

Memorandum

To: Market Participants
From: FTSE/JSE
Date: 27 June 2013
Subject: **Notes from the FTSE/JSE Advisory Committee Meeting held on Wednesday, 12 June 2013**

1. Background

The FTSE/JSE Advisory Committee (AC) met on Wednesday, 12 June 2013 to approve the quarterly review changes to the FTSE/JSE Africa Index Series which will be effective at the start of business on Monday, 24 June 2013 and to discuss matters relating to the Index Series. The items listed below were discussed during the meeting.

2. Feedback on the FTSE/JSE Africa Index Series

The two tables below provide a summary of the largest changes in ranking and the changes made to the key indices at the June 2013 review.

Largest Changes in Ranking

All Share constituents compared at June and March 2013 Quarterly Reviews

Newly Eligible at June Review					
Alpha	Instrument	Current Rank	Previous Rank	Move	Comment
AQP	Aquarius Platinum Ltd	130		ADD	Small Cap Addition
Newly Ineligible at June Review					
Alpha	Instrument	Current Rank	Previous Rank	Move	Comment
SAH	South African Coal Mining		262	DEL	Free Float <= 15%
Largest and Smallest Top 40 Movers					
Alpha	Instrument	Current Rank	Previous Rank	Move	Comment
MDC	Mediclinic International Ltd	27	34	7	Largest Top 40 Up
GFI	Gold Fields Ltd	35	28	-7	Largest Top 40 Down
Largest Increase in Ranking on Main Board					
Alpha	Instrument	Current Rank	Previous Rank	Move	Comment
CML	Coronation Fund Managers	53	72	19	Remains in Mid Cap
DLT	Delta Property Fund	133	162	29	Remains in Small Cap
COM	Comair Limited	163	178	15	Remains in Fledgling
WSL	Wescoal Holdings Ltd	228	245	17	Remains in Fledgling
Largest Decrease in Ranking on Main Board					
Alpha	Instrument	Current Rank	Previous Rank	Move	Comment
ABL	African Bank Inv Ltd	76	53	-23	Remains in Mid Cap
SGL	Sibanye Gold Limited	107	86	-21	Moves to Small Cap



VIL	Village Main Reef GM Co	192	174	-18	Remains in Fledgling
FUU	First Uranium Corp	259	225	-34	Remains in Fledgling

Changes to Key Indices

Index	Additions	Deletions	SII Changes	FF Changes	Largest Up*	Largest Down*	Projected Max Weight	Churn
Top 40			5	4	BTI (0.75%)	APN (0.39%)	BIL (13.98%)	1.07%
SWIX 40			5	6	BTI (1.08%)	APN (0.57%)	MTN (9.71%)	1.76%
Mid Cap	NEP	SGL	10	9	NEP (0.95%)	SGL (0.90%)	REI (5.23%)	2.96%
All Share	AQP		33	45	BTI (0.63%)	APN (0.32%)	BIL (11.61%)	1.17%
Resi 10	ASR	LON	2	1	ASR (0.80%)	LON (1.87%)	BIL (43.96%)	1.87%
Fini 15	CCO	LBH	3	0	CCO (1.44%)	LBH (1.62%)	OML (17.46%)	2.21%
Indi 25			1	5	BTI (1.36%)	APN (0.70%)	SAB (21.02%)	1.65%

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

- The change from banded free float to actual free float, applied at the March 2013 review, was implemented successfully. This is largely due to the market being well informed and all involved being well prepared for the change. This change to the free float methodology will improve the market representation of the index and potentially reduce large changes to constituent weights.
- With the change to actual free float it seemed an opportune time to concurrently improve the SWIX index methodology. The SWIX free float now represents the proportion of a constituent's share capital that is held in dematerialised form on the South African share register. In addition all securities deemed not available for local trade, but included on the Strate register, are subtracted from the register number. These include holdings confirmed to back a listed, sponsored Depositary Receipt program. The implementation of the SWIX methodology change went smoothly and no complaints were received from the market.
- The FTSE/JSE Ground Rules were updated to reflect the move from banded to actual free float. In addition Rule 1.3.11 and Appendix C was updated to accommodate the SWIX methodology change.
- The JSE has received several applications from companies for REIT status. Once finalised the ICB classification will be done at the subsequent quarterly review. Once this has been approved and confirmed the relevant company will move into ICB sector Real Estate Investment Trusts (8670) and will be removed from the either the Property Unit Trust (J255) index or the Property Loan Stock (J256) index. An example of a successful REIT classification done at the June review was Vukile Property Fund (VKE).
- Following the September 2012 AC meeting, FTSE/JSE was asked to review the methodology relating to the Dividend Plus Index (J259). Of particular concern was the treatment of companies that declared no dividend for a period, in contrast to expectations. The AC decided that a change to the methodology should await the outcome of the FTSE UK review, likely to be completed in the second half of 2013.

3. Trading Statistics on 15 March 2013

The March 2013 quarterly index review of the FTSE/JSE Africa Index Series was effective at close of business on 15 March. In addition to the normal review changes, a change to free float methodology and SWIX methodology was also applied. This has resulted in a large once-off change in the relative weights of the constituents of almost all of the indices. As such, increased trading activity was expected on the date of the changes, particularly in the closing auction, due to the actions of tracker

funds. The change to the free float methodology was one of the largest changes to the FTSE/JSE Africa Index Series since the joint venture started in 2002. Large increases in trading values, particularly in auction trade, were seen across the indices along with an increase in churn.

4. Analysis of Index Buffers and the Timing of the Liquidity Review

The AC reviewed the impact of index buffers on various indices over the past two years to assess their effectiveness. It was decided that further research should be done and report back given at the next AC meeting in September. In particular the buffer sizes of the Resi 10 and Mid Cap indices were flagged for future investigation.

In addition to the buffers the AC also reviewed the timing of the liquidity screen done annually in December. It was decided to leave the timing of the liquidity screen unchanged. Liquidity will still be measured for each of the 12 months prior to the annual review for the period November of the previous year to the October before the review month.

5. Analysis of Index Liquidity Screening

During 2012 the AC investigated possible changes to the current liquidity hurdle. The areas discussed at the time were:

- An increased liquidity percentage, from the current 0.5%
- Using a median measure instead of the mean
- Increasing the minimum number of months
- Changing to a purely mathematical calculation

The AC decided to leave the current hurdle unchanged and also decided that FTSE/JSE would conduct further research into possible additional or index-specific hurdles. The purpose of this hurdle would be to prevent illiquid companies from entering a tradable index despite the lack of trading activity or availability in the market.

FTSE/JSE presented various scenarios to the AC at the June 2013 review to consider for this additional hurdle. However, the AC was of the opinion that the current liquidity screen should remain unchanged.

Next AC meeting will be held on Wednesday, 11 September 2013

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