

# TRCOAL™

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The Tradition Coal Index™



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## **TRCOAL™**

### **Guide to the Tradition Coal Index™**

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**SEE “DISCLAIMERS” SET FORTH SECTION 3 OF THIS GUIDE FOR IMPORTANT DISCLAIMERS RELATING TO THE TRADITION COAL INDEX™, TRCOAL™ AND THE INFORMATION CONTAINED IN THIS GUIDE.**

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### 1.1 Description

The Tradition Coal Index™ (“TRCOAL™”) is designed to benchmark U.S. coal price performance by continuously tracking one-quarter price exposure to coal destined for U.S. domestic and export markets.

TRCOAL™ tracks a three month calendar strip of Central Appalachian coal futures that is 45 to 75 days forward. TRCOAL™ moves the calendar strip forward one month at a time by rolling the front contract of the strip three months forward every month.

## 1.2 Data

TRCOAL™ Indices	Bloomberg Symbol
Excess Return	TRCOALER
Total Return	TRCOALTR

TRCOAL™ is calculated by S&P Custom Indices.

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### 1.3 Calculation

The TRCOAL™ tracking components are CME Central Appalachian coal (“CAPP”) futures contracts. The TRCOAL™ daily return (“DR”) reflects the daily percentage change of the average of the closing settlement prices of the following CAPP futures contracts:

$$DR(t) = [((P_{2(t)} + P_{3(t)} + P_{4(t)})/3) - ((P_{2(t-1)} + P_{3(t-1)} + P_{4(t-1)})/3)] / ((P_{2(t-1)} + P_{3(t-1)} + P_{4(t-1)})/3)$$

**Where:**

**DR<sub>(t)</sub> = Index return at time t**

**P<sub>2(t)</sub> = 2<sup>nd</sup>-to-expire CAPP future contract settlement at time t**

**P<sub>3(t)</sub> = 3<sup>rd</sup>-to-expire CAPP future contract settlement at time t**

**P<sub>4(t)</sub> = 4<sup>th</sup>-to-expire CAPP future contract settlement at time t**

TRCOAL™ Excess Return index (TRCOALER) represents the uncollateralized return of TRCOAL™:

$$TRCOALER(t) = TRCOALER(t-1) \times (1 + DR(t))$$

**Where:**

**TRCOALER is set equal to 100.00 on December 31, 2007.**

TRCOAL™ Total Return index (TRCOALTR) represents the collateralized return of TRCOAL™:

$$TRCOALTR(t) = TRCOALTR(t-1) \times (1 + DR(t) + TBR(t)) \times (1 + TBR(t))^{\text{days}}$$

**Where:**

**TRCOALTR is set equal to 100.00 on December 31, 2007.**

**TBR(t) = ((1/(1-(91/360)\*Tbill rate(t-1))^(1/91)))-1**

**days = Integer number on non-TRCOAL™ Business Days since the immediately preceding TRCOAL™ Business Day.**

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## 1.4 Rolling

Every month, TRCOAL™ rolls the 2nd-to-expire long CAPP futures contract tracking component to the 5th-to-expire CAPP futures contract over 5 days on a pro-rata basis.

The first roll day is the 33<sup>rd</sup> CME exchange day prior to the first calendar day of the 2<sup>nd</sup>-to-expire CAPP futures contract's delivery period. For any weekday during the 5-day rolling period that the CME is closed, that roll day shifts forward to the next exchange day and the remaining roll days, if any, follow thereafter.

For example, if the 2<sup>nd</sup>-to-expire CAPP futures contract is March 2012, then the first roll day is 33 CME exchange days prior to March 1<sup>st</sup> (January 12, 2012).

The DR during the roll period is calculated as follows:

$$\text{Roll day 1: } DR(t) = \frac{[(P_{2(t)} + P_{3(t)} + P_{4(t)})/3 - (P_{2(t-1)} + P_{3(t-1)} + P_{4(t-1)})/3]}{(P_{2(t-1)} + P_{3(t-1)} + P_{4(t-1)})/3}$$

$$\text{Roll day 2: } DR(t) = \frac{[(0.8 * P_{2(t)} + P_{3(t)} + P_{4(t)} + 0.2 * P_{5(t)})/3 - (0.8 * P_{2(t-1)} + P_{3(t-1)} + P_{4(t-1)} + 0.2 * P_{5(t-1)})/3]}{(0.8 * P_{2(t-1)} + P_{3(t-1)} + P_{4(t-1)} + 0.2 * P_{5(t-1)})/3}$$

$$\text{Roll day 3: } DR(t) = \frac{[(0.6 * P_{2(t)} + P_{3(t)} + P_{4(t)} + 0.4 * P_{5(t)})/3 - (0.6 * P_{2(t-1)} + P_{3(t-1)} + P_{4(t-1)} + 0.4 * P_{5(t-1)})/3]}{(0.6 * P_{2(t-1)} + P_{3(t-1)} + P_{4(t-1)} + 0.4 * P_{5(t-1)})/3}$$

