



Aero 100 Airfare Benchmark Index

Introduction

Aero Commodities, Inc. is an investment product development company that specializes in using airline and financial expertise to develop differentiated investment tools for the worldwide aviation and investment industry.

The Aero 100 is a benchmark index that tracks daily air fares within the domestic U.S. commercial airline market. The Index is “tradable” and will be published daily to provide settlement prices for Aero 100 futures contracts to be traded via electronic and open outcry platforms as well as via over-the-counter (OTC) trading platforms. All Aero 100 contracts will be cash settled as there is no underlying deliverable commodity.

The Aero 100 Index provides companies that are vulnerable to fluctuations in airline ticket prices with the ability to mitigate the financial risk stemming from constant price movements. Through the use of Aero 100 contracts within futures markets, companies can hedge their exposure to fluctuating ticket prices by locking in current price levels against future price changes. The competitive and volatile nature of the current economic environment drives the need for companies to utilize every financial tool available. The Aero 100 provides market users with new opportunities and flexibility in trading.

Aero 100 Overview

- The Aero 100 is a weighted index that tracks the average daily price of airfares across the top 100 routes within the United States. Routes are ranked by revenue.
- The broad inclusion of the 100 largest routes provides two important characteristics: 1) Represents diversification and 2) Reflects the actual state of the overall travel market.
- The daily value of the Index is a 30-day average of the previous 30 days price.
- The daily value of the Index is expressed in terms of Cents per Revenue Passenger Mile (¢/RPM), also referred to as “Yield”. Yield is the airline industry standard measure of the amount of revenue received per mile flown.
- The Aero 100 index tracks published economy fares. Economy fares represent the large majority of fares sold. Economy fares also experience the highest volatility and are the most competitive category of fares marketed by airlines.
- The Aero 100 tracks nearly 10,000 fares each day enabling it to accurately reflect an assessment of the prevailing market prices of U.S. domestic air travel.

- The Aero 100 Index is a benchmark index that serves as an indicator of the pricing levels in the domestic air travel market.
- Aero 100 Futures and Options contracts are valuable financial tools that can benefit a broad range of traders.
- The Aero 100 provides sellers of tickets (e.g. airline companies) with a means to locking in revenue and hedging against declining ticket prices.
- It provides buyers of tickets (e.g. Corporate Travel Departments) with a means to locking in costs and hedging against rising ticket prices.

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Frequently Asked Questions About the Aero 100 Index

➤ Why is the Aero 100 significant?

In the current economic environment, no financial instruments exist that allow companies to hedge their risk or profit from fluctuations in airfare prices. Airlines use fuel hedging strategies as the primary means of protecting against cost variability but do not have a comparable method for mitigating variability in revenue. Similarly, buyers of tickets, such as corporate travel departments, do not have the ability to protect themselves from increases in prices. The Aero 100 provides them with a solution.

➤ How can the Aero 100 Index be used?

Buyers of tickets concerned that airfare prices will go up can buy Aero 100 futures contracts (i.e. initiate a long hedge position) and offset any increased costs with profits from the futures contracts. This strategy enables a company to hedge their price exposure and lock-in current price levels against the risk of future price increases. The opposite (i.e. a short hedge position) would apply to sellers of tickets, such as airlines or credit card companies, who are concerned about a decrease in ticket prices.

➤ Who benefits from trading the Aero 100 Index?

Aero 100 futures contracts benefit a broad spectrum of traders. Airlines can use the index to hedge against a decreasing fare market and to counteract rising costs and lower passenger travel volume. Travel wholesalers and corporate travel managers can hedge against rising fares. Other users include hotels and resort operators, hedge funds, travel agencies, et al.

➤ Is the Aero 100 Index an accurate indicator of the actual state of domestic airline fares?

The Aero 100 (which tracks daily published ticket prices) correlates strongly to consumer airfare reports published by the U.S. Department of Transportation (which tracks the prices of tickets already sold/ flown). Analyses conducted on fare data over 30 consecutive months (July 2006 through December 2008), encompassing approximately 9.1 million fares, revealed that the Aero 100 fell within 0.16 cents of that of the DOT (17.22¢ compared to 17.38¢ for the DOT) - a difference of less than 1 percent (0.9%).

➤ Is the Aero 100 protected from possible market manipulation?

The Aero 100 employs stringent safeguards to effectively defend against market manipulation: 1/ The index is a 30-day moving average. 2/ Inclusion of the 100 largest routes provides for a large fare pool. 3/ False fares are screened for and rejected. 4/ The highly competitive nature of the airline industry has inherent safeguards to help ensure that fair and genuine pricing practices are maintained among the competing carriers.

