



Stock Exchange of Mauritius Ground Rules for the SEM-10

The Stock Exchange of Mauritius is introducing a new index, the SEM-10 Index, comprising shares listed on the Official Market. Designed to meet international standards and provide a larger and more attractive investible benchmark for both domestic and foreign market participants, the SEM-10 will comprise the ten largest eligible shares of the Official Market, measured in terms of average market capitalization, liquidity and investibility criteria.

Furthermore, maintenance of the index is ensured by an independent Index Management Committee in accordance with the strict guidelines laid out in part E.

A. SELECTION CRITERIA

The SEM-10 consists of the largest 10 Mauritian companies by market value (subject to Section 2) which qualify under Section 1 as eligible for inclusion in the SEM-10.

Section 1: Eligible Shares

1.1. To be eligible for inclusion in the SEM-10, a company must be incorporated and resident for tax purposes in Mauritius. Any other company is ineligible.

1.2. The shares must be listed on the Official Market.

1.3. Investment Funds (whether companies, trusts, partnerships or other legal structure authorised by the FSC) whose business, in the opinion of the Index Management Committee, is to actively trade in securities are excluded from the SEM-10

1.4. Only ordinary shares are included in the SEM-10.

1.5. Where a company's ordinary shares are issued partly paid or nil paid and the call dates are already determined and known, the market price, for the purpose of calculating its market capitalisation, is adjusted so as to include all such calls (i.e., the fully paid price).

1.6. Shares must have sufficient liquidity. The following criteria shall be used to ensure that illiquid shares are excluded:

(i) Liquidity in terms of value traded (Rs)

Shares (other than new issues) which did not have an average value traded per session of Rs100,000 over the 3 months prior to the quarterly review are not be eligible for inclusion.

(ii) Liquidity in terms of trading frequency (%)

Shares (other than new issues) which did not trade on at least 50% of the trading sessions during the 3 months prior to the quarterly review are not be eligible for inclusion.

1.7 Subject to Section 2.2.2, the shares of a company listed for less than 3 months are not eligible for inclusion in the SEM-10 and the Reserve List

Investibility

At least 25% of the ordinary shares in issue must be publicly available for investment and must not be in the hands of a single party or parties acting in concert. The Index Management Committee determines whether this criterion is met.

The Index Management Committee may accept a company with a lower percentage of ordinary shares publicly available, if in the opinion of the Index Management Committee, the company is large enough to be included.

Section 2: Changes to Constituent Companies

2.1. Procedures for Removal and Replacement

2.1.1. If a constituent is delisted, or is subject to a takeover offer which has been declared wholly unconditional as per the provisions of the Securities (Takeover) Rules 2010 or has, in the opinion of the Index Management Committee, ceased to be a viable constituent, it is removed from the list of constituents and replaced by the highest ranking share in the Reserve List (see Part C) as at close of business on the day preceding the inclusion of the replacement share.

2.1.2 The removal and replacement are effected simultaneously, before the start of business the day following the announcement of the removal. Announcements after close of business are normally deemed to be made on the following business day. In the case of a take-over, the qualifying event is an announcement that the offer has been declared wholly unconditional, as defined in 2.1.1.

2.2. Events leading to Removal and Replacement

2.2.1 Amalgamations (Mergers), Restructuring and Take-overs

2.2.1.1. If an amalgamation (merger) or take-over results in one constituent being absorbed by another constituent, the resulting company shall remain a constituent of the SEM-10, and a vacancy shall be created. This vacancy shall be filled by selecting the highest ranking share in the Reserve List as at close of business on the day preceding the inclusion of the replacement share.

2.2.1.2. If a constituent company is taken over by a non-constituent company, the original constituent shall be removed and replaced by the highest ranking share in the Reserve List. Any eligible company resulting from the takeover shall be eligible to become the replacement if it is ranked higher than any other non-constituent.

2.2.2 New Issues

2.2.2.1 If, in the view of the Index Management Committee, a new issue is so large that the effectiveness of SEM-10 as a market indicator would be significantly and adversely affected by its omission, the Index Management Committee may decide to include the new issue as a constituent of the SEM-10 at the earliest practicable opportunity. In such cases, the Index Management Committee must be reasonably satisfied that the liquidity provisions contained in Sub section 1.6 (i) and (ii) will be met.

2.2.2.2 For the purpose of Rule 2.2.2.1, a company which is reinstated following suspension or is reorganised or renamed or which arises from a demerger or complex reorganization of another company which is not an existing constituent, shall not be considered to be a new issue.

2.2.2.3 If the Index Management Committee decides to include a new issue as a constituent other than at the normal periodic review, this decision must be publicly announced at the earliest practicable time.

