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<i>C Firer, E Gilbert and A Maytham</i> Dividend policy in South Africa	5-19
<i>CJ Auret and JHC Britten</i> Post-issue operating performance of firms listing on the JSE	21-29
<i>L Bonney, G Shannon and N Uys</i> Modelling the Top40 volatility skew : A principal component analysis approach	31-38
<i>S Viviers, JK Bosch, EvdM Smit and A Buijs</i> The risk-adjusted performance of responsible investment funds in South Africa	39-55:
<i>N Bhana</i> The market reaction to capital expenditure announcements	57-68

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This issue in brief

Dividend policy in South Africa

The results of a survey based on a comprehensive US study of how listed South African companies set their dividend policies are reported. Our data suggests that SA managers hold attitudes very similar to those found by Lintner (1956) when looking at dividend payouts. They target a payout ratio and are very conservative when setting dividends in order to avoid having to cut them in the future.

Like US managers they feel that repurchases offer a more flexible alternative to dividends, but they have a stronger preference for dividends than their US counterparts. SA managers clearly view dividend decisions as being subordinate to their investment decisions – unlike the US where the evidence is mixed. Share repurchases, however, are clearly subordinate to investment decisions for both groups.

Little support was found for the taxes, clienteles and agency theories of payout policy. The evidence for the signalling approach is more nuanced. While recognising that dividend decisions convey information to the market, managers do not actively use this as tool for communicating. Managers prefer to repurchase shares when they are perceived to be undervalued, but this is not seen as a way to send information to the market. They view dividend policies as being secondary to other communication activities.

Post-issue operating performance of firms listing on the JSE

This paper investigates the evolution of operating performance of initial public offering (IPO) firms in a sample of 391 South African companies that listed between 1990 and 2003. It is found that in the long run profitability deteriorates by –14,33%. In addition, leverage and long-term investments decline subsequent to the IPO indicating that firms come to the market to readjust their capital structure and not to finance future growth. The results presented are broadly consistent with managers taking advantage of overoptimistic investors and hence, take advantage of a “window of opportunity”

Modelling the Top40 volatility skew : A principal component analysis approach

Principal component analysis is applied to approximate TOP40 Index option volatility. This implied volatility model explains volatility change (particularly volatility skew) as a result of three dominant effects: trend, slope and convexity. Alexander (2001a&b) introduces adjustments to the model, enabling the dynamics of volatility skew to be captured under different market regimes. Skew modelling using this factor model approach has important implications for option risk management and trading.

The risk-adjusted performance of responsible investment funds in South Africa

This research set out to evaluate the risk-adjusted performance of responsible investment (RI) funds in South Africa over the period 1 June 1992 to 31 March 2006. The Sharpe, Sortino and Upside-potential ratios were used to gauge the funds performance *vis-à-vis* the funds' respective benchmark indices as well as the general equity market (measured by the FTSE/JSE All Share Index). The risk-adjusted performance of local RI funds consistently improved over the research period pointing to a learning effect taking place in the local RI sector. The findings further seem to suggest that investors can consider local RI funds as part of a well-diversified investment strategy.

The market reaction to capital expenditure announcements

This paper investigates the stock market reaction to 378 capital expenditure announcements made by JSE listed companies during the 1995-2004 period. The wealth effect of capital expenditure decisions of the full sample is 1,35%. The wealth effects of capital investment decisions by focused companies are more favourably rated (1,99%) than those by diversified companies (0,98%) suggesting that shareholders prefer “pure plays” and single-minded focus. The market attempts to distinguish between good and poor investment decisions as well investments made by focused and diversified companies. The market reacts more favourably to investments that “create” future growth opportunities than to investments that can be categorized as “extending” existing investment opportunities.