

Bloomberg AusBond Indices

Month in Review – June 2017

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Month in Review

Interest Rates

On June 6th 2017, the Reserve Bank of Australia (RBA) decided to leave the target cash rate unchanged at 1.5%. The Board closely monitors the Australian economy through a large spectrum of indicators in order to make monetary decisions consistent with its mandate. The GDP for the 2nd quarter was, as expected, subdued in comparison to December highs, which is partially related to the relatively slow growth in consumption, drop in residential investment and recourse exports. The weaker quarterly retail sales were the primary drag on consumption data for the March quarter, and are linked to slower income growth and continued challenges in the retail trading conditions. Slow growth of wages is expected to continue; however, signs of it stabilizing and picking up pace were observed through forward-looking indicators. Decreased residential construction during the first quarter of the year can be explained, to a certain degree, by weather conditions of some states. The current pipeline of deals within this sector is believed to help recover some of these losses in the 2nd quarter. It is worth noting that building approvals had been falling across most states since 2016.

On the 21st of June, the Reserve Bank of New Zealand (RBNZ) left the target cash rate unchanged at 1.75%. The GDP growth for the first quarter came in below expectations; however, positive growth outlook is supported by loose monetary policy and a high population growth rate. The weaker than expected GDP figure is accredited to a slow-down in residential construction, and lower exports. Nevertheless consumption continues to be the major driving force of GDP growth. The Business Manufacturing PMI figure for the month of June was 58.5, an increase from the previous month's PMI of 56.8.

Australian Market Performance

The AusBond indices June returns were negative except for the Credit FRN and Bank Bill Indices. Compared to May, the demand for AUD bonds has reduced. The worst performing component of the AusBond Composite Index was treasuries on an aggregate, with -1.08%. The AusBond Semi Government and the Supra Sovereign Indices returned -0.83% and -0.63% respectively, with the AusBond Credit Index dropping -0.54% for the month. As illustrated in Chart 1, June was the first month of negative returns for the Composite index since the beginning of the year. The Inflation indices were among the worst performers of the month with the following returns: AusBond Inflation (-0.88%), AusBond Inflation Government (-1.59%). The Bank Bill Index remained steady at 0.14%. Equities are little changed with a 0.17% total return for the S&P/ASX 200 Accumulation 200 Index in the month of June. The picture at the tail end of the chart (2 year and 5 year returns) is consistent with the previous months with stocks outperforming bonds significantly in the long term.

Table 1. AusBond Total Return Performance: June 2017

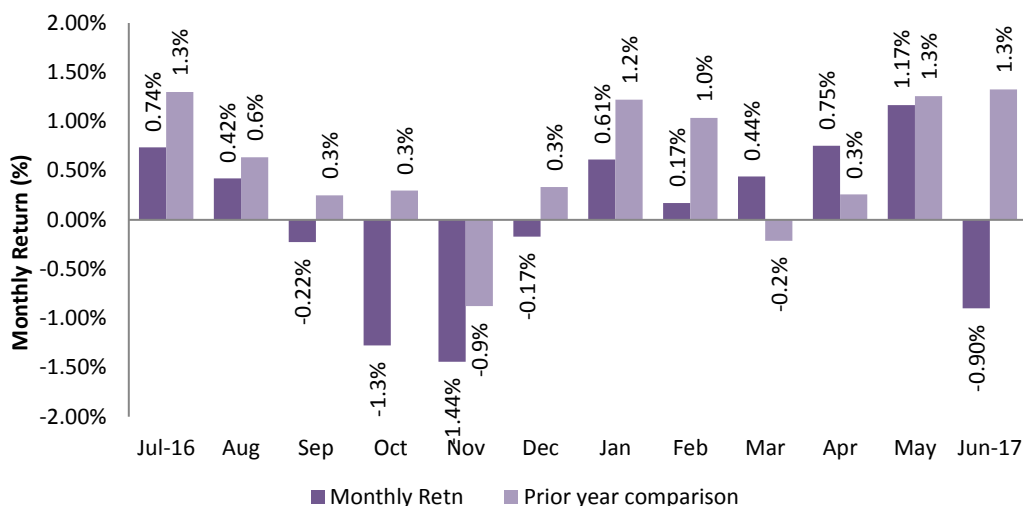
Index	Jun	May	Apr	QTD	12 MTH	2 YR	5 YR
AusBond Composite Index	-0.90%	1.17%	0.75%	1.01%	0.25%	3.58%	4.32%
AusBond Treasury Index	-1.08%	1.32%	0.86%	1.08%	-0.83%	3.44%	3.59%
AusBond Semi Govt Index	-0.83%	1.03%	0.64%	0.84%	0.39%	3.68%	4.69%
AusBond Supra/Sov Index	-0.63%	0.95%	0.66%	0.98%	1.57%	3.58%	4.53%
AusBond Credit Index	-0.54%	1.03%	0.62%	1.11%	2.83%	4.08%	5.28%
AusBond Bank Bill Index	0.14%	0.15%	0.15%	0.44%	1.82%	2.03%	2.52%
AusBond Credit FRN Index	0.30%	0.28%	0.13%	0.72%	3.52%	3.11%	3.87%
AusBond Inflation Index	-1.54%	1.10%	1.20%	0.73%	0.31%	2.41%	3.89%
AusBond Inflation Govt Index	-1.59%	1.06%	1.21%	0.67%	0.13%	2.30%	3.58%
AusBond Inflation Credit Index	-0.88%	1.64%	0.96%	1.71%	3.06%	4.11%	7.17%
S&P/ASX 200 Accum. Index	0.17%	-2.75%	1.03%	-1.58%	14.09%	7.11%	11.81%

Source: Bloomberg Finance L.P.

Note: 2 and 5 year returns are annualised.

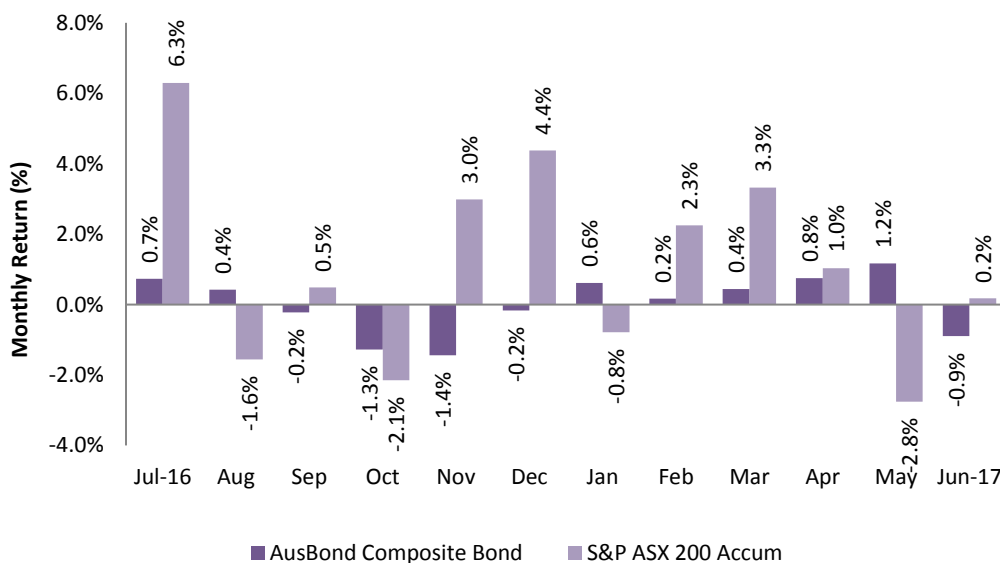
Returns in the second quarter of 2017 have been positive across the board. Most of the fixed income indices underperformed compared to the previous quarter, with the exception of the Bank Bill Index and AusBond Inflation Credit Index as illustrated in Chart 4 below. On an individual index basis, the AusBond Inflation Credit Index gained 1.71% over the course of the current quarter in comparison to 1.61% the previous quarter (Chart 4). The Australian treasury quarterly returns came in at 1.08%. Accounting for over 50% of the weight of the Composite Index, the strong treasury returns boosted the performance of the Composite over the quarter. The S&P/ASX 200 Accumulation 200 Index dropped into negative territory this quarter for the first time in 12 months (chart 4).

