

**To:** Market Participants  
**From:** FTSE/JSE  
**Date:** 12 March 2019  
**Subject:** Notes from the FTSE/JSE Advisory Committee Meeting held on Thursday, 28 February 2019

## 1. Background

The FTSE/JSE Advisory Committee (AC) met on Thursday, 28 February 2019 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 2019 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	SSS	MMK, TEX	19	6	RDF (0.05%)	MNK (0.06%)	NPN (17.65%)	<b>0.17%</b>
Large Cap	ANG; EXX	SAP	3	2	ANG (1.4%)	SAP (0.71%)	NPN (21.17%)	<b>2.09%</b>
Large and Mid Cap	MSP	LTE; TON	8	3	MSP (0.14%)	TON (0.06%)	NPN (18.2%)	<b>0.25%</b>
Mid Cap	SAP	ANG, EXX, LTE, TON	5	1	SAP (4.29%)	ANG (7.95%)	CLS (4.79%)	<b>12.23%</b>
Top 40	AMS, GFI	LHC, RNI	2	1	GFI (0.77%)	LHC (0.62%)	NPN (21.04%)	<b>1.57%</b>
SWIX 40	AMS, ANG	RNI, TRU	2	1	ANG (1%)	TRU (0.7%)	NPN (27.23%)	<b>2.15%</b>
Capped SWIX 40	AMS, ANG	RNI, TRU	2	1	MCG (1.27%)	TRU (0.88%)	NPN (10.00%)	<b>3.87%</b>
Eq Wgt 40	AMS, GFI	LHC, RNI	2	1	GFI (2.50%)	LHC (2.59%)	All (2.50%)	<b>9.42%</b>
Resi 10	IMP	GLN	0	0	IMP (2%)	GLN (1.51%)	BIL (39.5%)	<b>2.00%</b>
Fini 15			1	1	RDF (0.22%)	NED (0.12%)	SBK (17.17%)	<b>0.22%</b>
Indi 25			1	0	CLS (0.05%)	NPN (0.02%)	NPN (40.61%)	<b>0.05%</b>
All Property	SSS	TEX	5	3	SSS (1.06%)	EMI (0.40%)	GRT (15.00%)	<b>1.96%</b>
Tradable Property	MSP		2	2	MSP (3.33%)	NRP (0.75%)	GRT (15.00%) RDF (15.00%)	<b>3.89%</b>
SAPY	HPB	REB	4	2	RDF (0.84%)	EMI (0.44%)	GRT (21.70%)	<b>1.44%</b>
Div +	JSE, OMU, PFG	BHP, CML, SOL	3	0	OMU (5.2%)	BHP (3.9%)	OMU (5.2%)	<b>20.67%</b>

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

## 2.2 Largest Changes in Ranking

All Share constituents compared at December 2018 and March 2019 Quarterly Reviews.

Newly Eligible ALSI at March Review					
Alpha	Instrument	March Rank	Previous Eligibility Failure	Comment	
SSS	Stor-Age Prop REIT Ltd	133	Previously a FLED constituent	Added to Small Cap	
Noteworthy Top 40 Instruments					
Alpha	Instrument	March Rank	December Rank	Move	Comment
AMS	Anglo American Plat Ltd	33	46	13	Largest Top 40 up (addition)
GFI	Gold Fields Ltd	29	41	12	2nd Largest Top 40 up (addition)
MRP	Mr Price Group Ltd	27	22	-6	Largest Top 40 down (deletion)
TRU	Truworths Int Ltd	44	38	-5	Largest Top 40 down
NTC	Netcare Limited	40	35	-5	2nd Largest Top 40 down
LHC	Life Healthc Grp Hldgs Ltd	41	37	-4	Lowest Ranking Top 40
EXX	Exxaro Resources Ltd	37	42	5	Largest Reserve List
Largest Decrease in Ranking in Main Board					
Alpha	Instrument	March Rank	December Rank	Move	Comment
EOH	EOH Holdings Ltd	158	135	-23	Remains in Small Cap
ITU	Intu Properties plc	63	44	-19	Remains in Mid Cap
DLT	Delta Property Fund Ltd	163	149	-14	Remains in Small Cap
TON	Tongaat Hulett Ltd	119	106	-13	Small Cap Addition; Mid Cap Deletion
HPR	Hosken Pax Log and Rail	201	190	-11	Remains in Fledgling
Largest Increase in Ranking in Main Board					
Alpha	Instrument	March Rank	December Rank	Move	Comment
AEG	Aveng Group Limited	214	255	41	Remains in Fledgling
RSG	Resource Generation Ltd	221	259	38	Remains in Fledgling
LON	Lonmin plc	149	177	28	Remains in Small Cap
ATL	Atlatsa Resources Corp	233	257	24	Remains in Fledgling
PAN	Pan African Resource plc	136	159	23	Remains in Small Cap

