

REFINITIV SATRIX SOUTH AFRICA INCLUSION & DIVERSITY INDEX

Index Methodology

June 2021

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Intended Readership

This document provides details on the construction and maintenance of the Refinitiv Satrix South Africa Inclusion & Diversity Index.

Document Publication

This document is available on the Refinitiv website and on request.

Feedback

Your questions about the document, suggestions, and contributions are welcome. Please address enquiries to: IndexManagers@refinitiv.com

1. INTRODUCTION

1.1 Refinitiv Indices

Serving more than 40,000 institutions in over 190 countries, Refinitiv provides information, insights and technology that drive innovation and performance in global financial markets. Our heritage of integrity enables our customers to make critical decisions with confidence while our best-in-class data and cutting-edge technologies enable greater opportunity.

We enable the financial community to trade smarter and faster, overcome regulatory challenges, and scale intelligently.

Refinitiv provides trusted and innovative indices and index-related services to the investment community. Whether one requires indices for benchmarking, or for the development of investment vehicles, Refinitiv offers a range of index solutions to satisfy the requirements.

1.2 The Index

Refinitiv Satrix South Africa Inclusion & Diversity Index offers an innovative benchmark for investors wishing to commit capital to companies that actively invest in and promote diversity & inclusion (D&I) values and principles in the running of their businesses. The index utilizes the Diversity and Inclusion scores of constituents of parent index and the final index selection reflects the principles and impact of inclusion & diversity.

The index tracks the total return of selected publicly traded equities in South Africa that display relatively high Inclusion and Diversity scores.

1.3 Constituent Universe

The constituents' universe includes Equities and Global Depository Receipts traded on Johannesburg Stock Exchange. To construct the parent index, the universe then follows rules applied to Refinitiv Global Equity Indices (RGEI), which are free float adjusted market capitalization weighted indices, with the following inclusion criteria:

- A minimum 15% free float (companies are dropped if free float falls below 10% after inclusion);
- A minimum of 3 months trading history;
- Companies with multiple international listings are included on the basis of country of incorporation, security's primary listing and volume. In most cases, the country of incorporation is same as primary listing. For few exceptions where the country of incorporation is not where the security has the primary listing, Refinitiv uses the security's primary listing to determine membership.
- Various liquidity measures are used to ensure illiquid companies are not included in the index, and all constituents need to satisfy the following criteria:
 - Be part of the top 99.5% of the free float market capitalisation of the exchanges under consideration;

- Be part of the top 99.5% of the average trading value of the exchanges under consideration;
- Trade on at least 80% of trading days; and
- Have a minimum unadjusted market cap of US\$150mn and free float adjusted market cap of US\$75mn

For a complete description of the index rules, please refer to the methodology for Refinitiv Global Equity indices, [here](#)

The parent index follow the same rebalance schedule as Refinitiv Satrix South Africa I&D Index.

2. CONSTRUCTION METHODOLOGY

2.1 Universe

The Index Universe is made of companies as described in section 1.3

The universe is as observed on the review effective date.

2.2 Data

Below data points are collected for all stocks in the base universe.

- i) ESG diversity and inclusion pillar and composite scores: Using Refinitiv ESG content available on Refinitiv products. For more information on retrieving this data and how the data is collected and calculated, please refer to the document [here](#). The Refinitiv South Africa D&I Index uses the same methodology as Refinitiv D&I index except for BBBEE scores that's unique to South Africa and is used in Refinitiv South Africa D&I Index as a part of the Inclusion pillar.
- ii) TRBC: The Refinitiv Business Classification. For details on TRBC, please see [here](#).
- iii) Share type: Please refer section 2.4
- iv) Market Capitalization: As defined and described in section 1.3 for constituents universe.
- v) Average Traded Value: As defined and described in section 1.3 for constituents universe
- vi) ESG controversies: for details on Controversies Scores, please see ESG Scores Methodology available at [Refinitiv ESG Scores Methodology](#).
- vii) BBBEE scores: Level of Broad-Based Black Economic Empowerment (BBBEE) for the South African companies where level 1 is highest and level 8 is lowest. BBBEE scores are part of Refinitiv's ESG offering. The specific data element is TR.BBBEELevel can be retrieved from Refinitiv's flagship data product Eikon.