Chart 1. Bloomberg AusBond Composite Index: Monthly Performance 2016/2017



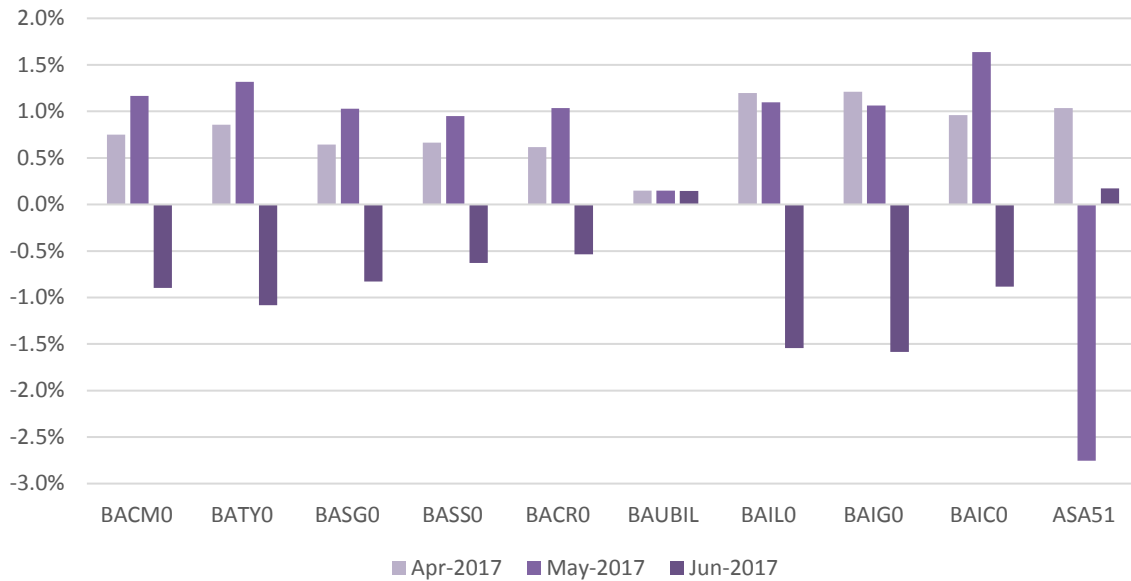
Source: Bloomberg Finance L.P.

Chart 2. S&P/ASX200 Accumulation Index vs. Bloomberg AusBond Composite Index: Monthly Return Performance 2016/2017



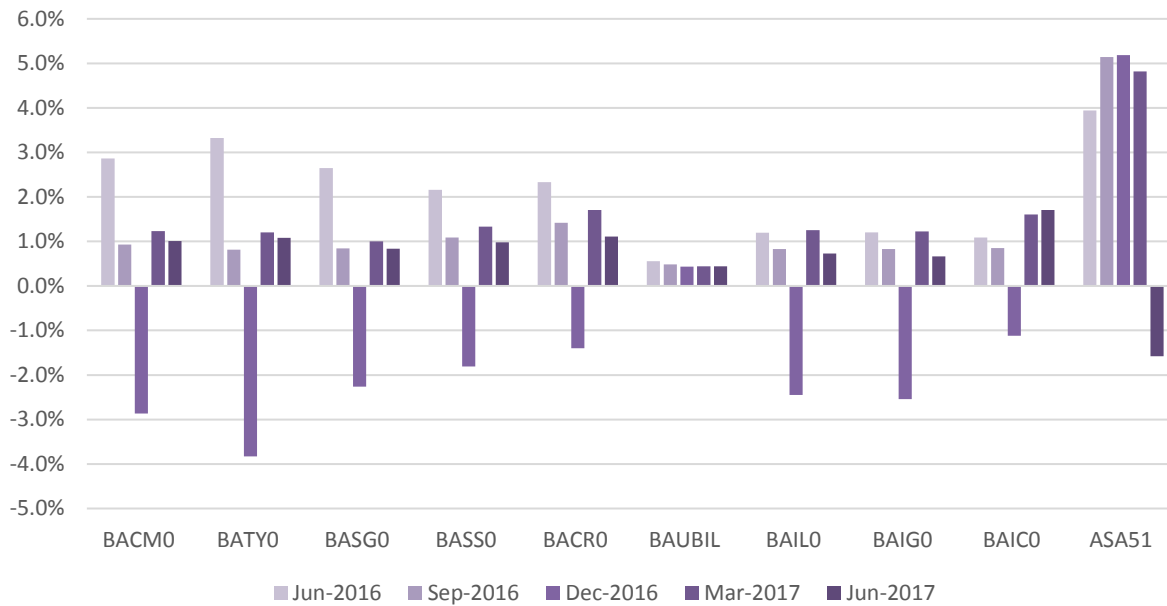
Source: Bloomberg Finance L.P.

Chart 3. Bloomberg AusBond Indices: Recent monthly returns¹



Source: Bloomberg Finance L.P.

Chart 4. Bloomberg AusBond Indices: Recent quarterly returns



Source: Bloomberg Finance L.P.

¹The following indices are shown: AusBond Composite Index (BACM0); AusBond Treasury Index (BATY0); AusBond Semi-Government Index (BASGO); AusBond Supra/Sovereign Index (BASSO); AusBond Credit Index (BACR0); AusBond Bank Bill Index (BAUBIL); AusBond Inflation Index (BAILO); AusBond Inflation Government Index (BAIGO); AusBond Inflation Credit Index (BAICO); and S&P/ASX 200 Accumulation Index (ASA51).

