

# Euro Corporate Indices: An Overview

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State Street Global Advisors has a proven track record of managing investment grade corporate bond indexed strategies. Our range of investment grade corporate passive fixed income solutions spans both standard market-value weighted and customised indices across countries, regions and markets globally. State Street Global Advisors' SPDR Bloomberg Barclays Euro Corporate Bond UCITS ETF tracks the Bloomberg Barclays Euro Corporate Bond Index and offers flexible, simple access to the euro-denominated investment grade corporate bond market.

This document provides an index comparison between the Bloomberg Barclays Euro Corporate Bond Index and the Markit iBoxx EUR Liquid Corporates Large Cap Index, two widely used indices in the EMEA ETF universe. At the end of January 2019, €9.3 billion tracked Barclays and €3.7 billion tracked iBoxx.<sup>1</sup>

## Index Provider Inclusion Criteria

Index providers use specific set criteria, such as maturity, currency, size, and credit rating, in order to identify the bonds that can qualify for inclusion in the respective index.

The data below provides a summary of the key security inclusion criteria for the Bloomberg Barclays Euro Corporate Bond Index and Markit iBoxx EUR Liquid Corporates Large Cap Index, as well as a comparison of their core characteristics.

### Bloomberg Barclays Euro Corporate Bond Index

The Bloomberg Barclays Euro Corporate Bond Index is the investment grade credit corporate sub-index of the Bloomberg Barclays Euro Aggregate Index that measures euro-denominated, investment grade, fixed-rate, taxable corporate bonds. Securities in the index roll up to the Pan European Universal and the Global Aggregate Indices.

### Markit iBoxx EUR Liquid Corporates Large Cap Index

Similar to the Bloomberg Barclays Euro Corporate Bond Index, the Markit iBoxx EUR Liquid Corporates Large Cap Index is comprised of the largest and most liquid fixed rate investment grade corporate bonds issued by both eurozone and non-eurozone issuers, and denominated in EUR.

A brief summary of the main inclusion criteria is provided in the table below.

<sup>1</sup> Source: Bloomberg Finance L.P., as of 31 January 2019.

**Figure 1: Inclusion Criteria for Each Index**

	Bloomberg Barclays Euro Corporate Bond Index	Markit iBoxx EUR Liquid Corporates Large Cap Index
Minimum Amount Outstanding	EUR-denominated bonds with a minimum amount outstanding of €300 million.	EUR-denominated bonds with a minimum amount outstanding of €500 million.
Rating	Securities must be rated investment grade (Baa3/BBB-/BBB- or higher) using the middle rating of Moody's, S&P and Fitch; when a rating from only two agencies is available, the lower is used; when only one agency rates a bond, that rating is used. In cases where explicit bond level ratings may not be available, other sources may be used to classify securities by credit quality. Expected ratings at issuance may be used to ensure timely index inclusion or to properly classify split-rated issuers. Unrated securities may use an issuer rating for index classification purposes if available. Unrated subordinated securities are included if a subordinated issuer rating is available.	All bonds in the Markit iBoxx EUR Liquid Corporates Large Cap Index must have a Markit iBoxx Rating of investment grade. Investment grade is defined as BBB- or higher from Fitch and Standard & Poor's and Baa3 or higher from Moody's. If a bond is rated by more than one of the above agencies, then the Markit iBoxx rating is the average of the provided ratings. The rating is consolidated to the nearest rating grade.
Maturity	At least one year until final maturity, regardless of optionality. Bonds that convert from fixed to floating rate, including fixed-to-float perpetuals and fixed-to-variable securities will exit the index one year prior to conversion to floating rate. Fixed-rate perpetuals are not included. Sub-indices based on maturity are inclusive of lower bounds. Intermediate maturity bands include bonds with maturities of 1 to 9.999 years. Long maturity bands include maturities of 10 years or greater.	To qualify for the Markit iBoxx EUR Liquid Corporates Large Cap Index all new bonds that are considered for inclusion must have a remaining time to maturity of at least 18 months measured from the respective rebalancing date to the maturity date. Bonds already included in the index are subject to a minimum time to maturity rule of 1 year.
Index Rebalancing	Last business day of each month calendar month.	Last business day of each month calendar month.
Subordinated Bonds	Included.	Included.

Source: State Street Global Advisors, Bloomberg Barclays, Markit iBoxx Factsheets, as of 31 January 2019.

## Index Comparison

In the following tables we highlight the different characteristics and breakdowns of the two indices.

### Characteristics

The main difference between the two indices, in terms of inclusion criteria, is the minimum issue size. The Bloomberg Barclays index has a minimum issue size of €300 million versus Markit iBoxx, which has €500m. This difference results in the Bloomberg Barclays index having a broader universe of bonds. In terms of characteristics, the Bloomberg Barclays index and the Markit iBoxx index are closely aligned. The duration of the two indices is similar; however, the Bloomberg Barclays index has a higher yield to worst compared to the Markit iBoxx index. At the end of June, the Bloomberg Barclays index yield to worst was 9.9 bps greater than the Markit iBoxx index.