## 2.3 Liquidity

Securities which do not turnover at least 0.5% of their shares in issue, after the application of any free float restrictions, per month in at least ten of the twelve months prior to a semi-annual review in March and September will not be eligible for inclusion in the All Share index. An existing constituent has to meet this hurdle for eight out of twelve months.

The table below shows companies that failed this hurdle at the March 2019 review, but were eligible based on all other criteria. The gross market capitalisation of these companies represents 0.19% of the All Share universe.

Alpha	Instrument	Gross MCAP	Index Current	Index Change
TTO	Trustco Group Hldgs Ltd	Rb 9.54		
MNK	Montauk Holdings Ltd	Rb 8.89	SMLC	<b>SMLC DEL</b>
AYO	Ayo Tech Solutions Ltd	Rb 6.19		

## 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. The below indices have an index value in excess of 70,000.00 however none of these indices have derivatives listed:

Index	Class	Index Value	Derivative Listed	Open Interest
J554 - SWIX Media	Total Return Index	113,771.19	-	-
J554 - SWIX Media	Capital Index	90,916.83	-	-
J853 - Nonlife Insurance	Capital Index	80,616.64	-	-
J213 – Financial and Industrial 30	Capital Index	70,909.17	-	-
J257 – SA Industrials	Capital Index	70,447.68	-	-
J201 – Mid Cap	Capital Index	70,345.73	-	-

### 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 2018 review:

Amendment Type	Top 40 Index	All Share Index	Top 40 Notes
CN - Consolidation		1	
CP - Special Dividend	2	3	BHP Group special dividend of ZAR 14.4382 & Netcare special dividend of ZAR 0.4.
DV - Dividend	5	17	
SC - Sedol Change		1	

### 3.3 Unbundling of MultiChoice Group by Naspers

On 17 September 2018, Naspers announced its intention to list its video entertainment business separately on the Johannesburg Stock Exchange (JSE) and simultaneously to unbundle the shares in this business to its shareholders. The new company will be named MultiChoice Group Ltd. On 21 January 2019, Naspers announced that they will distribute 438 837 468 MultiChoice Shares to Naspers shareholders on the Naspers securities register. Naspers shareholders holding "A" and "N" ordinary shares on the Naspers securities register on record date will be transferred one MultiChoice share for every one "N" ordinary share held and one MultiChoice share for every five "A" ordinary shares held.

FTSE/JSE published an [Informative Notice](#) detailing the expected index treatment on 22 January 2019. As per the FTSE/JSE unbundling rule, MultiChoice was added to all the indices that Naspers was a constituent of for two days. After close of business on day one, constituents of indices with a fixed number of constituents were ranked and the smallest constituent was deleted on day three.

Since this event took place after the March review cut date and impacted the indices with a fixed number of constituents, an [Updated Informative Notice](#) was published on 11 February 2017 providing further clarity on the treatment. If the lowest ranked constituent is the same as scheduled for deletion at the March 2019 review then the next lowest (at the review cut-off) will be removed at the review instead.

### 3.4 Industry Classification Benchmark

On 21 December 2018, FTSE Russell announced that the implementation date for new ICB has been extended to July 1, 2019. It is foreseen that the FTSE Russell indices will transition to the new ICB structure in 2020, starting with the Russell US Indices at the June 2020 Annual Reconstitution and ending with all FTSE indices, including the FTSE Global Equity Index Series and the FTSE UK Index Series, at the September 2020 quarterly index review.

