

Global index standards

Emerging market partnerships

Introduction

FTSE Russell Emerging and Frontier market Indexes are used by market participants worldwide to benchmark the performance of active and passive managers, and as the foundation of index tracking products.

A combination of transparent country classification, rules-based index methodologies and world leading index governance, has made FTSE Russell the Emerging Market index provider of choice for institutions worldwide.

But FTSE Russell is not just the Emerging Market index provider for the world, but the Emerging Markets index provider for Emerging Markets. Our expertise extends to the creation of long-term strategic partnerships with exchanges in these regions who seek to offer new research and benchmarking tools, create foundational valuation metrics for new financial products and enhance the international visibility of local markets.

We now partner with over 17 exchanges worldwide, including exchange trade groups in Asia and Africa, giving FTSE Russell extensive hands-on expertise in creating and managing emerging and frontier market indexes whilst embedding world class standards of index design and governance. From equity and fixed income, to real estate and alternatively weighted, FTSE Russell is the Emerging Markets index provider of choice for emerging markets.

"Working with FTSE Russell, an index provider with global indexation expertise, a transparent approach which the JSE shares, global client reach, research and development prowess along with a world class company classification system, ensures that South Africa is accessible to international institutional investors who view us as a growth destination,"

Ana Forssman, Director of Market Data at the JSE.

Case Study: South Africa

Advanced Emerging

South Africa is Africa's largest equity market by some margin¹. The country's major economic sectors include mining and minerals, the automotive industry, tourism and information technology.

Minerals have long played an important role in attracting international investment to the country. South Africa's mineral wealth is estimated at US\$2.5 trillion² and includes the world's largest reserves of manganese and platinum group metals (PGMs), as well as substantial reserves of gold, diamonds, chromite ore and vanadium.

The Johannesburg Stock Exchange (JSE) was formed in 1887 during the country's first gold rush. In 2001 the JSE entered a partnership with FTSE to operate a new series of equity indexes. These indexes, entitled the FTSE/JSE Africa index series, superseded the JSE Actuaries Equity Indices, launched in 1978.

The FTSE/JSE Africa index series is designed to represent the performance of the South African equity market and its component industries, as well as to provide South African investors with a wide range of benchmark indexes based on local securities markets.

FTSE partner indexes

The FTSE/JSE index series is one of a number of partner index series calculated or maintained by FTSE Russell.

Under such partnership arrangements, FTSE Russell applies global standards in index methodology to a range of domestic equity markets, while taking into account local market characteristics. FTSE Russell seeks to implement a consistent approach when constructing partner indexes: for example, by using a single industry classification framework and applying a common standard for measuring and reflecting index constituents' free float and shares in issue.

FTSE Russell's approach involves regular discussions with its clients and index advisory committees to ensure that indexes meet the requirements of end-users. Publicly available rules provide full transparency of index methodologies.

Domestic benchmarks, international accessibility

As with all of FTSE Russell's Emerging and Frontier market benchmarks, FTSE/JSE indexes are underpinned by globally recognised standards of governance and embed tradability at every stage during the index design, ensuring that the indexes are replicable and suitable for use in the creation of investment products.

Investors in Africa, Europe, UK and Asia can access ETFs tracking FTSE/JSE benchmarks in their region.

