

# Convertible Bond Indices

## An Overview

### SPDR EMEA Strategy & Research

When investing in convertible bond indices, it is important to understand the composition. Inclusion criteria can lead to major differences in exposure across indices.

### Inclusion Criteria

The following table provides a summary of the key security inclusion criteria for each of the Refinitiv indices.

The main differences between the three indices, in terms of inclusion criteria, are the minimum issue size, concentration level cap, and price/premium testing. The Global Focus Index has a larger minimum amount outstanding compared to the other two indices, particularly around US bonds where issues have to be greater than \$500 million in size. Both the Global Focus and Qualified Global Index have concentration level caps of 4%, whilst the Global Index has 2%.

This difference leads to there being a greater number of constituents in the Global Index as more securities meet the concentration level cap (see Figure 1). The price/premium test, which is applied to the Global Focus Index but not the Global Qualified Index, is also an important differentiator. The test ensures that the delta of the index remains within a defined range. Later in this document we comment on delta and its contribution to performance.

Figure 1  
**Refinitiv Global  
Convertible Index  
Methodology Comparison**

Index Criteria	Global Qualified Index (Benchmark for SPDR ETF)	Global Index	Global Focus Index
<b>Minimum Amount Outstanding</b>	Higher and all in local currency	Higher and all in USD	Higher and all in local currency
<b>US</b>	\$350mn	\$300mn	\$500mn
<b>Europe</b>	€375mn	\$200mn	€375mn
<b>Asia</b>	\$275mn	\$100mn	\$275mn
<b>Japan</b>	¥22bn	\$100mn	¥22bn
<b>Other</b>	\$275mn	\$200mn	\$275mn
<b>Eligible Securities</b>	No mandatory, perpetual, or 144A issues	Mandatory and perpetual issues included	No mandatory or perpetual issues
<b>Reselection</b>	Quarterly from Global	Quarterly from Total Universe	Quarterly from Global
<b>Add/Drop Process</b>	Adds at monthly rebalance only Immediate drops for events Quarterly reselection adds/drops	Immediate new issue adds Immediate drops for event Quarterly reselection adds/drops	Adds/drops at monthly rebalance Immediate drops for events Quarterly reselection adds/drops
<b>Concentration Level Cap* (%)</b>	4	2	4
<b>Price &amp; Premium Test</b>	No price limits	No price limits	Dropped if too deeply in the money Dropped if too deeply out of the money

Source: Refinitiv, as of 31 August 2021.

\* Concentration factors are calculated based on market capitalisation of issues from a single issuer and market capitalisation of issues with underlying assets from a single issuer.

## Characteristic Breakdown

Figure 2  
Turnover Statistics

In the following sections we highlight the key characteristics of each index.

Calendar Year	Refinitiv Qualified Convertibles Index (%)	Refinitiv Global Convertibles Index (%)	Refinitiv Global Focus Convertibles Index (%)
2009	47.7	57.8	76.6
2010	34.1	39.5	72.1
2011	46.3	40.4	81.9
2012	31.2	34.3	64.7
2013	55.7	55.9	113.7
2014	59.5	49.8	88.4
2015	66.5	56.1	86.7
2016	39.9	44.6	70.9
2017	45.3	46.1	69.0
2018	55.2	52.4	84.1
2019	57.7	57.8	81.2
2020	60.8	63.3	160.0

Source: Refinitiv, as of 31 August 2021. Turnover is measured by the total value of all adds and drops as a percentage of that day's market cap and then summated for each calendar year. Turnover statistics are as of the date indicated, are subject to change, and should not be relied upon as current thereafter.