2.3 Composition list

- i) Remove companies for which a market cap could not be established in the parent index as of the parent rebalance date.
- ii) Index-specific filter
 - Remove all companies where ESG Controversies scores less than or equal to 8.3333 (D-)¹.
 - Note that companies with a Controversies score of NA can pass the filter.
 - Incorporate BBBEE score into D&I Inclusion pillar score

¹ For details on ESG Controversies Scores and their calculation, please refer Refinitiv's ESG Scores Methodology at [Refinitiv ESG Scores Methodology](#).

- Replace all BBBEE scores of NA with 8 (the lowest score on the 1-8 scale). NAs means BBBEE score of that particular company is not available, which means not reported by company.
- Convert BBBEE scores from 1-8 to 100-0:
- Create a weighted mean of Inclusion pillar score and scaled BBBEE score.
- Create the ESG average score, by taking the mean of
 - D&I Controversies pillar score;
 - D&I Diversity pillar score;
 - D&I People Development pillar score; and
 - D&I Inclusion pillar score.
- If Mondi and/or Investec listings for both Johannesburg and London are present, retain only the London listings.
- Rank candidates by the ESG average score (descending) and take the top 30. If fewer than 30 candidates are available, take all candidates.
- Create a liquidity factor (intended as a proxy “Shareholder Weighting Factor”)
 - Calculated the average traded value percentage of free float market cap.
 - Calculate the quartile breaks for this percentage
 - Determine each candidate’s liquidity factor, based on quartile breaks.
- Calculate final weights
 - Determine weight based upon free float market cap.
 - Adjust weights based on liquidity factor.
 - Re-normalize (so that weights equal 1 [100%]).
 - Check sector capping--maximum 30% for any sector—and adjust weight as necessary. Any excess weight is allocated proportionally to sectors that have not been capped.
 - Check individual weight capping--maximum 10% for any individual equity—and adjust weight as necessary. Any excess weight is allocated proportionally to individual constituents that have not been capped.

2.4 Security types

The common stocks and Global Depository Receipts trading on Johannesburg Stock Exchange are included in the Index. When multiple listings of a candidate stocks are available, the constituent selected is the one with the highest average traded value.

2.5 Base values and Inception date

100, on 30/9/2009

2.6 Index live date

May 14th, 2021

2.7 Index types, currencies, calculation frequency

Price and Total return, Currency: ZAR. Ticks real time, pricing every 15 seconds, calendar: Johannesburg Trading Calendar.

3. CALCULATION METHODOLOGY

The index follows the methodology of Refinitiv Global Equity Indices. For details on data requirement, construction and calculation methodology of Refinitiv Global Equity Indices, please refer Refinitiv Global Equity indices Methodology document [here](#).

4. MAINTENANCE

4.1 Daily Index Maintenance

The securities which form the Index are re-weighted due to changes in the price of the underlying securities change.

The index is maintained on a daily basis by a dedicated support team. This team is in direct collaboration with the Refinitiv Data Operations Global Corporate Actions teams, and is responsible for identifying all corporate action events that affect the capital structure of a constituent in the index including stock splits, delisting, and symbol changes and ensure these changes are implemented into the index. The team also monitors divisor movements and performs constituent pricing comparisons between independent constituent price sources to ensure the accuracy of the index return values. Where a security in the Index is subject to a merger or acquisition activity or delisting, the security will be deleted from the Index as set out in the Refinitiv Corporate Action Methodology that is available [here](#).

4.2 Index Rebalance

Refinitiv Satrix South Africa Inclusion & Diversity Index rebalances bi-annually i.e. after close of business on last trading day of March and September.

This rebalance is the major source of additions and deletions to index. There are no additions to the Index outside of the re-balance process.

5. Quality Control

5.1 Quality Control

Refinitiv has quality control procedures in place to monitor any prices, whether they are obtained from a regulated exchange or other market, prior to calculation of indices as well as prior to publication.

5.2 Re-Statement Policy

A retrospective recalculation will only be made when a manifest and material error has been identified. Any retrospective recalculation will be notified to users via the alert system on Refinitiv Eikon.

