

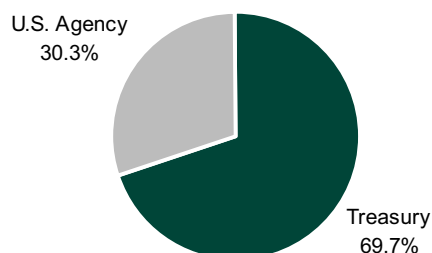
# U.S. Government Index



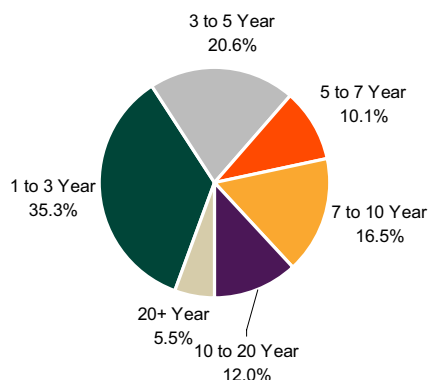
## Overview

The U.S. Government Index is comprised of the U.S. Treasury and U.S. Agency Indices. The U.S. Government Index includes Treasuries (public obligations of the U.S. Treasury that have remaining maturities of more than one year) and U.S. agency debentures (publicly issued debt of U.S. Government agencies, quasi-federal corporations, and corporate or foreign debt guaranteed by the U.S. Government). The U.S. Government Index is a component of the U.S. Government/Credit Index and the U.S. Aggregate Index.

### Sector Breakdown as of 12/31/2007



### Quality Breakdown as of 12/31/2007



### Access to the Index

**Index Client Website**  
[www.lehmanlive.com](http://www.lehmanlive.com)

#### KEY FEATURES

- ◆ Daily index returns and statistics
- ◆ Historical index time series downloadable into Excel
- ◆ Standardized market structure reports
- ◆ Fully customizable views
- ◆ Index primers and shelf reference documents
- ◆ Latest index and portfolio strategies research publications

#### Bloomberg Index Page <LEHM> <13>

**Key statistics and returns**  
 <LUAG> <INDEX>

#### TICKERS

- ◆ Total Return Index Value: LUAGTRUU
- ◆ Since Inception Total Return: LUAGSIUU
- ◆ Month to Date Excess Return: LUAGER
- ◆ Market Value: LUAGMVU
- ◆ Yield to Worst: LUAGYW
- ◆ Mod. Adj. Duration: LUAGMD
- ◆ Returns Mod. Adj. Duration: LUADRMD
- ◆ Average OAS: LUAGOAS
- ◆ Maturity: LUAGMAT

#### POINT (Portfolio and Index Tool)

**Long Name: US Government**  
**Short Name: govt**

#### KEY FEATURES

- ◆ Index level returns and statistics
- ◆ Historical index constituents
- ◆ Fully customizable market structure reports
- ◆ Index dynamics and turnover reports
- ◆ Portfolio upload/analysis
- ◆ Multi-factor Global Risk Model
- ◆ Portfolio performance attribution
- ◆ Automated batch processing

### Pricing and Related Issues

#### Source and Frequency

All index-eligible bonds are priced on a daily basis, predominantly by Lehman Brothers traders. By sector, the source of security level pricing is as follows:

- ◆ Agency debentures: A subset of approximately 200 liquid Agency debentures are priced by Lehman Brothers traders on a daily basis, with the remaining bonds model priced using trader marks and updated curves. All bonds are trader priced at mid month and month end.
- ◆ Treasuries: Priced by Lehman Brothers traders on a daily basis.

#### Pricing Quotes

Bonds can be quoted in a variety of ways including nominal spreads over benchmark securities/treasuries, spreads over swap curves, or direct price quotes as a percentage of par. In most instances the quote type used is a spread measure that results in daily security price changes from the movement of the underlying curve (swap or treasury) and/or changes in the quoted spread.

#### Timing

3:00 pm (New York time) each day. If the last business day of the month is a public holiday in the U.S. market, prices from the previous business day are used.

#### Bid or Offer Side

Bonds in the index are priced on the bid side.