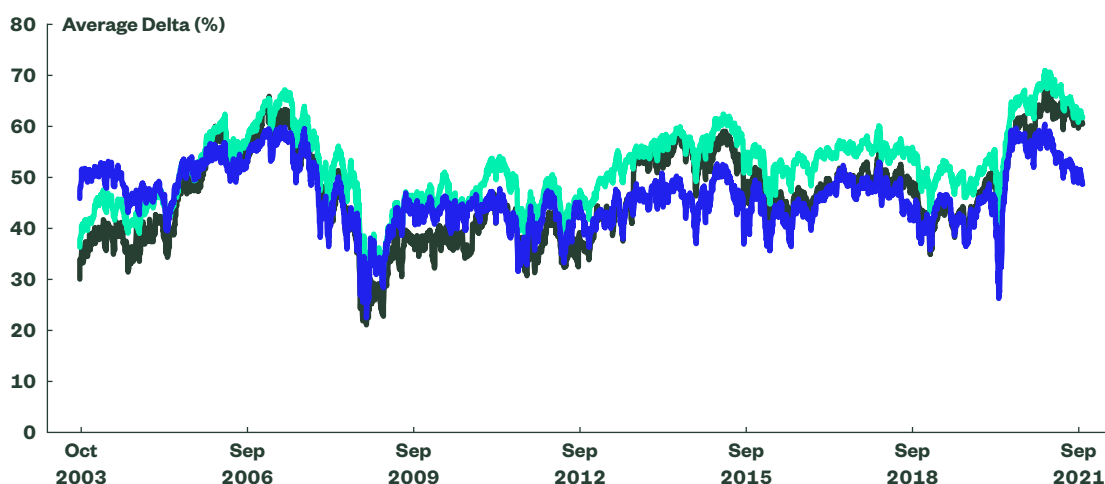
On a market capitalisation basis, the Focus Index encompasses \$215 billion of the total global convertible bond universe, whilst the Qualified Index captures a more representative \$300 billion.<sup>1</sup> The Global Convertible Index has the largest market cap at \$486 billion.<sup>2</sup> In terms of yield, the average running yield is 70bps for the Qualified Global Index and 54bps for the Global Focus Index.<sup>3</sup> The Global Index yield is higher at 119bps due to the lower minimum outstanding requirement; this results in the inclusion of bonds from smaller issuers that tend to require larger coupons in order to attract investors.<sup>4</sup>

## Delta

Delta measures the sensitivity of a convertible bond price to changes in the price of the underlying stock. The historical average delta of each index is plotted in Figure 3. The Qualified Global Index (delta 61.8) is slightly more sensitive to equity price movements compared to the Global Focus Index (50.8).<sup>5</sup> The Global Convertible Index delta is 62.8, which is in part due to its including bonds with mandatory conversion clauses.<sup>6</sup> These bonds tend to be issued with conversion prices closer to 'at the money', which in turn affects the overall delta of the index.

Figure 3  
Average Delta

■ Refinitiv Qualified Global Convertible Index  
■ Refinitiv Global Convertible Index  
■ Refinitiv Global Focus Convertible Index



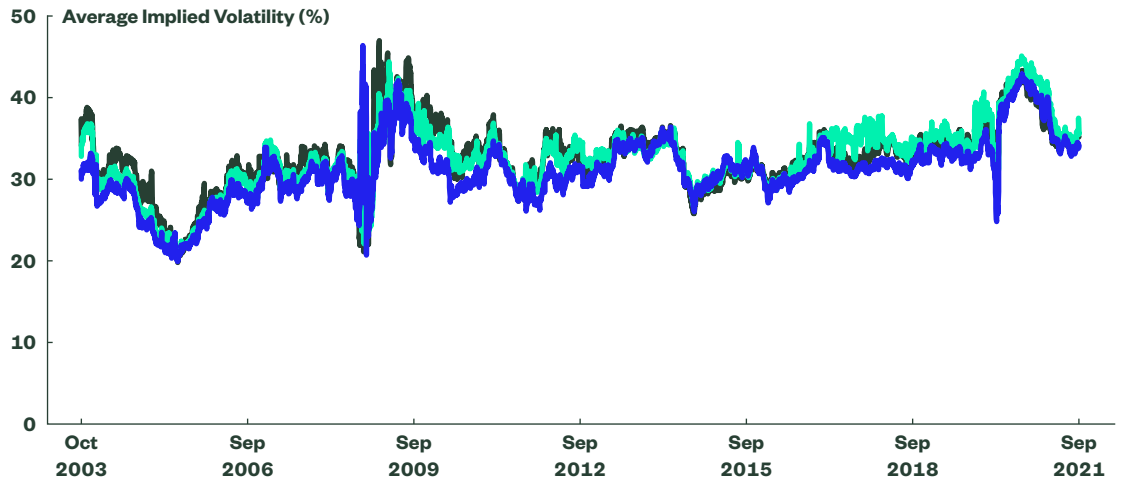
Source: Refinitiv, as of 31 August 2021 in USD. Delta shown above is subject to change. The Refinitiv (previously known as Thomson Reuters) Qualified Global Convertible Index was inception on 10 December 2008. Results prior to this date were calculated by using available data at the time in accordance with the Index's current methodology. Refinitiv Qualified Global Convertible Bond Index (TR) includes back-tested returns supplied by Refinitiv.

