



Memo

To: Market
From: NZX Indices
Date: 19 March 2012
Subject: Equity Indices Methodology - Changes

Introduction

On 21 December 2011, NZX Indices commenced consultation on a series of proposed changes to the NZX Equity Indices Methodology.

We received consultation responses from a range of market participants, including listed issuers, brokers and fund managers.

The consultation period concluded in February 2012. We have carefully considered all the responses, and incorporated feedback as appropriate.

The following is a description of the changes to the Equity Indices Methodology that NZX Indices has resolved to make. A revised methodology document will be released to the market by 10 April 2012.

Move to Pure Free Float

The method of calculating indexed shares will change from the existing modified free float methodology to a pure free float methodology.

This change will be applied to all equity indices, including the NZX 50, NZX 10, NZX Midcap and NZX 50 Portfolio Indices.

The majority (86%) of consultation responses addressing this point supported a change in methodology. Of those responses in favour of a change, 94% supported moving to a pure free float methodology.

NZX Indices considers such an approach is both simpler than the existing modified free float methodology and is aligned with the indexed share practice for other international indices. It also provides a clean, understandable and true representation of New Zealand's investible market.

This change will cause some significant shifts in weighting of various stocks. By way of example, weightings pursuant to the new pure free float methodology, as at the March 2012 review, are attached at the back of this release.

The change will be implemented in a single step at the June 2012 Quarterly Index Review. As per the timetable set out below, actual index weighting under the new pure free float methodology will be announced to the market on Wednesday 6 June 2012, and will be implemented as at market close on Friday 15 June 2012.

This provides nearly three months' notice of the changes, which should enable all impacted parties to manage their positions as appropriate.

While some consultation responses expressed concern over implementing such a change in one step, noting that it could cause negative price pressure on particular stock prices, this needs to be balanced against a number of factors.

Implementing changes over a period of time would introduce a level of uncertainty to the market during that transition period. It is also complex to administer and, potentially, to understand. The balance date for approximately 60% of listed issuers, and also for a significant number of fund managers, is 30 June. Implementing the changes at the June Quarterly Index Review means they will have been managed and bedded down well ahead of the financial year end and reporting season.

Once the changes been made, any uncertainty regarding an index constituent's price resulting from the changes is removed.

Liquidity

Liquidity is a critical factor in determining index inclusion. Liquidity should measure how readily a security can be traded without causing a significant price movement.

NZX Indices recognises that there are limitations to the NZX 50's existing liquidity measure for index purposes, in that a change in strategic holdings can change the outcome of the liquidity calculation, without having an impact on actual trading on the market.

For this reason, and to ensure the liquidity measure is more closely correlated with a security's trading on market, NZX Indices is introducing an additional measure to the liquidity test for index purposes.

In addition to the existing liquidity test, only those securities that trade 2.5% or more of that company's average market capitalisation in a six-month period will pass the test. For the purposes of this test, strategic holdings by a single holder of 20% or more will be excluded from the average market capitalisation, and only trades during market hours (including the auction) will be counted.

Companies that do not meet either of the liquidity tests over two consecutive quarterly reviews will be removed from the index.

This new liquidity measure will be implemented after the June 2012 Quarterly Review. Therefore, the first review at which removals could occur as a result of the new test is December 2012.

NZX20 Index

NZX will launch a new NZX 20 Index on Monday 23 April 2012.

Following the feedback received, we have made some adjustments to the methodology we had proposed for the NZX 20. The specific elements of the methodology for the NZX 20 are:

- Constituents will be determined in the same manner as for the NZX 50 (the two liquidity tests followed by a ranking by market capitalisation), except that a higher liquidity threshold of 3.5% of average market capitalisation will be required;
- The NZX 20 will be a capital only index;
- A weighting cap of 15% for any single constituent will be applied;
- Qualifying overseas and dual listed stocks will be included in the NZX 20;
- Share changes of greater than 5% will be reviewed monthly, as for other indices, but constituents will be reviewed quarterly; and
- The NZX 20 will have a starting value of 3000.

