

# MSCI EAFE Option Premium Matrix



## Definitions

- Floor:** Long Put Position
- Re-Entry:** Short Put Position
- Cap:** Short Call Position
- Option Premium:** Expressed as a percentage of portfolio value
- Option Strike:** Expressed relative to current index level

Published: 1/27/2012  
 MSCI EAFE: 1505.67

Option Term	Strike	Put Option Premium							Call Option Premium						
		-35%	-30%	-25%	-20%	-15%	-10%	-5%	0%	0%	+5%	+10%	+15%	+20%	+25%
3-Month		0.22%	0.38%	0.61%	0.93%	1.41%	2.09%	3.12%	4.76%	4.72%	2.24%	0.69%	0.15%	0.03%	0.00%
6-Month		0.86%	1.16%	1.65%	2.27%	3.04%	4.03%	5.33%	7.04%	6.83%	4.13%	2.11%	0.87%	0.29%	0.07%
1-Year		2.13%	2.82%	3.70%	4.72%	5.96%	7.53%	9.35%	11.61%	8.87%	6.40%	4.35%	2.82%	1.75%	1.00%
2-Year		5.32%	6.49%	7.60%	9.09%	10.75%	12.86%	15.04%	17.50%	12.24%	9.81%	7.83%	6.06%	4.63%	3.39%

### Example Hedge Structure: 1 year MSCI EAFE Put Spread Collar: -10% Floor / -30% Re-entry / +10% Cap

Investor purchases a -10% Floor and sells a -30% Re-Entry and +10% Cap on the MSCI EAFE

Cost of a one-year -10% Floor:	7.53%
Value of a one-year -30% Reentry:	-2.82%
Value of a one-year +10% Cap:	-4.35%
<b>Net cost to investor as a % of portfolio value:</b>	<b>0.35%</b>

**NOTE:** Please see pages 2-3 for sample hedge profile.

For informational purposes only. Costs and protection levels are based on current market characteristics and assumptions which change over time. The protection levels and costs described are estimates which may not be achieved or achievable and The Clifton Group makes no guarantee in this regard. Option premiums are calculated using implied market volatility on index traded options. Option strike levels based on index price, not index total return. Source: Bloomberg

Historical Data available upon request: [Info@TheCliftonGroup.com](mailto:Info@TheCliftonGroup.com)

## MSCI EAFE Put-Spread Collar

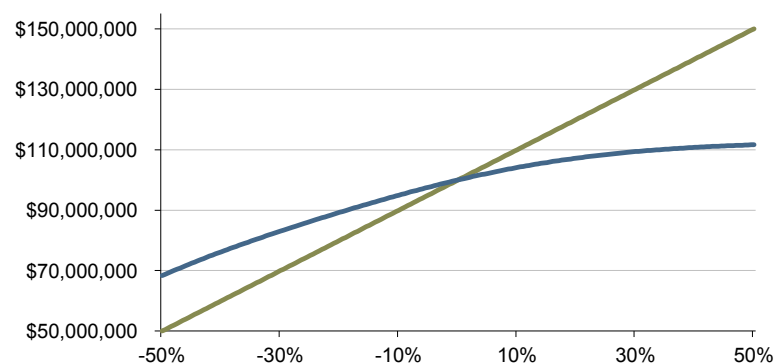
1-Year Term

Hedge Profile - 01/27/2012

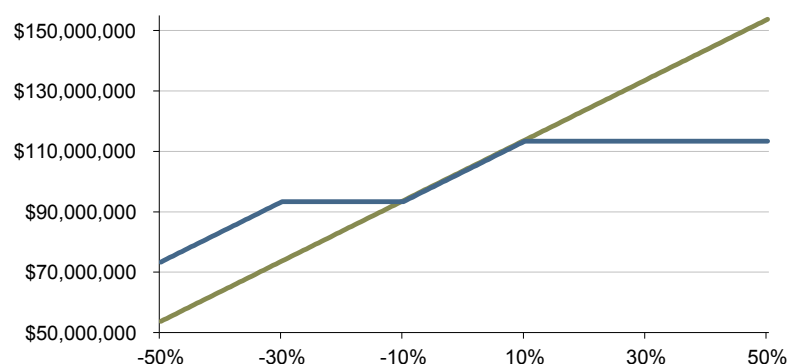
iShares EFA: 52.49  
 Notional: \$100,000,000  
 Hedge Term: 1/26/2013

<u>Hedge Structure</u>	<u>Position</u>	<u>Contracts</u>	<u>Option Type</u>	<u>Index</u>	<u>Strike</u>	<u>Term</u>	<u>Premium</u>
Floor: -10.00%	Long	19,051	Put	iShares EFA	47.24	1/26/13	\$ 7,526,145 7.53%
Reentry: -30.00%	Short	(19,051)	Put	iShares EFA	36.74	1/26/13	\$ (2,820,930) -2.82%
Cap: +10.00%	Short	(19,051)	Call	iShares EFA	57.74	1/26/13	\$ (4,354,171) -4.35%
<b>Initial Premium:</b>							\$ 351,044 0.35%

Portfolio Value - Instantaneous  
1/27/2012



Portfolio Value - at Maturity  
1/26/2013



— Unhedged Portfolio  
 — Hedged Portfolio

Costs are based on current market characteristics and assumptions which change over time. The protection levels and costs described are estimates which may not be achieved or achievable, and The Clifton Group makes no guarantee in this regard.

