

S&P Africa Hard Currency Sovereign Bond Select Index Consultation

NEW YORK, AUGUST 9, 2022: S&P Dow Jones Indices (“S&P DJI”) is conducting a consultation with market participants on a potential change to the S&P Africa Hard Currency Sovereign Bond Select Index.

In order to better align the index rules with the index objective as stated in the [methodology](#), S&P DJI is considering modifying the constituent selection steps. The table below summarizes the proposed change. In addition, S&P DJI is clarifying the methodology to explicitly exclude zero coupon bonds from index eligibility.¹

Proposed Change	Methodology	
	Current	Proposed
Index Construction: Constituent Selection	<p>At each rebalancing, the index is selected and formed as follows:</p> <ol style="list-style-type: none"> 1. Calculate a ratio of the yield-to-worst divided by the coupon rate for each bond. 2. For each country the securities with a ratio between 0.95 and 1.15, inclusive, are eligible. 3. For any country rated BBB- or higher that has no eligible securities in Step 2, the securities with a ratio between 0.7 and 1.3, inclusive, are eligible. 4. Of the eligible bonds from the above steps, the highest-coupon bonds from each country, up to a maximum of four bonds per country, are selected and included in the index. If fewer than four bonds from a country are eligible, all that country’s eligible bonds are included in the index. In the event of a tie, the bond with the longer maturity is selected. 	<p>At each rebalancing, the index is selected and formed as follows:</p> <ol style="list-style-type: none"> 1. Bonds rated below B- or that have a zero coupon are removed from the pro-forma universe. 2. Calculate a ratio of the yield-to-worst divided by the coupon rate for each bond. 3. Calculate the market value weighted average of the ratios to derive the pro-forma universe average ratio. 4. Bonds with a ratio within 0.5 standard deviation of the pro-forma universe average ratio are eligible for selection. If fewer than five countries have eligible bonds, then the standard deviation is increased by 0.25 increments until at least five countries have eligible bonds. 5. The highest-coupon bonds from each country, up to a maximum of four bonds per country, are selected and included in the index. If fewer than four bonds from a country are eligible, all that country’s eligible bonds are included in the index. In the event of a tie, the bond with the longer maturity is selected.

¹ Zero coupon bonds have always been ineligible due to the requirement to calculate a ratio of the yield-to-worst divided by the coupon rate for each bond.

IMPACT ANALYSIS

Using data from the June 2021 rebalancing, the table below shows the actual rebalancing results using the current methodology and the hypothetical results that would have occurred had the proposed change been in effect at that time.

June 2021 Rebalancing Country	Actual		Hypothetical	
	Constituent Count	Country Weight	Constituent Count	Country Weight
EGYPT, ARAB REPUBLIC OF (GOVERNMENT)	4	20.00%	4	20.00%
GHANA, REPUBLIC OF (GOVERNMENT)	4	18.67%	1	7.07%
KENYA, REPUBLIC OF (GOVERNMENT)	1	5.75%	3	20.00%
MOROCCO, KINGDOM OF (GOVERNMENT)	4	19.25%	2	12.93%
NIGERIA, FEDERAL REPUBLIC OF (GOVERNMENT)	2	16.33%	4	20.00%
SOUTH AFRICA, REPUBLIC OF (GOVERNMENT)	4	20.00%	4	20.00%

Using data from the scheduled² June 2022 rebalancing, the tables below show the hypothetical rebalancing results using the current methodology compared to the proposed methodology.

June 2022 Hypothetical Rebalancing Country	Current Methodology		Proposed Methodology	
	Constituent Count	Country Weight	Constituent Count	Country Weight
EGYPT, ARAB REPUBLIC OF (GOVERNMENT)	--	--	4	20.00%
KENYA, REPUBLIC OF (GOVERNMENT)	--	--	4	20.00%
MOROCCO, KINGDOM OF (GOVERNMENT)	1	34.01%	1	10.68%
NAMIBIA, REPUBLIC OF (GOVERNMENT)	--	--	1	9.32%
NIGERIA, FEDERAL REPUBLIC OF (GOVERNMENT)	--	--	4	20.00%
SOUTH AFRICA, REPUBLIC OF (GOVERNMENT)	1	65.99%	4	20.00%

June 2022 Hypothetical Rebalancing – Composition Using Current Methodology		
ISIN	Country	Terms
XS1079233810	MOROCCO, KINGDOM OF (GOVERNMENT)	MAGV 3.500 06/19/24
US836205AR58	SOUTH AFRICA, REPUBLIC OF (GOVERNMENT)	ZAGV 5.875 09/16/25

