

J.P. Morgan Global Credit Index (GCI) ESG Investment Grade Custom Maturity Index

Index Methodology and Profile

Highlights

J.P. Morgan Global Credit Index (GCI) ESG Investment Grade Custom Maturity Index tracks US Dollar, Euro and Sterling denominated investment grade corporate bonds by both developed issuers. The index applies an ESG scoring and screening methodology to tilt toward issuers ranked higher on ESG criteria and green bond issues, and to underweight and exclude issuers that rank lower. The returns and statistics are available since December 2012.

Global Index Research

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Index Criteria

Instrument Type	Include: Fixed Rate, Floating Rate, Hybrid, Step-up, PIK, Toggle, Amortizers, Perpetuals, Sukuk Bonds, and all Subordinated financial bonds except AT1 and RT1 Exclude: Structured Bonds and Credit Enhanced Bonds including Credit Linked, Collateral Trust and Equipment Trust Bonds, Dual Currency Bonds and bonds with non-transparent cash flows or atypical indices used to reset coupons
Issuer Type	Include: Corporate Exclude: Sovereign and Quasi-Sovereign Issuers ¹
Collateral	Exclude: Covered, Mortgage Backed, Asset Backed, Bank Guaranteed, Government Guaranteed
Maturity	Entry: Minimum 24 months till maturity Exit: Minimum 6 months till maturity
Minimum Amount Outstanding	Bond level USD500mm for USD-denominated bonds EUR500mm for EUR-denominated bonds GBP300mm for GBP-denominated bonds
Holiday	US holiday calendar for USD bonds & London holiday calendar for GBP & EUR bonds
Currency	US Dollar, Euro and Sterling denominated bonds are allowed
Country	Issuers must have country of risk as a developed country to be included. Entry: Only investment grade instruments are eligible. An instrument is classified as investment grade when the middle rating from S&P, Moody's, and Fitch is investment grade (i.e. BBB-equivalent or above). When a rating from only two agencies is available, the lower has to be investment grade; and when only one agency rates a bond, that single rating has to be investment grade. Exit: Bonds downgraded from IG to HY will be held in the index for an additional 6-month provided the credit rating is no worse than B-/B3 according to the J.P. Morgan index methodology.
Defaulted issues	Upon default, the issue is removed from the index at the month-end rebalancing following a grace period or bankruptcy filing, whichever comes sooner.
Registration Type	SEC-registered Global, Domestic, MTN, and 144A with or without registration rights, Eurobonds, and EMTNs that trade in accordance with ISMA principals.
Bloomberg Ticker	JPEIDMIG (USD Unhedged)

Definitions:

- Toggles: A type of payment-in-kind bond in which the issuer has the option to defer an interest payment by agreeing to pay an increased coupon in the future. All deferred payments must be settled by the bond's maturity
- Amortizers: A type of bond in which the principal on the debt is paid down regularly, along with its interest expense over the life of the bond
- Perpetuals: A type of bond with no maturity date.
- 1 – Quasi-sovereign entities are defined as being 100% guaranteed or 100% owned by the national government.

See page 6 for important disclosures.

JSTAR Overlay Criteria

The J.P. Morgan Global Credit Index (GCI) ESG Investment Grade Custom Maturity Index applies the J.P. Morgan Screened Tilted and Reweighted (JSTAR) methodology as an overlay to the baseline Global Credit Index Investment Grade (GCI IG) Custom Maturity Index.

For details on the ESG providers, scoring methodology, green bond treatment and exclusions, please refer to the corporate methodology detailed within the [J.P. Morgan Screened Tilted and Reweighted \(JSTAR\) Methodology](#).

