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# FTSE® 100 FIXED DIVIDEND EQUAL WEIGHT CUSTOM INDEX

CONFIDENTIAL PRESENTATION

October 2017

For Financial Adviser Use Only

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SOCIETE GENERALE
Corporate & Investment Banking

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# THE FTSE® 100 FIXED DIVIDEND EQUAL WEIGHT CUSTOM INDEX

## A new Index based on the FTSE® 100 Index

The FTSE ® 100 Fixed Dividend Equal Weight Custom Index is an equity index created, calculated and published in real-time by FTSE.

The FTSE® 100 Fixed Dividend Equal Weight Custom Index is comprised of the same **100 companies as the FTSE® 100 Price Return Index**, the leading index in the United Kingdom, and uses the same rigorous selection criteria such as the high liquidity criteria and the high market capitalisation criteria.

However, the FTSE® 100 Fixed Dividend Equal Weight Custom Index **applies an equal weight to all of its components and is rebalanced on a quarterly basis.**

Also, unlike the FTSE100® Price Return Index which simply excludes all dividends, the FTSE® 100 Fixed Dividend Equal Weight Custom Index **reinvests 100% of dividends paid by the companies and removes an annual fixed dividend of 50 points.**

| FTSE® 100 Price Return Index | | FTSE® 100 Fixed Dividend Equal Weight Custom Index |
|---|---|---|
| Created, calculated and published by FTSE | | Created, calculated and published by FTSE |
| **100 largest stocks** from the London Stock Exchange, based on their market capitalisation | | The **same 100 stocks** as the FTSE® 100 Index |
| All stocks are weighted according to their **market capitalisation** | Difference | All stocks are **Equally Weighted** |
| All **dividends** paid by stocks within the Index are **excluded** (i.e. Price Return Index) | Difference | All **dividends** paid by stocks within the Index are **reinvested**, and a **fixed dividend of 50 points** is deducted |
| The Index composition is reviewed on a **quarterly basis** | | The Index composition is reviewed on a **quarterly basis** |

# WHY APPLY AN EQUAL WEIGHT TO ALL STOCKS?

## Applying an equal weight to all stocks in the Index

There are a wide range of opinions surrounding the most effective method of weighting stocks within an Index or portfolio.

One train of thought is, instead of using the more common market capitalisation approach, it may be more efficient and economical to give an equal weight to all stocks within an Index.

Here are some of the arguments supporting such convictions:

### 1) Risk of concentration on the largest market capitalisations:

The value of the FTSE® 100 Price Return Index is concentrated on a small number of stocks. For example, when ranked in terms of market value, the top 5 companies of the FTSE® 100 Price Return Index represent around 27% of the total weight of the FTSE® 100 Index.

The top 10 companies of the FTSE® 100 Price Return Index actually represent 44.54% of its global weight. Conversely, the smallest 10 stocks only contribute to 1.56% of the overall weight of the Index.

This means that whilst the FTSE® 100 Price Return Index aims to provide exposure to all 100 of the largest stocks on the London Stock Exchange, in reality it is likely to be more skewed towards certain stocks and sectors.

| Company | Sector | Country | Weighting | |
|---|---|---|---|---|
| HSBC Holdings PLC | Financial | Britain | 7.60% | Top 10 |
| British American Tobacco PLC | Consumer, Non-cyclical | Britain | 5.81% | |
| Royal Dutch Shell PLC | Energy | Netherlands | 5.60% | |
| BP PLC | Energy | Britain | 5.14% | |
| Royal Dutch Shell PLC | Energy | Netherlands | 4.78% | |
| GlaxoSmithKline PLC | Consumer, Non-cyclical | Britain | 3.39% | |
| AstraZeneca PLC | Consumer, Non-cyclical | Britain | 3.35% | |
| Diageo PLC | Consumer, Non-cyclical | Britain | 3.27% | |
| Vodafone Group PLC | Communications | Britain | 3.03% | |
| Unilever PLC | Consumer, Non-cyclical | Britain | 2.57% | |
| Hargreaves Lansdown PLC | Financial | Britain | 0.20% | Bottom 10 |
| J Sainsbury PLC | Consumer, Non-cyclical | Britain | 0.20% | |
| Admiral Group PLC | Financial | Britain | 0.19% | |
| Antofagasta PLC | Basic Materials | Chile | 0.18% | |
| easyJet PLC | Consumer, Cyclical | Britain | 0.17% | |
| Merlin Entertainments PLC | Consumer, Cyclical | Britain | 0.14% | |
| ConvaTec Group PLC | Consumer, Non-cyclical | Britain | 0.13% | |
| Fresnillo PLC | Basic Materials | Mexico | 0.13% | |
| NMC Health PLC | Consumer, Non-cyclical | Uae | 0.12% | |
| Mediclinic International PLC | Consumer, Non-cyclical | South africa | 0.12% | |

