

## CORESHARES PropTrax SAPY ETF

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### Fund information at end-September

Launch date	25 September 2007
Trading symbol	PTXSPY
Fund size (@ 30 September 2018)	R136.4m
Total expense ratio (TER) p.a.	0.58%
Risk rating	High
Benchmark	FTSE/JSE SA Listed Property Index

### Market data on 23 November 2018

Spot price	R51.30
12-month high	R73.45
12-month low	R50.65
Ave daily volume	101,250
Index dividend yield	7.9%

## Fundamental Analysis

Consumers have been hit with a double whammy with inflation accelerating to 5.1% in October (from 4.9% in September) and the South African Reserve Bank raising interest rates by 25 basis points to 6.75%. Of course, falling international oil prices should provide some relief.

During tough economic times such as these, sources of additional income can dry up quickly, but a savvy investor should always have investments that provide both income and capital appreciation.

There is a gem that can provide much-needed bridging in tough times: real estate investment trusts (Reits). This a special JSE-listed equity asset class with unique characteristics divorced from other equity sectors. Reits are total return investments because they generally provide high dividends coupled with the

potential for moderate long-term capital appreciation. Long-term total returns of Reit stocks tend to mimic those of value stocks and outperform lower-risk bonds.

A standout feature of Reits emanates from their trust status, which provides a tax wrapper: they are not subject to corporate tax but should distribute most (at least 75%) of their income as dividends. And dividends are taxed at the investor's marginal tax rate.

Reits have other unique requirements. They need to own at least R300m worth of property assets; keep debt below 60% of gross asset value; and earn 75% of revenue from property rentals or investment income from indirect property ownership.

Since Reit contracts have annual rental escalation clauses and long-lease terms, the

income growth pattern is highly predictable, which reduces risk. Furthermore, their comparatively low correlation with other equity classes and fixed-income investments makes them an excellent portfolio diversifier that can help increase risk-adjusted returns.

A correlation matrix considering 12 major classifications of JSE equities shows that, after the retail sector, Reits were the least correlated with the all-share index between March 2002 and October 2018.

Because of their strong dividend income, they are important both for retirement savers and for retirees who require a regular income stream to meet their living expenses. It is the JSE equity investment class that has exhibited the highest payout ratio, boasting an average dividend yield of 7.8% over the past 16 years compared with the all share index's 2.9%.

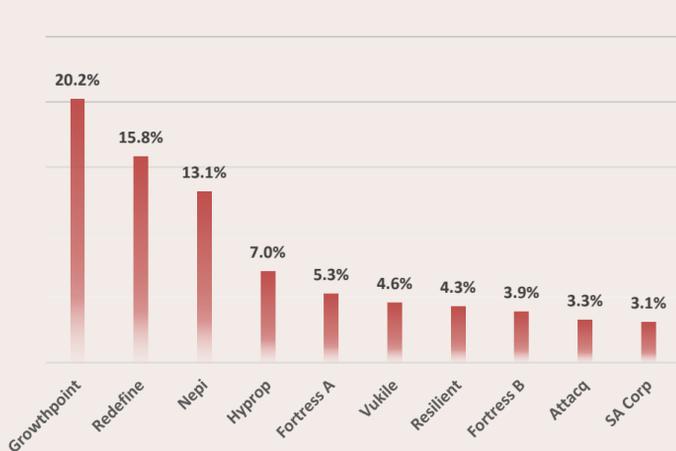
However, the higher interest rates mean interest payments go up, which implies that Reits will have less cash flow available to pay out as dividends.

The CoreShares PropTrax SAPY ETF, however, has some specific weaknesses. It is a market capitalisation-weighted fund which gives too much weight to a few large-cap counters, so elevating the risk. Such was the case at the beginning of the year when Resilient and Fortress stocks were hammered due to some accounting irregularities and allegations of stock price manipulation. That hit the fund's returns hard. It is also a sector-focused fund which means it is riskier than other broad-based funds.

## Top holdings and methodology

Provides returns linked to the performance of the FTSE/JSE SAPY Index in terms of both price performance and income.

### Index top holdings at 30 September



### Price performance to 30 September (annualised for periods longer than one year)



The fund has been among the best performers for several years until end of last year. Recent returns were adversely affected by the accounting scandal that surfaced at the beginning of the year associated with two of the fund's heavyweight constituents, Resilient and Fortress.

### Suitability

Suitable for investors seeking additional income, particularly pensioners.

### Fees

Its total expense ratio (TER) is 0.58% per annum, which is the highest among its peers.

### Alternatives

CoreShares PropTrax Ten ETF (TER: 0.54%);  
Stanlib SA Property Exchange Traded Fund (TER: 0.28%);  
Satrix Property ETF (TER: 0.33%).

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