

Implementation

Methodology changes for the LGIM Matching Plus and Matching Core indices

17 September 2020

1. IHS Markit Administration

IHS Markit Benchmark Administration Limited (“IMBA UK”) is the sole Administrator (as defined by EU Benchmark Regulation (“BMR”) and the International Organisation of Securities Commissions Principles for Financial Benchmarks (the “IOSCO Principles”)) of a number of Legal & General Investment Management (“LGIM”) indices.

IMBA UK administers these indices as benchmarks in accordance with the BMR and the IOSCO Principles.

2. Background

IMBA UK has been the sole administrator of the LGIM LDI indices listed in Appendix I since January 2020 (see [list of benchmarks that are administered by IMBA UK.](#)).

Since the inception of the indices, occurrences of valuation divergence between the index levels and the LGIM investment funds that seek to track them have been continually observed (“tracking error”). The extreme volatility observed in the first half of 2020 in the underlying markets exacerbated the tracking error and highlighted a requirement for the tracking error to be addressed.

It has been identified that the indices use different curves and analytics processes from those used by the LGIM funds for valuation purposes. Additionally, the cash positions are evaluated at different rates with different day count conventions. This consultation sets out measures to better align the index methodologies to their intended use and purpose.

3. Consultation Conclusion

IMBA UK has completed a consultation with interested parties on its intention to amend the methodologies of the LGIM Matching Plus and the Matching Core indices. Please refer to link [Consultation](#).

Taking into consideration the feedback from index users on the proposal, it has been decided to implement the changes detailed below. The affected indices are listed and detailed in Appendix I.

The changes to be implemented are:

1. Change the service used for curve dependent evaluations from
IHS Markit OTCDD (OTC Derivative Data) – Curve and volatility data service
<https://ihsmarkit.com/products/pricing-data-otc-derivatives-data.html>
to
IHS Markit PV (Portfolio Valuations) – **Portfolio valuations service utilising data and analytics, with a data snap time of 4:15PM London**
<https://ihsmarkit.com/products/valuation-services.html>
2. Change the cash account accrual rate from
SONIA-12.5bp if SONIA >=25bp; SONIA/2 otherwise
to
SONIA
3. Change cash account day count conventions from
ACT/360
To
ACT/365

4. Implementation timetable

The index changes will be effective as of **1 October 2020**.

Effective Thursday **1 October 2020**, the index changes will be considered final. Any subsequent changes will generally only be considered in exceptional circumstances, in accordance with the IHS Markit's policy and guidelines.

The implementation timetable is as follows:

- For the Matching Plus indices, which includes 22 swap and 20 bond indices listed in Appendix 1 changes will be effective as of **1 October 2020**.
- For the Core indices, which includes 4 indices listed in Appendix 1, changes will be effective as of **1 October 2020**.
- First day of publication with the new methodology will be **2 October 2020** for the index values as of **1 October 2020**. All LGIM indices are published on t+1 basis.

Additional notes

- New 2045 inflation index to be launched, effective as of **1 October 2020**.
- Matching Core rebalance – The regular rebalance schedule will be followed and effectively rebalance as of **31 October 2020**. New curves and analytics will be used for all 4 Matching Core rebalance calculations.

5. Index adjustment factors

As a result of the changes set out in this notice, a one-time disruption in the index time series will be observed on the implementation date (1 October 2020).

In order to assist stakeholders with historical comparison, IMBA UK will publish a rebase factor for each index that represents the one-time impact of the changes detailed above. The rebase factors will be available on or shortly after the implementation date. Index users will be able to apply this rebase factor to the historical index values in order to have a continuous index time series.