$$\text{Roll day 4: } DR(t) = \frac{[(0.4 * P_{2(t)} + P_{3(t)} + P_{4(t)} + 0.6 * P_{5(t)})/3 - (0.4 * P_{2(t-1)} + P_{3(t-1)} + P_{4(t-1)} + 0.6 * P_{5(t-1)})/3]}{(0.4 * P_{2(t-1)} + P_{3(t-1)} + P_{4(t-1)} + 0.6 * P_{5(t-1)})/3}$$

$$\text{Roll day 5: } DR(t) = \frac{[(0.2 * P_{2(t)} + P_{3(t)} + P_{4(t)} + 0.8 * P_{5(t)})/3 - (0.2 * P_{2(t-1)} + P_{3(t-1)} + P_{4(t-1)} + 0.8 * P_{5(t-1)})/3]}{(0.2 * P_{2(t-1)} + P_{3(t-1)} + P_{4(t-1)} + 0.8 * P_{5(t-1)})/3}$$

Where:

$P_{2(t)}$  = 2<sup>nd</sup>-to-expire CAPP future contract settlement at time t

$P_{3(t)}$  = 3<sup>rd</sup>-to-expire CAPP future contract settlement at time t

$P_{4(t)}$  = 4<sup>th</sup>-to-expire CAPP future contract settlement at time t

$P_{5(t)}$  = 5<sup>th</sup>-to-expire CAPP future contract settlement at time t

The day after the last roll day, the DR tracks the 3<sup>rd</sup>-to-expire, 4<sup>th</sup>-to-expire and 5<sup>th</sup>-to-expire CAPP futures contracts:

$$DR(t) = \left[ \frac{(P_{3(t)} + P_{4(t)} + P_{5(t)})}{3} - \frac{(P_{3(t-1)} + P_{4(t-1)} + P_{5(t-1)})}{3} \right] / \frac{(P_{3(t-1)} + P_{4(t-1)} + P_{5(t-1)})}{3}$$

The day after the 1<sup>st</sup>-to-expire CAPP futures contract expiration day, the 3<sup>rd</sup>-to-expire, 4<sup>th</sup>-to-expire and 5<sup>th</sup>-to-expire CAPP futures contracts become the 2<sup>nd</sup>-to-expire, 3<sup>rd</sup>-to-expire and 4<sup>th</sup>-to-expire CAPP futures contracts to calculate DR(t):

$$DR(t) = \left[ \frac{(P_{2(t)} + P_{3(t)} + P_{4(t)})}{3} - \frac{(P_{2(t-1)} + P_{3(t-1)} + P_{4(t-1)})}{3} \right] / \frac{(P_{2(t-1)} + P_{3(t-1)} + P_{4(t-1)})}{3}$$

The same CAPP futures contracts are tracked when passing through expiration day. For example, the 5<sup>th</sup>-to-expire CAPP futures tracking contract before expiration day, say June 2008, is the same specific contract as the 4<sup>th</sup>-to-expire CAPP futures tracking contract after expiration day.



### 1.5 Roll Example

The table below shows TRCOAL™ component tracking through the first two roll periods after base date. The shaded values are the prices tracked in the DR calculation.

