



# **BulletShares®**

## **USD High Yield Corporate Bond Indices**

### **Methodology**

## OVERVIEW

BulletShares<sup>®</sup> USD High Yield Corporate Bond Indices measure the performance of maturity-targeted segments of the U.S. dollar-denominated high yield corporate bond market. Set forth below are the criteria for determining the index family’s universe of eligible securities (the “Eligible Universe”) and the methodology for constructing each BulletShares<sup>®</sup> USD High Yield Corporate Bond Index. BulletShares<sup>®</sup> USD High Yield Corporate Bond Indices are owned by Accretive Asset Management LLC and maintained by Mergent, Inc. (the “Index Calculation Agent”).

The BulletShares<sup>®</sup> methodology allocates bonds from the Eligible Universe into the BulletShares<sup>®</sup> Indices based on maturity, or in some cases effective maturity date. BulletShares<sup>®</sup> USD High Yield Corporate Bond Indices currently consist of the following indices:

### BulletShares<sup>®</sup> USD High Yield Corporate Bond Indices

- BulletShares<sup>®</sup> USD High Yield Corporate Bond 2012 Index
- BulletShares<sup>®</sup> USD High Yield Corporate Bond 2013 Index
- BulletShares<sup>®</sup> USD High Yield Corporate Bond 2014 Index
- BulletShares<sup>®</sup> USD High Yield Corporate Bond 2015 Index
- BulletShares<sup>®</sup> USD High Yield Corporate Bond 2016 Index
- BulletShares<sup>®</sup> USD High Yield Corporate Bond 2017 Index
- BulletShares<sup>®</sup> USD High Yield Corporate Bond 2018 Index
- BulletShares<sup>®</sup> USD High Yield Corporate Bond 2019 Index
- BulletShares<sup>®</sup> USD High Yield Corporate Bond 2020 Index
- BulletShares<sup>®</sup> USD High Yield Corporate Bond 2021 Index

## INDEX CONSTRUCTION

### 1. BulletShares<sup>®</sup> USD High Yield Corporate Bond Indices Eligibility Criteria

- A. **Issuers.** Only U.S. dollar-denominated bonds issued by companies domiciled in the U.S., Canada, Western Europe<sup>1</sup> or Japan are included in the Eligible Universe.
- B. **Types of Bonds.** Bonds must pay fixed amounts of taxable interest to be included in the Eligible Universe. The following bond types are specifically included:
  - Fixed coupon bonds.
  - Callable bonds.
  - Step-ups, event-driven, rating-driven and registration-driven bonds.

<sup>1</sup> AAM defines Western Europe as: Austria, Belgium, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, Netherlands, Norway, Portugal, Spain, Sweden Switzerland, United Kingdom

- Amortizing bonds and sinking funds with fixed sinking schedules.
  - Rule 144A bonds.
- C. Selection Criteria.** Bonds must meet all of the following selection criteria to be included in the Eligible Universe:
- Maximum credit rating of BB+ from Fitch Investor Services (“Fitch”) or Standard and Poor’s Rating Group (“S&P) or Ba1 by Moody’s Investors Service, Inc. (“Moody’s) and a minimum average rating of CCC- from Fitch, S&P and Moody’s. The minimum average credit rating is computed by calculating the simple average of a bond’s ratings published by Fitch, S&P and Moody’s and then rounding down to the nearest rating step.
  - Outstanding face value of at least \$200 million.
- D. Exclusions.** To ensure adequate investability, the following bond types are specifically excluded:
- Bonds with an initial term of less than one year.
  - Reg S bonds, Eurodollar<sup>2</sup> bonds and EuroMTN bonds.
  - Retail bonds.
  - Floating rate bonds.
  - Zero coupon bonds.
  - Convertible bonds.
  - Bonds cum or ex-warrant.
  - Bonds with one cash flow only.
  - New bonds that have already been called.
  - Bonds that permit issuers to make coupon payments either in cash or in new debt securities (i.e., PIK-toggle bonds).
  - Inflation or other index-linked bonds.
  - Bonds guaranteed by an agency, national or supranational government (including FDIC or TLGP).
  - Perpetual securities (including Trust Preferred).
  - Securities for which the Index Calculation Agent is unable to, or is prohibited from providing an evaluated price.

