Fixed Income Indices

VettaFi IG Enhanced Yield Indices

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

Introduction

Index Objective

The VettaFi 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 disciplined credit risk positioning — specifically, a systematic tilt toward BBB-rated issuers — while maintaining duration neutrality to the benchmark at each monthly rebalance.

The suite currently encompasses two strategies:

- US investment grade version benchmarked to the VettaFi US IG Corporate Index
- 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 (US strategy) and the VettaFi EU IG Corporate Index (EU strategy). All bonds that are eligible for inclusion in the respective base index are eligible for consideration.

Constituent Selection

At each annual reconstitution, the eligible universe is reduced to a maximum of 200 issuers. Issuers are selected to replicate the sector and rating characteristics of the base index as closely as possible, subject to the constraints described below.

Bond Pricing

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

Constituent Weightings

The index employs a two-tier weighting structure:

- At annual reconstitution, all selected issuers are equal weighted. For a 200-issuer index, this results in an initial weight of approximately 0.50% per issuer.
- Between annual reconstitutions, issuer-level weights float with market prices. At each monthly rebalance, bond weights within each issuer are re-optimized via the yield tilt procedure described below, while the issuer's overall portfolio weight is preserved.

Within each issuer, bond weights are tilted toward higher-yielding securities to achieve the index yield target. No single bond may exceed 50% of its issuer's total weight as a result of tilting, unless that bond's market capitalization already exceeds 50% of the issuer's total market capitalization prior to tilting.

Index Maintenance

Rebalancing and Reconstitution

Annual Reconstitution (June)

The index is reconstituted annually each June. At reconstitution, the issuer set is fully refreshed: the broad universe is screened, up to 200 issuers are selected subject to sector and rating constraints, and all selected issuers are reset to equal weight. The yield tilt optimization is run as part of the reconstitution process.

Monthly Rebalance

The issuer set is fixed between annual reconstitutions. At each monthly rebalance:

- Bonds are added or dropped within the existing issuer set in accordance with the underlying base index eligibility rules.
- If an issuer has no remaining eligible bonds, that issuer is dropped from the index. No replacement issuer is added until the next annual reconstitution.
- The yield tilt optimization is re-run to re-establish the yield target for the new month.
- Issuer-level weights reflect the prior month's closing weights, adjusted for price drift on surviving bonds.

Yield Target and Tilt

At each rebalance, the index targets a yield enhancement above the base index. The yield target is determined dynamically based on the prevailing BBB-A spread of the underlying benchmark, subject to a hard floor of 25 basis points and a hard ceiling of 100 basis points. The capture ratio applied to the prevailing spread varies across four market regimes:

Prevailing BBB-A Spread	Capture Ratio
≥ 100 bps	55%
60–99 bps	45%
30–59 bps	35%
< 30 bps	25%

Yield target = Base Index Yield + (Prevailing BBB-A Spread × Capture Ratio), subject to a minimum of 25 bps and a maximum of 100 bps above the base index yield.

The yield tilt adjusts bond weights within each issuer iteratively until the portfolio yield reaches the target, while keeping portfolio duration within the permitted band. The duration buffer widens as the yield target increases, providing the tilt with greater latitude to reach more ambitious yield targets:

Yield Target (above base)	Max Duration Extension
> 20 bps	0.30 years
10–20 bps	0.25 years
5–10 bps	0.20 years

≤ 5 bps	0.15 years

Portfolio Constraints

The following constraints are applied at each rebalance:

- Portfolio duration may not exceed the base index duration by more than the amount specified in the duration regime table above.
- Sector weights are constrained relative to the base index. Sector allocations at reconstitution are calibrated to the benchmark sector composition, subject to a configurable overage parameter.
- Rating composition: at reconstitution, BBB-rated issuers are capped at 65% of the portfolio
- The portfolio must maintain an investment grade rating profile. Bonds that are downgraded below investment grade are retained until the next scheduled rebalance and removed at that time.

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	Price Index	Total Return
VettaFi US IG Enhanced Yield Index	6/30/2006	100	TBD	TBD
VettaFi EU IG Enhanced Yield Index	6/30/2011	100	TBD	TBD

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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