GUIDE TO UNDERSTANDING ASSET CLASSES :

EXCHANGE TRADED DERIVATIVES (ETD)

U Wealth : Your partner in mastering financial instruments.

We want you to feel comfortable making suitable investment decisions based on knowledge of the opportunities and risks of given financial instruments.

September 2026

FINANCIAL INSTRUMENTS: OPPORTUNITIES AND RISKS

The higher the complexity of a financial instrument, the higher its potential risk –but the higher, too, the opportunities for returns.

WHAT ARE DERIVATIVES?

A derivative is a security whose price is dependent on, or derived from, one or more underlying asset. The derivative itself is merely a contract between two or more parties.

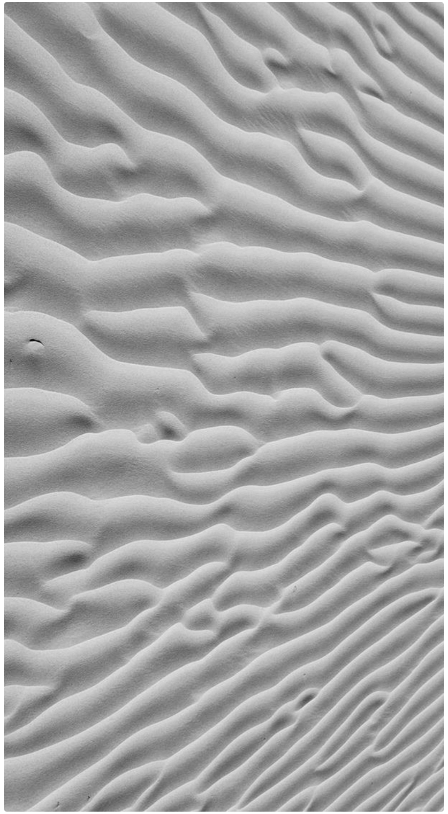
There is a crucial difference between a direct investment and an investment in a derivative:

- when directly investing in a financial instrument such as a stock or a bond, the investor participates directly in its risks, gains, and losses.
- when investing in a derivative, the investor invests in a contract, note, unit, or certificate. This adds specific characteristics, risks, obligations, and/or rights to the assets on which the derivative is based.

An underlying can consist of a single asset or multiple assets. The most common underlying assets include stocks, bonds, commodities, currencies, interest rates, and market indices.

The value of the derivative depends in a non-linear way on the price of its underlying.

A derivative may be traded over the counter (unlisted) or be standardised and traded on public exchanges.



ADVANTAGES/DISADVANTAGES

Advantages

- Cost efficiency by leverage: the gross amount invested is smaller than trading the individual underlyings.
- Hedging instruments: losses can be limited by long options (buying a right).
- Flexibility: ability to trade a wide range of underlyings and to lock in prices.
- They are usually liquid instruments.

Disadvantages

- Options have a 'time decay'; the time value of the option decreases over the investment period.
- They can have higher spreads and commissions per dollar invested.
- If used with a speculative intention, strategies such as leverage and short selling bear the risk of overproportional or even unlimited losses.

WHAT ARE OPTIONS?

An option represents a right (if 'long') or an obligation (if 'short') to sell or buy an asset (underlying) at a specific price (strike price) on a specific date (exercise date).

There are two basic types of options:

Call option

call option: the right to buy the option if the investor is long the option contract, or the obligation to sell it if the option is short.

Put option

put option: the right to sell the option if the investor is short the option contract, or the obligation to buy it if the option is short.

The right is only exercised when it is favourable to the buyer of the option.

The price of an option is called the option premium.

IMPORTANT RISKS TO CONSIDER

Price Risk

The value of an option varies due to various factors. The most important ones are the price of the underlying, the volatility of a price, and the time of expiration of the option.

Market risk

The price of the underlying, a major factor influencing the price and pay-off of the option, is subject to market risk.

Leverage

When investing in derivatives, small investments can control larger values. This 'multiplier effect' maximizes risks, as well as gains, from the investments.