5.3 Insufficient Data and Market Disruptions

Refinitiv endeavors to develop and publish indices only where Refinitiv has a high level of confidence of long-term availability and access to the necessary data to administer the indices.

A “Market Emergency” is herein defined as any unscheduled and extraordinary condition in which liquidity in the markets used to source input data is interrupted (such as an event resulting in the unscheduled closing of futures exchanges). Should a Market Emergency occur, Refinitiv reserves the right to take such action with respect to the Index as it deems appropriate given the circumstances and after consulting with the Index Action Committee as appropriate.

Refinitiv will attempt to notify interested parties of any such actions as well in advance as is practicable. There is no assurance, however, that following a Market Emergency, the actions taken in response to such Market Emergency, or any other force majeure event, will not have an adverse effect on the value of the Index or the way it is calculated.

6. GOVERNANCE

There is a committee to oversee the Index at Refinitiv Index Business that constructs the index, and ensures that the attributes the index claims to possess are indeed present. This committee also owns index rebalances.

6.1 Index Action Committee

There is an internal index action committee (IAC) at Refinitiv Indices. The IAC reviews country and region indices and rebalances. It is composed of the Refinitiv Equity Indices Benchmarks Manager, Refinitiv Commodity Indices Benchmarks Manager, Head of FX Benchmarks Research & Design, Development Manager and Head of Data Operations.

The main activity of this Index Action Committee is to insure that the attributes the index claims to possess – the necessary liquidity, capitalization assignment (large, mid or small-cap) or style considerations – are indeed present. These reviews take place at each rebalance and at each quarterly review. The Index Action Committee also deals with unusual corporate actions which are not handled by the pricing methodology or by the internal data management team that makes hand- adjustments to the index for items such as mergers and delistings. These reviews take place on a monthly or more frequent basis. Finally, as each index needs a minimum number of constituents in order for its price to be computed, the Index Committee decides if an index should be discontinued or possibly resurrected. This decision will normally be made during the rebalance period but could happen more often.

6.2 Benchmark Manager

The Benchmark Manager is a subject matter expert and is responsible for the integrity and quality of the Index which includes the following specific responsibilities:

- Interpreting the Index Methodology and implement the change procedure (if any)
- Reviewing feedback received from the Index stakeholders.
- Developing and implementing changes to the Index Methodology pursuant to feedback from Index stakeholders or in response to market events, subject to Section 7.2, Cessation of an Index.
- Managing interaction with Index stakeholders

6.3 Index Stakeholder Feedback

The Benchmark Manager may seek the views of market participants and other Index stakeholders on a bilateral basis from time to time or through one or more Index Advisory Groups. Issues on which the Benchmark Manager may consult Index stakeholders include conditions in the underlying markets that the Index represents, the representativeness of the input data used in the determination of the Index, the performance of the index with respect to the underlying markets that it represents, potential changes to the index calculation methodology, the weight calculation algorithm and exceptional market events.

7. METHODOLOGY REVIEWS AND CHANGE PROCEDURES

7.1 Review of the Methodology

The Refinitiv Satrix South Africa Inclusion & Diversity Index Methodology is reviewed once a year and, if required by market events, more frequently. Any potential changes to the Methodology are reviewed by the Index Action Committee.

7.2 Cessation of An Index

Refinitiv aims not to stop the publication of any index that is used as a benchmark.

For those cases where Refinitiv does decide to stop the publication of an index, Refinitiv will look to find a suitable successor to its role as Administrator of the index. Should no successor be found, Refinitiv will conduct a consultation with any relevant stakeholders, the Index Action Committee and the Refinitiv Independent Oversight Committee. Refinitiv will publish a notice on its website about the possibility of stopping the publication of the Index and inviting anyone to provide feedback.

Such notice will be posted at least 6 months, where possible, prior to cessation of publication of the index, or on a best efforts basis for circumstances beyond the control of Refinitiv. After the consultation period, Refinitiv will publish externally the timeline for cessation. Internally, detailed operating procedures will be drafted to ensure a managed cessation.

CONTACT US:

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