



# Derivative Strategies ETF Report

August 2023

# Main Principles Behind Global X's Classification System for Derivative-Based Strategies

## Principle 1

The product must utilize derivatives as a core component of its investment strategy. This does not necessarily mean that derivatives must make up the majority of the ETF's portfolio. However, derivatives must serve a key purpose in achieving the investment objective stated in the ETF's prospectus.

## Principle 2

The derivative-based strategy can be utilized over a long-term period from the standpoint that it is able to be used tactically, for temporary exposure to express a market view, or within a strategic allocation. Strategies whose core objective is to be a daily trading tool will most likely not be considered for inclusion.

## Principle 3

The strategy must use derivatives as a means to achieve 1 or more of the 3 main use cases of derivatives by either buying or selling short a specific type of derivative:

- a. Risk Management
- b. Derivative Income
- c. Performance Enhancement

## The Four Layers of the Global X Classification System for Derivative-Based Strategies

### Layer 1 – Derivative Objective

Representing the broadest layer, this gives an understanding as to the core objective of the fund, utilizing the 3 derivative use cases of either Risk Management, Derivative Income, or Performance Enhancement.

### Layer 2 – Derivative Strategy

This layer will provide investors the means by which the investment objective is being pursued. For example, an ETF that utilizes derivatives with a risk management objective can be generated using either a tail risk strategy to provide a level of downside protection or a collar strategy to provide a range-bound return outcome.

### Layer 3 – Derivative Overlay

This layer describes the specific types of options positions or options packages being used to achieve the stated strategy. For example, an equity tail risk strategy on the S&P 500 may potentially be achieved by either purchasing a protective put option on this index or with a long position on VIX options.

### Layer 4 – Derivative Tactic

This final layer helps to communicate to investors any unique considerations regarding the options overlay being used. For example, a strategy offering synthetic exposure may be access vehicles to a type of option or options strategy that is meant to offer investors the ability to implement their own hedges within a portfolio allocation.

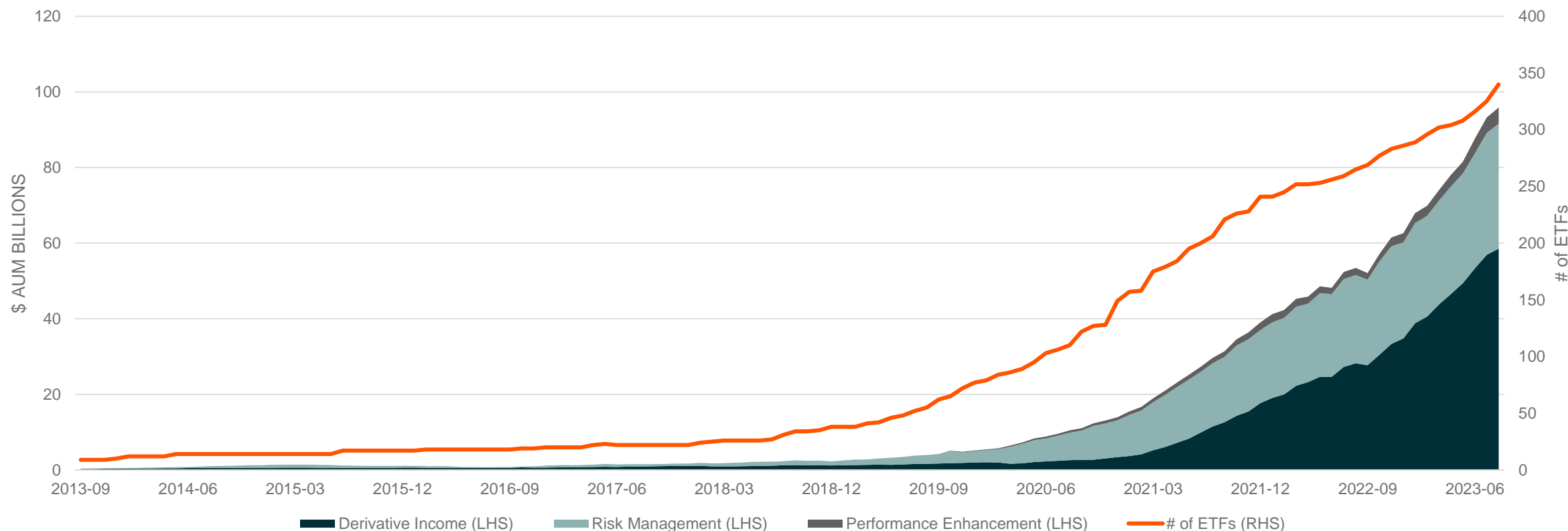
## Defining & Categorizing Derivative-Based Strategies: Global X's Classification System

All strategies within the Global X classification system have a Derivative Objective (Layer 1). However, it should be noted that some strategies may not have additional layer classifications, dependent on the usage of options within the ETF's strategy.

