



S&P/ASX Australian Fixed Interest Index Series Methodology

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Introduction

The S&P/ASX Australian Fixed Interest Index Series is a broad benchmark index family designed to measure the performance of the Australian bond market, which meets certain investability criteria. The series includes an Australian Bank Bill Index, which measures the performance of the Australian short-term money market. The series is designed for use by institutional investment managers, managed and superannuation funds, and professional advisors.

Partnership

Together with the S&P/ASX index family, the S&P/ASX 200 was launched in the Australian market in April 2000. The launch of these indices coincided with S&P Indices taking over the index business, formerly owned and managed by the Australian Securities Exchange (ASX).

Both S&P Indices and the ASX have a long history in servicing both debt and equity markets, domestically and globally. The introduction of the S&P/ASX Australian Fixed Interest Series complements the existing S&P/ASX equity series, providing a complete investable offering to investors across asset classes.

Index Family

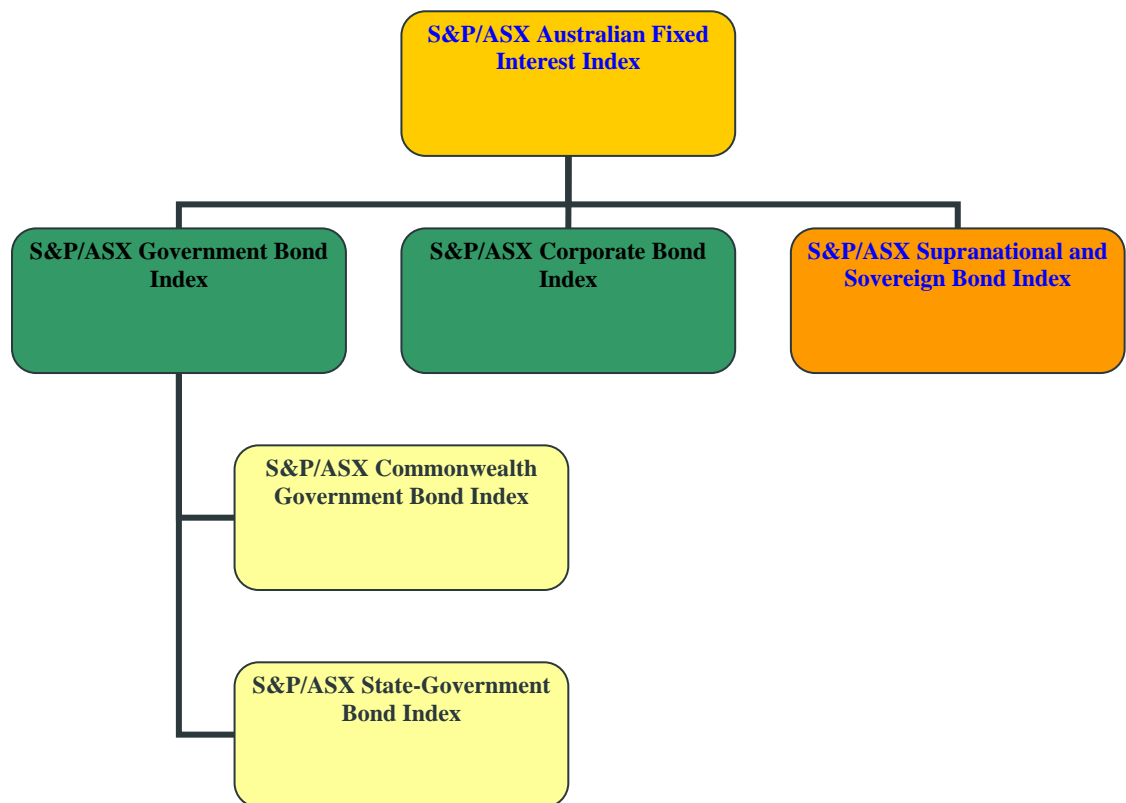
The S&P/ASX Australian Fixed Interest Index is the flagship bond index. The index measures the performance of the Australian fixed rate bond market. It is a broad, market value weighted benchmark split across investable investment grade, Australian dollar denominated bonds issued in the local market with maturities greater than one year. Indices are also offered across defined maturity buckets and sector level indices.

