VettaFi IG Enhanced Yield Indices

VettaFi US IG Enhanced Yield Index • VettaFi EU IG Enhanced Yield Index

Introduction

Index Objective

The VettaFi IG Enhanced Yield Index suite seeks to deliver consistent yield and total return outperformance relative to its underlying investment grade corporate benchmarks. Incremental return is generated through a systematic relative value screen. At each annual reconstitution the index selects issuers whose credit spreads are wide relative to peers of the same rating quality. The index preserves the sector and rating profile of the benchmark and matches its duration. The index takes no view on the direction of interest rates or on aggregate credit quality. Its return objective is pursued entirely through issuer selection within rating groups.

The suite currently encompasses two strategies.

- A US investment grade version benchmarked to the VettaFi US IG Corporate Index.
- A European investment grade version benchmarked to the VettaFi EU IG Corporate Index.

Index Construction

Universe

Eligible bonds are drawn from the VettaFi US IG Corporate Index for the US strategy and the VettaFi EU IG Corporate Index for the EU strategy. At each reconstitution the screening universe is the benchmark membership taking effect for the coming period, observed at the reconstitution date. All bonds eligible for inclusion in the respective base index are eligible for consideration.

Issuer Definition

The unit of selection is the issuer, defined at the credit family level and identified by the reference data ticker. All legal entities of a corporate family are treated as a single issuer for selection, capping and weighting purposes. This includes parent companies, financing subsidiaries and acquired entities that the reference data provider maps to the family ticker. Entity level issuer identifiers are monitored at each reconstitution. If the reference feed splits one family across more than one ticker, the bonds are grouped under the family ticker with the largest face amount before selection. An issuer keeps its incumbency status when its ticker changes.

Value Signal

Each issuer's spread is measured as the market value weighted option adjusted spread across all of its bonds in the screening universe. Issuers are grouped into rating cohorts by the issuer's index rating. Each cohort's reference level is the simple average issuer spread across the candidate pool. The candidate pool is the set of largest eligible issuers by face amount, up to two times the target issuer count. Issuers without an investment grade rating cohort or without a usable spread are excluded from selection.

Dynamic Value Floor

To qualify, an issuer must pay at least a minimum multiple of its own cohort's average spread.

Issuer OAS must be at least Floor × Cohort average OAS

The floor multiplier adjusts with market conditions. The market condition measure is the market value weighted OAS difference between BBB rated and A rated bonds of the screening universe, referred to as the BBB minus A spread. The floor sits at its minimum when the spread is at or below the lower calibration bound. It rises in a straight line and reaches its maximum at or above the upper bound. In compressed markets the relative bar eases. In dislocated markets the screen demands genuine outliers.

The calibration bounds differ between the US and EU versions because each market has its own spread history. In each region the bounds are set at approximately the 10th and 90th percentiles of that market's own BBB minus A spread history. This anchors the floor to observed market behavior rather than chosen round numbers. The floor sits at its minimum only in the most compressed markets each region has produced and reaches its maximum only in genuine dislocations.

Exclusion Guards

Two guards apply on top of the floor. They apply to new entrants only.

- Spread ceiling. Issuers in the widest tail of the eligible universe are excluded. Spreads in the extreme tail mainly reflect issuer specific distress rather than harvestable value.
- Depth bound. Selection is limited to issuers within the depth percentile of cumulative universe market value, ordered largest first. This restricts the index to the tradeable core of the market.

Incumbency

Existing constituents are treated as follows at each annual reconstitution.

- Incumbents are exempt from the spread ceiling and the depth bound. An incumbent is never exempt from the value floor. A constituent that no longer pays the required multiple of its cohort average exits the index.
- Incumbents receive selection queue priority equal to the full issuer count, so qualifying incumbents are considered before new entrants of comparable size. This materially reduces reconstitution turnover without weakening the value discipline.

Sector and Rating Budgets

The index preserves the benchmark's composition through issuer count budgets. For each rating notch and for each parent sector, the number of index issuers may not exceed the benchmark's market value share of that notch or sector, multiplied by the target issuer count and scaled by the overage factor, rounded to the nearest integer. Budgets are computed on the full screening universe at each reconstitution.

