INDEX METHODOLOGY
The AFMI Bloomberg Bond Index
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The AFMI Bloomberg African Bond Index

Chapter 1. Introduction

In December 2014 the African Development Bank (AfDB) through the African Financial Markets Initiative (AFMI) and Bloomberg officially launched the AFMI Bloomberg African Bond Indices (ABABI). The ABABI will provide investors with a reliable tool with which to measure and track the performance of Africa’s bond markets. This bond index will pave the way for the African Domestic Bond Fund which is one of the three pillars of the African Financial Markets Initiative.

The ABABI is a composite index of single-country local-currency sovereign Bloomberg indices. At inception the index included bonds from Egypt, Kenya, Nigeria, and South Africa. In October 2015 Botswana and Namibia were adding and in April 2017 Ghana and Zambia were added.

The African Development Bank and Bloomberg will periodically review countries for inclusion or removal from the index to ensure representativeness. Investors use indices to measure the performance and risk profile of a market. A balance is necessary between investability and completeness when determining index membership. Bloomberg’s indices have been designed to include bonds with sufficient liquidity, reliable pricing and complete and easily monitored terms and conditions.

Independence is the bedrock of Bloomberg’s bond index family. In contrast to most other index families where selection and pricing are done by a single dealer or where a single dealer uses a small number of contributors to arrive at a composite price, the composition of each Bloomberg index is independently selected and priced. Index constituents are priced by BVAL, Bloomberg’s securities valuation service, which draws on market data sourced from multiple market participants.
Chapter 2. Overview of the AFMI Bloomberg African Bond Index Family

The suite of AFMI Bloomberg African Bond Indices and Bloomberg Local Sovereign Indices, provide investors with an objective measure of Africa’s local sovereign debt markets. The chart below shows the primary indices that make up the ABABI Family and their corresponding tickers in the Bloomberg Professional® service.

The AFMI Bloomberg African Bond Index Family
Chapter 2. Overview of the AFMI Bloomberg African Bond Index Family (continued)

The AFMI Bloomberg African Bond Indices comply with international conventions for index construction. In particular:

- **Market coverage**: The universe of securities changes over time, and Bloomberg continually monitors new issuance and the potential inclusion into the Indices of eligible securities.

- **Replicability**: Each of the AFMI Bloomberg African Bond Indices is a practical index capable of replication in a real-world portfolio.

- **Transparency**: All criteria for index construction are publicly available, including the criteria for index membership, the rebalancing frequency and all data required for the computation of index returns and statistics.

- **Global standardization**: The calculation process for the AFMI Bloomberg African Bond Indices is consistent with international market best practices.

- **Data integrity**: Independent and transparent pricing is a key difference of Bloomberg’s index family. Many other index families, rely on single-dealer pricing or composite pricing across a small number of dealers. Prices of index bonds in Bloomberg’s indices are gathered from BVAL, Bloomberg’s securities valuation services. BVAL provides credible, transparent and defensible valuations across a broad spectrum of financial instruments, including fixed income, derivatives and structured notes. These prices are completely independent, drawing on contributors relevant to the market. This broad global dataset of market observations is combined with analytics and Bloomberg’s terms and conditions databases to produce objective third-party pricing with transparency into how the prices are derived.

- **Returns and Statistics**: Index levels and related portfolio characteristics reported on Bloomberg bond indices are drawn from two different versions of the index—the “Returns Universe” and the “Projected Universe.”
  
  - **Returns Universe**: The returns universe is designed to mimic a strict buy-and-hold portfolio with a monthly rebalancing. The returns universe membership is defined by applying the security eligibility rules at each monthly rebalancing date and holding the resulting list of securities constant over the month. Starting weights for the constituents are based market values on the rebalancing date. All published return measures are calculated against the returns universe and include corporate actions that occur during the month.

  - **Projected Universe**: The projected universe represents the changing risk profile of the market the index is designed to represent. The statistics universe membership is defined by applying the security eligibility rules daily and setting constituent weights based on daily closing prices. The statistics universe captures new issuance and removes securities that are no longer eligible. The statistics universe is used as a projection of the next rebalancing as the projected universe membership becomes the returns universe membership for the following month.
Chapter 3. Index Rules

SUMMARY INDEX RULES

Following is a summary of the rules that govern the AFMI Bloomberg African Bond Indices.

Sectors: Sovereign

Currency: Local

Minimum issue size: To be included in the index a security must have a minimum par amount outstanding of ZAR 2 billion, EGP 1 billion, NGN 50 billion, KES 1 billion, BWP 500 million, NAD 500 million, GHS 100 million, or ZMW 50 million.

