

# TalkingPoints

## Get to Know the S&P 500 Daily Covered Call Indices



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The S&P 500® Daily Covered Call Index assesses the performance of a daily buy-write strategy, combining hypothetical long positions in the S&P 500 (TR) with hypothetical short positions in daily, PM-settled S&P 500 options using a dynamic strike selection. Including two subindices, the index series offers valuable insights into the value and potential income of its underlying components. This innovative approach serves as a distinctive mix of indexing and options and is a potential tool for those seeking equity performance with a focus on income.

### 1. What is the S&P 500 Daily Covered Call Index Series?

The S&P 500 Daily Covered Call Indices measure the performance of the components of a daily buy-write strategy using an S&P 500 (TR) equity position and listed S&P 500 Weeklys<sup>SM</sup> Options one day from their maturity date. The series is comprised of a broad, commingled index strategy and two subindices intended to provide specific views of the strategy's components.

### 2. What are the component indices of the S&P 500 Daily Covered Call Index Series?

The series is composed of the main S&P 500 Daily Covered Call Index along with the:

- S&P 500 Daily Covered Call Index - Call Only, which measures the performance of only the short call component the S&P 500 Daily Covered Call Index and the cash component.
- S&P 500 Daily Covered Call Index - Income Only, which measures the total theoretical cash from call writing and the dividends from the S&P 500 Daily Covered Call Index.



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### 3. How do the S&P 500 Daily Covered Call Indices reflect an income component?

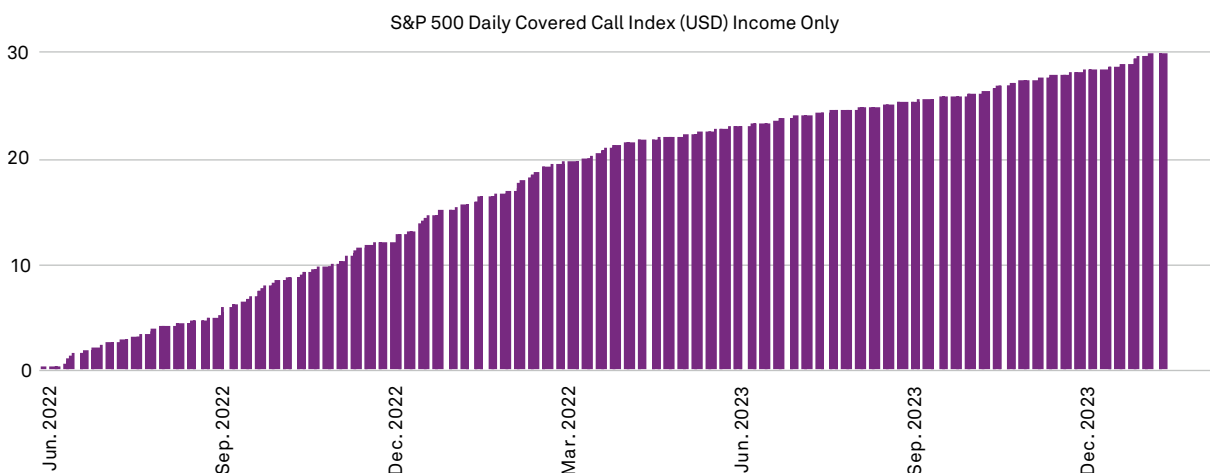
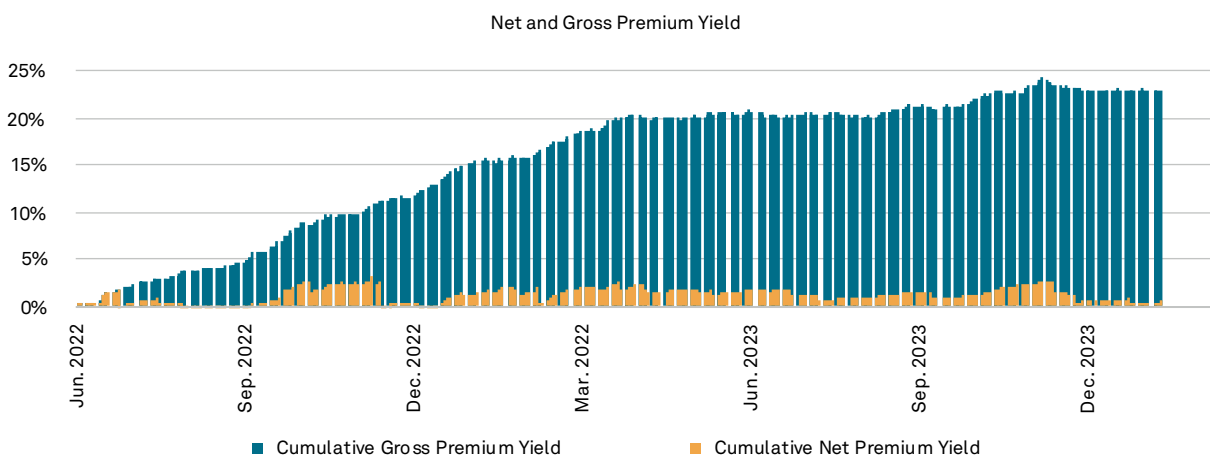
The strategy reflected by the index combines the benefits of indexing with the theoretical income-generating potential of covered call options. One of the primary characteristics of covered call strategies is their ability to generate consistent income, which may potentially be increased by selling a call option daily.

The income story is further complemented by the theoretical dividends paid on the long S&P 500 (TR) position, which accounts for the daily reinvestment of all ordinary dividends on the S&P 500.

Additionally, hypothetical premiums collected daily may act as a supplementary source of returns beyond asset appreciation, providing potential downside protection and incremental return in flat markets.