WHAT TO EXPECT FROM OPTIONS

Investment horizon

- Shorter term

Income expectation

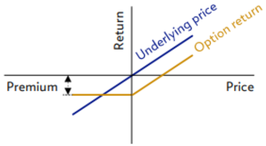
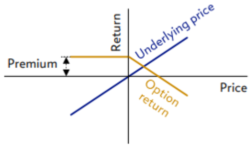
- Capital gain

Market expectation

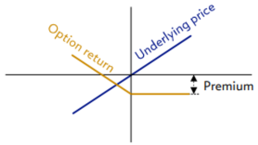
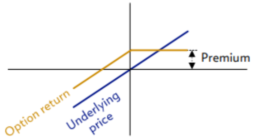
- Increasing
- Decreasing
- Sideways
- High volatility

Different option types cater to different market expectations. See the following slides for further information.

IMPORTANT TO KNOW BEFORE INVESTING IN CALL OPTIONS

	Buy a call (buy a right to buy)	Sell a call (sell a right to buy)
Maximum gain	Unlimited (difference between actual underlying price and strike price at exercise date)	Option premium
Maximum loss	Option premium	Unlimited (difference between strike price and actual underlying price at exercise date)
Profit/loss		
Expectations	Rising price of underlying	Stable or falling price of underlying
Obligations	Pay the option premium	Deliver underlying at exercise date (if executed)
Rights	Buy the underlying asset at exercise date at the strike price	Receive option premium
Conditions		Collateral or margin required
Comments	▪ Option value changes are not linear with price movements of the underlying asset. ▪ Depending on the option type, exercise can be on a single date (European option) or at any time until expiration (American option).	

IMPORTANT TO KNOW BEFORE INVESTING IN PUT OPTIONS

	Buy a call (buy a right to buy)	Sell a call (sell a right to buy)
Maximum gain	Strike price minus option premium	Option premium
Maximum loss	Option premium	Strike price minus option premium
Profit/loss		
Expectations	Falling price of underlying	Stable or rising price of underlying
Obligations	Pay premium	Buy underlying at exercise date at strike price (if executed)
Rights	Sell the underlying asset at exercise date at the strike price	Receive option premium
Conditions		Collateral or margin required
Comments	▪ Option value changes are not linear with price movements of the underlying asset. ▪ Depending on the option type, exercise can be on a single date (European option) or at any time until expiration (American option).	

A CLOSER LOOK AT OPTIONS

GENERAL TYPES OF OPTIONS (1/2)

The right (option) is only exercised when it is favourable to the buyer. An option is exercised at specific dates. The most common date schemes are

- either at maturity only (European option) or
- anytime during the lifetime (American option)

There are two basic types of options.

Call option

The right to buy the underlying.

Put option

The right to sell the underlying.

Both rights may be bought or sold, resulting in four different standard option types.

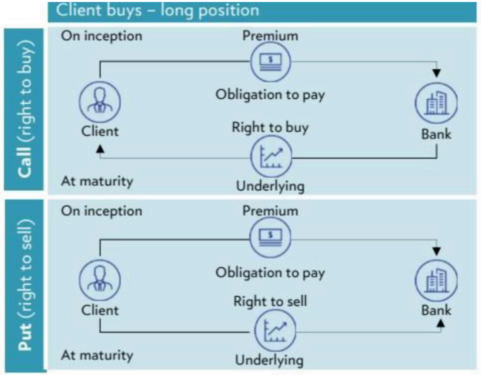
GENERAL TYPES OF OPTIONS (2/2)

Buying (=long position)

The buyer owns a right but no obligation.

Buying a call
Buying the right to buy the underlying.

Buying a put
Buying a right to sell the underlying.

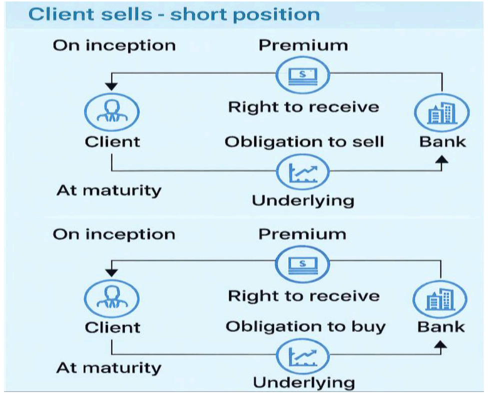


Selling (=short position)

The seller sells a right and contracts an obligation.