2.2.3 Suspension of Dealing

In the event that a constituent is suspended, the constituent may remain in the SEM-10, at the price at which it is suspended, for up to 10 business days. During this time, the Index Management Committee may agree to remove the constituent immediately either at its suspension price or at a value of zero and replace it with the highest ranking share in the Reserve List as per the procedures laid out in section 2.1.

2.2.4. Reinstatement of Suspended Constituents

Where a suspended constituent which has been removed is subsequently reinstated to trading and if upon reinstatement, the suspended constituent is larger than the smallest constituent in SEM-10, it is reinstated at the price at which it is removed and the lowest ranking constituent is removed.

B. MAINTENANCE AND CONTINUITY OF THE SEM-10

To preserve the historical continuity of the SEM-10, adjustments have to be made to ensure that the SEM-10 reflects price movements solely due to the trading activity and is not affected by non-market events. The adjustments are required when there are changes in capitalisation (market value) of the constituents resulting from corporate actions, or from changes in the constituents of the SEM-10.

Section 3. Method of Computation

3.1 General Expression

The general expression for the index (X) is:

When time period $i > 1$,

$$X_i = (M_i/B_i) \cdot 100$$

$$B_i = B_{i-1} \cdot (M_i/M'_i)$$

and when $i=1$,

$$X_i = 100$$

$$B_i = M_i$$

i = time period

X_i = index at time i

B_i = base value of the index. When $i=1$ (the first period), market capitalisation = base value of the Index

M_i = market capitalisation of constituents at time i

M'_i = adjusted market capitalisation (adjusted for stock splits, stock dividends, rights issues, new issues of shares, share cancellations for constituents, and the inclusion and exclusion of constituents).

3.2 Market Capitalisation

Market capitalisation (M_i) is the sum of the market value of all shares included in the SEM-10 index.

The market capitalisation (C_i) of each share at period i is equal to:

$$C_i = P_i \cdot N_i$$

$$\text{Total Market Capitalisation } (M_i) = \sum P_i \cdot n_i$$

P_i = the last transaction price for the share in period i

n_i = the number of shares issued and outstanding at the end of the period i .

3.3 Adjusted Market Capitalisation

Adjusted market capitalisation of the SEM-10 index (M'_i) adjusts for rights issues, removal of constituents, new listing, dividend in specie and any other issues that need any changes to be

made to the market capitalization.

$$M'i = \sum (P_i \cdot n_i) - C_i + C'i$$

$$C'i = N'i \cdot P_t$$

$N'i$ = total number of shares after adjustments

P_t = reference price per share after adjustments in respect of corporate actions.

Section 4. Adjustments to the Base Capitalisation Level

The Base Market Capitalisation will be adjusted on the ex-date to account for the adjustment in reference prices of securities following new issues, right issues or corporate actions. The purpose of the adjustment is to neutralize the change, so that the change has no effect on the SEM-10.

4.1 New Shares

If a constituent issued new shares in the current period which were not present in the previous period, the index algorithm subtracts newly issued capitalisation from total capitalisation in the current period. This equalises the number of shares in both periods so that the SEM-10 reflects only price changes.

A cancellation of shares by a constituent is treated as a negative new issue. Shares created by the conversion of other securities are treated as new issues.

4.2 Rights Issues

When shares begin trading ex-rights, the theoretical share price falls by the intrinsic value of the rights. Total capitalisation does not change because the combined capitalisation of the two securities - the shares and the rights - equals the previous capitalisation of the shares trading rights-on. The SEM-10 also remains unchanged.

Because the SEM-10 follows only the shares and not the rights, which may be traded separately, an adjustment is needed to prevent the index from dropping. The method is similar to that of a new issue. In both cases, the theoretical price is the weighted price of the shares at the instant after the change. The formula for the theoretical price of a share trading ex-rights is:

$$\frac{\left[\begin{array}{l} \text{Number of rights} \\ \text{required to buy} \\ \text{one new share} \end{array} \times \begin{array}{l} \text{Market price} \\ \text{before the} \\ \text{ex-date} \end{array} \right] + \text{Subscription} \\ \text{Price}}{\text{Number of rights required to buy one new share} + 1}$$

4.3 New Constituents

Where a new constituent is included in the SEM-10 it replaces the 10th constituent and the capitalisation is adjusted accordingly.

4.4 Bonus Issues, Stock Splits and Reverse Splits

The number of shares created by the bonus issue or stock split is used to adjust the shares outstanding at the ex-bonus/split date. Similarly, a reverse split is recorded as a negative stock split while reducing the shares outstanding by the amount of the negative split.

