

LAUNCH OF THE NEW AMETF ON THE JSE

The very first Actively Managed ETF (AMETF) listed on the 18th of May 2023. The CoreShares Income AMETF (**JSE code: INCOME**) is one of the first ETFs to be listed as actively managed. In accordance with new legislation, Exchange Traded Funds (ETFs) can now also be actively managed, meaning they have room for flexibility, rather than focusing on Indexing tracking solutions. The INCOME AMETF provides exposure to a wide range of local and global interest-bearing assets and targets a return of CPI +2.5% over rolling 3-year periods. This AMETF is suitable for investors who are looking to get exposure to high income and long-term capital stability.

For more information on Actively Managed Certificates, check out Episode 44 of the etfSA Investor podcast under the etfSA.co.za website > Media Center > Podcasts: [Episode 44 -Active Management and Exchange-Traded Products - the Next Generation](#)

Check out the etfSA Investor Podcast on this AMETF (Episode 50), under the etfSA.co.za website > Media Center > Podcasts: [The ETF Investor - Episode 50 - Actively Seeking Income Yield](#)

The details of the new product are as follows:

ETP Name	JSE Code	MANCO	Listing Date	ISIN	Sector Exposure
CoreShares Income AMETF	INCOME	CoreShares	18 May 2023	ZAE000320990	Specialist Securities – Income focused

OVERVIEW

The **CoreShares by 10X income AMETF (INCOME)** invests in local and international interest-bearing assets, such as local bonds (nominal and inflation-linked), local and offshore credit (investment grade and high yield), and local money market funds. We can immediately see that this is not your “typical” income ETF with the inclusion of offshore corporate bonds, which is split between investment grade credit and high yield credit. The AMETF is designed to provide bond-like returns with less risk. It follows a Strategic Asset Allocation (SAA) with a focus on bonds and cash. Investments into this fund are made in South African Rands; however, the underlying offshore credit instruments are in U.S. Dollars and Euros. A portion of the offshore exposure will be currency hedged back into rand exposure, so the performance is exposed to some currency risk (i.e., exchange rate differential).

- The management fee is 0.38% excl. VAT
- In terms of income distributions, it is a distributing ETF that pays out quarterly
- **This AMC is suitable for investors with a long-term view and the risk profile is moderate-to-high**

WHY ACTIVELY MANAGED INCOME?

According to the CoreShares website, the benefits of being invested in an actively managed income ETF are as follows:

- **Capital stability:** By investing in an ETF that is mainly invested in fixed income and money market instruments, there could be stability in the capital invested, when investing long-term.
- **Diversification:** A multi-asset fund that provides exposure to a combination of asset classes, including equities, bonds, money market, or properties, both locally and internationally. This reduces the risk of the portfolio being overly exposed to a particular asset or risk.
- **Income:** By investing in fixed income and money market instruments, the ETF aims to pay a high and consistent level of income. The AMETF is designed to provide a high level of income with low levels of volatility.