The JSE is planning to effect the changes in line with the FTSE indices at the September 2020 quarterly index review.

### **3.5 Responsible Investment Rules Enhancement**

On 28 February, FTSE/JSE announced the addition of controversy monitoring to the FTSE/JSE Responsible Investment Index Series Ground Rules.

#### **Controversy Monitoring**

*The FTSE Russell controversies assessment complements the ESG Ratings in formulating the FTSE/JSE Responsible Investment Index Series. The treatment of companies by the controversies assessment differs depending on whether the company is a current constituent or not.*

##### **Non-constituents**

*Companies identified as having significant controversies are not added to the FTSE/JSE Responsible Investment Index Series at a review and placed on a watchlist. The watchlist is determined through a process which systematically analyses the seriousness of ESG incidents, criticism, and allegations against companies and projects worldwide to determine how controversial a company is. The top five percent of companies in the FTSE All World universe with the most significant allegations are included in the watchlist at a review; companies in wider FTSE4Good Universes that meet the threshold for the watchlist are also not added to the FTSE/JSE Responsible Investment Index Series. The watchlist also includes companies where any of the world's largest asset owners (top 20 by aum) currently take a public stance in excluding that company from their portfolios on the basis of environmental, social or governance concerns.*

##### **Current Constituents**

*FTSE Russell monitors news outlets for controversies in which current FTSE/JSE Responsible Investment Index Series constituents are implicated; this controversies assessment is based on two defining parts, an Exposure based on significance and a Score focused on quality of response. The Assessment is applied in a systematic manner and constituents are suspended from the FTSE/JSE Responsible Investment Index Series for a period of two years where the Assessment breaches a threshold level that equates to the most extreme ESG controversies. Following a two year suspension a company must demonstrate that it has taken appropriate action to rectify the effects of the controversial incident and prevent a reoccurrence before it can be permitted to re-enter the FTSE/JSE Responsible Investment Index Series, subject to meeting all other criteria.*

### **4. Market Consultation: FTSE/JSE Market Index Design Update**

FTSE/JSE published a [market consultation](#) on 14 December 2018 regarding the FTSE/JSE Market Index suite and feedback was required by 31 January 2019. FTSE/JSE would like to thank all respondents for providing a rich set of information regarding the Market Index suite. The feedback received was presented to the AC at the March 2019 meeting.

Respondents to the market consultation raised strong views for and against the proposed SA Investor and All Foreign Up-weight indices and as such they would most likely not be widely accepted as a broad Market Index. Consideration will be given to introducing these proposed indices as possible new specialist indices, but not an amendment to the existing Market Index methodology.

Respondents gave broad support for the collapse of the All Share (J203) and SWIX All Share (J403) methodologies into one methodology, in so doing removing the inconsistent treatment of foreign companies in the Index Series.

A formal proposal will be prepared and distributed to market participants during Q3 2019.

## **5. All Share Eligibility Hurdle**

Effective with the December 2018 Quarterly Review the Ground Rules were updated with the removal of the 5% to 15% minimum free float rule in the FTSE/JSE Africa Index Series. In order to mitigate the risk that smaller free floats in the Index Series would result in insignificant constituent weightings, this rule was replaced with a minimum index weight for index inclusion. Rule 5.3.4 of the Ground Rules was updated to reflect that a company will only be eligible for the FTSE/JSE All Share index provided the market capitalisation of its available float is 1% or greater than the investable market capitalisation of the FTSE/JSE Small Cap Index on review cut date, and it qualifies in all other respects. A current constituent will be deleted from the FTSE/JSE All Share index should the investable market cap fall to 0.2% or below relative to the FTSE/JSE Small Cap index investable market capitalisation on review cut date.

The AC reviewed this rule and agreed that the current hurdle was potentially set too high for Fledgling companies to gain reasonable access to the All Share Index. The AC recommended that the rule should be calibrated or reviewed entirely, with a proposed enhancement effective at the next semi-annual All Share review in September 2019. An announcement with more information will be published in due course.

**The next AC meeting will be held on Thursday, 6 June 2019.**

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

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