## 2. Index Creation

- A. Annual Maturity Allocation.** On an annual basis, existing bonds in the Eligible Universe are distributed into BulletShares<sup>®</sup> USD High Yield Corporate Bond Indices in accordance with their effective maturities. To determine effective maturity, each bond in the Eligible Universe is examined to determine if the bond has an embedded issuer call option.
- If no embedded issuer call option exists, then the bond is allocated to the BulletShares<sup>®</sup> High Yield Corporate Bond Index representing its actual year of maturity. For example, a bond with a maturity date in calendar year 2015 that has no embedded issuer call option would be allocated to the BulletShares<sup>®</sup> USD

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<sup>2</sup> Denoted by ISIN codes beginning with country codes other than “US”

High Yield Corporate Bond 2015 Index.

- If a bond in the Eligible Universe contains an embedded issuer call option, the bond is allocated based to a BulletShares<sup>®</sup> USD High Yield Corporate Bond Index based on its effective maturity as determined by the process set forth below.

**B. Effective Maturity Process for Callable Bonds.** The effective maturity process for callable bonds allocates callable bonds to BulletShares<sup>®</sup> USD High Yield Corporate Bond Indices based on the bond's year of effective maturity. The effective maturity of a callable bond shall be its actual year of maturity unless the clean price of the bond exceeds one of the thresholds listed below with respect to its next call date, in which case its effective maturity shall be the year indicated below.

- *Bonds with less than two years to next call date.* If the callable bond's clean price is greater than 102% of the bond's call price for a call date less than two years away, the nearest future year (including the current year) in which the bond may be called is deemed its year of effective maturity.
- *Bonds with two years or more to next call date.* If the callable bond's clean price is greater than 104% of the bond's call price for a call date two years or more than two years away, the nearest future year in which the bond may be called is deemed its year of effective maturity.

### 3. Target Weights

BulletShares<sup>®</sup> USD High Yield Corporate Bond Indices employ a market value weighting methodology to weight individual positions, subject to a 5% limit on individual issuers in each index applied at each monthly rebalancing prior to the final annual reconstitution of an index. Once set, target weights are free to float due to market actions. Weights are reviewed and the index rebalanced according to the rules described below.

## REINVESTMENT

### 1. Prior to Final Annual Reconstitution of Index.

**A. Coupon Payments.** Market values of coupon payments received by a BulletShares<sup>®</sup> USD High Yield Corporate Bond Index are deemed reinvested as of the coupon payment date in 13-week U.S. Treasury Bills until the next rebalancing of the BulletShares<sup>®</sup> USD High Yield Corporate Bond Index.

**B. Called bonds.** If a bond in a BulletShares<sup>®</sup> USD High Yield Corporate Bond Index is called before the index's final annual reconstitution, the proceeds (including any accrued interest paid in connection with the redemption of the bond) are deemed reinvested as of the call date in 13-week U.S. Treasury Bills until the next rebalancing of the BulletShares<sup>®</sup> USD High Yield Corporate Bond Index.

### 2. After Final Annual Reconstitution of Index.

**A. Coupon Payments.** Market values of coupon payments received by a BulletShares<sup>®</sup> USD High Yield Corporate Bond Index are deemed

reinvested as of the coupon payment date in 13-week U.S. Treasury Bills until the termination of the Index.

- B. **Matured bonds.** After the final annual reconstitution of an index, as bonds mature or are called and principal is returned, proceeds are deemed reinvested in 13-week U.S. Treasury until the termination of the index.

