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TOMORROW'S TITANS

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Pierre Gallice and Alexandre Ryo are experienced equity derivatives traders who are now dedicated to creating both standardised and customised equity risk mitigation solutions, available in formats including UCITS, separately managed accounts and internal balance sheet managed accounts.

French, Belgian and Luxembourgish insurance companies and Swiss pension funds provided the genesis of the strategy nearly 10 years ago, but it is now also attracting assets and interest from private banks, wealth managers, corporates, family offices and funds of funds elsewhere in Europe and beyond seeking robust diversifiers. The strategy can also cater for endowments, foundations and sovereign wealth funds.

Growing interest in risk mitigation

US pension funds have for many years had a more sophisticated approach to

risk mitigation strategies than many investors in Europe, partly because few funds offer these strategies and not all investors can access QIS or overlay formats. The re-correlation of equities and bonds, or growth and income assets, in 2022 was a wake-up call, although multi-decade lookbacks reveal plenty of multi-year periods when the two dominant asset classes were also positively correlated. The frequency of 20% peak to trough drawdowns in equities is higher than many investors appreciate, and these pullbacks can arrest the compounding process.

“The great majority of hedge fund strategies may fail to diversify equity risk because they appear to be short of volatility and correlation and long of dispersion. Ultimately, under stress, long dispersion can boil down to long equity risk,” points out Gallice.

“Growing exposure to illiquid assets may reduce volatility but does not provide a buffer and crucially does not allow for rebalancing back into equities after a correction,” says Ryo. Ellipsis are not

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— ALEXANDRE RYO

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“permabears” and advocate recycling profits from tail risk or long volatility strategies back into equities to maintain, or even upsize, exposure. Some clients harvested volatility profits in 2020 and reinvested into equities that have doubled since then.

Ellipsis only offer equity risk mitigation but they recognise that investors may have a range of risk mitigation solutions, and share research with clients that could recommend a total risk mitigation strategies allocation as high as 20%, with an equal risk weighting in global macro, trend following CTAs, gold and equity risk mitigation, because each one can perform better under different sorts of crisis and correction scenarios.

For instance, gold has a somewhat unpredictable correlation, saw a low single digit decline in 2022, and has had deeper drawdowns before. Trend-following worked very well during the steady grind down in 2022, but was wrong-footed by Liberation Day in April 2025, amongst some other shocks. It is more difficult to generalise about discretionary global macro as it is very

sensitive to the skills of individual managers. Long volatility put option strategies are the most predictable, but their cost needs to be managed carefully.

Firm and strategy evolution

Ellipsis in English means three dots, but the mathematical meaning of an ellipse – describing convexity – inspired the name of the firm, which originally spun out of Exane Asset Management in 2011 and was acquired by Kepler Chevreux in 2022. Ellipsis focuses on convertible bonds and equity derivatives. They benefit from twenty years of data on US, European and Swiss stock forwards and volatility. There are also three in-house quants who built internal portfolio management and derivative systems.

Ryo, who had been a prop trader in FX at SocGen and in exotic stocks and V2X/VIX options at Exane, joined in 2014. “The start of the Solvency II regime in 2016 inspired the first EUR 150 million mandate, from a French insurer, purely focused on “Black Swan” tail risk, to profit from episodes such as the Great Financial Crisis or Covid that we view as “liquidity events”, but only for European equities. The strategy can considerably reduce insurers’ cost of capital under Solvency II, perhaps from 40% down to 20%,” reveals Ryo.

Their first “long volatility” and convexity mandate in 2018 also aimed to profit from smaller equity market corrections and crises like late 2018 and/or slower bleeding bear markets such as 2022. “This was also the first global equity mandate covering the US, Europe, Switzerland, Japan and emerging markets,” recalls Ryo.

In simple terms, a tail risk mandate aims to spend 0.5% per year for a payoff of at least 20% every 5-7 years, while a pure volatility hedging mandate aims to spend 3-4% per year for a payoff of 10-15%

somewhat more often. In practice, most Ellipsis mandates and products combine both.

