S&P Dow Jones Indices

A Division of S&P Global

S&P 500 Covered Call 2% OTM Index
Methodology

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Introduction

Index Objective

The S&P 500 Covered Call 2% OTM Index measures the performance of a long position in the S&P 500 Total Return Index and a short position in a standard monthly S&P 500 call option.

For more information on the S&P 500, please refer to the S&P U.S. Indices Methodology, available at www.spglobal.com/spdji.

Supporting Documents

This methodology is meant to be read in conjunction with supporting documents providing greater detail with respect to the policies, procedures and calculations described herein. References throughout the methodology direct the reader to the relevant supporting document for further information on a specific topic. The list of the main supplemental documents for this methodology and the hyperlinks to those documents is as follows:

Supporting Document	URL
S&P Dow Jones Indices' Equity Indices Policies & Practices Methodology	Equity Indices Policies & Practices
S&P Dow Jones Indices' Index Mathematics Methodology	Index Mathematics Methodology
S&P Dow Jones Indices' Options Indices Policies and Practices Methodology	Options Indices Policies & Practices Methodology

This methodology was created by S&P Dow Jones Indices to achieve the aforementioned objective of measuring the underlying interest of each index governed by this methodology document. Any changes to or deviations from this methodology are made in the sole judgment and discretion of S&P Dow Jones Indices so that the index continues to achieve its objective.

Index Construction

The short position in the call option is initiated on the third Friday of each month (roll day t) and held to maturity. The target strike price for the call option is 2% above a TWAP of the SPX level on roll day t. The next-month contract with a strike price at or immediately above the target strike price is selected. Based on the index level and the estimated option price on business day t, a call option is written on 100% of the index notional.

The premium received on the roll date, net of payoff from the expiring option position, is immediately reinvested into equity. If the third Friday is a market holiday, the roll occurs on the prior business day.

Total Return Index Calculation

On any business day t, the index comprises a long equity position and a short call position:

$$Index_t = \max(0, Equity_t - Call_t)$$

where:

$Equity_t$ = value of the position in S&P 500 Total Return Index (SPTR) on business day t

$Call_t$ = value of the short call position on business day t

On the base date, the index initializes to a level of 100, invested entirely in equity. The option positions are created on the next day, i.e., the first roll day.

If t is a roll day

A call option expiring on the next roll day is selected by finding the minimum strike K_t such that:

$$K_t >= 1.02 \times SPX_t^{twap*}$$

where:

SPX_t^{twap*} = TWAP of S&P 500 index level during the strike selection window, as described in the Appendix.

The number of options (share-equivalent quantity) calculates as:

$$Units_t = \frac{Index_t^{twap}}{SPX_t^{twap}}$$

where:

$Index_t^{twap}$ = TWAP of the covered call index level during the units calculation window, as described in the Appendix

SPX_t^{twap} = TWAP of the S&P 500 index level during the units calculation window, as described in the Appendix

Note: Prior to launch, the number of options (share-equivalent quantity) calculated as $Units_t = \frac{Index_{t-1}}{SPX_t^{twap}}$.

The equity and call values calculate as

$$Equity_t = Equity_{t-1} \times \frac{SPTR_t}{SPTR_{t-1}} - Units_{t-1} \times \max(0, SET_t - K_{t-1}) + Units_t \times \left(Mid_t^{twap} - Cost_t\right)$$

$$Call_t = Units_t \times Mid_t$$

where:

SET_t = official settlement price of the S&P 500 as of business day t

Mid_t^{twap} = TWAP of the mid price of the selected call option during the units calculation window on business day t (For more details, see *Appendix A)*

Mid_t = mid price of the call option at close (16:00 ET) on business day t

$Cost_t$ = estimate of transaction cost, calculated using Vega and Vol Spread as described in the Appendix

Note: Prior to launch, the index used closing mid price Mid_t.

If t is not a roll day

The options quantity and strike remain the same:

$$K_t = K_{t-1}$$

$$Units_t = Units_{t-1}$$

The values of the equity and call positions calculate as:

$$Equity_t = Equity_{t-1} \times \frac{SPTR_t}{SPTR_{t-1}}$$

$$Call_t = Units_t \times Mid_t$$

Index Maintenance

Pricing

Options prices are provided via vendor feed after market close.

