

# Introducing the JPMorgan Russia Corporate Bond Index (RUBI CORP)

## Methodology Brief

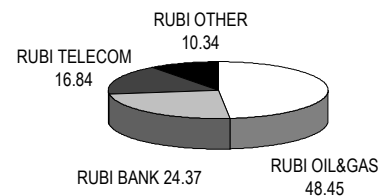
- The JPMorgan Russia Corporate Bond Index, RUBI CORP, was created to track the market for corporate risk in Russia
- It is a market-capitalization-weighted index which includes 21 Russia corporate instruments representing four subindices.
- Daily historical index levels are available from December 31, 2001

### Overview

The JPMorgan Russia Corporate Bond Index (RUBI CORP) was created to track the market for corporate bonds in Russia. Our aim is to provide investors with a well-defined and diligently managed benchmark for USD-denominated, liquid Russian corporate issues. Currently, the RUBI CORP includes 21 US dollar-denominated Russian corporate issues representing four subindices: oil & gas, banks, telecom, and other. *Table 1* shows the current composition of RUBI CORP and their entry dates.

Chart 1: RUBI CORP Instrument and Sector Compositions

Market Capitalizations weights(%) as of February 27, 2004



Source: JPMorgan

Table 1: RUBI CORP Instrument Composition (as of February 27, 2004)

Instrument	Enter Index	Sector	Market Cap (%)
<b>RUBI CORP Composite</b>			<b>\$11,190,186,197</b>
RU Rosnef 12 3/4% due 06	31-Dec-2001	Oil&Gas	1.63
RU Sibnef 11 1/2% due 07	28-Feb-2002	Oil&Gas	4.09
RU Gazprom 9 1/8% due 07	31-May-2002	Oil&Gas	5.06
RU Vimpelcom 10.45% due 05	31-May-2002	Telecom	2.45
RU Gazprom 10 1/2% due 09	29-Nov-2002	Oil&Gas	7.56
RU Tyumen Oil 11% due 07	29-Nov-2002	Oil&Gas	7.43
RU Alfa-Bank 10 3/4% due 05	31-Dec-2002	Bank	1.69
RU Sibnef 10 3/4% due 09	31-Dec-2002	Oil&Gas	5.16
RU Mobtel 9 3/4% due 08	28-Feb-2003	Telecom	3.95
RU Gazprom 9 5/8% due 13	31-Mar-2003	Oil&Gas	17.52
RU Sistema Fin 10 1/4% due 08	30-Apr-2003	Telecom	3.44
RU Alrosa 8 1/8% due 08	30-May-2003	Other (Mining)	4.59
RU Wimm Bil Dann 8 1/2% due 08	30-Jun-2003	Other (Consumer Products)	1.36
RU Moscow Narod 4 3/8% due 08	31-Jul-2003	Bank	1.28
RU Mobtel 8 3/8% due 10	31-Oct-2003	Telecom	3.82
RU Evraz 8 7/8% due 06	31-Oct-2003	Other (Steel)	1.66
RU Sberbank FRN due 06	28-Nov-2003	Bank	8.87
RU Gazinvest 7 1/4% due 08	28-Nov-2003	Bank	9.71
RU MMK Finance 8% due 08	28-Nov-2003	Other (Steel)	2.74
RU VTB 6 7/8% due 08	31-Dec-2003	Bank	2.80
RU Sistema 8 7/8% due 11	27-Feb-2004	Telecom	3.19
RU Mobtel 10.95% due 04	31-Jan-2002	Telecom (dropped on Nov 2003)	0%