Maturity bucket indices include:

- 1 - 5 years
- 5 - 10 years
- 10 - 15 years
- 15+ years

Sector level indices include:

- S&P/ASX Government Bond Index
- S&P/ASX Commonwealth Government Bond Index
- S&P/ASX State-Government Bond Index
- S&P/ASX Corporate Bond Index
- S&P/ASX Supranational and Sovereign Bond Index



S&P/ASX Government Bond Index. Includes all securities in the Commonwealth Government Bond and the State Government Bond Indices.

S&P/ASX Commonwealth Government Bond Index. Comprised of bonds issued by the Australian Government (Treasury Bonds) which meet the criteria detailed below.

S&P/ASX State-Government Bond Index. Comprised of bonds issued by State Governments and Territories which meet the criteria detailed below.

S&P/ASX Corporate Bond Index. Comprised of bonds issued by Australian corporations and Kangaroo Bond issues which meet the criteria detailed below.

S&P/ASX Supranational and Sovereign Bond Index. Supranational bonds are defined as those issued by entities formed by two or more central governments to promote economic development for the member countries. For example, the World Bank, European Investment Bank and the Asian Development Bank. Sovereign bonds include sovereign guaranteed securities with an explicit government guarantee or support from the sovereign, principal or state governments which meet the criteria detailed below.

The S&P/ASX Australian Fixed Interest Index covers eligible bonds across the full range of maturities permissible within the methodology. There are also specific maturity buckets for the S&P/ASX Australian Fixed Interest Index:

- **The S&P/ASX Australian Fixed Interest 1 – 5 Year Index.** Includes all bonds in the S&P/ASX Australian Fixed Interest Index that mature in 1 year up to but not including 5 years from each monthly rebalancing.
- **The S&P/ASX Australian Fixed Interest 5 – 10 Year Index.** Includes all bonds in the S&P/ASX Australian Fixed Interest Index that mature in 5 years up to but not including 10 years from each monthly rebalancing.
- **The S&P/ASX Australian Fixed Interest 10 – 15 Year Index.** Includes all bonds in the S&P/ASX Australian Fixed Interest Index that mature in 10 years up to but not including 15 years from each monthly rebalancing.
- **The S&P/ASX Australian Fixed Interest 15 Year+ Index.** Includes all bonds in the S&P/ASX Australian Fixed Interest Index that mature 15 years and longer from each monthly rebalancing.

Eligibility Criteria

Eligible Issuers.

| Index | Issuer |
|--|---|
| S&P/ASX Australian Fixed Interest Index | Australian Commonwealth Government, Australian State Government, Australian Government-Backed Corporate Debt, Australian corporations, Kangaroo Bond issuers, Sovereign issuers, Supranational issuers, Foreign Agency issuers, and all other constituents of the component indices,. |
| S&P/ASX Government Bond Index | The issuer must be either the Australian Commonwealth Government or Australian State Government, Territories, and Semi-Government issuers. |
| S&P/ASX Corporate Bond Index | Australian corporations and Kangaroo Bond issues |
| S&P/ASX Supranational and Sovereign Bond Index | Sovereign issuers, Supranational issuers, Australian Government-Backed Corporate Debt, or Foreign Agencies |

Currency. Only Australian dollar denominated bonds that are issued in the Australian market are eligible.

Maturity. Each bond must have a maturity greater than or equal to one year from the last business day of the new month of inclusion. Bonds must be of bullet maturity with no embedded optionally (no callable or extendable structures).

Rating. Each S&P/ASX Australian Fixed Interest Index constituent must be rated by either Standard & Poor's or Moody's, or by a recognized Australian rating agency. If rated by an Australian rating agency it must have a retail rating and must adhere to the same investment grade standards. The minimum credit rating for inclusion is BBB-/Baa3. Thus, only investment-grade issues are included. For an issue rated by both Standard & Poor's and Moody's, the lower of the two ratings is used as the issue's credit rating.

Non-rated issues are not included in the S&P/ASX Australian Fixed Interest Indices except for "tapped" or reopened issues, which over the course of time will become fungible with issues that are already eligible for inclusion. For such issues, the rating requirement will be satisfied if the seasoned issue meets the requirement. For example, if a tapped issue is not rated by either Standard & Poor's or Moody's, it may still be

included in the S&P/ASX Bond Index if the seasoned issue into which it is fungible meets the eligibility criteria, even during the period before the tapped issue becomes exchangeable with the seasoned issue.

