

**To:** Market Participants  
**From:** FTSE/JSE  
**Date:** 15 March 2018  
**Subject:** Notes from the FTSE/JSE Advisory Committee Meeting held on Thursday, 1 March 2018

## 1. Background

The FTSE/JSE Advisory Committee (AC) met on Thursday, 1 March 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 March 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	MNK, HPB, CTK, L4L	SRR, CHP, NVS, NIV, CIL, SDC	23	6	APN (0.1%)	SNH (0.13%)	NPN (18.72%)	0.42%
Large Cap		SRR, FFB, FFA, CCO, RES, SNH	1	2	NPN (0.31%)	RES (0.34%)	NPN (22.73%)	1.55%
Large and Mid Cap		SRR, SDO	13	4	APN (0.11%)	SNH (0.13%)	NPN (19.36%)	0.24%
Mid Cap	FFA, FFB, CCO, RES, SNH	DTC, SDO	11	1	RES (1.89%)	DTC (0.48%)	TFG (4.44%)	8.10%
Top 40	TFG, TRU, IPL, SPP	FFA, FFB, ITU, RES, SNH	2	1	TFG (0.76%)	ITU (0.48%)	NPN (22.46%)	2.88%
SWIX 40	TFG, IPL, CLS	ANG, RES, SNH	2	1	TFG (0.94%)	ANG (0.54%)	NPN (28.26%)	2.69%
Capped SWIX 40	TFG, IPL, CLS	ANG, RES, SNH	2	1	NPN (1.28%)	ANG (0.68%)	NPN (10.00%)	4.58%
Eq Wgt 40	TFG, TRU, IPL, SPP	FFA, FFB, ITU, RES, SNH	2	1	TFG (2.50%) TRU (2.50%) IPL (2.50%) SPP (2.50%)	SNH (2.38%)	ALL (2.50%)	15.35%
Resi 10			1	1	BIL (0.04%)	EXX (0.09%)	BIL (36.88%)	0.09%
Fini 15			0	0			SBK (17.72%)	0.00%
Indi 25	BAW	SNH	3	1	BAW (1.05%)	SNH (0.43%)	NPN (38.99%)	1.28%
Div+	CML, GLN, MMI	BVT, MRP, SGL	2	1	MMI (5.24%)	KIO (5.02%)	ARI (5.27%)	25.43%
All Property	HPB		9	1	HPB (0.66%)	RES (0.38%)	GRT (14.9%)	1.24%
Tradable Property			3	1	NRP (2.70%)	GRT (5.80%)	GRT (15.00%) RDF (15.00%)	7.61%
SAPY			8	1	MAS (0.27%)	RES (0.39%)	GRT (22.82%)	0.69%

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

## 2.2 Largest Changes in Ranking

All Share constituents compared at December 2017 and March 2018 Quarterly Reviews.

Newly Eligible at March Review					
Alpha	Instrument	March Rank	Previous Eligibility Failure	Comment	
MNK	Montauk Holdings Ltd	118	Previously Fledgling Constituent	Added to Small Cap	
HPB	Hospitality Prop Fund B	126	Previously Fledgling Constituent	Added to Small Cap	
CTK	Cartrack Holdings Ltd	131	Previously Fledgling Constituent	Added to Small Cap	
L4L	Long 4 Life Limited	136	Previously Fledgling Constituent	Added to Small Cap	
Noteworthy Top 40 Instruments					
Alpha	Instrument	March Rank	December Rank	Move	Comment
TFG	The Foschini Group Limited	30	46	16	Largest Top 40 Up
TRU	Truworths Int Ltd	31	47	16	2nd Largest Top 40 Up
SNH	Steinhoff Int Hldgs N.V.	71	12	-59	Largest Top 40 Down
RES	Resilient REIT Limited	55	35	-20	2nd Largest Top 40 Down
RNI	Reinet Investments S.C.A	44	37	-7	Lowest Ranking Top 40
CLS	Clicks Group Ltd	36	40	4	Largest Reserve List
Largest Decrease in Ranking in Main Board					
Alpha	Instrument	March Rank	December Rank	Move	Comment
SNH	Steinhoff Int Hldgs N.V.	75	12	-63	Large Cap deletion; Mid Cap addition
DTC	Datatec Ltd	135	92	-43	Mid Cap deletion; Small Cap addition
FCR	Ferrum Crescent Limited	273	235	-38	Remains in Fledgling
ESR	Esor Limited	269	232	-37	Remains in Fledgling
VMK	Verimark Holdings Ltd	271	234	-37	Remains in Fledgling
Largest Increase in Ranking in Main Board					
Alpha	Instrument	March Rank	December Rank	Move	Comment
L4L	Long 4 Life Limited	136	187	51	Fledgling delete; Small Cap addition
TTO	Trustco Group Hldgs Ltd	119	151	32	Remains in Small Cap
SSS	Stor-Age Prop REIT Ltd	159	180	21	Remains in Fledgling
JSE	JSE Ltd	79	99	20	Remains in Mid Cap
ARL	Astral Foods Ltd	97	114	17	Remains in Small Cap
CLH	City Lodge Hotels Ltd	123	140	17	Remains in Small Cap