Issuer Selection

Eligible issuers are ranked by face amount outstanding, largest first, with incumbency priority applied. The selection walks the ranking one seat at a time. An issuer is seated only if both its rating notch budget and its sector budget have remaining capacity. Otherwise it is passed over and the walk continues until the target issuer count is reached or eligibility is exhausted. If fewer issuers qualify than the target count, the index holds the qualifying issuers only. Selection is fully deterministic. The ranking and the budgets decide every seat.

Bond Pricing

The VettaFi IG Enhanced Yield Indices are calculated each trading day using bid pricing sourced from ICE Data Services.

Constituent Weightings

Selected issuers are equal weighted at each reconstitution. Each issuer receives a weight of one divided by the number of selected issuers. Within each issuer, bond weights start in proportion to bond market value using dirty prices. A duration matching procedure then adjusts bond weights within issuers. Weight shifts toward longer or shorter duration bonds in small multiplicative steps, and issuer totals are preserved at every step. The procedure runs until the index's weighted modified duration is within the duration tolerance of the screening universe's market value weighted duration. The index therefore carries the benchmark's duration by construction. No yield target is applied and there is no per bond weight cap. Bond weights remain anchored to market value proportions, adjusted only by the duration matching steps.

Index Maintenance

Annual Reconstitution (June)

The index is reconstituted annually each June. At reconstitution the issuer set is fully refreshed. The screening universe is profiled, sector and rating budgets are computed, the value signal and dynamic floor are evaluated, and issuers are selected as described above. All selected issuers are reset to equal weight and the duration matching procedure is run.

Monthly Rebalance

The issuer set is fixed between annual reconstitutions. At each monthly rebalance the following steps apply.

- Bonds are added or dropped within the existing issuer set in accordance with the underlying base index eligibility rules.
- Issuer weights are carried forward from the prior month's closing book, marked at current prices. Carried weights are grouped under the issuer's current credit family identity.
- An issuer with no remaining eligible bonds carries no weight and is dropped from the index. No replacement issuer is added until the next annual reconstitution. Remaining issuer weights are rescaled to 100%.
- The duration matching procedure is re run within issuers against the current screening universe duration.

Parameters

The suite is governed by the following parameter values.

Parameter	US IG	EU IG
Target issuer count (N)	200	150
Sector and rating budget overage	1.25×	1.25×
Value floor minimum multiple	0.90×	0.85×
Value floor maximum multiple	1.05×	0.95×
BBB minus A calibration range (bps)	30 to 90	20 to 65
Spread ceiling (percentile of issuer spreads)	95th	95th
Depth bound (cumulative MV percentile)	95%	95%
Incumbency queue priority	N (200)	N (150)
Incumbent guard exemption (ceiling and depth)	Yes	Yes
Duration tolerance (years)	±0.02	±0.02
Duration step size	0.5%	0.5%
Candidate pool for cohort averages	2 × N	2 × N

Portfolio Constraints

- Index duration is matched to the screening universe's market value weighted duration within the duration tolerance at every rebalance.
- Sector and rating notch issuer counts are bounded by the benchmark proportional budgets at each reconstitution.
- The portfolio maintains an investment grade rating profile. Bonds downgraded below investment grade are retained until the next scheduled rebalance and removed at that time in accordance with base index rules.

Corporate Actions

Please refer to the Fixed Income Index Maintenance Policy document for information on Corporate Action processing.

Index Information

Index	Base Date	Base Value	Currency
VettaFi US IG Enhanced Yield Index	6/30/2006	100	USD
VettaFi EU IG Enhanced Yield Index	6/30/2006	100	EUR

The full index history is calculated under this methodology from each index's base date.

Methodology Updates and Changes

Date	Version	Previous	New

Supporting Documents

This methodology is meant to be read in conjunction with supporting documents providing greater detail with respect to the policies, procedures and calculations described herein. The main supplemental documents can be found in the Methodologies and Governance tabs on the Index Resources page.

- FI Index Maintenance Policy
- Index Governance
- Index Policies
- Methodology Policies
- Index Change and Consultation Policy

Index Calculation

Please refer to the Fixed Income Index Maintenance Policy document for information on index calculations.

Index Governance

The index is governed and managed by a VettaFi Index Committee for the purpose of meeting the goals of the index. For more information, please refer to the Index Governance document.

Index Policies

Please refer to the Index Policies document for information regarding Announcements, Holiday Schedules, Unexpected Exchange Closures, and Recalculation Policy.

Contact Information

For any questions regarding an index, please contact index.production@vettafi.com

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