New Zealand Market Performance

The NZBond Indices dropped overall for the month of June. The return in nominal treasuries has dropped to -0.7%, almost 200 basis points less than the previous month. The return of the rest of the Composite was as following: NZBond Local Government Index (-0.43%), Supra Sovereign Index (-0.06%) and Credit Index (-0.08%). The Composite index decreased by -0.44% for the month of June. The Bank Bill Index was the best performer of the month with 0.16%. The NZBond Inflation Government Index (BNZIO), however, was the worst performer with -2.61% return for June. The drop was due to downward price pressures on the 4 underlying index constituents. The second quarter of the year exceeded the returns of the previous quarter for treasuries and local government bonds, ultimately shoring up the Composite index.

The monthly returns of the Composite index has dropped into the negative territory for the first time in the past six months and has recorded a weaker return in comparison to June of 2016 (Chart 5). Most indices in the second quarter of 2017 also underperformed in comparison to the March quarter (Chart 8). NZBond Inflation Government Index is the only benchmark in the fixed income family with over 3% return; however, it still trails behind the S&P/NZX 50 Gross Index (5.76%).

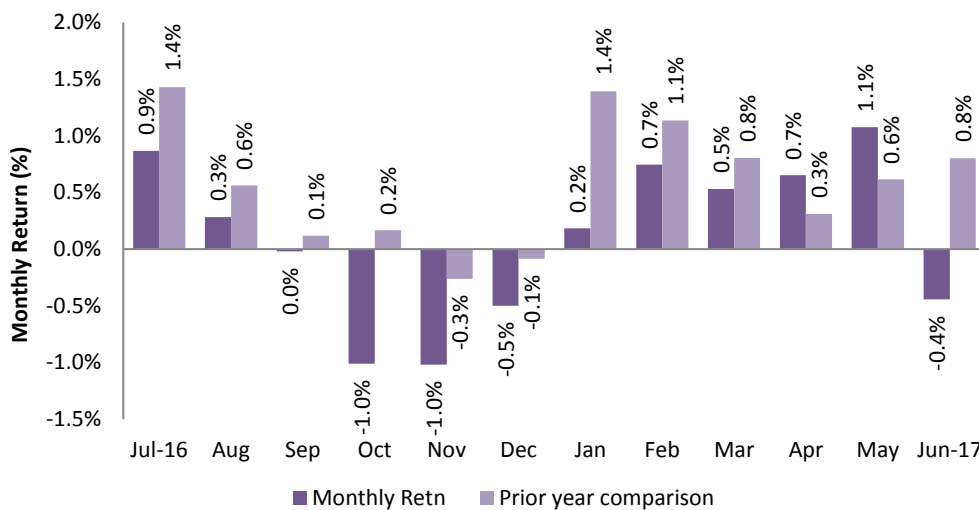
Table 2. NZBond Total Return Performance: June 2017

Index	Jun	May	Apr	QTD	12 MTH	2 YR	5 YR
NZBond Composite Index	-0.44%	1.08%	0.65%	1.28%	1.32%	4.22%	4.10%
NZBond Treasury Index	-0.70%	1.27%	0.79%	1.35%	0.19%	4.06%	3.71%
NZBond Local Govt Index	-0.43%	1.16%	0.71%	1.44%	2.15%	4.65%	5.02%
NZBond Non-Govt Index	-0.07%	0.77%	0.45%	1.15%	2.89%	4.35%	4.85%
NZBond SupraSov Index	-0.06%	0.70%	0.39%	1.03%	2.56%	4.08%	4.21%
NZBond Credit Index	-0.08%	0.85%	0.52%	1.29%	3.29%	4.69%	5.45%
NZBond Bank Bill Index	0.16%	0.17%	0.17%	0.49%	2.16%	2.50%	2.84%
NZBond Inflation Govt Index	-2.61%	4.33%	1.58%	3.21%	0.39%	4.69%	3.41%
S&P/NZX 50 Gross Index	2.60%	0.54%	2.53%	5.76%	10.35%	15.28%	17.49%

Source: Bloomberg Finance L.P.

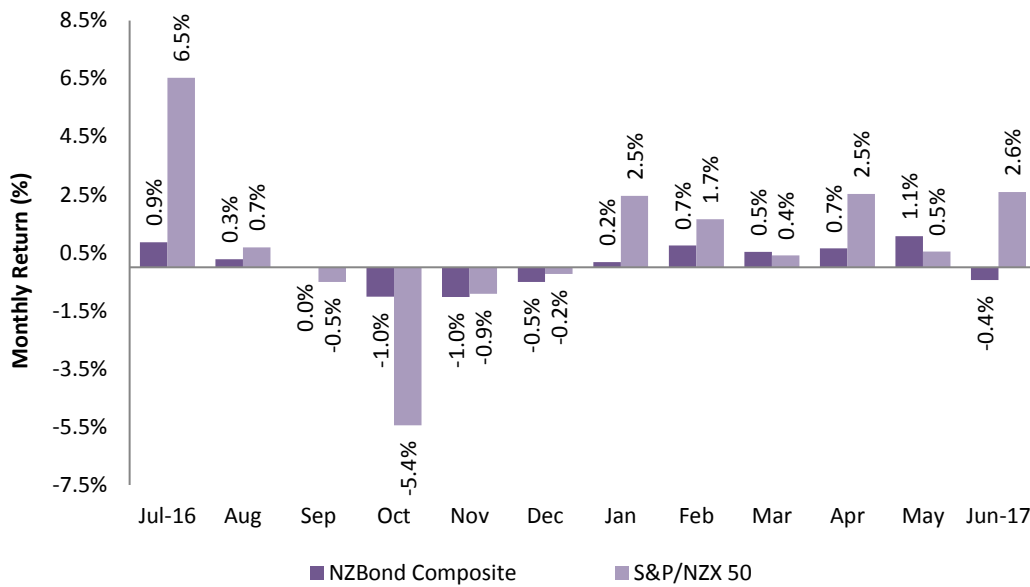
Note: 2 and 5 year returns are annualised.

Chart 5. Bloomberg NZBond Composite Index: Monthly Performance 2016/2017



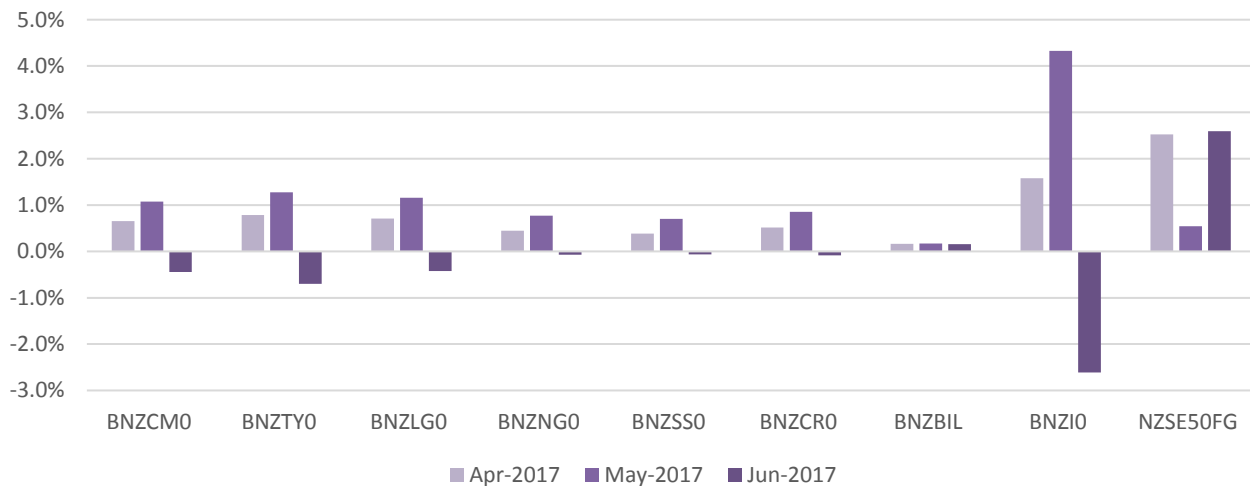
Source: Bloomberg Finance L.P.

