

US High Yield Fallen Angel 3% Capped Bond Index

The Bloomberg US High Yield Fallen Angel 3% Capped Bond Index is a component of the US Corporate High Yield Index that is designed to track USD-denominated, high yield, fixed-rate corporate bonds that have been downgraded from investment grade. Securities are classified as high yield if the middle rating of Moody's, Fitch and S&P is Ba1/BB+/BB+ or below. Bonds from issuers with an emerging markets country of risk, based on the indices' EM country definition, are excluded. The US High Yield Fallen Angel 3% Capped Bond Index was created in March 2016, with history backfilled to January 1, 2005.

Rules for Inclusion

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|----------------------------|---|
| Fallen Angel | Securities must currently be rated high yield, while having been assigned an investment grade index rating either at issuance or at some point since issuance. |
| Sector | Corporate (industrial, financial institutions, utility) issues only. |
| Eligible Currencies | Principal and interest must be denominated in USD. |
| Quality | <ul style="list-style-type: none"> Securities must be rated high yield (Ba1/BB+/BB+ or below) using the middle rating of Moody's, S&P and Fitch; when a rating from only two agencies is available, the lower is used; when only one agency rates a bond, that rating is used. Securities must also have been rated investment grade in the past (Baa3/BBB-/BBB- or above) and subsequently downgraded to high yield. |
| Amount Outstanding | USD150mn minimum par amount outstanding. |
| Coupon | <ul style="list-style-type: none"> Fixed-rate coupon. Pay-in-kind (PIK) bonds and toggle notes are eligible. Partial PIKs are excluded. Callable fixed-to-floating rate and fixed-to-variable bonds are eligible during their fixed-rate term only. Bonds with a step-up coupon that changes according to a predetermined schedule are eligible. |
| Maturity | <ul style="list-style-type: none"> At least one year until final maturity, regardless of optionality. Bonds that convert from fixed to floating rate, including fixed-to-float perpetuals, will exit the index one year prior to conversion to floating-rate. Fixed-rate perpetuals are not included. |
| Taxability | <ul style="list-style-type: none"> Only fully taxable issues are eligible. Dividend Received Deduction (DRD) and Qualified Dividend Income (QDI) eligible securities are excluded. |

- Market of Issue**
- SEC-registered bonds, bonds exempt from registration at the time of issuance and SEC Rule 144A securities (with or without registration rights) are eligible.
 - A security with both SEC Regulation-S (Reg-S) and SEC 144A tranches is treated as one security for index purposes. The 144A tranche is used to prevent double-counting and represents the combined amount outstanding of the 144A and Reg-S tranches.

Seniority of Debt Senior and subordinated issues are included.

| Security Types | Included | Excluded |
|-----------------------|--|---|
| | <ul style="list-style-type: none"> • Bullet, puttable, sinkable/amortizing and callable bonds • Original issue zero coupon bonds • Pay-in-kind (PIK) bonds and toggle notes • Fixed-rate and fixed-to-float (including fixed-to-variable) capital securities | <ul style="list-style-type: none"> • Debt issued by emerging markets corporate issuers • Defaulted bonds • Contingent capital securities, including traditional CoCos and contingent write-down securities, with explicit capital ratio or solvency/balance sheet-based triggers • Bonds with equity type features (e.g., warrants, convertibles, preferreds, DRD/QDI-eligible issues) • Partial pay-in-kind (PIK) bonds • Eurodollar issues • Inflation-linked bonds, floating-rate issues • Private placements, retail bonds • Structured notes, pass-through certificates |

Rebalancing Rules

Issuer Capping Methodology Issuers that exceed 3% of the market value of the uncapped US High Yield Fallen Angel Index are limited at 3%. The excess market value over the 3% cap is redistributed on a pro rata basis to all other issuers' bonds in the index that are under the 3% cap. The process is repeated until no issuer exceeds the 3% limit. For example, an issuer that represents 4% of the uncapped index will have 1% of the index's market value redistributed to each bond from all issuers under the 3% cap on a pro rata basis. The 3% issuer cap is applied each month as the index is rebalanced.

