

S&P South Africa Dividend Aristocrats Consultation on Constituent Weighting and Liquidity Screening

AMSTERDAM, SEPTEMBER 25, 2020: S&P Dow Jones Indices (“S&P DJI”) is conducting a consultation with market participants on potential changes to the S&P South Africa Dividend Aristocrats Index.

Currently, constituents are equal weighted on a quarterly basis. In an effort to reduce constituent concentration, ease liquidity limitations, and improve index replication, S&P DJI is considering modifying the index’s constituent weighting scheme by introducing liquidity weight multiple capping. Under this proposal, a constituent’s weight would be restricted to the lower of the equal weight or a multiple of its liquidity weight¹ relative to the sum of the liquidity of all index constituents.

S&P DJI is also considering changing the liquidity screen so that it utilizes three-month median daily value traded (“MDVT”) instead of three-month average daily value traded (“ADVT”) for the constituent selection and weighting steps. This proposal aims to apply a more rigorous liquidity screen and diminish the effect of random spikes and outliers on the liquidity measure, as well as align the methodology with other S&P DJI indices. The table below summarizes the proposed changes.

Proposed Changes	Methodology	
	Current	Proposed
Constituent Weighting	At each quarterly reweighting the index is equal weighted.	At each quarterly reweighting, index constituents are weighted such that the maximum weight of each security is the lower of the equal weight or a multiple ² of its liquidity weight. If a stock’s equal weight exceeds its multiple liquidity weight, then that stock is capped at its liquidity weight and the excess weight is redistributed equally to the remaining uncapped stocks. This step is repeated iteratively until no constituents breach the liquidity weight capping constraints.
Liquidity Screen	To qualify for index inclusion, a stock must have an ADVT of at least ZAR 5 million for the three-months prior to the rebalancing reference date.	To qualify for index inclusion, a stock must have a MDVT of at least ZAR 5 million for the three-months prior to the rebalancing reference date.

Please refer to the [S&P South Africa Dividend Aristocrats Methodology](#) for more information on the index.

¹ Liquidity Weight Cap = Multiple * (Stock Liquidity / Aggregate Liquidity of all Stocks), where Stock Liquidity = Three-month MDVT.

² Three multiple options are under consideration as detailed in the Impact Analysis section.

IMPACT ANALYSIS

Using data from the last two annual reconstitutions, the table below shows the impact that the previously described proposed weighting scheme and liquidity screen changes would have had if they were implemented at those times, using three different weighting multiple options.

Rebalancing	Actual Current	Option 1	Hypothetical Option 2	Option 3
	Individual security is equal weighted.	Individual security is equal weighted and weights are capped at the lower of the equal weight or five times the constituent's liquidity weight.	Individual security is equal weighted and weights are capped at the lower of the equal weight or four times the constituent's liquidity weight.	Individual security is equal weighted and weights are capped at the lower of the equal weight or three times the constituent's liquidity weight.
One-Way Turnover				
July 2019	20.18%	28.33%	29.60%	31.97%
July 2020	62.01%	76.78%	79.56%	82.33%
Post-Rebalancing Yield				
July 2019	4.16%	4.03%	4.01%	3.99%
July 2020	7.03%	7.00%	6.70%	6.70%
Maximum Days to Trade³ (based on a hypothetical fund AUM of ZAR 1 billion)				
July 2019	20.50	2.80	2.59	1.97
July 2020	22.90	3.81	3.05	2.29
Effective Count⁴				
July 2019	30	26	26	25
July 2020	20	16	15	15
MDVT Impact (number of stocks replaced after switching to MDVT from ADVT)				
July 2019	--	1	1	1
July 2020	--	--	--	--
One-Time One-Way Turnover (if implemented)				
Oct 2020	6.90%	43.56%	48.54%	57.39%
One-Time Maximum Days to Trade (if implemented)				
Oct 2020	2.27	20.06	20.82	21.57

IMPLEMENTATION TIMING

S&P DJI is considering two options in regards to implementation timing should any of the previously described methodology changes be adopted. The table below summarizes the implementation timing options being considered.

Implementation Timing	Description
Option 1	Implement in conjunction with the upcoming quarterly reweighting, which takes effect prior to the market open on Monday, November 2, 2020.
Option 2	Implement in conjunction with the subsequent semi-annual review, which takes effect prior to the market open on Monday, February 1, 2021.

³ The DTT of a single stock is calculated as: (Portfolio Size * Stock Weight) / (Daily Participation * Daily Liquidity)

where: Portfolio Size = 5 billion, Daily Participation = 25%, and Daily Liquidity = Three-month MDVT

Note: Portfolio DTT is calculated with a liquidation scenario of 90%.

⁴ Effective Count is the effective number of positions ($N_{eff} = 1 / H$) held in a portfolio where $H = (\text{weight}^2)$ and is computed as the sum of the squares of the proportion of market value invested in each security.

CONSULTATION

QUESTIONS

Please answer the following questions and provide S&P DJI with the reasoning behind your answers:

1. **Do you agree with the proposal to modify the weighting scheme by introducing liquidity multiple capping?**
 - Yes, change to Option 1.
 - Yes, change to Option 2.
 - Yes, change to Option 3.
 - Yes, change to a different option (please specify in Question 4 below).
 - No, keep the current equal weighting scheme.
2. **Do you agree with the proposal to modify the liquidity screen to utilize three-month median daily value traded (“MDVT”) instead of three-month average daily value traded (“ADVT”).**
3. **If any of the proposed changes are adopted, which implementation timing option do you prefer?**
 - **Option 1: Implement in conjunction with the upcoming quarterly reweighting, which takes effect prior to the market open on Monday, November 2, 2020.**
 - **Option 2: Implement in conjunction with the subsequent semi-annual review, which takes effect prior to the market open on Monday, February 1, 2021.**
4. **Do you have any other comments or feedback regarding the proposed changes outlined above?**

Your participation in this consultation is important as we gather information from various market participants in order to properly evaluate your views and preferences. Please respond to this survey by **October 9, 2020**. After this date, S&P DJI will no longer accept survey responses. Prior to the Index Committee’s final review, S&P DJI may request clarifications from respondents as part of that review.

To participate in this consultation, please visit the online survey available [here](#).

For further information about this consultation, please contact S&P Dow Jones Indices at SPDJI_Index_Governance@spglobal.com.

Please be advised that all comments from this consultation will be reviewed and considered before a final decision is made; however, S&P DJI makes no guarantees or is under any obligation to comply with any of the responses. The survey may result in no changes or outcome of any kind. If S&P DJI decides to change the index methodology, an announcement will be posted on our website.

Thank you for taking the time to complete this survey.

For more information about S&P Dow Jones Indices, please visit www.spdji.com.

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