Portfolio call writing

BlackRock | SPIDERROCK ADVISORS

MKTGM1124U/S-4003601-1/19

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OUR TEAM

SpiderRock Advisors, now part of BlackRock

Founded in 2013, SpiderRock Advisors (SRA) brings comprehensive options expertise and technology to deliver actively managed customized option overlays.

The power of actively managed option overlays

Manage for risk-adjusted returns

We seek to enhance returns, both before and after taxes, on a risk-adjusted basis. Our PMs actively manage option strategies based on their risk and reward traits to maintain consistent risk management.

Institutional scale and execution

Our proprietary technology analyzes all securities, including their volatility surfaces. Options fair market values are assessed to optimize the options' premium per unit of risk.

Tax-efficiency

Our strategies seek to maximize tax-efficiency when selecting options and rebalancing. We seek to reduce assignment risk and tax friction for liquidating low-basis positions.

Eric Metz, CFA

CIO and Head of SpiderRock Advisors

Fred Sloneker

Deputy CIO, Chief Quantitative Strategist

40+

Options professionals[1]

18

Years experience managing option portfolios by each senior PM[1]

1 Source: BlackRock, as of 09/30/2024

Customized, tax-efficient option overlays delivered at scale

Designed for you

Option overlays **work with existing holdings**

Customization delivered at scale through powerful technology

Easy to use

Fully integrated with **all major custodians including Schwab, Fidelity and Pershing**

Daily account **liquidity and full transparency**

Full Service

Custom proposals, performance reporting and operational support

Partnership on **education and implementation**

Having a partner with the experience, the knowledge and the tools make it easier to use option strategies effectively.

BENEFITS OF CALL WRITING

4 ways portfolio call writing benefits clients

Overlaying existing holdings allows for potentially greater tax-efficiency and flexibility.

Reduce volatility	The income generated may serve as a modest buffer against losses, reducing portfolio volatility without needing to sell underlying portfolio holdings.
Generate income	Options can potentially generate income on existing equity portfolios for investors willing to give up some upside potential.
Transition portfolios	Transitioning portfolios can be made easier when option losses can help offset gains in the portfolio.
Revive tax loss harvesting	When markets appreciate, finding opportunities for loss harvesting may be difficult. With call writing, options losses are often available, providing a new source for tax loss harvesting.

