

STANDARD
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S&P GSCI[®] CRUDE OIL
COVERED CALL INDEX
INDEX METHODOLOGY

July 2009

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Introduction

The S&P GSCI Crude Oil Covered Call Index seeks to simulate a covered call strategy on the most active crude oil futures contract.

Highlights

A covered call strategy is an income generating strategy that is generally used in a neutral to bullish market environment, where a slow and steady rise in market prices is anticipated.

The S&P GSCI Crude Oil Covered Call index reflects an investment in the rolling active WTI Crude Oil futures contract traded on the NYMEX, an exchange owned by the CME group, and the systematic writing (selling) of out-of-the-money (OTM) calls on the same contract.

The index seeks to provide higher returns than the S&P GSCI Crude Oil Index, with lower volatility, in most market environments with the exception of when the crude oil futures market is rallying rapidly.

The S&P GSCI Crude Oil Covered Call Index Methodology

This methodology uses various terms and definitions from *the S&P GSCI Index Methodology*, henceforth referred to as *the S&P GSCI Methodology*. Where not specifically noted otherwise in this document, the rules of the S&P GSCI Methodology will prevail. Where the terms in this document are also defined in the S&P GSCI Methodology, the definitions in this document prevail.

Definitions

Call option. A contract between a buyer and seller whereby the buyer acquires the right, but not the obligation, to purchase a specific security at a fixed price on or before a specified date. The seller of the call assumes the obligation of delivering the security.

Strike price. The price at which the underlying will be delivered in the event the option is exercised.

Volatility. The degree to which the price of an underlying security tends to fluctuate over time.

Index Construction

Approaches

The S&P Crude Oil Covered Call Index is calculated on a hypothetical portfolio consisting of a long futures position and a short OTM call position, both of which are rolled monthly. The futures and options roll over a five-day period, starting on the first business day of each month.

Index Calculations

Calculating the Total Return of the Portfolio

The index is calculated based on the total return of a hypothetical portfolio consisting of a long futures position and a short OTM call. If it's not during a roll period, the return and the index value are calculated as follows:

$$R_t = \frac{F_t - C_t}{F_{t-1} - C_{t-1}} - 1$$
$$I_t = I_{t-1}(1 + R_t)$$
(1)

where:

R_t = Index return on day t

I_t = Index level on day t

F_t = Closing price of the futures contract on day t

F_{t-1} = Closing price of the futures contract on day $t-1$

C_t = Closing price of the call option on day t

C_{t-1} = Closing price of the call option on day $t-1$

Five Day Roll

Crude oil futures and options are not held to maturity. Instead, the long futures and short options positions roll to the next month over a five-day period, with 20% being replaced every business day. The roll period is the first five business days of each month. The option chosen to be rolled into is always based on the same contract month as the futures that are being rolled into. With the substitution of the roll during the 1st through the 5th business days for the S&P GSCI Covered Call index, the roll rules and procedures followed are those as specified in the S&P GSCI Methodology, sections VI.2(b), VI.2 (c) and VI.2 (d).

Table 1: Contracts Included in the S&P GSCI Crude Oil Covered Call index for 2009

Crude Oil Covered Call Futures and Options roll Schedule for 2009														
Trading Facility	Commodity (Contract)	Ticker	Designated Contract Expirations during the Month ¹											
			Month:	1	2	3	4	5	6	7	8	9	10	11
CME / NYM	Oil (WTI Crude)	CL	H9	J9	K9	M9	N9	Q9	U9	V9	X9	Z9	F0	G0

(1) Future and option Months included in the Crude Oil Covered Call Index that are rolled into during the calendar month, starting with January 2009. Month letter codes are shown in Table 2.

Table 2: Month Letter Codes

Month	Letter Code
January	F
February	G
March	H
April	J
May	K
June	M
July	N
August	Q
September	U
October	V
November	X
December	Z

Determining the Strike of the Call Option

The index determines the strike price of the call option to be rolled into based on the market price level implied by the realized volatility of the crude oil market. After the close of the last trading day of each month, the annualized realized volatility of the past 21 trading days of the S&P GSCI Crude Oil Spot Index is calculated. The 21-day realized (historical) volatility is calibrated with the number of calendar days left to expiration in the option contract month to be rolled into. We denote this as *vol*.

$$r_i = \frac{S_i}{S_{i-1}} - 1$$

$$\bar{r}_i = \frac{1}{21} \sum_{j=0}^{20} r_{i-j}$$

$$stdev = \sqrt{\frac{1}{20} \sum_{j=0}^{20} (r_{i-j} - \bar{r}_i)^2} \tag{2}$$

$$realized\ volatility = stdev * \sqrt{252}$$

$$vol = realized\ volatility * \sqrt{\frac{\#calendar\ days\ to\ expire}{365}}$$

where:

S_i = Closing price of the S&P GSCI Crude Oil Spot Index on the i^{th} trading day

r_i = Daily return of the S&P GSCI Crude Oil Spot Index on the i^{th} trading day
 \bar{r}_i = The 21-day average daily return of the S&P GSCI Crude Oil Spot Index on the i^{th} trading day

The strike of the new call option, K , is 1 *vol* above the close of the futures contract to be rolled into on the last trading day of each month.

$$K = F_t^{new} (1 + vol) \tag{3}$$

where:

F_t^{new} = Closing price of the futures contract to be rolled into.

If the calculated strike price, K , falls between two option strikes, the call option that is immediately above K is chosen

An example of strike determination:

Date: April 30th 2009

- The index will begin rolling into the July futures and options on May 1st 2009
- July crude oil futures settlement price on April 30th = \$52.28/bbl
- 21-day historic volatility of the S&P GSCI Spot Crude Oil Index on April 30th = 54.73%
- Calendar days to options expiration on April 30th = 48 days
- Target strike = \$52.28/bbl + (52.28 * 54.73% * sqrt(48 / 365)) = \$62.66/bbl
- On May 1st, the index begins rolling into a long position in the July futures and a short position in the July 63 calls.

Five-Day Staggered Roll

The roll period starts on the first business day of each calendar month. With each successive day, 20% of the expiring futures and options are replaced by the new contracts at the close and assumed official settlement prices. Exhibit 1 shows an example of the weights of the two maturities.

Exhibit 1: Five Day Roll Example

Date	Roll Out	Weight	Roll In	Weight
5/29/2009	200907	100%		0%
6/1/2009	200907	80%	200908	20%
6/2/2009	200907	60%	200908	40%
6/3/2009	200907	40%	200908	60%
6/4/2009	200907	20%	200908	80%
6/5/2009	200907	0%	200908	100%

The return of the portfolio and the index value are calculated as follows:

$$R_t = \frac{W_{t-1}^{old} (F_t^{old} - C_t^{old}) + W_{t-1}^{new} (F_t^{new} - C_t^{new})}{W_{t-1}^{old} (F_{t-1}^{old} - C_{t-1}^{old}) + W_{t-1}^{new} (F_{t-1}^{new} - C_{t-1}^{new})} - I \quad (4)$$

$$I_t = I_{t-1} (1 + R_t)$$

where:

W_t^{new} = Weight of the new futures / options

F_t^{new} = Closing price of the new futures

C_t^{new} = Closing price of the new call option

W_t^{old} = Weight of the old futures / options

F_t^{old} = Closing price of the new futures

C_t^{old} = Closing price of the old call option

Index Maintenance

Rebalancing

Since the S&P GSCI Crude Oil Covered Call index is based on one underlying security, there are no periodic rebalancings. In calculating the S&P Crude Oil Covered Call Index, futures and options are rolled on the first five business days of each month, excluding weekends and holidays.

Index Governance

Index Committee

The S&P GSCI Committee maintains the S&P Crude Oil Covered Call Index. The Index Committee meets regularly. At each meeting, the Index Committee reviews any significant market events. In addition, the Index Committee may revise index policy for timing of rebalancings or other matters.

Standard & Poor's considers information about changes to its indices and related matters to be potentially market moving and material. Therefore, all Index Committee discussions are confidential.

Index Policy

Announcements

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

Announcements of the new call strike price to be rolled into are made following the close of business on the last business day of each month.

The index is calculated daily when the NYMEX, an exchange owned by the CME group, crude oil futures and options are open for official trading and official settlement prices are provided, excluding holidays and weekends.

In situations where an exchange is forced to close early due to unforeseen events, such as computer or electric power failures, weather conditions or other events, Standard & Poor's will calculate the value of the index based on most recent option price published by the NYMEX, an exchange owned by the CME group. If an exchange fails to open due to unforeseen circumstances, Standard & Poor's may determine not to publish the index for that day.

Index Dissemination

Historical index returns are available through Standard & Poor's index data group for subscription via FTP.

Tickers

Index	Bloomberg	Reuters
S&P GSCI Crude Oil Covered Call Index Spot	SPCLCL	.SPCLCL
S&P GSCI Crude Oil Covered Call Index Excess Return	SPCLCLP	.SPCLCLP
S&P GSCI Crude Oil Covered Call Index Total Return	SPCLCLTR	.SPCLCLTR

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