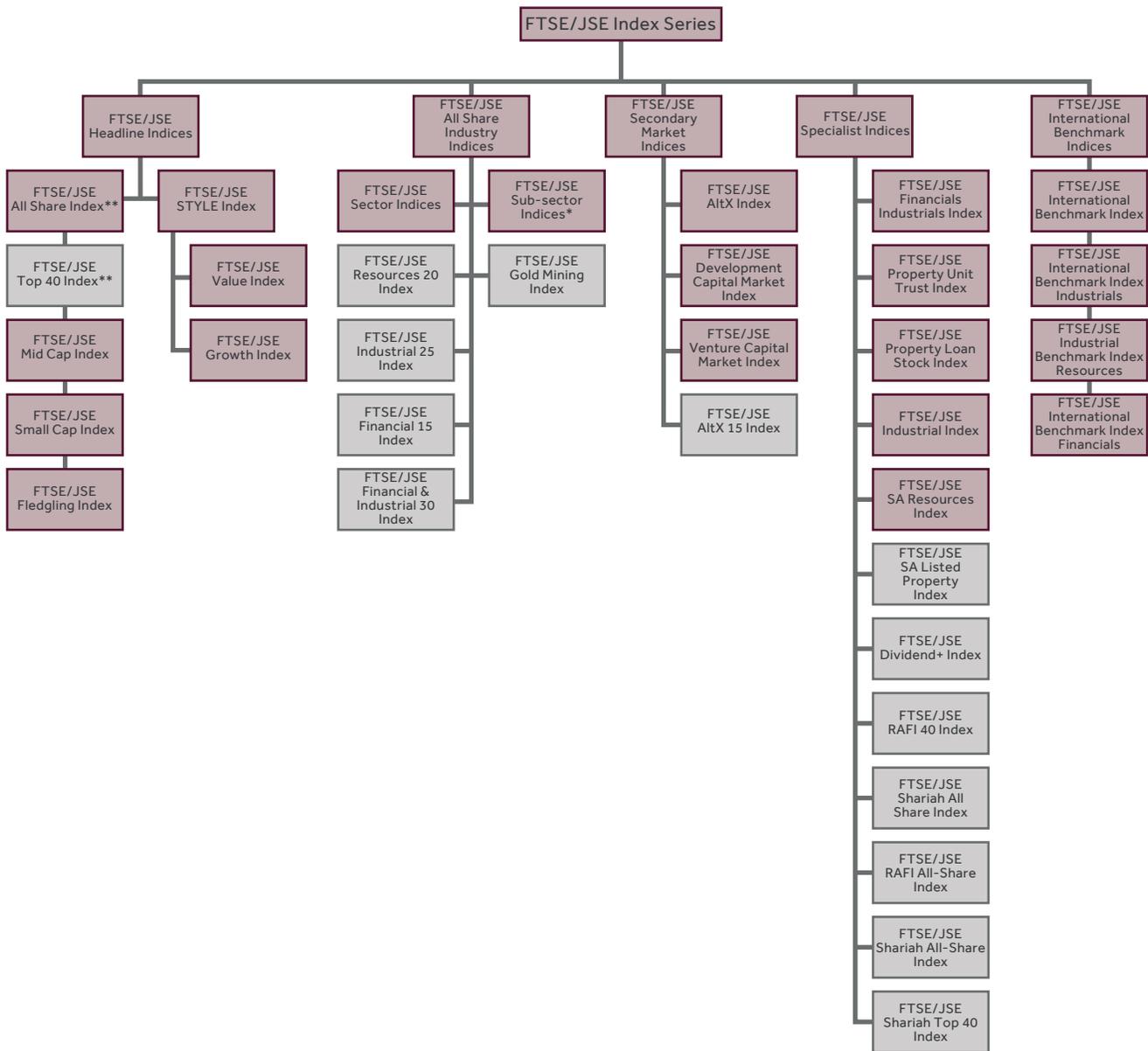
¹ As at the end of 2013, South Africa's equity market capitalisation was US\$943 billion, compared with Nigeria (US\$119 billion), Egypt (US\$62 billion) and Morocco (US\$54 billion)

² Source: www.southafrica.info

FTSE/JSE Africa Index Series

The FTSE/JSE Africa index family tree is shown in the diagram below.

FTSE JSE/Africa Index Series:



■ Benchmark Index □ Tradable Index

*Only 5 sub-sector indexes that make up the mining sector are calculated.

**Capped and Shareholder Weighted indexes are also available.

Note: FTSE/JSE Africa Index Series also includes the Namibia Indices.

Source: JSE, as at April 2014

The FTSE/JSE partnership contains the following principal index families and categories:

- Headline indexes (capitalisation weighted indexes based on eligible securities listed on the JSE’s main board)

- Shareholder weighted indexes (capitalisation weighted indexes using an alternative measure of free float called the SWIX free float, the proportion of a constituent's share capital that is held in dematerialised form and registered on the South African share register)
- Industry indexes (indexes following the Industry Classification Benchmark)
- Secondary market indexes (indexes calculated for South Africa's three separate secondary markets, development capital, venture capital and alternative exchange)
- Specialist indexes (indexes with specialist uses, such as alternatively weighted, Shariah, specialist property, capped and style indexes)

The FTSE/JSE All-Share Index

The FTSE/JSE All-Share Index represents 99% of the full market value, before the application of any investability weightings, of all ordinary securities listed on the main board of the JSE. The FTSE/JSE All-Share Index is designed for use in the creation of index-tracking funds, derivatives and as a performance benchmark.

The FTSE/JSE All-Share Index is also available in capped and shareholder weighted versions. The capped FTSE/JSE All-Share index is identical to the FTSE/JSE All-Share index, except that individual constituents' weightings are capped at 10% on a quarterly basis.

