

Indices: What does it mean for your investments?

Vyasan Pillay

Business Development Manager: Indices

JSI

What are indices?



- Set of rules that dictate the basket of instruments that are selected
- Indices could be made up of Equities, Fixed Income, Derivatives or even Bitcoin

For example



The Consumer Price Index (CPI) is a measure that examines the weighted average of prices of a basket of consumer goods and services, such as transportation, food, and medical care. It is calculated by taking price changes for each item in the predetermined basket of goods and averaging them

Examples of the goods and services used:

- Food & Beverages
- Housing rentals
- Medical Services

How are Indices used?



- The Investment Management Industry uses indices as benchmarks and targets to denote performance or to manage their purchases
- Media uses them as an indicator of the countries investment performance

Investment Management Uses



Active Investment

- Indices often used as benchmarks
- These would be the bar that an active manager is trying to outperform
- In certain years active managers will outperform the index by double digit percentages
- Usually follows a specific investment strategy. i.e. Value or Dividend

Passive Investment

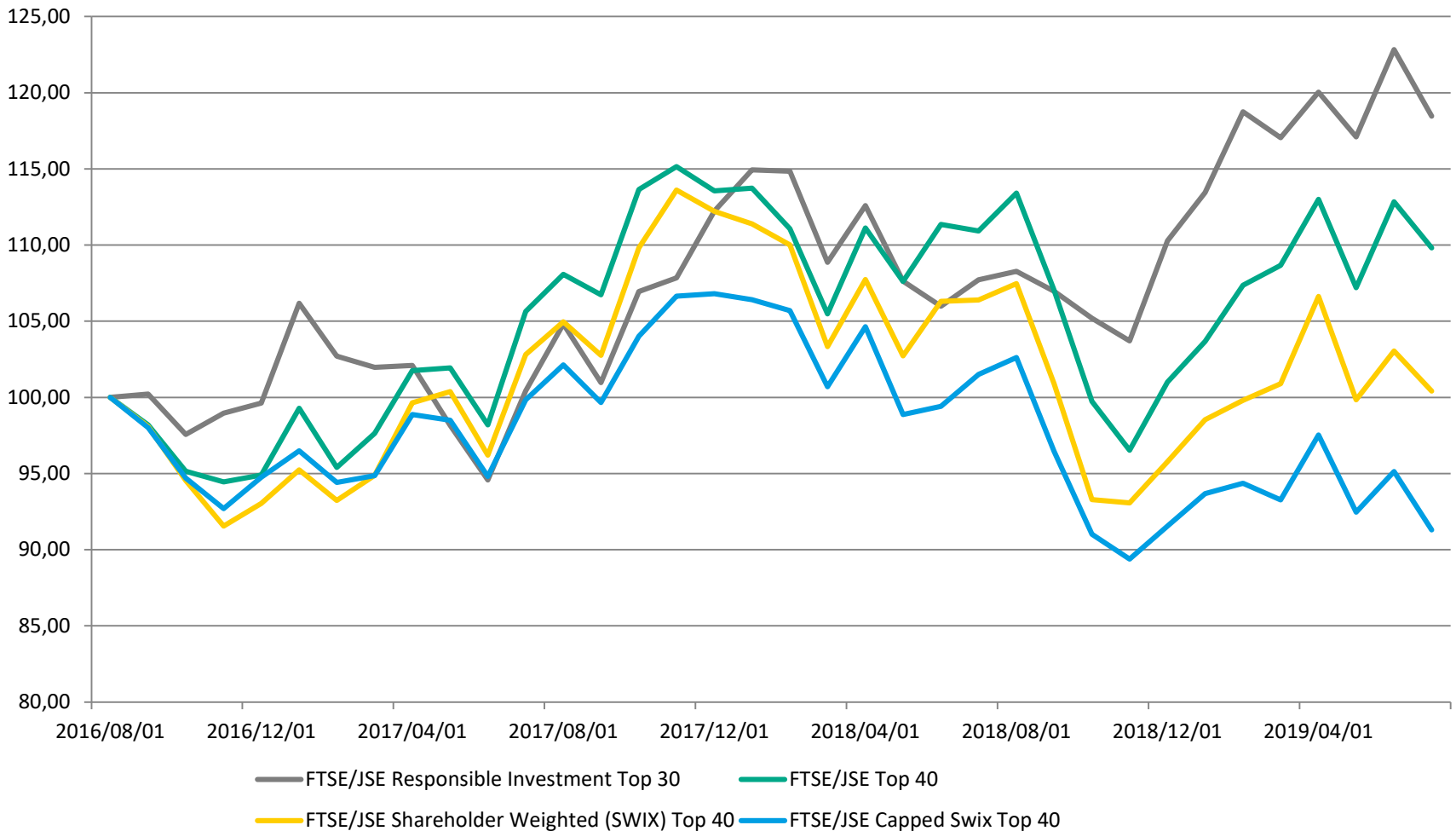
- Indices are used for differing types of passive investment
- These are seen as low cost investment vehicles because they are efficient to run
- They will always provide returns in line with active benchmarks

What Affects Index Movements?

