

GLOSSARY (CONT.) – TERMINOLOGY

- **Option “Moneyness”** – Terminology used to refer to an option’s strike price relative to the current underlying stock/index level.
 - **At-the-money (“ATM”) option** – For call *and* put options, when the option’s strike price is approximately the same as the market price of the underlying.
 - **In-the-money (“ITM”) option** – For a call option, when the option’s strike price is below the market price of the underlying. For a put option, when the strike price is above the market price of the underlying.
 - **Out-of-the-money (“OTM”) option** – For a call option, when the option’s strike price is above the market price of the underlying. For a put option, when the strike price is below the market price of the underlying.
- **Implied Volatility Surface (“Surface”)** – The overall implied volatility across differing strike prices (Skew) and expirations (Term Structure).
 - **Volatility Skew (“Skew”)** – The difference in implied volatility between out-of-the-money, at-the-money and in-the-money options within the same tenor/expiry, and is affected by overall market sentiment and supply/demand relationships.
 - **Volatility Term Structure (“Term Structure”)** – The difference in implied volatility between options with the same strike, but different maturities.
- **Drawdown** – Any losing period during an investment record. It is defined as the percent retrenchment from a performance peak to a performance valley.
 - **Largest Drawdown** – The largest percentage losing period from peak to trough that has occurred during the period of investment record.
 - **Drawdown Period** – The length of time it takes the largest drawdown to occur.
 - **Drawdown Recovery** – The subsequent time period required to recover the largest drawdown.
- **Internal Revenue Code (IRC) Section 1256 Contract** – A regulated futures contract, foreign currency contract, non-equity option e.g. cash-settled S&P500 Index options (SPX), dealer equity option or dealer securities futures contract. Each contract held by a taxpayer at the end of the tax year is treated as if it was sold for its fair market value, and gains or losses are treated as either short-term or long-term capital gains.
- **Mandate Size** – The client’s desired exposure to the investment strategy.