Performance of 85% in 2020 accelerated asset raising momentum and Gallice joined in 2021, after 15 years of proprietary trading, including US single stock volatility in Paris at CIC. Ryo and Gallice both draw on their proprietary trading mentality and had known each other for many years before working together. Also, in 2021 Ryo relocated from Paris to Geneva to focus on Swiss pension funds, private banks and some other segments including Monaco and Italy, while Gallice in Paris mainly looks after France, Belgium and Luxembourg. “We think it is important to be near clients as they need to make dynamic allocations,” says Gallice.

Utility function

The cornerstone of the strategy is the exclusive use of listed vanilla equities options, which in turn provides true daily liquidity for the strategy and a disciplined process that allows Ellipsis to crystallize gains during each material downturn.

One key advantage, unlike many illiquid hedge funds, is that Ellipsis’ strategy allows investors to take profits during a downturn and reinvest promptly into the market.

“The key utility function across all vehicles and variants is maximum convexity for minimum cost to optimise long term Sortino ratios. By reinvesting part of their profits – EUR 120 million – into equities, our clients achieved an additional EUR 60 million in gains by the end of 2020,” says Ryo.

UCITS

The UCITS, Ellipsis Optimal Solutions – Alternative Hedging UCITS, launched in January 2025 after 9 months of

Fig.1 Evolution of Leverage in Alternative Hedging Strategy

Source: Ellipsis



discussions with the French regulator. “It was not easy to get the regulator to agree to 10x notional leverage, and they also prescribed two features of the fee structure: a fairly high hurdle rate of 2% above cash under the performance fee, and a five-year lookback defining the high-water mark,” recalls Ryo.

In ten months the UCITS has already surpassed assets under management of USD 300 million as of October 2025. “We decided on MSCI World as the base index, which leads to exposure of 70% US, 20% Europe and 10% Asia. There was no seed capital as such, but day one clients included a family office in Switzerland, a private bank in Italy, and a fund of funds in Luxembourg,” says Gallice. Distribution agreements are in place with large private banks in Europe who prefer UCITS, and there is strong interest from multi and single-family offices.

Transparent structuring

The UCITS allocates 80% to equities (indices, sectors and single stocks) while

its protection sleeve buys out of the money puts for “tail risk” protection, and constructs 1x1 ratio put spreads for the “long volatility” part, which is net long puts, typically on the S&P 500, EURO STOXX 50 and Nikkei 225.

“The strikes of the structures are usually rolled every 4-5% move and do not need to rebalance gamma daily. The aim is to capture enough convexity to help offset or cover option costs without incurring excessive trading costs,” explains Gallice.

The quantum of protection is rebalanced daily in response to inflows, outflows and the level of implied volatility.

Protection leverage inverse to implied volatility

The cost of the protection then determines the amount of leverage. “When implied volatility is very low a 2% annualised protection cost could enable 10x leverage, but if the cost of options doubles, the leverage will be mechanically reduced,” says Gallice. This also enforces

some automatic partial monetization of volatility spikes.

Fig.1 (above) shows how leverage has touched the maximum 10x level but been quickly cut around episodes such as Volmageddon in February 2018, Covid in March 2020 and Liberation Day in April 2025.

It also means that protection exposure and subsequent payoffs can be larger after a prolonged period of subdued implied volatility.

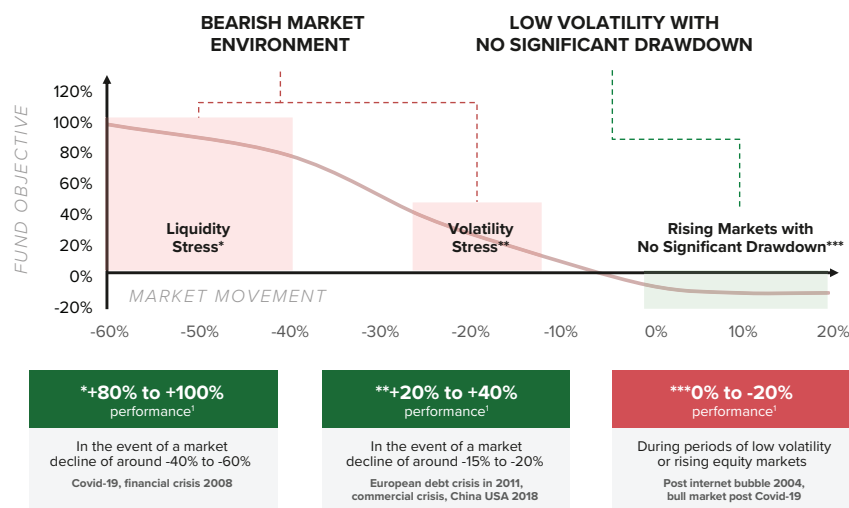
Maintaining convexity in both directions