Attached to this release is a table setting out indicative constituents for the NZX 20, based on the revised methodology, and as at the March 2012 review. As noted in the timetable, the initial constituents for the NZX 20 will be released to the market on 13 April 2012.

Timetable

Date	Action
10 April 2012	Revised methodology document released to the market
13 April 2012	April review results released to the market, including NZX 20 constituents
23 April 2012	NZX 20 launched
6 June 2012	June Quarterly Review results released to market, including changes to pure free float.
15 June 2012	Changes to pure free float implemented from market close
September quarter	First quarter new additional liquidity test is applied
December quarter	First quarter changes resulting from additional liquidity test could occur

Listed Issuers

NZX Indices will be preparing a pack for each of the top 60 listed issuers showing the impact, or potential impact, of the changes based on the most recent index review. This should assist listed issuers to understand the implications of these changes for their equity securities. Listed issuers should receive this information pack by Tuesday 27 March 2012.

Appendix 1 - Indicative new index weightings under a pure free float methodology, completed as at the March 2012 index review.

Appendix 2 - Indicative constituents of the NZX 20 Index, as at March 2012 index review.

For further information contact:

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Appendix 1 - Indicative new index weightings under a pure free float methodology, (March 2012 review)

Code	Name	Modified Free Float Market Cap - current rules	Weight under current rules	Free Float Market Cap - new rules	Weight under new rules
FBU	Fletcher Building	\$ 4,513,302,912	11.54%	\$ 4,513,302,912	12.54%
TEL	Telecom Corp of NZ	\$ 4,149,296,469	10.60%	\$ 4,149,296,469	11.53%
AIA	Auckland Intl Airport	\$ 3,187,380,418	8.15%	\$ 2,474,210,775	6.88%
SKC	Sky City Entertainment	\$ 2,192,441,692	5.60%	\$ 2,192,441,692	6.09%
CEN	Contact Energy	\$ 3,414,210,013	8.73%	\$ 1,649,404,046	4.58%
RYM	Ryman Healthcare	\$ 1,425,000,000	3.64%	\$ 1,425,000,000	3.96%
FPH	F&P Healthcare Corp	\$ 1,123,713,206	2.87%	\$ 1,123,713,206	3.12%
CNU	Chorus Limited	\$ 1,270,771,006	3.25%	\$ 1,270,771,006	3.53%
SKT	SKYTV	\$ 1,910,535,169	4.88%	\$ 1,100,811,046	3.06%
IFT	Infratil	\$ 1,100,061,344	2.81%	\$ 1,100,061,344	3.06%
KIP	Kiwi Income Property Trst	\$ 1,000,919,790	2.56%	\$ 1,000,919,790	2.78%
GMT	Goodman Property Trust	\$ 909,899,216	2.33%	\$ 852,146,245	2.37%
MFT	Mainfreight	\$ 827,756,309	2.12%	\$ 771,454,929	2.14%
WBC	Westpac Banking Corp	\$ 765,089,946	1.96%	\$ 765,089,946	2.13%
GPG	Guinness Peat Group Plc	\$ 621,082,807	1.59%	\$ 621,082,807	1.73%
ANO	AMP NZ Office Limited	\$ 695,691,436	1.78%	\$ 677,711,628	1.88%
VCT	Vector Ltd Ordinary	\$ 702,015,822	1.79%	\$ 633,915,649	1.76%
POT	Port of Tauranga	\$ 665,839,713	1.70%	\$ 664,715,810	1.85%
KMD	Kathmandu	\$ 386,000,000	0.99%	\$ 386,000,000	1.07%
ANZ	ANZ Banking Group	\$ 588,389,780	1.50%	\$ 588,389,780	1.64%
FRE	Freightways	\$ 592,276,912	1.51%	\$ 592,276,912	1.65%
NPX	Nuplex Industries	\$ 499,740,723	1.28%	\$ 499,740,723	1.39%
OGC	OceanaGold	\$ 410,011,228	1.05%	\$ 410,011,228	1.14%
TME	Trade Me Group Limited	\$ 408,531,950	1.04%	\$ 408,531,950	1.14%
TPW	TrustPower	\$ 369,180,012	0.94%	\$ 369,180,012	1.03%
ARG	Argosy	\$ 372,682,226	0.95%	\$ 372,682,226	1.04%
GFF	Goodman Fielder	\$ 389,843,214	1.00%	\$ 389,843,214	1.08%
EBO	Ebos Group	\$ 359,541,660	0.92%	\$ 359,541,660	1.00%
DNZ	DNZ Property	\$ 325,282,463	0.83%	\$ 325,282,463	0.90%
NZX	New Zealand Exchange	\$ 323,841,900	0.83%	\$ 323,841,900	0.90%
WHS	The Warehouse Group	\$ 223,673,565	0.57%	\$ 223,673,565	0.62%
AIR	Air New Zealand	\$ 244,171,319	0.62%	\$ 244,171,319	0.68%
NZO	New Zealand Oil & Gas	\$ 287,063,590	0.73%	\$ 287,063,590	0.80%
VHP	VITAL HEALTH	\$ 267,192,921	0.68%	\$ 267,192,921	0.74%
TWR	Tower	\$ 278,094,813	0.71%	\$ 278,094,813	0.77%
SKL	Skellerup Holdings	\$ 279,568,420	0.71%	\$ 279,568,420	0.78%
PFI	Property For Industry	\$ 254,052,371	0.65%	\$ 254,052,371	0.71%
AMP	AMP	\$ 230,360,676	0.59%	\$ 230,360,676	0.64%
FPA	F&P Appliances Hdgs	\$ 231,755,252	0.59%	\$ 231,755,252	0.64%
NZR	NZ Refining Co	\$ 241,629,700	0.62%	\$ 241,629,700	0.67%
RBD	Restaurant Brands NZ	\$ 191,705,642	0.49%	\$ 191,705,642	0.53%
HNZ	HeartlandNZ	\$ 145,811,918	0.37%	\$ 160,741,808	0.45%
MHI	Michael Hill Intl	\$ 176,457,774	0.45%	\$ 200,342,566	0.56%
HLG	Hallenstein Glasson Hdgs	\$ 156,916,262	0.40%	\$ 183,162,136	0.51%
CAV	Cavalier Corporation	\$ 96,214,730	0.25%	\$ 125,572,052	0.35%
PPL	Pumpkin Patch	\$ 82,567,422	0.21%	\$ 134,629,126	0.37%
TLS	Telstra Corp	\$ 72,173,934	0.18%	\$ 121,631,052	0.34%
PGW	PGG Wrightson	\$ 69,942,276	0.18%	\$ 118,407,542	0.33%
RAK	Rakon	\$ 48,074,245	0.12%	\$ 96,342,505	0.27%
STU	Steel & Tube Holdings	\$ 48,338,156	0.12%	\$ 98,380,800	0.27%
Total		\$ 39,126,094,323	100%	\$ 35,979,849,227	100%

