1nvest the tracker

Quarter 1 April 2023

The latest FTSE/JSE Africa Index Series rebalance became effective on 20 March 2022, where index trackers rebalanced their portfolios during the closing auction of 17 March 2022. Index rebalancing turnovers were mostly higher than Q4 2022's turnovers across all FTSE/JSE indices. Due to weight changes across all indices, the All Share index saw a 2.6% two-way turnover compared to 0.7% two-way turnover we saw last quarter. The two-way turnover for Top40 index was 2.7% compared to 0.5% we saw last quarter. The FTSE/JSE Capped SWIX All Share (J433) had a two-way turnover of approximately 4.4% compared to 2.1% we saw last quarter. NPN and PRX were capped to a combined weight of 12% due to group entity capping introduced in Q3 2022. On 07 February 2023, FTSE/JSE released an informative notice regarding its market consultation that was conducted in September 2022 about harmonising FTSE/JSE Africa Index Series methodology. All proposed changes were postponed by the JSE until further notice. The market remains in favour of the change to the SWIX methodology for the vanilla indices and this change will not occur in June 2023 as initially proposed by the JSE. The Group-Entity capping proposal of 10% & 15% for specific indices, received mixed comments and the current 12% will remain. The termination of SWIX indices (once all indices change to the SWIX methodology) will not occur before March 2024. Market participants are not happy with the costs and administrative burden of this process. FTSE/JSE will continue with its market consultation to try and convince the market on this. Any index change will have a 6 month advanced notice period.

Q1 2023 constituent changes

Top40: No changes
Swix40: No changes

All Share: +RCL& -MUR;-RFG; -SNH; -ZZD
Swix All Share: +RCL& -MUR;-RFG; -SNH; -ZZD

Indi25: No changes
Fini15: No changes

Resi10: No changes

Considerations in Using Market Indices

Market index constituents are usually chosen with the goal of covering either the entire market or a specific market sector, subject to certain liquidity constraints. In terms of weighting, most market indices worldwide use a free-float adjusted market capitalisation measure, meaning that only shares that are freely available to trade are included when calculating total market values. As a result, market indices are naturally biased towards the larger companies.

Market indices have four primary uses. Firstly, a market index acts as a standardised performance measure for a stock market or sector over time, thus ultimately aiding investors in making appropriate investment decisions. Secondly, by investing in an index tracking fund, investors are able to obtain broad market exposure in a simple and tax-efficient manner, usually at far lower cost than other investment funds. This is particularly useful for people without strong views on specific stocks. Thirdly, market indices are often used as fund benchmarks and thus provide a natural means of evaluating a fund manager's performance. The choice of a fund's benchmark also sheds considerable light on the manager's overall investment style, area of expertise, and investment universe. Lastly, due to their high liquidity and wide coverage, market indices are natural building blocks for use in a fund's all-important long-term strategic asset allocation policy. It is thus clear that, despite their apparent simplicity, market indices and the funds that track them are perhaps one of the most versatile tools available to investors today.

Figure 1 displays a series of South African market indices. The most important of these are the All-Share Index or ALSI, representing the top 99% of all ordinary securities listed on the Main Board of the JSE which qualify under Rule 4.1 as eligible for inclusion in the index; and the aptly named Top40 Index, representing the 40 most investible companies on the JSE. The ALSI is the index most often used as a proxy for the 'South African market', while the Top40's constituents are maintained at a constant level to reflect the highest net market cap eligible stocks of the JSE.

South African market capitalisation indices

- **FTSE/JSE Market Indices**
  - **Benchmark Indices**
    - **All Share Index (J203)** Top 99% of market
      - **Large Cap Index (J205)** 85% of market
      - **Mid Cap Index (J201)** 85%-96% of market
      - **Large & Mid Cap Index (J206)** 96% of market
      - **Small Cap Index (J202)** 96%-99% of market
    - **Fledgling Index (J204)** 99%-100% of market
  - **Most Investible Indices**
    - **Top40 Index (J200)**
    - **Findi30 Index (J213)**
    - **Resi10 Index (J210)**

fund in focus: 1nvest Low Equity Balanced Passive Fund of Funds

What is it?