Pricing. Priced daily by Yieldbroker (prices based on institutional or round lot trade size).

Coupon. Only fixed rate, non-zero coupon bonds are eligible. Fixed rate bonds with step-up, extendable, or inflation linked coupons are excluded.

Collateral Types. Covered bonds, or bonds secured by mortgages, are excluded.

Bond Type. Fixed rate coupons only. Deferral option Callable and Extendable bonds are excluded.

Market of Issue. Only bonds issued in the Australian market and/or traded on the ASX are eligible. Bonds issued through private placements are excluded from the index.

Size. Minimum par of A\$ 100million or more at each rebalancing for each non-government bond and A\$ 250million for each Australian government and state government bond.

Reinvestment. Daily, fully invested in the index.

Timing of Changes

The S&P/ASX Australian Fixed Interest Index series is reviewed and rebalanced on a monthly basis.

Monthly Rebalancing. Based on new issuance, size and maturity, the bonds in the indices are subject to change every month, effective after the close of the last calendar day of the month.

Additions, deletions and other changes to the S&P/ASX Australian Fixed Interest Indices arising from the monthly rebalancings are published after the close of business three (3) Business Days prior to the last Business Day of the month (the Announcement Date). Any market events that affect the constituent membership after this date are made at the next rebalancing. Changes to the S&P/ASX Australian Fixed Interest Indices published in the announcement are not normally subject to revision and become effective after the close on the last Business Day of the month (the Rebalancing Date).

Index Construction

Index Calculations

The S&P/ASX Australian Fixed Interest Indices are market-value-weighted indices.

The total return is calculated by aggregating the interest return, reflecting the return due to paid and accrued interest, and price return, reflecting the gains or losses due to changes in the end-of-day price and principal repayments.

For further details regarding Index Calculations please refer to the Appendix.

Index Maintenance

The Index is maintained in accordance with the following rules:

- Eligible Bonds approved by the Index Committee are added to the relevant Index on the next Rebalancing Date, subject to the schedule of the monthly rebalancing procedures.
- Any Index Bond that fails to meet any one of the Eligibility Factors, or that has a term to maturity and/or call date less than or equal to 1 year plus 1 calendar day as of the next Rebalancing Date, is removed from the Index on that Rebalancing Date.
- Par Amounts of Index Bonds are adjusted on the Rebalancing Date to reflect any changes that have occurred since the previous Rebalancing Date, due to partial calls, tenders, etc. Similarly, changes to Par Amounts due to mandatory sinking fund payments and scheduled amortization payments are made effective after the Close on the payment date.
- Any Index Bond that is downgraded below investment grade between Rebalancing Dates is removed at the next Rebalancing Date.
- Where an Index Bond is in default or misses an interest payment, the price reported by our primary data vendor is used. However, the Index Committee may determine that the bond be removed from the Index at a different price and may specify a price of \$0.00. The decision of the Index Committee is final.

Rebalancing

The S&P/ASX Australian Fixed Interest Index Series is reviewed and rebalanced on a monthly basis. The Index Committee, nevertheless, reserves the right to make adjustments to the Index at any time that it believes appropriate.

Pro-forma additions, deletions and other changes to the Index arising from the monthly rebalancing are published, after the close of business, no earlier than three (3) Business Days prior to the last Business Day of the month. These may be subject to change. Final additions, deletions and other changes to the Index arising from the monthly rebalancing are published one (1) Business Day prior to the last Business Day of the month (the Announcement Dates).

Changes become effective after the Close on the last Business Day of the month (the Rebalancing Date).

Publicly available information, up to and including the Close on the Business Day preceding the rebalancing date (the Reference Date), is considered in the final rebalancing.

Base Date

The S&P/ASX Australian Fixed Interest Indices base date is May 31, 2011. The base value on that date is 100. The start date for the S&P/ASX Australian Fixed Interest Indices is December 31, 2004.

Index Governance

Index Committee

The S&P/ASX Index Committee maintains the Index. All members of the Committee are full-time professionals at S&P Indices and the ASX. Meetings are held whenever deemed appropriate.

