

To: Market Participants
From: FTSE/JSE
Date: 9 July 2018
Subject: Notes from the FTSE/JSE Advisory Committee Meeting held on Thursday, 31 May 2018

1. Background

The FTSE/JSE Advisory Committee (AC) met on Thursday, 31 May 2018 to discuss matters relating to the FTSE/JSE Index Series. The items listed below were discussed during the meeting.

2. Quarterly Review Summary

The two tables below provide a summary of the changes made to the key indices and the largest changes in ranking at the June 2018 Quarterly Review.

2.1 Changes to Key Indices

Index	Additions	Deletions	SII Changes	FF Changes	Largest Up*	Largest Down*	Projected Max Weight	1 Way Churn
All Share	SRR		70	150	SRR (0.17%)	FFA (0.11%)	NPN (18.03%)	0.75%
Large Cap			20	42	BGA (0.15%)	NPN (0.13%)	NPN (22.03%)	0.53%
Large and Mid Cap	SRR		46	100	SRR (0.18%)	FFA (0.11%)	NPN (18.66%)	0.74%
Mid Cap	SRR		27	59	SRR (1.27%)	FFA (0.81%)	CLS (5.06%)	2.02%
Top 40	CLS,NTC	IPL,RNI	17	39	CLS (0.83%)	RNI (0.57%)	NPN (21.76%)	1.96%
SWIX 40	NTC	FFA,FFB	17	40	NTC (0.92%)	FFA (0.40%)	NPN (27.88%)	1.67%
Capped SWIX 40			17	40	NTC (1.15%)	FFA (0.51%)	NPN (10.00%)	2.53%
Eq Wgt 40			17	39	CLS,NTC (2.5%)	RNI (2.77%)	ALL (2.50%)	8.66%
Resi 10	AMS	SGL	3	8	AMS (1.32%)	SGL (0.91%)	BIL (38.97%)	1.45%
Fini 15	PSG	FFA,FFB	8	15	PSG (2.22%)	FFA (1.34%)	SBK (18.10%)	3.16%
Indi 25			10	25	BTI (0.22%)	NPN (0.16%)	NPN (38.67%)	0.35%
All Property			16	31	GRT (1.16%)	FFA (1.90%)	GRT (15.00%)	3.34%
Tradable Property			7	16	GRT (1.21%)	FFA(2.37%)	GRT (15.00%) RDF (15.00%)	3.85%
SAPY			8	19	GRT (1.23%)	FFA (2.18%)	GRT (22.91%)	3.13%

*Shows the projected increase/decrease in percentage weight within the index

2.2 Largest Changes in Ranking

All Share constituents compared at March 2018 and June 2018 Quarterly Reviews.

Newly Eligible at June Review					
Alpha	Instrument	June Rank	Previous Eligibility Failure	Comment	
SRR	Steinhoff African Rt Ltd	38	Net MCAP < Index Median	Added to Mid Cap	
Noteworthy Top 40 Instruments					
Alpha	Instrument	June Rank	March Rank	Move	Comment
CLS	Clicks Group Ltd	28	36	8	Largest Top 40 Up
NTC	Netcare Limited	33	41	8	Largest Top 40 Up
NRP	NEPI Rockcastle Plc	34	42	8	Largest Top 40 Up
MEI	Mediclinic Int plc	35	43	8	Largest Top 40 Up
IPL	Imperial Holdings Ltd	44	33	-11	Largest Top 40 Down
ANG	Anglogold Ashanti Ltd	36	29	-7	2nd Largest Top 40 Down
TRU	Truworths Int Ltd	38	31	-7	2nd Largest Top 40 Down
SPP	The Spar Group Ltd	40	35	-5	Lowest Ranking Top 40
AVI	AVI Ltd	41	40	-1	Largest Reserve List
Largest Decrease in Ranking in Main Board					
Alpha	Instrument	June Rank	March Rank	Move	Comment
GRF	Group Five Ltd	258	206	-52	Remains in Fledgling
SNH	Steinhoff Int Hldgs N.V.	120	75	-45	Remains in Mid Cap
EOH	EOH Holdings Ltd	139	110	-29	Remains in Mid Cap
AEG	Aveng Group Limited	253	228	-25	Remains in Fledgling
SDO	Stadio Holdings Limited	168	146	-22	Remains in Small Cap
LON	Lonmin plc	182	161	-21	Remains in Small Cap
RSG	Resource Generation Ltd	256	235	-21	Remains in Fledgling

3. Feedback on the FTSE/JSE Africa Index Series

3.1 Rebasings of Index Values

Due to various system limitations, the JSE cannot currently process an index level in excess of 99,999.99 where that index has a derivative contract listed on it. As such, it has been the practice to rebase any index whose level is approaching this value. No indices are currently due to be rebased. However there are two tradable indices (indices with derivative/s listed) with index values in excess of 70,000.00 namely:

Index	Class	Index Value	Derivative Listed	Open Interest
J211 - Industrial 25	Capital Index	75,898.36	Yes	0
J213 - Financial and Industrial 30	Capital Index	80,665.00	Yes	265

Table 2: Indices with listed derivatives and index values exceeding 70,000.00 on 2018/04/30

3.2 Restating of MND closing price

Due to an order placed in error during the MND closing auction on 30 April 2018, which led to Mondi Ltd (MND) closing at 36,396 CPS instead of 34,631 CPS, the Director - JSE Market Regulation, made a decision in terms of JSE rules, to cancel all Mondi (MND) trades resulting from the MND closing auction on that day. The index consequences of restating the closing price were two-fold. Firstly, the closing index levels of all the indices of which MND was a constituent were incorrect.

