

Methodology of SSE 50 BuyWrite Index

SSE 50 BuyWrite Index is designed to replicate the portfolios that employ the “Covered Call” investment strategy. SSE 50 BuyWrite Index involves a long position of SSE 50 index and short position of 5% Out-of-the Money call option of SSE 50 ETF.

1. Index Name and Index Code

- Index Name: SSE 50 BuyWrite Index
- Shortened Name: 50 BuyWrite
- Index Code: 950187

2. Base Date and Base Index

The base date is Feb 9, 2015. The base level is 1000.

3. Call Option Contract Selection

On the adjustment day, the 5% out-of-the Money ETF call option contract will be written according to the closing price of SSE 50 ETF¹. SSE 50 ETF call option with the strike price that has the minimum difference with 1.05 times of SSE 50 ETF closing price will be selected. If two such contracts exist, the one with higher strike price will be taken as the call option contract to be written.

4. Index Weight

The initial composition of SSE 50 BuyWrite index is set as follows: 85% is allocated to SSE 50 index, and 15% is allocated to the margin of selling ETF call option.

5. Index Calculation

The index is calculated using this formula as below:

$$I_t = I_{t_0} \times \left(W_{t_0} \times \left(\frac{SSE50_t}{SSE50_{t_0}} \right) + (1 - W_{t_0}) \times \left(1 + \frac{W_{t_0}}{(1 - W_{t_0})} \times \frac{Size_{t_0} \times C_{t_0} - Size_t \times C_t}{50ETF_{t_0} \times Size_{t_0}} \right) \right)$$

¹SSE 50 ETF is the underlying security of SSE 50 ETF option. When SSE 50 ETF closing price triggers pricing limit, the strike price K with the minimum closing price difference between near-month call option and put option is used to conduct the value of (K + call option price - put option) term with put-call parity, which is to approximate SSE 50 ETF's true price.

t_0 is the recent adjustment day of any day t , I_t and I_{t_0} are the index level on day t and t_0 . W_{t_0} is the initial weight of SSE 50 index held by the index. $SSE50_t$ and $SSE50_{t_0}$ are the closing price of SSE 50 index on day t and t_0 . C_t and C_{t_0} are the settlement price of call option held on day t and t_0 . $Size_t$ and $Size_{t_0}$ are the contract unit of call option held on day t and t_0 . $50ETF_{t_0}$ is the closing price of SSE 50 ETF on day t_0 .

6. Index Adjustment

The SSE 50 BuyWrite index is regularly adjusted on a monthly basis, and the regular adjustment day is the third trading day before the last trading day of the SSE 50 ETF call option current month contract. On the regular adjustment day, the SSE 50 BuyWrite Index is rebalanced to the initial composition, and the corresponding 5% out-of-the Money next month call option contract will be written.

When SSE 50 ETF closing price is greater or equal to the strike price of the call option contract held, the SSE 50 BuyWrite index should be temporarily adjusted. On the temporary adjustment day, the index is rebalanced to the initial composition, and the corresponding 5% out-of-the Money call option contract with the same expiration date as the original contract will be written. When the temporary adjustment day coincides with the regular adjustment day, the contract of the next month shall be selected for adjustment.

When Shanghai Stock Exchange adjusts the margin standard of SSE 50 ETF call option contract, the index weight setting rules will be adjusted according to the actual situation.