Selling a call
Selling the right to buy the underlying.

Selling a put
Selling the right to sell the underlying.



HOW OPTIONS WORK (1/2)

Example: Buying a European call option

Buying a call option is buying the right to buy an asset (underlying):

- at a specific date (exercise date)
- at a specific price (strike price)

The option premium is paid at inception.

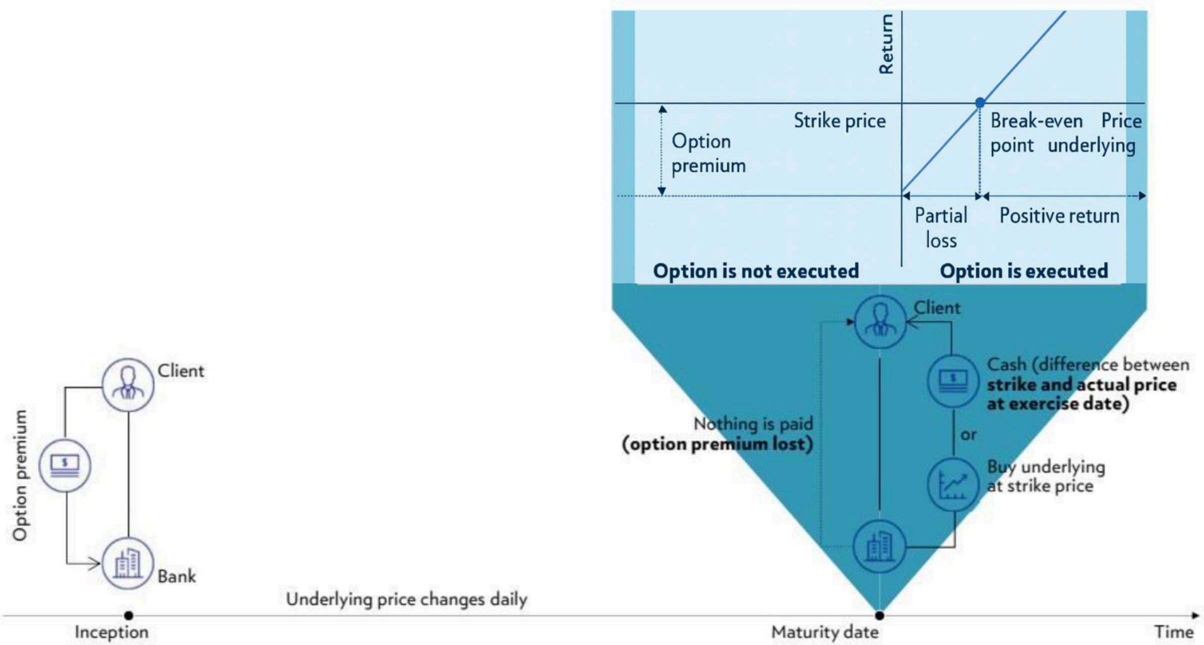
During the lifetime, the price of the underlying, and thus of the option itself, changes on a daily basis.

A decision is made at maturity:

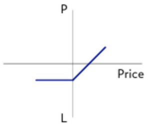
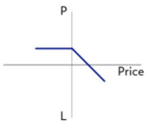
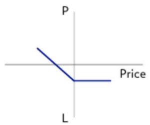
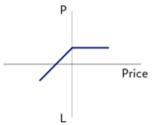
- if it is profitable to the buyer, the right is exercised
- if it is a potential loss, the right is not exercised

HOW OPTIONS WORK (2/2)

Example: Buying a European call option



PROFIT AND LOSS PROFILES EXAMPLES

	Long call (buy a call)	Short call (sell a call)	Long put (buy a put)	Short put (sell a put)
Profit/loss (P/L) profile				
Strike price (CHF) (at exercise date t1)	180	225	53	15
Current spot price (CHF) (between t0 and t1)	300	105	25	10
Option premium received/paid (at t0) (CHF)	20	10	5.10	0.72
Break-even point (CHF)	200	235	50.50	14.30
Maximum loss	Option premium	Unlimited	Option premium	Strike minus option premium (1)
Maximum gain	Unlimited	Option premium	Strike minus option premium	Option premium

(1) In case the underlying asset has a value of zero, the loss is the strike price (minus the option premium collected).