Chart 6. S&P/NZX50 Gross Index vs. Bloomberg NZBond Composite Index: Monthly Return Performance 2016/2017



Source: Bloomberg Finance L.P.

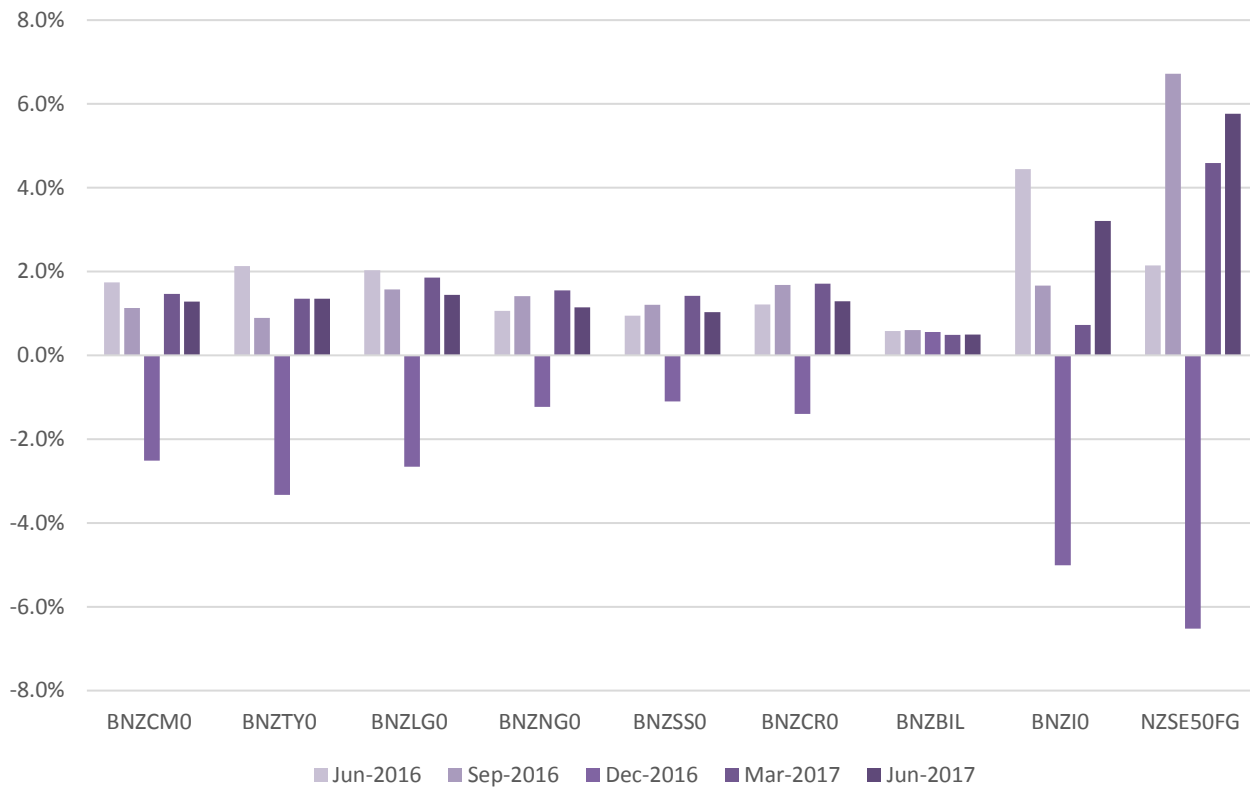
Chart 7. Bloomberg NZBond Indices: Recent monthly returns²



Source: Bloomberg Finance L.P.

²The following indices are shown: NZBond Composite Index (BNZCM0); NZBond Treasury Index (BNZTY0); NZBond Local Govt Index (BNZLG0); NZBond Non-Govt Index (BNZNG0); NZBond SupraSov Index (BNZSS0); NZBond Credit Index (BNZCR0); NZBond Bank Bill Index (BNZBIL); NZBond Govt Inflation Index (BNZIO); and S&P/NZX 50 Gross Index (NZSE50FG).

Chart 8. Bloomberg NZBond Indices: Recent quarterly returns

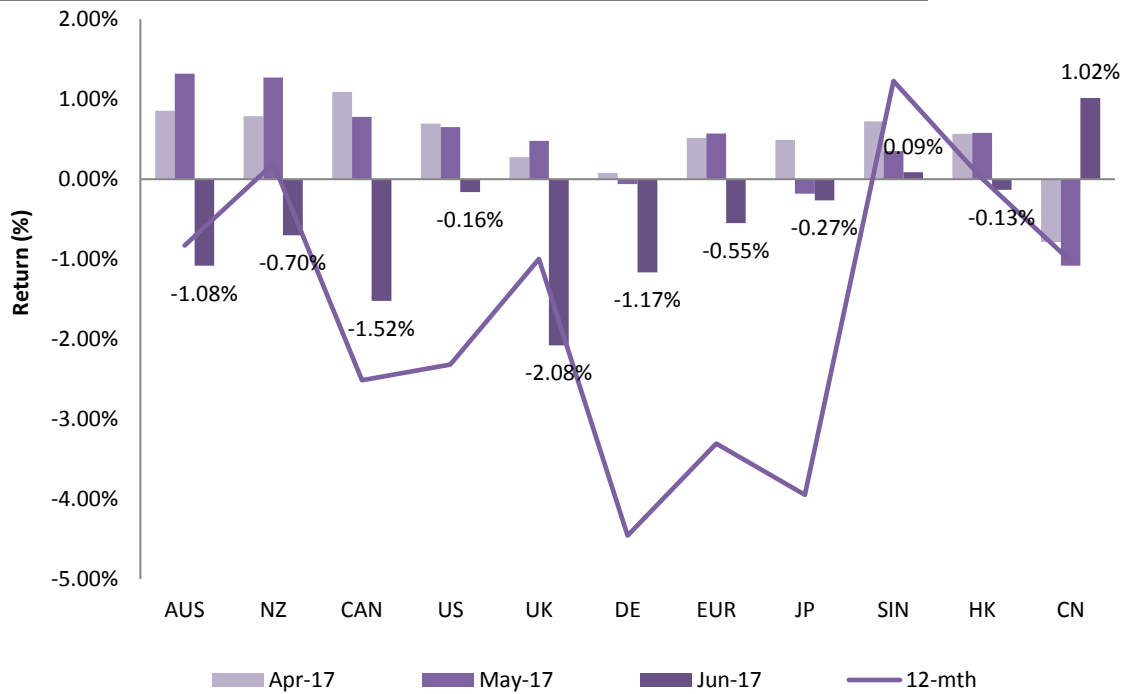


Source: Bloomberg Finance L.P.