### Sector Breakdown

In terms of sector breakdown, these two indices are similar. Classifications of bonds between index families vary and this explains the inclusion of the agency and foreign agency bonds in the Market iBoxx index. The Markit iBoxx index includes agency issuers such as EDF and those defined as foreign agency issuers, such as Statoil.

**Figure 3: Characteristics**

	Bloomberg Barclays Euro Corporate Bond Index	Markit iBoxx EUR Liquid Corporates Large Cap Index
Market Value	1,974,459,198	1,262,733,792
# Constituents	2,468	1,322
Yield to Worst	1.185	0.974
OAD	5.06	5.33
OAS	142.1	124.9
OAC	0.39	0.44
Maturity	5.48	5.76
Current Yield	1.931	1.859
Coupon Market Weighted	2.036	1.979
Coupon Par Weighted	1.976	1.912
Index Rating	A3/BAA1	A2/A3
S&P Rating	A-/BBB+	A/A-
Moody's Rating	A3/BAA1	A2/A3
Fitch Rating	A/A-	A/A-
Liquidity Cost Score	0.378	0.359

Source: State Street Global Advisors, Barclays POINT, as of 31 January 2019. Index past performance is not a guarantee of future results. Index characteristics are as of the date indicated, are subject to change, and should not be relied upon as current thereafter.

**Figure 2: Sector Breakdown**

	Bloomberg Barclays Euro Corporate Bond Index (%)	Markit iBoxx EUR Liquid Corporates Large Cap Index (%)
<b>Government-Related</b>	—	<b>4.29</b>
Agency	—	4.29
<b>Corporate</b>	<b>100.00</b>	<b>95.71</b>
<b>Industrial</b>	<b>53.06</b>	<b>49.54</b>
Basic Industry	3.50	2.08
Capital Goods	5.06	3.36
Consumer Cyclical	9.61	9.08
Consumer Non-Cyclical	13.62	13.10
Energy	4.42	5.08
Technology	2.57	2.63
Transportation	3.42	2.53
Communications	8.88	9.96
Other Industrial	1.98	1.72
<b>Utility</b>	<b>7.33</b>	<b>6.36</b>
Electric	3.80	3.39
Natural Gas	2.52	1.85
Other Utility	1.01	1.13
<b>Financial Institutions</b>	<b>39.60</b>	<b>39.81</b>
Banking	29.12	36.27
Brokerage Assetmanagers Exchanges	0.70	—
Finance Companies	0.51	0.42
Insurance	5.57	1.37
REITS	3.32	1.75
Other Financial	0.38	—

Source: State Street Global Advisors, Barclays POINT, as of 31 January 2019. Sector Breakdown are as of the date indicated, are subject to change, and should not be relied upon as current thereafter.

<sup>2</sup> Other Financial includes consumer finance and commercial finance.

<sup>3</sup> Other Utility includes water companies.

\* Other Industrial includes multinational conglomerates.

**Rating Breakdown**

From a credit ratings breakdown, the Markit iBoxx index has a slightly better profile when compared to the Bloomberg Barclays index. However, the Markit iBoxx index includes some Deutsche Bank subordinated bonds which are rated Ba.<sup>4</sup>

**Maturity Breakdown**

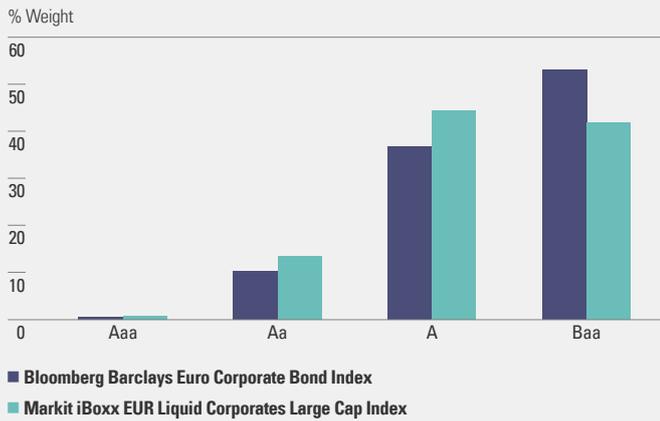
The overall maturity distribution between the two indices is very close and does not introduce any meaningful curve and duration difference.

**Subordination Breakdown**

The Bloomberg Barclays index has a slightly larger allocation to subordinated debt compared to the Markit iBoxx Index.

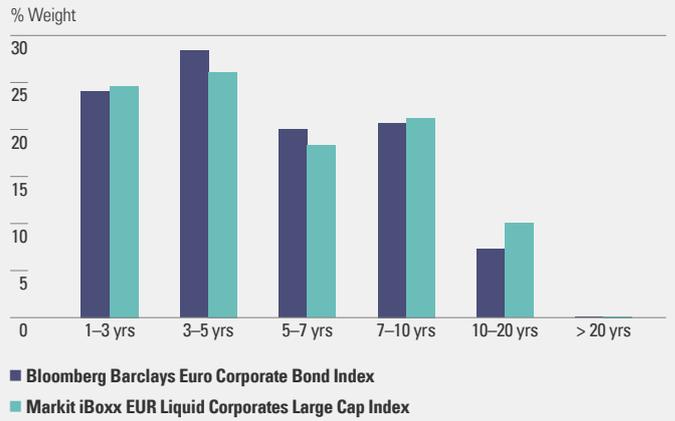
<sup>4</sup> Source: Barclays POINT, as of 31 January 2019. This is their credit rating.