‘MONEYNESS’ AND RISKS

Buyers will exercise the option when it is profitable for them. The ‘moneyness’ indicates if an option is in the ‘profit zone’ or would represent a loss.

Call		Put
Spot price < strike price	**Out-of-the-money → no execution** If the option was to be exercised now, losses would be incurred.	Spot price > strike price
Spot price ≈ strike price	**At-the-money → execution** If the option was to be exercised now, losses would be reduced but break-even point would not yet be reached.	Spot price ≈ strike price
Spot price > strike price	**In-the-money → execution** If the option was to be exercised now, a profit would be incurred.	Spot price < strike price

- The risks of long options (buying call or put) are limited to the option premium.
- The risks of short options can theoretically be unlimited, specifically if the sale is uncovered (i.e. not in possession of the underlying asset).
- The option price varies with the price of the underlying asset. However, option prices do not respond in a linear way to price movements of the underlying, since many factors contribute to the option price (see below). Thus, the investor carries risks in addition to the pure market risks to which the underlying is exposed.
- When trading standardized options, the trading is executed on an exchange (e.g. Chicago Board Options Exchange, Eurex), thus the counterparty risk is minimized. If options are traded over-the-counter, the credit risk of the issuer needs to be taken into consideration.

OPTION PRICE FACTORS (1/2)

Intrinsic value and time value

- The price of an option is composed of two components: intrinsic value and time value.
- The intrinsic value of the option is the difference between the strike price and the spot price of the underlying asset. The intrinsic value is never negative, since the buyer is never forced to exercise the option.

Scenario	Call	Put
Spot price < strike price	Out-of-the-money Intrinsic value = 0	In-the-money Intrinsic value > 0
Spot price ≈ strike price	At-the-money Intrinsic value = 0	At-the-money Intrinsic value = 0
Spot price > strike price	In-the-money Intrinsic value > 0	Out-of-the-money Intrinsic value = 0

- The time value of the option is the difference between the actual value of the option and its intrinsic value. The time value compensates the seller for price movements of the underlying (volatility), as well as for foregoing interest. The time value decreases with remaining time to the exercise date and is zero at the maturity date itself.
- Note that the expected price fluctuation due to dividend payments on the underlying is already considered in the option price.

OPTION PRICE FACTORS (2/2)

Intrinsic value and time value

The time value of an option is higher the longer the time remaining to the exercise date. This is due to two factors:

- the volatility of the market value of the underlying asset: the longer the remaining time to maturity, the higher theprobability that the market price will change in favour of the option buyer. The implicit volatility expresses the expectation regarding the future volatility of the underlying asset's market value.
- foregoing interest: holding the underlying results in capital costs for the call seller/put buyer (so-called 'opportunity costs'). These costs take into account the interest that could have been earned when investing the same amount in a money market instrument over the lifetime of the option. The rate applied is the so-called 'risk-free' rate (the minimum rate that a risk-free investment would offer). The counterparty has to compensate for these costs and the lost opportunity.

Example - Intrinsic value and time value

Scenario	Call	Put
A share on 14 January is quoted at CHF 493.50.	The call option is in-the-money.	The put option is out-of-the-money.
▪ June call options for a strike of CHF 480 are quoted at CHF 36.10. ▪ June put options for a strike of CHF 480 are quoted at CHF 25.92.	Intrinsic value 493.50 – 480 = 13.50	Intrinsic value 0.0
	Time value 36.10 – 13.50 = 22.60	Time value 25.92 – 0.0 = 25.92

DIFFERENCE BETWEEN OPTIONS AND WARRANTS

- Warrants are securitised options.
- Warrants are similar to long options (buying a call/buying a put) and have a very similar trade-off between risk and return.
- The main differences between options and warrants are displayed in the following table.

