



AYLD

Global X S&P/ASX 200 Covered Call Complex ETF



Invest in covered calls over the S&P/ASX 200 for enhanced income potential with franked dividends.

Income — Covered Calls

FUND DETAILS

ASX Code	AYLD
Bloomberg Code	AYLD AU Equity
IRESS Code	AYLD.AXW
Benchmark	S&P/ASX BuyWrite Index
Mgt. Fee (% p.a.)*	0.60
Rebalance Frequency	Quarterly
Distribution Frequency	Quarterly
W-8 BEN Form Required	No

* Calculated on the Net Asset Value (NAV) of the Fund. All fees and costs are inclusive of GST. Refer to the PDS for a complete list of fees and costs.

INTRODUCING AYLD

The Global X S&P/ASX 200 Covered Call Complex ETF (AYLD) uses a “covered call” or “buy-write” strategy in an effort to generate yield enhancement over and above dividends and franking. As part of this, the fund holds the constituents of the S&P/ASX 200 Index while selling at-the money¹, call options on the same index on a quarterly basis. AYLD aims to provide investors with a return that, before fees and expenses tracks the performance of the S&P/ASX BuyWrite Index.

DID YOU KNOW?

- Covered call strategies are a well-known method for generating yield.
- When markets are volatile, options premiums tend to rise, generating higher income for options sellers.
- Call option premiums rise when interest rates rise.
- Covered call writers keep all the dividends and franking credits on the Australian shares they write call options against.

WHAT IS A COVERED CALL?

Covered call writing is an investment strategy where investors buy a stock, or group of stocks, and sell call options on them. Selling call options on stocks investors already own generates income, without facing riskier margin calls. However, it requires investors to forego upside – as a covered call portfolio can be “called away” when markets move higher.

Key covered call features:

- Generates income from selling call options on assets already owned.
- Investors are “covered” from a margin call perspective.
- Upside potential is capped, while drawdowns are mitigated by the premiums received from selling calls.
- Typically generates higher income during volatile markets or periods of high interest rates, as call option premiums usually rise with volatility and rates.
- Can outperform during sideways-trading or falling markets, as income generated from selling calls can mitigate drawdowns.

AN ALTERNATIVE INCOME OPTION

Many Australians put income generation at the heart of their portfolios. This is especially true of retirees, who may rely on investment income to meet their cash flow needs. Covered calls are a tool in the income toolkit—much like dividend-paying shares or high yield bonds. Yet one with different risks and potential rewards compared to more familiar approaches.

Among the potential rewards include the fact that covered calls can generate more income, and on a more diversified basis, than just owning dividend-paying stocks. This is because covered call sellers receive two income streams: first the dividends, second the premiums from the calls they sell. The premiums not only provide an income uplift, but also a second

KEY FEATURES



High Income Potential

AYLD seeks to generate income through covered call writing, which historically produces higher yields in periods of volatility.



Efficient Options Execution

AYLD writes call options on the S&P/ASX 200 Index, saving investors the time and potential expense of doing so individually.



Potential Downside Mitigation

The premiums AYLD generates may partly cushion drawdowns.



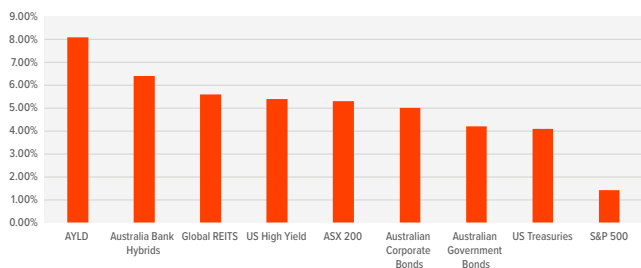
stream to draw from if dividends fall or dry up. Furthermore, options premiums tend to be inversely correlated to dividend yields—with lower dividend yielding stocks producing higher premiums—creating a natural hedge.

Covered calls are different to bonds in that their income is hedged against rising volatility and interest rates. All else being equal, when volatility rises, option premiums rise as options traders price higher probabilities of sharp share price movements into calls. And when interest rates rise, call option premiums mechanically rise too, as call sellers provide, in effect, a loan to buyers. The economics of which gets priced into premiums².

All investments come with risks – and covered calls are no exception. Chief among the risks is that in bull markets, when share prices rise sharply, option sellers get called away. This means that portfolios running covered call strategies do not fully participate in rallies and can underperform.

CURRENT YIELD BY ASSET CLASS (%)

Source: Global X ETFs with information derived from: Bloomberg. L.P. (n.d.) (Yields by asset class) [Data set]. Data as of 31 January, 2024 and accessed February 13, 2024 from Global X Bloomberg Terminal. Asset Class representations are as follows, Australia Bank Hybrids, Solactive Australian Hybrid Securities Index (Gross); US High Yield Bonds, Bloomberg USD Liquid Investment Grade Corporate Hedged AUD; ASX 200, S&P/ASX 200 Index; Australian Corporate Bonds, Bloomberg AusBond Credit 0+ Yr Index; Australian Government Bonds, Bloomberg AusBond Govt 0+ Yr Index; US Treasuries, Current US 10 Year Government
Note: Global REITs, FTSE EPRA Nareit Global REITs Net Tax Index; S&P 500, S&P500 Index.



For more information on Global X S&P/ASX 200 Covered Call Complex ETF (ASX Code: AYLD), please speak to Global X ETFs.

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CONSIDERATIONS FOR COVERED CALL INVESTORS

Before investing, investors should ensure they understand covered call option writing risk. By writing covered call options in return for the receipt of premiums, AYLD will give up the opportunity to benefit from potential increases in the value of the S&P/ASX 200 Index above the exercise prices of such options but will continue to bear the risk of declines in the value of the S&P/ASX 200 Index.

The premiums received from the options may not be sufficient to offset any losses sustained from the volatility of the underlying stocks over time. As a result, the risks associated with writing covered call options may be similar to the risks associated with writing put options. In addition, AYLD's ability to sell the securities underlying the options will be limited while the options are in effect unless AYLD cancels out the option positions through the purchase of offsetting identical options prior to the expiration of the written options. Exchanges may suspend the trading of options in volatile markets. If trading is suspended, AYLD may be unable to write options at times that may be desirable or advantageous to do so, which may increase the risk of tracking error.

HOW TO USE AYLD IN A PORTFOLIO

- In the core of a portfolio replacing some Australian equity exposure, as the options premiums generated from selling calls can smooth drawdowns without deviating substantially from benchmark.
- As a satellite providing an alternative source of income, especially in times of heightened volatility or rising interest rates.

HOW AYLD WORKS

- AYLD tracks the S&P/ASX BuyWrite Index.
- The fund invests in the S&P/ASX 200 Index on a fully replicated basis.
- It then sells at-the-money – or nearest out-of-the-money – quarterly exchange traded call options on the same index worth roughly 100% of the value of the portfolio.
- Options are rolled to the next quarter the day before expiry. Expiring options are bought back at the time weighted average ask price between 4:20 pm and 4:25 pm Sydney time. New options are simultaneously sold at the time weighted average bid price.

[1] If at-the money options are unavailable, the fund will sell nearest out-of-the-money call options.

[2] As options mostly trade on margin, buyers are not required to front up 100% of the exercise price until expiry. The difference between the margin buyers post, and the full exercise price, represents a loan from the option seller to the option buyer. The economics of this loan is then reflected in higher premiums.

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