

Bloomberg Australian Enhanced Yield Composite Bond Index

This document is intended to be read in conjunction with the [Bloomberg Australian Aggregate 100mn Index](#); these documents collectively constitute the index methodology for this Index.

The Bloomberg Australian Enhanced Yield Composite Bond Index is an optimized benchmark designed to provide a higher yield than the Bloomberg Australian Aggregate 100mn Index ("Parent Index"). Yield is optimized by tilting exposure based on 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.

The features specific to this Index are set out below.

| | |
|-----------------------------------|---|
| Index ID | I36601 |
| Base Currency Index Ticker | I36601AU Index: Total Return AUD Unhedged |

Eligibility Requirements:

| | |
|---------------------------------------|--|
| Currency | Principal and coupon must be denominated in AUD |
| Credit Rating | <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. <p>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.</p> |
| Minimum 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"> 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. |
| Minimum Liquidity Requirements | See Minimum Amount Outstanding specified above |

| | | | |
|--|--|--|---|
| Coupon Types | <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 | | |
| 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. | | |
| Seniority of Debt | Senior and subordinated issues are included. | | |
| Security Types | <table border="0" style="width: 100%;"> <tr> <td style="vertical-align: top;"> <p>Included</p> <ul style="list-style-type: none"> • Bullet, puttable, sinkable/amortizing and callable bonds • Original issue zero coupon bonds • Fixed-rate and fixed-to-float capital securities </td> <td style="vertical-align: top;"> <p>Excluded</p> <ul style="list-style-type: none"> • 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 perpetuals • Private placements, retail bonds • Structured notes, pass-through certificates • Illiquid securities where reliable pricing is unavailable </td> </tr> </table> | <p>Included</p> <ul style="list-style-type: none"> • Bullet, puttable, sinkable/amortizing and callable bonds • Original issue zero coupon bonds • Fixed-rate and fixed-to-float capital securities | <p>Excluded</p> <ul style="list-style-type: none"> • 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 perpetuals • Private placements, retail bonds • Structured notes, pass-through certificates • Illiquid securities where reliable pricing is unavailable |
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| Date | Monthly on the fifth last business day | | |

Optimization Constraints and Calculations

Overview

- All qualifying securities are selected from the Bloomberg Australian Aggregate 100mn Index ("Parent Index").
- An optimizer is used, as described in the Bloomberg Fixed Income Optimization Methodology Supplement, to weight each Constituent in the Index.
 - The optimizer runs once per month to calculate notional positions of each Constituent
 - This process will not impact bond prices and other security-level analytics

Determination Date

The fifth last business day of each month

Government Ticker List

The "Government" sub-sector group consists of bonds with the following issuer tickers: NSWTC, NTTC, TCV, QTC, TASCOR, WATC, SAFA, AUSCAP, ACGB

Groups

Each bond in the Parent Index is placed into a Sub-Sector group and a Sub-Component group

| Sub-Sector Group | Condition |
|------------------|---|
| Government | If security Ticker is in the Government Ticker List |
| Non-Government | Otherwise (not in the Government Sub-Sector Group) |

| Sub-Component Group | Condition |
|---------------------------|--|
| Government 1-5 Years | If $1 \leq \text{Years to Maturity EOM} < 5$ and in Government Sub-Sector |
| Government 5-7 Years | If $5 \leq \text{Years to Maturity EOM} < 7$ and in Government Sub-Sector |
| Government 7-10 Years | If $7 \leq \text{Years to Maturity EOM} < 10$ and in Government Sub-Sector |
| Government 10+ Years | If $\text{Years to Maturity EOM} \geq 10$ and in Government Sub-Sector |
| Non-Government 1-5 Years | If $1 \leq \text{Years to Maturity EOM} < 5$ and in Non-Government Sub-Sector |
| Non-Government 5-7 Years | If $5 \leq \text{Years to Maturity EOM} < 7$ and in Non-Government Sub-Sector |
| Non-Government 7-10 Years | If $7 \leq \text{Years to Maturity EOM} < 10$ and in Non-Government Sub-Sector |
| Non-Government 10+ Years | If $\text{Years to Maturity EOM} \geq 10$ and in Non-Government Sub-Sector |
| All Less Than 1 Year | Otherwise (not in any other Sub-Component Group) |