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BENEFITS OF CALL WRITING

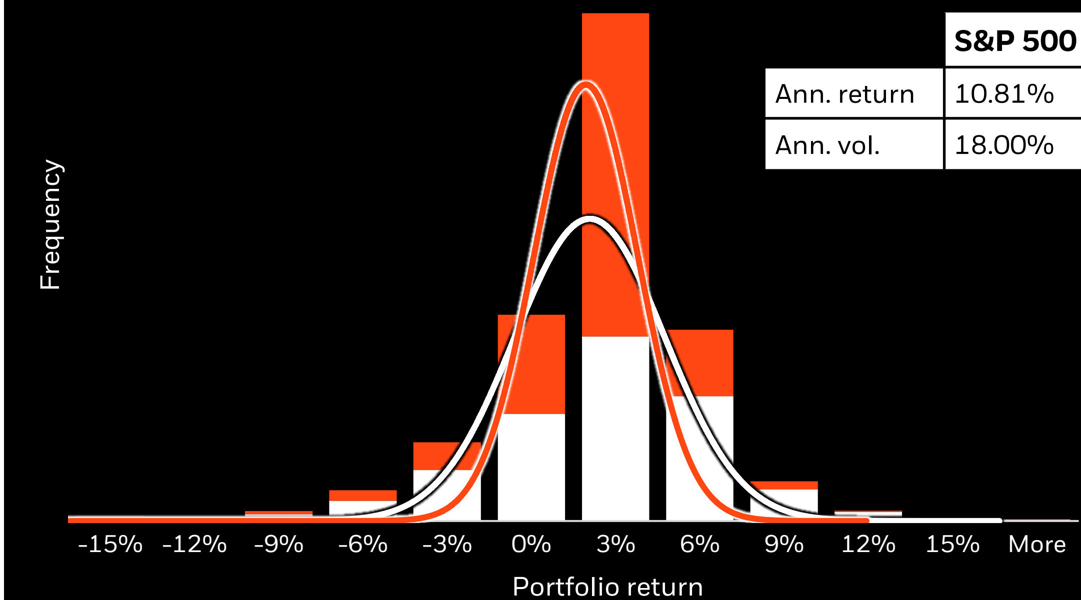
Call writing can smooth out returns

Since 1988, CBOE S&P 500 BuyWrite Index (BXM) has had very similar total returns to the S&P 500, but with approximately 1/3 less volatility.

What is BXM

BXM is passive index designed to track the performance of a buy-write strategy on the S&P 500 Index. It is constructed with an S&P 500 stock portfolio and by writing a typically 1-month at-the-money S&P 500 index call option.

CBOE S&P 500 BuyWrite Index (BXM) vs. S&P 500



	S&P 500	BXM
Ann. return	10.81%	8.58%
Ann. vol.	18.00%	12.76%

By employing a portfolio call writing program, you can lower volatility and potentially improve the risk-adjusted return.

Source: Bloomberg (1/5/1988 – 12/29/2023). For illustrative purposes only. Performance is not guaranteed, and past performance is not indicative of future results. Index is unmanaged and cannot be invested into directly. MII does not include management of any underlying collateral.

Two ways to implement portfolio call writing

SRA strategies	Seek alpha: Managed Index Income (MII)	Reduce beta: Opportunistic Yield Enhancement (OYE)
Client goals	• Generate extra income from the portfolio • Reduce equity exposure without incurring capital gains • Strategically unwind equity holdings and offset capital gains via options' gains or losses	
	• Allows you to continue seeking alpha in your stock selection process	• Pre-pay Required Minimum Distributions (RMDs) • Create a tax-deferred income stream in retirement accounts
Options used	• S&P 500 options	• Individual equity options and beta-adjusted S&P 500 options (for taxable accounts only)
Investment objective	• Seeks to generate alpha through active management of term structure relative to BXM	• Seeks to optimally reduce the beta of the portfolio and potentially generate income.
Approach	• Sells close-to-the-money calls to maximize the volatility risk premium and is beta-adjusted to the client's portfolio • Seeks to take advantage of structural inefficiencies by selling volatility based on relative value both in terms of moneyness and expiration	• Analyze each equity's optionality, liquidity and share count to determine how many call options can be sold on the appropriate holdings and implement the optimal tenor and strikes • Taxable accounts can use beta-adjusted index options to fully cover the rest of the portfolio
Trade-offs	• Upside is capped • Basis risk	• Upside is capped • Basis risk (if using beta-adjusted S&P 500 options)

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MANAGED INDEX INCOME (MII)

