

Bloomberg Australian Enhanced Yield Composite Bond Index

The Bloomberg Australian Enhanced Yield Composite Bond Index is an optimized benchmark designed to provide a higher yield than the parent index, the Bloomberg Australian Aggregate 100mn Index. Yield can typically be increased by shifting exposure along a number of different risk dimensions, including sovereign, interest rate risk (i.e., duration) and credit risk (e.g. spread). The index uses a rules-based approach to reweight the sub-components of the parent index such that yield is maximized – subject to certain constraints – while the risk characteristics are broadly preserved. The index was launched in August 2021, with history backfilled to August 2011.

Rules for Inclusion

Currency	Principal and coupon must be denominated in AUD.
Quality	<p>Securities must be rated investment grade (Baa3/BBB-/BBB- or higher) using the middle rating of Moody's, S&P and Fitch; when a rating from only two agencies is available, the lower is used; when only one agency rates a bond, that rating is used. In cases where explicit bond-level ratings may not be available, other sources may be used to classify securities by credit quality:</p> <ul style="list-style-type: none"> Local currency treasury and hard currency sovereign issues are classified using the middle issuer-level local currency and hard currency debt ratings from each agency for all outstanding bonds, even if bond-level ratings are available. Expected ratings at issuance may be used to ensure timely index inclusion or to classify split-rated issuers properly. Unrated securities may use an issuer rating for index classification purposes, if available. Unrated subordinated securities are included if a subordinated issuer rating is available.
Coupon	<ul style="list-style-type: none"> Fixed-rate coupon. Callable fixed-to-floating rate bonds are eligible during their fixed-rate term only. Bonds with a step-up coupon that changes according to a predetermined schedule are eligible.
Amount Outstanding	<ul style="list-style-type: none"> AUD100mn minimum par amount outstanding for domestic issues. AUD300mn minimum par amount outstanding for global issues. To be eligible for the Asian-Pacific and Global Aggregate Indices, securities must have 300mn par outstanding.
Maturity	<ul style="list-style-type: none"> No minimum maturity. To be eligible for the Asian-Pacific and Global Aggregate Indices, securities must have at least one year until final maturity, regardless of optionality. Bonds that convert from fixed to floating rate, including fixed-to-float perpetuals, will exist the index one year prior to conversion to floating rate. Fixed-rate perpetuals are not included. Sub-indices based on maturity are inclusive of lower bounds.
Seniority of Debt	Senior and subordinated issues are included.
Market of Issue	<ul style="list-style-type: none"> For securities with at least AUD300mn outstanding, publicly issued global and domestic issues are eligible. For securities with AUD100mn-AUD300mn outstanding, only publicly issued domestic issues are eligible.
Taxability	Only fully taxable issues are eligible.

Security Types

Included

- Bullet, puttable, sinkable/amortizing and callable bonds
- Original issue zero coupon bonds
- Fixed-rate and fixed-to-float capital securities

Excluded

- Contingent capital securities including traditional CoCos and contingent write-down securities, with explicit capital ratio or solvency/balance sheet-based trigger
- Bonds with equity type features (e.g., warrants, convertibles, preferreds, DRD/QDI-eligible issues)
- Inflation-linked bonds, floating-rate issues
- Fixed-rate perpetuials
- Private placements, retail bonds
- Structured notes, pass-through certificates
- Illiquid securities where reliable pricing is unavailable

Optimization Constraints and Calculations**Overview**

The Bloomberg PORT Optimizer is used to select and weight each sub component in the index. The objective of the optimization is to maximize yield to worst.

Sub Components

- Australian Aggregate 100mn Government 1-5 Year
- Australian Aggregate 100mn Government 5-7 Year
- Australian Aggregate 100mn Government 7-10 Year
- Australian Aggregate 100mn Government 10+ Year
- Australian Aggregate 100mn Non-Government 1-5 Year
- Australian Aggregate 100mn Non-Government 5-7 Year
- Australian Aggregate 100mn Non-Government 7-10 Year
- Australian Aggregate 100mn Non-Government 10+ Year

Constraints

- OAD (option-adjusted-duration) must be within 1 years of the parent index.
- Contribution to OAD from the Government sub components must be within 50-85%.
- Sum of Government components must be between 40-75% of the overall index.
- Minimum weight of each sub component must be at least 5%. This constraint was relaxed during the backtest for Australian Aggregate 100mn Non-Government 10+ Year due to the lack of bonds.
- Active total risk, as calculated by the Bloomberg multi-factor fixed income risk model, must be within 2% of the parent index. This is an annualized measure.

