



Guideline relating to

Solactive Australian Investment Grade Corporate Bond Select TR Index

Version 2.0 dated April 23rd 2018

Contents

Introduction

1 Index specifications

- 1.1 Short name and ISIN
- 1.2 Initial value
- 1.3 Distribution
- 1.4 Prices and calculation frequency
- 1.5 Decision-making bodies
- 1.6 Publication
- 1.7 Historical data
- 1.8 Licensing

2 Composition of the Index

- 2.1 Selection of the Index Components
- 2.2 Weighting
- 2.3 Ordinary adjustment
- 2.4 Extraordinary adjustment

3 Calculation of the Index

- 3.1 Index formula
- 3.2 Accuracy

4 Definitions

- 4.1 Index-specific definitions
- 4.2 Further definitions

5 Appendix

- 5.1 Contact data
- 5.2 Calculation of the Index – change in calculation method

This document contains the underlying principles and regulations regarding the structure and operation of the Solactive Australian Investment Grade Corporate Bond Select TR Index. Solactive AG shall make every effort to implement the relevant regulations. Solactive AG does not offer any explicit or tacit guarantee or assurance, neither pertaining to the results from the use of the index nor the index value at any given point in time nor in any other respect. The Solactive Australian Investment Grade Corporate Bond Select TR Index is the sole property of Solactive AG. Solactive AG strives to the best of its ability to ensure the correctness of the calculation. There is no obligation for Solactive AG – irrespective of possible obligations to issuers – to advise third parties, including investors and/or financial intermediaries, of any errors in the index. The calculation and publication of the index by Solactive AG is not a recommendation for capital investment and does not contain any assurance or opinion of Solactive AG regarding a possible investment in a financial instrument based on this index.

Introduction

This document is to be used as a guideline with regard to the composition, calculation and management of the Solactive Australian Investment Grade Corporate Bond Select TR Index. Any changes made to the guideline are initiated by the Committee specified in section 1.6. The Solactive Australian Investment Grade Corporate Bond Select TR Index is the sole property of Solactive AG. The Solactive Australian Investment Grade Corporate Bond Select TR Index is calculated and published by Solactive AG. The name “Solactive” is copyrighted.

1 Index specifications

The Solactive Australian Investment Grade Corporate Bond Select TR Index provides exposure to AUD denominated non-government investment-grade bonds with a term to maturity between 5.25 and 10.25 years. The index includes up to 35 bonds selected based on option-adjusted spreads. The index may include bonds from supranational and local authority issuers if there are insufficient corporate bonds.

1.1 Name and ISIN

The indices are distributed under the following identifiers:

Name	ISIN	WKN	Reuters RIC	Bloomberg Ticker
Solactive Australian Investment Grade Corporate Bond Select TR Index	DE000SLA5SL1	SLA5SL	.SOLAUSIG	SOLAUSIG Index

1.2 Initial value

The Solactive Australian Investment Grade Corporate Select TR Index will be calculated every Business Day starting on the 6th of April 2018. Before this date the index values are backfilled until the 29th of February 2008, with the index values based on 1000 as at the close of trading on 29th of February 2008.

1.3 Distribution

The Solactive Australian Investment Grade Corporate Bond Select TR Index is published via the price marketing services of Boerse Stuttgart AG and is distributed to all affiliated vendors.

1.4 Prices and calculation frequency

The Solactive Australian Investment Grade Corporate Bond Select TR Index is calculated based on the Evaluated Mid Price (see 4.2 Further Definitions) of the respective Index Components, newly added bonds are added at the Evaluated Mid Price, as well. The indices are calculated and distributed once every Business Day. Bond and index analytical values are calculated each Business Days using the Last Evaluated Price.

In the event that the data required for index calculation purposes is not available or in case of inability of Solactive AG or Stuttgart Stock exchange to distribute prices the index cannot be distributed. Events such as unplanned market closure, as well as any other that can be categorized as extraordinary and unforeseeable events related to the operation processes of Solactive AG or Stuttgart Stock exchange should be the ones leading to the halt of index distribution.

1.5 Decision-making bodies

A Committee composed of staff from Solactive AG is responsible for decisions regarding the composition of the Solactive Australian Investment Grade Corporate Bond Select TR Index, as well as any amendments to the rules (hereinafter referred to as the "**Committee**" or the "**Index Committee**"). The Committee will also determine the future composition of the Solactive Australian Investment Grade Corporate Bond Select TR Index if any Extraordinary Event (see 2.3) occurs, as well as the implementation of any necessary adjustments.

Members of the Committee can recommend at any time changes to the composition of the Index or to the guideline and submit them to the Committee for approval. Any change of the guideline will be announced on the web page <http://www.solactive.com>.