The second consequence arose as a result of MND and MNP having each declared a special dividend effective on 2 May 2018. The index treatment of special dividends is to apply a capital reduction to the specific company's closing price on the working day before the ex-date. As the closing price of MND was restated, this also meant that the capital reduction was applied to an incorrect closing price and thus the divisors that were changed were changed using an incorrect closing price. In addition to the index levels being adjusted, the divisors also had to be re-adjusted.

On 2 May 2018, the JSE published a market notice advising of the above price restatement. The affected index levels and divisors were recalculated and the end of day files republished.

3.3 Corporate Actions for the Quarter

The table below summarises all intra-quarter index adjustments made to the All Share and Top 40 indices since the March 2018 review:

Amendment Type	Top 40 Index	All Share Index	Top 40 Notes
CI – Bonus Issue		1	
CP - Special Dividend	2	4	MND and MNP Special Dividend : ZAR 14.58592 each
DV - Dividend (TRI)	17	45	
IC - Weight Change		1	
SC – Scrip Dividends		1	

3.3.1 Resilient REIT unbundles its shares in Fortress B to Resilient REIT shareholders

In March 2018, Resilient REIT (RES) released an announcement about a proposal to eliminate the cross-shareholding between themselves and Fortress B (FFB), a SWIX Top 40 constituent. The proposal was for a distribution in specie, such that Resilient shareholders will receive 0.4 Fortress B shares for every one Resilient share held.

The above corporate event was finalised in April 2018 with an ex-date of 2 May 2018. The index treatment was as follows:

- A capital repayment, equivalent to the entitlement value of Fortress REIT Ltd (B) was applied to the closing price of Resilient REIT on 30 April 2018.
- The free float of Fortress B was increased from 69.80% to 80.90% from start of trading, 2 May 2018.

FTSE/JSE published an Index Change Advice notice on 26 April 2018 in order to give the standard T+2 days' notice.

3.4 Minimum voting rights/shares

A query was raised at the March 2018 meeting on how FTSE Russell treats shares with unequal voting rights within its indices.

Within the FTSE Russell indices, an additional rule was introduced to the index eligibility criteria in 2017. This rule specifically deals with shares that have unequal voting rights. In addition to the existing criteria, new instruments and non-constituents must have a minimum of 5% of a company's voting rights in the hands of non-restricted shareholders in order to be eligible for index inclusion. This is an inclusion rule and therefore, should companies meet the FTSE Russell minimum voting rights rule and all other index eligibility criteria, they will be

included in the indices. Current constituents that do not meet this hurdle are given until September 2022 to comply with the minimum hurdle rate. Should the criteria not be complied with, they will be removed from the index at the September 2022 review. The above requirement is only applicable in the developed market constituents of all FTSE Russell indices and therefore does not apply to any FTSE/JSE indices.

Currently, emerging market constituents, including South Africa, are not subject to the 5% minimum hurdle rate.

4. Free float eligibility

The free float eligibility rule has been regularly tabled for discussion at AC meetings. FTSE/JSE is working to align its free float rules with that of FTSE Russell. Currently, the bulk of the FTSE/JSE index eligibility rules are derived from the FTSE Russell rules, with the exception of the 5% to 15% free float and the additional free float rule applicable to foreign companies.

The 5% to 15% rule, as quoted from the [FTSE/JSE Ground Rules](#) is as follows:

4.3.6 Minimum free float - 5% to 15%

However, a company that has a free float greater than 5% but less than or equal to 15% will be eligible for the index providing the market capitalisation of its available float is greater than the median company's free float capitalisation within the index on review cut date, and it qualifies in all other aspects.

The additional free float rule applicable to foreign companies calculates a free float number for a foreign company that is based on the South African share register by restricting shares that are held on a foreign share register or part of a sponsored listed depository receipt program.

FTSE/JSE tabled the following proposal at the AC meeting:

- The removal of the 5% to 15% rule. This is to be replaced with one single minimum free float for all companies. Currently, the minimum free float rule for constituents in the FTSE Russell indices is 5%. FTSE/JSE will either use the 5% minimum or look into an alternative minimum free float number that may be more appropriate for the South African market.
- For foreign companies, technical free floats of less than 5% should be eligible for index inclusion, provided the company has a large investable market cap relative to other index constituents.

The AC approved both changes in principle. FTSE/JSE will review the final parameters associated with these changes and will inform the market of the implementation date and final rule wording in due course.

5. Enhanced ICB Structure: ICB and SA Sector Indices

As previously communicated, the ICB structure is changing globally across all FTSE Russell indices, effective from the 1st of January 2019. On 19 March 2018, FTSE/JSE published a [Market Note](#) to inform market participants of the Index changes that the new ICB structure will bring about. No feedback was received from market participants, and the changes will be implemented in 2019. FTSE/JSE will align the implementation of the changes with one of the 2019 quarterly index reviews for a more seamless transition for the South African

market. FTSE/JSE will regularly engage the market on the impact on the sector indices, together with the impact on the index data products.

6. Other Index Related Matters

Over the past few months, FTSE/JSE received client queries on the treatment of company controversies in the non-market cap indices, such as the RAFI and Responsible Investment indices. RAFI and ESG queries are referred to the respective FTSE Russell RAFI and ESG Teams. Since these indices are not reviewed every quarter, constituents are not immediately removed from the index in the case of a controversy or a special situation. FTSE Russell monitors company information for a period of time and constituent changes are effective during the respective index review.

The next AC meeting will be held on Thursday, 6 September 2018.

For further information please contact the FTSE/JSE Indices Department.

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