How MII reduces risk and generates premium

Mechanics

1 Sell calls, receive premium

2 Buffer downside exposure

3 Reduce upside exposure

4 Beta reduced; no taxes triggered

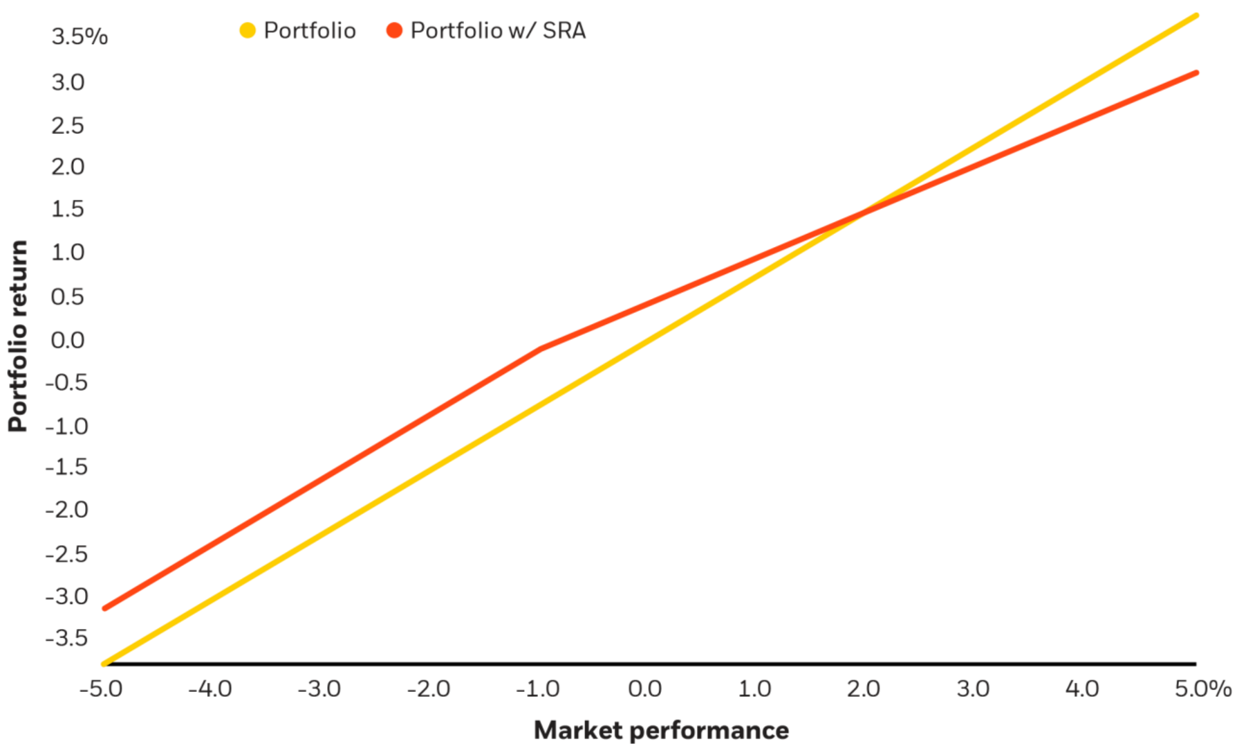
Summary

Portfolio prior to rebalance:

- Beta Market Exposure = $751k Beta
- Portfolio Beta = 0.75

Portfolio with option overlay:

- Target Beta (Per Advisor) Market Exposure = $600k
- Portfolio Beta = 0.60
- 1.9% in annualized call premium has been generated



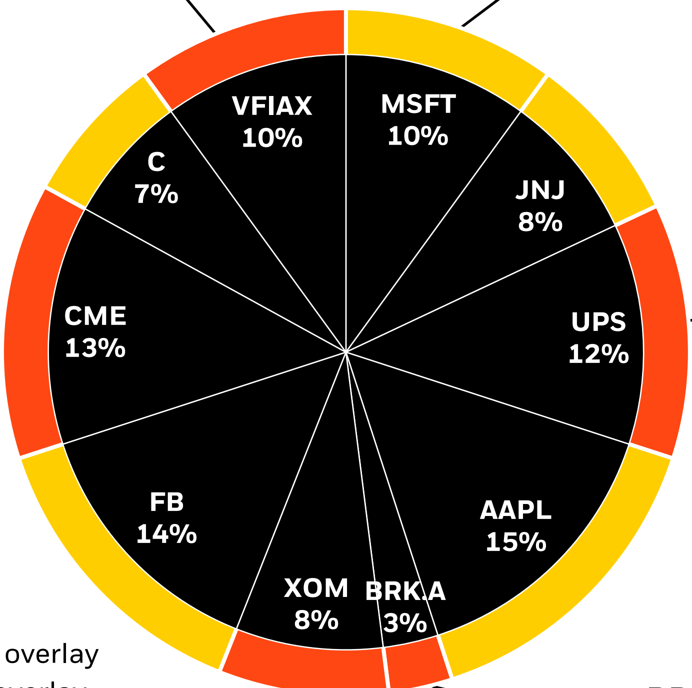
	AUM	Market exposure	Beta market exposure	Cash	Portfolio beta	Option yield	Option premium
Portfolio	$999,814	$999,814	$751,331	$0	0.75	0.00%	$0
Portfolio w/SRA	$999,814	$842,108	$593,625	$0	0.60	1.93%	$4,261

For illustrative purposes only. Does not depict actual client accounts. Results may vary.

