



SMI Decrement Indices

The Alternative to the SMI for Issuers of Financial Products

The SMI Decrement Indices apply a decrement strategy to the total return version (TR) of the underlying Swiss Market Index (SMI). With this type of index, the total return of a share index is debited with a fixed, predefined amount, the decrement. In this context, the decrement is often also referred to as a synthetic dividend.

Introduction

Although central banks are becoming more restrictive, at least rhetorically, we are still in an environment with very low interest rates. If inflation is also taken into account, the real interest rate in most interest rate markets is still negative. Demand for structured products with attractive coupons is therefore likely to remain high. Recently, structured products that use decrement indices as their underlying have become increasingly popular. Not least, the dividend uncertainty during the pandemic has attracted more attention to such indices.

Methodology and Type of Indices

The SMI Decrement Indices replicate an investment in the SMI TR (Total Return) less a constant decrement in the form of a fixed annualized percentage value or a fixed annualized index point value. The performance reduction is applied on a daily basis as per the actual/360 day count convention. The decrement is often called “synthetic” dividend. To have comparable returns with the price return (i.e. SMI PR) of the underlying index (SMI TR), the decrement needs to be roughly of the size of the realized dividend.

The base index, the SMI, is Switzerland's most important stock index comprising the 20 largest and most liquid stocks from the SPI and is fully compliant with ESMA UCITS guidelines.

Point decrements are based on fixed points and are more applicable to a short to medium term horizon, which

assumes a stable macroeconomic environment with stable payout ratios. Percentage decrements allow for a longer-term perspective, which assumes a stable dividend yield over the cycle, but may temporarily experience larger fluctuations.

Advantages at a Glance

- Eliminated dividend uncertainty
- No seasonality as decrement is released on a gradual daily basis (Act/360)
- Optimized indices tracking the SMI where the future dividends are fixed in advance
- High acceptance for the use of these indices as underlying for structured products due to their coverage of the Swiss Blue Chip equity market and simplified applicability for financial instruments
- Issuers of structured products can offer a potentially higher yield and/or improve capital protection
- Simpler risk management and structuring resulting in better efficiency and diminished transaction costs on customers' side
- Rules-based calculation with a transparent methodology
- Compliant with international benchmark standards

Calculation and Publication

The SMI Decrement Indices are calculated and distributed once a day after closing. They were launched on 07 January 2022. Index history is available back to 30 December 2010. Index data can be obtained on the SIX website and via data vendors.

Licensing

The use of SMI Decrement Indices in the portfolio management process and as underlying for financial products

as well as the access to restricted index data are governed by a licensing agreement.

Governance and Regulation

SIX is committed to the IOSCO Principles for Financial Benchmarks and the EU Benchmark Regulation. This ensures the international use of the SIX benchmarks for customers and financial service providers. A current list of all endorsed indices can be found on the [SIX website](#).

Available Indices

ISIN	Symbol	Name	Base Date	Base Value	Launch Date
CH1151583031	SMID25	SMI TR Decrement 2.50%	30.12.2021	12'875.66	07.01.2022
CH1151583056	SMID30	SMI TR Decrement 3.00%	30.12.2021	12'875.66	07.01.2022
CH1151583049	SMID35	SMI TR Decrement 3.50%	30.12.2021	12'875.66	07.01.2022
CH1151583064	SMID40	SMI TR Decrement 4.00%	30.12.2021	12'875.66	07.01.2022
CH1151583072	SMID45	SMI TR Decrement 4.50%	30.12.2021	12'875.66	07.01.2022
CH1151583080	SMID50	SMI TR Decrement 5.00%	30.12.2021	12'875.66	07.01.2022
CH1154162064	SMID320P	SMI TR Decrement 320 Points	30.12.2021	12'875.66	07.01.2022
CH1154162072	SMID390P	SMI TR Decrement 390 Points	30.12.2021	12'875.66	07.01.2022
CH1154162080	SMID450P	SMI TR Decrement 450 Points	30.12.2021	12'875.66	07.01.2022
CH1154162098	SMID520P	SMI TR Decrement 520 Points	30.12.2021	12'875.66	07.01.2022
CH1154162106	SMID580P	SMI TR Decrement 580 Points	30.12.2021	12'875.66	07.01.2022
CH1154162114	SMID640P	SMI TR Decrement 640 Points	30.12.2021	12'875.66	07.01.2022

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