Frequency For each index, Bloomberg maintains two universes of securities: the Returns (Backward) and the Projected (Forward) Universes. The composition of the Returns Universe is rebalanced at each month-end and represents the fixed set of bonds on which index returns are calculated. The Projected Universe is a forward-looking projection that changes daily to reflect issues dropping out of and entering the index but is not used for return calculations. On the last business day of the month (the rebalancing date), the composition of the latest Projected Universe becomes the Returns Universe for the following month.

Index Changes During the month, indicative changes to securities (credit rating change, sector reclassification, amount outstanding changes, corporate actions, and ticker changes) are reflected daily in the Projected and Returns Universe of the index. These changes may cause bonds to enter or fall out of the Projected Universe of the index on a daily basis, but will affect the composition of the Returns Universe at month-end only, when the index is next rebalanced.

Reinvestment of Cash Flows Intra-month cash flows from interest and principal payments contribute to monthly index returns but are not reinvested at a short-term reinvestment rate between rebalance dates. At each rebalancing, cash is effectively reinvested into the Returns Universe for the following month so that index results over two or more months reflect monthly compounding.

New Issues Qualifying securities issued, but not necessarily settled on or before the month-end rebalancing date, qualify for inclusion in the following month's index if the required security reference information and pricing are readily available.

Pricing and Related Issues

Sources & Frequency All index-eligible bonds are priced on a daily basis by Bloomberg's evaluated pricing service, BVAL.

Pricing Quotes Prices are quoted as a percentage of par.

Timing

- Prior to January 14, 2021, bonds are priced at 3pm (New York time). On early market closes, prices are taken as of 1pm (New York time), unless otherwise noted.
- From January 14, 2021 and onwards, bonds are priced at 4pm (New York time). On early market closes, prices are taken as of 1pm (New York time), unless otherwise noted.
- If the last business day of the month is a US holiday, prices from the previous day are used.

Bid or Offer Side Bonds in the index are priced on the bid side.

Settlement Assumptions

- T+1 calendar day settlement basis.
- At month-end, settlement is assumed to be the first calendar day of the following month, even if the last business day is not the last day of the month, to allow for one full month of accrued interest to be calculated.

Verification Daily price moves for each security are analyzed by the index pricing team to identify outliers. Index users may also challenge price levels, which are then reviewed and updated as needed.

Currency Hedging Returns hedged to various non-USD currencies are published for the US High Yield Fallen Angel 3% Capped Bond Index. The indices' FX hedging methodology takes rolling one-month forward contracts that are reset at the end of each month and hedges each non-reporting currency-denominated bond in the index into the reporting currency terms. No adjustment is made to the hedge during the month to account for price movements of constituent securities in the Returns Universe of the index.

Calendar The US High Yield Fallen Angel 3% Capped Bond Index follows the US bond market holiday schedule.

Accessing Index Data

Bloomberg Terminal® Bloomberg benchmarks are the global standard for capital markets investors.

- INDE<GO> - The Bloomberg Indices dashboard page, which contains daily, monthly, and year-to-date index returns for key indices from each index family as well as a link to index publications.
- IN<GO> - The Bloomberg Index Browser displays the latest performance results and statistics for the indices as well as history. IN presents the indices that make up Bloomberg's global, multi-asset

class index families into a hierarchical view, facilitating navigation and comparisons. The "My Indices" tab allows a user to focus on a set of favorite indices.

- DES<GO> - The index description page provides transparency into an individual index including membership information, aggregated characteristics and returns, and historical performance.
- INP<GO> - The Bloomberg Indices Publications page, which includes methodologies, factsheets, monthly reports, announcements and technical notes. A user may also subscribe to index publications via the "Actions" button.
- PORT<GO> - Bloomberg's Portfolio & Risk Analytics solution includes tools to analyze the risk, return, and current structure of indices. Analyze the performance of a portfolio versus a benchmark or use models for performance attribution, tracking error analysis, value-at-risk, scenario analysis, and optimization.

Bloomberg Indices Website
(www.bloomberg.com/indices)

The index website makes available limited index information including:

- Index methodology and factsheets
- Current performance numbers for select indices

Data Distribution

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- Index level and/or constituent level returns and characteristics for any indices
- Automatic delivery of files via email or SFTP following the completion of the index production process after market close
- Clients may receive standard files or may customize file contents
- Index data is also available via authorized redistributors

Index Ticker

BHYFTRUU: Total Return USD Unhedged

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- OTC Derivative Products
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- Mutual Funds
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