For further information on pricing, please refer to S&P Dow Jones Indices' Options Indices Policies & Practices Methodology.

Currency of Calculation and Additional Index Return Series

In addition to the indices detailed in this methodology, additional return series versions of the indices may be available, including, but not limited to: currency, currency hedged, decrement, fair value, inverse, leveraged, and risk control versions. For a list of available indices, please refer to *S&P DJI Methodology & Regulatory Status Database*.

For information on the calculation of different types of indices, please refer to S&P Dow Jones Indices' Index Mathematics Methodology.

For the inputs necessary to calculate certain types of indices, including decrement, dynamic hedged, fair value, and risk control indices, please refer to the Parameters documents available at www.spglobal.com/spdji/.

Base Date and History Availability

The index history availability, base date, and base value are shown in the table below.

Index	Launch Date	First Value Date	Base Date	Base Value
S&P 500 Covered Call 2% OTM Index (USD) TR	11/20/2026	01/17/2007	01/17/2007	100

Index Governance

Index Committee

An Index Committee maintains the indices. All committee members are full-time professionals at S&P Dow Jones Indices. Meetings are held regularly. The Index Committee oversees the management of the indices, including determinations of intra-rebalancing changes, maintenance and inclusion policies, and other matters affecting the maintenance and calculation of the indices.

In fulfilling its responsibilities, the Index Committee has full and complete discretion to (i) amend, apply, or exempt the application of index rules and policies as circumstances may require and (ii) add, remove, or by-pass any bond in determining the composition of an index.

The Index Committee may rely on any information or documentation submitted to it or gathered by it that the Index Committee believes to be accurate. The Index Committee reserves the right to reinterpret publicly available information and to make changes to the indices based on a new interpretation of that information at its sole discretion. All Index Committee discussions are confidential.

The Index Committee is separate from and independent of other analytical groups at S&P Global. In particular, the Index Committee has no access to or influence on decisions by S&P Global Ratings analysts.

S&P Dow Jones Indices' Index Committees reserve the right to make exceptions when applying the methodology if the need arises. In any scenario where the treatment differs from the general rules stated in this document or supplemental documents, clients will receive sufficient notice, whenever possible.
In addition to the daily governance of indices and maintenance of index methodologies, at least once within any 12-month period, the Index Committee reviews the methodology to ensure the indices continue to achieve the stated objectives, and that the data and methodology remain effective. In certain instances, S&P Dow Jones Indices may publish a consultation inviting comments from external parties.

For more information on index governance policies, please refer here.

Index Policy

Announcements

Announcements of the daily index values are made after the market close each day.

Holiday Schedule

Each index calculates daily when the underlying equity index calculates.

A complete holiday schedule for the year is available at www.spglobal.com/spdji/.

Unexpected Exchange Closures

For information on Unexpected Exchange Closures, please refer to S&P Dow Jones Indices' Equity Indices Policies & Practices Methodology.

Recalculation Policy

For information on the recalculation policy, please refer to S&P Dow Jones Indices' Equity Indices Policies & Practices Methodology and Options Indices Policies & Practices Methodology for the underlying indices, respectively.

For information on Calculations and Pricing Disruptions, Expert Judgment and Data Hierarchy, please refer to S&P Dow Jones Indices' Equity Indices Policies & Practices and Options Indices Policies & Practices Methodology documents for the underlying indices, respectively.

Contact Information

For questions regarding an index, please contact: index_services@spglobal.com.

Index Dissemination

Index levels are available through S&P Dow Jones Indices Web site at *www.spglobal.com/spdji/*, major quote vendors (see codes below), numerous investment-oriented Web sites, and various print and electronic media.

Tickers

The table below lists headline indices covered by this document. All versions of the below indices that may exist are also covered by this document. Please refer to *S&P DJI Methodology & Regulatory Status Database* for a complete list of indices covered by this document.

Index	BBG	RIC
S&P 500 Covered Call 2% OTM Index (USD) TR	SPXCC102	.SPXCC102

Index Data

Daily constituent and index level data are available via subscription.