## RECONSTITUTION AND REBALANCING

### 1. Prior to Final Annual Reconstitution of Index.

- A. **Reconstitution.** On an annual basis, each BulletShares<sup>®</sup> USD High Yield Corporate Bond Index is reconstituted to reflect changes in the Eligible Universe as well as changes in the deemed effective maturities of callable bonds as determined by the processes set forth above.
- B. **Rebalancing.** On a monthly basis, each BulletShares<sup>®</sup> USD High Yield Corporate Bond Index is rebalanced to reflect the relative market values of its constituents and to incorporate any new bonds in the Eligible Universe that qualify for inclusion in such BulletShares<sup>®</sup> USD High Yield Corporate Bond Index. In connection with the monthly rebalancing process, the effective maturity for each new bond in the Eligible Universe is determined in accordance with the effective maturity process described above.

### 2. After Final Annual Reconstitution of Index.

- A. **Reconstitution.** The portfolio of bonds established in connection with the final annual reconstitution of a BulletShares<sup>®</sup> USD High Yield Corporate Bond Index will be fixed for the remainder of the life of the index.
- B. **Rebalancing.** Following the final annual reconstitution of a BulletShares<sup>®</sup> USD High Yield Corporate Bond Index, the index's constituents are set to float due to market value changes and are no longer rebalanced on a monthly basis.

### 3. Termination of Index.

Any bonds or 13-week U.S. Treasury Bills in a BulletShares<sup>®</sup> USD High Yield Corporate Bond Index as of the end of the index's year of maturity are deemed sold and the index is terminated as of the close of business on December 31 of the index's designated year of maturity.

### 4. Rebalancing Timeline.

On the 20<sup>th</sup> calendar day of the month, or the first business day after the 20<sup>th</sup> day, the securities which comprise the Eligible Universe for the next period are compiled based on the criteria set forth herein and reviewed by Accretive Asset Management LLC. Any changes in the universe after the index cutoff date will be incorporated as of the next rebalancing.

### 5. Other Intra-month Changes.

Securities that are fully or partially redeemed during the month (for example, called bonds or amortizing bonds with fixed schedules) will see their market value adjusted as of the effective date of the redemption and the redemption amount treated as cash until the next rebalance.

### 6. Final Index Membership.

Upcoming changes to the index constituent list will be made publicly available at the close of business three days prior to the month end in which these changes become effective.

## INDEX MAINTENANCE

Index construction, securities pricing, and index calculation and dissemination are the responsibility of the Index Calculation Agent. The following services are provided by the Index Calculation Agent to maintain the indices in accordance with the index methodology set forth herein.

1. **Index Construction.** The Index Calculation Agent is responsible for gathering securities information for the Eligible Universe and applying the BulletShares<sup>®</sup> USD High Yield Corporate Bond Index methodology to create individual indices.
2. **Securities Pricing.** The Index Calculation Agent is responsible for determining an evaluated price for each security in the BulletShares<sup>®</sup> USD High Yield Corporate Bond Indices.
3. **Index Calculation and Dissemination.** The Index Calculation Agent is responsible for compiling, calculating, maintaining, and disseminating the values of BulletShares<sup>®</sup> USD High Yield Corporate Bond Indices.
4. **BulletShares<sup>®</sup> Index Committee.**
  - A. **Role of Committee.** The BulletShares<sup>®</sup> Index Committee solely maintains the BulletShares<sup>®</sup> USD High Yield Corporate Bond Index methodology and is not involved in any way in the day-to-day maintenance or administration of the index.
  - B. **Changes to Methodology.** The BulletShares<sup>®</sup> Index Committee meets at least once annually to review the BulletShares<sup>®</sup> USD High Yield Corporate Bond Index methodology. Any changes to the methodology will be publicly disclosed at [www.accretiveasset.com](http://www.accretiveasset.com) at least three (3) business days prior to implementation by the Index Calculation Agent.