Derivative Objective (Layer 1)	Derivative Strategy (Layer 2)	Derivative Overlay (Layer 3)	Derivative Tactic (Layer 4)
Derivative Income	BuyWrite	Covered Call	
		Covered Call & Growth	
	PutWrite	Barrier Options	
	Futures-Based Income	Index Dividend Futures	
		VIX Futures Premium	
	Risk Managed Income	Net-Credit Collar	
Performance Enhancement	Spread Strategy	Bear Call Spread	
		Bull Put Spread	
		Long Call Options	
	Economic Leverage	Futures	
		Total Return Swap	
		Bull Call Spread	>100% Notional Coverage
Risk Management	Collar Strategy	Bull Put Spread	
		Put Spread Collar	Defined-Outcome
		Protective Collar	Defined-Outcome
	Credit Hedge	OTC Credit Derivatives	
	Inflation Hedge	Inflation Swaps	
		Yield Curve Options	
	Interest Rate Hedge	Interest Rate Swaps	
		Swaptions	Synthetic Exposure
	Spread Strategy	Bull Call Spread	
	Tail Risk	PutWrite	Fixed Income + Synthetic Equity
Long Put Options			
Protective Put			
Protective Put Spread			
VIX Hedge			

## Derivative Strategy ETF Landscape

At the end of August 2023, there were a total of 342 Derivative Strategy ETFs with roughly \$95B in assets under management (AUM), 1.8x times higher than it was at the end of August 2022. The broader U.S. ETF industry has seen its AUM increase in size by 1.2x over the same timeframe.

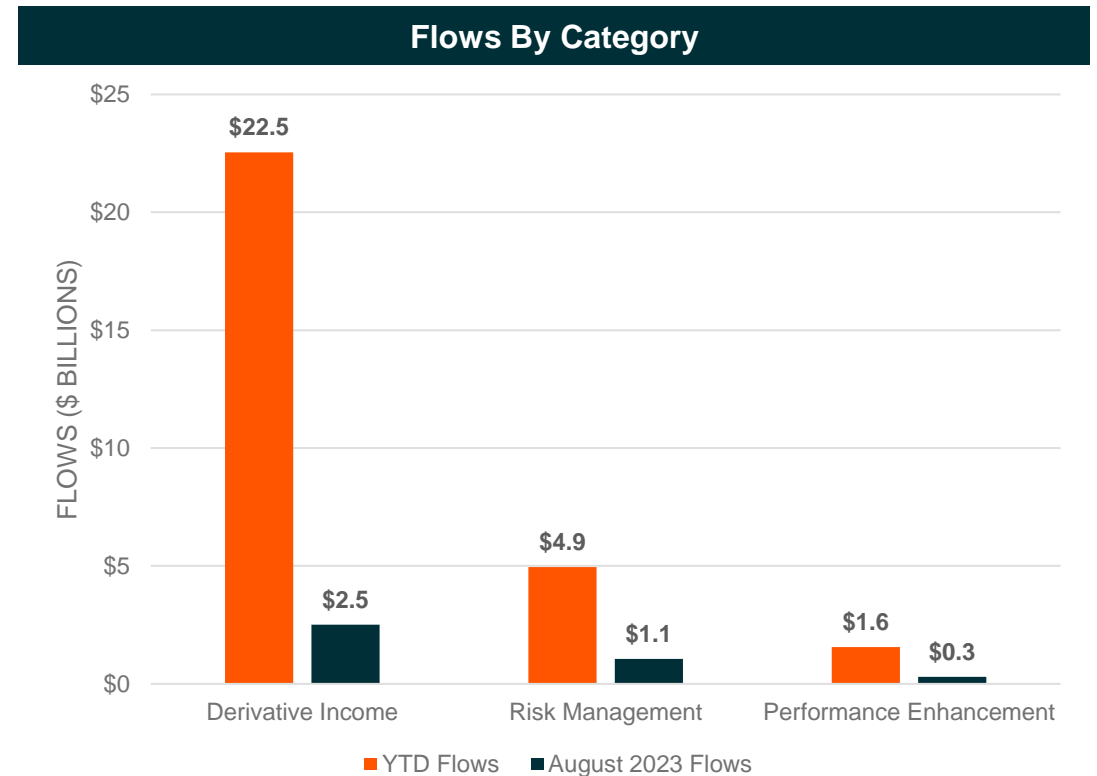
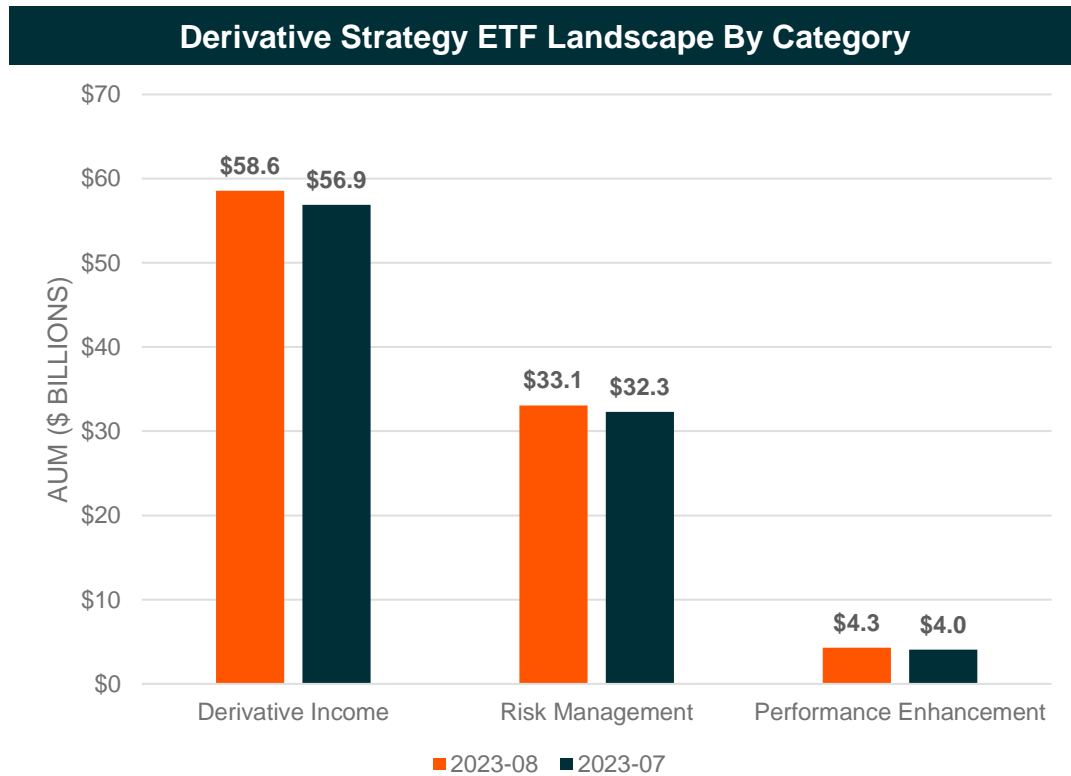


