

EMBI Global Diversified Ba1/BB+/BB+

- The Emerging Market Bond Index Global Diversified (EMBIGD) is a uniquely weighted USD-denominated emerging markets sovereign index. It has a distinct diversification scheme which allows a more even weight distribution among the countries in the index.
- The EMBI Global Diversified has the same instrument composition as the market-cap-weighted EMBI Global.
- The EMBI Global Diversified has become the most widely followed benchmark in its class. (AUM \$306bn as of April 2018).

Overview

The EMBI Global Diversified is the most widely followed USD EM sovereign index. The comprehensive composition and diversification amongst countries in the index provide users with an optimally balanced benchmark.

The Diversification methodology constrains a country's weight by first adjusting the face amount outstanding and then applying an additional layer of maximum weight cap of 10%.

Diversified version weighting methodology

To calculate the diversified (adjusted) face amount for each country, we define:

$$\text{Index Country Average (ICA)} = \frac{\sum(\text{Ctry Face Amount})}{\text{No.of Countries in the index}}$$

Based on the ICA, the diversified face amount for any country in the index is derived.

$$\text{Diversified Country Face Amount} = \begin{cases} \text{ICA} * 2 & , \text{ if } \text{FA}_{max} \\ \text{ICA} + \frac{\text{ICA}}{\text{FA}_{max} - \text{ICA}} * (\text{Ctry FA} - \text{ICA}) & , \text{ if } \text{Ctry FA} > \text{ICA} \\ \text{Ctry FA} & , \text{ if } \text{Ctry FA} \leq \text{ICA} \end{cases}$$

where Ctry FA represents the non-diversified country face amount and FA_{max} represent the face amount of the largest country.

Subsequently, the diversified face amount determined using the above step is then converted to a market value, which is then converted to an index weight percentage based on the proportion of the total index market capitalization that the country represents. In addition, country weights are capped at 10%. Any excess weight above the cap is redistributed to smaller countries that are below the cap to limit concentration risk.

Index Facts	
Inception Date	Dec 1993
Launch Date	Jul 1999
Rebalance date	last US business day of the month
Holiday	Follows US bond market calendar set by Emerging Markets Trader Association (EMTA)
Pricing Source	Bid/offer price from third party evaluation vendor (PricingDirect).
FX spot/forward rate	WM/Reuters 4pm London Rate
Coupon Reinvestment	All coupons received are immediately reinvested into the index.
Hedging Strategy	Assume a 1-month currency forward position that begins on rebalance day and ends on next rebalance day

Index Criteria	EMBI+	EMBI Global	EMBIG Diversified
Country	Rated Baa1/BBB+/BBB+ or under by Moody's/S&P/Fitch	GNI per capita must be below the Index Income Ceiling (IIC) for 3 consecutive years	GNI per capita must be below the Index Income Ceiling (IIC) for 3 consecutive years
Liquidity	Must pass a series of liquidity tests (a minimum bid/ask price and specific number of interdealer broker quotes)	Daily available pricing from third party evaluation vendor	Daily available pricing from third party evaluation vendor
Instrument Type	All fixed, floaters, amortizers and capitalizers	All fixed, floaters, amortizers, capitalizers and loans	All fixed, floaters, amortizers, capitalizers and loans
Min Face Amount Outstanding	US\$500mm	US\$500mm	US\$500mm
Maturity required for initial entry	At least 2.5 years till maturity	At least 2.5 years till maturity	At least 2.5 years till maturity
Maturity required to maintain inclusion	At least 1 year till maturity	At least 1 year till maturity	At least 1 year till maturity
Includes quasi-sovereign?		√	√
Face Amount Diversification?			√

*JPMorgan defines the Index Income Ceiling (IIC) as the GNI per capita level that is adjusted every year by the growth rate of the World GNI per capita, Atlas method (current US\$), provided by the World Bank annually.

EMBI Global Diversified Rebalancing

Index rebalancing occurs monthly on the last US business day of each month, while estimated composition changes are typically sent out 3-5 business days prior to rebalance. A new issue that meets the EMBI Global Diversified admission requirements is added to the index on the upcoming rebalance date, provided its settlement date falls before the 15th of the month. A new issue whose settlement date falls on or after the 15th of the current month is added to the index on the subsequent rebalance, at the end of the next month.

An exception applies to a new issue that is released as part of a debt exchange program. At the month-end rebalancing date immediately following this event, the amount of debt retired in this exchange would be removed from the EMBI Global, and the new issue would be added to the index (provided official exchange results are made available in a timely manner). Additionally, an instrument that is issued purely in reliance on Regulation S will be ineligible for inclusion in the EMBI Indices until it is seasoned (that is, until the expiration of the relevant Regulation S restricted period). The date at which the seasoning restriction is lifted will effectively be the new “settlement” date, at which point the 15th of the month rule will apply.

