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# BLACK OWNERSHIP OF THE JSE

October 2011



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## AGENDA

- Background to research
- Research methodology and process
- How data was verified
- Results
- Future research
- Research team credentials



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# WHY THE RESEARCH?



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## THE JSE'S MOTIVATION

- South Africa doesn't have empirical data about black investment on the JSE
- JSE has records needed for meaningful research
- In a country undergoing economic transformation, the study gives us
  - Data about the economic interest of black investors in the stock exchange
  - A basis from which black ownership can be measured in future



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# HOW THE RESEARCH WAS CONDUCTED



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## ANALYSIS

- Focused on JSE's Top 100 companies
  - 85% of JSE market cap by value
- Used methodology suggested by dti BEE codes
- Included direct and mandated investments
  - 2010 study only included direct investments
- Mandated investors are investors who don't pick shares
  - Fund manager / pension fund / unit trust company invests for them
  - Includes anyone with unit trusts, pension funds, life insurance policies
- Mandated investments are tough to research
  - Records held by pension funds, etc



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## HOW WE RESEARCHED MANDATED INVESTORS

- Process has various stages:
  - Shareholder data obtained from JSE (only study so far to do this)
  - Data effective 31 December 2010
  - Top 100 companies asked to provide input
  - Research assesses half of mandated investment
  - Analysis based on actual data from pension funds and life offices
- All findings verified
  - Mandated investors provided 6m records to support analysis
  - Pension funds provided data on members
  - Life offices and others provided policyholder data
  - All funds being researched provided investment (asset) data



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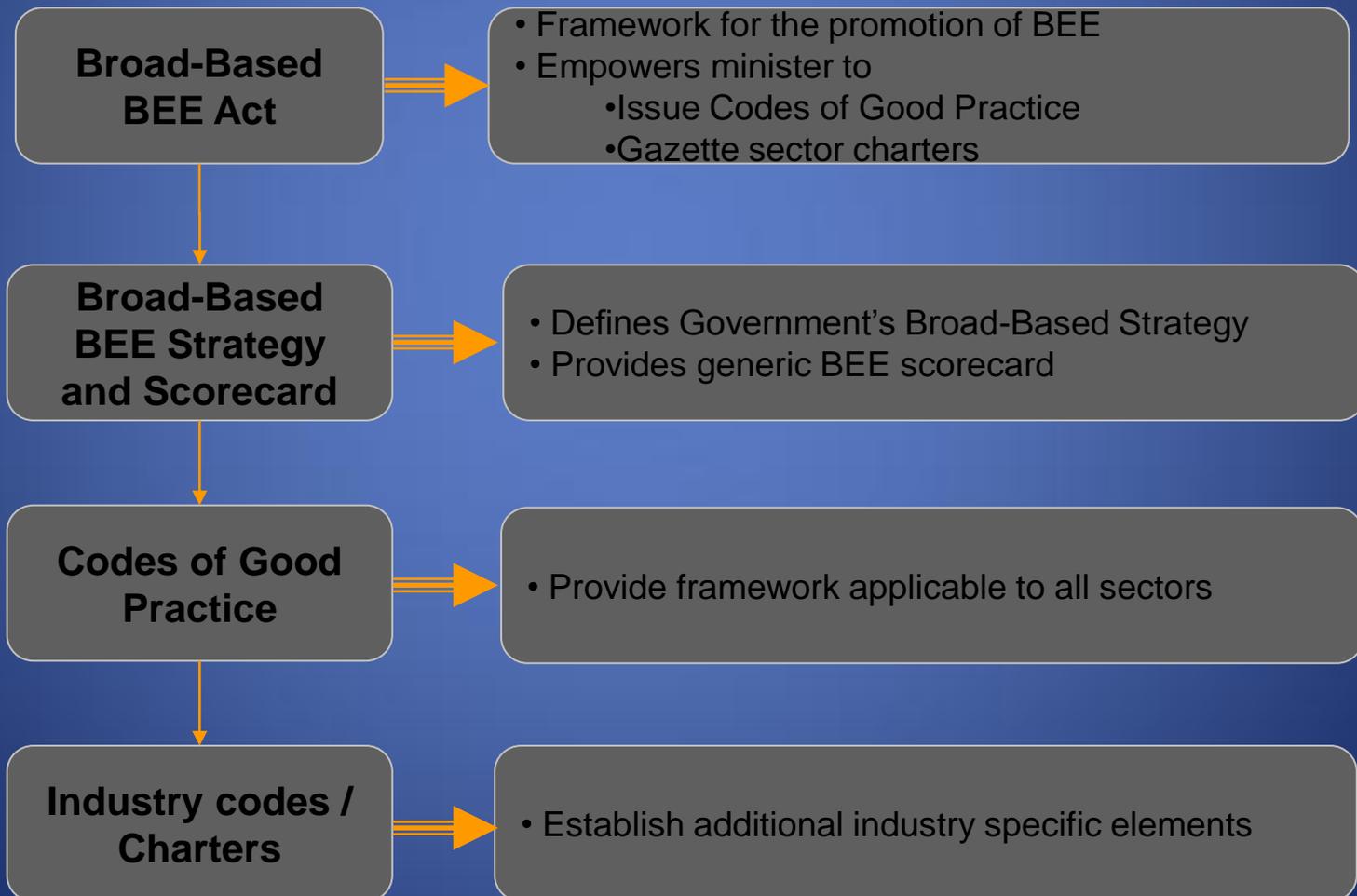
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## CONSERVATIVE ASSUMPTIONS THROUGHOUT

- Black economic interest assumed to be zero when
  - Companies did not participate in study
  - Researchers could not prove that pension schemes have black beneficiaries
  - Researchers could not prove that black people had life insurance policies or unit trusts
  - Rights had not vested – eg provisions for future claims
- No extrapolations were made in study – results based on actual data
- Conclusions are conservative with findings remaining understated