Source: Global X ETFs, Morningstar Direct. Data measured from August 31st, 2013 to August 31st, 2023.

Note: AUM includes assets of funds closed until the last month of trading activity

## Derivative Income ETFs Continue To See Exceptional Demand

Of the Derivative ETF ecosystem, Derivative Income is the largest category signifying investor demand for high potential income. In August, all categories saw positive inflows with Derivative Income strategies leading the way.

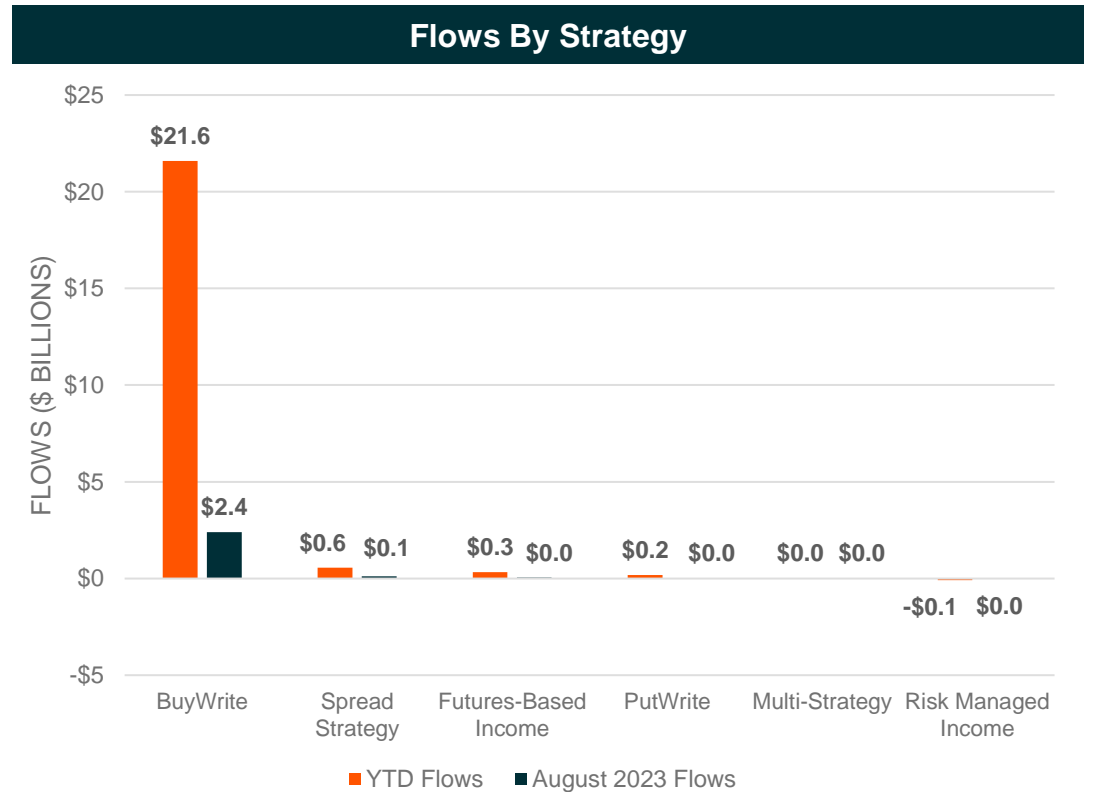
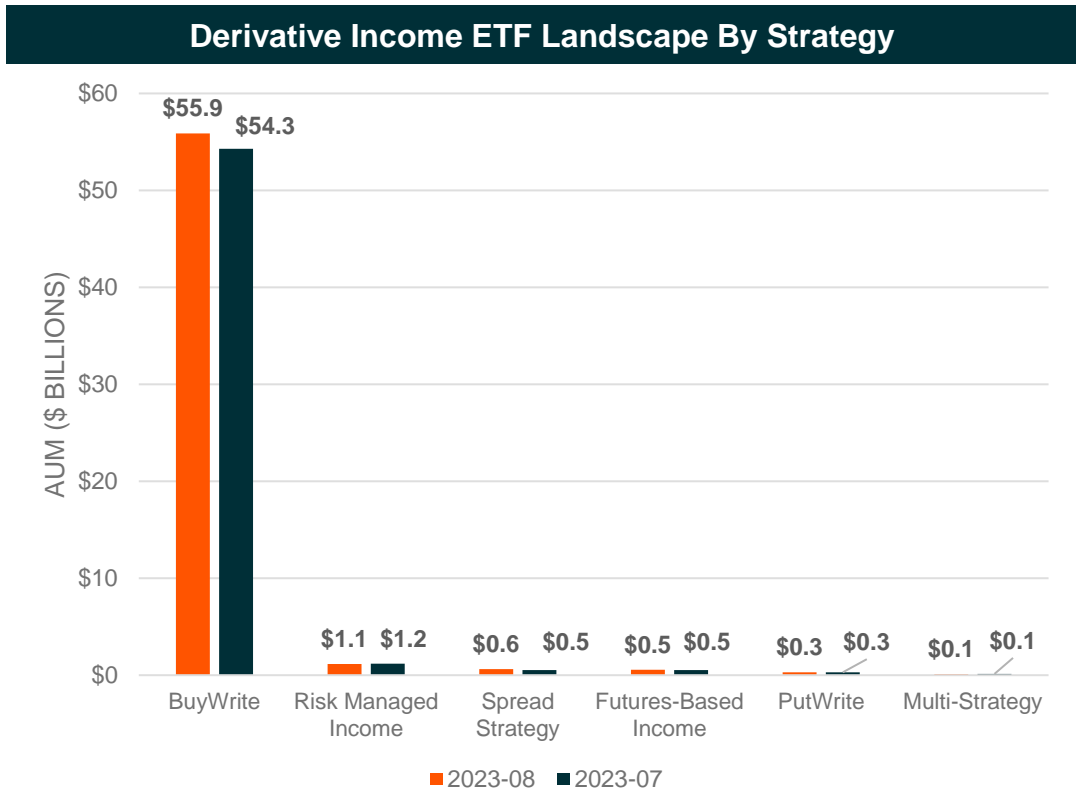


Source: Global X ETFs, Morningstar Direct. As of August 31st, 2023.

Note: AUM includes assets of funds closed until the last month of trading activity

# Derivative Income Landscape Update

Buywrite strategies encompassed a large majority of the assets under management within the Derivative Income category and continued to lead in flows over the course of August with \$2.4B in net new assets. Risk managed income strategies saw a level of outflows, signifying potential income investor prioritization for high potential income over risk management.