For product information, please contact S&P Dow Jones Indices, www.spglobal.com/spdji/en/contact-us.

Web site

For further information, please refer to S&P Dow Jones Indices Web site at www.spglobal.com/spdji/.

Appendix A

TWAP Windows

	Description	Start Time	End Time	Interval	Time Zone
SPX_t^{twap*}	SPX TWAP for Strike Selection	11:00:00	11:25:00	1 min	U.S./Eastern
SPX_t^{twap}	SPX TWAP for Units Calculation	11:30:00	13:30:00	1 min	U.S./Eastern
$Index_t^{twap}$	Index TWAP for Units Calculation	11:30:00	13:30:00	1 min	U.S./Eastern
Mid_t^{twap}	Option TWAP for Units Calculation	11:30:00	13:30:00	1 min	U.S./Eastern

By convention, each TWAP window includes the start time and excludes the end time.

Calculating SPX TWAP

The tick levels during the specified time-window are binned into 1-minute intervals, and the last tick within each bin is selected. The selected tick levels are then averaged to calculate the TWAP.

In the event of disruption, we use as many bins as available to calculate the TWAP. For example, if a disruption occurs at 11:17:43, then the last value of each of the first 17 minutes are used to calculate the TWAP. If the entire window is disrupted, then the earliest 5-minute window after resumption of market activity is used for calculating the TWAP.

Calculating Index TWAP

The index TWAP calculates as:

$$Index_t^{twap} = Equity_{t-1} \times \frac{SPTR_t^{twap}}{SPTR_{t-1}} - Units_{t-1} \times \max(0, SET_t - K_{t-1})$$

where $SPTR_t^{twap}$ calculates using the same approach used for calculating SPX TWAP.

Calculating Option Price TWAP

The option tick prices during the specified time window are bucketed into 1-minute intervals, and the last prevailing bid and ask price within each bucket are averaged to obtain the mid price for that bucket. TheTWAP is then calculated by averaging the mid prices from all the buckets.

In the event of a disruption, the index uses as many buckets as available to calculate the TWAP. For example, if a disruption occurs at 12:56:43, then the last prevailing bid and ask prices within each complete minute are used to calculate the option price TWAP. If the entire window is disrupted, then the closing 16:00 ET quote is used.

Calculating Volatility Spread

The option volatility spread is estimated empirically using near-ATM call options (within 5% moneyness) that have about 30 days to maturity.

The volatility spread of each option calculates as $\frac{Mid-Bid}{Vega}$. These values are then divided into buckets based on implied volatility (IV).

The average volatility spread within each bucket is estimated as follows:

IV range	Avg Vol Spread (κ)
<= 20%	0.05
> 20% and <= 30%	0.10
> 30% and <= 50%	0.30
> 50%	0.70

Calculating Implied Volatility and Vega

The index uses the Black '76 model to calculate the implied volatility using the mid price of each option quote. As an input to the model, the index calculates the forward level of the S&P 500 using put-call parity. The index also uses interest rates from the US Treasury yield curve.

The forward level F calculates as follows

$$F = K' + e^{r\tau}(C_{K'} - P_{K'})$$

where:

τ = time to expiry

r = interest rate corresponding to the selected expiry date, obtained by interpolating the US Treasury yield curve

K' = The strike price at which the difference between the call and the put mid-prices is the smallest, also referred to as the at-the-money (ATM) strike. If there are multiple put-call pairs with the same minimum absolute difference, then the lowest strike among them is selected.

$C_{K'}$ = Mid price of the call at strike K'

$P_{K'}$ = Mid price of the put at strike K'

The implied volatility σ is estimated by minimizing the difference between the theoretical option price from the Black '76 model and the observed market price.

Vega calculates using the Black '76 model as follows:

$$\nu = Fe^{-r\tau}\varphi(d_1)\sqrt{\tau}$$

where:

$$\varphi(x) = \frac{1}{\sqrt{2\pi}}e^{-\frac{1}{2}x^2}$$

$$d_1 = \frac{\ln(F/K) + \frac{1}{2}\sigma^2\tau}{\sigma\sqrt{\tau}}$$

$\boldsymbol{\sigma}$ = the implied volatility estimate

Estimating the Transaction Cost

Vega calculates using each of the 1-minute bucketed option prices as described above. The implied volatility (IV) also calculates using each of those prices, which determines the corresponding vol spread from the table above.