The shareholder weighted version of the FTSE/JSE All-Share index uses a more restricted version of FTSE's standard free float calculation. Index constituents' weightings are adjusted to omit foreign shareholdings. These shareholder weighted indexes (known as SWIX indexes) more accurately reflect the investment universe available for South Africa's domestic investors.

The constituents of the index series are reviewed quarterly in March, June, September and December. Companies' sizes are calculated using data at the close of business on the Monday four weeks prior to the review date. Any constituent changes are implemented after the close of business on the third Friday of the review month.

The total return performance of the FTSE/JSE All-Share index between June 2002 and August 2014 is shown in the chart below.

FTSE/JSE All Share Total Return Index



Source: FTSE Russell, as at August 31, 2014. The FTSE/JSE All-Share index was launched on 24 June 2002. Past performance is no guarantee of future results.

Segmenting the FTSE/JSE All-Share Index by

Capitalisation

The FTSE/JSE All-Share index is divided into capitalisation segments, reflecting the performance of the large-cap, mid-cap and small-cap stocks from the JSE Main Board.

The FTSE/JSE Top 40 Index is designed to represent the large-capitalisation segment of the FTSE/JSE All-Share index, by selecting the largest 40 companies (measured by full market value, i.e., before the application of any investability weightings) in the index.

The South African share market is relatively concentrated: as at end-August 2014 the top ten names in the FTSE/JSE All-Share index represented 58.53% of the FTSE/JSE All-Share index's capitalisation³.

As a result, the performance of the FTSE/JSE Top 40 index has tended to be quite closely correlated with that of the FTSE/JSE All-Share index: see the chart below.

The FTSE/JSE Mid Capitalisation index is designed to represent the mid-capitalisation segment of the FTSE/JSE All-Share index, by selecting the next 60 companies, in addition to the top 40, measured by full market value, in the index.

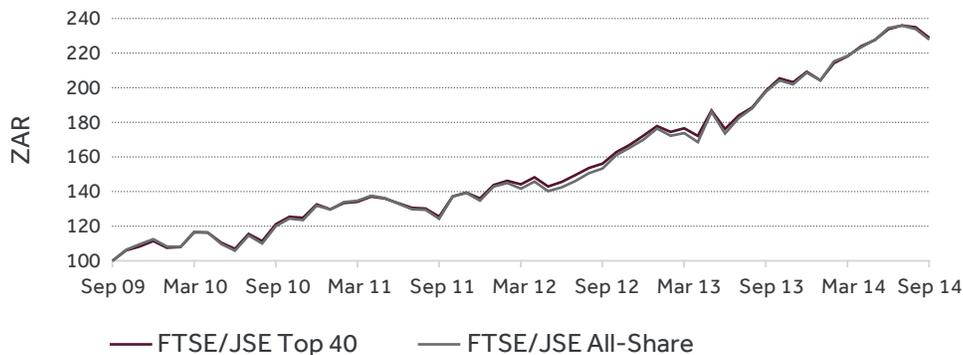
The FTSE/JSE Small Capitalisation index consists of all the remaining shares in the FTSE/JSE All-Share index.

To reduce the potential turnover as a result of movements between the different capitalisation bands, the index rules specify the following buffer zones:

A security will be inserted in the FTSE/JSE Top 40 index at the quarterly review when its full market value ranking has risen to 35th or above, and a security will be deleted from the index at the quarterly review when its full market value ranking has fallen to 46th or below.

Similarly, a security will be inserted in the FTSE/JSE Mid Capitalisation index at the quarterly review when its full market value ranking has risen to 90th or above, and a security will be deleted from the index at the quarterly review when its full market value ranking has fallen to 111th or below.

Total Return Performance: FTSE/JSE Top 40 and FTSE/JSE All-Share Indexes



Source: FTSE Russell, as at August 31, 2014. Past performance is no guarantee of future results.

³ For reference, at the same date the top ten companies in the FTSE All-Share index of UK-listed companies represented 33.83% of the index.

The top ten constituents and the sector breakdown of the FTSE/JSE Top 40 index are shown in the tables below.

