

# Morningstar® Global Core Bond Indexes

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## Core Bond Overview

Investors have long used core bond strategies for their principal fixed-income portfolio allocation. Because they are diversified across government, corporate, and securitized debt instruments and focus on liquid, investment-grade securities, core bond strategies are typically more resilient in the face of interest-rate increases or credit quality scares than more narrowly focused offerings.

These characteristics make core bond strategies good portfolio diversifiers. They cushion the volatility of stocks and can benefit from flights to safety in times of market stress. Meanwhile, some investors — from retirees to asset owners looking to match future known liabilities — value core bond strategies for their reliable income streams.

Bond indexes play a critical role in defining and structuring the market for fixed-income securities, which is substantially larger than that for equities, inherently dynamic, and beset by pricing and liquidity challenges. Not only do indexes provide benchmarks for active managers, they also democratize information and underpin passive investments.

## Morningstar Global Core Bond Index Overview

Morningstar Global Core Bond Indexes represent the broad investable universe for fixed-income investors in various geographies using major world currencies. They reflect the characteristics of the investment-grade credit market in terms of yield, sector composition, credit quality, and

interest-rate sensitivity. The indexes strike a balance between comprehensive market coverage and investability, maintaining a high liquidity threshold for inclusion.

*The Morningstar Global Core Bond Index aggregates six regional core bond index families.*

Each regional family is composed of subindexes, which contain securities denominated in its home currency except for the European Union, where the single common currency is the euro. The six regional core bond index families are:

- ▶ Morningstar US Core Bond Index
- ▶ Morningstar UK Core Bond Index
- ▶ Morningstar Eurozone Core Bond Index
- ▶ Morningstar Japan Core Bond Index
- ▶ Morningstar Australia Core Bond Index
- ▶ Morningstar Canada Core Bond Index

Note: Global ex-Region Core Bond Indexes are available for each of the named regions above (Global ex-Canada Core Bond Index, for example).

*Each core bond index is an aggregation of four nonoverlapping subasset classes:*

- ▶ Domestic treasury
- ▶ Foreign treasury, domestic or foreign government-related, and supranational
- ▶ Corporate
- ▶ Securitized and collateralized (not available for every geography)

## Morningstar® Global Core Bond Index Construction Process



\*Note: Two additional core bond indexes are available: Morningstar Swiss Core Bond Index and Morningstar Sweden Core Bond Index. These two indexes are not part of the Global Core Bond Index family.

### Index Eligibility

Morningstar Global Core Bond Indexes include securities that meet the following criteria:

- ▶ All securities must have an investment-grade composite rating.
- ▶ Securities must have a fixed coupon rate and a stated final maturity.
- ▶ Bonds with make-whole calls or first-call dates within one year of final maturity are included. All other callable bonds are excluded.
- ▶ Securities entering the indexes must have a minimum of 24 months to final maturity at the time of inclusion to qualify for an index.
- ▶ Securities must have a minimum of 12 months to final maturity to remain in an index.

### Exclusions

Morningstar indexes exclude security types that are not essential elements of the overall asset class or market, resulting in a more liquid and easily investable index. Examples of exclusions include bonds with embedded options, perpetual bonds, zero-coupon bonds, and step-up coupon bonds; the complete list is located in the Construction Rules for the Morningstar Bond Indexes.

### Key Features

An important feature for each index is the minimum par amount outstanding that is required for a security to be included. These amounts are defined by currency and asset class. The minimum par amounts outstanding (minimum balances) per security for index inclusion are listed in the index's rulebook. The amounts are monitored at each rebalancing to determine security inclusions or exclusions.

### Index Weighting

The indexes are market-capitalization weighted. The number of index constituents is subject to the selection and eligibility criteria at the time of rebalancing.

### Rebalancing

The indexes are rebalanced after the last calendar day of each month, at which time all index selection and weighting rules are applied. In the case of a significant market event (default, delayed payment, debt restructuring), any affected securities are removed at the time of rebalancing.