

The Scotia Capital Universe Bond Index

An Overview

A. Introduction

- Our goal is to be the market leader in providing continuous up-to-date information reflecting the Canadian domestic Bond Market.
- The purpose of this index is to reflect performance of the broad “Canadian bond market” in a manner similar to the way the TSE 300 represents the Canadian equity market.
- The Universe index was started in December 1979.
- It is currently comprised of over approximately 900 issues.
- Sectors covered include Canadas, Provincials, Municipals and Corporates (BBB and higher).
- Only MTNs over \$40 million are included.
- The frequency of updates is both daily and real-time.

B. Universe Index Characteristics and Criteria

⇒ ***Sector Breakdown***

- All Government
 - Canadas
 - Provincials
 - Municipals
- All Corporate
 - AAA/AA
 - A
 - BBB

⇒ ***Inclusion Criteria***

- All domestic C\$ public liquid issues
 - Canadas, Provis, Munis, Corps & MTNs- only MTNs have minimum size requirement of \$40 million
 - Callables, sinking funds & ext/ret
- No serials, no equity convertibles
- Asset Backed Securities (Cards Trust only) inclusion as of Oct 1, 1998. Minimum issue size \$40 million, public issues.

⇒ ***Coupon & Credit Rating Criteria***

- No Coupon Constraints
- Must be BBB or higher
- CRBS/DBRS rated - categorization of split ratings are decided by corporate trader

⇒ ***New Issues***

- Issues that meet selection criteria enter index on day after issuance so that 2 prices are available for total return calculation
- Re-openings enter index on day after issuance as well to be consistent with above

- ⇒ **Callables**
 - Callables are priced to effective maturity date
 - Categorized according to their maturity date within the index
 - Removed from index day they are called at their call price

- ⇒ **Extendible/Retractables**
 - Included in the index according to current trading effective date
 - Any changes to maturity date are reflected as soon as information is known

- ⇒ **Amount Outstanding**
 - Canadas & reissues are adjusted as activity occurs
 - In addition, all issues are adjusted annually (summer) to reflect market changes (partial calls, sinking funds, Caisse de Depot holdings, confirmation of included set, etc.)

- ⇒ **Strip Activity**
 - Monthly strip adjustment began in January 1994
 - Bonds are individually adjusted according to strip & reconstitution activity from the monthly CDS report
 - Usually results in small monthly duration change

- ⇒ **Yield Index**
 - Yield is calculated using the sum of all underlying bonds' market value weighted yields

- ⇒ **Price Index**
 - Price index measures capital gain or losses
 - Underlying price changes are summed according to market value weight for this index

- ⇒ **Total Return Index**
 - Capital & Income
 - Coupon is used instead of accrued interest when it is coupon date
 - No reinvestment rate as it is a daily index
 - Market Value Weighted

- ⇒ **Weights**
 - All issues are market value weighted (Amount Outstanding*(Price + Accrued))
 - Weights are calculated daily to account for new issues, rollouts, etc.
 - Original amount outstanding is further adjusted for Bank of Canada holdings and strip activity (monthly)
 - Any change (new issues, rollouts, etc.) results in a completely new representation of all weights - for example large corporate issuance results in a decreased government sector

- ⇒ **New Issues/ Reissues, Roll Outs < 1 yr. & Redemptions**
 - New issue/reissue duration change: +/- 0.04yr
 - Roll outs: +0.07yr

- ⇒ **Coupon Payments (Dec.1/Jun.1, Mar.1/Sep.1)**
 - Duration change: up to +0.05yr (occurs when settlement date is the same as the coupon payment date)
 - Duration change comes back in after coupon payment date (0.01 - 0.02) as accrued interest is now equal to zero for a large quantity of Canada bonds (largest sector of Universe index)
 - Market Value weighting decreases so duration, as a market value weighted statistic, decreases as well

C. Index Disclosure Service

- Direct comparison to Index
- Create/Manage index funds
- Test strategies to outperform
- Assess risk vs. Index
- Automatic dial-up service
- PC-Bond's analytics/management

D. Customized Index Service

- Fulfills specific client needs for an objective index
- Completely flexible
- Daily, weekly or monthly
- Automatic electronic feed
- Any term/sector combination

E. Bond Index Derivatives (BIDs)

- Invest in target Indices, using Swaps or Forwards
- Advantages:
 - asset allocation
 - investment opportunities
 - leverage
 - reduced costs

F. Index Information Sources

- PC-Bond (all indices daily)
- Debt Market Indices Report
- Index Hot Line (416) 863 7667
- www.scotiacapital.com
- www.scmonline.com
- Telerate (9711-9716)
- Reuters (SM2A-SM2N)

- The Globe and Mail
- The Financial Post

G. Summary

Scotia Capital has been committed to providing Debt Market Indices since 1947. Our family of indices now exceeds over 400 indices and sub-indices. In addition, we provide index related products which include the Index Disclosure service, Bond Index Derivatives (BIDs) and Customized Indices. Please contact us at (416) 863-7667 for further information or send us email at melanie_moore@scotimarkets.com.