“The normal fund delta is minus 0.2 to 0.25 but it can balloon much higher upon a down shock or collapse to near zero if markets rally. There is no selling of upside to cap gains if markets do melt up,” says Ryo.

Fig.2 (see following page) illustrates a typical payoff profile (though this can vary with the amount of leverage).

Fig.2 Typical payoff profile

Source: Ellipsis



Systematic and discretionary splits

There is a systematic process, but it is not entirely systematic. The strategy had been wholly systematic from 2008-2015, but when Ryo arrived, he rebuilt it with selective discretion in defined areas. “We understand volatility dynamics from our years of trading experience and make discretionary adjustments,” Ryo points out.

The default protection weighting is 50% tail risk and 50% long volatility, but the strategy can go up to a 75/25 split either way. “In late 2025 heightened skew in the US has made far out of the money options relatively more expensive, so the strategy has increased exposure to long volatility,” says Gallice. In 2020 before Covid, the strategy had more exposure to tail risk puts.

There is also some discretion over the balance amongst broad indices, sectors and single stocks.

Additional discretion applies to the choice of maturities ranging from 1 month up to 24 months, which can help

to optimise costs; but maturities of all legs are the same so there are no calendar spreads.

Mandates and customisation

All mandates aim for a mix of put options and long equity to reinvest P&L from options into equities. The key variables are leverage, underlying equity markets, and the ratios between tail risk and long volatility. “Some pension funds restricted to 5x leverage could not invest in the UCITS. Insurers may only need the tail risk protection without the long volatility, while pension funds mix the two. Pension funds often prefer domestic equity. One large family office client has a sector and single stock mandate,” says Ryo.

Regimes

Since launch in overlay format in 2019, the strategy has delivered an equity correlation of minus 0.45 and average annualised returns of nearly 15%, mainly coming from 85.08% in 2020 and 35.65% in 2022. Simulations suggest a return of 100-140% under the GFC or TMT bubble bursting, while 2011 and 2018 should have come close to 2022.

Ellipsis would expect to lose most of the 20% option premium in a year like 2019 when equities rise and volatility falls relentlessly, since there were no opportunities to monetize their put structures. Bull market years like 2024 and 2025 can be different because the strategy has been able to crystallize some of the gains from the sequel of Volmageddon in early August 2024 and Liberation Day in April 2025. Additionally in all three years, 2019, 2024 and 2025, gains from the equity exposure will help to offset the option costs.

Assets and capacity

There is circa USD 1.5 billion in separately managed accounts/dedicated fund, and USD 300 million in UCITS. The leveraged nature of the UCITS implies the gross market exposure hedged by the team amounts to over USD 4 billion. There is also USD 500 million in a dynamic carry short volatility strategy providing yield enhancement, that we do not explore in this article.

Capacity targets for the UCITS take account of existing and future capacity needs for other vehicles, RFP mandates and separately managed accounts, as well as the labour-intensive nature of the service.

Initial indications are for a soft close at USD 700 million and a hard close at USD 1 billion. Ellipsis also consider softer criteria: “Capacity for personalised customer service and building dedicated mandates, including white label products for private banks. Otherwise, we would need to grow the team,” says Ryo.

The UCITS is attracting new client groups, including private banks, funds of hedge funds and Monaco single family offices. The largest ticket so far has been EUR 40 million and there have also been lots of small tickets from advisory relationships. ✦