## 3. Feedback on the FTSE/JSE Africa Index Series

### 3.1 Rebasing 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 with index values in excess of 70,000 namely:

Index	Class	Index Value	Derivative Listed	Open Interest
J213 - Financial and Industrial 30	Capital Index	83,259.73	Yes	271
J211 - Industrial 25	Capital Index	79,260.20	Yes	0

### 3.2 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 December 2017 review:

Amendment Type	Top 40 Index	All Share Index	Top 40 Notes
CP - Special Dividend		1	
DV - Dividend (TRI)	4	17	
IC - Weight Change		1	

### 3.3 Steinhoff/PSG Secondary Offering

On 22 January 2018, Steinhoff International Holdings N.V (SNH) announced that they have launched an accelerated book build in order to place approximately 29.5 million PSG Group (PSG) ordinary shares, subject to the satisfaction of certain conditions including pricing acceptable to Steinhoff. The placing shares were offered to qualifying institutional investors only.

The event was classified as a secondary offering according to section 6.6.1 of the FTSE/JSE Ground Rules, thus the below criteria had to be met to effect an intra-review adjustment:

- There is a USD 1bn investable market cap change related to a primary/secondary offering;  
OR
- There is a resultant 5% change in index shares related to a primary or secondary offerings AND a USD 250m investable market cap change.

This event met the second criteria thus the change in free float was applied in the indices from start of business on 26 January 2018 and the free float for PSG was increased from 41.814960560452% to 54.530455390587%.

### 3.4 Feedback on the Treatment of Suspensions Market Consultation

On 22 January 2018, FTSE/JSE published a [market consultation](#) to solicit client feedback on whether the rationale underlying the current suspension rule remains valid, including whether the 80 day hard suspension limit remains appropriate and whether extended notice before a stock is removed from an index is still required. In addition, the consultation took the opportunity to solicit feedback from index users on whether to render companies ineligible that have been suspended for an extended period, but which have recommenced trading prior to a forthcoming index review. The deadline to submit comments directly to the JSE was 12 February 2018 and no comments were received by this date.

### 3.5 Feedback on the All Africa Methodology Review Consultation

Market participants have requested a review of the methodology of the All Africa Indices. On 11 January 2018, FTSE/JSE published a [market consultation](#) to obtain input regarding the improvement and development of these indices. The deadline to submit comments was 8 February 2018 and one comment was received by this date. There appears to be scope to improve these indices, and this would require further internal work and market input.

### 3.6 Capping Methodology

FTSE/JSE has introduced a number of capped indices in the FTSE/JSE Africa Index Series over the years in order to manage concentration risk in the index.

Capping factors are calculated quarterly in the review months namely: March, June, September and December. Capping factors are only calculated for constituents that have breached the corresponding capping level of the index, using closing prices one week prior to the review effective date (i.e. capping cut date). The capping factor calculation incorporates the review changes, as well as corporate actions that will occur between the capping date and the review effective date should it be known at the time of capping. The capping factors are published on the JSE Website on the Monday after the capping cut date. The capping factors are applied to the relevant indices from start of trading on the review effective date. Due to price movements and unknown corporate actions that may occur between the capping date and the review effective date, the constituents that have been capped at the corresponding level may move above or below the level that they have been capped at when implementation of the review occurs.

The full capping methodology can be obtained in Appendix B of the [Ground Rules](#) for the FTSE/JSE Africa Index Series.

#### **4. Enhanced ICB Structure**

The JSE currently uses the Industry Classification Benchmark (ICB) system to classify all JSE listed companies according to Industry, Super Sector, Sector and Sub-Sector. The FTSE Russell Internal Industry Classification Group is responsible for the classification of all JSE listed companies according to the ICB.

