

Market Consultation

Johannesburg
Stock Exchange

Tel: +27 11 520 7000
Fax: +27 11 520 8584

www.jse.co.za

To: Market Participants
From: Indices Department
Date: 4 March 2015
Subject: **Market Consultation: FTSE/JSE Listed Property Indices**

1. Introduction

FTSE/JSE is investigating the definition and composition of the existing FTSE/JSE Listed Property Indices with the objective of identifying any existing market concerns, and implementing appropriate improvements. The purpose of this consultation is to invite all market participants and index users to comment on a number of discussion questions which will assist FTSE/JSE in improving the existing index offering.

2. Background

In 2003, FTSE/JSE introduced two specialist property indices, namely the FTSE/JSE South African Listed Property Index (SAPY) and the FTSE/JSE Capped Property Index (PCAP). The SAPY Index was designed to capture the top 20 liquid property¹ companies by full market cap, with a primary listing on the JSE. The PCAP Index comprises the top 20 liquid property companies, by full market cap, capped at 10% at each quarterly review. The constituents of both these indices are drawn from the All Share Index. The SAPY Index is currently broadly used as a listed property benchmark, although both the SAPY and the PCAP are considered to be Tradable indices.

Following the implementation of the Real Estate Investment Trust (REIT) regime in 2013, the JSE has seen a substantial number of Property Loan Stock companies converting to the new structure. This has had a resultant impact on the FTSE/JSE Property Unit Trust Index and, to a lesser extent, the FTSE/JSE Property Loan Stock Index. These specialist indices include all main board companies with the relevant legal structure, and are not screened for liquidity. FTSE/JSE is currently discussing the decreasing relevance of these two indices and their probable termination.

In addition, there are two sector benchmark indices based on the Industry Classification Benchmark (ICB) Sector structure, namely the FTSE/JSE Real Estate Development and Services Index (J863) and the FTSE/JSE Real Estate Investment Trusts Index (J867). These indices include all instruments that are classified in the ICB Sectors 8630 and 8670 respectively and the J867 includes property companies that have been classified as REITs in foreign countries, and not just South African REITs. Only All Share constituents are eligible for inclusion in the ICB Sector

¹ For FTSE/JSE Indices, property companies are those classified in the Real Estate Investment & Services ICB Sector (8630) or the Real Estate Investment Trusts ICB Sector (8670).

indices, and as such they are implicitly screened for liquidity. FTSE/JSE launched a SWIX version of these Indices in 2014.

3. Concerns

There have been some concerns raised by market participants and the media, particularly around the SAPY Index. These include:

- The SAPY name is misleading because it can be interpreted to mean the location of the property. The concept of primary listing may be more complex to interpret in terms of index risk metrics. Furthermore, there is a possibility that property funds will select the JSE as their primary listing based solely on SAPY index inclusion.
- The large weight of Growthpoint at over 20% creates concentration concerns both for benchmark and passive usage.
- There is a lack of trading liquidity in the tail of the index, creating tracking risk for passive usage.
- Disagreement on the definition of property funds to include, based on legal structure (e.g. REIT), fund type (e.g. Income Fund) and geography.

4. Listed Property Companies

The following is a list of property companies in the current All Share Index. The gross market capitalisation and weights were calculated using the closing prices on 13 February 2015.

#	Alpha	Instrument Name	Listing Type	REIT Status	ICB Sector Code	Gross MCap (R'm)	Free Float	Weight in All Share	Weight in SAPY	Weight in PCAP
1	ITU	Intu Properties Plc	Secondary	Foreign REIT	8670	R 87,860.65	70%	0.87%		14.68%
2	GRT	Growthpoint Prop Ltd	Primary	SA REIT	8670	R 69,111.83	92%	0.90%	22.87%	15.59%
3	CCO	Capital & Counties Prop PLC	Secondary		8630	R 57,868.52	31%	0.25%		5.33%
4	RDF	Redefine Properties Ltd	Primary	SA REIT	8670	R 43,231.12	98%	0.60%	15.24%	12.59%
5	NEP	New Europe Prop Inv Plc	Primary		8630	R 33,798.08	66%	0.32%	8.02%	6.63%
6	RES	Resilient Prop Inc Fd	Primary	SA REIT	8670	R 31,567.60	65%	0.29%	7.38%	6.10%
7	HYP	Hyprop Inv Ltd	Primary	SA REIT	8670	R 26,025.26	100%	0.37%	9.36%	7.73%
8	CPF	Capital Property Fund Limited	Primary	SA REIT	8670	R 25,183.36	88%	0.31%	7.97%	6.58%
9	ATT	Attacq Limited	Primary		8630	R 16,423.34	60%	0.14%	3.54%	2.93%
10	RPL	Redefine International PLC	Secondary	Foreign REIT	8670	R 13,531.26	62%	0.12%		2.49%
11	ACP	Acucap Properties Limited	Primary	SA REIT	8670	R 13,489.54	54%	0.10%	2.62%	2.16%
12	FFB	Fortress Income Fund Ltd (B)	Primary	SA REIT	8670	R 11,031.55	23%	0.04%	0.91%	0.75%
13	FPT	Fountainhead Property Trust	Primary	SA REIT	8670	R 10,813.20	39%	0.06%	1.52%	1.25%
14	VKE	Vukile Property Fund	Primary	SA REIT	8670	R 10,727.18	93%	0.14%	3.59%	2.96%
15	SAC	SA Corp Real Estate Fund	Primary	SA REIT	8670	R 10,197.48	100%	0.14%	3.67%	3.03%
16	EMI	Emira Property Fund	Primary	SA REIT	8670	R 9,362.91	87%	0.12%	2.93%	2.42%
17	FFA	Fortress Income Fund Ltd (A)	Primary	SA REIT	8670	R 7,340.22	46%	0.05%	1.21%	1.00%
18	IPF	Investec Property Fund Ltd	Primary	SA REIT	8670	R 6,876.60	46%	0.04%	1.14%	0.94%
19	OCT	Octodec Investments	Primary	SA REIT	8670	R 6,335.61	59%	0.05%	1.34%	
20	REB	Rebosis Property Fund	Primary	SA REIT	8670	R 5,889.52	83%	0.07%	1.76%	1.45%
21	APF	Accelerate Property Fund	Primary	SA REIT	8670	R 4,420.82	61%	0.04%		
22	DLT	Delta Property Fund	Primary	SA REIT	8670	R 4,239.80	92%	0.06%	1.40%	1.16%
23	AWB	Arrowhead Properties (B)	Primary	SA REIT	8670	R 3,744.84	100%	0.05%	1.35%	1.11%
24	AWA	Arrowhead Properties (A)	Primary	SA REIT	8670	R 3,710.06	100%	0.05%	1.33%	1.10%
25	IAP	Investec Australia Property Fund	Primary	Foreign REIT	8670	R 2,766.64	57%	0.02%		
26	HPA	Hospitality Property A	Primary	SA REIT	8670	R 2,201.11	49%	0.02%	0.39%	
27	AIA	Ascension Properties Ltd A	Primary	SA REIT	8670	R 1,760.51	44%	0.01%	0.28%	
28	AIB	Ascension Properties Ltd B	Primary	SA REIT	8670	R 1,016.17	52%	0.01%	0.19%	