Appendix 1

	Family	Index Name	ID	Changes to be applied
1	LGIM Matching Core	LGIM LONGFIXED Index	LGIM_LONGFIXED_Portfolio	1 & 3
2	LGIM Matching Core	LGIM LONGREAL Index	LGIM_LONGREAL_Portfolio	1 & 3
3	LGIM Matching Core	LGIM SHORTFIXED Index	LGIM_SHORTFIXED_Portfolio	1 & 3
4	LGIM Matching Core	LGIM SHORTREAL Index	LGIM_SHORTREAL_Portfolio	1 & 3
5	LGIM Matching Plus	2025 Fixed Swap Index	LGIM2025FS	1, 2, & 3
6	LGIM Matching Plus	2030 Fixed Swap Index	LGIM2030FS	1, 2, & 3
7	LGIM Matching Plus	2035 Fixed Swap Index	LGIM2035FS	1, 2, & 3
8	LGIM Matching Plus	2040 Fixed Swap Index	LGIM2040FS	1, 2, & 3
9	LGIM Matching Plus	2045 Fixed Swap Index	LGIM2045FS	1, 2, & 3
10	LGIM Matching Plus	2050 Fixed Swap Index	LGIM2050FS	1, 2, & 3
11	LGIM Matching Plus	2055 Fixed Swap Index	LGIM2055FS	1, 2, & 3
12	LGIM Matching Plus	2060 Fixed Swap Index	LGIM2060FS	1, 2, & 3
13	LGIM Matching Plus	2025 Inflation Swap Index	LGIM2025IS	1, 2, & 3
14	LGIM Matching Plus	2030 Inflation Swap Index	LGIM2030IS	1, 2, & 3
15	LGIM Matching Plus	2035 Inflation Swap Index	LGIM2035IS	1, 2, & 3
16	LGIM Matching Plus	2040 Inflation Swap Index	LGIM2040IS	1, 2, & 3
17	LGIM Matching Plus	2050 Inflation Swap Index	LGIM2050IS	1, 2, & 3
18	LGIM Matching Plus	2060 Inflation Swap Index	LGIM2060IS	1, 2, & 3
19	LGIM Matching Plus	2025 Real Swap Index	LGIM2025RS	1, 2, & 3
20	LGIM Matching Plus	2030 Real Swap Index	LGIM2030RS	1, 2, & 3
21	LGIM Matching Plus	2035 Real Swap Index	LGIM2035RS	1, 2, & 3
22	LGIM Matching Plus	2040 Real Swap Index	LGIM2040RS	1, 2, & 3
23	LGIM Matching Plus	2045 Real Swap Index	LGIM2045RS	1, 2, & 3
24	LGIM Matching Plus	2050 Real Swap Index	LGIM2050RS	1, 2, & 3
25	LGIM Matching Plus	2055 Real Swap Index	LGIM2055RS	1, 2, & 3
26	LGIM Matching Plus	2060 Real Swap Index	LGIM2060RS	1, 2, & 3
27	LGIM Matching Plus	2038 Leveraged Gilt Index	LGIM2038LG	2 & 3

28	LGIM Matching Plus	2042 Leveraged Gilt Index	LGIM2042LG	2 & 3
29	LGIM Matching Plus	2045 Leveraged Gilt Index	LGIM2045LG	2 & 3
30	LGIM Matching Plus	2049 Leveraged Gilt Index	LGIM2049LG	2 & 3
31	LGIM Matching Plus	2055 Leveraged Gilt Index	LGIM2055LG	2 & 3
32	LGIM Matching Plus	2060 Leveraged Gilt Index	LGIM2060LG	2 & 3
33	LGIM Matching Plus	2068 Leveraged Gilt Index	LGIM2068LG	2 & 3
34	LGIM Matching Plus	2024 Leveraged Linker Index	LGIM2024LL	2 & 3
35	LGIM Matching Plus	2030 Leveraged Linker Index	LGIM2030LL	2 & 3
36	LGIM Matching Plus	2034 Leveraged Linker Index	LGIM2034LL	2 & 3
37	LGIM Matching Plus	2037 Leveraged Linker Index	LGIM2037LL	2 & 3
38	LGIM Matching Plus	2040 Leveraged Linker Index	LGIM2040LL	2 & 3
39	LGIM Matching Plus	2042 Leveraged Linker Index	LGIM2042LL	2 & 3
40	LGIM Matching Plus	2047 Leveraged Linker Index	LGIM2047LL	2 & 3
41	LGIM Matching Plus	2050 Leveraged Linker Index	LGIM2050LL	2 & 3
42	LGIM Matching Plus	2055 Leveraged Linker Index	LGIM2055LL	2 & 3
43	LGIM Matching Plus	2062 Leveraged Linker Index	LGIM2062LL	2 & 3
44	LGIM Matching Plus	2068 Leveraged Linker Index	LGIM2068LL	2 & 3
45	LGIM Matching Plus	Leveraged Gilt Plus	GILTPLUS	2 & 3
46	LGIM Matching Plus	Leveraged Linker Plus	LINKERPLUS	2 & 3