Options Expiry Management Programme – Roll Timing Drag in Protective Put Overlays

Scenario Type: Asset Manager – Multi-Strategy / Balanced Portfolio (Operating Portfolio)
Asset Class: Equity Index Options (Systematic Protective Put Overlays)
Situation Type: Systematic protective put programme rolled mechanically at expiry under static execution assumptions
Primary Issue: Persistent roll-timing and execution drag embedded in expiry-window option rolls, converting governance-by-routine into cumulative return leakage despite a functioning hedge

1. Decision Context

The portfolio runs a systematic protective put overlay designed to cushion drawdowns while preserving core risk exposure in normal markets.

From a payoff perspective, the hedge works. During equity sell-offs, the options respond as expected.

There is no market stress, no execution failure, and no breach of mandate.

The IC decision is **not whether downside protection is appropriate**.
It is whether the **overlay operating model remains fit for purpose**, or whether ungoverned expiry-based execution has embedded a permanent and avoidable performance tax.

This is not a trading decision. It is an **overlay operating-system decision**.

2. What Changed

At inception:

- Protective puts approved on strikes, notionals, and protection objectives
- Rolls executed at expiry as a procedural necessity
- Execution treated as operational rather than economic
- Cost assessed primarily through option premium

Over time:

- Rolls repeated in the same narrow expiry windows
- Execution assumptions hardened into routine
- Liquidity impact, spread widening, and price impact accepted as "normal"
- No benchmark, tolerance, or ownership for roll economics

The hedge did not fail. **Governance around execution never evolved**.

3. How the Risk Actually Manifests

The failure mode is not volatility or liquidity stress. It is **economic drift**.

As the programme rolls repeatedly at expiry:

- Bid–ask spreads widen predictably
- Market depth collapses in concentrated windows
- Price impact compounds quarter after quarter
- Execution drag is absorbed inside "premium spend"

The overlay remains functional – but **increasingly off-market**.

The portfolio pays more each cycle for protection it already believes it owns.

4. What Surfaces on Review

When decomposed properly, consistent signals emerge:

- Rolls are systematically executed in the most crowded liquidity windows
- The fund pays for immediacy rather than necessity
- Expiring option value is economically irrelevant; entry pricing dominates cost
- Execution costs are real but unmeasured
- Accountability is fragmented across PM, trading, and risk

This is not poor execution. It is **structural participation in a crowded trade**.

5. Structural Assessment

This is not:

- A market failure
- A trader performance issue
- A hedge design problem

It is an **overlay governance failure**.

- Any solution must preserve:
- Downside protection integrity
- Continuous hedge coverage
- IC, client, and audit defensibility

Optimising strikes while ignoring execution mechanics guarantees continued leakage.

6. Structuring Logic

Effective remediation focuses on **making overpayment structurally impossible**, not on trading harder.

Key principles:

- Separate protection design from execution design
- Replace "expiry day" with governed roll windows
- Stage rolls across cleaner liquidity regimes
- Codify order-handling rules and escalation thresholds
- Embed light-touch TCA focused on repeatable drift, not blame

The objective is not sophistication. It is **repeatable execution discipline**.

7. Intended Outcomes

When addressed correctly:

- Protection behaviour remains intact in drawdowns
- Rolls avoid structurally hostile liquidity windows
- Execution drag becomes explicit, measurable, and bounded
- Governance shifts from assumption to evidence
- Overlay economics become defensible under IC and client scrutiny

The result is not cheaper protection in theory. It is **controlled protection in practice**.

8. IC Takeaway

This was not a market failure or a hedge failure.

It was the predictable result of running a **repeatable trade without a repeatable execution design**.

Treating expiry rolls as calendar events embeds permanent drag. Treating them as governed trades restores control.

9. Applicability

Most relevant where:

- Systematic protective put overlays are rolled quarterly
- Rolls cluster around expiry windows by default
- Execution costs are buried inside premium spend
- Overlay drag is persistent but unexplained
- Execution accountability is diffuse

Less relevant where:

- Rolls are staggered across liquidity regimes
- Execution is benchmarked and governed

- Overlay notionals are small relative to market depth
- Hedging is discretionary rather than systematic

10. Engagement Path

Primary: Structuring-as-a-Service™ – Options Expiry Management Programme (Overlay operating design, roll governance, execution discipline).

Secondary / Bespoke: TCA framework, roll-calendar redesign, broker protocols, execution dashboards, IC and client narrative support

A full structural narrative is available for readers who wish to review the underlying mechanics, trade-offs, and remediation sequencing in greater detail.

Disclaimer

Illustrative scenario for discussion purposes only. Not a transaction summary or client-specific case study.