## Implied Volatility

The implied volatility of a convertible bond is a measure used to value the worth of the bond's option component. Volatility picked up into the end of 2019 and hit above-average levels, enhancing the value of the optionality of the bond dropping back sharply during the Covid Crisis. The second half of 2020 saw above average levels of volatility but this has eased to more normal levels in 2021. Figure 4 shows the historical average implied volatility of the three indices.

Figure 4  
Average Implied Volatility

■ Qualified Global Convertible Index  
■ Global Convertible Index  
■ Global Focus Convertible Index



Source: Refinitiv, as of 31 August 2021. Measured in USD. Implied Volatility shown above are subject to change. The Refinitiv (previously Thomson Reuters) Qualified Global Convertible Index was inceptioned on December 10, 2008. Results prior to this date were calculated by using available data at the time in accordance with the Index's current methodology. Refinitiv Qualified Global Convertible Bond Index (TR) includes back-tested returns supplied by Refinitiv.

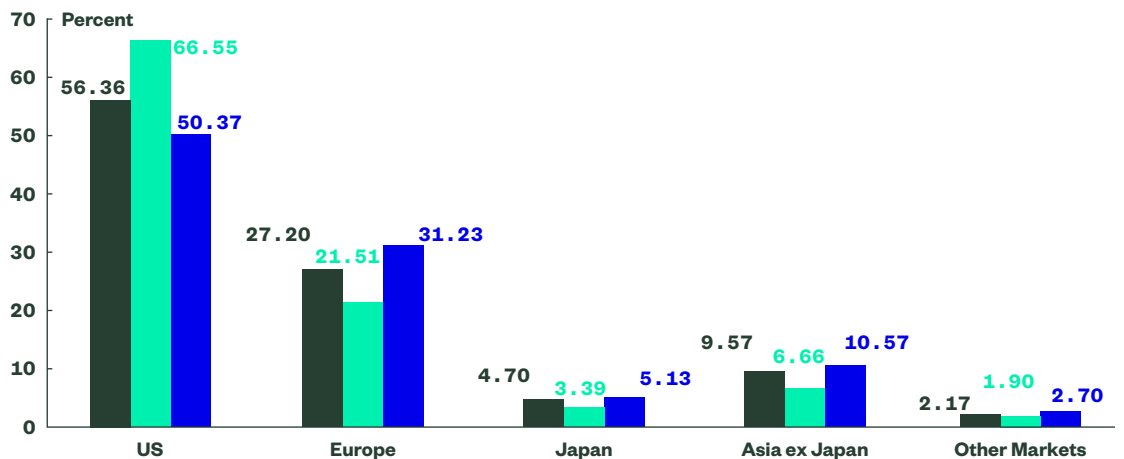
## Regional, Currency and Sector Breakdown

All three indices are global in terms of exposures. Figure 5a shows the regional breakdown of each index. Of note, the Global Focus index has a lower exposure to the US compared to the other two indices, with the difference spread over other regions.

The regional breakdown bias is also evident in the currency breakdown (see Figure 5b), and there are also sector differences between the three indices (Figure 5c).

