

Options On Cboe Volatility Index® Futures Use Case

Client: CTA (Commodity Trading Advisor) Fund

Challenge: Accessing optionality for pure volatility positions related to the Cboe Volatility Index® (VIX® Index).

Background: CTAs run managed futures strategies, both systematic and discretionary, but are constrained to using futures-based instruments. This use case looks at a CTA fund that is looking to access optionality in the equity volatility space.

Approach:

The CTA already runs a systematic strategy using Cboe Volatility Index (VX) futures to monetize views on volatility. However, optionality for VIX Index exposures is currently only available via VIX options, which are securities.

With the introduction of Options on VIX Futures (VX Options), the CTA is able to access and overlay optionality onto its positions. Not only do VX Options provide opportunities for the fund to create a more efficient portfolio by tailoring its risk profile to U.S. equity market volatility, but the fund may now also be able to construct a convex payoff to monetize tail events and systematically capture the volatility of volatility risk premium using VX Options (i.e. harvesting the implied vs. realized volatility spread for Options on VIX Futures) across the VX futures term structure. Thus, for a fund that is a medium to long term trend follower, call options on VX futures could help mitigate the risk to sharp liquidity cascades when the fund is caught on the wrong side of the equity trend.

In summary, by adding Options on VIX Futures to the toolkit, the CTA may now be able to specifically tailor and refine its exposure to pure volatility trading strategies.

Options on VIX Futures are offered for trading on Cboe Futures Exchange, LLC (CFE®). For more information about Options on VIX Futures, visit: [VX Options \(cboe.com\)](https://www.cboe.com/vxoptions)

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