

SGI DYNAMIC US EQUITY & GOLD VT 5.5% INDEX



Q&A

HOW IS THE INDEX CONSTRUCTED?

- The Index is a combination of two existing Futures Indexes:
 - The SGI Futures Series – US Large Cap Equity 3 Index (SGBVRES3)
 - SGI Gold Static Roll Index (SGICGCSR)
- Both of the Indices are Excess Return, denominated in USD and converted in EUR for the computation of the head index.
- The Index embeds a risk control mechanism, which systematically adjusts its exposure to the above-mentioned Indices to maintain its volatility¹ close to a level of 5.50%*.
- The Index embeds 1% p.a. structuring fee, which is deducted from its performance.

WHAT IS THE UNDERLYING SGI FUTURES SERIES – US LARGE CAP EQUITY 3 INDEX (SGBVRES3)?

- The index tracks the performance of the S&P 500 index via the closest-to-expiry S&P 500 Futures contracts listed on the Chicago Mercantile Exchange (CME) The position is rolled (the expired contracts are renewed) on a quarterly basis.
- The S&P 500 index tracks the stock performance of 500 leading companies listed on stock exchanges in the United States.

WHAT IS THE UNDERLYING SGI GOLD STATIC ROLL INDEX (SGICGCSR)?

- The Index tracks the performance of gold price through futures contracts that are rolled monthly.
- Gold is considered a hedge during economic downturns because it typically retains its value or appreciates when other asset classes decline , serving as a diversifying asset and reducing overall portfolio volatility and risk.

WHY FUTURES INDICES?

- Futures indexes are composed of Futures contracts that are more liquid than the corresponding underlying assets and reflect their market movements.

WHAT IS A FUTURES CONTRACT?

- A futures contract is a legal agreement to buy or sell a particular asset at a predetermined price and time in the future. Futures contracts are standardized for quality and quantity to facilitate trading on a futures exchange.

¹Volatility is an indicator of the irregularity of the daily returns of a financial instrument. It is expressed on an annual basis

*The average rolling volatility over 20 business days for the SGI Futures Series – US Large Cap Equity 3 Index and the SGI Gold Static Roll Index has been 17.61% and 15.45%, respectively, since January 2020.

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WHAT DOES AN EXCESS RETURN INDEX MEAN?

- The SGI Dynamic US Equity & Gold VT 5.5% Index is an “excess return” index, meaning that the index performance is net of financing costs.
- The Index takes exposure to the S&P 500 and gold through rolling futures. To gain exposure to the performance of a future (or a roll of futures), no cash is exchanged at the outset.
- This implies that, unlike an investor who directly invests in the asset, an investor in the corresponding future does not incur the financing costs associated with this investment. This effect is reflected in the futures prices, meaning that futures performances do not include any rate cost component. Therefore, the performance of the Underlying Components may differ from the spot prices of the S&P 500 and gold.

WHAT RATE FINANCING COST IS INCURRED AND TAKEN INTO ACCOUNT?

- To calculate the financing cost, we typically consider the Risk-Free Rate, which is often tied to a short-term interest rate like the Euro-Short Term Rate (€STR) (interest rate for Euro-denominated overnight borrowing transactions) or SOFR (Secured Overnight Financing Rate, interest rate for US Dollar-denominated overnight borrowing transactions), or a similar benchmark.
- The financing cost generally refers to the expenses associated with acquiring an asset through an upfront cash payment. This cost represents the interest incurred when borrowing funds to invest in the asset in question.
- On standard benchmark indices, these costs are deducted from the gross performance of the index to arrive at the excess return. As explained above, on roll of futures, the performance is free of any rate cost component i.e. is already excess return.

WHAT DOES THE 5.5% VOLATILITY TARGET MEAN AND WHY WAS THE 5.5% CHOSEN?

- The Index embeds a risk control mechanism, which systematically adjusts its exposure to the Underlying Indices to maintain its volatility¹ close to a level of 5.50%*, while seeking performance.
- In order to optimize the payoff of the structured products which take exposure to the Index, the 5.5% target was selected as an equilibrium taking into account different factors, such as the overall exposure and weight repartition between Equity and Gold, the index expected performance and behaviour as well as the resulting option prices on the index and structured products we can offer.

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WHY THE INDEX EXPOSURE TO THE TWO UNDERLYING INDICES MIGHT BE BELOW 100%?

- The exposure to each of the two Underlying Indices is adjusted daily based on their historical volatility, as well as the historical correlation. The combined maximum exposure is capped at 100% and can be as low as 0%.
- The combined exposure to the two Underlying Indices may be below 100% due to the mechanics of the risk control mechanism. For example, if the Underlying Indices experience increased volatility, above the target level of 5.5%, the SGI Dynamic US Equity & Gold VT 5.5% Index may significantly reduce its exposure to the Underlying Indices to maintain the desired volatility target.
- In such a scenario, the combined exposure to the two Underlying Indices may be below 100%. Therefore, investors might not fully benefit from the growth of the Underlying Indices.

WHAT IS THE IMPLICATION OF THE INDEX BEING CONVERTED TO EUR WHEN BOTH THE UNDERLYING INDEXES ARE DENOMINATED IN USD?

- The Index's performance can be notably impacted, either favourably or unfavourably, by variations in the Dollar's exchange rate against the Euro.

ARE THERE ANY FEES RELATED TO THE INDEX ITSELF?

- The fee is already included in the Index performance, meaning investors will not be required to pay the 1% fee to Societe Generale separately.

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