Global Market Performance

Chart 9 illustrates recent monthly performance and yearly performance for eleven global sovereign indices. Returns have varied significantly by country, however, negative return was the main theme with the exception of Singapore (0.09%) and China (1.02%). The largest mover, the UK Index, was down 2.08% from the previous month end. It is closely followed by the Canadian treasuries, -1.52%. The US Aggregate Treasury Index has also dropped recording a return of -0.7% for the month. On a twelve month basis, as shown in Table 3, many indices find themselves in negative territory, indicating a risk-on market environment. Among those are Canada (-2.51%), US (-2.32%), UK (-1.00%), Germany (-4.46%), Euro (-3.30%) Japan (-3.94%) and China (-1.03%) Indices.

Chart 9. Bloomberg Indices Sovereign Debt Performance: June 2017³



Source: Bloomberg Finance L.P.

Table 3. Bloomberg Indices Sovereign Debt Performance: June 2017

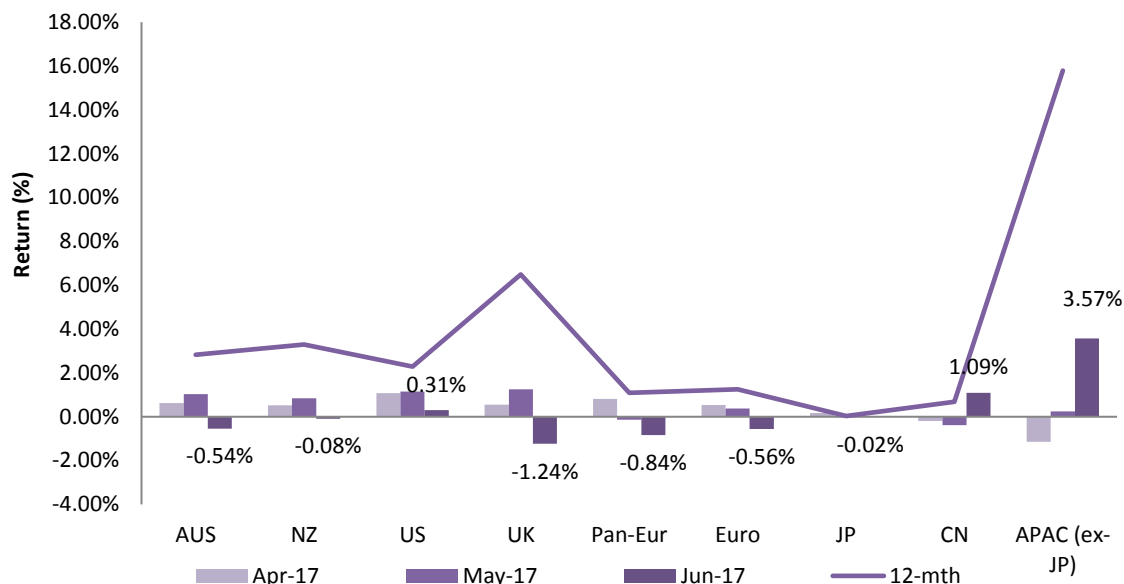
Return	AUS	NZ	CAN	US	UK	DE	EUR	JP	SIN	HK	CN
May(mth)	-1.08%	-0.70%	-1.52%	-0.16%	-2.08%	-1.17%	-0.55%	-0.27%	0.09%	-0.13%	1.02%
Apr	1.32%	1.27%	0.78%	0.65%	0.48%	-0.06%	0.57%	-0.18%	0.35%	0.58%	-1.08%
Mar	0.86%	0.79%	1.09%	0.69%	0.27%	0.08%	0.52%	0.49%	0.72%	0.57%	-0.79%
12-mth	-0.83%	0.19%	-2.51%	-2.32%	-1.00%	-4.46%	-3.30%	-3.94%	1.23%	0.01%	-1.03%

Global Investment Grade Corporate Indices recorded lower returns in June versus May, except for China and APAC benchmarks. The APAC Ex Japan total return was at 3.57%, exceeding its peers by a hefty margin. The next best performer was China with 1.09%. The Bloomberg Barclays US Corporate IG and the UK IG indices grossed

³ The Sovereign Indices shown are: Bloomberg AusBond Treasury (BATY0 Index); Bloomberg NZBond Treasury (BNZTY0 Index); Bloomberg Barclays Global Treasury Bond Index country subsets for Canada, US, UK, Germany, Euro, Japan, Singapore, Hong Kong; and the China Aggregate Treasury subset.

0.31% and -1.24% respectively. As illustrated in Chart 10, APAC (ex-JP) dwarfs all other regions with its 15.79% return since end of June 2016. The United Kingdom also remains as another outlier with a relatively lower 6.49%.

Chart 10. Bloomberg Indices Investment-grade Corporate Indices: June 2017⁴



Source: Bloomberg Finance L.P.

Table 4. Bloomberg Indices Investment Grade Corporate Indices: Jun 2017

Return	AUS	NZ	US	UK	Pan-Eur	Euro	JP	CN	APAC (ex-JP)
Jun	-0.54%	-0.08%	0.31%	-1.24%	-0.84%	-0.56%	-0.02%	1.09%	3.57%
May	1.03%	0.85%	1.15%	1.25%	-0.13%	0.37%	-0.01%	-0.38%	0.24%
Apr	0.62%	0.52%	1.07%	0.55%	0.82%	0.54%	0.17%	-0.19%	-1.15%
12-mth	2.83%	3.29%	2.28%	6.49%	1.09%	1.25%	0.03%	0.68%	15.79%