ESG Providers & GSS Bond Certification Authorities	Sustainalytics RepRisk Climate Bonds Initiative
JSTAR Scoring Methodology	JSTAR issuer scores are a 0-100 percentile rank calculated based on normalized raw ESG scores from third-party research providers Sustainalytics and RepRisk. An issuer's finalized JSTAR score incorporates a 3-month rolling average.
JSTAR Integration	The JSTAR scores are divided into five bands that are used to scale each issue's baseline index market value, with the band rebalance occurring with a one-month lag.
Green Bond Treatment	If an instrument is categorized as a "green bond" by the Climate Bonds Initiative, the security will receive a one-band upgrade. Green bonds by issuers already in Band 1 will not receive any further upgrades.
Ethical exclusions & Negative Screening	Issuers are excluded based on the following criteria: <ul style="list-style-type: none"> • Issuers with JSTAR scores less than 20 • Issuers not in compliance with UN Global Compact principles as identified by Sustainalytics • Issuers with revenue from the following harmful activities as identified by Sustainalytics:

Category	Involvement	Description	Threshold
Controversial Weapons	Tailor-made and essential	The company is involved in the core weapon system, or components/ services of the core weapon system that are considered tailor-made and essential for the lethal use of the weapon.	0%
Military Contracting	Weapons	The company manufactures military weapon systems and/or integral, tailor-made components for these weapons.	10%
Oil Sands*	Extraction	The company extracts oil sands.	0%
Small Arms	Civilian customers (assault weapons)	The company manufactures and sells assault weapons to civilian customers.	0%
	Civilian customers (non-assault weapons)	The company manufactures and sells small arms (non-assault weapons) to civilian customers.	0%
	Key components	The company manufactures and sells key components of small arms.	0%
Thermal Coal*	Military/law enforcement customers	The company manufactures and sells small arms to military/law enforcement.	10%
	Extraction	The company extracts thermal coal.	0%
Tobacco	Power Generation	The company generates electricity from thermal coal (revenue).	0%
	Production	The company manufactures tobacco products, including cigarettes, cigars, tobacco, electronic cigarettes etc.	0%

An issuer that is excluded from the JSTAR indices will not be eligible to re-enter the benchmark for at least 12 months after the time of its initial exclusion.
 * Green bonds from issuers involved in thermal coal or oil sands remain eligible for JSTAR inclusion to incentivize transition to less pollutive revenue streams.

Index Characteristics and Methodology

Pricing	Mid prices are taken from a third party pricing source, PricingDirect
Aggregate Return	Index level total return is calculated as a market-weighted average of bond returns using mid prices
Rebalancing	Rebalances on the last weekday of the month
Coupon Treatment	All coupons received are immediately reinvested into the index
FX Rates	All FX rates used for hedged/unhedged returns are as of 4pm London time provided by WM/Reuters
Heding Strategy	Assume a 1-month currency forward position that begins on rebalance day and ends on next rebalance day
Weighting	Market capitalization based weighting, renormalized based on JSTAR Band scalar

Defining the Index Universe

Eligibility for the index will be determined on a continuous basis by monitoring the index criteria. Any changes to the composition or eligibility will be announced prior to rebalance with an estimated schedule to provide full transparency to the investor base. Countries of risk for the instruments in the index will be determined based upon the below considerations:

1. The country with the largest source of revenue. Guarantees by other entities including subsidiaries or holding companies in other countries will also be considered.
2. The headquarters or the location of the issuer's majority assets will also be considered.

New Issue Timing

A new issue that meets the index criteria is added at the month-end rebalancing provided its first settlement date falls five business days before the rebalancing date. If its settlement date falls on or after five business days prior to the month-end rebalancing date, it is not eligible for inclusion until the following month-end rebalancing.

Instruments issued purely in reliance on Regulation S or "Reg-S" (without an accompanying 144A or registered tranche) or private placements (not registered instruments) are eligible for inclusion after a 40 calendar day seasoning period provided they meet other index criteria. The date at which the seasoning restriction is lifted will effectively be the new "settlement" date. This applies to only USD-denominated bonds.

Appendix

The following is a description of our methodology for calculating aggregate returns at the index level. The returns calculated are total return, price (clean) return, interest (coupon) return, treasury return, spread (excess) return, and spot return.

