

TalkingPoints

The S&P/ASX Bank Bill Index – Measuring the Australian Bank Bill Market for Short-Term Cash Solutions



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The S&P/ASX Bank Bill Index seeks to measure the performance of the Australian bank bill market, with maturities of up to 91 days. The series is designed for use by institutional investment managers, mutual fund managers, professional advisors, insurance companies, and custodians.

1. How does the Australian bank bill market satisfy short-term cash balance investments?

Many financial institutions have cash balances that can be invested in short-term money market instruments.

Insurance companies have cash balances derived from:

- A general account to support future claims;
- An operating account used to receive premiums and pay claims; and
- A collateral or hedging account to manage funds.

Asset or fund managers and custodians need short-term investment solutions for omnibus accounts that represent cash-swept balances of client holdings. They can maximize their cash balances by investing in liquid products based on Australian bank bills.

2. How is the S&P/ASX Bank Bill Index constructed?

The index is based on the benchmark bank bill rates published by the ASX Benchmarks Pty Limited (ASXB). The S&P/ASX Bank Bill Index is rules based for transparency and follows a select set of eligibility criteria.

The index comprises four benchmarks and nine interpolated rates that are differentiated by the range of maturities of its constituents as follows.

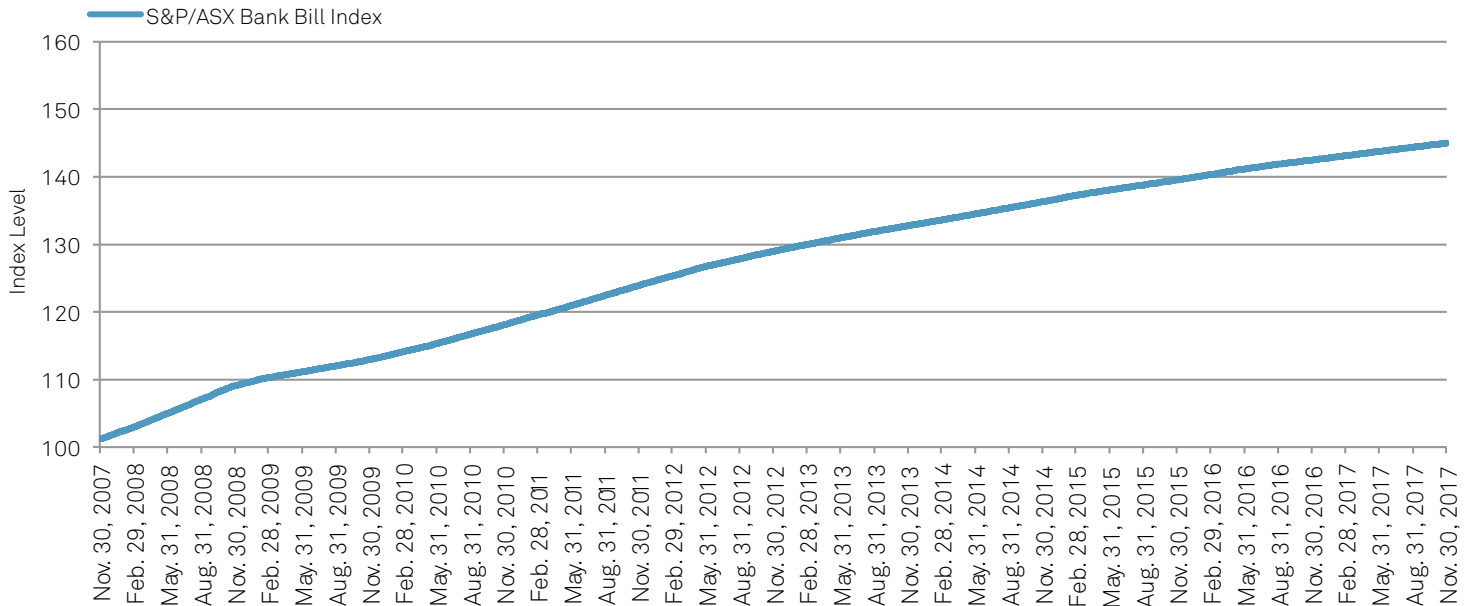
- The index is constructed synthetically through interpolated Bank Bill Swap (BBSW) rates, which are administered through procedures set forth by the ASXB. Detailed information on BBSW procedures can be found at <http://www.asx.com.au>.
- A series of 13 hypothetical weekly bills, ranging from one week to 91 days in maturity, are interpolated using the following BBSW rates. They are published by the ASXB on a daily basis at approximately 10:15 a.m. Sydney time.
 - 24-hour cash rate
 - 30-day bank bill rate
 - 60-day bank bill rate
 - 90-day bank bill rate

3. What are the key benefits of the bank bill market?

The S&P/ASX Bank Bill Index offers a benchmark for financial institutions to measure a return on their cash holdings. It is designed to benchmark short-term investment solutions for cash held by insurance companies, asset managers, and custodians. Australian bank bills are generally highly liquid and offer relatively high yields. In addition, as tracked by the S&P/ASX Bank Bill Index, the bank bill market offers the following benefits.¹

- Short Duration: Duration is 0.12.
- Yield: Yield-to-maturity is 1.67%.
- Transparency: Rates are derived from official BBSW rates.