The Committee oversees the day-to-day management of the Index, including the monthly rebalancing, determinations of intra-rebalancing changes to the Index, and maintenance and inclusion policies, including additions or deletions of bonds and other matters affecting the maintenance and calculation of the Index.

In fulfilling its responsibilities, the Committee has full and complete discretion to (i) amend, apply, or exempt the application of Index rules and policies as circumstances may require and (ii) add, remove, or by-pass any bond in determining the composition of an Index.

The Committee may rely on any information or documentation submitted to it or gathered by it that the Committee believes to be accurate. The Committee reserves the right to reinterpret publicly available information and to make changes to the Index based on a new interpretation of that information at its sole discretion. All S&P Index Committee discussions are confidential.

Index Dissemination

Tickers

S&P/ASX Australian Bond Index levels are available through S&P Indices' Web site at www.indices.standardandpoors.com, major quote vendors (see codes below), numerous investment-oriented websites, and various print and electronic media.

| Index (Total Return Index) | Bloomberg |
|--|------------------|
| S&P/ASX Government Bond Index | SPBDAGVT |
| S&P/ASX Commonwealth Government Bond Index | SPBDAGCT |
| S&P/ASX State-Government Bond Index | SPBDAGST |
| S&P/ASX Corporate Bond Index | SPBDACPT |
| S&P/ASX Supranational and Sovereign Bond Index | SPBDASAT |
| S&P/ASX Australian Fixed Interest Index | SPBDASXT |
| S&P/ASX Australian Fixed Interest 1-5 Year Index | SPBDAS1T |
| S&P/ASX Australian Fixed Interest 5-10 Year Index | SPBDAS5T |
| S&P/ASX Australian Fixed Interest 10-15 Year Index | SPBDA10T |
| S&P/ASX Australian Fixed Interest 15 Year + Index | SPBDA15T |

FTP (File Transfer Protocol)

Additional daily index data are available via FTP by subscription. For further information, please refer to S&P Indices' Web site at www.indices.standardandpoors.com

Appendix

Calculation of Index Bond Market Values and Relative Weights

A market value is calculated for each Index Bond as of the Close on each calendar day.

The market value of an Index Bond on day t is calculated as follows:

$$MV_t = PAR_t * \frac{(P_t + AI_t)}{100} \quad (1)$$

where:

- MV_t = Market value of Index Bond on day t
- PAR_t = Par Amount of Index Bond as of the last monthly rebalancing, adjusted for principal pre-payments and mandatory sinking fund payments up to and including day t .
- P_t = Price of Index Bond on day t
- AI_t = Accrued interest¹ on Index Bond up to and including day t

If the valuation date is not a Business Day, the market value will be based on the price as of the immediate prior Business Day, plus interest accrued to the valuation date.

The relative weight of an Index Bond is defined as the market value of that bond expressed as a percentage of the aggregate market value of all Index Bonds in the Index portfolio, as follows:

$$weight_k = \frac{MV_k}{\sum_k MV_k} \quad (2)$$

¹ AI_t in (1) is calculated on a calendar date basis and uses the conventions for calculating settlement accrued. Accordingly, accrued interest will be zero on a coupon payment date.

Calculation of Index Total Returns

Daily returns are calculated for all Index Bonds on every calendar day.

Total Return

The total return, TR , of an Index Bond on day t is the sum of the market price return and the interest return on day t :

$$TR_t = IR_t + PR_t \quad (3)$$

where:

$$\begin{aligned} IR_t &= \text{Interest return on day } t \\ PR_t &= \text{Price return on day } t \end{aligned}$$

Price return measures the return due to the change in the market price of the bond. Interest return (or coupon return) includes the return due to the interest earned on that bond. In the case of zero coupon bonds, the accretion in price due to interest return is reported as price return.

