

To: Market Participants
From: FTSE/JSE
Date: 29 June 2015
Subject: Notes from the FTSE/JSE Advisory Committee Meeting held on Wednesday, 3 June 2015

1. Background

The FTSE/JSE Advisory Committee (AC) met on Wednesday, 3 June 2015 to approve the quarterly review changes to the FTSE/JSE Africa Index Series which will be effective at the start of business on Monday, 22 June 2015, and to discuss matters relating to the Index Series. The items listed below were discussed during the meeting.

2. June 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 June 2015 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	NVS		21	18	LON(0.05%)	BIL(0.10%)	NPN(9.27%)	0.31%
Top 40	CPI,BAT,MMI	IMP,LHC,IPL	3	0	BAT(0.60%)	LHC(0.62%)	NPN(11.16%)	1.80%
SWIX 40	CPI,BAT,MMI	IMP,LHC,IPL	3	0	BAT(0.84%)	LHC(0.86%)	NPN(15.63%)	2.40%
Mid Cap	IMP,LHC,IPL ZED,VKE	CPI,BAT,MMI HAR,ACL	9	7	LHC(3.76%)	BAT(3.75%)	RDF(4.31%)	13.32%
Resi 10	NHM	ASR	2	1	NHM(1.72%)	BIL(1.00%)	BIL(55.58%)	1.72%
Fini 15			2	0	OML(0.14%)	SBK(0.05%)	OML(16.38%)	0.27%
Indi 25			1	0	PFM(0.01%)		NPN(16.72%)	0.01%
Eq Wgt 40	CPI,BAT,MMI	IMP,LHC,IPL	3	0	ADDS(2.50%)	IPL(2.53%)	ALL(2.50%)	10.24%
SAPY			9	0	RES(0.49%)	HYP(0.22%)	GRT(21.61%)	1.03%

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

2.2 Largest Changes in Ranking

All Share constituents compared at June 2015 and March 2015 Quarterly Reviews

Newly Eligible at March Review					
Alpha	Instrument	June Rank	Previous Eligibility Failure	Comment	
NVS	Novus Holdings Limited	127	Listed on 2015/03/31	Added to Small Cap	
Noteworthy Top 40 Instruments					
Alpha	Instrument	June Rank	March Rank	Move	Comment
BAT	Brait SE	36	46	10	Largest Top 40 Up (Addition)
CPI	Capitec Bank Hldgs Ltd	33	40	7	2nd Largest Top 40 Up (Addition)
KIO	Kumba Iron Ore Ltd	40	28	-12	Largest Top 40 Down
IMP	Impala Platinum Hlgs Ltd	47	39	-8	2nd Largest Top 40 Down (Deletion)
LBH	Liberty Holdings Ltd	41	48	7	Largest Mid Cap (Reserve List 1)

Largest Decrease in Ranking in Main Board					
Alpha	Instrument	June Rank	March Rank	Move	Comment
AEG	Aveng Group Limited	142	117	-25	Remains in Small Cap
HAR	Harmony GM CO Ltd	111	93	-18	Moved from Mid Cap to Small Cap
ACL	Arcelormittal SA Limited	112	94	-18	Moved from Mid Cap to Small Cap
Largest Increase in Ranking in Main Board					
Alpha	Instrument	June Rank	March Rank	Move	Comment
PSG	PSG Group Ltd	42	58	16	Remains in Mid Cap
ZED	Zeder Inv Ltd	86	102	16	Moved from Small Cap to Mid Cap
CSB	Cashbuild Ltd	115	130	15	Remains in Small Cap

3. Feedback on the FTSE/JSE Africa Index Series

3.1 Glencore Xstrata and South32 Register Size

According to the Ground Rules, any share that is classified as foreign for index purposes by the South African Reserve Bank, will have a free float that represents the proportion of their share capital that is held in dematerialised form on the South African share register. This is measured as a 3 month average and the average for the June review was taken over February, March and April.

Companies with a free float of 5% or below are not eligible for inclusion in the Index Series. A company that has a free float greater than 5% but less than or equal to 15% will be eligible for the Index Series providing the market capitalisation of its available float is greater than the average company's free float capitalisation within the Index, and it qualifies in all other respects. The actual free float will be rounded up to the next highest whole number.

