PARA BELLUM ADVISORS

ASSET MANAGER · MULTI-STRATEGY / BALANCED PORTFOLIOS

Options Expiry Management – Roll Timing Drag in Protective Put Overlays

SCENARIO TYPE	Asset Manager – Multi-Strategy / Balanced Portfolios (60/40 + downside overlay)
ASSET CLASS	Equity index options – S&P 500 protective puts, systematic rolling programme
RISK FOCUS	Roll timing drag, expiry-window liquidity collapse, bid-ask leakage, governance-by-routine, hidden implementation shortfall
PRIMARY OFFER	Structuring-as-a-Service™
RELEVANT SERVICES	Overlay expiry governance · Roll calendar redesign · TCA framework · Execution window discipline · Broker protocol design · IC narrative pack

THE SITUATION

The overlay was not failing. It was doing exactly what it was designed to do – at a steadily rising cost.

The manager ran a systematic protective put programme across its balanced strategies. The mandate was clear: preserve the portfolio's core risk profile in normal markets while cushioning drawdowns during equity sell-offs. From a payoff perspective, the hedge worked. When volatility rose and equities sold off, the puts responded as expected.

What was never explicitly examined was how the hedge was being operated. Quarter after quarter, the programme was rolled in the same narrow expiry windows, under the same standing assumptions. Once strikes, notionals, and protection levels were approved, execution was treated as a procedural necessity rather than a decision with economic consequences.

There was no visible error. No single bad roll. No obvious breakdown. Instead, there was a persistent execution drag embedded so deeply in the process that it ceased to be noticed at all.

HOW THE DRIFT SETS IN

Not through a bad decision. Through repetition.

The programme inherited a simple rule: roll the hedge when contracts expire. Over time, that rule hardened into routine. Expiry became a calendar obligation, not a governed trading decision. Rolls were scheduled, not designed. Execution mechanics were delegated. The roll itself was treated as something that just happens once parameters are approved.

Each roll looked reasonable in isolation. Spreads were wider than usual, but not alarming. Fills were not great, but not disastrous. Protection was always in place, which reassured governance. What no one was accountable for was whether repeating the same process indefinitely was structurally biased toward overpaying.

Quarter after quarter, the programme paid for immediacy in the same hostile liquidity windows – without ever treating the roll as a trade that deserved design, measurement, or challenge.

WHAT TYPICALLY BREAKS

Expiry-week crowding creates a structural tax

The fund was not unlucky – it was showing up when everyone else shows up. Bid-ask spreads widen, displayed size falls, and price impact rises for the same notional. That is not execution error. It is predictable participation in a crowded trade.

The fund was optimising the wrong leg

Teams focus on recovering value from expiring options because it feels like money left on the table. In practice, expiring puts are worth very little by roll time. The meaningful economics sit in the entry price of the new hedge – which was never the focus.

Lack of measurement made the cost invisible

Premium spend was visible and accepted. Slippage was real but untracked. Because it sat inside a larger premium line, it never triggered governance attention. Responsibility was diffused across PM, trading, and risk – nobody owned the question of whether the hedge was fairly priced in practice.

The roll was a calendar event, not a repeatable trade

Strike, notional, and protection level were reviewed. Execution quality was not. No tolerance bands, no benchmark, no ownership, no reporting that forced attention. A process that guarantees overpaying, even with a competent trader.

THE STRUCTURAL INSIGHT

This was not an optimisation exercise. It was an operating rebuild. The objective was not to trade better – it was to make overpaying structurally impossible.

Protection design and execution design were separated as distinct problems. The hedge ratio and strikes define what you want to own. The roll process defines what you actually pay. Treating them as one had allowed execution drag to be rationalised as premium.

The roll was repositioned into cleaner liquidity windows – not picking a better day, but removing the worst windows and defining permitted windows with escalation rules. The roll was then staged across multiple sessions with explicit participation rate rules, limit handling, and deviation triggers requiring sign-off.

A light TCA discipline was embedded: slippage versus mid at decision time, slippage versus internal benchmark, commentary only when breach thresholds were crossed. Execution quality became governable like any other risk control.

INTENDED OUTCOMES

- The overlay continued to behave as expected in drawdowns – protection design was unchanged, execution economics were fixed.
- Rolls stopped routinely occurring in structurally hostile liquidity windows – the process no longer guaranteed overpaying.
- Execution economics became explicit rather than assumed – governance moved from 'we have a hedge' to 'our hedge is run with discipline'.
- The fund could defend the overlay process with evidence to the CIO, IC, and clients – not just describe the payoff in a slide deck.
- Overlay cost drift acquired a brake – explicit measurement meant deterioration was detectable before it compounded.

WHERE THIS APPLIES

Most relevant where systematic protective put overlays are rolled quarterly by default around expiry windows; options execution has no formal TCA discipline; overlay cost drift is persistent but unexplained; execution accountability is diffused across PM, trading, and risk; and notional is large enough that price impact is material.

Less relevant where rolls are already staggered across expiries with patient order handling and explicit benchmarks; the overlay notional is small enough that markets absorb it easily; or hedging is discretionary and not structurally tied to roll windows.

TYPICAL ENGAGEMENT PATH

Structuring-as-a-Service™ – Overlay Desk-as-a-Service and Expiry Governance Programme. Secondary: TCA framework and reporting pack, roll staggering redesign, broker protocol, execution dashboard, IC and client narrative support.