The objective of the 1nvest Low Equity Balanced Passive Fund of Funds is to provide investors broad exposure to a mix of local and offshore asset classes within a single fund, with a low equity allocation, in the most cost-effective manner.

What does it track?

The fund invests in underlying collective investment scheme portfolios or cash portfolios to achieve its objective. Each of the underlying portfolios tracks a benchmark index in the equity, bond, property, or money markets in order for the overall portfolio to track its benchmark as closely as possible. The portfolio is rebalanced semi-annually and therefore has minimal trading costs.

What does it give you?

The 1nvest Low Equity Balanced Passive Fund of Funds is designed to provide investors with a broad exposure to a mix of asset classes within a single fund, with a low equity allocation, at a low cost. Balanced funds offer diversification and potential income generation. Investors gain both local and offshore exposure – given the fund is Regulation 28 compliant, allowing the investor exposure to various asset classes in their investment portfolio.

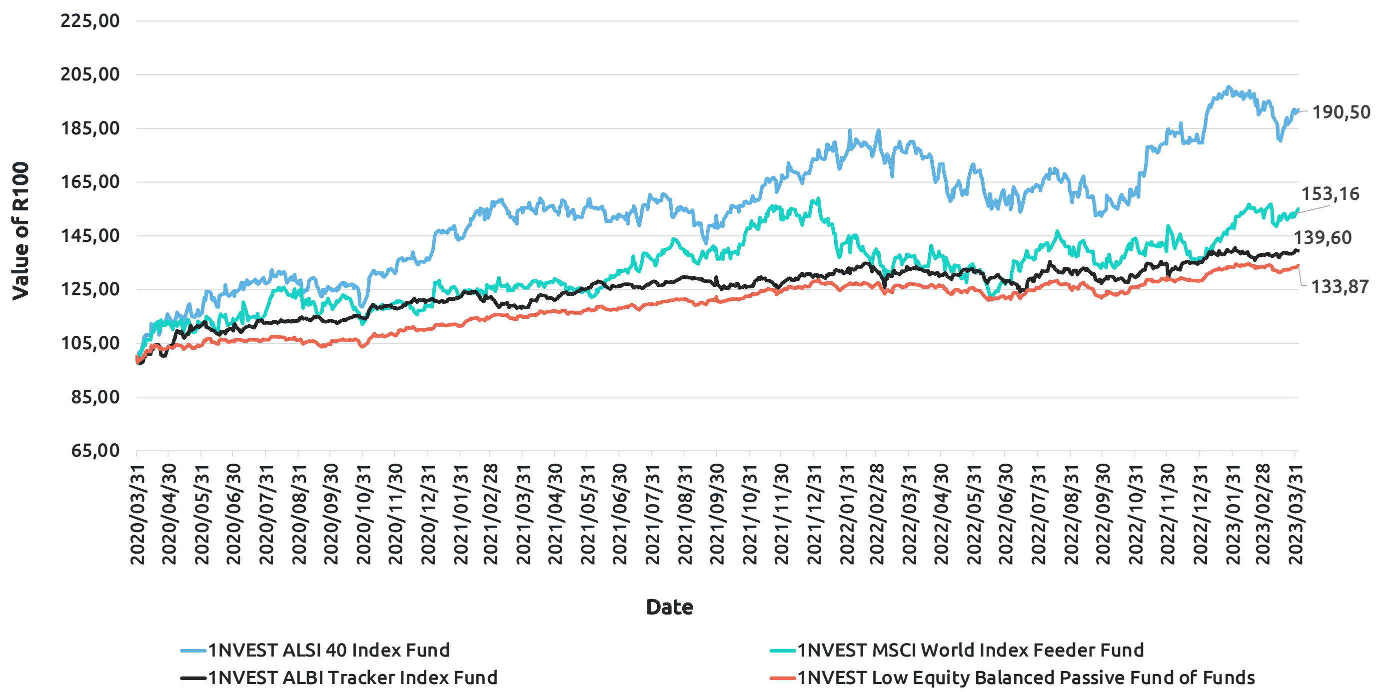
Why in focus?