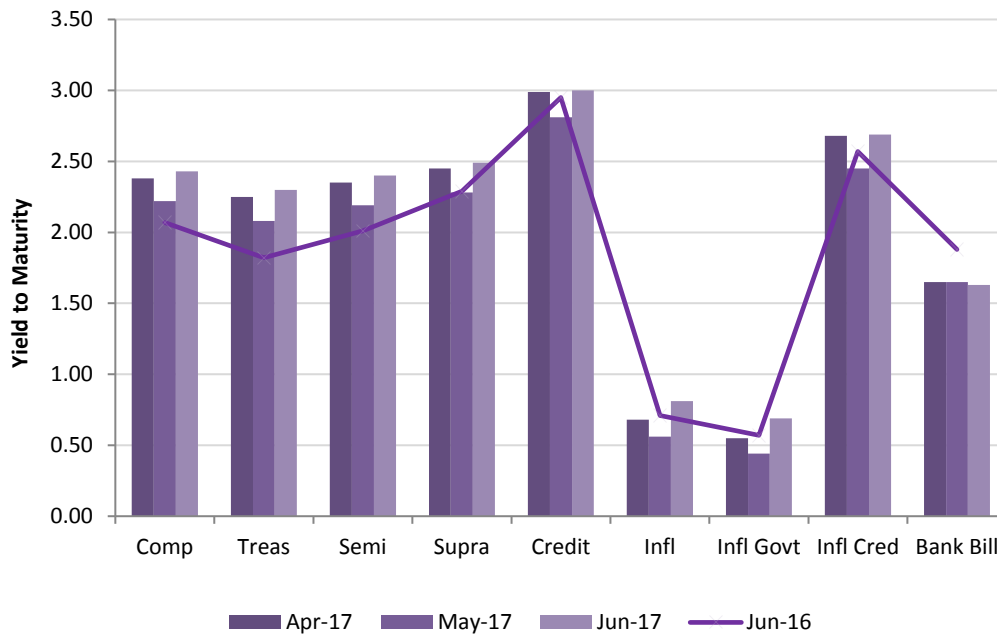
Source: Bloomberg Finance L.P.

⁴ The global benchmarks for investment-grade corporate bonds shown are: Bloomberg AusBond Credit Index (BACR0 Index); Bloomberg NZBond Credit Index (BNZCR0 Index); Bloomberg Barclays US Corporate Bond Index (LUACTRUU Index); Bloomberg Barclays Sterling Corporate Bond Index (LC61TRGU Index); Bloomberg Barclays EURO Index; Bloomberg Barclays Pan-European Index; Corporates Bond Index (LECPTRU Index); Bloomberg Barclays Asian-Pacific Japan Corporate Index (LJC1TRJU Index); Bloomberg Barclays China Aggregate: Corporate Index; and Bloomberg Barclays Asian-Pacific Non-Japan Corporate Index.

Market Yields

In June, the Australian sovereign curve shifted higher across the board, while the AusBond Treasury Index Yield to Worst (YTW) rose 22 basis points (bp) on aggregate. The Composite Index Yield to Worst rose 21bp since May, fueled largely by treasuries and The AusBond Credit Index at (+19bp). The Inflation Credit Index YTW was 2.69, up 24bp since end of May. The Bank Bill Yield was steady at 1.63.

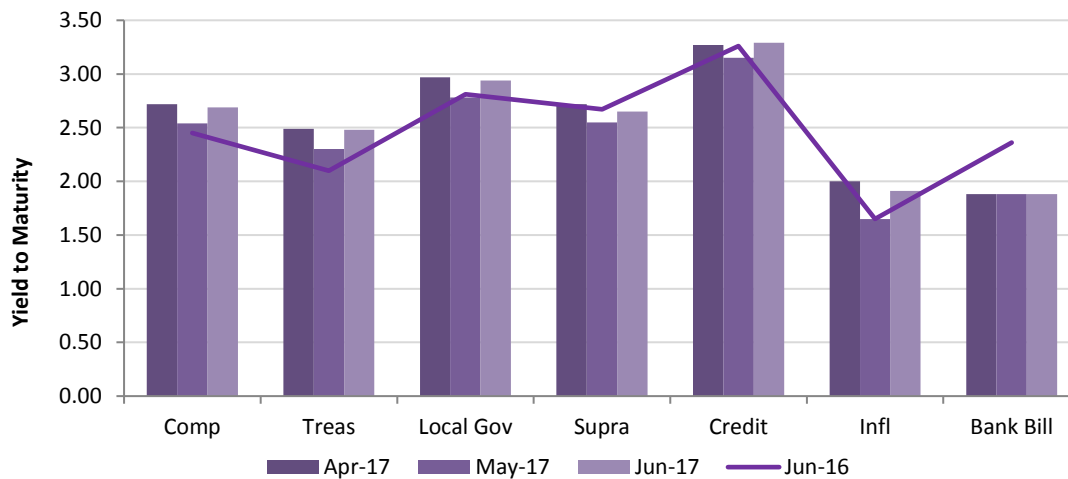
Chart 11. Bloomberg AusBond Indices: Bond Yields



Source: Bloomberg Finance L.P.

Yields for NZBond Indices also shifted higher. The Inflation Index moved up 26bp. Compared to June 2016, the risk associated with treasuries increased 38bp, but dropped for the rest of the Composite Index.

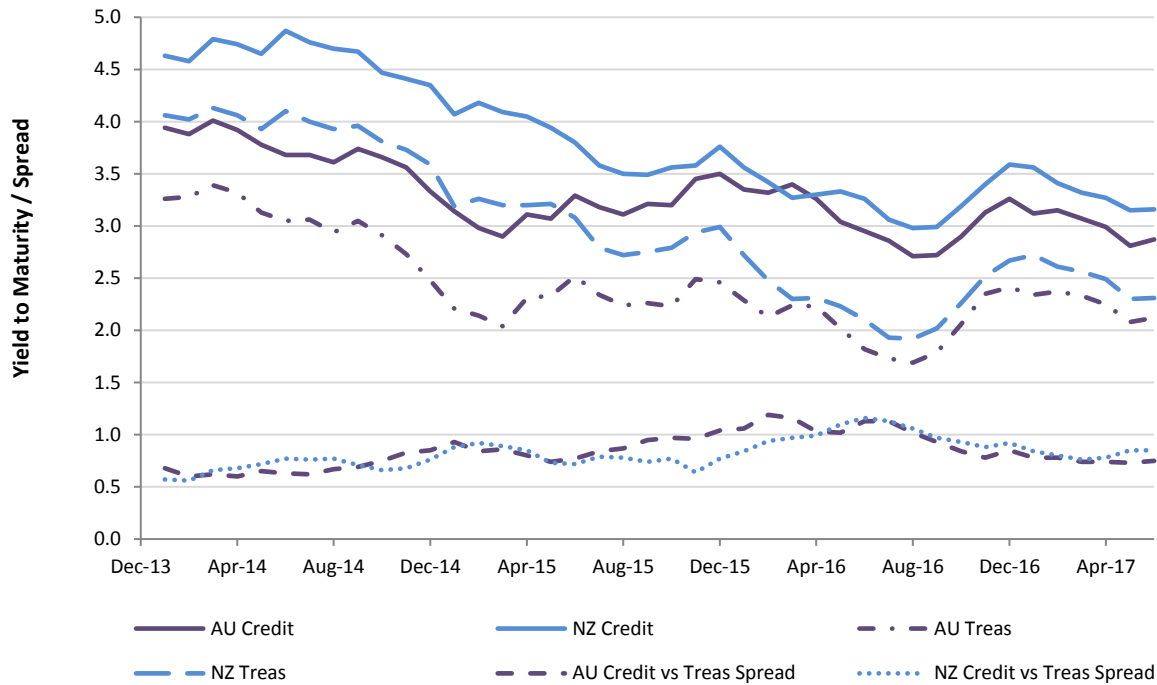
Chart 12. Bloomberg NZBond Indices: Bond Yields



Source: Bloomberg Finance L.P.

