BXM Expiration Cycle Commentary

Jan.-Feb. 2017

The CBOE S&P 500® BuyWrite Index (the BXM℠) returned 1.45% from its closing price on Friday, January 20th through its index call option expiration on Friday, February 17th. The S&P 500® Index returned 3.72% over the same period, outperforming the BXM℠ by 227 basis points (bps).

The equity market advanced steadily over the course of the expiration cycle. The premium received by the BXM℠ when it wrote its February-expiration index call option on January 20th allowed for significant participation in the market's return through February 8th with the BXM℠ returning 0.93% while the S&P 500® Index returned 1.12%. The BXM℠ had earned nearly all the premium received by February 8th resulting in lagging relative performance as the market's rate of return accelerated. From February 8th through February 16th, the day prior to the expiration for the BXM's℠ February index call option, the BXM℠ returned just 0.22% while the S&P 500® Index advanced 2.40%.

From January 20th through February 16th, the close prior to the BXM's℠ index option roll, the cumulative returns for the BXM℠ and S&P 500® Index were 1.15% and 3.54%, respectively.

February BXM℠ Roll

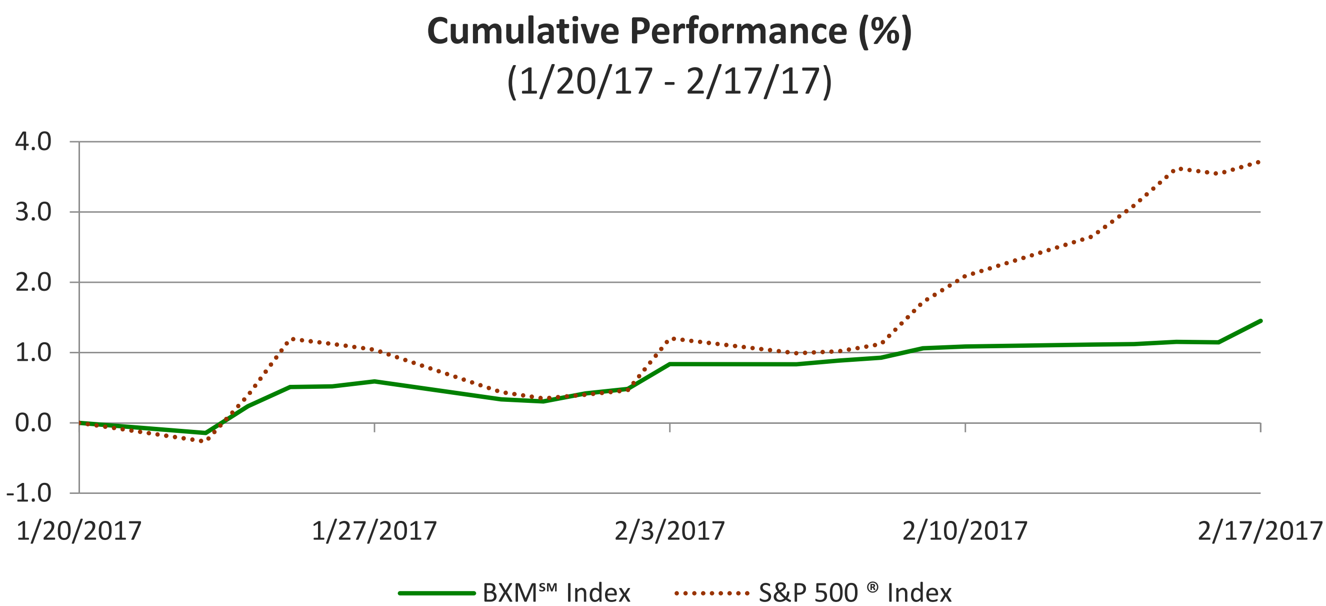
On February 17th, the BXM℠ gained 0.30% as it rolled from the expiring February index call option to a new index call option expiring in March. With a SPXSET of 2341.31, the BXM℠ paid $66.31 to retire the February index call option with a strike price of 2275. The new March index call option had a strike price of 2345 and a premium of $20.92 at the time of the roll.

[1] The Chicago Board Options Exchange (CBOE®) S&P 500 BuyWrite Index (the BXM℠) is a passive total return index designed to track the performance of a hypothetical buy-write strategy on the S&P 500® Index. The construction methodology of the BXM℠ includes buying an equity portfolio replicating the holdings of the S&P 500® Index and selling a single one-month S&P 500® Index call option with a strike price approximately at-the-money each month on the Friday of the standard index option expiration cycle and holding that position until the next expiration.

[2] SPXSET determines the price at which the BXM℠ "buys back" the expiring index option as it rolls to a new one. SPXSET is based on the first available price of each company in the S&P 500® Index, rather than the opening price of the S&P 500® Index itself. Since it is common for a portion of the companies to not trade on the market open, the set price can and frequently does vary from the opening price of the S&P 500® Index.

The S&P 500® Index gained 0.17% on the day of the option roll. The differential between the SPXSET and the previous day's closing price of the S&P 500® Index helped the BXM'sSM performance. The SPXSET was nearly 6 points lower than the 2347.22 closing price of the S&P 500® Index on February 16th. The differential between the SPXSET and the closing price on the 16th lowered the price the BXMSM paid to retire its index call option, thus adding approximately 25 bps to its return. The timing of the roll hurt the BXM'sSM performance as the S&P 500® Index declined 0.27% during the BXM'sSM unhedged period from the market close on the 16th to 11:30 a.m. on the day of the roll. The S&P 500® Index advanced over the remainder of the trading session.

The CBOE Volatility Index (the VIX®) fluctuated between 11.37 and 12.26 on February 17th. This was similar to the range the VIX® exhibited on the day of the previous BXMSM roll. The March index call option premium received equates to 0.89% of the underlying value of the BXMSM, for an annualized rate of 11.64%, slightly higher than the 11.12% annualized rate of the previous month.



Datasource: Bloomberg, L.P., Morningstar DirectSM and Chicago Board Options Exchange (CBOE®)

Performance data shown represents past performance and is no guarantee of, and not necessarily indicative of, future results.