Coupon: Fixed rate

Maturity: Must have a maturity of greater than one year

Ratings: The are no rating requirements

Reinvestment: Daily, fully reinvested in the index

Pricing: Daily BVAL (Bloomberg Valuation Service) New York 3PM

Base Currency: USD

Weighting: Market capitalized

Bond types excluded: Convertibles
Zero coupon
Private placements
Perpetuals
Amortizing structures
Credit-linked notes
Total return structures
Collateralized debt, bond and fund obligations (CDOs, CBOs, CFOs)
Synthetic securitizations
Hybrid capital securities
Chapter 4. Access to AFMI Bloomberg African Bond Index Family

Bloomberg Professional® service

AFMI Bloomberg African Bond Indices are available for analysis in many functions on the Bloomberg Professional® service. Some of the functions available include:

- Comprehensive benchmark and portfolio analysis in PORT <GO>
  - Characteristics & exposures through time
  - Tracking error
  - Scenario analysis
  - Performance attribution
  - Projected cash flows
  - Optimization
  - What-if analysis
  - Intraday performance
- Detailed description pages with terms and conditions
- API for downloading data into Excel
- News stories linked to a security, asset class, or index
- Single security calculators
- Relative value analytics
- BVAL prices and transparency screens
### Appendix A: Index Base Dates

<table>
<thead>
<tr>
<th>Index Name</th>
<th>Base Date</th>
</tr>
</thead>
<tbody>
<tr>
<td>AFMI Bloomberg African Bond Index</td>
<td>07/06/2012</td>
</tr>
<tr>
<td>AFMI Bloomberg African Bond Index 1 to 3 Year</td>
<td>07/06/2012</td>
</tr>
<tr>
<td>AFMI Bloomberg African Bond Index 1 to 10 Year</td>
<td>07/06/2012</td>
</tr>
<tr>
<td>AFMI Bloomberg African Bond Index 10+ Year</td>
<td>07/06/2012</td>
</tr>
<tr>
<td>Bloomberg Egypt Local Sovereign Index</td>
<td>07/06/2012</td>
</tr>
<tr>
<td>Bloomberg Kenya Local Sovereign Index</td>
<td>07/06/2012</td>
</tr>
<tr>
<td>Bloomberg Nigeria Local Sovereign Index</td>
<td>07/06/2012</td>
</tr>
<tr>
<td>Bloomberg South Africa Local Sovereign Index</td>
<td>01/01/2010</td>
</tr>
<tr>
<td>Bloomberg Botswana Local Sovereign</td>
<td>10/03/2014</td>
</tr>
<tr>
<td>Bloomberg Namibia Local Sovereign</td>
<td>08/01/2014</td>
</tr>
<tr>
<td>Bloomberg Ghana Local Sovereign</td>
<td>12/30/2016</td>
</tr>
<tr>
<td>Bloomberg Zambia Local Sovereign</td>
<td>12/30/2016</td>
</tr>
</tbody>
</table>
Revaluation
The AFMI Bloomberg African Bond Indices are capital accumulation indices, designed to measure the total return from investing in a particular sector. The AFMI Bloomberg African Bond Indices are market value weighted. In the absence of any new issue, maturities, or other changes in the index portfolio, the accumulation index may be written as:

Table A: Index valuation formula

\[
INDEX = \frac{\sum_{j=1}^{n} \left( P_{j,t} + C_{j,t} \right) F_{j,t}}{\sum_{j=1}^{m} P_{j,0} F_{j,0}}
\]

- \( P_{j,t} \) is the gross price per $1.00 of face value for the j bond at time t, which includes an accrued interest component that increases linearly from the time that a coupon was last paid until the bond next turns ex-interest
- \( C_{j,t} \) is the coupon payable per $1.00 face value for the j bond if the date t falls in the time period from the ex-interest date to the interest payment date, discounted to reflect the fact that this coupon will not actually be received until the payment date
- \( F_{j,t} \) is the face value on issue for the j bond at time t
- \( n \) is the number of bonds in the index portfolio
- \( m \) is the number of bonds in the index portfolio at inception

Daily Index Calculation
Bloomberg index returns and statistics are calculated every calendar day. Adhering to the principle of incorporating the most accurate and recent data available, when a local holiday precludes employing same-day pricing, then the index will use the previous day’s pricing but maintain same-day settlement.

Rebalancing
All indices are rebalanced monthly unless otherwise noted. The rebalancing day is the last calendar day of the month.

Reinvestment
Received coupon and principal are reinvested in the universe of securities comprising the index. Rebalancing is performed in market value proportions at the day’s closing prices.
Appendix C: Risk parameters

The following risk parameters are applied to the individual bonds comprising an index and the index as a whole.

**Duration**

Calculated as the weighted average term of all cash flows relating to a bond, including coupon receipts and maturity payment, using as weights the cash flows expressed as present values.

**Modified Duration**

Measures bond price sensitivity to interest rate changes. Modified duration is a linear approximation to price changes.

**Convexity**

Measures a bond’s price / yield curve deviation from linearity. It explains the discrepancy between actual price changes and those predicted using modified duration alone. Thus, convexity measures the second derivative of price with respect to interest rates, and indicates how sensitive modified duration is to changes in interest rates.
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