Opportunistic Yield Enhancement: Optimizing with equity and index options

VFIAX is a mutual fund and is non-optionable. Sell beta-adjusted amount of S&P 500 calls.

MSFT implied volatility (IV) is attractive. Sell MSFT calls.



UPS implied volatility (IV) is unattractive. Sell beta-adjusted S&P 500 calls.

BRK.A does not have 100 shares and is not optionable. Sell beta-adjusted S&P 500 calls.

Equity overlay

Index overlay

For illustration purposes only.

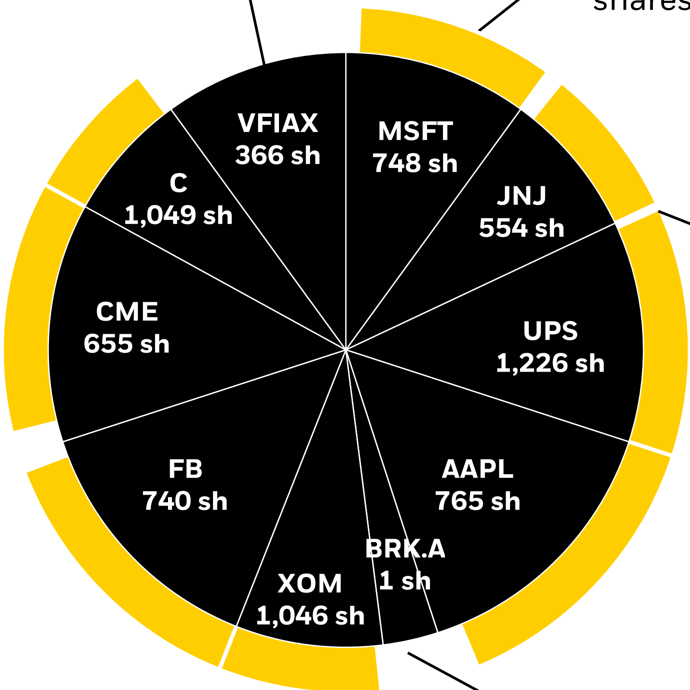
Overlay breakdown summary

Equity options	Portfolio overlay percent
MSFT	10%
JNJ	8%
AAPL	15%
CME	13%
C	6%
Index options	**Portfolio overlay percent**
S&P 500	48%
Overlay total	**100%**

How OYE works in retirement accounts

This security cannot be written on since mutual funds are not optionable.

Sell as much equity option exposure as possible on optionable, round lots. 700 shares covered.



The residual shares in any equity name cannot be written on, leaving 26 of the 1,226 shares "uncovered."

BRK.A does not have 100 shares and is not optionable, so it cannot be written on.

Equity overlay

Overlay breakdown summary

Equity options	Portfolio overlay percent
MSFT	9%
JNJ	7%
UPS	11%
AAPL	13%
BRK.A	0%
XOM	7%
FB	13%
CME	12%
C	6%
VFIAX	0%
Overlay total	**78%**

For illustration purposes only.

Strategic Liquidation

BlackRock can sell calls on equity positions and portfolios, potentially generating a new stream of income that can be used to pay the capital gain taxes associated with portfolio liquidations or generate losses that can be harvested.

Two potential scenarios when using Strategic Liquidation:

The portfolio depreciates…

…the client is buffered by the call premium. The advisor and client can determine how the premium is used in liquidating appreciated securities.

The portfolio appreciates…

…we buy the option back at a loss creating a tax-asset that can be used to offset the sale of appreciated equity portfolio holdings.

Strategic Liquidation solves multiple problems:

- It provides a solution for your client in which they can liquidate their position while remaining net neutral on related tax consequences.
- It can reopen the dialogue with your clients on selling shares, a conversation that often stalls when taxes come into the picture.
- It allows your client to tax-efficiently change their portfolio's risk profile or transition their existing portfolio to another model or strategy.