Figure 5a  
Regional Breakdown

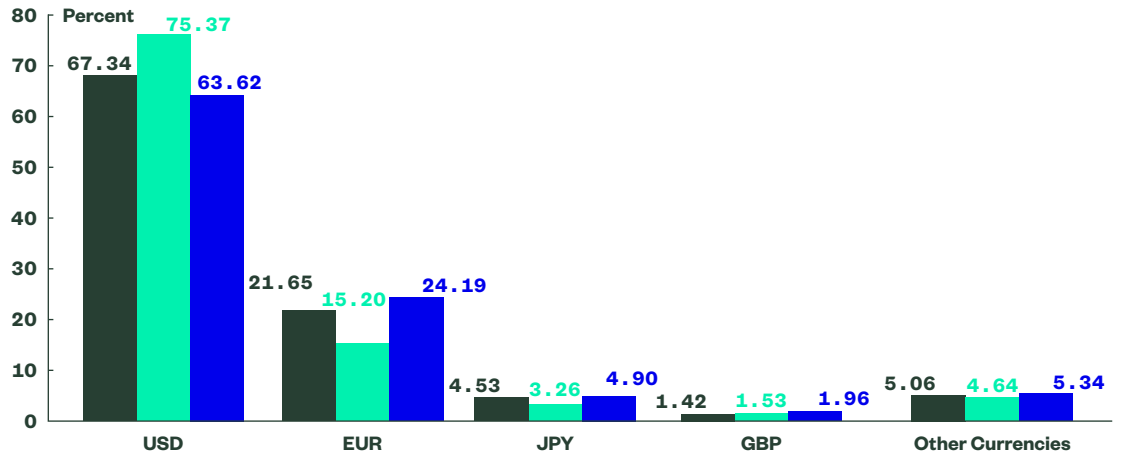
■ Qualified Global Convertible Index  
■ Global Convertible Index  
■ Global Focus Convertible Index



Source: Refinitiv, as of 31 August 2021. Regional breakdowns are as of the date indicated, are subject to change, and should not be relied upon as current thereafter. The 'Other Markets' category includes: United Arab Emirates, Russia, Israel and South Africa and will vary with issuance.

