

To: Market Participants
From: FTSE/JSE
Date: 20 June 2022
Subject: Notes from the FTSE/JSE Advisory Committee Meeting held on Thursday, 2 June 2022

1. Background

The FTSE/JSE Advisory Committee (AC) met on Thursday, 2 June 2022 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 June 2022 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			49	118	DSY (0.07%)	BHG (0.12%)	AGL (12.25%)	0.58%
Large Cap			12	23	DSY (0.09%)	BHG (0.17%)	AGL (16.42%)	0.49%
Large and Mid Cap			34	71	DSY (0.07%)	BHG (0.13%)	AGL (12.86%)	0.54%
Mid Cap			22	48	RDF (0.09%)	PPH (0.30%)	NED (6.28%)	0.82%
Top 40			19	34	DSY (0.08%)	BHG (0.14%)	AGL (14.29%)	0.47%
SWIX 40			19	35	MNP (0.11%)	BHG (0.20%)	NPN (7.41%)	0.73%
Capped SWIX 40			19	35	NPN (1.57%)	BHG (0.36%)	NPN (7.41%)	4.13%
Eq Wgt 40			19	34	WHL (1.67%)	BID, SOL (0.53%)	ALL (2.5%)	6.90%
Resi 10			6	7	GLN (0.11%)	BHG (0.40%)	AGL (44.13%)	0.59%
Fini 15			5	15	DSY (0.27%)	SBK (0.24)	FSR (22.07%)	0.60%
Indi 25			12	21	PPH (0.16%)	PRX (0.13%)	CFR (29.53%)	0.36%
All Property			6	21	EQU (0.43%)	GRT (1.33%)	GRT, NRP (15.00%)	2.13%
Tradable Property	IAP	LTE	4	9	IAP (4.08%)	LTE (5.37%)	GRT, NRP, RDF, (15.00%)	7.06%
SAPY			5	18	NRP (0.39%)	RDF (0.60%)	GRT (18.79%)	1.28%

2.2 Largest Changes in Ranking

All Share constituents compared at June 2022 and March 2022 Quarterly Reviews.

Noteworthy Top 40 Instruments					
Alpha	Instrument	Jun Rank	Mar Rank	Move	Comment
DSY	Discovery Ltd	26	31	5	Largest Top 40 up
SOL	Sasol Limited	6	10	4	2nd Largest Top 40 up
CPI	Capitec Bank Hldgs Ltd	8	12	4	2nd Largest Top 40 up
PRX	Prosus N.V.	11	6	-5	Largest Top 40 down
MNP	Mondi plc	13	8	-5	Largest Top 40 down
APN	Aspen Pharmacare Hldgs Ltd	31	26	-5	Largest Top 40 down

AMS	Anglo American Plat Ltd	22	19	-3	2nd Largest Top 40 down
NPH	Northam Platinum Hldgs Ltd	30	27	-3	2nd Largest Top 40 down
TGA	Thungela Resources Ltd	44	66	22	Largest Reserve List
Largest Decrease in Ranking in Main Board					
Alpha	Instrument	Jun Rank	Mar Rank	Move	Comment
ATI	Afristrat Inv Hldgs Ltd	242	217	-25	Remains in Fledgling
ZED	Zeder Inv Ltd	150	130	-20	Remains in All Share
RMI	Rand Merchant Inv Hldgs Ltd	47	33	-14	Remains in All Share
Largest Increase in Ranking in Main Board					
Alpha	Instrument	Jun Rank	Mar Rank	Move	Comment
TGA	Thungela Resources Ltd	50	83	33	Remains in All Share
HCI	Hosken Cons Inv Ltd	81	113	32	Remains in All Share
GND	Grindrod Ltd	125	146	21	Remains in All Share

3. Feedback on the FTSE/JSE Africa Index Series

3.1 Inter-Review Index Amendments

The table below summarises all intra-quarter index adjustments made to the All Share and Top 40 indices since the March 2022 review:

Amendment Type	Top 40 Index	All Share Index	Top 40 Notes
CA - Constitution Addition	-	-	
CD - Constitution Deletion	-	3	
CI – Capitalisation Issue	-	-	
CP - Special Dividend	3	7	
DV - Dividend	23	55	
RI – Rights Issue	-	-	
IC - Weight Change	3	4	Absa Group free float update as a result of secondary placement Discovery Ltd free float increase following unbundling by Rank Merchant Investment Standard bank free float update due to Scheme of arrangement with Liberty Holdings
IS - Shares Update	1	2	Standard bank shares in issue update due to Scheme of arrangement with Liberty Holdings
NC - Name Change	-	-	
IC – Classification Change	-	-	

3.2 ABSA Group Limited Free float update

Following the announcement to launch an accelerated bookbuild of 63 million Absa Group Limited shares by a subsidiary of Barclays, an [ICA](#) was published on 21 April 2022 detailing an increase in ABSA Group investability weighting from 83.83% to 90.27%. This is in accordance with Section 6.6 of the Ground rules” *only shares and float changes occasioned by primary or secondary offerings will be updated outside of the quarterly update cycle where 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”*

3.3 Rand Merchant Investment unbundling of Discovery LTD and Momentum Metropolitan Holdings

On 25 March 2022, Rand Merchant Investment (RMI) made the announcement to unbundle 167 242 590 Discovery shares and 401 048 075 Momentum Metropolitan shares simultaneously in the distribution ratio of 10.91799 and 26.18136 for every 100 RMI shares.