Portfolio strategic liquidation scenarios

What happened?

1 The portfolio value decreased or remained relatively flat.

2 The options expired worthless.

3 The client kept the call premium, buffering their downside.

What's next?

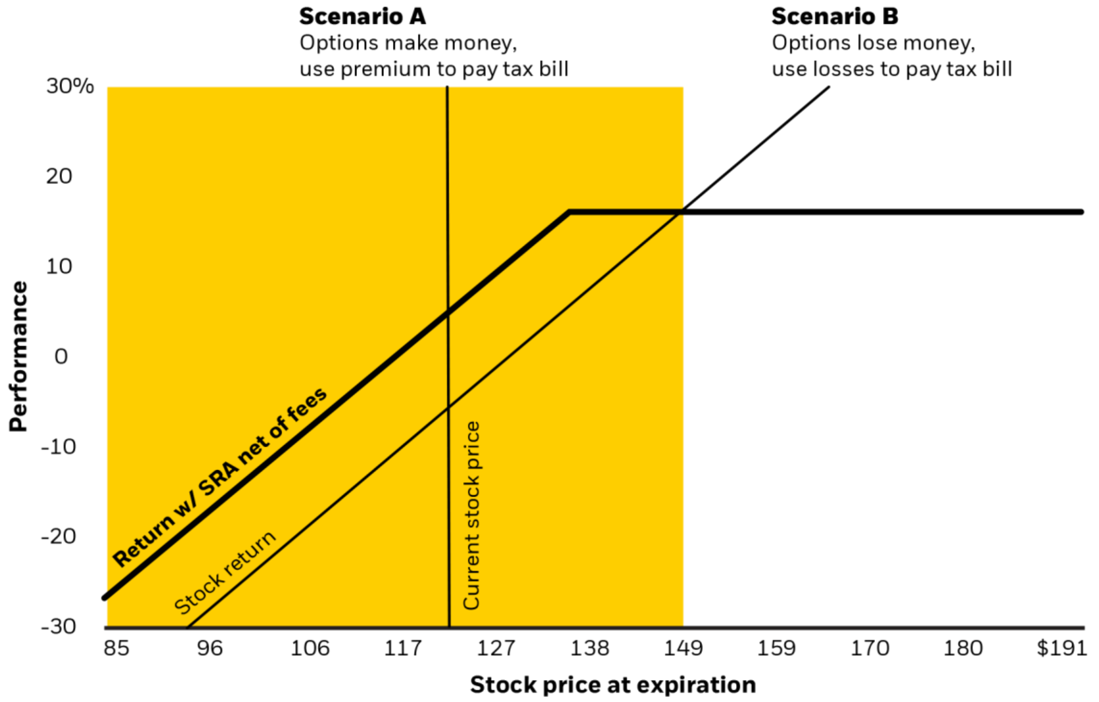
1 The client pays taxes on the generated call premium.

2 The advisor can sell a targeted amount of stock, creating a taxable event.

3 The advisor can use the after-tax proceeds from the call premium to pay the tax liability associated with selling the position.

End result

The client can liquidate a portion of their concentrated position without paying the affiliated taxes out-of-pocket.



For illustrative purposes only.

Source: SpiderRock Advisors. Option Key: March 2020 AAPL $132.5 Strike Call. Embedded Capital Gains: 50%. Short/Long Term Tax Rate(s): 37.0%, 23.8%.

Portfolio strategic liquidation scenarios

What happened?

1 The stock price increased through the strike price.

2 The client kept all the call premium. The portfolio rose in value, but the options had losses.

What's next?