Figure 5b  
**Currency Breakdown**

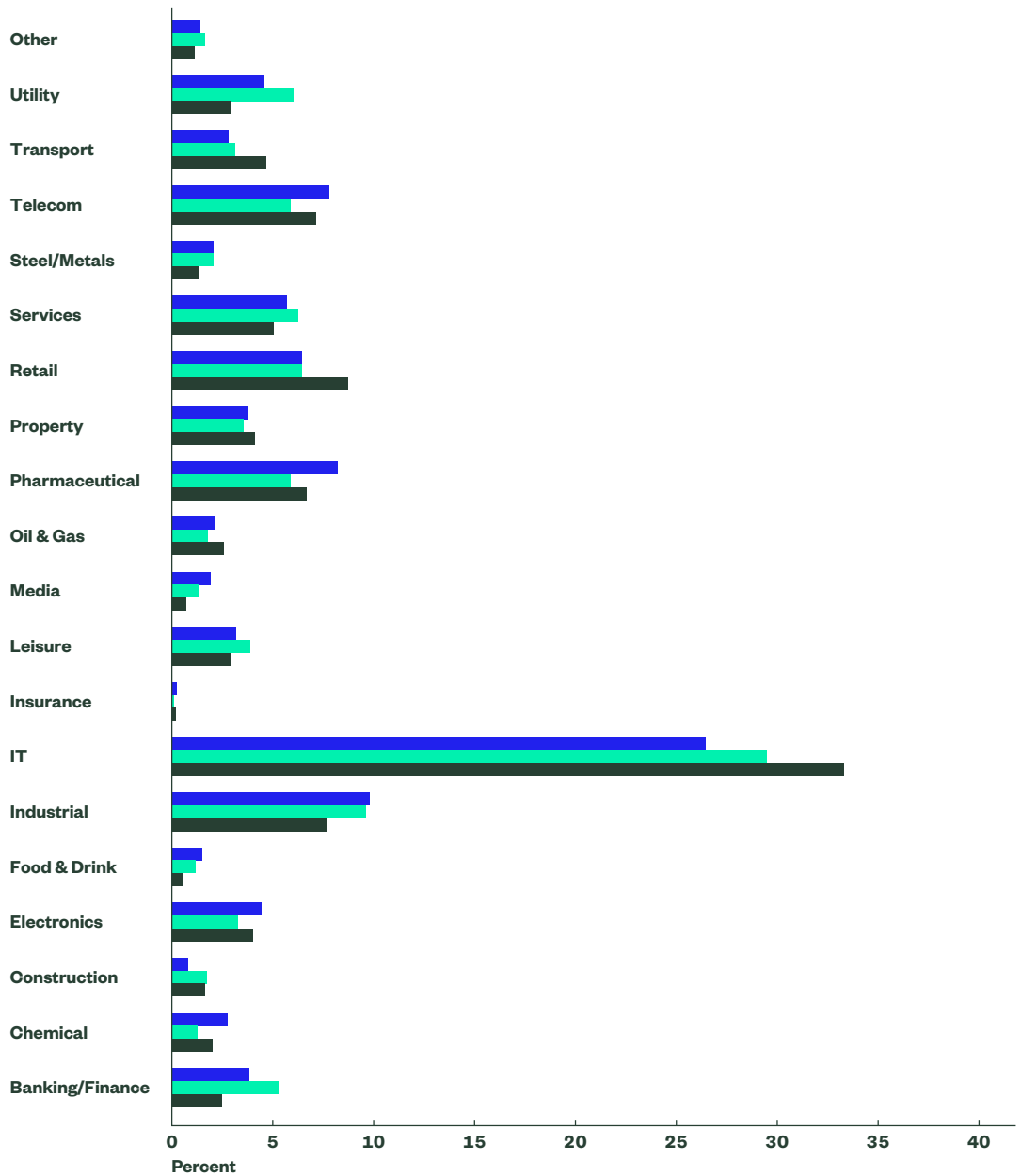
- Qualified Global Convertible Index
- Global Convertible Index
- Global Focus Convertible Index



Source: Refinitiv, as of 31 August 2021. Currency breakdowns are as of the date indicated, are subject to change, and should not be relied upon as current thereafter. The 'Other Currencies' category includes: SGD, CNH, HKD, TWD, CHF, KRW, ZAR, THB.

Figure 5c  
**Sector Breakdown**

- Qualified Global Convertible Index
- Global Convertible Index
- Global Focus Convertible Index



Source: Refinitiv, as of 31 August 2021. Sector weights are as of date indicated, are subject to change, and should not be relied upon as current thereafter. This information should not be considered a recommendation to invest in a particular sector or to buy or sell any security shown. It is not known whether the sectors or securities shown will be profitable in the future. It is not possible to directly invest in an index.

