US High Yield Very Liquid Index (VLI)

The Bloomberg US High Yield Very Liquid Index (VLI) is a component of the US Corporate High Yield Index that is designed to track a more liquid component of the USD-denominated, high yield, fixed-rate corporate bond market. The US High Yield VLI uses the same eligibility criteria as the US Corporate High Yield Index, but includes only bonds that have a minimum amount outstanding of USD500mn and less than five years from issue date. The index also limits the exposure of each issuer to 2% of the total market value and redistributes any excess market value index-wide on a pro rata basis. The US High Yield VLI was created in January 2002, with history backfilled to January 1, 1994.

Rules for Inclusion

Sector   Corporate (industrial, financial institutions, utility) issues only.

Eligible Currencies Principal and interest must be denominated in USD.

Quality   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. In cases where explicit bond level ratings may not be available, other sources may be used to classify securities by credit quality:

- Expected ratings at issuance may be used to ensure timely index inclusion or to classify split-rated issuers properly.

- Unrated securities may use an issuer rating for index classification purposes if available. Unrated subordinated securities are included if a subordinated issuer rating is available.

Amount Outstanding   USD500mn minimum par amount outstanding.

Coupon
- Fixed-rate coupon.

- 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
- Remaining years to maturity must be between one and up to, but not including, fifteen years, 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.

Issue Date   Eligible bonds must have been issued within the past five years.

Taxability
- 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
• Bullet, putable, sinkable/amortizing and callable bonds	• Debt issued by emerging markets corporate issuers
• Original issue zero coupon bonds	• Defaulted bonds
• Fixed-rate and fixed-to-float (including fixed-to-variable) capital securities	• 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 (eg, warrants, convertibles, preferreds, DRD/QDI-eligible issues)
	• Eurodollar issues
	• Inflation-linked bonds, floating-rate issues
	• Private placements, retail bonds
	• Structured notes, pass-through certificates
	• Illiquid securities with no available market quotes
	• Partial pay-in-kind (PIK) bonds
	• Pay-in-kind (PIK) bonds (included prior to June 2017)
	• Toggle notes in PIK status (included prior to June 2017)

Rebalancing Rules

Issuer Capping Methodology   Issuers that exceed 2% of the market value of the uncapped US High Yield VLI are limited at 2%. The excess market value over the 2% cap will be redistributed on a pro rata basis to all other issuers' bonds in the index that are under the 2% cap. The process is repeated until no issuer exceeds the 2% limit. For example, an issuer that represents 3% of the uncapped index will have 1% of the index's market value redistributed to each bond from all issuers under the 2% cap on a pro rata basis. The 2% 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 for the next month. 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 3 p.m. (New York time). On early market closes, prices are taken as of 1 p.m. (New York time), unless otherwise noted. - From January 14, 2021 and onwards, bonds are priced at 4 p.m. (New York time). On early market closes, prices are taken as of 2 p.m. (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. The initial price for new issues entering the index is the offer side; after the first month, the bid price is used. Prior to June 1, 2017, all bonds were 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 Very Liquid 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 Very Liquid Index follows the US bond market holiday schedule.

Index History

January 14, 2021   Pricing time moved from 3 p.m. to 4 p.m. EST for USD prices. For early close days, prices are snapped at 2 p.m. EST.

June 1, 2017   Constraint of three largest issues per issuer removed. Pay-in-kind (PIK) bonds removed. Toggle notes in PIK status removed. Maturity constraint with upper bound at 15 years added. Pricing of new issues entering the index switched to offer side.

June 1, 2014   Global classification scheme modified to incorporate new sectors, sector name changes and sector retirements.

April 1, 2013   The indices' moved to a single list of countries defined as Emerging Markets. Issuers of high yield debt with a country of risk on the new EM country list excluded from index.

February 1, 2013   Rules for US High Yield Very Liquid Index (VLI) changed to include additional bonds per issuer, lower minimum liquidity, lengthened seasoning period and capped issuer exposures. Changes phased in over a six-month period, ending in July.

October 1, 2009   Pay-in-kind (PIK) securities added to the index.

January 1, 2008   Fixed-to-floating rate perpetual securities that do not have coupon rate step-ups on their first call date added to the index.

July 1, 2005   Fitch ratings added to Moody's and S&P to determine index eligibility.

October 1, 2003   Started using the most conservative rating of Moody's and S&P to determine index eligibility instead of Moody's only for split-rated securities.

January 1, 1998   SEC Rule 144A bonds added to the index.

January 1, 1994   Inception date.

Accessing Index Data

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- 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.

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Data Distribution	Index subscribers may choose to receive index data in files. Files may include: • 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	LHVLTRUU: Total Return USD Unhedged

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