Turnover

Turnover is calculated as two-way turnover: buys and sells.

The optimizer sets a 5% turnover constraint each month; this turnover constraint is increased by 0.5% if the optimizer is unable to find a feasible result.

Rebalancing Rules

Frequency	For each index, Bloomberg maintains two universes of securities: the Returns (Backward) and the Projected (Forward) Universes. The composition of the Returns Universe is rebalanced at each month-end and represents the fixed set of bonds on which index returns are calculated. The Projected Universe is a forward-looking projection that changes daily to reflect issues dropping out of and entering the index but is not used for return calculations. On the last business day of the month (the rebalancing date), the composition of the latest Projected Universe becomes the Returns Universe for the following month.
Index Changes	During the month, indicative changes to securities (credit rating change, sector reclassification, amount outstanding changes, corporate actions, ticker changes, etc.) are reflected daily in both the Projected and Returns Universe of the index. These changes may cause bonds to enter or fall out of the Projected Universe of the index on a daily basis, but will affect the composition of the Returns Universe at month-end only, when the index is next rebalanced.
Reinvestment of Cash Flows	Intra-month cash flows from interest and principal payments contribute to monthly index returns but are not reinvested at a short-term reinvestment rate between rebalance dates. At each rebalancing, cash is effectively reinvested into the Returns Universe for the following month so that index results over two or more months reflect monthly compounding.
New Issues	Qualifying securities issued, but not necessarily settled on or before the month-end rebalancing date, qualify for inclusion in the following month's index if required security reference information and pricing are readily available.

Pricing and Related Issues

Sources & Frequency	All bonds in the index are priced daily using Bloomberg's evaluated pricing service, BVAL.
Pricing Quotes	Bonds are quoted as a percentage of par.
Timing	<ul style="list-style-type: none"> • Sydney 5 pm. • If the last business day of the month is a public holiday in a major regional market, prices from the previous business day are used to price bonds in the particular market.
Bid or Offer Side	Bonds in the index are priced on the bid side.
Settlement Assumptions	T+1 calendar day settlement basis. At month-end, settlement is assumed to be the first day of the following month, even if the last business day is not the last day of the month, to allow for one full month of accrued interest to be calculated.
Verification	Daily price moves for each security are analyzed by the index pricing team. Index users may also challenge price levels, which are then reviewed and updated as needed using input from various sources.
Currency Hedging	Returns hedged to various currencies are published for the index. The FX hedging methodology takes rolling one-month forward contracts that are reset at the end of each month and hedges each non-reporting currency denominated bond in the index into the reporting currency terms. No adjustment is made to the hedge during the month to account for price movements of constituent securities in the returns universe of the index.
Calendar	The index follows the Australian bond market holiday schedule.

Accessing Index Data

Bloomberg Terminal®	<p>Bloomberg benchmarks are the global standard for capital markets investors.</p> <ul style="list-style-type: none"> ● INDE<GO> - The Bloomberg Indices dashboard page, which contains daily, monthly, and year-to-date index returns for key indices from each index family as well as a link to index publications. ● IN<GO> - The Bloomberg Index Browser displays the latest performance results and statistics for the indices as well as history. IN presents the indices that make up Bloomberg's global, multi-asset class index families into a hierarchical view, facilitating navigation and comparisons. The "My Indices" tab allows a user to focus on a set of favorite indices. ● DES<GO> - The index description page provides transparency into an individual index including membership information, aggregated characteristics and returns, and historical performance. ● INP<GO> - The Bloomberg Indices Publications page, which includes methodologies, factsheets, monthly reports, announcements and technical notes. A user may also subscribe to index publications via the "Actions" button. ● PORT<GO> - Bloomberg's Portfolio & Risk Analytics solution includes tools to analyze the risk, return, and current structure of indices. Analyze the performance of a portfolio versus a benchmark or use models for performance attribution, tracking error analysis, value-at-risk, scenario analysis, and optimization.
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