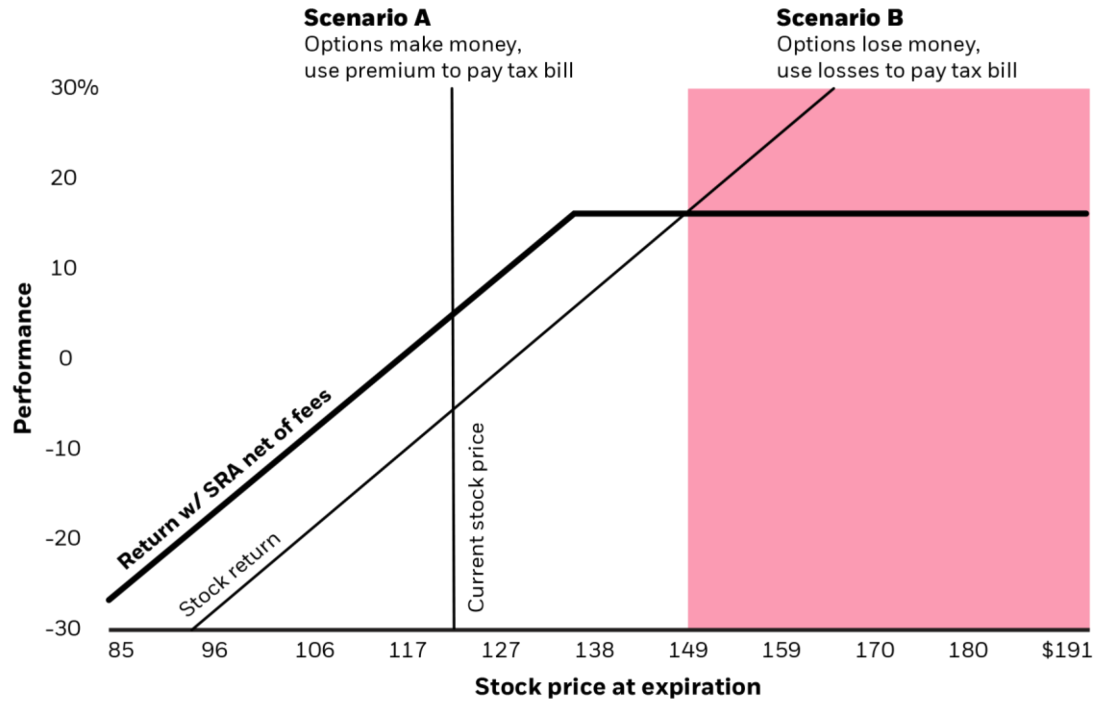
1 The options are bought back at a loss.

2 This loss allows for the liquidation of a targeted amount of stock, essentially "tax free."

3 The targeted amount of stock is based on the value of the offsetting capital loss created, i.e., the higher the stock rises, the more you can liquidate.

