

Indices, indices, indices

Anton Botha, the Chairman of the FTSE/JSE Africa Series Index Advisory Committee, says that previously institutional investors in South Africa created various informal benchmarks which they believed appropriate for the pension funds they were managing. These benchmarks normally reduced the weighting of the large commodity producers that dominate the FTSE/JSE All Share Index. Now the JSE and FTSE have developed indices to cater for this need.

On 1 July 2003, the FTSE and JSE introduced four new indices as part of the FTSE/JSE Africa Index Series. They are:

- *Capped All Share index (“Capi”)*
- *Capped Top 40 index (“Capi 40”)*
- *Shareholder Weighted All Share index (“Swix”)*
- *Shareholder Weighted Top 40 index (“Swix 40”)*.

The FTSE and the JSE are very pleased with the new indices, particularly because of the high level of collaboration with the market, which characterized the development of the indices.

“We worked very hard to meet the market needs”, says JSE deputy chief executive officer Nicky Newton-King.

Peter de Graaf, managing director of FTSE Europe, is impressed by the progressive investment community in South Africa.

The objective of the indices is to meet a number of different requirements of the investment industry, including the need for:

- *an objective benchmark for measuring performance*
- *an index that achieves the goal of risk diversification*
- *an investable universe for local interest*
- *an index that is compliant with current legislation*
- *a measurement other than peer group performance for fund managers*
- *an index that more closely represents the current investment patterns of asset managers.*

It is difficult to tell which of the indices will be most popular. Loyalties have also shifted: some previous supporters of the Shareholder Weighted index now support the Capped index, and vice versa.

Roland Rousseau from Deutsche Bank states his preference: “We have been lobbying hard for the introduction of the Capped index because according to our research it is the best tradeoff between implementation costs, increase in diversification in the benchmark and the use of a simplistic methodology that can be explained and replicated easily.

A number of players have adopted a wait-and-see attitude, while others have already aligned their portfolios. Only time will tell.

“Over time, we do not expect the performance of the benchmark indices to materially differ from the All Share, so we are not advocating any index for performance reasons, but rather for its diversification and hence risk-reduction benefits”, continues Wayne Hilton from Alexander Forbes.

It will take time for the market to get used to the new indices and implement them fully. FTSE/JSE will continuously reassess the situation, and improve or change where required in line with market specifications.

Henk Beets, from Old Mutual Asset Managers, sees the value as follows: “The new indices, each in their own way, have added more representative benchmarks to the asset manager toolkit than the existing market indices: the Shareholder Weighted index is more representative of the SA market actually available to balanced fund managers, while the Capped index is a better benchmark for funds where exposure concentration is an issue”.

So, what is next? Style. Work has started on value and growth indices. Yet gain, this is done in reaction to market demand.

Contact Dr Jannie Immelman at janniei@jse.co.za or telephone +27 11 520 7702 for further detail on the new indices. Details are also available on www.ftsejse.co.za