INTRODUCING GLOBAL DIVIDEND ARISTOCRATS

ACCESSING A SELECT GROUP OF GLOBAL 'CASH COWS'

In 1970, the Boston Consulting Group introduced the concept of a 'Cash Cow' as part of its 'growth share matrix'. A cash cow is a metaphor for a dairy cow that reliably produces milk over its life and requires little upkeep. After the initial capital outlay, the cow continues to produce milk for many years to come. In keeping with this convention, CoreShares is proud to announce an ETF that seeks to help investors gain access to such cash generators in the global equity universe.

CoreShares, no stranger to Dividend Aristocrats, has been running the local strategy for over three years. Investors who select the ETF typically do so based on the merits of the strategy which tends to include companies that are cash generative with robust earnings, balance sheet strength and disciplined management. Our inspiration for launching the local CoreShares Dividend Aristocrats ETF was based on our admiration of the broader global S&P Dividend Aristocrats® franchise. The strategy has been successful as it is based on a simple, intuitive and timeless investment strategy of selecting companies with a strong track record of growing dividends. This strategy has delivered above expectations over decades globally. Following from our tendency to introduce innovative products, CoreShares is excited to launch the first Global Dividend Aristocrats ETF to trade in South Africa.

Currently the South African ETF market is dominated by market capitalisation weighted ETFs and by introducing the CoreShares S&P Global Dividend Aristocrats ETF we are offering investors global diversification together with some of the key benefits inherent in such a Dividend Aristocrats strategy. These benefits include:

1. High quality companies that are defensive in nature

Companies which meet the Dividend Aristocrats criteria tend to be companies that endure difficult market and economic environments relatively well as they usually have less cyclical earnings and are cash generative. The persistent annual growth in their absolute dividends suggests good financial strength, lower levels of debt and a disciplined management team. A good example of one such company that will be in the ETF is McDonald's. The company has consistently grown their dividend since 1977, testament to a strategy that has ensured a persistent and stable competitive position in its industry on a global scale.

2. Relative stability in volatile markets

Although this is still an equity strategy and will therefore track general sentiment in the equity market, it should provide better protection to investors relative to Market Cap weighted indexes. The table below illustrates the index's relative performance against the most widely-referenced global equity benchmarks. Not only does the index achieve a higher risk-adjusted return, but it also captures more of the upside than it does its downside (meaning that the index has relatively better protection against drawdowns in global markets).

Table 1: ZAR Total Return Performance data measured against global equity benchmarks (December 2017)

	S&P Global BMI	MSCI World	S&P Global DivArist (Custom)
5-year return (p.a.)	20.44%	20.49%	20.93%
5-year risk (annualised)	13.73%	14.14%	13.34%
Sharpe ratio	1.49	1.45	1.57
S&P Global DivArist (Custom) capture ratios:			
Up capture	95.10%	94.13%	
Down capture	80.87%	79.02%	

Source: Bloomberg, S&P SPICE

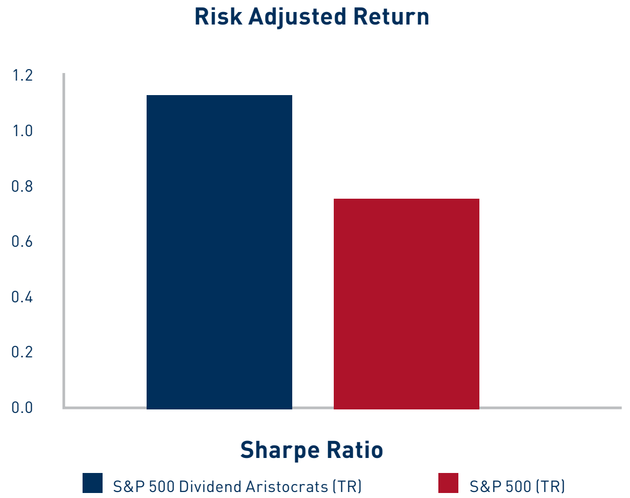
3. Global diversification across regions and constituents

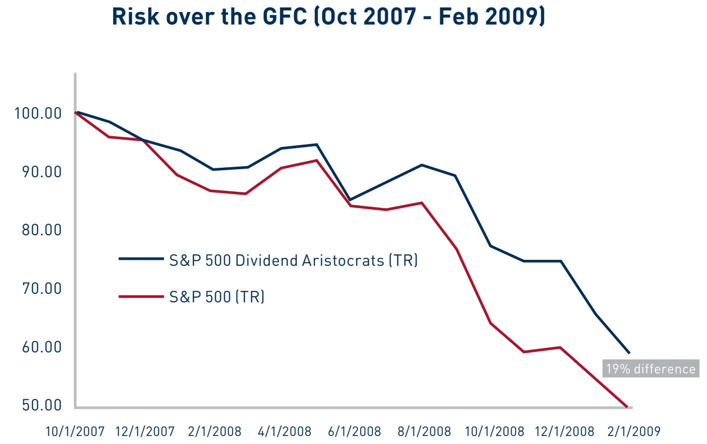
The index is invested in more than 275 shares across 24 countries. These countries include the USA, UK, Canada, Germany, China, Japan, India and Australia. The geographical allocation of the countries will match their respective allocations in the S&P Global Broad Market Index. The portfolio is well diversified with no excessive exposure to any single stock. As an example, the Top 20 shares currently only make up 20.5% of the fund.

A DEPENDABLE STRATEGY OVER TIME

The largest single region in the index is the S&P 500 Dividend Aristocrats Index based in the USA, which accounts for 51% of the fund. This index is also the longest running, with a live track record going back to May 2005. The two graphs below illustrate its relative success. The S&P 500 version has proven to provide consistent and growing dividends, whilst also producing enhanced risk adjusted returns and improved risk management (for example, the dividend strategy delivered a 19% lower drawdown than the S&P500 during the global financial crisis (GFC)).

Figure 1: S&P 500 Dividend Aristocrats vs. S&P 500





Source: S&P SPICE

Dividend strategies typically fall into one of two approaches; the one places a focus on selecting companies with high yield (a value-like trait) and the other places a focus on selecting companies with consistent/stable dividend payouts (a quality-like trait). The first approach tends to have higher volatility, lumpy return cycles and is prone to including shares simply because of downward movements in their share prices. The second approach tends to be more defensive in nature and with more consistent returns. All Dividend Aristocrats strategies use the second approach, where the criteria for inclusion is stability and growth of dividends.

WHO IS THIS FOR?

The CoreShares S&P Global Dividend Aristocrat ETF is well suited for those clients who wish to diversify into a select group of global cash cow companies. These quality companies have a strong track record of delivering consistent and growing dividends through various economic cycles.

The ETF (Sharecode: GLODIV) will list on 22 February 2018 at a management fee of 0.35% and with an expected TER of 0.60%. It is available through stockbrokers and other FSPs offering access to ETFs. Please visit **www.coreshares.co.za** for more information.

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