End result

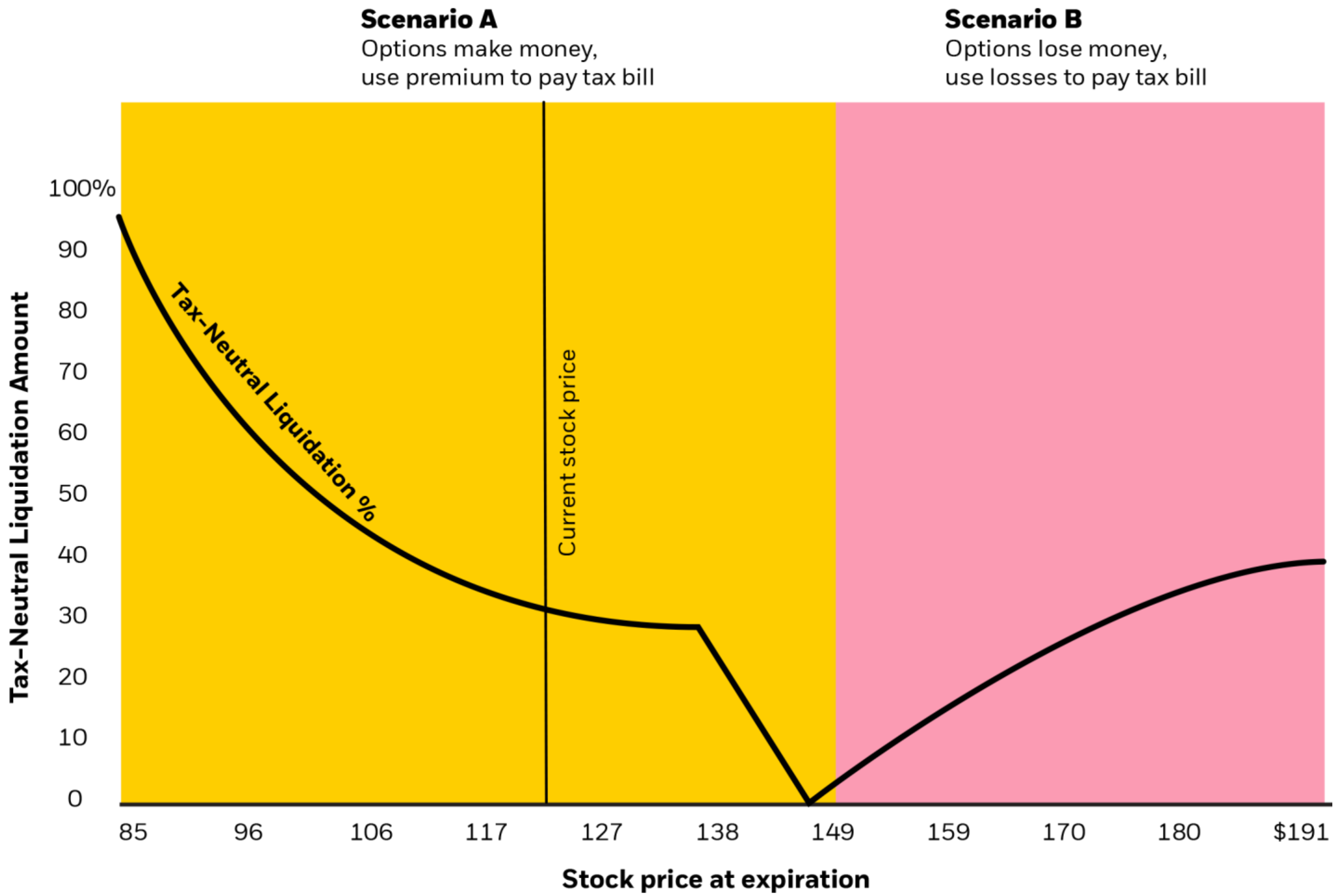
A portion of the portfolio holdings can be sold without paying the affiliated taxes out-of-pocket.



For illustrative purposes only.

Source: SpiderRock Advisors. Option Key: March 2020 AAPL $132.5 Strike Call. Embedded Capital Gains: 50%. Short/Long Term Tax Rate(s): 37.0%, 23.8%.

Amount of liquidation



For illustrative purposes only.

Source: SpiderRock Advisors. Option Key: March 2020 AAPL $132.5 Strike Call. Embedded Capital Gains: 50%. Short/Long Term Tax Rate(s): 37.0%, 23.8%.

NEXT STEPS

To learn more or to request a client proposal

Contact your BlackRock representative at

1-877-ASK-1BLK

Managed Index Income (MII) performance

MII total returns for period ending 09/30/2024*

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Total
2024	1.0%	2.5%	1.8%	(1.5%)	3.0%	1.6%	0.5%	0.9%	0.8%	-	-	-	**11.1%**
2023	4.1%	(0.9)%	2.3%	1.8%	1.1%	2.9%	1.6%	(0.3%)	(2.1%)	(0.7%)	4.3%	2.1%	**17.3%**
2022	(3.0%)	(1.7%)	2.1%	(4.9%)	0.3%	(4.2%)	4.9%	(2.1%)	(5.7%)	5.3%	3.7%	(2.1%)	**(7.8%)**
2021	(0.4%)	2.0%	3.4%	1.9%	1.0%	1.3%	0.8%	1.5%	(2.0%)	3.9%	(0.8%)	3.3%	**16.9%**
2020	(0.2%)	(7.0%)	(11.3%)	5.9%	2.9%	0.9%	3.3%	2.3%	(0.9%)	(0.8%)	6.5%	1.5%	**1.7%**
2019	4.2%	1.9%	0.9%	1.8%	(3.4%)	3.8%	0.9%	(0.6%)	1.5%	1.8%	1.5%	1.3%	**16.6%**
2018	1.4%	(1.1%)	(0.9%)	1.3%	1.8%	0.3%	2.3%	1.6%	0.7%	(4.4%)	1.6%	(5.7%)	**(1.4%)**
2017	1.7%	1.2%	0.5%	1.0%	0.8%	0.5%	1.6%	0.3%	1.3%	1.0%	0.7%	0.7%	**11.8%**
2016	(2.6%)	0.1%	3.9%	(0.1%)	1.6%	(1.1%)	1.7%	0.5%	0.7%	(0.9%)	2.1%	(0.4%)	**5.5%**
2015	(2.6%)	4.1%	(0.3%)	1.0%	1.2%	(0.8%)	1.5%	(3.9%)	(0.5%)	4.7%	0.3%	(0.7%)	**3.6%**