Table 1: Property companies in the All Share Index

5. Discussion Points/Questions

FTSE/JSE requests comments from the market regarding concerns with the current suite of FTSE/JSE listed property indices, and any proposals to improve the offering. The questions below are provided to guide the discourse:

- Details of respondent, including company name and industry or sector
- Which of the existing FTSE/JSE property Indices do you use and what for purpose?
- What specific concerns impact on your current or potential usage of these indices?
- Which types of property companies should be included in the property benchmark?
e.g. SA REIT, Foreign REIT, SA Unit Trust or Non REIT, Income Fund etc.?
- What defines a property company as South African and should this impact on index construction?
e.g. primary listing, location of property portfolio, location of management team, source of revenue
Can a property company be classified as *partially* South African using some weighting algorithm?
- Should the index only include liquid companies? Is the current liquidity screening adequate?
- How should the weighting of property companies in the index be determined?
e.g. Market Capitalisation weighted, SA revenue weighted, SWIX Market Capitalisation weighted?
- Are large weights of individual constituents a concern and is capping necessary? If so, at what level should individual constituents be capped?
- Should the methodology of the current SAPY be changed, or should a new index be introduced? How would changing the existing SAPY rules impact on your business model? Should there be a fundamental change to the SAPY methodology, how much advance notice would you expect from FTSE/JSE?
- Should there be a single FTSE/JSE South African property benchmark, or should there be multiple benchmarks with different functions?

6. Sample Methodology Proposal

One Straw Man proposal that can be discussed in terms of its impacts is the following:

- Create a new benchmark index based on the SA REIT structure. This index will automatically include all instruments from the All Share Index that are classified as SA REIT. The Index will be weighted by net market capitalisation.
- Change the existing SAPY index to include all property companies in the Top 40 and Mid Cap indices (i.e. Top 100) without a fixed number of constituents. The index will be weighted by SWIX market capitalisation. As such, inward listed companies will be included but at a reduced weight. The weight of individual constituents to be capped at 15%. Table 2 below provides an indication of the constituents of this index with no weighting cap applied, as well as with a 10% and 15% cap.

#	Instrument	Uncapped Weight	15 % Capped Weight	10 % Capped Weight
1	Growthpoint Prop Ltd	22.50%	15.00%	10.00%
2	Redefine Properties	14.84%	15.00%	10.00%
3	Intu Properties Plc	11.50%	12.85%	10.00%
4	Hyprop Investments Ltd	9.21%	10.29%	10.00%
5	New Europe Property Investment Plc	7.89%	8.82%	10.00%
6	Capital Property Fund Limited	7.84%	8.76%	10.00%
7	Resilient Prop Inc Fd	7.26%	8.11%	10.00%
8	Capital & Counties Properties PLC	6.35%	7.09%	10.00%
9	Attacq Limited	3.49%	3.89%	5.53%
10	Redefine International PLC	2.97%	3.32%	4.71%
11	Acucap Properties Limited	2.58%	2.88%	4.09%
12	Fountainhead Property Trust	1.49%	1.67%	2.37%
13	Fortress Income Fund Ltd. (A)	1.19%	1.33%	1.89%
14	Fortress Income Fund Ltd. (B)	0.90%	1.00%	1.42%

Table 2: Property companies in the Top40 and Mid Cap Index

7. Responding to the consultation

It is important to FTSE/JSE to be aware of the impact on clients as well as any unintended consequences of the change. Therefore, FTSE/JSE requests comments on the concerns and questions identified, as well as the Straw Man proposal and its possible impact.

Please provide us with your comments and suggestions by Tuesday, 31 March 2015 to the following email address: indices@jse.co.za

FTSE/JSE would also like to meet with market participants to discuss any further comments, suggestions or concerns. Please contact us at the email address provided above, should you wish to arrange a meeting in this regard. All feedback received by 31 March 2015 will be carefully considered before making any final decisions, and presented to the FTSE/JSE Advisory Committee Meeting.

When determining the timeline for the implementation of any decision, FTSE/JSE is mindful of the broad usage of these indices in the market and the need to provide appropriate notice.

This document is not confidential and should be distributed as widely as possible to all stakeholders.

Yours Sincerely,
Indices Department