

Plan to reclassify overseas-based companies on JSE 'is good for investors'

LAURA DU PREEZ

Finance Minister Pravin Gordhan's announcement this week that the shares of foreign-domiciled companies listed on the JSE will be classified as domestic assets and included on the JSE indices is very good news for investors, according to the Association for Savings & Investment SA (Asisa).

The move is expected to encourage more listings on the stock exchange, increasing the number of shares in which your retirement fund and unit trust funds can invest, as well as giving

these funds the opportunity to increase their exposure to offshore markets.

The proposal, outlined in the Medium-Term Budget Policy Statement, extends to including what are known as inward-listed shares in market indices such as the All Share index (Alsi).

Inward-listed shares are those that have a primary listing of most of their shares on a foreign exchange and a secondary smaller listing on the JSE.

Leon Campher, the chief executive of Asisa, says that once implemented, this change in policy will open up the entire JSE as an investible

universe for institutional investors without restrictions.

Campher says the amount institutional investors such as retirement funds, life companies and unit trusts can invest in foreign assets is restricted by prudential limits.

Retirement funds can invest up to 25 percent of their funds in foreign assets, while collective investment scheme companies and life companies can invest up to 35 percent of retail investors' funds in foreign assets.

Once they no longer need to include the inward-listed shares in their

foreign allocations, institutions will be able to use more of the allocation to buy shares or other securities not listed on the JSE.

Currently, 32 inward-listed shares are regarded as foreign assets. Five big inward-listed shares – BHP Billiton, Anglo American, SABMiller, Old Mutual and Investec – are, however, already regarded as domestic shares because they were historically local companies.

Pieter Koekemoer, the head of personal investments at Coronation, says the most important of the inward-listed shares classified as a foreign

asset is British American Tobacco (BAT), which is very widely held across retirement and unit trust portfolios.

Koekemoer says that when BAT is included in the FTSE/JSE Top 40 index, even if its inclusion is based on the shares listed locally only, it will make up a substantial portion of the index.

John Anderson, who heads the institutional cluster at Alexander Forbes's financial services division, says when the inward-listed shares now regarded as foreign assets are included in the indices that funds use as their benchmarks, some managers,

depending on how closely they follow the benchmark and what holdings they have in these shares, may change the composition of their holdings.

He says that once implemented, the changes will improve the status of the JSE as a platform for foreign companies expanding into Africa, giving investors exposure to these expansion plans.

Anderson says the move may result in a slight increase in most portfolios in rand-hedge type shares (shares that protect you from depreciation of the rand relative to other currencies

because their profits are derived outside of South Africa).

He warns that the exposure to rand-hedge shares may increase in future as more such shares are listed on the JSE, and retirement funds may need to review investment strategies and the extent to which funds invest offshore.

Ismail Momoniat, the deputy director-general of economic policy at the National Treasury, says the changes will probably be implemented early next year as soon as consultations with the Reserve Bank and the Financial Services Board are complete.