Total return is a means of representing the economic benefit of holding a security or portfolio position. In its simplest form, it is based on the "cash in/cash out" notion – i.e., what is paid for the security at the initial purchase versus what is received at its sale. The means of calculating the total return on a basket containing various instruments is an extension of the single instrument total return framework.

Index Total Return

The total return is a representative measure of the performance of the underlying instruments between day $t - 1$ and day t . At its most basic, the index total return of a multi-currency portfolio can be explained by five components: price return, interest return, treasury return, spread return, and spot return.

Assume that the portfolio of securities is composed of bonds and markets in proportion to their respective total market value. Market value in this case is calculated using the amount outstanding, as well as the total price inclusive of accrued interest and principal payments. The rate of return for any day can be attributed in one of two ways:

1. Using the clean and coupon returns:

$$\text{Total Rate of Return} = (1 + \text{Price Rtn})(1 + \text{Interest Rtn}) + (1 + \text{Spot Rtn}) - 1$$

2. Or, alternatively, using the treasury and excess returns:

$$\text{Total Rate of Return} = (1 + \text{Treasury Rtn})(1 + \text{Spread Rtn}) + (1 + \text{Spot Rtn}) - 1$$

Analytic	Field Name in DataQuery	Description
Return Analytics		
Total Return	CumTotRet	See above
Price Return	StatClnRtnRateMid	See above
Interest Return	StatsIntRet	See above
Spread Return	StatExcessReturnMid	See above
Treasury Return	DailyTsyReturnMid	See above
ESG Analytics		
JSTAR Rank	ESGScore	Proprietary J.P. Morgan computed JSTAR score
JSTAR Band	ESGBand	JSTAR band designation
To Worst Analytics		
Yield (to worst)	StatYldWrstRateMid	The lowest potential Yield on a callable security or the highest potential yield on a puttable security. The corresponding date at which this Yield is realized is referred to as the Worst Date, and is the driver for all other To Worst analytics.
Spread (to worst)	StatStpSprRateMid	The Spread Over the Treasury Zero Curve corresponding to the Worst Date. This is the basis point spread over the Treasury Zero Curve that will discount cash flows such that the Present Value will equal the Settlement Price, reflective of the Worst Date.
Modified Duration (to worst)	YTMModDurToWrstMid	A measure of the change in settlement price for a 100 bps shift in the underlying government bond Cash Coupon Curve and reflective of all cash flows to the Worst Date. It is calculated by shifting the government bond Cash Coupon Curve by 100bps up and down and calculating settlement price under each scenario.
Spread Duration (to worst)	EffSpreadDuration_Wrst	A measure of the change in settlement price for a 100 bps shift in the underlying government bond Zero Coupon Curve and reflective of all cash flows to the Worst Date. It is calculated by shifting the government bond Zero Curves by 100bps up and down and calculating settlement price under each scenario.
Spread Convexity (to worst)	EffSpreadConvexity_Wrst	A measure of the sensitivity of Spread Duration to a 100 bps shift in the underlying government bond Zero Coupon Curve and reflective of all cash flows to the Worst Date. It is calculated by shifting the government bond Zero Curves by 100 bps up and down and calculating settlement price under each scenario.
Average Life (to worst)	Avg_Life_Wrst	Average length of remaining time before the bond's principal is repaid (or when optionality is executed) as measured at the To Worst Date.
Base Analytics		
Index Dirty Price (mid)	StatValSttOrgAmtMi	Dirty mid-price including adjustments for amortization and capitalization.
Market Value (JSTAR adj.)	MktCa	Market Value (JSTAR methodology adjusted)
Face Amount	FaceAmtOS	Amount outstanding.
Coupon	AM_ACT_PAY	Current coupon rate.
Accrued interest	AM_INT_PR	Accumulated interest since last payout.
Amortization amount	AM_AMORT	Aggregated amortized principal amount.
Remaining Maturity (days)	StatsDaysToMat	Number of business days from trade date to maturity date.
Current Yield	StatClnRtnRateMid	Current yield
Number of bonds	Num_Bond	Number of bonds in the index

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