Sources: Bloomberg as of 02/11/2017. The value of your investment may fluctuate. The figures relating to past performances and/or simulated past performances refer or relate to past periods and are not a reliable indicator of future results. This also applies to historical market data.

# WHY APPLY AN EQUAL WEIGHT TO ALL STOCKS?

## Applying an equal weight to all stocks in the Index

2) **Equal weight indices give higher exposure to smaller capitalisation stocks which tend to outperform larger capitalisation stocks**

A market capitalisation index will give greatest weight to large capitalisation stocks and the lowest weight to small capitalisation stocks.

However, historically, certain sources note that smaller capitalisation stocks tend to outperform large capitalisation stocks (source: Forbes Magazine as of March 2016*)

An equal weight index will therefore give greater weight to smaller capitalisation stocks instead of larger capitalisation stocks (i.e. it is more exposed to the stocks which tend to perform better, comparatively).

3) **Equal weight indices tend to apply a more efficient method for reviewing and rebalancing stocks within the Index**

As we have seen, over time, the composition of stocks in an equally weighted index has to be reviewed and the weight of each stock reset so that they remain equal.

In general, this could mean that the index will periodically be reducing exposure to more expensive stocks (i.e. selling them) and increasing exposure to cheaper stocks (i.e. buying them).

This process of rebalancing by buying low and selling high is believed by some to be more beneficial as compared to a market capitalisation index which continually takes exposure to the most expensive stocks (source: Forbes Magazine as of March 2016*).



Source: Forbes Magazine "Equal-Weighted Stock Indexes Can Have Powerful Benefits" as of 29th March 2016. Sources: Bloomberg as of 15/09/2017. The value of your investment may fluctuate. The figures relating to past performances and/or simulated past performances refer or relate to past periods and are not a reliable indicator of future results. This also applies to historical market data.

# FOCUS ON THE IMPACT OF REMOVING A FIXED DIVIDEND

## What is the purpose of the Fixed Dividend?

Unlike the FTSE® 100 Price Return Index which excludes all dividends paid by stocks within the index, the FTSE® 100 Fixed Dividend Equal Weight Custom Index reinvests all dividends paid by its constituent stocks and removes an annual fixed dividend of 50 points.

The main reason for doing this is to improve the terms offered within a Structured Product.

## How does a Fixed Dividend improve the terms offered within a Structured Product?

When buying a structured product linked to the FTSE® 100 Price Return Index, investors forfeit the dividend returns paid by the stocks within the index over the life of the investment. Instead, these dividends are reinvested into the product and help determine the final terms, such as the coupon paid or the level of soft capital protection.

When creating a structured product linked to the FTSE® 100 Price Return Index, this means that manufacturers of the structured product must estimate what the level of dividends will be over the life of the investment.

By fixing the level of future dividends (like within the new FTSE® 100 Fixed Dividend Equal Weight Custom Index) rather than using estimated levels of future dividends (like within the FTSE® 100 Price Return Index), the manufacturers of Structured Products are able to remove some of the uncertainty of what dividends might be and, as a result, can typically provide more attractive terms for structured products.