**Figure 4: Credit Rating Breakdown**



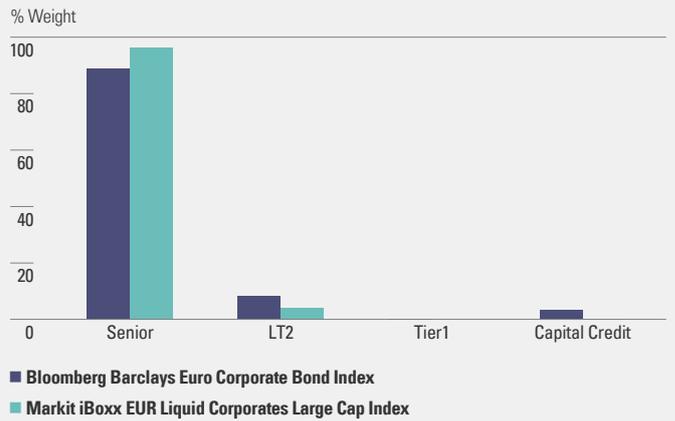
Source: State Street Global Advisors, Barclays POINT, as of 31 January 2019. Ratings are as of the date indicated, are subject to change, and should not be relied upon as current thereafter.

**Figure 5: Maturity Breakdown**



Source: State Street Global Advisors, Barclays POINT, as of 31 January 2019. Maturity breakdowns shown above are as of the date indicated and are subject to change.

**Figure 6: Subordination Breakdown**



Source: State Street Global Advisors, Barclays POINT, as of 31 January 2019. Subordination breakdowns shown above are as of the date indicated and are subject to change.

## Euro Corporate Indices: An Overview

	Annualised Return (%)		Annualised Volatility (%)		Sharpe Ratio	
	Bloomberg Barclays Euro Corporate Bond Index	Markit iBoxx EUR Liquid Corporates Large Cap Index	Bloomberg Barclays Euro Corporate Bond Index	Markit iBoxx EUR Liquid Corporates Large Cap Index	Bloomberg Barclays Euro Corporate Bond Index	Markit iBoxx EUR Liquid Corporates Large Cap Index
Last 1 year	0.09	0.33	1.44	1.41	0.35	0.52
Last 3 years	2.10	1.72	2.20	2.22	1.13	0.95
Last 5 years	2.63	2.34	2.43	2.40	1.18	1.07

Source: State Street Global Advisors, Bloomberg Barclays, as of 31 January 2019. Risk-free rate based on JP Morgan 1M EUR Cash index. **Past performance is no guarantee of future results. 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.**

### Performance

The Bloomberg Barclays index has consistently outperformed the Markit iBoxx index over various time periods with a higher Sharpe Ratio.

Though at first glance these indices appear similar, there are material differences in how they define corporate bonds, and also how they deal with both minimum sizes and maturity for inclusion. These differences will mean that the two indices will have different risk and return characteristics and investors should consider these factors carefully when choosing the benchmark most appropriate for their investment objectives.

### Summary

Understanding the characteristics of different euro corporate bond indices is important, given that the benchmark for a portfolio becomes the basis for an investor's beta.

State Street Global Advisors' size, scale and experience mean that we are typically able to accommodate the needs of clients whose specific objectives cannot be met by a general index; we would be happy to discuss other options if necessary.

### Annualised Performance (Net Returns, in %)

	1 Month	3 Month	YTD	1 Year	3 Years	5 Years	Inception
							23-May-2011
SPDR Bloomberg Barclays Euro Corporate Bond UCITS ETF	1.40	3.16	3.16	2.17	1.99	2.70	3.84
Bloomberg Barclays Euro Agg Corp	1.39	3.20	3.20	2.31	2.18	2.85	4.03
<b>Difference</b>	<b>0.01</b>	<b>-0.04</b>	<b>-0.04</b>	<b>-0.13</b>	<b>-0.19</b>	<b>-0.15</b>	<b>-0.19</b>

Source: State Street Global Advisors, Bloomberg Barclays, as at 31 March 2019. Returns are in euro terms. Fund inception was 23 May 2011. **Net of all fees. Performance quoted represents past performance, which is no guarantee of future results. Investment return and principal value will fluctuate, so you may have a gain or loss when shares are sold. Current performance may be higher or lower than that quoted. The performance data do not take account of the commissions and costs incurred on the issue and redemption, or purchases and sale, of units. All results are historical and assume the reinvestment of dividends and capital gains. Visit [spdrs.com](http://spdrs.com) for most recent month-end performance.** Performance returns for periods of less than one year are not annualised. Index returns are unmanaged and do not reflect the deduction of any fees or expenses.

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