The product of $\kappa_t * \nu_t$ calculates for each 1-minute bucket, and those values are then averaged to estimate the transaction cost.

$$Cost_t = \frac{1}{N_t} \sum_t \kappa_t * \nu_t$$

where:

N_t = number of minutes in the TWAP window.

Disclaimer

Performance Disclosure/Back-Tested Data

Where applicable, S&P Dow Jones Indices and its index-related affiliates ("S&P DJI") defines various dates to assist our clients by providing transparency. The First Value Date is the first day for which there is a calculated value (either live or back-tested) for a given index. The Base Date is the date at which the index is set to a fixed value for calculation purposes. The Launch Date designates the date when the values of an index are first considered live: index values provided for any date or time period prior to the index's Launch Date are considered back-tested. S&P DJI defines the Launch Date as the date by which the values of an index are known to have been released to the public, for example via the company's public website or its data feed to external parties. For Dow Jones-branded indices introduced prior to May 31, 2013, the Launch Date (which prior to May 31, 2013, was termed "Date of introduction") is set at a date upon which no further changes were permitted to be made to the index methodology, but that may have been prior to the Index's public release date.

Please refer to the methodology for the Index for more details about the index, including the manner in which it is rebalanced, the timing of such rebalancing, criteria for additions and deletions, as well as all index calculations.

Information presented prior to an index's launch date is hypothetical back-tested performance, not actual performance, and is based on the index methodology in effect on the launch date. However, when creating back-tested history for periods of market anomalies or other periods that do not reflect the general current market environment, index methodology rules may be relaxed to capture a large enough universe of securities to simulate the target market the index is designed to measure or strategy the index is designed to capture. For example, market capitalization and liquidity thresholds may be reduced. In addition, forks have not been factored into the back-test data with respect to the S&P Cryptocurrency Indices. For the S&P Cryptocurrency Top 5 & 10 Equal Weight Indices, the custody element of the methodology was not considered; the back-test history is based on the index constituents that meet the custody element as of the Launch Date. Also, the treatment of corporate actions in back-tested performance may differ from treatment for live indices due to limitations in replicating index management decisions. Back-tested performance reflects application of an index methodology and selection of index constituents with the benefit of hindsight and knowledge of factors that may have positively affected its performance, cannot account for all financial risk that may affect results and may be considered to reflect survivor/look ahead bias. Actual returns may differ significantly from, and be lower than, back-tested returns. Past performance is not an indication or guarantee of future results.

Typically, when S&P DJI creates back-tested index data, S&P DJI uses actual historical constituent-level data (e.g., historical price, market capitalization, and corporate action data) in its calculations. As ESG investing is still in early stages of development, certain datapoints used to calculate certain ESG indices may not be available for the entire desired period of back-tested history. The same data availability issue could be true for other indices as well. In cases when actual data is not available for all relevant historical periods, S&P DJI may employ a process of using "Backward Data Assumption" (or pulling back) of ESG data for the calculation of back-tested historical performance. "Backward Data Assumption" is a process that applies the earliest actual live data point available for an index constituent company to all prior historical instances in the index performance. For example, Backward Data Assumption inherently assumes that companies currently not involved in a specific business activity (also known as "product involvement") were never involved historically and similarly also assumes that companies currently involved in a specific business activity were involved historically too. The Backward Data Assumption allows the hypothetical back-test to be extended over more historical years than would be feasible using only actual data. For more information on "Backward Data Assumption" please refer to the FAQ. The methodology and factsheets of any index that employs backward assumption in the back-tested history

will explicitly state so. The methodology will include an Appendix with a table setting forth the specific data points and relevant time period for which backward projected data was used. Index returns shown do not represent the results of actual trading of investable assets/securities. S&P DJI maintains the index and calculates the index levels and performance shown or discussed but does not manage any assets.

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