Interest Return

The formula for the interest return on an individual Index Bond on day t is as follows:

$$IR_t = \frac{\left(PAR_t * \frac{AI_t}{100} - PAR_{t-1} * \frac{AI_{t-1}}{100} \right) + Int_t}{MV_{Beg}} \quad (4)$$

where:

$$\begin{aligned} IR_t &= \text{Interest return at time } t \\ PAR_t &= \text{Par Amount of Index Bond as of the last monthly rebalancing, adjusted for principal pre-payments and mandatory sinking fund payments up to and including day } t \\ AI_t &= \text{Accrued interest, up to and including day } t \\ AI_{t-1} &= \text{Accrued interest, up to and including day } t-1 \\ PAR_{t-1} &= \text{Par Amount of Index Bond as of the last monthly rebalancing, adjusted for principal pre-payments and mandatory sinking fund payments up to and including day } t-1 \\ Int_t &= \text{Interest payment on day } t \\ MV_{Beg} &= \text{Market value, at the beginning of day } t \end{aligned}$$

Price Return

The formula for the price return for an Index Bond at time t is as follows:

$$PR_t = \frac{PAR_t * \left(\frac{P_t - P_{t-1}}{100} \right) + Prin_t * \frac{RP - P_{t-1}}{100}}{MV_{Beg}} \quad (5)$$

where:

- PR_t = Price return on day t
- PAR_t = Par Amount of Index Bond as of the last monthly rebalancing, adjusted for principal repayments and mandatory sinking fund payments up to and including day t
- P_t = Price day t
- P_{t-1} = Price previous day
- $Prin_t$ = Principal prepayments or mandatory sinking fund payments on day t
- MV_{Beg} = Market value at the beginning of day t
- RP = Redemption Price

Note that the formula for Price Return (5) itself has two components. The first term, in the numerator on the left side, represents the unrealized return due to any change in the price, while the second term (on the right) represents the realized return due to receiving a principal repayment at the Redemption Price (which could differ from par) rather than at the current end of day Price.

Calculation of Index Returns and Levels

Daily Index Returns

The individual Index Bonds returns are aggregated to calculate returns for the Index. Specifically, the total return, interest return and price return for the Index, on a given day, are equal to a weighted average of the returns of the Index Bonds that constitute the Index. The weight of each Index Bond return is equal to the relative weight of that Index Bond in the Index as of the previous calendar day (adjusted for principal pre-payments and mandatory sinking fund payments.) Thus, the beginning day index value may differ from the end of day index value due to constituent adjustments. The formulas are as follows:

$$IndexTR_t = \frac{\sum_i MV_{i, Beg} * TR_{i,t}}{\sum_i MV_{i, Beg}}$$

$$IndexIR_t = \frac{\sum_i MV_{i, Beg} * IR_{i,t}}{\sum_i MV_{i, Beg}}$$

$$IndexPR_t = \frac{\sum_i MV_{i, Beg} * PR_{i,t}}{\sum_i MV_{i, Beg}}$$

where:

- TR_t^i = Total return of the Index Bond i on day t
- IR_t^i = Interest return of the Index Bond i on day t
- PR_t^i = Price return of the Index Bond i on day t
- MV_{Beg}^i = Market value of the Index Bond i , at the beginning of day t

Daily Index Values

Index values are calculated each day by applying the current day's Index return to the previous day's Index value, as follows:

$$TRIV_t = TRIV_{t-1} * (1 + TR_t)$$

$$PRIV_t = PRIV_{t-1} * (1 + PR_t)$$

$$IRIV_t = IRIV_{t-1} * (1 + IR_t)$$

where:

| | | |
|----------|---|--|
| $TRIV_t$ | = | Total Return Index Value on day t |
| $PRIV_t$ | = | Price Return Index Value on day t |
| $IRIV_t$ | = | Interest Return Index Value on day t |

Monthly Cash flows

All interest payments, pre-payments, pay-downs, sinking fund payments, and other forms of cash flow are reinvested in the index on the payment date.

S&P Contact Information

Index Management

| | |
|--|-----------------|
| David M. Blitzler, Ph.D. – Managing Director & Chairman of the Index Committee | |
| david_blitzler@standardandpoors.com | +1.212.438.3907 |
| Brian J. Pepe - Director, Fixed Income | |
| brian_pepe@standardandpoors.com | 1.212.438.1194 |

Media Relations

| | |
|-----------------------------------|-----------------|
| David Guarino – Communications | |
| dave_guarino@standardandpoors.com | +1.212.438.1471 |

Index Operations & Business Development

| | |
|--|------------------|
| index_services@sandp.com | |
| U.S. | +1.212.438.2046 |
| EMEA | +44.20.7176.8888 |
| China | +86.10.6569.2950 |
| Japan | +813.4550.8564 |
| Australia | +61.2.9255.9802 |

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