### HYPOTHETICAL PERFORMANCE DISCLOSURES

Simulated performance results have many inherent limitations, some of which are described below. No representation is being made that any account will or is likely to achieve profits or losses similar to those shown. In fact, there are frequently sharp differences between simulated performance results and the actual results subsequently achieved by any particular trading program. One of the limitations of simulated performance results is that they are generally prepared with the benefit of hindsight. In addition, simulated trading does not involve financial risk, and no simulated trading record can completely account for the impact of financial risk in actual trading. For example, the ability to withstand losses or to adhere to a particular trading program in spite of trading losses are material points which can also adversely affect actual trading results. There are numerous other factors related to the markets in general or to the implementation of any specific trading program which cannot be fully accounted for in the preparation of simulated performance results and all of which can adversely affect actual trading results. Because there are no actual trading results to compare to the simulated performance results, customers should be particularly wary of placing undue reliance on these simulated performance results.



Return Estimate Period:

1/27/12 - 1/26/13

**Protection Strategy**  
Expected Return Profile

Equity Cash Index Return (excludes Dividends)		Total Return Index <sup>1</sup>		Hedge Value at Expiration	Protection Gain/Loss <sup>2</sup>		Protected Equity Total Return <sup>3</sup>	
%	\$	%	\$	\$	%	\$	%	\$
50%	50,000,000	53.73%	53,725,566	(40,000,000)	-40.35%	(40,351,044)	13.37%	13,374,522
45%	45,000,000	48.73%	48,725,566	(35,000,000)	-35.35%	(35,351,044)	13.37%	13,374,522
40%	40,000,000	43.73%	43,725,566	(30,000,000)	-30.35%	(30,351,044)	13.37%	13,374,522
35%	35,000,000	38.73%	38,725,566	(25,000,000)	-25.35%	(25,351,044)	13.37%	13,374,522
30%	30,000,000	33.73%	33,725,566	(20,000,000)	-20.35%	(20,351,044)	13.37%	13,374,522
25%	25,000,000	28.73%	28,725,566	(15,000,000)	-15.35%	(15,351,044)	13.37%	13,374,522
20%	20,000,000	23.73%	23,725,566	(10,000,000)	-10.35%	(10,351,044)	13.37%	13,374,522
15%	15,000,000	18.73%	18,725,566	(5,000,000)	-5.35%	(5,351,044)	13.37%	13,374,522
10%	10,000,000	13.73%	13,725,566	0	-0.35%	(351,044)	13.37%	13,374,522
5%	5,000,000	8.73%	8,725,566	0	-0.35%	(351,044)	8.37%	8,374,522
0%	0	3.73%	3,725,566	0	-0.35%	(351,044)	3.37%	3,374,522
-5%	(5,000,000)	-1.27%	(1,274,434)	0	-0.35%	(351,044)	-1.63%	(1,625,478)
-10%	(10,000,000)	-6.27%	(6,274,434)	0	-0.35%	(351,044)	-6.63%	(6,625,478)
-15%	(15,000,000)	-11.27%	(11,274,434)	5,000,000	4.65%	4,648,956	-6.63%	(6,625,478)
-20%	(20,000,000)	-16.27%	(16,274,434)	10,000,000	9.65%	9,648,956	-6.63%	(6,625,478)
-25%	(25,000,000)	-21.27%	(21,274,434)	15,000,000	14.65%	14,648,956	-6.63%	(6,625,478)
-30%	(30,000,000)	-26.27%	(26,274,434)	20,000,000	19.65%	19,648,956	-6.63%	(6,625,478)
-35%	(35,000,000)	-31.27%	(31,274,434)	20,000,000	19.65%	19,648,956	-11.63%	(11,625,478)
-40%	(40,000,000)	-36.27%	(36,274,434)	20,000,000	19.65%	19,648,956	-16.63%	(16,625,478)
-45%	(45,000,000)	-41.27%	(41,274,434)	20,000,000	19.65%	19,648,956	-21.63%	(21,625,478)
-50%	(50,000,000)	-46.27%	(46,274,434)	20,000,000	19.65%	19,648,956	-26.63%	(26,625,478)

1 Total Return Index assumes a constant dividend yield of 3.73% that is independent of the return on the Cash Index.

2 Protection Gain/Loss is equal to Hedge Value at Expiration less the premium paid at initiation of hedge.

3 Protection Equity Total Return is equal to the sum of the Total Return Index and the Protection Gain/Loss.

**Comment:** The Protected Equity and Equity Total Return calculations above assume iShares MSCI EAFE Index performance results. Actual performance will be higher or lower depending on actual manager results versus the iShares MSCI EAFE Index over the protection term.

**HYPOTHETICAL PERFORMANCE DISCLOSURES**

Simulated performance results have many inherent limitations, some of which are described below. No representation is being made that any account will or is likely to achieve profits or losses similar to those shown. In fact, there are frequently sharp differences between simulated performance results and the actual results subsequently achieved by any particular trading program. One of the limitations of simulated performance results is that they are generally prepared with the benefit of hindsight. In addition, simulated trading does not involve financial risk, and no simulated trading record can completely account for the impact of financial risk in actual trading. For example, the ability to withstand losses or to adhere to a particular trading program in spite of trading losses are material points which can also adversely affect actual trading results. There are numerous other factors related to the markets in general or to the implementation of any specific trading program which cannot be fully accounted for in the preparation of simulated performance results and all of which can adversely affect actual trading results. Because there are no actual trading results to compare to the simulated performance results, customers should be particularly wary of placing undue reliance on these simulated performance results.