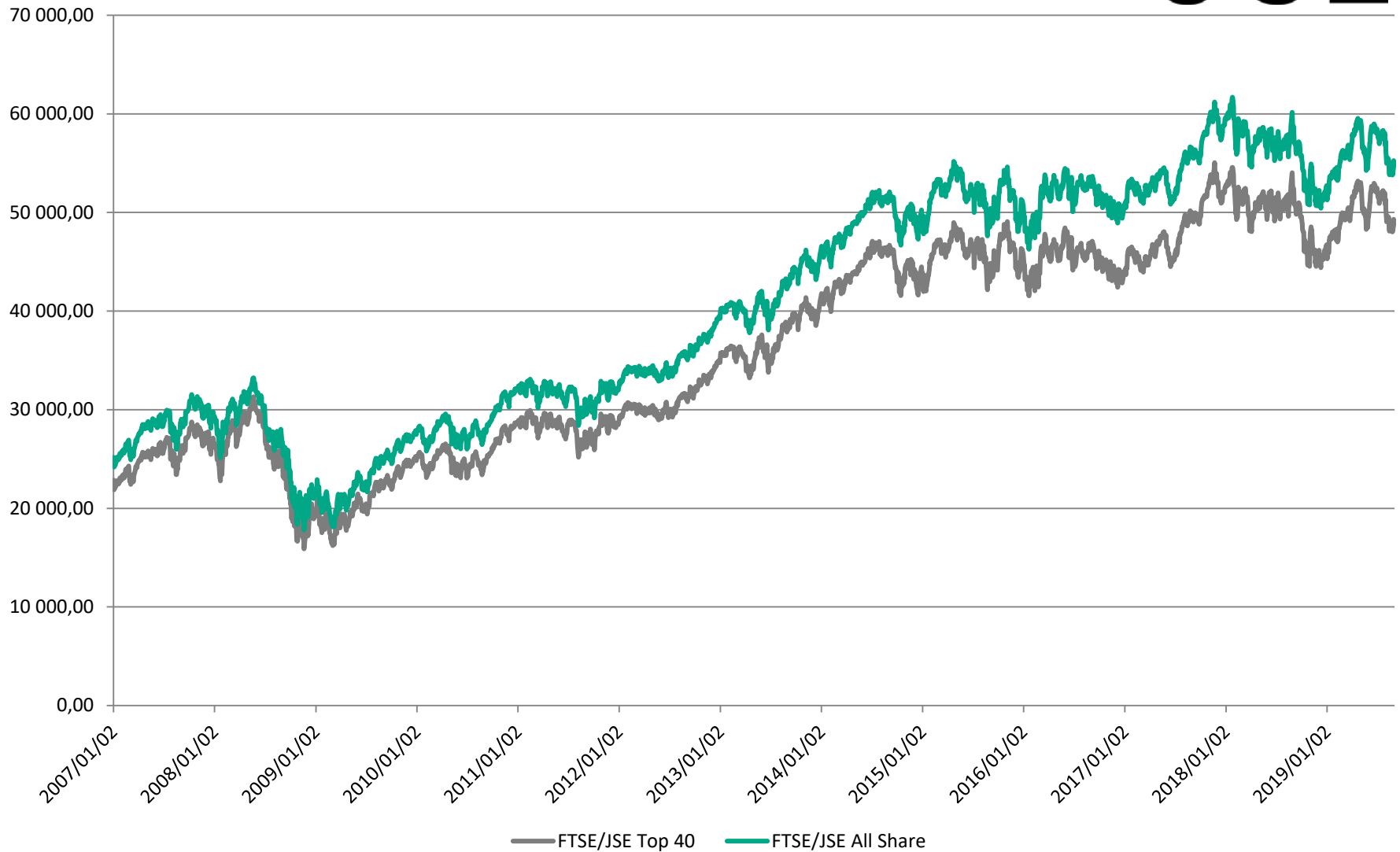


- Macro economic factors will affect any index as they are ultimately made up of the underlying shares that are subject to the same forces
- Corporate actions such as an unbundling will affect index changes
- Economic scandals may affect indices

Index performance Oct 2015 till Date



Index performance Jan 2007 till Date



Current Types of Indices



- Market Weighted – FTSE/JSE All Share
- Capped – FTSE/JSE Capped SWIX
- Sector - FTSE/JSE Banks
- Fundamental – FTSE/JSE Factor Indices
- Equally Weighted – FTSE/JSE Responsible Investment Top 30

New Types of Indices



- ESG
 - Environmental
 - Social
 - Governance

Managing operational ESG risk



JS

Thank you