Options	Warrants	Explanation
Are contracts	Are financial products	Warrants contain additional credit risk of the issuer.
Short sales possible	Only long positions	Limitation of the risks, as there is no short selling with warrants.
Traded at exchange	Mostly over the counter	
Issued by an option exchange	Issued directly by a company	As warrants issued by a specific company with an aim, exchange-traded options issued by an option exchange.
Are standardised (e.g. maturities, strikes)	Customised by issuer	Wide variety of underlyings available to warrant investors; this increases issuer risk.

Due to the differences in maturity, liquidity, and issuer risk, warrants have general and specific risks that are characteristic of structured products.

The use of warrants thus requires the relevant additional knowledge.

WHAT ARE FUTURES?

A future is a contractual obligation of the buyer to purchase or sell an asset (underlying) at a predetermined price in the future.

Futures are highly standardised contracts for which a liquid market exists. Futures are available on a number of underlyings. The most common are:

- index futures
- commodities (e.g. wheat, crude oil) / precious metals
- equity futures
- interest rates
- foreign exchange rates (forwards)

There are two investment positions: long and short (buying and selling a future).

Similar contracts that are traded over the counter and/or even customised are called forwards.

IMPORTANT RISKS TO CONSIDER

Futures

Market risk

The market risk of the underlying assets directly reflected in the price and pay-off of the future.

Margining

Futures trades involve 'margining', which is a technique that allows a large amount of money to be moved with a comparatively low investment. As a consequence, this technique may require additional investments above the original one during the lifetime of the contract. Additional small price changes of the underlying asset can cause large variations in the future's price.

Over-the-counter

If futures traded over the counter, the instruments called 'forwards'. Forwards constitute a direct contract between the buyer and the counterparty. Thus, forwards have an increased counterparty risk, and depending on the level of standardisation, might have increased liquidity risk.

WHAT TO EXPECT FROM FUTURES

Investment horizon

- Short term

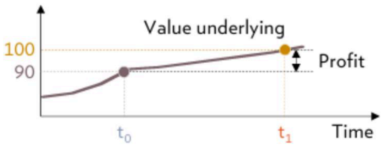
Income expectation

- Capital gain

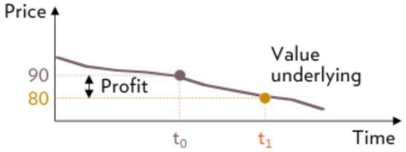
Market expectation

- Increasing
- Decreasing

IMPORTANT TO KNOW BEFORE BUYING A FUTURE

Maximum gain	Difference between actual price of underlying asset at exercise date and settlement price
Maximum loss	Settlement price
Profit/loss	 Profit from a future due to price changes. In this example, the agreed upon price is 90 at time t_0 and the trade is executed at t_1, when the actual price is 100. The price of the future (and therefore the gains or losses) depends linearly on the price of the underlying.
Expectations	Rising prices of the underlying asset
Obligations	Paying initial margin, covering margin calls, buying the underlying asset at exercise date at settlement price
Rights	–
Conditions	Margin required
Comments	▪ Futures may be settled by delivery of the underlying (physical delivery) or by the cash equivalent (cash settlement). ▪ Gains/losses are taken into account daily.

IMPORTANT TO KNOW BEFORE SELLING A FUTURE

Maximum gain	Difference between settlement price and actual future price of underlying asset at exercise date
Maximum loss	Unlimited loss
Profit/loss	 Profit from a future due to price changes. In this example, the agreed upon price is 90 at time t_0 and the trade is executed at t_1, when the actual price is 80. The price of the future (and therefore the gains or losses) depends linearly on the price of the underlying.
Expectations	Falling prices of underlying asset
Obligations	Paying initial margin, covering margin calls, selling underlying asset at the agreed-upon settlement price at exercise date
Rights	–
Conditions	Margin required
Comments	▪ Futures may deliver (by underlying physically delivered or cash equivalent). ▪ When selling (i.e. short position), the seller is in a short position in the corresponding underlying asset. The seller is forced to buy the underlying asset at market conditions if the buyer exercises. The seller is thus forced to buy the underlying asset at market conditions that may be unfavourable. ▪ Gains/losses are taken to account daily

A CLOSER LOOK AT FUTURES

GENERAL PROPERTIES

- Futures are obligations, i.e. future contracts need to be closed out prior to maturity if not wished to be exercised.
- If a future is not closed out before maturity, it can be settled in the following two ways.

