IBEX35

IBEX Protective Put (PPut) Index

The strategy consists of systematic purchase of a one-month IBEX 35 future and purchase of a one-month put at 98% (2% below the price of the underlying asset). The nominal amount less premiums paid and daily settlements are invested at the daily EONIA rate so the strategy is fully collateralised and not leveraged in any way. When the options and the future contract are rolled over (sale of the earlier puts and purchase of new puts) the strike price and amount of the new puts are modified. The future contract is also rolled over to the following maturity.

The index is perfectly replicable, because it applies a slippage cost of 3% to both buying and selling options, bounded by a minimum of 3 points and a maximum of 12, and a 1-point cost for rolling over the future contract.

Characteristics:

The index replicates a buy position in IBEX 35 futures coupled with an ongoing purchase of puts. It is a bullish strategy where loss is limited and upside is theoretically unlimited; it is equivalent to buying a call option. It performs very well when the underlying index moves sharply, but not so well when the market is calmer.

The index has shifted sharply in some months, but it usually fluctuates within a range of +/-4%. It is important to bear in mind that the Protective Put index and options-based strategic indices in general are closely related to the VIBEX. The higher the volatility, the higher the monthly cost of buying puts.

Behaviour:

- **Moderate uptrend/downtrend**.- Performance is relatively poor, because the IBEX 35 Protective Put is a bullish index that is insured every month against a drop in the market. If the vanilla IBEX 35® makes only small gains, the strategy may not recover the value of premiums paid. If the index declines gently (less than 2%), the Put stays out of money and the strategy's loss tracks the index. This moderate scenario is the usual status quo.
- **Strong uptrend**. -The Protective Put index makes a profit, but lags behind the IBEX 35®, because the strategy involves buying insurance that now goes unused. The higher the rise in the IBEX 35®, the more closely the Protective Put index is able to track it. This scenario is rare. Upward trends usually decrease implied volatility, so when the put options are rolled over premium costs decline. This means that protracted bull markets are the best scenario for the strategy, despite its turning a lower profit than the vanilla IBEX 35®.
- **Strong downtrend**.- The Protected Put index sustains a loss, but the loss is limited. In fact, this is the scenario prompting adoption of this index. Sharp corrections are rare. When they do come about, though, they tend to be swift and sharp, driving up volatility. This index is of particular interest when VIBEX is low.

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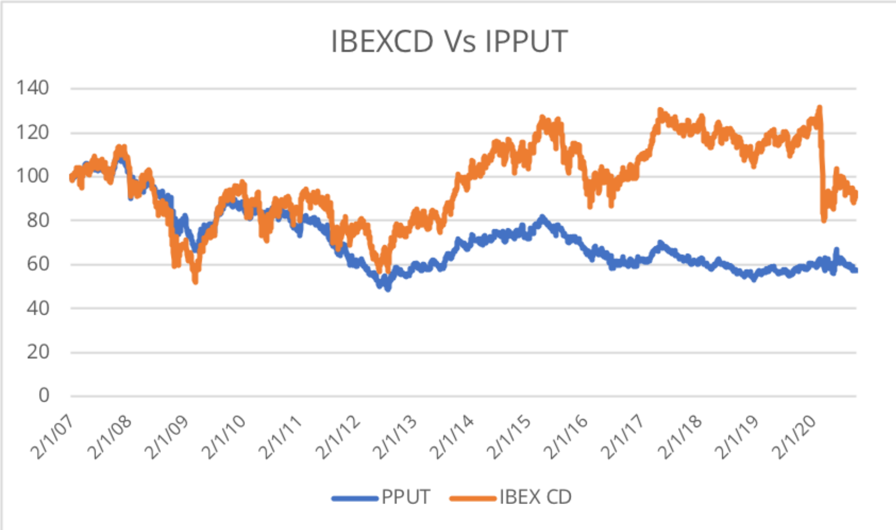

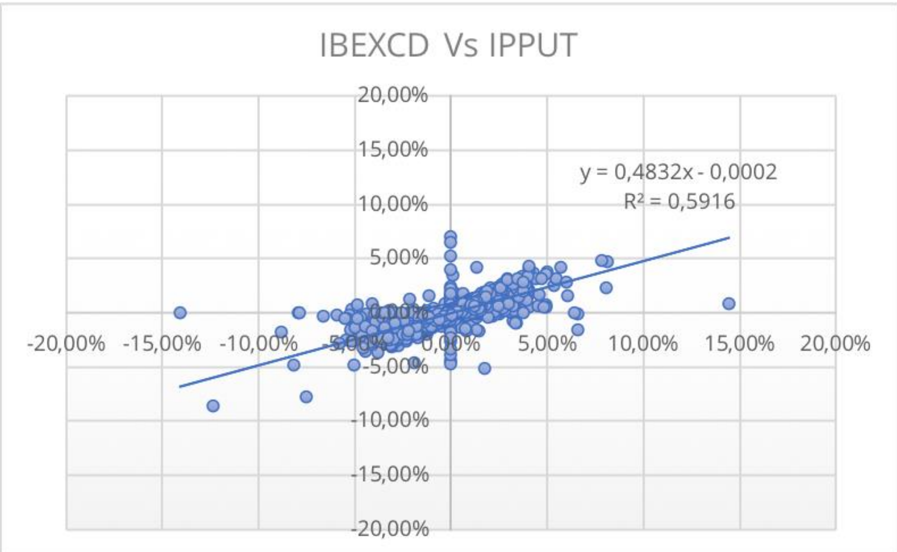

Performance	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020 (Oct)
IBEX CD	8,80%	-36,50%	38,27%	-14,44%	-8,06%	0,90%	23,48%	10,33%	-4,27%	5,08%	10,46%	-11,82%	16,43%	-26,55%
PPUT	4,51%	-23,99%	7,21%	-14,66%	-18,65%	-7,32%	17,56%	7,24%	-7,95%	-8,04%	-3,02%	-10,77%	11,53%	-5,08%

Volatility	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020 (Oct)
IBEX CD	16,46%	34,17%	25,23%	30,06%	27,93%	27,98%	18,81%	18,42%	21,67%	25,39%	12,85%	13,70%	12,39%	35,29%
PPUT	10,23%	24,49%	16,85%	13,69%	16,95%	17,34%	11,44%	13,55%	12,12%	15,93%	10,49%	8,71%	9,46%	20,79%