Derived Risk Exposures

The following derived risk exposures are defined:

| Derived Risk Exposure | Definition |
|----------------------------------|---|
| OAD Govt Contribution | The proportion of the OAD Risk Exposure of the Parent Index that is attributed to the Government sub-sector. Calculated as the weighted sum of the OAD Risk Exposure of the securities in the Government sub-sector, divided by the weighted sum of the OAD Risk Exposure of all securities in the Parent Index |
| OAD Govt Contribution -40% Bound | For each security in the Government sub-sector: $\left(\frac{1}{\text{OAD Govt Contribution} - 0.4} - 1 \right) \times \text{OAD}$ Otherwise: $-\text{OAD}$ |
| OAD Govt Contribution +40% Bound | For each security in the Government sub-sector: $\left(\frac{1}{\text{OAD Govt Contribution} + 0.4} - 1 \right) \times \text{OAD}$ Otherwise: $-\text{OAD}$ |

Objective Function

Risk Factor Exposure: Yield To Worst

The optimizer seeks to maximize the Yield To Worst weighted exposure of the Index

The Weight Bounds define the maximum and minimum weight that can be assigned to each Constituent. Unless otherwise specified for the Index, the Upper and Lower Weight Bounds are set with respect to Determination Date d for each Constituent i as follows:

Weight Bounds

If Constituent i is an Excluded Constituent:

$$\begin{aligned} ub_d^i &= 0\% \\ lb_d^i &= 0\% \end{aligned}$$

Else:

$$\begin{aligned} ub_d^i &= 100\% \\ lb_d^i &= 0\% \end{aligned}$$

Where:

ub_d^i and lb_d^i mean the Upper and Lower Weight Bounds respectively for Constituent i .

Optimization Constraints

| Constraint | Parameter | Value |
|---|------------------------|--------------------------------------|
| Budget <i>Weights add up to 100%</i> | Benchmark | Parent Index |
| | Constraint Type | Group Risk Exposure - Absolute |
| | Risk Exposure | Equal to 1 |
| | Groups | One Group - All Constituents |
| | Selection | Excluding |
| | Exclude | n/a |
| | Lower | 100% |
| | Upper | 100% |
| | Min | $-\infty$ |
| | Max | ∞ |
| Sub-Component Exposure <i>The Exposure to each sub-component that contains securities with 1Y or more to maturity must be 5% or greater (the Non-Government 10+ Years Sub-component is excluded prior to July 2020)</i> | Benchmark | Parent Index |
| | Constraint Type | Group Risk Exposure - Absolute |
| | Risk Exposure | Equal to 1 |
| | Groups | Sub-Component |
| | Selection | Excluding |
| | Exclude | All Less Than 1 Year |
| | Upper | 100% |
| Sub-Component Under 1Y <i>All securities with less than one year to maturity should have a zero weight</i> | Benchmark | Parent Index |
| | Constraint Type | Group Risk Exposure - Absolute |
| | Risk Exposure | Equal to 1 |
| | Groups | Sub-Component |
| | Selection | Including |
| | Include | All Less Than 1 Year |
| | Upper | 0% |
| Govt Sub-Sector Exposure <i>Exposure to the Government sub-sector should be within 40% of the Parent Index</i> | Benchmark | Parent Index |
| | Constraint Type | Group Risk Exposure - Relative Value |
| | Risk Exposure | Equal to 1 |
| | Groups | Sub-Sector |
| | Selection | Including |
| | Include | Government |
| | Lower | 40% |
| | Upper | 40% |
| | Min | $-\infty$ |
| Max | ∞ | |
| Option Adjusted Duration (OAD) <i>OAD must be within 1 year of the OAD of the Parent Index</i> | Benchmark | Parent Index |
| | Constraint Type | Group Risk Exposure - Relative Value |
| | Risk Exposure | OAD |