## dti METHODOLOGY APPLIED TO NUMBERS





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# HOW DATA WAS VALIDATED



## SHARE REGISTER VALIDATIONS

- Foreign operations verified against company annual reports
- Mandated ownership records checked against pension fund records
  - To check that that data in the ownership records is correct
- Registers checked against company market capitalisations
  - To ensure that the registers were accurate



## MANDATED INVESTMENT VALIDATIONS

- Obtained lists of ultimate beneficiaries by name, race and value of investment
- Values compared with audited financials of the pension funds, etc to validate values
- Racial demographic tested through statistical sampling
  - Where possible, copies of ID documents analysed as per Codes
- Employer pension fund member data were verified against
  - Statutory employment equity returns submitted by employer
  - Verified employment equity statuses of employers
- Gender and citizenship data checked against ID numbers
- Investment options within defined contribution schemes analysed by demographic



## GENERAL VALIDATION PRINCIPLES ADOPTED

- Where no data is provided relating to pensioners or members, assumptions are conservative
  - I.e. that those individuals are not black
- Findings relating to tested data not extrapolated over data where we have no way to test findings
- No name and surname-based evaluation is performed
  - This form of evaluation found to be unreliable



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# RESULTS



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## RESEARCH FINDINGS

JSE Top 100 Companies	2010	2011
Stake directly owned by black South Africans	8% by value	8% by value
Stake owned by black South Africans through mandated investments (eg pension funds)	<i>Not researched in 2010</i>	9% by value
<b>Total black South African economic interest in JSE identified to date</b>	8%	<b>17% (8% + 9%)</b>

**Note:** The 2011 study researched half of mandated investments. The other half must still be researched. The number is therefore understated.



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## DTI'S RECOMMENDED RESEARCH APPROACH

Exclude from analysis	Reason
Cross holdings	Shares companies hold in other companies, eg a subsidiary
Treasury shares	Shares companies hold in themselves, eg for share incentive schemes
State-held shares	The state is deemed to be neither black nor white
Deemed value of foreign assets owned by companies	BEE legislation is not applied to foreign domiciled businesses

Include	Reason
Off register BEE shareholdings	BEE transactions at subsidiary level added to BEE status of Group



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## FINDING AS PER BEE CODES

### Direct holdings only

<b>STEP ONE</b>		
<b>What's available for investment?</b>		
	<b>2010</b>	<b>2011</b>
Total JSE market cap minus	100%	100%
- Cross held shares	11%	11%
- Mandated investments	34%	36%
- State held and treasury shares	1%	2%
- Deemed value of foreign assets owned by companies	11%	15%
= Shares available for direct investment	44%	36%

<b>STEP TWO</b>		
<b>What do black South Africans own of available shares?</b>		
Actual ownership: Total / total available	<b>8% / 44% = 18%</b>	<b>8% / 36% = 22%</b>



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## FINDING AS PER BEE CODES

New research including mandated investments

### STEP ONE

#### What's available for investment?

Total JSE market cap minus	100%
- Cross held and treasury shares	11%
- Mandated investments	0%
- State held and treasury shares	2%
- Deemed value of foreign assets owned by companies	27%
= Available for direct & mandated investment	60%

**Note:** more available for investment in 2011 because this time, the team researched mandated investments, eg pension funds

### STEP TWO

#### What do black South Africans own of available shares?

Actual ownership: Total / total available	<b>17% / 60% = 28%</b>
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## THE JSE METHOD

### STEP ONE

#### What's available for investment?

Total JSE market cap minus	100%
- Cross held shares	11%
- Mandated investments	0%
- State held and treasury shares	2%
- Foreign investors, as reflected on Strate records	33%
= Available to south Africans as a % of all of the business of the listed entity	54%

**Note:** This slide excludes foreign investment instead of foreign operations

### STEP TWO

#### What do black South Africans own of available shares?

Actual ownership: Total / total available	17% / 54% = 32%
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WHAT'S LEFT TO MEASURE?



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## WHAT ISN'T MEASURED YET, AND WHY?

Stake	% of total	Reason not included in 2011	Could it be done in future?
Cross holdings; treasury shares	11%	Eliminated to avoid double counting	No – this actually reflects duplicated capital
Mandated investments	18%	Only 18% measured this time, 18% still to go	Yes
State-held shares	2%	Excluded in terms of DTI BEE codes	No – deemed to be neither black nor white
Retail ownership	14%	Not included	Yes
Foreign ownership	33%	Deemed to be non black in terms of DTI BEE codes. Codes exclude foreign operations instead.	No – focus is on domestic investment



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# CONCLUSIONS AND ACKNOWLEDGEMENTS



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## KEY FINDINGS

- Black South Africans own at least 17% of Top 100 companies
  - That's at least 28% of available shares (using dti calculation)
  - Stats are understated: substantial portion of market to be analysed
- More black South Africans own shares through mandated investments than through BEE deals
  - Middle class black South Africans are the main beneficiaries of mandated investment, by number
  - This is achieved with no gearing: pension funds do not carry debt
- Market complies with generic codes 2017 targets (in aggregate)
  - The BEE Codes require 25% black ownership
  - Currently black people own at least 28%
  - JSE anticipates that black ownership will increase with time



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## THE TEAM

- The team of 8 who conducted the research on the JSE's behalf
- Includes
  - Consulting actuary
  - CA + CFA
  - CA + Masters in Sustainable development
  - Economist
  - Attorney specialising in BEE
  - Post Graduate in Finance
  - 2 Graduate support staff
- Has much experience in financial services and BEE
- Certain members of team provided input into development of
  - Generic DTI code
  - Sector empowerment codes



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QUESTIONS