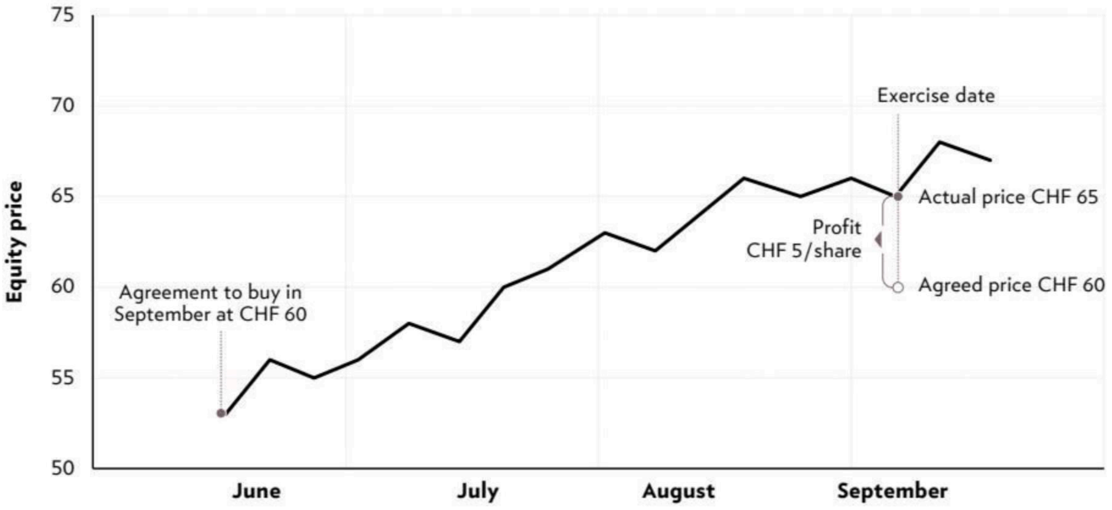
Cash settlement	Only the difference between the strike and the actual value of the underlying is exchanged
Physical delivery	The actual underlying is exchanged against cash

- Contracts that have a physically existing asset as an underlying (e.g. commodities such as crude oil, wheat, iron ore) are usually settled by physical delivery.
- Contracts that are based on a reference rate (e.g. index) can only be settled in cash.

HOW FUTURES WORK

Example: Buying an equity future

At the exercise date, the difference between the actually observed price and the agreed-upon price is settled by either delivery of the equity or by a cash settlement of the difference.



PRICE OF A FUTURE

Futures' prices are determined by so-called opportunity costs or the cost of carry. Cost of carry describes the costs for the seller of the future for remaining in possession of the underlying asset. Consider the following example.

- Farmer Doe would like to buy from Farmer Smith a forward on ten cows deliverable and payable in one year. The current market price for a cow is CHF 5,400.
- Farmer Smith needs to keep those 10 cows alive and calculates the costs and gains from the cows during the year until delivery date.

Costs		Profit	
Forage	CHF 300	Milk sales	CHF 2,000
Nurture and stable lease	CHF 600		
Financing	CHF 500		
Total costs	**CHF 1,400**	**Total profits**	**CHF 2,000**