Top 10 Constituents

Constituent	ICB Sector	Net MCap (ZARm)	Wgt %
BHP Billiton	Mining	784,600	13.62
SABMiller	Beverages	573,652	9.95
Naspers	Media	519,774	9.02
Compagnie Financiere Richemont AG	Personal Goods	511,543	8.88
MTN Group	Mobile Telecommunications	397,856	6.90
Anglo American	Mining	382,625	6.64
Sasol	Oil & Gas Producers	342,510	5.94
British American Tobacco PLC	Tobacco	191,551	3.32
Standard Bank Group	Banks	174,273	3.02
Old Mutual	Life Insurance/Assurance	165,391	2.87
Totals		4,043,775	70.17

Source: FTSE Russell, as at July 31, 2014

ICB Sector Breakdown

ICB Code	ICB Sector	No. of Cons	Net MCap (ZARm)	Wgt %
0500	Oil & Gas	1	342,510	5.94
1700	Basic Resources	11	1,487,361	25.81
2700	Industrial Goods & Services	3	236,914	4.11
3500	Food & Beverage	2	619,864	10.76
3700	Personal & Household Goods	3	835,876	14.51
4500	Health Care	3	164,331	2.85
5300	Retail	2	131,314	2.28
5500	Media	1	519,774	9.02
6500	Telecommunications	2	438,945	7.62
8300	Banks	5	452,660	7.86
8500	Insurance	3	300,233	5.21
8600	Real Estate	3	117,517	2.04
8700	Financial Services	3	115,311	2.00
Totals		42	5,762,609	100.00

Source: FTSE Russell, as at July 31, 2014

Specialist indexes

In addition to providing capitalisation weighted headline indexes, such as the FTSE/JSE All-Share and FTSE/JSE Top 40, the FTSE/JSE index family has expanded over time in response to client demand to include more specialist indexes. Such specialist indices include those that apply alternative weighting methodologies or index construction approaches to a common starting universe, as well as Shariah, specialist property, capped and style indexes.

Alternatively weighted indexes include the FTSE/JSE RAFI 40 index, introduced in 2007, which selects and weights index constituents using four fundamental factors (dividends, cash flows, sales and book value), rather than by market capitalisation. The index comprises the 40 companies with the largest fundamental scores from the constituents of the FTSE/JSE All-Share index.

Other alternatively weighted indexes within the series include equally weighted versions of the FTSE/JSE Top 40, Industrial 25, Resources 10 and Financial 15 indexes, and the, which selects and weights by yield the 30 companies with the highest one-year forecast dividend yield from the FTSE/JSE Top 40 and Mid Cap indexes.

FTSE/JSE calculates Shariah versions of the FTSE/JSE All-Share and FTSE/JSE Top 40 indexes. These indexes follow a screening process determined by a Shariah Board, a committee of Islamic financial and legal experts established to ensure that index constituents' practices and products offered are in compliance with Islamic Law.

Specialist property indexes within the FTSE/JSE Africa index series include the SA Listed Property index, the Property Unit Trust index and the Property Loan Stock indexes.

FTSE/JSE calculates capped versions of the All-Share and Top 40 indexes, in which constituent weightings are capped at 10% on a quarterly basis. Other capped indices limit the constituent weightings of the RAFI All Share, Property and Shariah Top 40 indexes.

FTSE/JSE style indexes segment the starting universe of the FTSE/JSE All-Share index, using value and growth rankings that are calculated on the basis of accounting measures supplied by a third-party provider of financial data.

Beyond the benchmark: additional insight

FTSE Russell publishes a range of research and publications designed to offer additional insight into the composition of the FTSE/JSE Africa Index Series. Designed specifically for institutional investors who require timely, comprehensive and reliable month end data on the South African stock market, the FTSE/JSE Africa Index Series Monthly Review helps subscribers

- Understand the composition of the index series
- Monitor structural index changes
- Observe and compare the performance of headline and sub-indexes
- Monitor ICB sector performance and top holdings
- View valuation ratios, top/bottom performers and constituent level data

FTSE Russell publishes monthly reviews for the FTSE Emerging Index as well as other benchmarks.

For more information about our indexes, please visit ftserussell.com.

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About FTSE Russell

FTSE Russell is a leading global provider of benchmarking, analytics and data solutions for investors, giving them a precise view of the market relevant to their investment process. A comprehensive range of reliable and accurate indexes provides investors worldwide with the tools they require to measure and benchmark markets across asset classes, styles or strategies.

FTSE Russell index expertise and products are used extensively by institutional and retail investors globally. For over 30 years, leading asset owners, asset managers, ETF providers and investment banks have chosen FTSE Russell indexes to benchmark their investment performance and create ETFs, structured products and index-based derivatives.

FTSE Russell is focused on applying the highest industry standards in index design and governance, employing transparent rules-based methodology informed by independent committees of leading market participants. FTSE Russell fully embraces the IOSCO Principles and its Statement of Compliance has received independent assurance. Index innovation is driven by client needs and customer partnerships, allowing FTSE Russell to continually enhance the breadth, depth and reach of its offering.

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