Index Announcement

Update: March 2020 Index Rebalancing of Bloomberg Barclays Indices – Standard Rebalance with Targeted Suspension

Note: The continued inclusion of bonds falling below one year to maturity is not yet reflected in the projected universe of Bloomberg Barclays Indices. The inclusion of these bonds in the March 2020 projected universe is targeted for the close of business Friday, March 27, 2020.

The Bloomberg index team has determined to substantially continue the standard rebalance for March month-end in accordance with our published index methodology but **temporarily suspend the exclusion of index bonds falling below one year to maturity**. Aside from this change, we expect to proceed with the end of March rebalance as per normal procedures. For clarity, this announcement applies to our various Bloomberg Barclays indices but does not apply to our other index families that do not fall under the Bloomberg Barclays umbrella.

As a result of this temporary rule suspension, a significant number of the bonds that would otherwise drop will remain in the indices. The approach we have selected is designed to limit the turnover of the indices during this period of market stress while otherwise applying our standard methodology. With regard to our flagship Global Aggregate and US Aggregate indices, the number of bonds (and corresponding weights) that will remain in our indices that would have otherwise exited represent, as follows (with corresponding market value and duration changes), respectively:

- For the Global Aggregate this represents 252 bonds which is 1% of the bonds in the index, with $663 bln in market value out of a total of $56.12 trln market value in the index, with an expected duration shortening of 0.07 years resulting in a duration of 6.95.
- For the US Aggregate this represents 80 bonds which is 0.7% of the index, with $220bln in market value out of a total of $23.46 trln market value in the index, with an expected duration shortening of 0.04 years resulting in a duration of 5.60.

This decision was made after much due and careful consideration. In particular, we discussed the proposal internally within the relevant governance and oversight bodies, consulted external stakeholders, including Index Advisory Council members and a variety of other index users from both the asset management and dealer communities. We remain in touch with the relevant regulators regarding the rebalance. In addition, we evaluated a range of potential options: from continuing with the rebalance in full, executing a substantial delay of this month's rebalance, and a range of more targeted measures in between, one of which we settled upon.

Through this process, we have learned that views across the investment community differ widely, which we broadly characterize below.

Those in favor of rebalancing as normal cite reasons such as the importance of remaining faithful to our published methodology, the transparency of our rules-based process, the importance of reflecting markets as they exist (challenging as they may be), and the need for index users to manage their market activities during times of crisis without a need to simultaneously modify index rules to solve the issue.

Those in favor of rebalancing also note that tracking error relative to an index at a time like this is highly likely regardless of any decision to delay. They are also concerned about a more significant rebalance at the end of the postponement period, and that delaying the next scheduled month end rebalance would only provide temporary relief now for increased pressure later.

Those in favor of delaying the rebalance (or somehow reducing the turnover) cite the difficulty of transacting in illiquid markets and therefore the significant challenge to continue to replicate an index. These stakeholders believe the rebalancing of the index will cause the market to participate in unnecessary transactions during a time of stress, straining what little liquidity there may be. In addition, these stakeholders believe this is an unprecedented market environment which needs to be responded to in a unique way.

Finally, there are a significant number of stakeholders that do not have a strong view one way or the other but do seek clarity.

After careful consideration of the various options during this time of exigent market circumstances, the Bloomberg index team decided to exercise its discretion as set out in the first paragraph of this announcement.

If you have any questions after reviewing the above, please contact the index team via the Bloomberg Help Desk (<Help><Help>) or indexhelp@bloomberg.net.

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