The FTSE/JSE All Share Index (J203) is currently split into 10 ICB Industry indices, i.e. one for each Industry, and 40 Sector indices, according to the current ICB structure. The current ICB structure is also used to define the FTSE/JSE SA Sector Indices (SA Resources, SA Industrials and SA Financials).

FTSE Russell has designed an updated ICB classification system by integrating the current ICB classification system and the Russell Global Sector (RGS) classification system. The ICB RGS Structural Conversion Map and Enhanced ICB Methodology Overview can be found at the following links:

[ICB RGS Structural Conversion Map](#)

[ICB Methodology Overview](#)

The AC discussed the impact that this change, which will be effective on 1 January 2019, will have on the FTSE/JSE Africa Index Series.

FTSE/JSE will publish a market note containing further information with regards to upcoming changes in the FTSE/JSE Africa Index Series as a result of the implementation of the enhanced ICB classification system, in due course.

#### **5. FTSE Russell Index Methodology Alignment**

FTSE/JSE published a [consultation](#) to the market on 1 September 2017 to solicit feedback regarding the impact on the FTSE/JSE Africa Index Series due to the proposed index methodology alignment. Only one response was received from the market. FTSE/JSE submitted a consolidated response to FTSE Russell, mostly to highlight the impact of technical aspects on the FTSE/JSE Africa Index Series.

Respondents were not in favour of moving FTSE GEIS to a single annual review and preferred the existing practice of conducting two semi-annual reviews, which was deemed to provide a better balance between the

competing requirements for maximising index representativeness, whilst minimising transaction costs and liquidity demand. Respondents embraced the FTSE GEIS concepts of comprehensive global coverage, regional relative build, semi-annual reviews and quarterly updates to shares outstanding and free float.

Due to the fact that a single annual review was not favoured and respondents preferred the existing practice of conducting two semi-annual reviews, most of the proposed alignment changes set out in the consultation have fallen away.

- The effective date for the June review will no longer be changing from the third Friday to the fourth Friday of review month
- The FTSE/JSE index buffers will not change due to the methodology alignment
- Enhanced quarterly reviews in March, September and December will not take place, but the status quo of two semi-annual reviews will remain
- The universe would still be ranked in March and September and not in June and December
- Quarterly updates to shares outstanding and free float will remain in place
- Liquidity will still be tested at the March and September reviews

FTSE/JSE will continue to monitor any alignment changes between the GEIS and RGI Index Series and should a change be made to the methodology, formal notice will be given in advance of the change.

## 6. Impact of Steinhoff on the Index Series

Concerns around financial irregularities at Steinhoff International had a material impact on investors in that company. A number of related companies were also affected by the news, including banks due to their exposure to the company through loans.

Steinhoff is currently a constituent of about 38 FTSE/JSE indices which includes market capitalisation indices, capped indices and equally weighted indices. The following table shows the weight of Steinhoff in some of these indices and how the price drop affected its weight in each index.

Index Code	Index Name	Weighting Methodology	Weight - 5 Dec	Weight - 8 Dec
J141	Capped Shariah Top 40	Market cap - 10% cap	7.16%	1.00%
J211	Industrial 25	Market cap	3.10%	0.41%
J430	Capped Shareholder Weighted Top 40 Index	SWIX Market cap - 10% cap	2.95%	0.40%
J400	Shareholder Weighted Top 40	SWIX Market cap	2.35%	0.31%
J300	Capped Top 40	Market cap - 10% cap	2.22%	0.30%
J200	Top 40	Market cap	1.88%	0.25%
J260	RAFI 40	Market cap	1.49%	0.20%

Some market participants were expecting Steinhoff to be suspended and subsequently deleted from the indices after 6 December 2017, due to the fact that the company did not publish their financials timeously. However, the JSE did not suspend the company since it was still trading on the Frankfurt Stock Exchange (FSE), where it has had its primary listing since 2015. This was done in order to not prejudice SA shareholders, since foreign shareholders could still trade the shares on the FSE.

Other market participants were expecting Steinhoff to be deleted from the Top 40 Index at the December 2017 review due to the price drop. However, there is currently no FTSE/JSE Africa Index Series rule which stipulates that a company should immediately be removed from the index following a significant drop in price or other extraordinary event.

The AC had an in-depth discussion regarding this event and it was agreed that the Ground Rules were followed correctly. At this stage no amendments to the Ground Rules for the FTSE/JSE Africa Index Series will be considered, specifically on the addition of rules for deleting constituents that has a significant price drop.

**The next AC meeting will be held on Thursday, 31 May 2018.**

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

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