| | | |
|--|------------------------|--------------------------------------|
| | Groups | One Group - All Constituents |
| | Selection | Excluding |
| | Exclude | n/a |
| | Lower | -1 |
| | Upper | 1 |
| | Min | 0 |
| | Max | ∞ |
| OAD Govt Contribution Lower | Benchmark | Parent Index |
| <i>OAD contribution from the Government sub-sector must be greater than the OAD contribution in the Parent Index - 40%</i> | Constraint Type | Group Risk Exposure - Absolute |
| | Risk Exposure | OAD Govt Contribution -40% Bound |
| | Groups | One Group - All Constituents |
| | Selection | Excluding |
| | Exclude | n/a |
| | Lower | 0 |
| | Upper | ∞ |
| OAD Govt Contribution Upper | Benchmark | Parent Index |
| <i>OAD contribution from the Government sub-sector must be lower than the OAD contribution in the Parent Index + 40%</i> | Constraint Type | Group Risk Exposure - Absolute |
| | Risk Exposure | OAD Govt Contribution +40% Bound |
| | Groups | One Group - All Constituents |
| | Selection | Excluding |
| | Exclude | n/a |
| | Lower | $-\infty$ |
| | Upper | 0 |
| OASD Non-Govt Contribution | Benchmark | Parent Index |
| <i>OASD contribution from the Non-Government sub-sector should be within 3 years of the Parent Index</i> | Constraint Type | Group Risk Exposure - Relative Value |
| | Risk Exposure | OASD |
| | Groups | Sub-Sector |
| | Selection | Including |
| | Include | Non-Government |
| | Lower | -3 |
| | Upper | 3 |
| | Min | 0 |
| | Max | ∞ |
| Sub-Component Scaling | Benchmark | Screened Parent Index |
| <i>Constituent weights relative to the Screened Parent Index must be equal to overall sub-component exposure relative to the Screened Parent Index</i> | Constraint Type | Group Risk Exposure - Group Scaling |
| | Risk Exposure | Sub-Component Scale Factor |
| | Groups | Sub-Component |
| | Selection | Excluding |
| | Exclude | n/a |
| | Lower | 0% |
| | Upper | 0% |
| | Min | $-\infty$ |
| | Max | ∞ |
| Turnover From Current | Benchmark | Parent Index |
| | Constraint Type | Turnover - Absolute |
| | Max | 5% |

Constraint Relaxation Process

If no solution is found for the Optimization Problem, each of the Constraints shown in this section is either **(1)** iteratively relaxed or **(2)** entirely excluded - in order of appearance under 'List and Sequence of Eligible Constraints' - until either a solution is found or the relaxation process is exhausted.

The process will start with Constraint Country Exposure. On each iteration of the Constraint Relaxation Process, only one Constraint will be addressed at a time.

If a Constraint is deemed to be excluded, it will be removed from the Optimization Problem and an attempt to solve the Optimization Problem is performed. If no solution is found the Constraint Relaxation Process will continue with the next Constraint included in 'List and Sequence of Eligible Constraints'.

List and Sequence of Eligible Constraints

| Constraint | Type | Excluded or Relaxed |
|------------------------------|----------|---------------------|
| Turnover from Current | Turnover | Relaxed |

Constraints to be Relaxed

On each iteration, all the relevant Constraint Parameters for the Constraint being relaxed will be adjusted additively by the corresponding Additive Increment.

If the value of the relevant Constraint Parameters is less than or equal to its corresponding 'Limit', then an attempt to solve the Optimization Problem is performed. Otherwise, the Constraint Parameter is set to equal the corresponding 'Limit' and an attempt to solve the Optimization Problem is performed.

The relaxation process on a Constraint completes when either a solution is found, or an attempt to solve the Optimization Problem with all the relevant Constraint Parameters set to their corresponding 'Limit' has been performed. If no solution is found the Constraint Relaxation Process will continue with the next Constraint included in 'List and Sequence of Eligible Constraints'.

The relaxation process completes when either a solution is found, or an attempt to solve the Optimization Problem with the Turnover Constraint Parameter 'Max' set the 'Limit' has been performed.

| Constraint | Parameter | Additive Increment, Limit |
|------------------------------|------------|---------------------------|
| Turnover From Current | Max | +0.5%,25% |

Document Version History

| Date | Update |
|-------------|---|
| August 2024 | Update of the Optimization Constraints. Please below for previous optimization constraints. |
| August 2021 | First publication |

Optimization Constraints and Calculations (Discontinued on August 27, 2024)**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.

Environmental, Social and Governance (ESG) Disclosures

This Index does not take into account any ESG factors or pursue any ESG objectives. Please refer to the [Bloomberg Fixed Income Methodology](#) for ESG disclosures.

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