

# **MSCI CORPORATE BOND INDEXES METHODOLOGY**

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## 1 General Methodology Overview

MSCI Corporate Bond Indexes aim to serve as a measure of performance of the credit markets. The indexes are designed to represent relative performance at various levels of the investment process.

The MSCI Corporate Bond Indexes conform to a general construction guideline as described in this methodology. They are rules based with consideration to the following factors:

- Size
- Maturity
- Credit Rating

The indexes are designed to be replicable irrespective of the institutional investor's domicile.

## 2 Index Construction

### 2.1 General guidelines

**Security Type:** The MSCI Corporate Bond Indexes include securities selected from the global credit universe. In general, the universe includes all bullet, callable, and puttable fixed rate coupon bonds. Issues with tax-advantages, index-linked and perpetual bonds are excluded. In terms of capital structure, only senior secured, senior unsecured and subordinated (both junior and senior) debt are included. Capital securities, such as preferred stock, are not eligible to be part of the index.

Note that inclusion and exclusion based on security types may vary across currencies and credit rating buckets.

**Credit Rating:** Each index constituent must be rated by either by S&P or Moody’s. For bonds that are rated by both S&P and Moody’s, the lower rating will be used to determine the index inclusion criteria.

The table below summarizes higher and lower rating thresholds for MSCI Investment Grade (IG) Corporate Bond Indexes and MSCI High Yield (HY) Corporate Bond Indexes.

	S&P Rating		Moody’s Rating	
	Higher Rating Threshold	Lower Rating Threshold	Higher Rating Threshold	Lower Rating Threshold
<b>IG</b>	AAA	BBB-	Aaa	Baa3
<b>HY</b>	BB+	CC	Ba1	Ca2

**Issuer Country of Domicile:** Securities included in the MSCI Corporate Bond Indexes must belong to issuers domiciled in the Developed Market universe as per MSCI Market Classification<sup>1</sup>.

**Maturity:** Each index constituent must have a maturity greater than or equal to 1 year as measured from the Rebalancing Date (defined below). New additions to the index

<sup>1</sup> As per MSCI Global Investable Market Indexes (GIMI) Methodology. Please see Appendix I for the list of countries

must have a maturity greater than or equal to 1 ½ years as measured from the Rebalancing Date.

**Corporate Event:** New additions to the index must not have any known corporate events which will result in notional amount outstanding of the bond falling below the minimum bond size criteria over the next 1 month as measured from the Rebalancing Date.

**Weighting:** MSCI Corporate Bond Indexes are issuance weighted indexes. Index constituents will be weighted by market value<sup>2</sup> within the index.

**Pricing:** MSCI uses bid side pricing from data vendors. Securities included in the index are priced to par. Securities not priced by the designated pricing source are ineligible for index inclusion.

**Settlement:** MSCI applies standard same-day (T+0) index settlement convention, unless otherwise specified.

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<sup>2</sup> Please refer to MSCI Fixed Income Index calculation methodology for further details on calculation of market value.

## 2.2 MSCI USD Corporate Bond Indexes

MSCI USD Corporate Bond Indexes include corporate debt denominated in the USD currency. Security types eligible and ineligible for index inclusion are tabulated below.

Eligible Security Types	Ineligible Security Types
Corporate Debt only <sup>3</sup>	Floating Rate Coupon Bonds
Senior and Subordinated Issues	Zero Coupon Bonds
Puttable and Callable Bonds	Inflation Protected Bonds
Bullet Bonds	Perpetual Bonds
Bonds with Step-up / Step-down Coupons	Bonds with sinking fund provision
144a bonds <sup>4</sup>	PIKs
Fixed to Floating Rate Bonds are eligible for inclusion during their fixed rate term only. They are excluded 1 year prior to the conversion date as measured from the Rebalancing Date.	Private Placements
	Dual Currency
	Strippable Bonds (IO/PO)
	Hybrids (Convertibles / Preferred Shares / Warrants etc.)

**Size:** MSCI calibrates and determines size-based index inclusion criteria to balance representativeness and liquidity in each credit universe.

At a security level size is determined by its notional amount outstanding, whereas at an issuer level size is determined by issuer's total amount outstanding<sup>5</sup>. Each security included in the MSCI USD Corporate Bond Indexes will have size greater than or equal to the thresholds tabulated below.

<sup>3</sup> Corporate issuers classified as government owned as per MSCI data vendors are excluded from the index

<sup>4</sup> MSCI Investment Grade (IG) Corporate Bond Indexes only include 144a bonds with registration rights, whereas MSCI High Yield (HY) Corporate Bond Indexes include both, 144a bonds with registration rights and 144a bonds without registration rights

<sup>5</sup> Please refer to MSCI Fixed Income Data Methodology document for details on the calculation of Issuer amount outstanding

<b>Index</b>	<b>Security Size Threshold</b>	<b>Issuer Size Threshold</b>
MSCI USD IG Corporate Bond Index	USD 750 million	USD 2 billion
MSCI USD HY Corporate Bond Index	USD 200 million	-

## 2.3 MSCI EUR Corporate Bond Indexes

MSCI EUR Corporate Bond Indexes include corporate debt denominated in the EUR currency. Security types eligible and ineligible for index inclusion are tabulated below.