For country inclusion, a country’s GNI per capita must be below the *Index Income Ceiling (IIC)* for three consecutive years to be eligible for inclusion to the EMBI Global Diversified. JPMorgan defines the *Index Income Ceiling (IIC)* as the GNI per capita level that is adjusted every year by the growth rate of the World GNI per capita, Atlas method (current US\$), provided by the World Bank annually. An existing country may be considered for removal from the index if its GNI per capita is above the *Index Income Ceiling (IIC)* for three consecutive years as well as the country’s long term foreign currency sovereign credit rating (the available ratings from all three agencies: Moody’s, S&P & Fitch) is A3/A-/A- (inclusive) or above for three consecutive years.

EMBI Global Diversified ETF

iShares J.P. Morgan USD Emerging Markets Bond Fund: The ETF tracks the EMBIG CORE index, which is a customized variant of the flagship EMBIG Diversified. Specifically, the inclusion criteria are more restrictive, with a minimum amount outstanding on an instrument set to \$1bn, and instruments with less than 24 months remaining to maturity are removed. The ETF can be found under the Bloomberg ticker **EMB** (AUM \$11.25 billion) and **IEMB LN** (AUM \$7.14 billion).

Where to find the EMBIG Diversified?

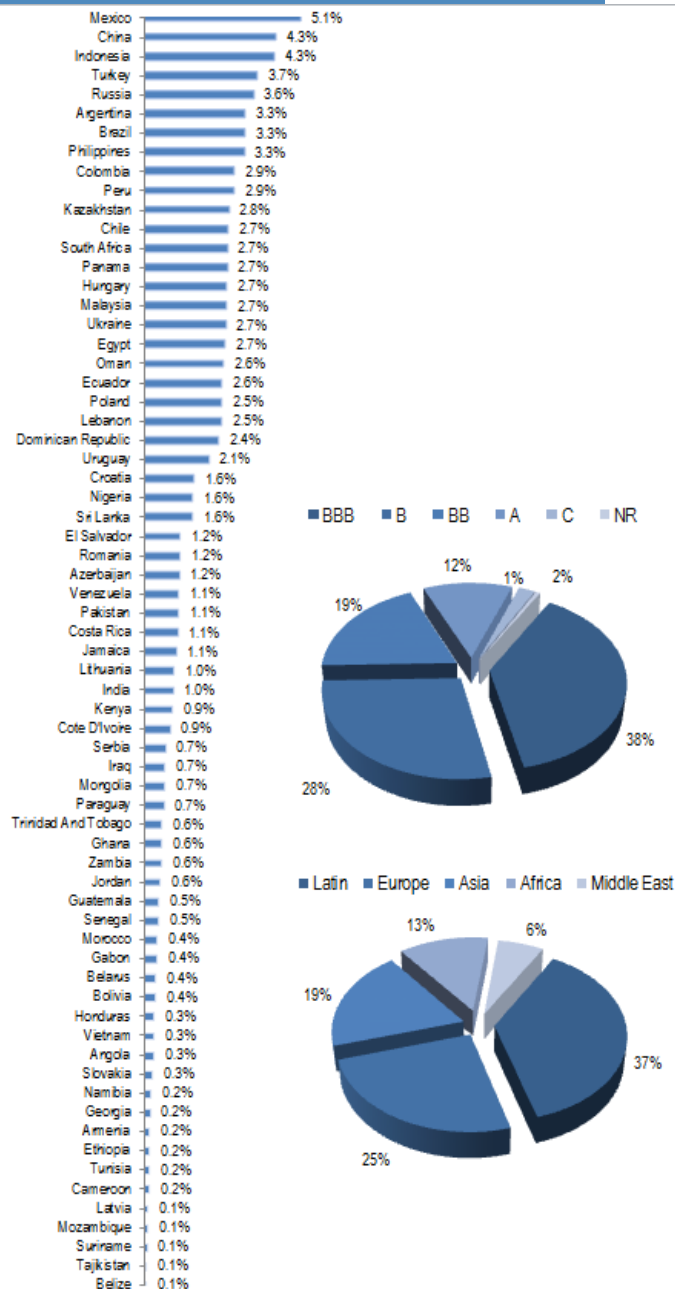
Bloomberg

JPMX <GO>→Emerging Markets→External Sovereigns
 →EMBIG Div

Publication

Index Movers Daily; EMBI Monitor (Monthly), Index Quarterly Attribution

EMBI Global Diversified Profile (as of April 2018)



Reuters

EMBI10-EMBI12 contains index and statistical data.

Dataquery

www.jpmm.com (Analyze ->Cross-Asset->DataQuery-> Emerging Markets->Indices->External Debt Indices->EMBI Global Div.)

Morgan Markets

www.jpmm.com (Research->Index->Emerging Markets -

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