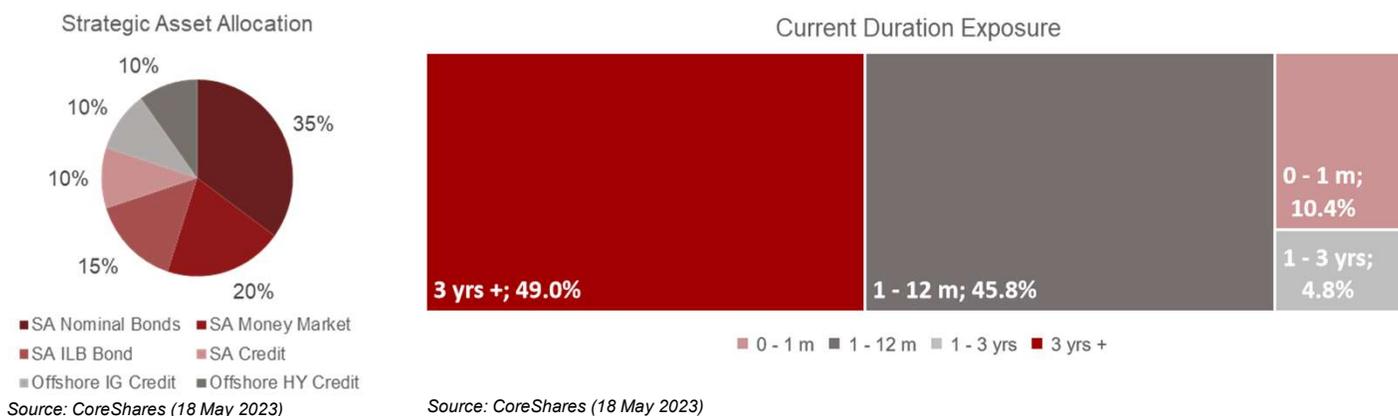
Research News: CoreShares Income AMETF

May 2023

PORTFOLIO ANALYSIS

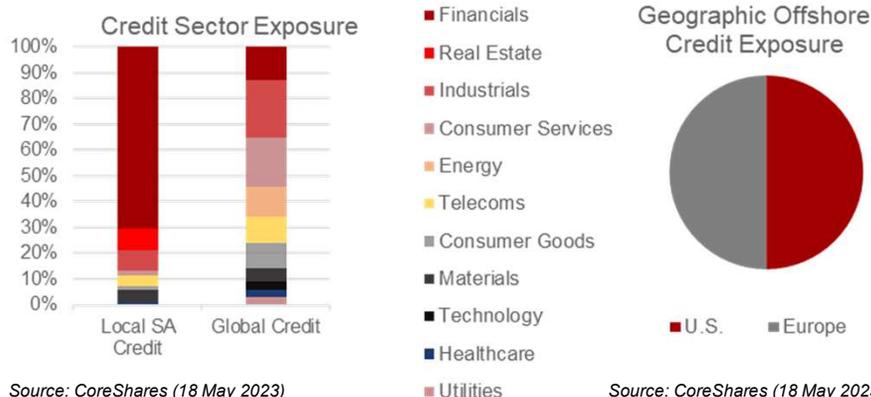
Looking at the ETF's strategic asset allocation below, about 80% of the fund is exposed to local assets and the remaining 20% is exposed to global assets. The fund is largely weighted towards local SA bonds at 50%, which is comprised of 35% in nominal government bonds, and 15% in domestic inflation-linked bonds. Understanding the source of income in relation to a fund's duration is vital. Government bonds are beneficial for a portfolio because they provide stable income in the form of coupon payments. Inflation-linked bonds have similar characteristics to nominal bonds, where coupons are also paid, but are adjusted for inflation. These bonds typically have a long duration of zero to twelve-or-more years, however the longer the duration, the more interest rate risk taken. As this AMETF aims to provide high levels of income with low volatility, the maturity dates of these bonds are shorter than the longer duration bonds, with a maximum duration period of 3 years. This makes up about half of the current duration exposure, as seen in the graph below.

For further details on how inflation-linked bonds can be used as an inclusion to a portfolio, check out the Research Note on Inflation-Linked Bond ETFs on the etfSA.co.za website > ETP Info Centre > Research : [Inflation-Linked Bond ETFs](#).



Looking at the allocation of credit instruments, which also provides income in the form of yields to the fund, it is comprised of local and global credit. On the local side, we see about 10% allocated towards local SA credit, which is comprised of about 50 issuers, with the sector allocation largely weighted towards financials (approximately 70%) and real estate (approximately 9%). On the global side, the global credit exposure makes up 20% of the portfolio. As seen in the credit sector exposure below, is a lot more diversified, with approximately 425 issuers. The global credit allocation is comprised of offshore investment-grade and high yield debt indices. Investment Grade Credit refers to the quality of a company's or bond's credit, in other words, there is a relatively low risk of default because of the higher credit rating. High Yield Credit, on the other hand, has a lower credit rating, but has a higher yield to compensate investors for the higher risk taken by investing in a sub-investment-grade instrument. Geographically, the offshore credit exposure is equally split between issuers in the U.S. and Europe.

From a liquidity perspective, the fund provides cash-like exposure by investing in domestic money market instruments, which typically has a short duration of less than a year. Given that the AMETF targets a return of CPI +2.5% over rolling 3-year periods, the strategic asset allocation illustrates the focus on low duration and high yields. According to the CoreShares digital brochure, the current yield, as at 28 April 2023, is 9.2%.