Eligible Security Types	Ineligible Security Types
Corporate Debt only	Floating Rate Coupon Bonds
Senior and Subordinated Issues	Zero Coupon Bonds
Puttable and Callable Bonds	Inflation Protected Bonds
Bullet Bonds	Perpetual Bonds
Bonds with Step-up / Step-down Coupons	Bonds with sinking fund provision
144a bonds	PIKs
Fixed to Floating Rate Bonds are eligible for inclusion during their fixed rate term only. They are excluded 1 year prior to the conversion date as measured from the Rebalancing Date.	Private Placements
	Dual Currency
	Strippable Bonds (IO/PO)
	Hybrids (Convertibles / Preferred Shares / Warrants etc.)

**Size:** MSCI calibrates and determines size-based index inclusion criteria to balance representativeness and liquidity in each credit universe.

At a security level size is determined by its notional amount outstanding. Each security included in the MSCI EUR Corporate Bond Indexes will have size greater than or equal to the thresholds tabulated below.

Index	Security Size Threshold	Issuer Size Threshold
MSCI EUR IG Corporate Bond Index	EUR 300 million	-
MSCI EUR HY Corporate Bond Index	EUR 150 million	-



### 3 Index Rebalancing & Maintenance

- The composition of the MSCI Corporate Bond Index is reviewed **monthly**, with Rebalancing Date being first business date of the month.
- Change in the index composition is based on latest data available as of three days prior to the Rebalancing Date, which is defined as the Cut-Off Date
- MSCI will announce proforma index rebalancing results as of the Cut-Off Date.
- Bonds are added to or deleted from the index only on monthly rebalancing dates, except in case of an exchange event<sup>6</sup>. For the existing index components any changes to index eligibility will only be reflected in the next monthly rebalancing.
- Any inclusion or exclusion criteria satisfied for a given security in the universe, after the Cut-Off Date, will generally become effective at the following monthly rebalancing; should conditions remain unchanged.
- Any cash that accrues within the index in a given month is re-invested on a pro-rata basis across the index constituents, on the Rebalancing Date. In essence, cash in the index is swept out on rebalancing and the opening index portfolio on the Rebalancing Date starts with zero accrued cash balance.
- Certain variants of total return calculation of the index on the Rebalancing Date may be adjusted for transaction cost<sup>7</sup> as securities are added to the index at the offer price.

For further information on index total return calculation and corporate events handling please refer to the MSCI Fixed Income Index Calculation Methodology. For the holiday calendar used in the indexes, please refer to the MSCI Fixed Income Data Methodology.<sup>8</sup>

MSCI leverages the GICS<sup>®9</sup> sector classification framework for MSCI Corporate Bond Indexes as well. Please refer to MSCI GICS Methodology<sup>10</sup> for details.

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<sup>6</sup> Refer to the MSCI Fixed Income Index Calculation Methodology for detail

<sup>7</sup> Refer to the MSCI Fixed Income Index Calculation Methodology for detail

<sup>8</sup> The methodologies are available at: <https://www.msci.com/index-methodology>

<sup>9</sup> GICS, the global industry classification standard, jointly developed by MSCI Inc. and S&P Global.

<sup>10</sup> The GICS methodology is available at: <https://www.msci.com/gics>

## Appendix I: MSCI Developed Market Universe

List of Developed Market Countries
Australia
Austria
Belgium
Canada
Denmark
Finland
France
Germany
Hong Kong
Ireland
Israel
Italy
Japan
Luxembourg <sup>11</sup>
Netherlands
New Zealand
Norway
Portugal
Singapore
Spain
Sweden
Switzerland
United Kingdom
United States of America

<sup>11</sup> Luxembourg is considered a part of the developed markets universe in both fixed income and equity. While it is included in the Fixed Income indexes, given the modest size of the market in equity, it is not included in the MSCI World Index.

The following sections have been modified since June 2020:

Section 2 Index Construction

- Realigned Sections 2.1 and 2.2. Section 2.1 now addresses general index construction guidelines followed by all MSCI Corporate Bond Indexes
- Section 2.2 addresses specific rules pertaining to the construction of MSCI USD Corporate Bond Indexes

Section 2.2 MSCI USD Corporate Bond Indexes

- Added a footnote on pg. 6 to clarify the inclusion criteria for government owned corporate entities.
- Added a footnote on pg. 6 to distinguish the rules for inclusion of 144a bonds between MSCI IG Corporate Bond Indexes and MSCI HY Corporate Bond Indexes.
- Removed the exclusion of bonds with equity clawback provision.
- On pg. 7 added the amount outstanding cutoff used in the construction of MSCI USD HY Corporate Bond Indexes.

Appendix

- Added list of developed market countries in Appendix I
- Added change log for the methodology book in Appendix II

The following sections have been modified since July 2020:

Added Section 2.3 for MSCI EUR Corporate Bond Indexes

Amended Appendix I: MSCI Developed Market Universe

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