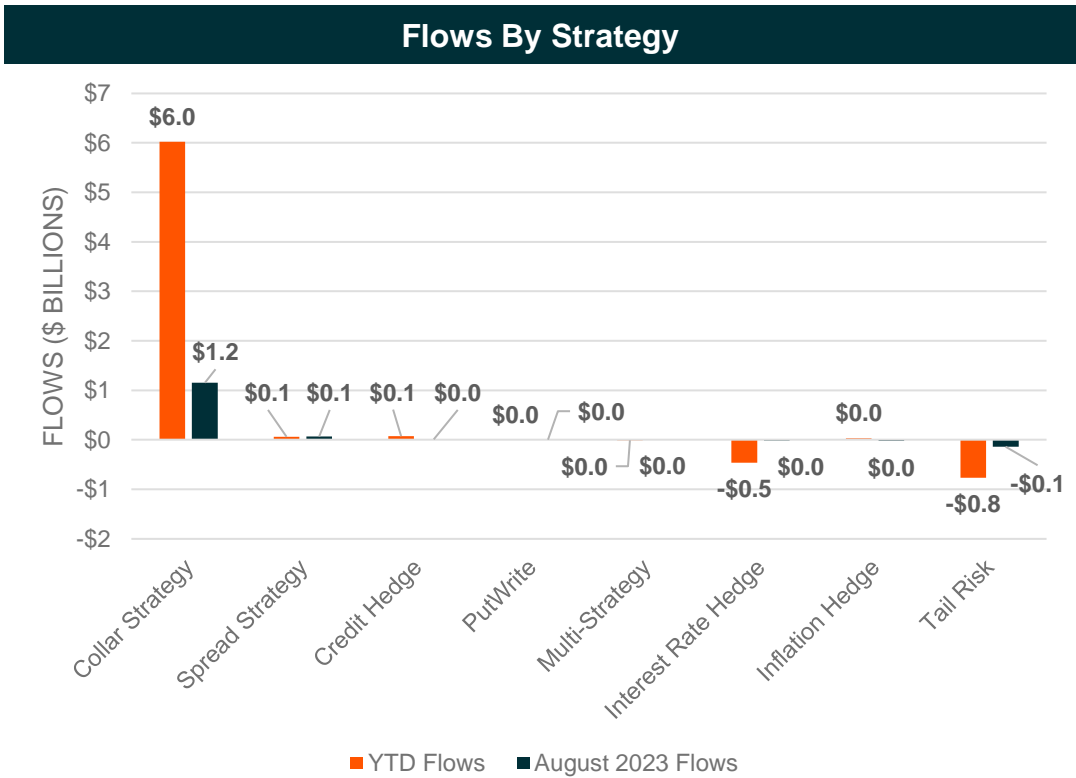
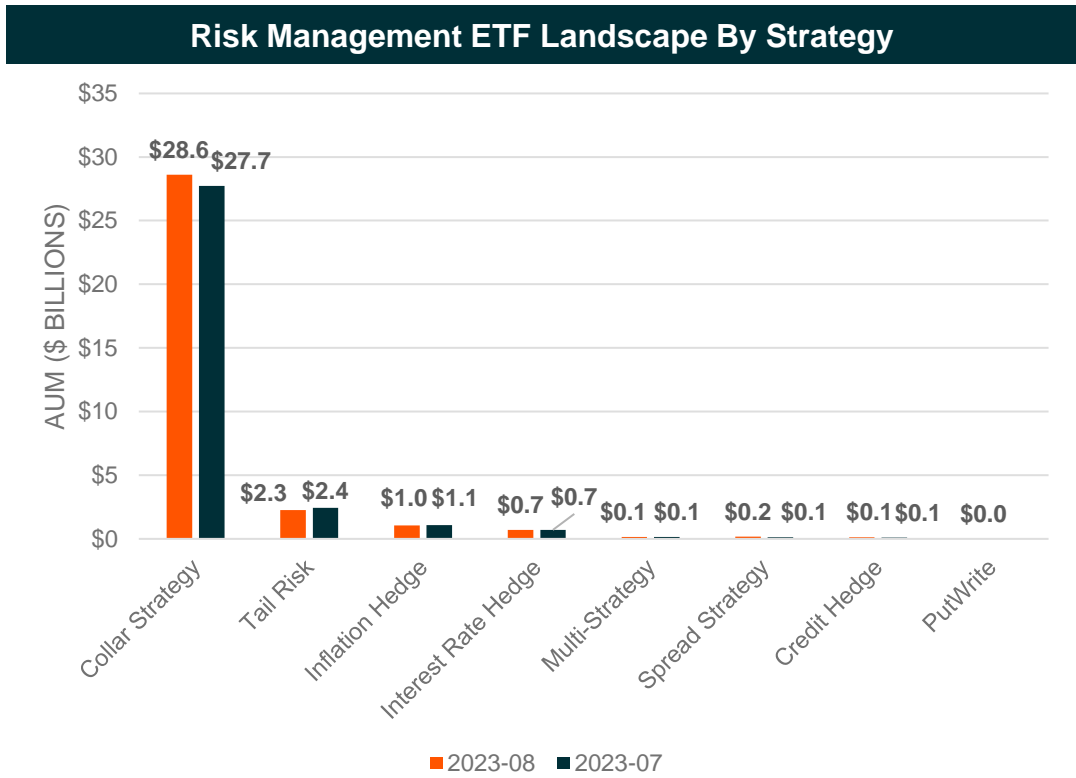


Source: Global X ETFs, Morningstar Direct. As of August 31st, 2023.

Note: AUM includes assets of funds closed until the last month of trading activity

# Risk Management Landscape Update

Collar strategies, via their predictability of potential return outcomes, have continued to drive the risk management category with slightly over \$1B in net new assets during the month of August. \$460M in total outflows from interest hedging derivative strategies has continued during 2023 as investors may believe that interest rates are peaking, thus having less need for a direct hedge.