1.6 Publication

All specifications and information relevant for calculating the index are made available on the <http://www.solactive.com> web page and sub-pages.

1.7 Historical data

Historical data will be maintained from the 29th of February 2008.

1.8 Licencing

Licences to use the index as the underlying value for derivative instruments are issued to stock exchanges, banks, financial services providers and investment houses by Solactive AG.

2 Composition of the Index

2.1 Selection of the Index Components

The index constituents will be selected on the quarterly Selection Day, based on the Selection Pool as defined in 4.1. Additionally, on the quarterly Selection Day, the Index Committee evaluates whether all current Index Components still meet the requirements of the Selection Pool and – if necessary – any Index Components which do not pass this screen are removed from the Selection Pool.

From the Selection Pool, a smaller group of securities (the Preliminary Pool) is assembled, based on the following conditions:

- a) For each issuer that has any Band 1 bonds in the Selection Pool, all of the issuer's bonds are ranked for inclusion in the Preliminary Pool based on the following priority rule: (a) Band 1 bonds rank ahead of lower rated bonds; (b) within Band 1, bonds are ranked, from highest to lowest, by option-adjusted spread; and (c) outside Band 1, bonds are ranked, from highest to lowest, by option-adjusted spread. A maximum of two bonds from such an issuer will be added to the Preliminary Pool.
- b) For each issuer that has no Band 1 bonds in the Selection Pool, only one of the issuer's bonds is added to the Preliminary Pool, being the bond with the highest option-adjusted spread.

A Band 1 bond is a bond with a credit rating that is higher than, or equal to, "BBB+".

Credit ratings for a bond are determined based on the average rating of Standard & Poor's and Moody's.

If there are 28 or fewer bonds in the Preliminary Pool, the Preliminary Pool is supplemented by drawing bonds from the Extended Selection Pool. Any such additional bonds are determined based on the same conditions as set out in paragraphs (a) and (b) above.

All bonds in the Preliminary Pool are then ranked by option adjusted spread, from highest to lowest. Securities are added to the Index, in rank order, up to a maximum of 35 securities (the Index Components).

If the option-adjusted spread is unavailable or equal for particular securities, then amount outstanding is used, and the bond with the larger amount outstanding is selected. If the amount outstanding is unavailable or equal for particular securities, bonds are ranked by time to maturity and the bond with the shorter time to maturity is selected.

2.2 Weighting

The following weighting constraints are applied:

Each security is assigned an equal weight, with a maximum allowable weight per issuer of 7%. If the weight of an issuer would otherwise exceed 7%, the weight of that issuer will be capped at 7% and the excess weight will be distributed proportionally across all the other securities.

The weighting methodology may be amended by the Committee if required due to legal framework.

Extraordinary adjustments are possible as described under 2.4.

2.3 Ordinary adjustment

The composition of the index is ordinarily reviewed on the Selection Day. Any change to the index will be implemented on the Adjustment Day.

2.4 Extraordinary adjustment

Extraordinary Events may lead to adjustments of the index between Adjustment Days.

To standardise processes the following standard treatments for common corporate actions have been established:

Full Tender or Early Redemption: The bond proceeds will be reinvested into the index on the effective date. For the avoidance of doubt a tender must be mandatory, the pure offer to tender a bond will not lead to an adaption of the index.*

On the effective date price and accrued interest are 0 and the proceeds (tender/redemption price + accrued interest/coupon) are considered as “Paid Cash” in the return formula (see 3.1). On the next calculation day, the bond is removed from the index and weightings are calculated according to the formula in 3.1. The new higher weightings of the remaining constituents imply the direct reinvestment of the redeemed bond into all other Index Components.

Exchange Offer:

- 1) optional exchange offers are not treated in the index; *
- 2) mandatory exchange offers: In case less than 90% of the amount outstanding is exchanged the exchange will not be considered in the index.
- 3) mandatory exchange offers: In case more than 90% of the amount outstanding is exchanged the exchange will be considered in the index calculation by exchanging the relevant bonds, so that the new bond will receive the weight of the old exchanged bond.

The capping factor of the new bond is calculated based on the following formula:

$$CapFactor_{t,new} = \frac{(Price_{t,old} + ACCInt_{t,old}) * Amount_{SD,old} * Cap_{SD,old}}{(Price_{t,new} + ACCInt_{t,new}) * Amount_{t,new}}$$

Flat Trading: A bond is flat trading if the bond issuer will not meet its coupon payment obligation which means that the buyer of a bond is not responsible for paying the interest that has accrued since the last payment. If a bond is defined to be “flat trading” between two adjustment days the respective accrued interests and coupons will be set to 0. The bond will not be removed until the next adjustment date.