As illustrated in Chart 13 the YTW has been dropping both for the Australian and New Zealand Credit Indices since the start of the year. Aussie treasuries are still the most risk averse asset class according to the aggregated figures in the region, followed by the NZ treasuries. Australian Credit spreads have widened for the month of June, whereas the equivalent spreads for the New Zealand market stagnated.

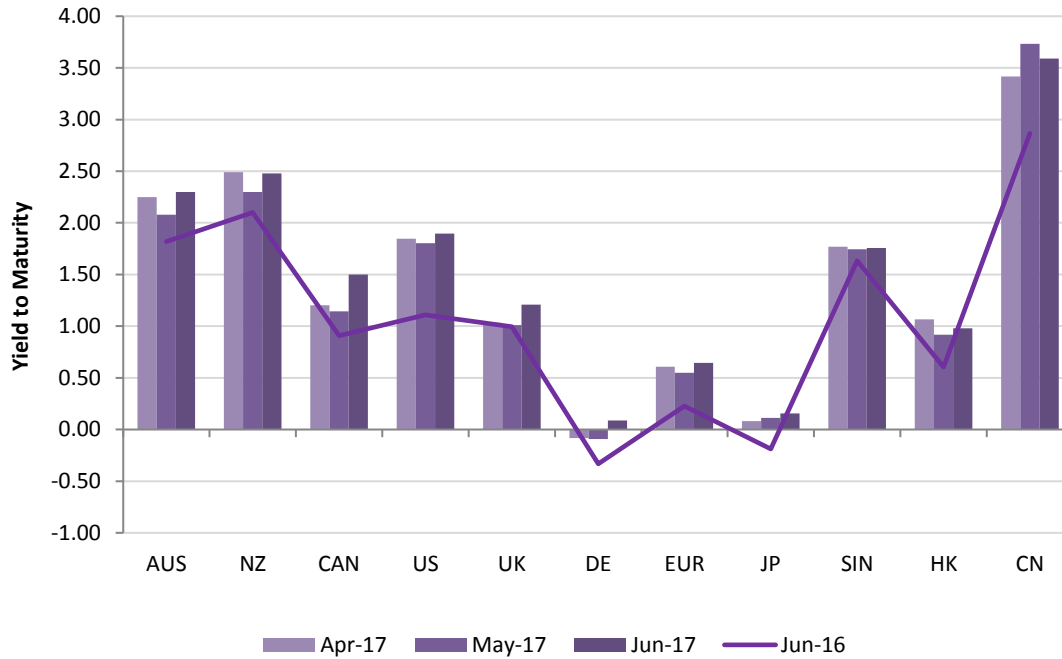
Chart 13. Bloomberg AusBond & NZBond Indices: Yields and Spreads



Source: Bloomberg Finance L.P.

The Global Bloomberg Barclays Sovereign Benchmarks have generally seen their YTW figures rise for the month of June. Chart 14 below illustrates the YTW from the last three months and from June last year for global sovereign bond indices. We can observe the YTW on the Chinese Government Bond Index drifting lower, defying the general trend for the month. According to the Bloomberg Barclays China Treasury Index, the aggregate YTW dropped to 3.590 from 3.733 a month earlier. The yields for the rest of the indices are on a rising trajectory, with Germany recording a positive figure for the first time in a while. UK yields, were at 1.21, which is not significantly different from 12 months prior on June 2016. Contrary to other G7 nations, UK risk appetite is relatively dampened.

Chart 14. Bloomberg Indices Sovereign Bond Yields⁵

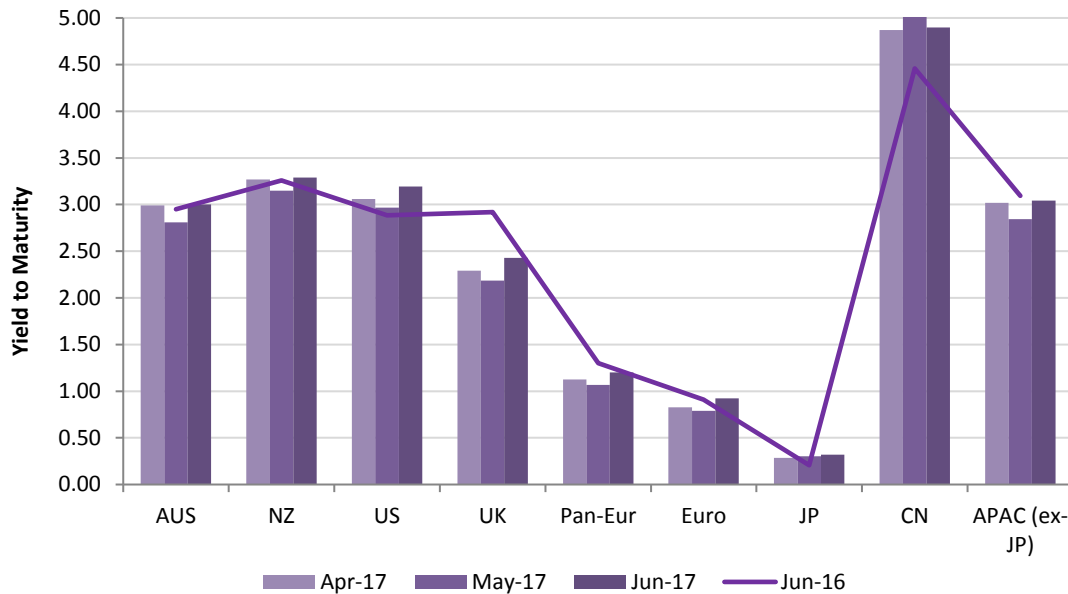


Source: Bloomberg Finance L.P.

⁵The Sovereign Bond Indices shown are: Bloomberg AusBond Treasury (BATY0 Index); Bloomberg NZBond Treasury (BNZTY0 Index); Bloomberg Barclays Global Treasury Bond Index country subsets for Canada, US, UK, Germany, Euro, Japan, Singapore, Hong Kong and China.

June 2017 also recorded higher yields for Investment-Grade Corporate aggregates. The YTW of the credit indices of countries such as UK, US and APAC (ex-Japan) regions rose between 20bp to 25bp. Australia and New Zealand, reported lower rises of 19bp and 14bp respectively. Chinese corporates, however, carry lower risk premiums in comparison to May 2017.

Chart 15. Bloomberg Indices Investment Grade Corporate Bond Yields⁶



Source: Bloomberg Finance L.P.

⁶The global benchmarks for investment-grade corporate bonds shown are: Bloomberg AusBond Credit Index (BACR0 Index); Bloomberg NZBond Credit Index (BNZCR0 Index); Bloomberg Barclays US Corporate Bond Index (LUACTRUU Index); Bloomberg Barclays Sterling Corporate Bond Index (LC61TRGU Index); Bloomberg Barclays Euro-Aggregate: Corporates Bond Index (LECPTRU Index); Bloomberg Barclays Asian-Pacific Japan Corporate Index (LJC1TRJU Index); Bloomberg Barclays China Aggregate: Corporate Index; and Bloomberg Barclays Asian-Pacific Non-Japan Corporate Index.

