol	GIVFIN
Fund size (@ 28 September 2018)	R48.8m
Total expense ratio p.a.	0.23%
Distributions	Quarterly
Benchmark	S&P GIVI SA Financials

### Market data as at 30 January 2019

Spot price	R34.80
12-month high	R40.30
12-month low	R32.37
Ave monthly volume	17,650
Risk level	High
Dividend yield	5.18%

### Fundamental Analysis

With the US Federal Reserve this week leaving interest rates unchanged, we look at a fund that is significantly influenced by level of interest rates in the economy, the NewFunds S&P GIVI SA Financial 15. Historically, US interest rate decisions have indirectly affected SA's rate policy.

It is important to note that not many investment asset classes benefit from a rising interest rate environment, particularly when the economy is stagnating. Even banks that can get an immediate boost through margin expansion will eventually suffer as consumer borrowing declines and greater stress in servicing existing debt takes a toll. Bond prices fall as rates go up and demand in the economy is curtailed, which generally is bearish for equities.

This fund is a subsector fund, investing in one of the three main subsectors of the JSE – financials, industrials and resources. The idea behind such subsector funds is that

they allow you to fine tune your exposures depending on your views of the likely prospects for different sectors. They can also be used as “building blocks” to assemble a portfolio with different sector weightings from those found in broader diversified portfolios.

These funds can be used by active investors who want to take a view on the prospects of different segments of the economy. In addition, due to NewFunds S&P GIVI SA Financial 15's relatively high distribution ratio, it can be used by investors who rely on their portfolios for regular income.

Intellidex's view is that the Reserve Bank will hike interest rates once this year. This will most likely happen if Moody's downgrades our sovereign credit rating. Moody's remains the only international rating agency which still has an investment-grade credit rating on SA. Although the timing is difficult to call, we believe there are two important events on the 2019

calendar that could trigger a downgrade: if the February budget underwhelms; or if Eskom's interim results in November show a deepening debt crisis with no feasible solution on the table.

The fund uses intrinsic value as a determining factor for its investments, meaning it is forward looking, based on the expected performances of each company. Although this can be a more robust way to construct a portfolio than the vanilla market-cap approach, it is only as good as the inputs of the model. In this case the fund has consistently underperformed its benchmark (see historical performance graph below).

Its other dimension gives more weight to counters that have lower risk (low volatility), implying that it should limit the potential loss of capital. Furthermore, it tries to limit the idiosyncratic risk of individual assets by capping them at 30% of the portfolio, but we think the cap is too

high and performance of the fund could potentially still be skewed by one asset. However, the fund's current weightings do not reflect this.

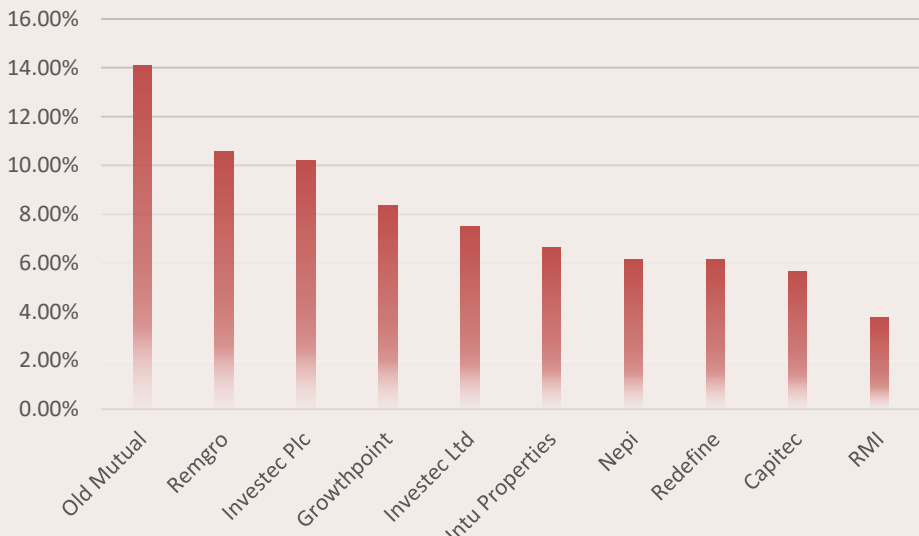
Another important risk consideration is that it is concentrated in one broad sector and all companies are responsive to similar risk factors. It is important therefore that this ETF forms part of a wider portfolio that includes other sectors such as industrial stocks.

Furthermore, financial companies tend to generate a large portion of their earnings in SA, and the local economy is in some distress with a bleak outlook. Intellidex's forecast for GDP growth this year is 1.5%. However, investors can take some comfort from the knowledge that SA's financial sector is regarded as one of the most sound globally.

### Top holdings and methodology

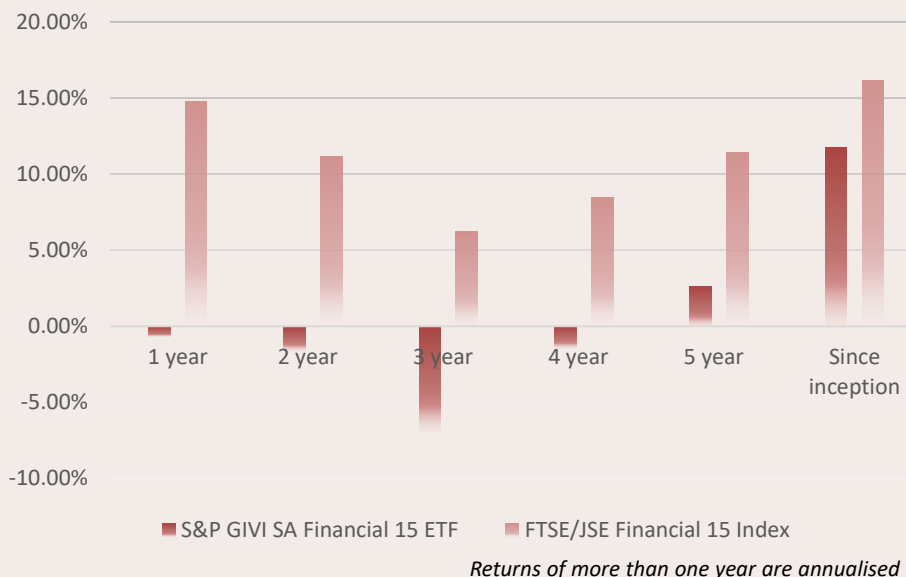
The fund mimics the S&P GIVI SA Financials Index performance by prioritising counters with the highest intrinsic value and lowest volatility, subject to certain liquidity constraints. The maximum weight of each stock in the index is capped at 30%.

#### Top holdings (%) at 31 December 2018



### Historical performance

#### Net asset value (NAV) performance to end-September



#### Suitability

This is an ideal ETF to implement a tactical portfolio strategy or to use as a building block for your core long-term portfolio

#### Fees

NewFunds S&P GIVI SA Financial 15 has a total expense ratio of 0.23%.

#### Alternative

Satrix FINI, although the methodology is a bit different in that it uses market capitalisation to populate the fund.

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