Performance*	1-year	5-year	Inception	Volatility
MII	17.4%	8.4%	7.4%	9.1%
BXM†	18.3%	6.6%	6.5%	10.5%

*Source: SpiderRock Advisors. MII total returns includes SPY SPDR® S&P 500® ETF total returns as the underlying collateral for the strategy. Returns are calculated net of fees. MII strategy inception: 1/1/2015. **Past performance is not a guarantee of future results.** You cannot invest directly into an index.

†Benchmark data source: CBOE.com

Options definitions

Term	Definition
At the money	An option is at-the-money when the stock price is equal to the strike price. (Since the two values are rarely exactly equal, when purchasing options the strike price closest to the stock price is typically called the "ATM strike."
Call options	Call options are financial contracts that give the option buyer the right, but not the obligation, to buy a stock, bond, commodity or other asset or instrument at a specified price within a specific time period.
Called away	Called away refers to when a financial contract, primarily an options contract or a callable bond, is terminated. When a call option is exercised, the investor's shares must be sold to the option holder.
Collar	A collar is an options strategy implemented to protect against large losses, but it also limits large gains.
Derivatives	Derivatives are financial products whose value is based (derived) on the underlying asset, usually another financial instrument.
In the money	For call options, this means the stock price is above the strike price. So if a call has a strike price of $50 and the stock is trading at $55, that option is in-the-money. For put options, it means the stock price is below the strike price. So if a put has a strike price of $50 and the stock is trading at $45, that option is in-the-money.
Idiosyncratic stock risk	Idiosyncratic risk is a type of investment risk that is endemic to an individual asset (like a particular company's stock), or a group of assets (like a particular sector's stocks).

Options Terminology | Options Definitions - The Options Playbooks

Options definitions (cont)

Term	Definition
Out of the money	A call option whose strike price is higher than the market price of the underlying security, or a put option whose strike price is lower than the market price of the underlying security.
PUT	The benchmark put writing index is the CBOE S&P 500 PutWrite Index (PUT) and has been in existence since 1986. PUT is a passive investment strategy designed to sell a sequence of one-month, at-the-money, S&P 500 Index puts and invest cash at one- and three-month Treasury Bill rates. The number of puts sold varies from month-to-month but is limited so that the amount held in Treasury Bills can finance the maximum possible loss from final settlement of the SPX puts.
Put writing	Put writing is a family of options trading strategies that involve the selling of put options to earn premiums. A put is a strategy used to generate income or buy stocks at a reduced price. When writing a put, the writer agrees to buy the underlying stock at the strike price if the contract is exercised.
Strikes	Strike prices are used in derivatives (mainly options) trading. Derivatives are financial products whose value is based (derived) on the underlying asset, usually another financial instrument.
Synthetic tax	The tax bill you would otherwise have to pay to have an equivalent risk reduction.
Tenor	Tenor refers to the length of time remaining before a financial contract expires. It is sometimes used interchangeably with the term maturity, although the terms have distinct meanings. Tenor is used in relation to bank loans, insurance contracts and derivative products.

Want to know more?

blackrock.com | askblackrock@blackrock.com | 877-472-7625 (1-877-472-ROCK)

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