An [ICA](#) was published on 20 April 2022 indicating an increased investability weighting for Discovery and Momentum to 73.61% and 80.80% respectively as well as an unchanged investability weighting for Rand Merchant of 48.90%

3.4 BHP Group Ltd: Distribution of Woodside Petroleum Ltd (Australia)

BHP Group Ltd made an announcement relating to the distribution of shares that will be issues in Woodside Petroleum Ltd to their shareholders.

In the distribution, eligible South African resident BHP Group Ltd shareholders can elect to receive one Australian Securities Exchange listed Woodside Petroleum share for every 5.5340 shares held. South African resident shareholders who do not elect will be deemed to be Ineligible Overseas Shareholders incapable of holding the Woodside Petroleum Ltd shares and will instead receive cash proceeds through a share sale facility, whereby the share entitlement will be sold on their behalf and sale proceeds may take up to 12 weeks to distribute. BHP Group Ltd is expected to trade ex-entitlement to the distribution on Tuesday 24 May 2022.

Based on the current timetable, FTSE/JSE intends to assume non-election and implement the event as a capital repayment on the ex-date, with the amount based on the Australian Securities Exchange Woodside Petroleum Ltd close price, from Monday 23 May 2022.

A price reduction, and therefore also an index weight decrease, of approximately 12% is expected for BHP in the FTSE/JSE Index Series.

4. Matters Arising from Previous Meetings

4.1 FTSE/JSE White Paper Index Capping methodology

Further to the publication of the FTSE/JSE White Paper Index Capping methodology, FTSE/JSE published a capping methodology [Update Informative Notice](#) outlining the extension of the interim solution in the Capped SWIX indices (J433 and J430) to apply the capping level of 6% at the March 2022 quarterly review.

Furthermore, FTSE has advised that the system optimisation required to accommodate the change is not yet ready and will only be implemented at the September 2022 quarterly review. As such, the reduction of the capping level to 6% has impacted other companies in the index, thus, down-weighting a number of constituents in the Index, e.g. FirstRand Limited and MTN Group. FTSE/JSE has taken a stance to increase the capping level to 8% at the June 2022 quarterly review as an interim measure to

mitigate the risk of the affected constituents that continue to be down weighted. The permanent solution will be implemented with the September Index Review, as per paragraph 3.3 below.

4.2 Introduction of Group Entity Capping

On 13 May 2022 FTSE/JSE [announced](#) the implementation of Group Entity Capping in the Index Series, effective from the September 2022 Index Review.

The general principle in this instance would be to consider a company whose valuation is almost exclusively dominated by its holding in another JSE-listed entity. Where an index constituent has an equity stake in another index constituent, and the market value of that stake is greater than 75% of the prevailing market capitalisation of the holding company, then the two companies shall be considered at a combined group valuation level for index capping purposes only.

The Group Entity Capping Rule will read as follows:

To meet the requirements for capping two entities together, on review cut date:

- Both Company A and its related Company B must be listed on the JSE and be constituents, or prospective review constituents, of the All Share index
- Consider the gross market capitalisation of Company A and the value of its holding in Company B at prevailing market prices and the current cross-holding percentage
- If the market value of Company A's holding in Company B is greater than 75% of the total gross market capitalisation of Company A, then both companies should be considered as a single entity for capping purposes in all Capped Indices in which both entities are constituents
- If the value of Company A's holding in Company B falls below 65% of Company A's total gross market capitalisation at a subsequent quarterly review, then the two entities will no longer be capped as one entity

Group Entity Capping will apply to all indices that have a fixed capping level based on an underlying market capitalisation weighting or SWIX weighting. It will not apply to any equally weighted indices or any non-market capitalisation weighted indices.

4.3 Increase in Capping Level

FTSE/JSE intends to increase the default capping level from the current level to between 12% and 13% at the September 2022 review. This will apply to the following five indices:

- J141 - FTSE/JSE Capped Shariah Top 40
- J300 - Capped Top 40
- J303 - Capped All Share
- J430 - FTSE/JSE Capped Shareholder Weighted Top 40 Index
- J433 - FTSE/JSE Capped Shareholder Weighted All Share Index

The final level will be announced before the September Index Review.

The decision for targeting the 12%-13% capping level was reached based on the feedback we received from the comprehensive market consultation process that was conducted. Through the process we received views and feedback in support of a range of capping levels.

Some of the local index users that supported Group Entity Capping (GEC), further indicated a preference to increase the capping level and there has been feedback that the 10% level is too low as a default capping level.

Most of the local index users that were not in favour of GEC cited their main concern as the 10% capping level being too low. FTSE/JSE considered capping levels in other country indices and some were lower than 10%, but many had higher capping levels. There is no global standard for capping levels, but 10% is on the lower end of the scale.

In order to prevent a proliferation of indices with different capping levels, the option of creating multiple variants was avoided.

The next AC meeting will be held on Thursday, 1 September 2022.

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

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