



**SGI Vol Target BRIC**  
(Total Return)

# **SGI VOL TARGET BRIC**

## **Index Rules Summary**

Version as of 21 May 2007



## SGI Vol Target BRIC (Total Return)

### 1. Index Summary Description:

#### **Index description**

The SGI Vol Target BRIC (the “**Index**”) is designed to produce a better risk-return ratio than the S&P BRIC 40 Index Net Total Return (the “**Underlying Index**”). The Index and Underlying Index are based on the value of equities of companies in the following regions: Brazil, Russia, India and China. The Index is constructed pursuant to a systematic rebalancing process between (a) the Underlying Index, (b) a hypothetical deposit based on the 1-month London interbank offered rate for deposits in US dollars (the “**LIBOR Rate**”) and (c) a hypothetical borrowing based on the LIBOR Rate used to optimize, under certain circumstances, the exposure to the Underlying Index while keeping the risk level of the Index, measured by the historical volatility of the Underlying Index, close to a pre-defined target level. The exposure to the Underlying Index, through the use of the hypothetical borrowing, can reach a maximum of 200% of the level of the Index.

When the volatility of the Underlying Index increases, the deemed exposure to the Underlying Index decreases and the exposure to the hypothetical deposit based on the LIBOR Rate increases, and when the volatility of the Underlying Index decreases, the deemed exposure to the Underlying Index increases and the deemed exposure to the hypothetical deposit decreases. If the volatility of the Underlying Index decreases below the pre-defined target level, the deemed exposure to the Underlying Index will increase above 100% of the level of the Index (up to a maximum of 200% of the level of the Index) and the deemed allocation to a hypothetical borrowing based on the LIBOR Rate will increase (which deemed allocation to a hypothetical borrowing will reduce the level of the Index).

The Index is subject to (a) a replication fee of 0.5% per annum calculated on the Index level and (b), following any change in the exposure of the Index to the Underlying Index, a transaction cost of 0.08% calculated on the actual variation of the exposure of the Index to the Underlying Index.

#### **Index strategy**

The constituents of the Index are (a) the Underlying Index, (b) a hypothetical deposit based on the LIBOR Rate and (c) a hypothetical borrowing based on the LIBOR Rate, with a deemed allocation to each depending on the volatility of the Underlying Index relative to the target volatility of 18% (the “**Target Volatility**”). The deemed exposure of the level of the Index to the Underlying Index is computed on each calculation date of the Index and is equal to the ratio of the Target Volatility to the 1-month historical volatility of the Underlying Index (the “**Historical Volatility**”), expressed as a percentage, with the maximum deemed exposure of the Index to the Underlying Index being capped at 200% of the Index level (the “**Exposure**”).

If the Historical Volatility is greater than the Target Volatility, then the Exposure of the Index to the Underlying Index will be less than 100%. In such case, a percentage of the Index’s level is deemed invested in the Underlying Index in an amount equal to the Exposure and the remaining percentage of the Index’s level is deemed invested in the hypothetical deposit based on the LIBOR Rate.

If the Historical Volatility is equal to the Target Volatility, then the Exposure of the Index to the Underlying Index will be 100%. In such case, 100% of the Index’s level is deemed invested in the Underlying Index and no portion of the Index’s level is deemed invested in the hypothetical deposit based on the LIBOR Rate.

If the Historical Volatility is less than the Target Volatility, then the Exposure of the Index to the Underlying Index will be greater than 100% (subject to a maximum Exposure of 200%). In such case, 100% of the Index’s level is deemed invested in the Underlying Index and no portion of the Index’s level is deemed invested in the hypothetical deposit based on the LIBOR Rate. Furthermore, (a) the Index is deemed to have invested an additional amount into the Underlying Index equal to the product of (i) the Index Level and (ii) the difference of the Exposure and 100% (the “**Additional Exposure**”) and (b) the Index is deemed to have



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borrowed funds equal to the product of (i) the Index Level and (ii) the Additional Exposure at a rate based on the LIBOR Rate. The deemed additional investment in the Underlying Index will increase the Index's exposure to the Underlying Index, while the deemed borrowing will reduce the level of the Index.

Upon request, S&P can provide the detailed Index Rules.