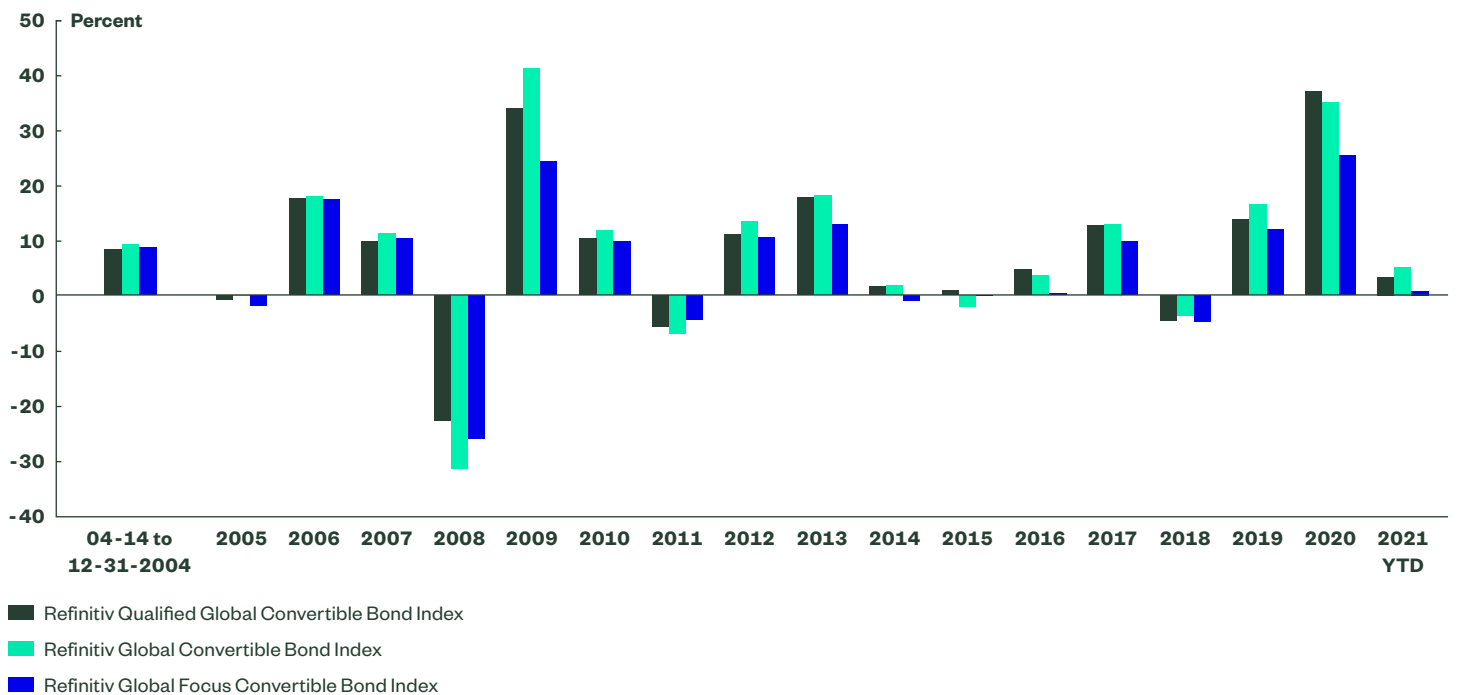
## Performance

Finally, when looking at the overall performance of the three indices we can see that, historically, the Qualified Global Index, which the SPDR ETF tracks, has performed well compared to its peers since the ETF's inception in October 2014 (see Figure 6). A salient point to note is that the five-year performance of the Qualified Index, at an annual average of over 5%, is in line with the Global Index despite the fact that equity sensitivity 'delta' and implied volatility (or 'cost of optionality') have been lower.

## Summary

Understanding the characteristics of different global convertible bond indices is important, given that the portfolio benchmark becomes the basis for an investor's beta. Though at first glance these three indices may appear similar, there are material differences in their inclusion criteria. These differences mean that each index will have different risk and return characteristics, and investors should consider these factors carefully when choosing their benchmark.

Figure 6  
Annual Performance



Source: Refinitiv, as of 31 August 2021, Total Returns in USD. 2021 YTD performance is not annualized. Global Index, Global Focus Index and Qualified Indices (TR) includes back-tested returns supplied by Refinitiv. It is not possible to invest directly in an index. **Index performance does not reflect charges and expenses associated with the fund or brokerage commissions associated with buying and selling a fund. Index performance is not meant to represent that of any particular fund. Past performance is not an indicator of future performance.** The Refinitiv (previously Thomson Reuters) Qualified Global Convertible Index was inceptioned on 11 December 2008. Results prior to this date were calculated by using available data at the time in accordance with the Index's current methodology.

## Endnotes

- 1 Source: Refinitiv, as of 31 August 2021.
- 2 Source: Refinitiv, as of 31 August 2021.
- 3 Source: Refinitiv, as of 31 August 2021.
- 4 Source: Refinitiv, as of 31 August 2021.
- 5 Source: Refinitiv, as of 31 August 2021.
- 6 Source: Refinitiv, as of 31 August 2021.

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