## Comparative Examples

Let's take a look at how the coupon of a structured product might vary depending on the chosen underlying. The below comparison analyses an Autocall product using the FTSE® 100 Price Return Index as its underlying versus an Autocall product using the FTSE 100® Fixed Dividend Equal Weight Custom Index as its underlying.

*Please note, the purpose of this comparison is only to highlight the possible improved return available by using the FTSE 100® Fixed Dividend Equal Weight Custom Index as an underlying instead of the FTSE® 100 Price Return Index.*

*All values shown are indicative only and may be subject to change.* ***For a full appraisal of the risks of investing in products such as this, as well as in depth analysis on how the products work and who they might be right for, please refer to a full and detailed product brochure.***

| | |
|---|---|
| Brief Overview of the Product | The product pays back the initial investment plus a defined return if, on any annual observation date, the underlying index is at or above 100% of its initial level. Otherwise, at maturity, investor's **capital will be at risk** if the underlying index falls below the 60% soft protection barrier level. |

| | Autocall on FTSE® 100 Price Return Index | Autocall on FTSE 100® Fixed Dividend Equal Weight Custom Index |
|---|---|---|
| Maturity | 6 years | 6 years |
| Autocall Barrier | 100% each year (1 to 6) | 100% each year (1 to 6) |
| Soft Protection Barrier | 60% of initial index level | 60% of initial index level |
| Potential Return | 5.60% p.a. | 8.80% p.a. |

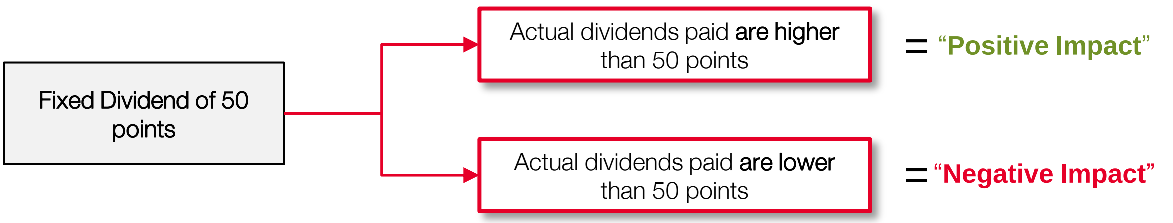
For illustrative purposes only. Source: Societe Generale as of 26th September 2017.

# FOCUS ON THE IMPACT OF REMOVING A FIXED DIVIDEND

## What are the consequences of a dividend level at 50 points?

If the actual dividends paid by companies in the FTSE® 100 Price Return Index are higher than the annual fixed dividend of 50 points, the net result will have a positive impact on the performance of the FTSE® 100 Fixed Dividend Equal Weight Custom Index.

However, if the actual dividends paid by companies in the FTSE® 100 Price Return Index are lower than the annual fixed dividend of 50 points, the net result will have a negative impact on the performance of the FTSE® 100 Fixed Dividend Equal Weight Custom Index.




## Why do we report dividends in 'points'?

A dividend reported in percentage terms tends to be too dependent on current market quotations or prices.

For example, on its launch date, the FTSE® 100 Fixed Dividend Equal Weight Custom Index starts at a level of 1000, with a fixed dividend level of 50 points. This dividend level, in percentage terms, is equivalent to 5% (i.e. 50/1000).

However, if the Index was to increase in value and rise to 1250, the same 50 points would now only be equivalent to 4% (i.e. 50/1250). Conversely, if the index was to fall to 750, the same 50 points would now be equivalent to 6.67% (i.e. 50/750).

| Dividend | Index Level | Dividend as a Percentage |
|---|---|---|
| 50 points | 1000 | 5.00% |
| 50 points | 1250 | 4.00% |
| 50 points | 750 | 6.67% |

Dividends have remained the same, yet as the Index rises or falls, the dividend as a percentage rise or falls too.

As a result, analysts prefer to forecast dividends in points, which is more in line with the profit actually paid by the companies to their shareholders.