Investors globally are operating in a challenging socio-economic backdrop fueled by rising interest rates, looming recessionary fears and concerns around contagion risk in the banking system. During periods of risk-aversion in financial markets, it is crucial to invest in a diversified mechanism that can endure shocks in the long-term and potentially safeguard against losses by tilting exposure to performing asset classes. The 1nvest Low Equity Balanced Passive Fund of Funds is designed to have larger exposure to fixed income securities, which in the long-term helps to decrease the overall portfolio's unpredictability, particularly during extended periods of market fluctuations. To highlight the current diversification benefits introduced by investing in a mix of asset classes, local indices finished Q1 2023 in the red with the FTSE/JSE Top 40 Index down 0.8%, the FTSE/JSE All Share Index down 1.3% and the FTSE/JSE Capped SWIX Index down 2.0%. Looking at the fixed income and currency markets, the FTSE/JSE ALBI outperformed equity indices and returned 3.42%, while the STeFI returned 1.77%. The 1nvest Low Equity Balanced Passive Fund of Funds provides a high degree of transparency in the fund's strategic asset allocation approach and underlying asset class mix, and the semi-annual rebalancing ensures that trading costs of the fund are kept minimal thus offering a cost-effective TIC to investors. Overall, balanced funds can be an important tool for investors during times of financial market turbulence, as they offer diversification, risk management (risks include general market conditions and market volatility, interest rate risk, inflation risk, economic and political risk) and potential income generation.

Invest now:

1nvest UTs can be bought and sold directly from STANLIB or LISPs. 1nvest ETFs are listed on the JSE and can be bought and sold through a traditional or online stockbroker.

Value of R100 Invested over 3 years



sector exposures

Sector weights	Resources	Consumer Discretionary	Consumer Staples	Financials	Health Care	Industrials	Real Estate	Technology	Telecoms
Top40	26,28%	22,22%	8,02%	19,56%	0,99%	3,35%	1,36%	13,26%	4,96%
Swix40	26,53%	6,43%	10,96%	25,09%	1,35%	2,91%	1,86%	18,11%	6,78%
All Share	25,71%	21,35%	8,55%	19,06%	2,08%	3,89%	3,06%	11,81%	4,49%
Swix All Share	25,53%	7,36%	11,15%	24,33%	2,72%	3,68%	3,99%	15,39%	5,86%
Capped Swix40	28,05%	6,80%	11,59%	26,54%	1,43%	3,07%	1,97%	13,39%	7,17%
Capped Swix All Share	26,04%	7,50%	11,37%	24,81%	2,77%	3,75%	4,07%	13,71%	5,97%

Source: Bloomberg

market indicators

Indices (base currency)	3m	6m	1y	3y	5y	10y
Capped Swix All Share	2,44%	14,97%	0,23%	23,02%	6,49%	8,42%
SAPY	-5,05%	13,29%	-3,36%	18,19%	-4,10%	1,35%
ALBI	3,39%	9,27%	5,83%	11,63%	6,90%	7,31%
MSCI World	7,73%	18,25%	-7,02%	16,40%	8,01%	8,85%
S&P 500	7,36%	15,32%	-8,20%	18,03%	10,60%	11,60%
Gold	7,96%	18,59%	1,64%	7,68%	8,24%	2,11%
USDZAR	4,45%	-1,60%	21,80%	-0,08%	8,49%	6,78%

Source: Bloomberg

contact us

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