#### Settlement Assumptions

T+1 settlement basis for all bonds

#### Verification

Multi-contributor verification: The primary price for each security is analyzed and compared to other third-party pricing sources through both statistical routines and scrutiny by the research staff. Significant discrepancies are researched and corrected, as necessary.

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## Rules for Inclusion

<b>Amount Outstanding</b>	USD 250 million minimum par amount outstanding.	
<b>Quality</b>	<p>Must be rated investment grade (Baa3/BBB-/BBB- or above) using the middle rating of Moody's, S&amp;P, and Fitch, respectively.</p> <ul style="list-style-type: none"> <li>◆ When all three agencies rate an issue, a median or "two out of three" rating is used to determine index eligibility by dropping the highest and lowest rating.</li> <li>◆ When a rating from only two agencies is available, the lower ("most conservative") of the two is used.</li> <li>◆ When a rating from only one agency is available, that rating is used to determine index eligibility.</li> </ul>	
<b>Maturity</b>	At least 1 year until final maturity, regardless of optionality. For securities with coupons that convert from fixed to floating-rate, at least 1 year until the conversion date.	
<b>Seniority of Debt</b>	Senior and subordinated issues are included.	
<b>Coupon</b>	Fixed-rate. Step-up coupons and coupons that change according to a predetermined schedule are also included.	
<b>Currency of Issue</b>	Denominated in USD	
<b>Market of Issue</b>	SEC-registered, fully taxable issues. For agency debentures, SEC Rule 144A securities with Registration Rights are included; a security with both SEC Regulation S and SEC Rule 144A tranches is treated as one security. To prevent double-counting, we include the 144A tranche and exclude the Reg-S tranche; Issues with global market of issue are included.	
<b>Security Types</b>	<p><b>Included:</b></p> <ul style="list-style-type: none"> <li>◆ Fixed-rate bullet, puttable and callable bonds issued by the U.S. Treasury, U.S. government agencies, quasi-federal corporations, and corporate or foreign debt guaranteed by the U.S. Government.</li> </ul>	<p><b>Excluded:</b></p> <ul style="list-style-type: none"> <li>◆ Bonds with equity-type features (e.g., warrants, convertibility to equity)</li> <li>◆ Floating-rate issues</li> <li>◆ State and local government series (SLGs) bonds</li> <li>◆ Resolution Trust Funding Corporation (REFCORP)</li> <li>◆ STRIPS, TIPS, T-Bills, and Bellwethers</li> </ul>

## Rebalancing Rules

<b>Frequency</b>	The composition of the Returns Universe is rebalanced monthly at each month end and represents the set of bonds on which index returns are calculated. The Statistics Universe changes daily to reflect issues dropping out and entering the index, but is not used for return calculation. On the last business day of the month, the composition of the latest Statistics Universe becomes the Returns Universe for the following month.
<b>Index Changes</b>	During the month, indicative changes to securities (maturity, credit rating change, sector reclassification, amount outstanding) are reflected in both the Statistics and Returns Universe of the index on a daily basis. These changes may cause bonds to enter or fall out of the Statistics Universe of the index on a daily basis, but will affect the composition of the Returns Universe only at month-end when the index is rebalanced.
<b>Reinvestment of Cash Flows</b>	Interest and principal payments earned by the Returns Universe are held in the index without a reinvestment return until month-end when it is removed from the index.
<b>New Issues</b>	Qualifying securities issued, but not necessarily settled, on or before the month-end rebalancing date qualify for inclusion in the following month's Returns Universe.

## Index History

July 1, 2005	Fitch ratings added to Moody's and S&P to determine index eligibility.
January 1, 2005	Sector re-classification into Treasury, Government-Related, Corporate, and Securitized.
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.
July 1, 2000	Absorbed all Yankee Corporates into their respective industry and sector classification.
January 1, 1998	Removed U.S. TIPS from the U.S. Treasury Index.
August 1, 1988	Inception date of U.S. Treasury Index as a subset of the U.S. Government Index
January 1, 1979	U.S. Government/Credit Index introduced.
January 1, 1976	Inception date of the U.S. Agency Index.
January 1, 1973	Inception date of U.S. Government Index. Inception date of the U.S. Treasury Index.

Indices are unmanaged and cannot accommodate direct investments. Past performance is not indicative of future results.

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