Date		CAPP Futures Settlements					DR	TRCOAL	
		Feb-08	Mar-08	Apr-08	May-08	Jun-08			Jul-08
31-Dec-07	<i>Base date</i>	55.85	55.85	57.00	57.00	57.00		100.000	
2-Jan-08		56.33	56.58	57.75	57.75	57.75	1.313%	101.313	
3-Jan-08		56.17	56.45	57.45	57.45	57.45	(0.424%)	100.883	
4-Jan-08		56.88	56.88	57.70	57.70	57.70	0.543%	101.431	
7-Jan-08		58.00	58.00	58.75	58.75	58.75	1.869%	103.326	
8-Jan-08		58.00	58.00	58.40	58.40	58.40	(0.399%)	102.914	
9-Jan-08		58.00	58.00	58.00	58.00	58.00	(0.458%)	102.443	
10-Jan-08		59.05	59.05	58.75	58.75	58.75	1.466%	103.945	
11-Jan-08		60.00	59.75	59.43	59.43	59.43	1.167%	105.157	
14-Jan-08	<i>Roll Day 1</i>	60.13	59.75	59.45	59.45	59.45	0.022%	105.181	
15-Jan-08	<i>Roll Day 2</i>	60.00	59.80	59.58	59.58	59.58	0.183%	105.373	
16-Jan-08	<i>Roll Day 3</i>	60.00	59.80	59.00	59.00	59.00	(0.778%)	104.553	
17-Jan-08	<i>Roll Day 4</i>	60.47	60.47	60.22	60.22	60.22	1.940%	106.581	
18-Jan-08	<i>Roll Day 5</i>	63.50	63.50	63.05	63.05	63.05	4.720%	111.612	
22-Jan-08			63.50	63.00	63.00	63.00	(0.079%)	111.524	
23-Jan-08			63.67	62.32	62.32	62.32	(1.079%)	110.320	
24-Jan-08			64.00	63.53	63.53	63.53	1.942%	112.462	
25-Jan-08			68.67	68.58	68.58	68.58	7.949%	121.402	
28-Jan-08	<i>Expiration day</i>		72.75	73.00	73.00	73.00	6.445%	129.226	
29-Jan-08				71.83	71.83	71.83	(1.603%)	127.155	
30-Jan-08				74.00	74.00	74.00	3.021%	130.996	
31-Jan-08				76.25	76.25	76.25	3.041%	134.979	
1-Feb-08				78.63	78.63	78.63	3.121%	139.192	
4-Feb-08				79.13	79.13	79.13	0.636%	140.077	
5-Feb-08				77.78	77.78	77.78	(1.706%)	137.688	
6-Feb-08				78.88	78.88	78.88	1.414%	139.635	
7-Feb-08				78.50	78.50	78.50	(0.482%)	138.962	
8-Feb-08				79.63	79.63	79.63	1.439%	140.962	
11-Feb-08				78.13	78.13	78.13	78.50	(1.884%)	138.307
12-Feb-08	<i>Roll Day 1</i>			79.50	79.50	79.50	80.88	1.753%	140.732
13-Feb-08	<i>Roll Day 2</i>			81.50	81.50	81.50	84.00	2.607%	144.401
14-Feb-08	<i>Roll Day 3</i>			83.25	83.25	83.25	85.50	2.098%	147.430
15-Feb-08	<i>Roll Day 4</i>			82.75	82.75	82.75	84.75	(0.657%)	146.461
19-Feb-08	<i>Roll Day 5</i>			82.50	82.50	82.50	84.15	(0.412%)	145.857
20-Feb-08					82.88	82.88	84.50	0.446%	146.507
21-Feb-08					84.58	84.58	86.43	2.130%	149.627

## 1.6 Market disruption provisions

### Rollover Disruptions

A Rollover Disruption Event (“RDE”) is defined as any day, on which a CAPP futures contract is scheduled to roll, in which either: 1) the 2<sup>nd</sup>-to-expire or the 5<sup>th</sup>-to-expire contracts settle at the daily maximum or minimum price as determined by the rules for the relevant exchange, or 2) the exchange fails to publish an official settlement price for the 2<sup>nd</sup>-to-expire, 3<sup>rd</sup>-to-expire, 4<sup>th</sup>-to-expire or 5<sup>th</sup>-to-expire CAPP futures contracts, or 3) the CME or NYMEX is not scheduled to be open.

If a RDE occurs, that portion of the rollover only which was scheduled to occur on that day will be deferred until the next Business Day upon which no RDE occurs. For example, if a RDE occurred on the first roll day, then the amount to be rolled on the second roll day would increase to 100%. If a second, third, fourth or fifth consecutive RDE occurred on the next two days roll, then the entire roll would take place at the end of the first Business Day in which there was no RDE.

### Market Emergencies

A “Market Emergency” is herein defined as any unscheduled and extraordinary condition in which market liquidity is interrupted (such as an event resulting in the unscheduled closing of the CME or NYMEX). Should a Market Emergency occur, the Tradition Coal Index™ Oversight Committee reserves the right to take such action with respect to TRCOAL™, as it deems appropriate given the circumstances. The Tradition Coal Index™ Oversight Committee will attempt to notify interested parties of any such actions as well in advance as is practicable. There is no assurance, however, that a Market Emergency, the actions taken in response to such Market Emergency, or any other force majeure event, will not have an adverse effect on the value of TRCOAL™ or the manner in which it is calculated.

### 1.7 Oversight

The role of the Tradition Coal Index™ Oversight Committee (the “Committee”) is to meet on an annual basis (and from time to time if necessary) in order to review and/or modify the operation and calculation of TRCOAL™ and procedures relating thereto, and to review proposals by Tradition to modify TRCOAL™. Modifications to the Tradition Coal Index™ shall be subject to approval by the Committee. The Committee will have a significant degree of discretion with regard to the operation and calculation of TRCOAL™ and may exercise its discretion, as it deems appropriate.

## 2. Contact

For more information on the **Tradition Coal Index™**:

Tradition  
32 Old Slip  
New York, NY 10005  
USA

Email [coalindex@tradition.com](mailto:coalindex@tradition.com)

Call +1.212.943.2023

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