In the case of stock splits, as prices drop by the split ratio, total capitalisation does not change at the time of the split and no adjustment to the SEM-10 is needed.

Stock dividends, also known as bonus issues, have the same effect as splits and no adjustment to the SEM-10 is therefore needed.

4.5 Cash Dividends

Cash dividends can affect share prices, but the industry norm is not to make any adjustment for such dividends in the SEM-10. Cash dividends on a per share basis are recorded at the ex-dividend date, using gross cash dividends.

In exceptional cases, where the cash dividend paid is large enough that it may affect the net assets of the company, the base market capitalization will be adjusted to reflect such a corporate event.

4.6 Dividend in specie

A dividend in specie (*in kind*) means dividends not paid in cash. Such dividends are paid out in the form of assets / securities of companies owned by the issuer and are in a given amount. On the Ex-date, the base market capitalization will be adjusted.

C. TERMINOLOGY USED IN THE SEM-10 CALCULATION

Closing Price

The last transaction price recorded at the Stock Exchange of Mauritius must be used to determine the closing price. The last transaction price is carried forward if a constituent did not trade on the index date.

Shares Outstanding

In combination with the closing price, the number of ordinary shares issued and outstanding is used to determine market capitalisation.

Reserve List

The Secretary to the Index Management Committee is responsible for publishing the 5 highest ranking shares in the Reserve List of the SEM-10.

To be eligible for admission in the Reserve List of the SEM-10 all the five constituents should satisfy the following Criteria:

- i. Average Value Traded per session of at least Rs 100,000 over the 3 months prior to the quarterly review.
- ii. Trading Frequency of at least 50% of the trading sessions during the 3 months prior to the quarterly review.

The companies shall be ranked in terms of Average Market Capitalisation.

D. EXCEPTIONAL CASES

Under exceptional cases, the Committee reserves the right to determine the modalities of choosing the remaining SEM-10 constituents in case there are less than ten companies that satisfy the eligibility criteria as specified in Sections 1.6(i) and 1.6 (ii).

1. Constituents of SEM-10

In case there are less than ten companies which satisfy the criteria in Sections 1.6 (i) and 1.6 (ii), the remaining constituents of the SEM-10 will be determined according to the following process:

- 1) Companies satisfying Section 1.6(ii) will first be selected and ranked in terms of Average Trading Frequency of $\geq 50\%$.
- 2) Companies satisfying Section 1.6(i) will then be selected and ranked in terms of Average Trading Value Average \geq Rs 100,000.
- 3) In case, companies do not satisfy the criteria in Sections 1.6 (i) and 1.6 (ii), the remaining constituents of SEM-10 will be ranked in terms of Average Market Capitalisation.

Under exceptional cases, the Committee reserves the right to review this selection process.

2. Reserve List

In case there are less than five companies which satisfy the criteria in Sections 1.6 (i) and 1.6 (ii), the following constituents shall be chosen for the Reserve list according to the following process:

- 1) Companies satisfying Section 1.6(ii) will first be selected and ranked in terms of Average Trading Frequency of $\geq 50\%$.
- 2) Companies satisfying Section 1.6(i) will then be selected and ranked in terms of Average Trading Value Average \geq Rs 100,000.
- 3) In case, companies do not satisfy the criteria in Sections 1.6 (i) and 1.6 (ii), the constituents will be ranked in terms of Average Market Capitalisation.

Under exceptional cases, the Committee reserves the right to review this selection process.

E. INDEX MANAGEMENT COMMITTEE

The Index Management Committee composed of stockbrokers, fund managers, academics, and officials from the Stock Exchange of Mauritius ensures that the process of building and maintaining the SEM-10 is as interactive as possible.

A quorum for a meeting of the Index Management Committee shall be three members or such other number as may be determined by the Index Management Committee. In exceptional situations, an Index Management Committee shall be validly constituted, with either the Chief Executive of The SEM or his representative and at least one independent member.

Mandate of the Index Management Committee

The Index Management Committee:

- establishes the criteria and procedures for selection of the constituents of the SEM-10.
- determines the base period and value.
- formulates a scientific and transparent methodology of index calculation.
- reviews, monitors and maintains periodically the SEM-10.
- considers the development of sectorial indices.

The Index Management Committee meets quarterly to review the constituents of the SEM-10. These meetings are held on the first Tuesday (or nearest Mauritian business day after that day) of January, April, July and October.

The inclusion or exclusion of a constituent in the SEM -10 is at the discretion of an independently constituted Index Management Committee. This discretion shall only be used in the spirit of furthering the objectives of the SEM-10.