Source: JPMorgan

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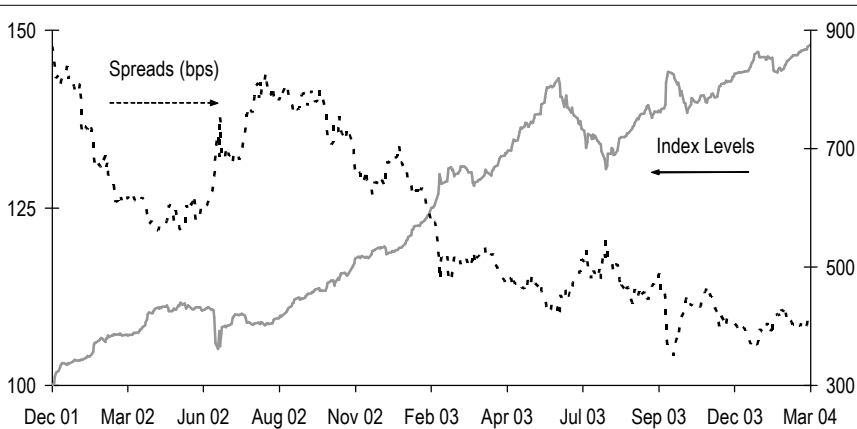
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Chart 2: RUBI CORP Composite Spreads (bps) and Total Index Levels



Source: JPMorgan

Table 2: Return Analysis

	RUBI CORP Composite	OIL&GAS	TELECOM	BANK	OTHER
31-Dec-01					
31-Jan-02	3.64%	3.64%			
28-Feb-02	3.31%	6.07%	1.62%		
28-Mar-02	0.35%	-0.04%	0.99%		
30-Apr-02	3.43%		3.91%	2.55%	
31-May-02	-0.10%	0.13%	-0.54%		
28-Jun-02	-2.52%	-2.01%	-3.52%		
31-Jul-02	0.32%	-0.10%	1.16%		
30-Aug-02	1.18%	0.87%	1.87%		
30-Sep-02	2.85%	2.73%	3.12%		
31-Oct-02	2.52%	2.27%	3.09%		
29-Nov-02	1.84%	1.63%	2.31%		
31-Dec-02	1.20%	1.14%	1.48%		
31-Jan-03	3.87%	4.23%	2.47%	2.10%	
28-Feb-03	4.61%	5.15%	1.21%	5.48%	
31-Mar-03	-0.08%	0.25%	-1.00%	-1.53%	
30-Apr-03	3.64%	3.72%	3.27%	3.23%	
30-May-03	3.89%	4.13%	3.13%	2.68%	
30-Jun-03	-0.80%	-0.75%	-0.79%	0.34%	-1.84%
31-Jul-03	-3.22%	-4.02%	-0.69%	-2.35%	-1.90%
29-Aug-03	1.16%	1.51%	0.60%	-0.01%	0.07%
30-Sep-03	2.28%	2.29%	1.90%	1.25%	3.49%
31-Oct-03	0.15%	0.37%	-0.41%	0.64%	-0.77%
28-Nov-03	1.27%	1.05%	1.83%	-0.65%	2.31%
31-Dec-03	2.62%	3.16%	2.76%	1.39%	2.15%
30-Jan-04	-0.01%	-0.12%	0.55%	-0.29%	0.32%
27-Feb-04	1.97%	2.32%	1.38%	1.93%	1.17%
TR 2002	19.37%	21.93%			
TR 2003	20.85%	22.82%	15.09%	13.03%	
YTD 2004 (2/27/04)	1.96%	2.20%	1.94%	1.64%	1.49%
Cumulative Returns	47.09%	53.06%	34.77%	14.88%	4.96%
Average Return	19.49%	21.71%	15.40%	12.62%	6.66%
Volatility	6.86%	7.89%	5.70%	7.04%	6.54%
Sharp Ratio	2.59	2.52	2.41	1.60	0.83

Source: JPMorgan

## Russia Corporate Market

The universe of Russian corporate bonds has grown dramatically since the 1998 financial crisis, and particularly in the past two years, with improving credit quality and the re-opening of credit markets to Russian borrowers. Issuance rose from about \$3.5 billion in 2002 to over \$8 billion in 2003 according to Capital Data Bondware. JPMorgan expects issuance to rise again in 2004. Given low financing requirements of the Russian sovereign, the mix of total Russian debt outstanding in international markets is shifting towards corporates; the corporate segment, in contrast with sovereign debt, has become a more regular feature in the primary market. In addition, the corporate market provides investors with an opportunity for yield enhancement and diversification. Issuance has been relatively concentrated in a small number of sectors, principally in oil and gas, and with a predominance of issuance by quasi-sovereign entities. However, purely private sector companies, and service companies such as banks and telecoms are also prominent. We expect increasing issuance by non-energy companies, partly reflecting growing underlying diversification of the Russian economy.