The table below shows the SA Register holdings that were considered for the June review:

FileDate	2015/05/29	3m Average	2015/04/30	2015/03/27	2015/02/27
GLN SA Register	2.50%	2.58%	2.53%	2.61%	2.60%
S32 SA Register	6.17%	N/A			

3.2 Rebasings of Index Values

Due to various system limitations, the JSE cannot currently process an index level in excess of 99,999.99. As such, it has been the practice to rebase any index whose level is approaching this value. The J537 and J835 are currently due to be rebased and will be rebased during the course of quarter 3:

Index	Class	Highest Value
J537 - General Retailers	Capital Index	88,936.03
J835 - Banks	Capital Index	85,148.81

Table 1: Indices to be rebased in Quarter 3, 2015. Highest Index value as at 14 May 2015.

In addition, four indices (J250, J257, J201 and the J213) will be monitored over the quarter as they have exceeded the 70,000.00 level.

Index	Class	Index Value
J250 - SA Financials and Industrials	Capital Index	78,151.20
J257 - SA Industrials	Capital Index	76,517.96
J201 - Mid Capitalisation	Capital Index	73,637.68
J213 - Financial and Industrial 30	Capital Index	73,071.14

3.3 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 March 2015 review:

Amendment Type	Top 40 Index	All Share Index	Top 40 Notes
CA - Constituent Addition	1	1	Unbundling of S32 from BIL
CD - Constituent Deletion		1	
CI - Capitalisation Issue			
CP - Capital Repayment	2	3	Adjusted special dividend for GRT and S32/BIL unbundling
DV - Dividend (TRI)	11	32	
IC - Free Float Change			
IS - Shares In Issue Change	2	4	GRT acquisition of ACP, SHF intra-quarter 10% SII increase
NC - Name Change			
RI - Rights Issue		1	
SC - Scrip Dividend		2	

3.4 FTSE-Russell Integration

FTSE has been rebranded to FTSE Russell following the integration of FTSE and Russell Indices. The FTSE/JSE brand will not change as a result of this. There is also no immediate impact on the index methodology, although there are a number of exciting opportunities to leverage Russell methodologies and research in the FTSE/JSE Africa Index Series.

4. Market Consultation: FTSE/JSE Listed Property Indices

After discussion at the FTSE/JSE Advisory Committee (AC) meeting in March 2015, a market consultation on the FTSE/JSE Listed Property Indices was published to the market. The purpose of the consultation was to invite all market participants and index users to comment on a number of discussion questions in order to assist FTSE/JSE with improving the existing property index offering. The consultation was extremely well received by the market with 19 individual responses being submitted.

FTSE/JSE thanks all the respondents for not only responding to the consultation questions, but for providing a rich set of information regarding the property sector as a whole.

In addition to the range of broad topics that were initially identified in the market consultation, a number of additional concerns came out of the individual responses. The three key ones are listed below.

4.1 Cross Listings

Some market participants are of the opinion that cross holdings are not always excluded when calculating company free float. It is suggested that free float for property companies be reviewed more often since the relevant data to do so is readily available. A number of respondents commented that FTSE/JSE free float can be more accurate for property companies, and should in fact be reviewed quarterly.

FTSE/JSE currently reviews company free floats at least once a year unless there is a major corporate action that warrants additional reviews. Annual reports are used as a source for reviews and cross holding are excluded from the free float.

Any index constituent or investor is encouraged to contact the JSE should they disagree with the determination of an individual free float, and FTSE/JSE would review these free floats on request.

4.2 Hybrids

A question was raised regarding the Industry Classification Benchmark (ICB) classification of hybrids. These are companies that FTSE/JSE has classified as property companies; however the majority of their assets appear to be investment holdings in other property companies rather than ownership of physical property assets.

FTSE/JSE will investigate a number of property companies to ensure that they are being classified in line with the ICB classification rules.

4.3 Secondary lines

Companies that issue two classes of share are a common feature for local property funds. Currently, index inclusion is done at a company level, rather than for each tradable instrument. Some market participants raised an issue about secondary lines that inclusions should be based on an individual security basis and not company basis.

4.4 FTSE EPRA/NAREIT Indices

A number of references were made to the methodology applied by the FTSE EPRA/NAREIT Index Series, and it was suggested that certain elements could be directly transferred to the South African indices.

It was clear from the market comments that the current SAPY Index needs to be amended. However, it was equally clear that there is no single amendment that will satisfy all index users. As such, there is no immediate amendment to the existing SAPY rules that will satisfy the majority of respondents, and therefore no immediate change to SAPY will be made. FTSE/JSE will continue to investigate the possibility of an enhanced or replacement Index and the market will be included in this process. This is envisaged to involve the definition of a small number of indicative indices that can be used to showcase the various broad themes that have arisen from the consultation. Further information will be provided to market participants as soon as it is available.

There does however appear to be broad support for the introduction of a new SA REIT Index, and FTSE/JSE will consider this from an index development perspective.