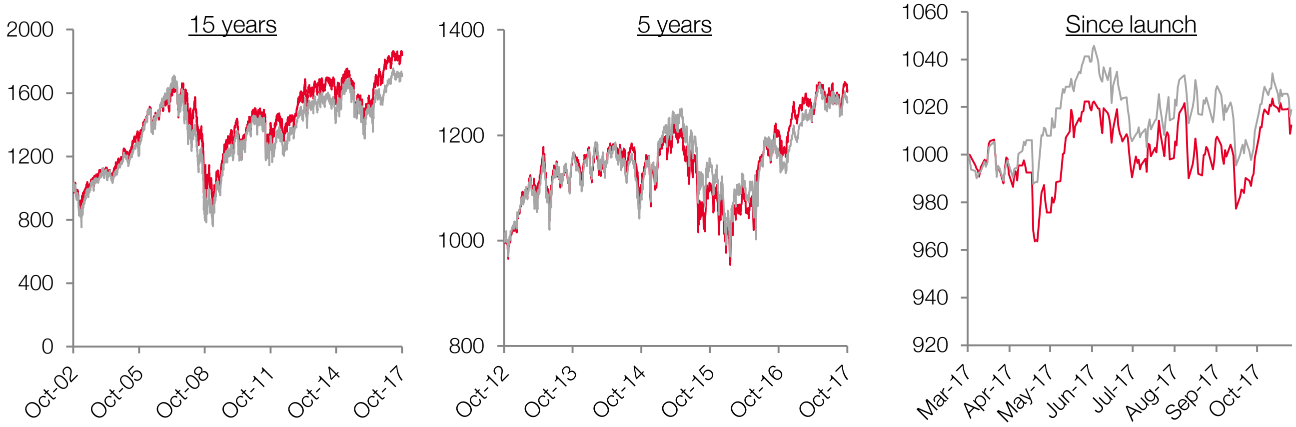
For illustrative purposes only.

# HISTORICAL PERFORMANCE OVERVIEW

## Comparison between the evolution of the FTSE® 100 Fixed Dividend Equal Weight Custom Index and the FTSE® 100 Price Return Index

*The FTSE® 100 Fixed Dividend Equal Weight Custom Index was launched on 1st March 2017 at an initial level of 1000 points.*

*The Index is live since 01/03/2017 . All data prior to this date is simulated using historical market data to replicate the index if it had been launched in the past.*




FTSE® 100 Price Return — FTSE® 100 Fixed Dividend Equal Weight Custom

| | Last 15 years | | Last 5 years | | Since Launch | |
|---|---|---|---|---|---|---|
| | FTSE® 100 Price Return | FTSE® 100 Fixed Dividend Equal Weight Custom | FTSE® 100 Price Return | FTSE® 100 Fixed Dividend Equal Weight Custom | FTSE® 100 Price Return | FTSE® 100 Fixed Dividend Equal Weight Custom |
| Annualised Return | 4.16% | **3.64%** | 5.17% | **4.81%** | 1.87% | **2.87%** |
| Volatility | 17.87% | **18.81%** | 13.51% | **14.01%** | 8.74% | **7.89%** |
| Return / Risk Ratio | 0.23 | **0.19** | 0.38 | **0.34** | 0.21 | **0.36** |
| Max Drawdown | -47.83% | **-55.59%** | -22.06% | **-22.44%** | -4.40% | **-4.81%** |

Annualised return represents the performance generated by the indices each year, over the full observation period.

Volatility represents how much the indices fluctuate over time (i.e. The higher the volatility the more the price of the indices go up and down over time).

The Return / Risk Ratio is calculated as the Annualised Return / Volatility. The higher the Ratio the better the score.

Max Drawdown represents the largest drop experienced by the Index.

Source: SG Engineering and Bloomberg. Data from 25/10/2002 to 26/10/2017. The value of your investment may fluctuate. The figures relating to past performances and/or simulated past performances refer or relate to past periods and are not a reliable indicator of future results. This also applies to historical market data.

## IMPORTANT INFORMATION



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