## Instrument Selection Process

Instruments that satisfy all the following defined criteria will be eligible for inclusion in the RUBI CORP:

**Table 3: RUBI CORP Inclusion Criteria**

	Criteria	Eligibility
1.	Final Obligor	Russian corporate entity
2.	Currency denomination	USD-denominated
3.	Current face amount outstanding	\$150 million minimum
4.	Time until maturity	18 months for new entrants; 12 months for existing
5.	Settlement method	must be able to settle internationally
6.	Quantifiable source of cash flow	must have a cash flow structure from which a verifiable daily return can be calculated
7.	Quoted price availability	bid and offer prices must be available on a daily basis

### **Issuer Type Classification**

The RUBI CORP contains only those bonds whose final obligor is a Russian corporate entity.

For tax purposes, it is common for Russian corporates to access the market through a loan participation note structure whereby an SPV in, for example, Germany, the Netherlands or Luxembourg, issues notes offshore and loans the proceeds to the final obligor in Russia with a guarantee by the final obligor. Rating agencies and the market generally consider bonds issued under this structure to have exactly comparable credit quality as if the notes had been issued by a Russian entity directly. As long as the loan has the same final obligor and exhibits the risk of the Russian issuer, it is eligible for inclusion in the index.

### **Currency Denomination**

Only instruments denominated in U.S. dollars are considered for inclusion. At a future date, non-U.S. dollar debt could be considered for inclusion in the RUBI CORP.

### **Current Face Amount Outstanding**

The list of U.S. dollar-denominated Russian corporate issues is narrowed further by only considering issues with a current face amount outstanding of US\$150 million or more.

If an issue's current face outstanding falls below this requirement—due to a debt retirement by the corporate—the issue will be removed from the index at the next month-end rebalancing date.

The reverse also holds true. Existing issues that, through reopenings, increase in size to satisfy our minimum current face outstanding requirement are then considered for inclusion in the RUBI CORP.

### **Time Until Maturity**

Of the issues with at least a current face amount outstanding of US\$150 million, only those instruments with at least 18 months until maturity are considered for inclusion. Once added, an instrument may remain in the RUBI CORP until 12 months before it matures. On the month-end preceding this anniversary, the instrument is removed from the RUBI CORP.

### **Settlement Method**

Instruments in the RUBI CORP must be able to settle internationally (either through Euroclear or another institution domiciled outside the issuing country).

### **Quantifiable Source of Cash Flow Return**

JPMorgan reserves the right to exclude from the composition of the RUBI CORP any debt instrument that it considers to have a cash flow structure from which a verifiable daily return cannot be calculated.

### **Quoted Price Availability**

The final requirement is that an issue's bid and offer prices be available on a daily and timely basis—either from an interdealer broker or JPMorgan. The lack of availability of such prices prevents the addition of a new issue to the index. In the case of the current RUBI CORP issues, if reliable prices for an issue become unavailable during a month, it is removed from the index at its next month-end rebalancing date. Once an issue is removed, it will not be reconsidered for inclusion in the index during the next six months.

Based on the composition criteria, the RUBI CORP included 22 instruments, representing four sectors as of the inception date, December 31, 2001. Currently, as of February month-end, the composition of the RUBI CORP contains a total of 21 instruments from four sectors, as shown in *Table 1 on page 1*.

### **Timing of the Addition of New Issues**

A new issue that meets the RUBI CORP's admission requirements is added to the index on the first month-end business date after its issuance, provided its issue date falls before the 15th of the month. A new issue whose issue date falls on or after the 15th of the month is added to the index on the last business day of the next month.

The only exception to this rule is a new issue that is released as part of a debt exchange program. For example, assume an issuer exchanges a portion of its outstanding debt for a new issue after the 15th of the month. At the month-end rebalancing date immediately following this event, the amount of debt retired in this exchange would be removed from the RUBI CORP, and the new issue would be added to the index (provided official exchange results are made available in a timely manner).