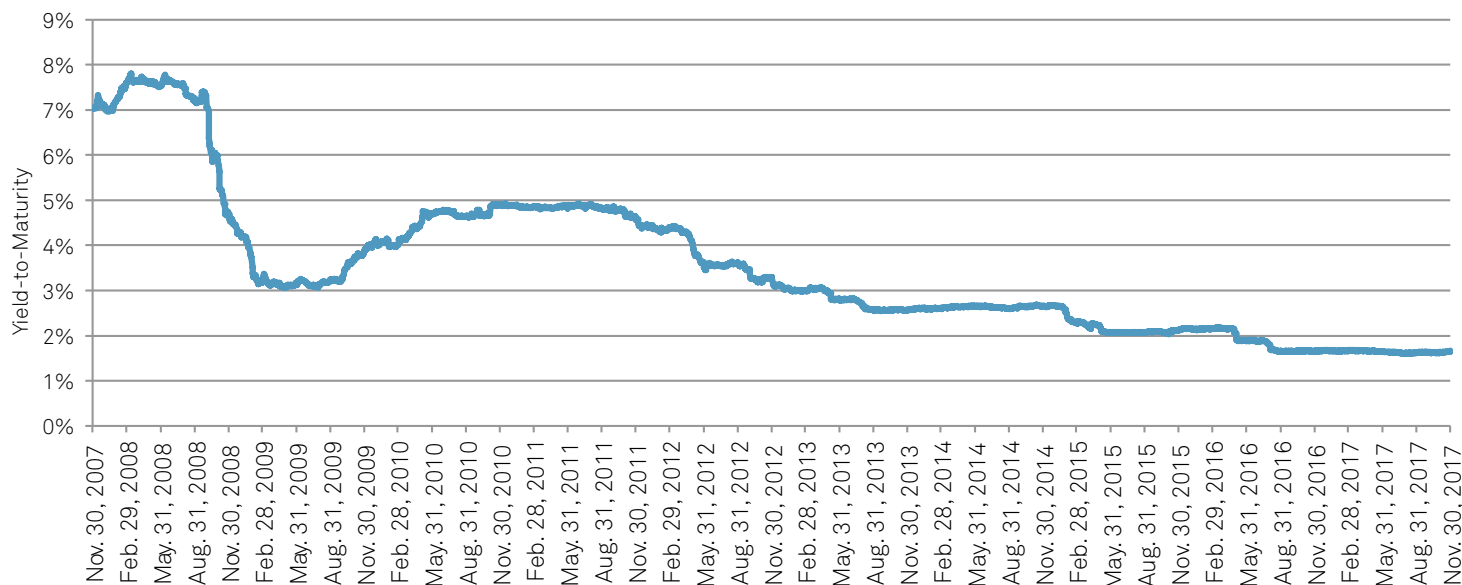
Exhibit 1: S&P/ASX Bank Bill Index (TR) Performance



Source: S&P Dow Jones Indices LLC. Data from Nov. 30, 2007, to Nov. 30, 2017. Index performance based on total return in AUD. Data was re-based at 100 on Sept. 28, 2007. Past performance is no guarantee of future results. Chart is provided for illustrative purposes and reflects hypothetical historical performance. Please see the Performance Disclosure at the end of this document for more information regarding the inherent limitations associated with back-tested performance.

¹ Data as of Nov. 30, 2017.

Exhibit 2: S&P/ASX Bank Bill Index Yield-to-Maturity



Source: S&P Dow Jones Indices LLC. Data from Nov. 30, 2007, to Nov. 30, 2017. Past performance is no guarantee of future results. Chart is provided for illustrative purposes and reflects hypothetical historical performance. Please see the Performance Disclosure at the end of this document for more information regarding the inherent limitations associated with back-tested performance.

Exhibit 3: S&P/ASX Bank Bill Index Quick Facts

| | |
|------------------------|----------------|
| Weighting Method | Equal Weighted |
| Rebalancing Frequency | Weekly |
| Calculation Frequency | End of Day |
| Calculation Currencies | AUD |
| Launch Date | Oct. 13, 2011 |
| First Value Date | Dec. 31, 2004 |

Source: S&P Dow Jones Indices LLC. Data as of Nov. 30, 2017. Table is provided for illustrative purposes.