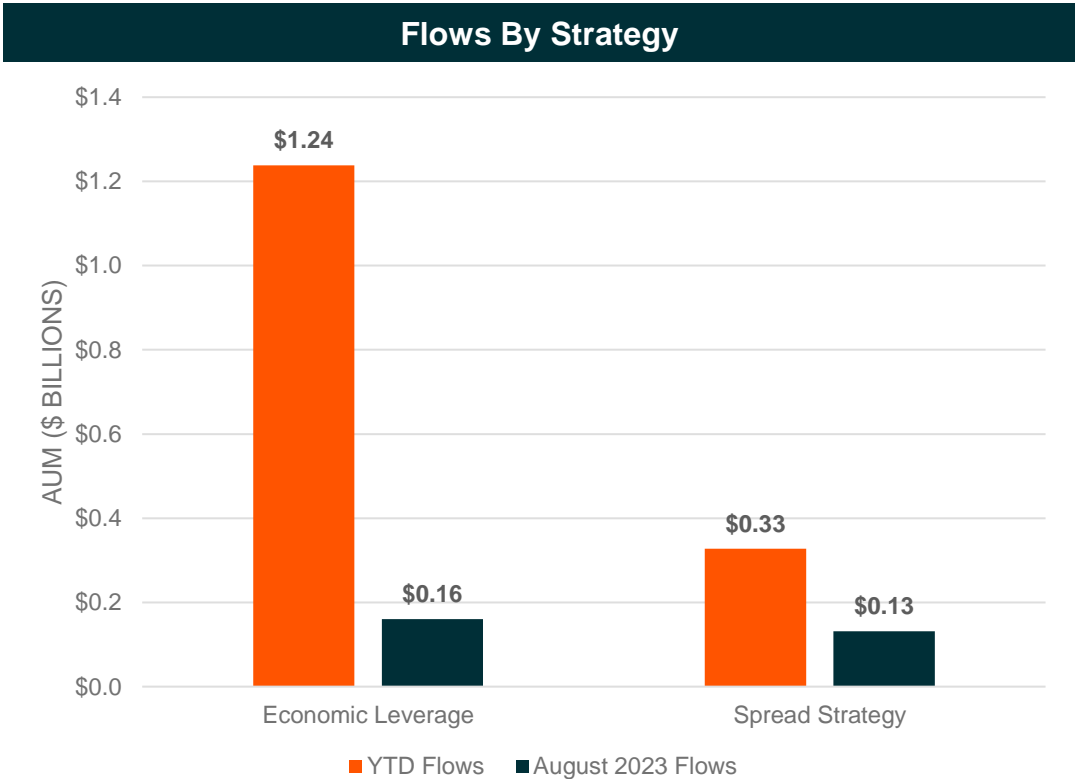
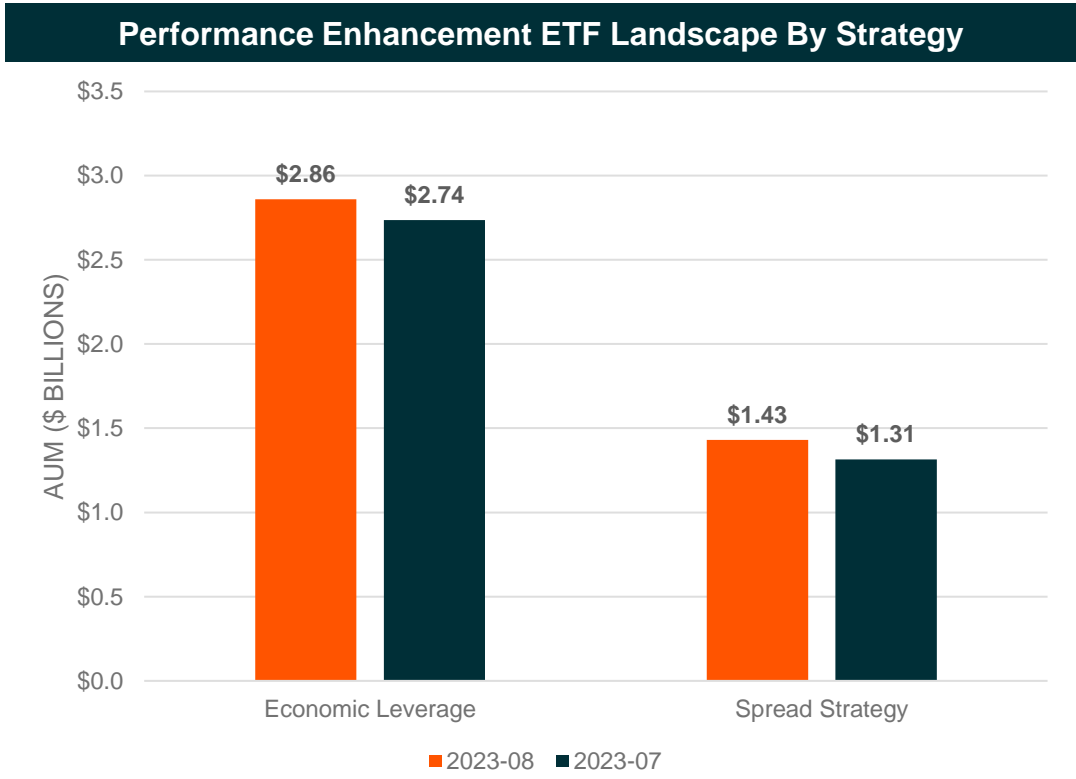
Source: Global X ETFs, Morningstar Direct. As of August 31st, 2023.

Note: AUM includes assets of funds closed until the last month of trading activity



# Performance Enhancement Landscape Update

Performance enhancement strategies are newer within the derivative ETF ecosystem with \$4.2B in total AUM representing 4% of landscape AUM. Both spread and economic levered strategies saw net new assets of \$100M or more over the course of August, signifying a similar growth trajectory.