Default: If the status of a bond changes to “In Default”, the bond will remain as part of the index or portfolio at the last available evaluated price provided by the pricing source until the next regular index adjustment day.

Debt issuances: Debt issuances of an existing bond will not be considered until the next Adjustment Day.

*For the avoidance of doubt, an optional tender or exchange offer may lead to an index adjustment after the end of the submission period. In case the tender or exchange has been successful for at least 90% of the Amount Outstanding, the bond will be removed from the index/exchanged into the relevant bond.

In case of an Extraordinary Event that is not covered by the standard treatments mentioned above the Committee will meet and decide on how to treat the Extraordinary Event in the index based on the information available. An extraordinary adjustment will only be implemented if the majority of the Committee supports the suggested treatment. As soon as a decision has been taken all parties related to the index are informed about the Extraordinary Event as well as the decided treatment and date of implementation.

3 Calculation of the Index

3.1 Index formula

The Solactive Australian Investment Grade Corporate Bond Select TR Index is a Total Return Index whose return reflects the interest return due to paid and accrued interest, and price return, reflecting relative changes in end-of-day bond prices.

As a formula:

$$Totalreturn_{t,i} = \frac{Price_{t,i} + ACCInt_{t,i} + CPAAdj_{t,i} + PaidCash_{t,i}}{Price_{t-1,i} + ACCInt_{t-1,i} + CPAAdj_{t-1,i}} \cdot \frac{FX_{t,i}}{FX_{t-1,i}} - 1$$

$$Weighting_{t,i} = \frac{MarketValue_{t,i} \cdot Cap_{SD,i}}{\sum_{i=1}^a MarketValue_{t,i} \cdot Cap_{SD,i}} = \frac{(Price_{t,i} + ACCInt_{t,i}) * Amount_{SD,i} * Cap_{SD,i} \cdot FX_{t,i}}{\sum_{i=1}^a (Price_{t,i} + ACCInt_{t,i}) * Amount_{SD,i} * Cap_{SD,i} \cdot FX_{t,i}}$$

$$Index_t = Index_{t-1} * (1 + \sum_{i=1}^a (Totalreturn_{t,i} * weighting_{t-1,i}))$$

Whereas:

$Totalreturn_{t,i}$	= Total return of the bond i on trading day t
$Index_t$	= Value of the index on trading day t
$Index_{t-1}$	= Value of the index on trading day t-1
$Price_{t,i}$	= Last Evaluated Price of the bond i on trading day t
$Price_{t-1,i}$	= Last Evaluated Price of the bond i on trading day t-1
$ACCInt_{t,i}$	= Accrued Interest of the bond i on trading day t
$ACCInt_{t-1,i}$	= Accrued Interest of the bond i on trading day t-1
$Weighting_{t,i}$	= Weighting of the bond i on trading day t
$Weighting_{t-1,i}$	= Weighting of the bond i on trading day t-1
$Amount_{SD,i}$	= Amount Outstanding of bond i on the last Selection Day SD
$Cap_{SD,i}$	= Capping Factor which helps to adjust the weights as defined under 1.5
$FX_{t,i}$	= Foreign Exchange Rate of bond i on trading day t
$FX_{t-1,i}$	= Foreign Exchange Rate of bond i on trading day t-1
$PaidCash_{t,i}$	= a) Value of the coupon payment for bond i on trading day t b) If a bond i will be removed from the index, the resulting payment of the bond will be included in the paid cash component.

$CPAdj_{t,i}$

= Variable Coupon Adjustment Factor of bond i on trading day t if the bond trades ex-dividend

Equal to 0 if bond i is not in an ex-dividend period on trading day t or bond i was included in the index during the ex-dividend period.

Equal to the upcoming coupon if bond i is in an ex-dividend period on trading day t and bond i was included in the index before the ex-dividend period.

The ex-dividend period is the period before the coupon payment date where the buyer of a bond is not entitled to the upcoming coupon. The ex-dividend date is the first date at which the bond does not include an entitlement to the next coupon payment when purchased. The Accrued Interest of bond i is negative during the ex-dividend period and 0 on the coupon payment date.

3.2 Accuracy

The value of the index will be rounded to two decimal places.

According to the terms of the bond, the Index Calculator will take the following conventions into account:

Act/Act

Act/360

Act/365

30/360

ISMA 30/360

The index does not take taxes into account and assumes gross coupon payments.

Accrued interests are calculated with settlement convention t+0.

