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The FTSE/JSE initiated an index harmonisation project to simplify its offering. Historically, each index has had two versions – a SWIX version and a vanilla version. The two used different methodologies for calculating index weights or free-float for foreign-held shares. Given that the indices have converged over time, the difference between the two has naturally reduced.

The index harmonisation project effectively merges the vanilla and SWIX versions of the index. Implementation began in March 2024, when the calculation methodology for vanilla version indices was aligned to the SWIX version. For example, the All Share (ALSI) index is now calculated in the same way as the SWIX All Share. This means the SWIX and vanilla versions of each index are now the same with identical weights. The next phase of this project is to decommission the SWIX indices. This will take place on 31 December 2025.

Potential impacts on SA Equity funds

Benchmark alignment and tracking error

- Funds benchmarked to ALSI or vanilla indices will experience shifts in benchmark weights, while there will be minimal impact on funds already using SWIX benchmarks.
- Without portfolio adjustments (vanilla indices), managers risk underperforming relative to the new benchmark.
- Active managers may face higher turnover and trading costs during repositioning.
- In the long term, the simplification should make benchmarks easier to use, peer comparisons more consistent, and costs lower.

Portfolio composition and sector exposure

- Companies previously overweight due to legacy free-float rules (often “grandfathered” listings) now carry reduced index weights.
- Beneficiaries include sectors and companies with larger free floats, such as domestic financials.
- Risks include liquidity challenges if many funds rebalance simultaneously, but there is also an opportunity to reduce concentration risk and broaden diversification.

Product and fund design

- Passive funds and index trackers tied to the old vanilla indices must adjust their benchmarks and holdings.
- Revisions may lead to short-term costs and fund turnover.

Performance measurement and reporting

- Fund performance relative to benchmarks will become more meaningful and consistent across the industry.
- Historical performance disclosures may require adjustments.
- Ultimately, attribution analysis and peer-group comparisons will be clearer and easier to communicate.



Challenges and risks

Equity funds currently benchmarked to vanilla indices will likely face implementation costs, as managers are compelled to rebalance portfolios in line with the new benchmark weights. For large funds, these adjustments could translate into significant trading volumes, increasing transaction costs. Liquidity also presents a challenge: while “grandfathered” stocks may see reduced representation in the harmonised indices, smaller or more domestically focused counters are expected to gain weight.

If a large proportion of the industry is forced to rotate into these shares simultaneously, liquidity constraints and wider bid-offer spreads could amplify execution risk. Timing will be equally critical. Investors accustomed to certain sector tilts—particularly the historic overweight in resources and global industrials—may be unsettled by the sudden shifts in their portfolios, and managers will need to communicate these changes clearly.

Longer-term impact

The longer-term impact of index harmonisation is positive. The simplification of index offerings enhances transparency and comparability, ensuring that South African equity funds are measured against benchmarks constructed on a consistent, modern methodology. It should also reduce concentration risk by reducing the dominance of a few grandfathered shares, creating more balanced sector exposure across the market.

Over time, this should improve the integrity of performance evaluation and peer comparisons, benefiting both fund managers and investors. For passive strategies, simplifying indices will lower complexity and reduce operational costs. At the same time, alignment between the equity and futures markets is likely to improve liquidity and efficiency in the derivatives space.

What does this mean for Truffle unit trust funds?

Truffle is benchmark-cognisant in constructing equity mandates, and we aim to ensure that investors are rewarded for active management. The Truffle SCI SA Equity Fund currently aims to outperform a Capped SWIX benchmark. Given that the Capped SWIX index is to be decommissioned, the fund will be managed to the “vanilla” equivalent version of the index, the Capped All Share (CAPI). Since March 2024, the CAPI has adopted the Capped SWIX methodology for index calculation.

Truffle will manage and measure mandate performance relative to an identical index. Importantly, the investment strategy will not change, and no trading or rebalancing will be required.

Fortunately, this means that Truffle will manage and measure mandate performance relative to an identical index (CAPI). Importantly, the investment strategy will not change, and no trading or rebalancing will be required. However, we will need to change the names of the index on the fund fact sheet and other fund reports to clients.

Truffle welcomes the simplification of the FTSE/JSE indices, particularly since the constituent weights of the vanilla and SWIX indices have converged over time.





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Lindsay joined Truffle in 2022 as an Investment Specialist within the Distribution team, bringing extensive experience in financial communications and investor relations. She began her career at Deloitte before gaining international exposure in London in corporate finance roles. Back in South Africa, Lindsay held senior positions at Brunswick, Investec, and later Liberty Group, where she served as Head of Client Portfolios and STANLIB Investment Proposition Manager. At Truffle, she leverages her deep technical expertise and industry knowledge to strengthen client engagement and support the distribution team.



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