METHODOLOGY

Understanding the investment strategy is vital to know what you will be investing in. The CoreShares Income AMETF uses forward looking asset allocation models to define a more strategic asset allocation to deliver a high level of income with a low level of risk. Strategic Asset Allocation (SAA) is a portfolio strategy of setting target allocations across various asset classes and regularly rebalancing the portfolio to be aligned with those target allocations. Tactical Asset Allocation (TAA), on the hand, is an active portfolio strategy that encourages adjustments to a portfolio's asset class combination, in an attempt to take advantage of market trends and/or economic conditions. The INCOME AMETF's strategy does not seek to actively generate alpha through tactical asset allocation, but rather focuses on constructing a portfolio for a specific outcome, through SAA, using different asset classes within the fixed income universe. This is where the Actively Managed Exchange Traded Fund (AMETF) comes in, it is that middle ground of having the active flexibility of selecting instruments from a broader universe, which were previously prohibited for traditional ETFs, with the benefits of transparency and accessibility of an ETF.

CoreShares highlights the following aspects as important in terms of delivering income-seeking outcomes:

- **Strategic Asset Allocation:** following a strategic approach to the construction of a portfolio with high yield and low risk
- **Efficient Exposure to Asset Classes:** Diversification through multi asset classes and subsequently geographic diversification
- **Keeping costs low and transparency:** Works the same way as an ETF, it is a cost-efficient product that allows investors to access a wide range of assets or instruments, including those that are not easily accessible directly. Disclosure of the portfolio holdings is easily accessible and market makers provide live bid and offers on the exchange throughout the day.

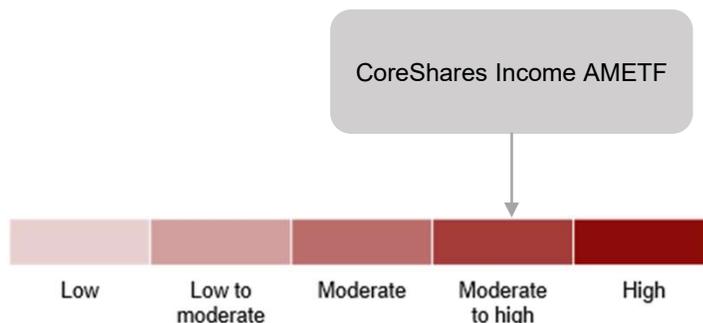
Source: CoreShares (18 May 2023)

RISK PROFILE

The CoreShares Income AMETF (INCOME) is uniquely positioned as being an actively managed ETF that provides investors with exposure to a wholistic income offering using multi-asset classes, including global credit which is not always easily directly accessible. The fund does not utilise the individual SARB foreign investment allowance because the AMETF is listed in Rands. Investments are not without risk and there are various factors to consider. etfSA.co.za classifies the risk profile of the INCOME AMETF as moderately high. Investors should be aware of their risk appetite and should be mindful of the risks associated with investing in this AMETF. Be sure to obtain the latest information and risk considerations of the AMETF from the managing company.

Details on some of the risks to be aware of is as follows:

- **Currency Risk:** The Portfolio may be exposed to currency risk in relation to the valuation of assets held in other currencies besides the Rand
- **Market Risk:** Market risk exists because of price changes. As the portfolio will always be exposed to markets, it is effectively exposed to market-related volatility
- **Credit Risk:** The risk that a borrower fails to meet its obligations, resulting in a financial loss
- **Liquidity Risk:** A risk that an investment cannot be bought or sold on time to prevent or minimise a loss
- **Interest Rate Risk:** Interest rate risk is the decline in the value of an asset or instrument resulting from fluctuations in interest rates.



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The Exchange Traded Products (ETPs) contained herein are mainly Collective Investment Schemes in Securities (CIS) and other listed securities which are generally medium to long-term investments that contain elements of risk and can be affected by market values, interest rates, exchange rates, volatility, dividend yields and issuer credit ratings. ETPs are listed on the Johannesburg, or other Stock Exchanges, and trade at ruling prices on such Exchanges.

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