Exhibit 4: S&P/ASX Bank Bill Characteristics

| | |
|---|------------|
| Number of Constituents | 13 |
| Weighted Average Maturity | 0.13 Years |
| Yield-to-Maturity | 1.67% |
| Modified Duration | 0.13 |
| 10-Year Historical Index Level High (Nov. 30, 2017) | 119.90 |
| 10-Year Historical Index Level Low (Nov. 30, 2007) | 83.67 |

Source: S&P Dow Jones Indices LLC. Data as of Nov. 30, 2017. Index performance based on total return in AUD. Past performance is no guarantee of future results. Table is provided for illustrative purposes and reflects hypothetical historical performance. Please see the Performance Disclosure at the end of this document for more information regarding the inherent limitations associated with back-tested performance.

Exhibit 5: S&P/ASX Bank Bill Index (TR)

| Index Level | Returns (%) | | | Annualized Returns (%) | | | | |
|---------------|-------------|----------|------|------------------------|---------|---------|----------|------|
| | 1 Month | 3 Months | YTD | 1 Year | 3 Years | 5 Years | 10 Years | |
| Total Returns | | | | | | | | |
| | 119.90 | 0.14 | 0.42 | 1.60 | 1.75 | 2.08 | 2.37 | 3.66 |

Source: S&P Dow Jones Indices LLC. Data as of Nov. 30, 2017. Index performance based on total return in AUD. Past performance is no guarantee of future results. Table is provided for illustrative purposes and reflects hypothetical historical performance. Please see the Performance Disclosure at the end of this document for more information regarding the inherent limitations associated with back-tested performance.

Performance Disclosure

The S&P/ASX Bank Bill Index was launched on October 13, 2011. All information presented prior to an index's Launch Date is hypothetical (back-tested), not actual performance. The back-test calculations are based on the same methodology that was in effect on the index Launch Date. Complete index methodology details are available at www.spdji.com.

S&P Dow Jones Indices defines various dates to assist our clients in providing transparency. The First Value Date is the first day for which there is a calculated value (either live or back-tested) for a given index. The Base Date is the date at which the Index is set at a fixed value for calculation purposes. The Launch Date designates the date upon which the values of an index are first considered live: index values provided for any date or time period prior to the index's Launch Date are considered back-tested. S&P Dow Jones Indices defines the Launch Date as the date by which the values of an index are known to have been released to the public, for example via the company's public website or its datafeed to external parties. For Dow Jones-branded indices introduced prior to May 31, 2013, the Launch Date (which prior to May 31, 2013, was termed "Date of introduction") is set at a date upon which no further changes were permitted to be made to the index methodology, but that may have been prior to the Index's public release date.

Past performance of the Index is not an indication of future results. Prospective application of the methodology used to construct the Index may not result in performance commensurate with the back-test returns shown. The back-test period does not necessarily correspond to the entire available history of the Index. Please refer to the methodology paper for the Index, available at www.spdji.com for more details about the index, including the manner in which it is rebalanced, the timing of such rebalancing, criteria for additions and deletions, as well as all index calculations.

Another limitation of using back-tested information is that the back-tested calculation is generally prepared with the benefit of hindsight. Back-tested information reflects the application of the index methodology and selection of index constituents in hindsight. No hypothetical record can completely account for the impact of financial risk in actual trading. For example, there are numerous factors related to the equities, fixed income, or commodities markets in general which cannot be, and have not been accounted for in the preparation of the index information set forth, all of which can affect actual performance.

The Index returns shown do not represent the results of actual trading of investable assets/securities. S&P Dow Jones Indices LLC maintains the Index and calculates the Index levels and performance shown or discussed, but does not manage actual assets. Index returns do not reflect payment of any sales charges or fees an investor may pay to purchase the securities underlying the Index or investment funds that are intended to track the performance of the Index. The imposition of these fees and charges would cause actual and back-tested performance of the securities/fund to be lower than the Index performance shown. As a simple example, if an index returned 10% on a US \$100,000 investment for a 12-month period (or US \$10,000) and an actual asset-based fee of 1.5% was imposed at the end of the period on the investment plus accrued interest (or US \$1,650), the net return would be 8.35% (or US \$8,350) for the year. Over a three year period, an annual 1.5% fee taken at year end with an assumed 10% return per year would result in a cumulative gross return of 33.10%, a total fee of US \$5,375, and a cumulative net return of 27.2% (or US \$27,200).

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