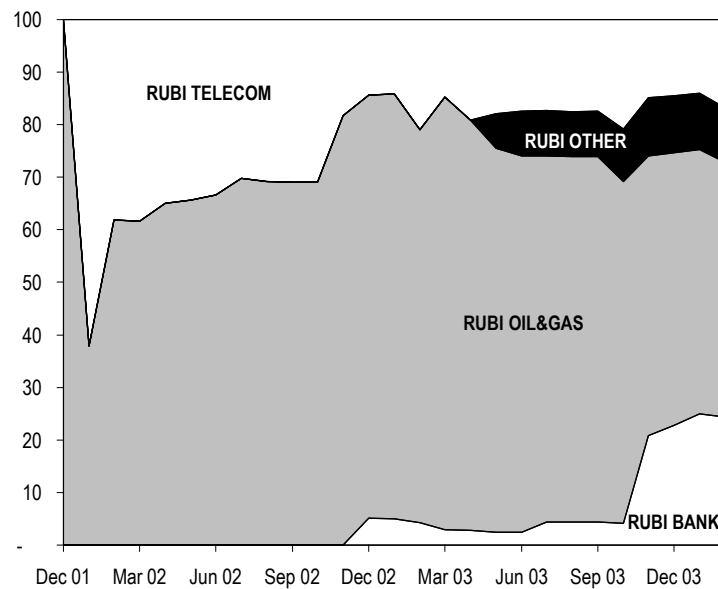
An instrument that is issued on Regulation S of the U.S. Securities Act of 1933 (and not pursuant to Rule 144A) will still be eligible for inclusion in the RUBI CORP based on the same 15th of the month rules stated above. It does not need to wait until it is seasoned to be eligible (that is, until the expiration of the relevant Regulation S restricted period).

## Index Weighting Methods

### Traditional Market Capitalization Approach

The weight of each instrument in the RUBI CORP is determined by dividing the issue's market capitalization by the total market capitalization for all instruments in the index. The result represents the weight of the issue expressed as a percentage of the RUBI CORP. Sector weights for the RUBI CORP are easily calculated by aggregating the weights of the instruments for each sector. The market capitalization of each issue is calculated by multiplying its face amount outstanding by its bid-side settlement price. Face amounts outstanding for each issue are updated at each month-end in order to reflect market events—such as reopenings or buybacks—that have increased or decreased the issue's available supply.

Chart 3: Historical Market Capitalization Weights (%) for RUBI CORP Sectors



Source: JPMorgan

## Daily Production of the RUBI CORP

The RUBI CORP is calculated every business day of the year. Business days are based on the U.S. bond market calendar set by the Emerging Markets Traders Association (EMTA).

### Pricing on Regular Business Days

The instrument prices used in the official closing calculation of the RUBI CORP are captured as of 4:00 p.m. London time. The preferred source for these prices are interdealer broker screens. For index instruments not available on these screens, price quotes by JPMorgan traders are collected as close as possible to 4:00 p.m. EST. These JPMorgan trader prices will continue being used until reliable interdealer broker screen prices become available. If alternate nonbroker pricing becomes available, it will be evaluated for its quality and considered for use in the calculation of RUBI CORP's results.

### Early Closes

When the U.S. bond market closes early, typically before market holidays or when EMTA recommends an early close, prices of RUBI CORP instruments are captured at the latest possible time to reflect an active closing market.

## Where to find the RUBI CORP

Daily RUBI CORP results will be posted in the following places:

- MorganMarkets (morganmarkets.com): Contains downloadable files of daily country and instrument returns, statistics, and compositions, as well as data series of historical index levels and spreads;
- Reuters: Page EMBI01 offers a directory of results for all JPMorgan emerging markets bond indices;
- Bloomberg: Page JPMX offers a directory of results for all JPMorgan emerging markets bond indices; and
- JPMorgan's monthly Emerging Markets Bond Index Monitor contains index returns, statistics, and composition updates for all of our emerging markets indices.

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