Source: Global X ETFs, Morningstar Direct. As of August 31st, 2023.

Note: AUM includes assets of funds closed until the last month of trading activity

## Key Takeaways

### Takeaway 1 – Buywrite Popularity Continues

Driving 74% of year-to-date flows within this segment of the U.S. ETF landscape, buywrite strategies continue to increase in popularity even as interest rates remain elevated.<sup>1</sup> Out of the 15 derivative-based ETF strategies that launched in August 2023, 8 fall under the covered call & growth overlay layer signifying continued industry positioning towards total return buywrite strategies.<sup>2</sup>

### Takeaway 2 – Collar Strategy Growth

Collar strategies whose option overlays offer a specified level of potential upside and downside participation on an underlying asset are seeing continued adoption as investors may be appreciating the level of investment outcome predictability during an uncertain macroeconomic environment. Taking in \$6B in net new assets year-to-date, this equates to 21% of all derivative strategy ETF flows over the same timeframe.<sup>1</sup> With 4 months left in 2023, there is a chance 2023 collar strategy flows surpass 2022's record of \$10B in net new assets, even as equity markets continue to demonstrate positive sentiment heading into year-end.

### Takeaway 3 – New Flow Record Is Imminent

For context, 2022's full year net flows into derivative strategy ETFs equaled \$31B, the highest year of net new assets on record.<sup>3</sup> Current year-to-date total net flows has already come within close proximity at \$29B.<sup>1</sup> With 4 months left in 2023, it's anticipated that the 2022 record will be broken by year end as investors seek to reposition portfolios heading in 2024.

<sup>1</sup>Source: Global X ETFs with data from Morningstar Direct measured from 12/31/2022 to 08/31/2023. <sup>2</sup>Source: Global X ETFs with data from Morningstar Direct measured from 08/01/2023 to 08/31/2023. <sup>3</sup>Source: Global X ETFs with data from Morningstar Direct measured from 12/31/2021 to 12/31/2022.

GLOBAL ✕

by Mirae Asset

---

# Important Information

## Important Information

The Global X Derivative Strategy Classification System is based on the expertise, views, and opinions of the Global X Derivative Strategy Classification Committee and are subject to change.

Global X defines thematic investing as the process of identifying powerful disruptive macro-level trends and the underlying investments that stand to benefit from the materialization of those trends. By nature, thematic investing is a long term, growth-oriented strategy, that is typically unconstrained geographically or by traditional sector/industry classifications, has low correlation to other growth strategies, and invests in relatable concepts.

The process to identify a derivative-based strategy incorporates three main principles:

1. The product must utilize derivatives as a core component of its investment strategy. This does not necessarily mean that derivatives must make up the majority of the ETF's portfolio. However, derivatives must serve a key purpose in achieving the investment objective stated in the ETF's prospectus.
2. The derivative-based strategy can be utilized over a long-term period from the standpoint that it is able to be used tactically, for temporary exposure to express a market view, or within a strategic allocation. Strategies whose core objective is to be a daily trading tool will most likely not be considered for inclusion.
3. The strategy must use derivatives as a means to achieve 1 or more of the 3 main use cases of derivatives by either buying or selling short a specific type of derivative:
  - Risk Management – These are strategies with an objective of achieving higher risk-adjusted returns by lowering overall portfolio volatility with the usage of derivatives.
  - Income – Strategies that utilize derivatives as a core investment to potentially achieve high income for its investors.
  - Performance Enhancement - Strategies that use derivatives to enhance the upside potential for capital appreciation, typically increasing the economic leverage used within a portfolio.

Taking the above principles into account, it should be noted that the derivative-based classification system does not consist of leveraged/inverse ETFs whose core objective is to track an index that rebalances daily. This goes against the 2nd principle stated above regarding the strategy being a long-term investment.

Based on the definitions and principles described above, the derivative-based classification system is organized into multiple layers for a more refined understanding as to the objective of each strategy. Note that some options strategies can be utilized for multiple purposes, whether that be for Income, Risk Management, or Performance Enhancement, resulting in some categories appearing more than one time. The system consists of four layers of classification: (1) Derivative Objective (2) Derivative Strategy (3) Derivative Overlay and; (4) Derivative Tactic.

'Derivative Objective' is the broadest layer and this gives an understanding as to the core objective of the fund, utilizing the 3 derivative use cases defined in the Principles section: (1) Risk Management, (2) Derivative Income, and (3) Performance Enhancement. One layer down is 'Derivative Strategy,' which will provide investors the means by which the investment objective is being pursued. For example, an ETF that utilizes derivatives with a Risk Management objective can be generated using either a Tail Risk Strategy to provide a level of downside protection or a Collar Strategy to provide a range-bound return outcome. Although slightly different, the commonality between these two overlays are the fact that their core purpose is to provide Risk Management.