June 2022 Hypothetical Rebalancing – Composition Using Proposed Methodology		
ISIN	Country	Terms
XS2176899701	EGYPT, ARAB REPUBLIC OF (GOVERNMENT)	EGGV 8.875 05/29/50 MTN
XS2391398174	EGYPT, ARAB REPUBLIC OF (GOVERNMENT)	EGGV 8.750 09/30/51 MTN
XS1953057491	EGYPT, ARAB REPUBLIC OF (GOVERNMENT)	EGGV 8.700 03/01/49 MTN
XS1558078496	EGYPT, ARAB REPUBLIC OF (GOVERNMENT)	EGGV 8.500 01/31/47 MTN
XS1781710626	KENYA, REPUBLIC OF (GOVERNMENT)	KEGV 8.250 02/28/48
XS1843435766	KENYA, REPUBLIC OF (GOVERNMENT)	KEGV 8.000 05/22/32
XS1781710543	KENYA, REPUBLIC OF (GOVERNMENT)	KEGV 7.250 02/28/28
XS2354781614	KENYA, REPUBLIC OF (GOVERNMENT)	KEGV 6.300 01/23/34
XS2270577344	MOROCCO, KINGDOM OF (GOVERNMENT)	MAGV 4.000 12/15/50
XS1311099540	NAMIBIA, REPUBLIC OF (GOVERNMENT)	NAGV 5.250 10/29/25
XS1910828182	NIGERIA, FEDERAL REPUBLIC OF (GOVERNMENT)	NGGV 9.248 01/21/49 MTN
XS1910827887	NIGERIA, FEDERAL REPUBLIC OF (GOVERNMENT)	NGGV 8.747 01/21/31 MTN
XS2445169985	NIGERIA, FEDERAL REPUBLIC OF (GOVERNMENT)	NGGV 8.375 03/24/29 MTN
XS2384704800	NIGERIA, FEDERAL REPUBLIC OF (GOVERNMENT)	NGGV 8.250 09/28/51 MTN
US836205BB97	SOUTH AFRICA, REPUBLIC OF (GOVERNMENT)	ZAGV 5.750 09/30/49
US836205AX27	SOUTH AFRICA, REPUBLIC OF (GOVERNMENT)	ZAGV 5.650 09/27/47
US836205AS32	SOUTH AFRICA, REPUBLIC OF (GOVERNMENT)	ZAGV 5.375 07/24/44
US836205AV60	SOUTH AFRICA, REPUBLIC OF (GOVERNMENT)	ZAGV 5.000 10/12/46

² On June 28, 2022, S&P DJI announced the postponement of the annual rebalancing scheduled to take effect after the close of business on Thursday, June 30, 2022, due to market conditions impacting the depth of eligible securities available in the index universe.

CONSULTATION

IMPLEMENTATION TIMING

As previously announced, the June 2022 annual rebalancing was postponed. S&P DJI is proposing to implement the postponed rebalancing in September 2022. In addition, S&P DJI is also proposing to implement the previously described methodology change, if adopted, in conjunction with this postponed rebalancing, which will take effect after the close of business on **September 30, 2022**. If adopted, this change will first be visible to clients in pro-forma files beginning **September 27, 2022**.

QUESTIONS

Please answer the following questions and provide S&P DJI with the reasoning behind your answers:

1. **Do you agree with the proposed change to the constituent selection steps?**
2. **Do you agree with the proposal to implement the postponed 2022 rebalancing effective after the close of business on September 30, 2022?**
3. **If the proposed methodology change is adopted, do you agree with the proposed implementation timing?**
4. **Do you have any other comments or feedback regarding the proposed change outlined above?**

Your participation in this consultation is important as we gather information from various market participants in order to properly evaluate your views and preferences. Please respond to this survey by **September 2, 2022**. After this date, S&P DJI will no longer accept survey responses. Prior to the Index Committee's final review, S&P DJI may request clarifications from respondents as part of that review.

S&P DJI intends to announce the results of this consultation after the close of business on **Monday, September 12, 2022**.

To participate in this consultation, please visit the online survey available [here](#).

For further information about this consultation, please contact S&P Dow Jones Indices at SPDJI_Index_Governance@spglobal.com.

Please be advised that all comments from this consultation will be reviewed and considered before a final decision is made; however, S&P DJI makes no guarantees or is under any obligation to comply with any of the responses. The survey may result in no changes or outcome of any kind. If S&P DJI decides to change the index methodology, an announcement will be posted on our website.

Thank you for taking the time to complete this survey.

For more information about S&P Dow Jones Indices, please visit www.spglobal.com/spdji.

CONSULTATION

ABOUT S&P DOW JONES INDICES

S&P Dow Jones Indices is the largest global resource for essential index-based concepts, data and research, and home to iconic financial market indicators, such as the S&P 500® and the Dow Jones Industrial Average®. More assets are invested in products based on our indices than products based on indices from any other provider in the world. Since Charles Dow invented the first index in 1884, S&P DJI has been innovating and developing indices across the spectrum of asset classes helping to define the way investors measure and trade the markets.

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