

Media Release
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What the unbundling of Naspers means for benchmarks and investors

The listing of Prosus, the new company that holds the international online assets of South African media group Naspers, marks another key step in the unbundling of Naspers, which holds the biggest weight in the FTSE/JSE All Share Index. This index is the primary measure of performance of the South African stock market.

Kyle Hulett, a member of the Investments Committee of the Actuarial Society of South Africa (ASSA) and Head of Asset Allocation at Sygnia, says for investors this unbundling can have significant implications for the composition of their portfolios.

He says this is especially relevant for index tracker portfolios since they track the index very closely. For actively managed portfolios, the impact will depend on the actual weightings determined by the portfolio manager, which could deviate significantly from the index weight.

“A portfolio’s benchmark determines the nature and composition of an investment portfolio and also how it can be expected to perform over time,” explains Hulett.

“Different benchmarks will behave differently depending on their composition. Selecting an inappropriate benchmark can therefore have a significant impact on the volatility experienced and the returns achieved by the portfolio.”

Hulett says it is therefore worthwhile considering the impact of the unbundling of Naspers on the various indices commonly used as benchmarks by institutional investors like retirement funds and individual investors.

MSCI South Africa Index

The MSCI South Africa Index (the preferred benchmark for foreign investors into South Africa) has seen its Naspers weight shrink by a quarter from 34% to 25%. Prosus is excluded from the index as MSCI, the benchmark provider, only considers companies with a primary listing in South Africa.

Hulett points out that the unbundling of Naspers therefore reduced the concentration of Naspers in this index.

FTSE/JSE SWIX All-share Index

The JSE introduced the FTSE/JSE SWIX All-Share Index suite in 2004.

Hulett says the Naspers unbundling resulted in the Shareholder Weighted Index (SWIX) experiencing a small reduction in the overall weight of the Naspers stable. Instead of one company at 26.2% of the index, there are now two: Naspers at around 19.2% and Prosus at around 3.3%.

“The index weight of Prosus is smaller as a portion of the shareholders do not hold their shares on the JSE share registry, Strate. This reduction was tempered slightly as the unbundled Prosus share jumped nearly 30% on listing day.”

Hulett points out, however, that the combined weighting is still nearly 4% lower than before, totalling 22.5%.

FTSE/JSE Capped SWIX All-Share Index

The FTSE/JSE Capped SWIX All-Share Index was introduced in 2016 with the specific aim of reducing the weight of one share, namely Naspers, to avoid excessive concentration. Many South African pension funds and other investors subsequently changed their domestic equity benchmarks from the FTSE/JSE SWIX All-Share Index (SWIX) to the FTSE/JSE Capped SWIX All-Share Index (Capped SWIX).

Hulett says it is important for investors to consider concentration risk, because a concentrated exposure to a single share heightens the risk of a company-specific issue adversely affecting the value of that share resulting in an outsized effect on the portfolio.

“It’s about the old investment adage of not having too many eggs in one basket”, he adds.

The split of Naspers into two instruments has had the following effect on the Capped SWIX index:

	Before	After
Weight in Naspers	10%	10%
Weight in Prosus	N/A	3.7%
Total weight to Naspers stable	10%	13.7%

Hulett comments that given the reason for creating the Capped SWIX in the first place, namely to avoid excessive weight in a single share, this return to a higher weighting is not ideal, although it is still below the full uncapped SWIX weighting by Naspers and Prosus of 22.5%. The uncapped SWIX now has a 9% higher allocation to the Naspers stable than the Capped SWIX, down from 16% before.

How will this impact on investors?

- **Retirement funds**

The FTSE/JSE Capped SWIX All-Share Index is the most commonly used benchmark by South African retirement funds. Therefore, says Hulett, retirement fund trustees need to consider that the unbundling of Naspers and the listing of Prosus has led to an increased exposure to the overall Naspers stable in the index.

- **Index tracking portfolios**

Hulett says with index tracking portfolios increasing in popularity with investors, investors should be aware that any significant changes in the composition of an index will have a direct impact on the performance of their investment portfolio.

“Since investors are exposed to all the stocks and their weightings in the index, any changes are likely to impact on volatility and performance.”

- **Offshore exposure**

Hulett says for investors referencing the Capped SWIX All-Share Index, the unbundling has resulted in a higher exposure of almost 4% to Chinese stocks via Prosus. Therefore, investors looking for increased offshore diversification will benefit from the change.

However, investors concerned about balancing local and offshore assets because their expenses are in Rands, need to be aware of the additional offshore exposure.

Ends

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