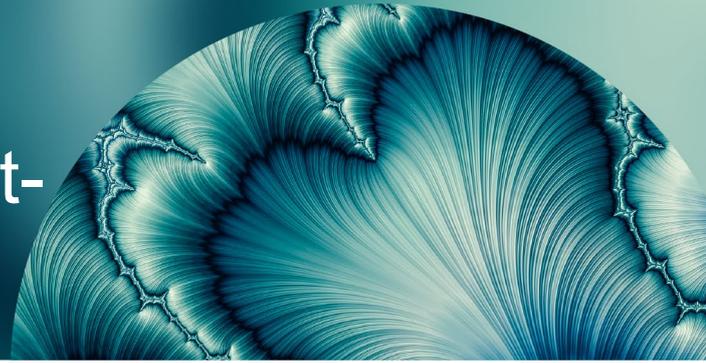


An index of quality-screened US investment-grade corporate bonds



“In our Access fixed income ETFs we’re seeking to implement the principles of active management in a rules-based framework. Conventional wisdom suggests you must go active in bonds, you can’t just buy the index portfolio. We disagree—with Access, we’re looking to build a better beta.”

Brendan McCarthy, Managing Director, Goldman Sachs Asset Management



About the client

Profile

Goldman Sachs Asset Management provides investment and advisory services for the world’s leading institutions, financial advisers and individuals.

Objectives

The firm was seeking a ‘smart beta’ fixed income index as the performance target for a new US dollar investment-grade corporate bond exchange-traded fund (ETF).

Solution

The FTSE Goldman Sachs Investment Grade Corporate Bond Index provides broad coverage of US\$ bonds while eliminating the bottom decile of low-quality issuers.



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Client profile

Goldman Sachs Asset Management is one of the world's leading asset managers, providing clients around the world with a dedicated partnership and a focus on long-term performance.

Goldman Sachs Asset Management delivers investment and advisory services for the world's institutions, financial advisers and individuals. The firm oversaw more than \$2.6trn in assets under supervision worldwide as of September 30, 2023.

Goldman Sachs Asset Management's exchange-traded funds (ETFs) draw on the firm's global reach and history of innovation. They seek to offer innovative solutions for clients, leveraging the firm's intellectual capital in an ETF 'wrapper'.

Within fixed income, Goldman Sachs Access ETFs aim to offer investors the performance potential of active investing with the efficiency and low cost of passive (index-based) strategies. These strategies provide smarter access to the bond markets by embedding criteria such as liquidity, technicals or issuer fundamentals into the indices tracked by the ETFs.

Smarter beta in corporate debt

For its Access ETF range, Goldman Sachs Asset Management was looking to partner with an experienced fixed income index provider to develop a quality-focused approach for investing in US investment-grade corporate bonds. Investment-grade US dollar-denominated corporate bonds are one of the largest and most liquid segments of the global bond market.

The resulting 'smart beta' index would then act as the underlying benchmark of a new Goldman Sachs Access ETF.

The firm set the following objectives for the new corporate bond index:

- It should be **broad-based** and **comprehensive**;
- It should apply **fundamental quality screens** to the investment-grade corporate bond universe;
- The screens should help **exclude weaker corporate bond issuers** from the index universe;
- The weightings of new index **should not deviate excessively** from those of the capitalisation-weighted market index;
- The index should embed **liquidity screens** and **weighting caps** to ensure adequate diversification.

A quality-screened investment grade index

Goldman Sachs Asset Management's research and product development teams worked closely with FTSE Russell's fixed income specialists to create **the FTSE Goldman Sachs Investment Grade Corporate Bond index**.

The index is derived from the starting universe of the FTSE US Broad Investment-Grade Corporate Index, a benchmark for US dollar-denominated bonds issued in the US investment-grade bond market.

The FTSE Goldman Sachs Investment Grade Corporate Bond index serves as the benchmark of the Goldman Sachs Access Investment Grade Corporate Bond ETF (GIGB).

The FTSE Goldman Sachs Investment Grade Corporate Bond index meets the objectives set by Goldman Sachs Asset Management in the following ways:

The FTSE Goldman Sachs Investment Grade Corporate Bond Index

The index provides a broad representation of the US investment-grade corporate bond market while excluding issuers with the lowest operating margin and highest leverage.

- It is based on the FTSE US Broad Investment-Grade Corporate Index (FTSE US BIG), a comprehensive, broad-based index of US dollar-denominated bonds, launched in 1985;
- To aid liquidity, the bond universe is screened for larger issues (based on the dollar amount outstanding), and larger issuers (based on the total debt outstanding);
- The FTSE Goldman Sachs Investment Grade Corporate Bond index uses a single, intuitive quality screen to capture and exclude the bottom decile of corporate bond issuers by creditworthiness;
- The quality screen uses two complementary rankings, one income-based (operating margin) and one balance sheet-based (leverage);
- The remaining index constituents are weighted by the market capitalisation of their bonds;
- To ensure adequate index diversification, issuer weights are capped at 5% (for issuers with fundamental indicators) and 3% (for issuers where fundamental indicators are not observable).

Additional information

Further information on FTSE Russell's comprehensive range of US fixed income indices is available at:

[Americas Fixed Income Indexes | FTSE Russell](#)

A single screen captures deterioration in issuer quality



The central idea behind the index's design is that a company's ability to generate cash and service debt is a good indicator of its financial health.

Any deterioration of its operating margin and any rise in its leverage can indicate that a company is becoming stressed, leading to the potential underperformance of its traded debt. It therefore makes sense to exclude the weakest bond issuers from the index portfolio. This hypothesis was empirically supported in the research conducted by Goldman Sachs Asset Management and FTSE Russell ahead of the index's launch.

A long-standing collaboration

The FTSE Goldman Sachs Investment Grade Corporate Bond index is the fruit of a long-standing collaboration between FTSE Russell and Goldman Sachs Asset Management. The partnership combines Goldman Sachs's expertise in asset management and product design with FTSE Russell's sophisticated index and benchmarking solutions and capabilities in fixed income pricing and analytics.

ABOUT FTSE RUSSELL

FTSE Russell is a leading global provider of index and benchmark solutions, spanning diverse asset classes and investment objectives. As a trusted investment partner we help investors make better-informed investment decisions, manage risk, and seize opportunities.

Market participants look to us for our expertise in developing and managing global index solutions across asset classes. Asset owners, asset managers, ETF providers and investment banks choose FTSE Russell solutions to benchmark their investment performance and create investment funds, ETFs, structured products, and index-based derivatives. Our clients use our solutions for asset allocation, investment strategy analysis and risk management, and value us for our robust governance process and operational integrity.

For over 35 years we have been at the forefront of driving change for the investor, always innovating to shape the next generation of benchmarks and investment solutions that open up new opportunities for the global investment community.

CONTACT US

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