Based on back-tested data, the index would have demonstrated a 23.03% gross premium yield, reflective of the cumulative sum of option premiums over the index value, and a net premium yield (premium adjusted by payout value) of 0.54% from June 1, 2022, to Dec. 29, 2023.

#### Exhibit 1: Back-Tested Historical Index Performance of the S&P 500 Daily Covered Call Index - Income Only



Source: S&P Dow Jones Indices LLC. Data from June 1, 2022, to Dec. 29, 2023. Index performance based on total return in USD. The S&P 500 Daily Covered Call Index was launched Oct. 5, 2023. All data prior to index launch date is back-tested hypothetical data. Past performance is no guarantee of future results. Charts are provided for illustrative purposes and reflect hypothetical historical performance. Please see the Performance Disclosure at the end of this document for more information regarding the inherent limitations associated with back-tested performance. The gross premium yield is calculated as the sum of option premiums divided by the S&P 500 Daily Covered Call Index (USD) TR value. The cumulative net premium yield is calculated as the sum of net premiums (premium minus payout) over the by S&P 500 Daily Covered Call Index (USD) TR value.

#### 4. Why do these indices track a daily covered call strategy instead of more standard monthly or weekly approach?

By reflecting the hypothetical sale of covered call options daily, the indices look to increase the frequency at which premiums are captured and enhance the flexibility to adjust component positions more frequently. This approach allows for theoretical upside price participation on the underlying S&P 500 up to the option strike price each day. Moreover, the strike price is determined using CBOE VIX® to dynamically adjust for prevailing S&P 500 volatility expectations and the intraday observations of the S&P 500 during a 10-minute time-weighted average price (TWAP) window.

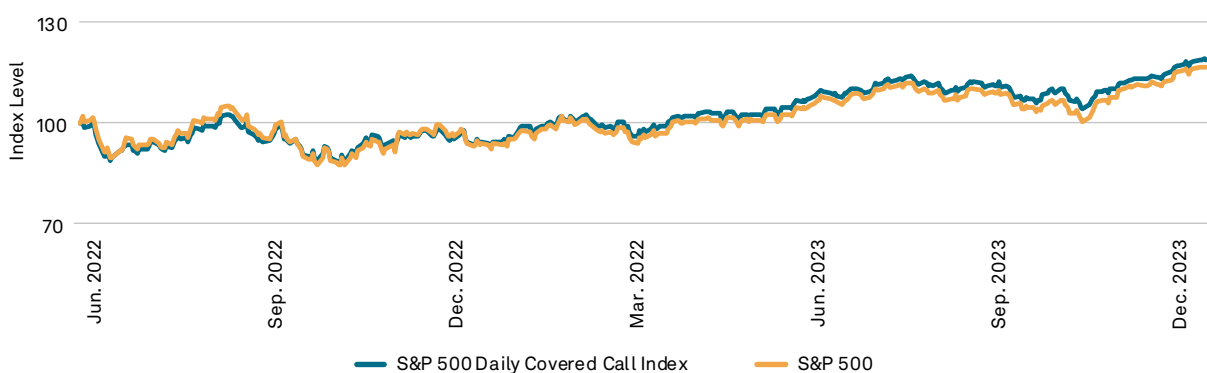
#### 5. What are the key features of the S&P 500 Covered Call Indices when used as the basis of financial products?

- The potential to increase income generation through more efficient daily premium collection and dividend payments by the securities included within the underlying long index component.
- The potential to participate in market upside on the S&P 500 up to the option strike price each day, which resets daily as a function of volatility and intraday S&P 500 index observations.
- The potential for lower timing risk by using daily options as opposed to monthly options.
- The potential to leverage the large and robust trading ecosystem of the S&P 500 through the inclusion of daily expiration options.
- The potential to combine the benefits of indexing with the income-generating potential of covered call options.

#### 6. How has the S&P 500 Daily Covered Call Index performed historically?

The back-tested data show that the S&P 500 Daily Covered Call Index would have performed similarly to the S&P 500 for the time period from June 1, 2022,<sup>1</sup> to Dec. 29, 2023, as seen in Exhibit 2.

##### Exhibit 2: Back-Tested Historical Index Performance of the S&P 500 Daily Covered Call Index



Period	S&P 500 Daily Covered Call Index (%)	S&P 500 (%)
Since January 2023	25.92	24.23
Since June 2022	19.38	16.66

Source: S&P Dow Jones Indices LLC. Data from June 1, 2022, to Dec. 29, 2023. Index performance based on total return in USD. The S&P 500 Daily Covered Call Index was launched Oct. 5, 2023. All data prior to index launch date is back-tested hypothetical data. Past performance is no guarantee of future results. Chart and table are provided for illustrative purposes and reflect hypothetical historical performance. Please see the Performance Disclosure at the end of this document for more information regarding the inherent limitations associated with back-tested performance.

<sup>1</sup> The back-tested index history starts as of June 1, 2022. Prior to June 2022, there were no SPXW options that provided expirations every trading day of the week. By May 2022, Cboe had listed an SPX Weekly's option with an expiration for each day of the week (Monday through Friday). See the following [link](#) for additional information.

**Performance Disclosure/Back-Tested Data**

The S&P 500 Daily Covered Call Index was launched Oct. 5, 2023. All information presented prior to an index's Launch Date is hypothetical (back-tested), not actual performance, and is based on the index methodology in effect on the index 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. Complete index methodology details are available at [www.spglobal.com/spdji](http://www.spglobal.com/spdji). 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.

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. Back-tested performance is for use with institutions only; not for use with retail investors.

S&P Dow Jones Indices defines various dates to assist our clients in 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 Dow Jones Indices 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.

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