Appendix 2 - Indicative constituents of the NZX 20 Index, as at March 2012 index review.

Code	Company Name	Index Market Capitalisation	Index Weight
FBU	Fletcher Building	\$ 4,050,813,431	15.00%
TEL	Telecom Corp of NZ	\$ 4,050,813,431	15.00%
AIA	Auckland Intl Airport	\$ 2,474,210,775	9.16%
SKC	Sky City Entertainment	\$ 2,192,441,692	8.12%
CEN	Contact Energy	\$ 1,649,404,046	6.11%
RYM	Ryman Healthcare	\$ 1,425,000,000	5.28%
FPH	F&P Healthcare Corp	\$ 1,123,713,206	4.16%
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WBC	Westpac Banking Corp	\$ 765,089,946	2.83%
GPG	Guinness Peat Group Plc	\$ 621,082,807	2.30%
ANO	AMP NZ Office Limited	\$ 677,711,628	2.51%
VCT	Vector Ltd Ordinary	\$ 633,915,649	2.35%
POT	Port of Tauranga	\$ 664,715,810	2.46%
ANZ	ANZ Banking Group	\$ 588,389,780	2.18%
FRE	Freightways	\$ 592,276,912	2.19%
NPX	Nuplex Industries	\$ 499,740,723	1.85%
	Total	\$ 27,005,422,854	100.00%