## Important Information (Continued)

Further down, we identify 'Derivative Overlay' as a layer describes the specific derivatives being used and the manner in which they are being used (Long or Short, Bull or Bear). For example, a Tail Risk overlay can obtain a level of downside protection using many kinds of derivatives. Some overlays include either "going-long" with put options via a Protective Put or harnessing VIX Futures as an overlay on an existing stock portfolio. Lastly, 'Derivative Tactic' help to communicate to investors any unique considerations regarding the options overlay being used. For example, a strategy offering a Synthetic Exposure are primarily meant to be exposure vehicles to. Another example is a Defined-Outcome ETF, which utilizes put spread collars to offer a specific level of downside protection with capped upside potential if held over the course of the stated "outcome-period", making each iteration different from one another.

The number of derivative objectives, derivative strategies, derivative overlays, and derivative tactics are expected to change as new derivative-based strategies come to market. These updates will be made by the Global X Derivative Strategy Classification Committee ("the committee") and take into account official fund prospectus filings as well as fund company materials.

The ETF industry is continually innovating to provide unique derivative exposures to investors. The Global X Derivative Strategy Classification Committee evaluates these innovations by first investigating if a fund aligns with the core three principles of what it believes a derivative strategy to be. Then, once a fund is deemed a "Derivative Strategy", the committee identifies what the core objective is, how this objective is being achieved, and what types of derivative positions are being utilized within the strategy by reviewing prospectuses, index methodologies (if applicable), stated objectives by the fund company, as well as underlying holdings. Once per month, the committee will review all new U.S.-Listed ETF launches to determine if the fund should be added and how it should be classified. In addition, the committee will also review any strategy changes that have occurred amongst existing ETFs within the Classification System that might merit reporting in the next monthly Derivative Strategy ETF Report.

While an ETF may engage in multiple objectives or strategies utilizing derivatives, the committee will determine the classification based on the true nature of the ETF.

While an ETF may be classified within a certain objective, strategy, overlay, or tactic, Global X does not give any assurances that the ETF provides good and accurate exposure to the specific exposure it is targeting. For example, an ETF may convey or market itself in a specific manner but still utilize a specific derivative trading strategy that has its own nomenclature.

The derivative classification system is reviewed monthly by the Global X Derivative Strategy Classification Committee to consider new changes and/or additions to the layers (categories) stated above. In addition, the committee will also seek to add newly launched, U.S.-listed ETFs that fit the 3 main principles of a derivative-based strategy.

In the event that an ETF changes its investment objective to another one that goes against the 3 principles of a derivative-based strategy, the strategy will be removed from the classification system and its historical assets under management data will be maintained within the monthly report. On the other hand, if an ETF changes its investment objective to something that fits within the parameters of the 3 principles, it will be considered for inclusion in the classification system where its AUM will start to be reflected in the report.

***Global X accepts requests for reviews or appeals for any ETFs. Please contact Global X at [research@globalxetfs.com](mailto:research@globalxetfs.com), and the appeal will be considered in a timely manner. There are no guarantees that an appeal will result in a change in the ETF's classification.***

## Important Information (Continued)

The Derivative-based ETF Report, including the classification system, falls under the supervision of the Global X Derivative-Based Strategy Classification Committee. The Committee consists of members from Global X's research and product teams who have extensive knowledge of the strategies themselves and the ETF industry. The goal of the committee is to properly identify and classify ETFs that fit the 3 principles. The Committee meets at least monthly to review the classification system, as well as on an ad-hoc basis to review new ETF launches or ETFs that change their strategy.

No content contained in these materials or any part thereof ("Content") may be modified, reverse engineered, reproduced or distributed in any form or by any means, or stored in a database or retrieval system, without the prior written permission of Global X. The Content shall not be used for any unlawful or unauthorized purposes. Global X does not guarantee the accuracy, completeness, timeliness or availability of the Content and is not responsible for any errors or omissions, regardless of the cause, for the results obtained from the use of the Content.

***THE CONTENT IS PROVIDED ON AN "AS IS" BASIS. GLOBAL X AND ITS AFFILIATES DISCLAIM ANY AND ALL EXPRESS OR IMPLIED WARRANTIES, INCLUDING, BUT NOT LIMITED TO, ANY WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE OF THE CONTENT.***

In no event shall Global X or its affiliates be liable to any party for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including, without limitation, lost income or lost profits and opportunity costs) in connection with any use of the Content even if advised of the possibility of such damages."

For more information on Global X, please contact [research@globalxetfs.com](mailto:research@globalxetfs.com). For access to Global X Derivative Strategy Classification System – Methodology please click [here](#).

This document should not be deemed an offer to sell or a solicitation of an offer to buy shares of any securities or any fund. Investors should carefully consider the investment objectives, risk factors, charges, and expenses of each fund referenced before investing. For information regarding the funds referenced, please refer to each funds' currently available prospectus and statement of additional information. Read the prospectus carefully before investing. The information presented is not definitive investment advice, should not be relied on as such, and should not be viewed as a recommendation by Global X.

GLOBAL X

by Mirae Asset



For more insights please visit: <https://www.globalxetfs.com/insights/>