Supply

The AusBond Composite Index added A\$12.09bn of new supply (issuances and taps) in June. The new supply was 8.33% lower than the previous month and 23.11% shy of the 12 month average (A\$ 8.58bn). The largest contributors were Treasuries at A\$6.6bn followed by Semi Government at A\$3.32bn, then Non-Government at A\$2.18bn. 6 New issues were added into the Composite Index amounting to A\$2.9bn, which leaves the rest of A\$9.19bn as taps.

The 6 additions to the Composite Index were issued by corporates from 6 different sectors. In Real Estate SCAPRT issued a bond accounting for A\$0.18bn. Among financial services, LBRFI was the only issuer this month with a June 2020 bond. 8 Sovereign bonds were tapped last month, totaling A\$6.6bn. The largest upside were carried on the 2.25% May 2028 and 2.75% Nov 2028 bonds. 5 Semi-Government issuers upsized last month naming, NSWTC (A\$ 0.32bn), QTC (A\$ 0.06), SAFA (A\$ 0.75bn), TCV (A\$ 0.31bn), WATC (A\$ 0.64bn). The month of June also saw approximately A\$20.49bn of buybacks and maturities, spread between treasuries, Semi Government securities. The largest portion is devoted to Treasuries A\$14.66bn. The total amount of removals have been much more than the average of the last 12 months (A\$6.74bn). Net total supply has been negative last month amounting A\$(8.40bn).

Table 5. Bloomberg AusBond Composite Index Net New Supply: June 2017

Sector	Jun-17 (A\$bn)	May-17 (A\$bn)	QTD (A\$bn)	12-mth avg (A\$bn)	% diff on prior mth	% diff on 12-mth avg
Additions						
Treasury	6.60	7.20	18.70	8.58	-8.33%	-23.11%
Semi Government	3.32	1.31	6.65	2.53	153.18%	31.10%
Non-Government	2.18	3.61	7.78	3.01	-39.75%	-27.67%
Total Composite	12.09	12.12	33.13	14.12	-0.23%	-14.37%
Removals						
Treasury	14.66	0.80	15.86	3.17	1732.50%	362.58%
Semi Government	2.73	0.72	5.26	1.76	279.17%	55.45%
Non-Government	3.1	0.55	4.38	1.81	463.64%	71.29%
Total Composite	20.49	2.07	25.50	6.74	889.86%	204.22%
Net new supply						
Treasury	-8.06	6.40	2.84	5.41	-225.94%	-248.87%
Semi Government	0.59	0.59	1.39	0.77	-0.56%	-24.17%
Non-Government	-0.93	3.06	3.40	1.20	-130.23%	-177.26%
Total Composite	-8.40	10.05	7.63	7.39	-183.57%	-213.72%

Source: Bloomberg Finance L.P.

Maturities

Table 6. Maturities for AusBond Composite Index: June 2017

Issuer	ISIN	Value	Maturity
ASIAN DEVELOPMENT BANK	AU0000ATBHJ5	1,200,000,000	05-Jul-17
WESTERN AUST TREAS CORP	AU000WT60347	2,286,566,000	15-Jul-17
HOLCIM FINANCE AUSTRALIA	AU3CB0196699	250,000,000	18-Jul-17
CROWN GROUP FINANCE LTD	AU3CB0196848	300,000,000	18-Jul-17
AUSTRALIAN GOVERNMENT	AU3TB0000127	13,855,572,000	21-Jul-17
INTL FINANCE CORP	AU0000IFXHH5	1,150,000,000	26-Jul-17
QIC SHOPPING CENTRE FUND	AU3CB0199867	200,000,000	27-Jul-17

Source: Bloomberg Finance L.P.

Table 7. Upcoming maturities for AusBond Composite Index: July 2017

Issuer	ISIN	Value	Maturity
EXPORT DEVELOPMNT CANADA	AU3CB0197572	1,000,000,000	08-Aug-17
NORDIC INVESTMENT BANK	AU0000NIBHG7	450,000,000	08-Aug-17
KFW	AU0000KFWHV4	1,700,000,000	10-Aug-17
GE CAP AUSTRALIA FUNDING	AU3CB0198240	223,940,000	23-Aug-17

Source: Bloomberg Finance L.P.

Table 8. Maturities for NZBond Composite Index: June 2017

Issuer	ISIN	Value	Maturity
TELSTRA CORP LTD	NZTCODT102C8	100,000,000	11-Jul-17
ASIAN DEVELOPMENT BANK	NZADBDT003C3	1,000,000,000	20-Jul-17

Source: Bloomberg Finance L.P.

Table 9. Upcoming maturities for NZBond Composite Index: July 2017

Issuer	ISIN	Value	Maturity
INTL BK RECON & DEVELOP	NZIBDDT005C0	400,000,000	13-Aug-17

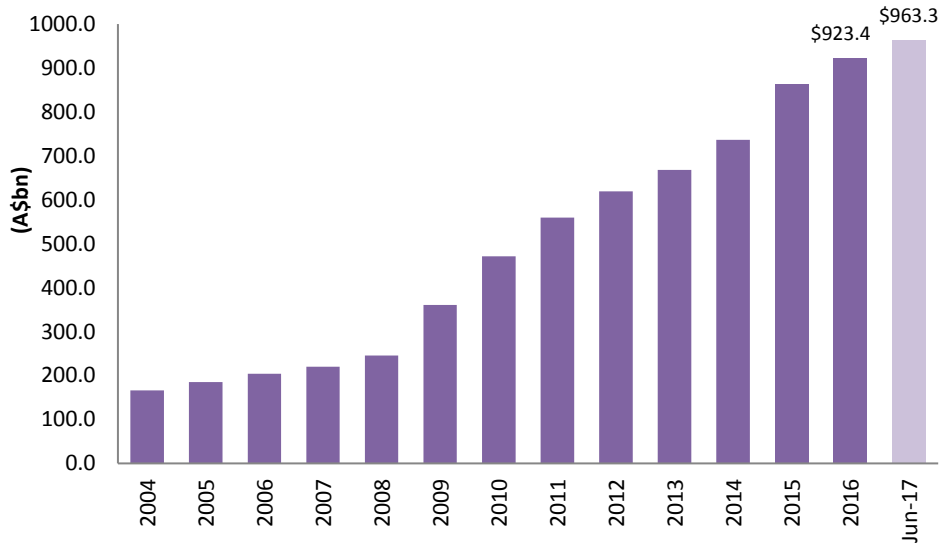
Source: Bloomberg Finance L.P.

Index Market Capitalisation

The AusBond Composite Index ended June 2017 at A\$963.3bn.

The NZBond Composite Index stood at NZ\$119.2bn at the end of June.

Chart 18. Growth of Bloomberg AusBond Composite Index: 2004 – 2017



Source: Bloomberg Finance L.P.



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