4. Definitions

4.1 index-specific definitions

The **“Selection Pool”** comprises bonds that fulfill the following conditions:

- (a) Only senior corporate debt, denominated in Australian dollars (AUD).
- (b) Only bonds with fixed coupons are eligible.
- (c) The issue must be rated investment grade, i.e. average rating of Standard & Poor's and Moody's should be higher or equal to BBB- / Baa3. For the avoidance of doubt if only one rating is available and it is higher or equal to BBB- / Baa3, the bond is eligible for inclusion in the index.
- (d) Subordinated Bonds, Inflation-linked Bonds, asset-backed securities and Convertible Bonds are not eligible for inclusion.
- (e) Callable Bonds and bonds with make-whole provisions with first call dates earlier than 3 months prior to maturity are not eligible.
- (f) Bonds issued in offshore jurisdictions (indicated by the 'XS' ISIN prefix) are excluded.
- (g) Minimum amount outstanding of 250 million AUD is required.
- (h) Time to Maturity should be of between 5.25 and 10.25 years inclusively.

If required in accordance with the rules in 2.1, the Selection Pool will be extended to include AUD-denominated bonds issued by local government authorities and supranationals, provided such bonds fulfill the criteria set out in paragraphs (c) to (h) above (the Extended Selection Pool).

4.2 Further definitions

“Adjustment Day” is the last Business Day in February, May, August and November.

“Amount Outstanding” is the face value of the respective bond.

A **“Business Day”** in relation to the index is any day other than a Saturday or Sunday or a day on which the Australian Securities Exchange (ASX) is closed for business. The ASX Non-Business Days are New Year's Day, Australia Day, Good Friday, Easter Monday, Anzac Day, Queen's Birthday, Christmas Day and Boxing Day

“Call” means that a bond with a callable feature will be redeemed before the actual maturity date of the bond. The callable feature allows the issuer of the bond to retain the privilege of redeeming the bond before the actual maturity date.

“Convertible Bonds” are bonds that can be converted into a predetermined amount of the company's equity at certain times during its life.

A **“Credit Event”** is the suspension of debt service, insolvency or failure to pay on time.

“Early Redemption” includes every event that leads to a redemption of a bond before the actual maturity date.

“Evaluated Mid Price” is the last available mid price evaluated by the designated pricing provider.

“Ex-dividend” means that the next coupon is detached from the bond several days in advance of the coupon payment date.

“Exchange Offer” means that the holder of a bond is invited to exchange the existing bond to another debt security.

In particular an **“Extraordinary Event”** is

- an early redemption of the bond
- a credit event

A bond is marked as **“Flat Trading”** if the bond issuer will not meet its coupon payment obligation. This means that the buyer of a bond is not responsible for paying the interest that has accrued since the last payment.

A bond is **“In Default”** when the issuer is not able to fulfil its bond payment obligations anymore after the 30 days grace period.

“Index Components” are the bonds determined in accordance with 2.1.

The **“Index Currency”** is AUD.

“Inflation-linked Bonds” are bonds whose principal is indexed to inflation.

“Issuer” is the issuing entity of the respective bond.

“Last Evaluated Price” generally is (aside from the rules referred to in “Extraordinary Events”) the last available Evaluated Mid Price.

“Paid Cash” is either the value of the coupon payments between Adjustment Days or the resulting payment when a bond is removed from the index between Adjustment Days. On the next Adjustment Day “Paid Cash” will be reinvested in the index.

“Selection Day” is a Business Day 7 Business Days prior to the Adjustment Day.

“Tender Offer” means that a holder of a bond is invited to tender the bond for a specific price at a specific time before the actual maturity date.

A **“Total Return Index”** measures the performance of the index components by assuming that all distributions are reinvested into the index, i.e. the index does not only reflect pure price movements.

5 Appendix

5.1 Contact data

Information regarding the Solactive Australian Investment Grade Corporate Bond Select TR Index concept

Solactive AG
Guiollettstr. 54
60325 Frankfurt am Main
Tel.: +49 69 9760 955 00
Fax: +49 69 9760 955 25
indexing@solactive.com

5.2 Calculation of the Index – change in calculation method

The application by the index calculator of the method described in this document is final and binding. The index calculator shall apply the method described above for the composition and calculation of the index. However, it cannot be excluded that the market environment, supervisory, legal, financial or tax reasons may require changes to be made to this method. The index calculator may also make changes to the terms and conditions of the index and the method applied to calculate the index, which he deems to be necessary and desirable in order to prevent obvious or demonstrable error or to remedy, correct or supplement incorrect terms and conditions. The index calculator is not obliged to provide information on any such modifications or changes. The Index calculator will make announcements regarding the amendment of the index guideline. Despite the modifications and changes the index calculator will take the appropriate steps to ensure a calculation method is applied that is consistent with the method described above.