5. Weighting of Naspers in the SWIX 40

Concentration of individual instruments within tradable indices remains a recurring theme for the FTSE/JSE Advisory Committee (AC). A current example of this is Naspers Ltd (NPN), which has seen share price growth of over 50% over the past twelve months. This price growth has seen the weighting of NPN increase dramatically in the key benchmark and tradable indices within the FTSE/JSE Africa Index Series, which has in turn led a number of market participants to question the construction methodology of the Shareholder Weighted (SWIX) indices.

Chart 1 provides a ten year history of concentration in the SWIX 40. The shared series represents the weight of the largest constituent in the index on each day, colour coded to identify that instrument. The line series provides the daily combined weight of the largest five constituents in the index on each day.

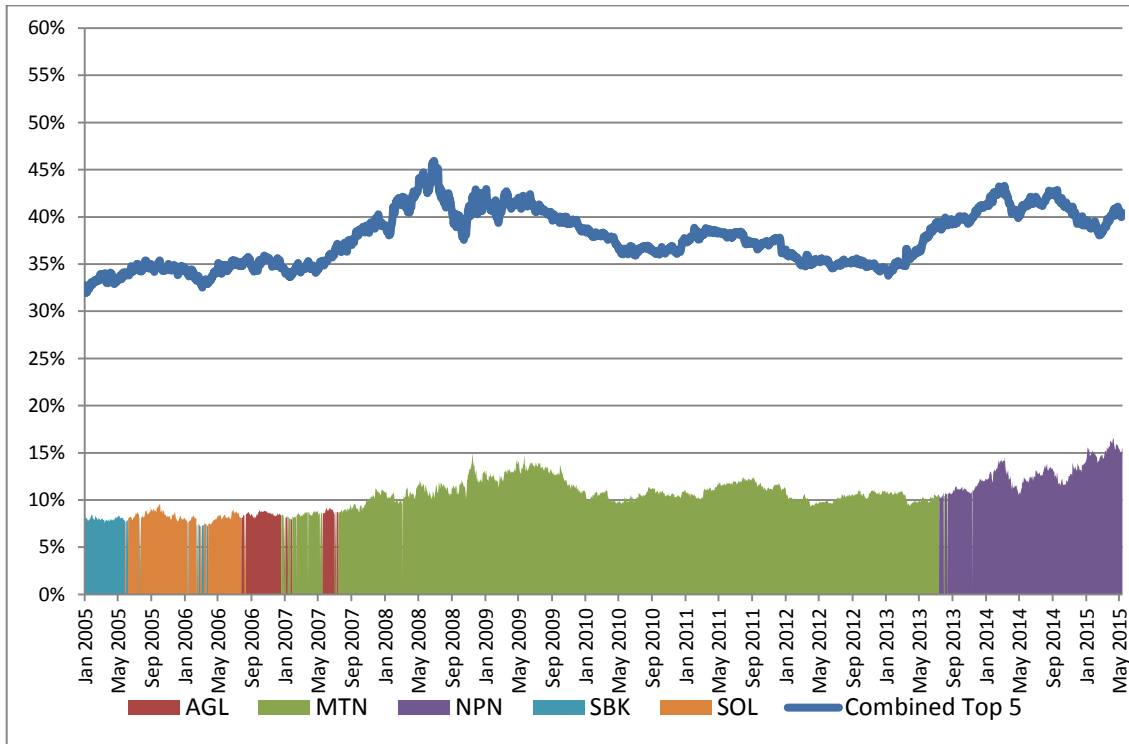


Chart 1: Concentration analysis of the SWIX 40

The chart shows that the maximum concentration in the SWIX 40 is at a ten year high, and well above the typical long run value. The same data is presented for the Top 40 index in Chart 2:

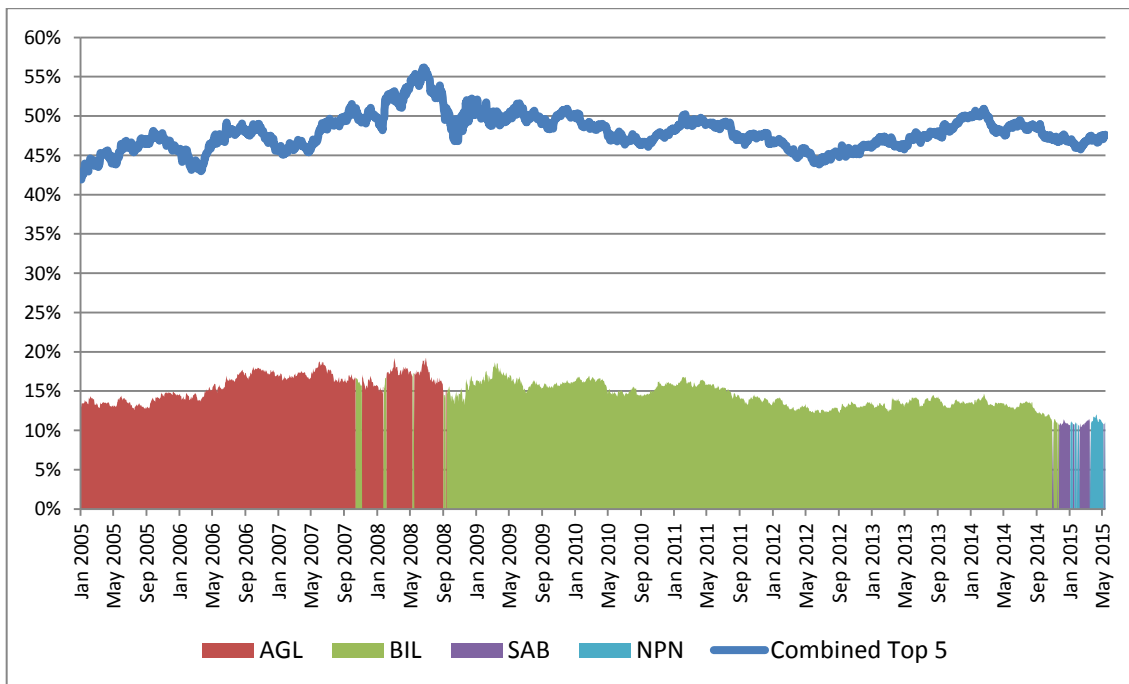


Chart 2: Concentration analysis of the Top 40

While the maximum concentration is not as pronounced, it is of interest to note that NPN is currently the largest weighted counter in the Top 40 index, peaking at 12% on 13 April. Furthermore, while the SWIX 40 has traditionally held a much lower single stock concentration than the Top 40, this relationship has been inverted in recent times.

Market dynamics do change over time and care should be taken that core indices remain both reflective and fit for purpose. However, the methodology for broad benchmark and core tradable indices should remain stable and consistent with index objectives. Furthermore, it is essential that investors select benchmarks that are appropriate to their specific needs. For example, FTSE/JSE offers a Top 40 variant with individual weightings capped at 10% for those investors who are sensitive to large individual weights.

6. SA Suite Indices: SA Listed Top 30 and SA Investor Top 30

FTSE/JSE is investigating the feasibility of a suite of SA Inc. styled indices, namely the SA Listed Top 30 Index and the SA Investor Top 30 Index. The reason for introducing the SA Listed 30 Index would be to provide an index for investors who would like to gain exposure specifically to equity with a primary listing on the JSE, and the reason for the SA Investor Top 30 Index would be to provide SA investors with peer index based on aggregate South African nationality investor holdings.

7. SA Sector Classification

The AC discussed the current SA Sector Classification following the reclassification of Sasol from SA Resources to SA Industrials sector in March. The AC felt that the current classification should be changed from an ICB Sector level to an ICB Industry level.

The table below presents a subset of the ICB Structure. The current SA Resources definition of sectors 0530 and 1770 is highlighted:

Industry	Supersector	Sector	Subsector
0001 Oil & Gas	0500 Oil & Gas	0530 Oil & Gas Producers	0533 Exploration & Production
			0537 Integrated Oil & Gas
		0570 Oil Equipment, Services & Distribution	0573 Oil Equipment & Services
			0577 Pipelines
		0580 Alternative Energy	0583 Renewable Energy Equipment
			0587 Alternative Fuels
1000 Basic Materials	1300 Chemicals	1350 Chemicals	1353 Commodity Chemicals
			1357 Specialty Chemicals
	1700 Basic Resources	1730 Forestry & Paper	1733 Forestry
			1737 Paper
		1750 Industrial Metals & Mining	1753 Aluminium
			1755 Nonferrous Metals
			1757 Iron & Steel
		1770 Mining	1771 Coal
			1773 Diamonds & Gemstones
			1775 General Mining
			1777 Gold Mining
	1779 Platinum & Precious Metals		

FTSE/JSE proposes to change the basis of the classification from an ICB Sector level to an ICB Industry level. This would align with the definition of SA Financials, which maps to the ICB Industry Financials, and would classify all Subsectors in the above table as SA Resources. (i.e. Both 0001-Oil & Gas and 1000-Basic Materials)

FTSE/JSE will consider the full impact of the new classification model before finalising the methodology later in 2015. Further information will be provided to the market during July 2015.

The next AC meeting will be held on Wednesday, 2 September 2015

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