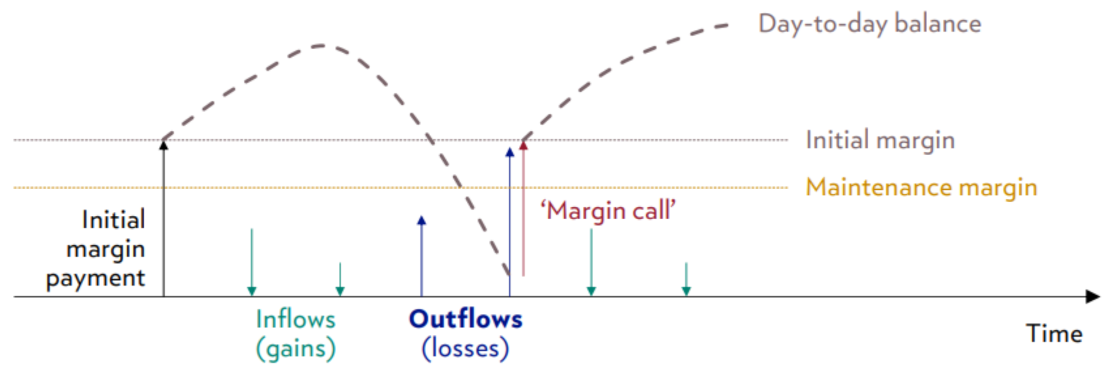
- Farmer Smith therefore can offer a forward price per cow of: Forward rate = spot rate + cost of carry = CHF 5,400 + (CHF 1,400 – CHF 2,000) = CHF 4,800 /cow
- Similar calculations can be done for any other underlying, including complex financial instruments such as an index. The costs would be expressed by the interest earned in a risk-free alternative investment, while the profit is any dividend paid.

LEVERAGE AND MARGIN

Futures require the maintenance of a margin account as a prerequisite.

When opening a futures contract, the investor makes a cash deposit, the so-called 'initial margin', which is a minimum deposit required to process the contract.

- The margin account is used to debit/credit losses/gains on the futures contract on a daily basis (mark to market).
- At liquidation of the contract, the initial margin is refunded plus/minus all accumulated gains/losses.
- When accumulating losses, and when the balance of the margin account falls below a defined value (maintenance margin), the investor will be required to make an additional deposit up to the initial margin (margin call).



- The initial margin required depends on the volatility of the underlying. However, it will be substantially less than the actual contract volume. Therefore, a small investment amount moves a far larger value in terms of the underlying. This leverage amplifies potential gains and losses. It contributes significantly to the risks of the instrument.

DIFFERENCES BETWEEN FUTURES AND FORWARDS

- Forwards are similar to futures with regards to their purpose: they allow the investor to buy/sell an asset on a specific date at a specific price.
- The major difference is that futures are standardised exchange-traded contracts, while forwards are basically private agreements between two parties that are less rigid in terms and conditions.
- Settlement and delivery differ.

Futures	Changes in market price are cleared daily. Settlement can occur on a range of dates
Forwards	Forwards have one settlement date and are cleared/settled on that date only

Due to these differences, futures and forwards differ in their risk exposure.

Counterparty risk	Since forwards are agreements that are traded over the counter, the counterparty risk tends to be higher than in the case of futures and requires the respective carefulness in the selection of the investment.
Liquidity risk	Depending on the type of contract, forwards tend to have higher liquidity risks.

Thus, selecting a trustworthy counterparty is crucial.

FUTURES AND FORWARDS WITH A COMMODITY UNDERLYING

In the case of forwards or futures with a commodity underlying, physical settlement results in the delivery of the good to the buyer. If futures or forwards on commodities are used as pure investment vehicles, they need to be closed out prior to maturity to avoid unwanted physical delivery. (Note that commodities are traded in bulk and futures/forward contracts on commodities such as ores, oil, and agricultural goods are common.)

- Forward contracts are often used for hedging purposes and tend to be settled in cash or by delivery of the underlying.
- Futures contracts are frequently closed out prior to maturity without actual delivery at all.

As stated previously, the forward/futures price is calculated based on the cost of carry or opportunity costs. Two situations may arise:

Contango	The spot price is lower than the price of an early future (i.e. a surcharge on the futures price).
Backwardation	The spot price is higher than the price of an early future.

Contango and backwardation are particularly important in the case of a commodity underlying, since a contango /backwardation can occur in addition to the normal cost of carry. This may be the result of seasonal effects, climate, limited storage capabilities – situations that may arise suddenly for perishable or consumer goods. Thus, the forward price may change suddenly even if spot prices do not.

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