

Understanding Levered Covered Call ETFs

How the strategy works and the trade-offs involved

Levered covered call ETFs combine an investment portfolio, leverage and covered call writing, and aim to make regular cash distributions. Each feature does something different. To assess the result, investors need to consider both the cash they receive and changes in the fund's net asset value, or NAV.

What is NAV? NAV per unit is the value of everything the fund owns, minus what it owes, divided by the number of units outstanding. The unit price investors see on the exchange generally trades close to NAV, so changes in NAV are broadly reflected in the unit price.

How the strategy works

1

The fund owns stocks. Their market value rises and falls.

2

It may add leverage. This gives the fund more market exposure than its NAV.

3

It writes covered calls on part of the portfolio. The fund collects option premiums as income and, in exchange, gives up some upside on the positions covered by those calls.

4

It pays cash distributions. The manager declares the amount and may increase, decrease or pause it. The distribution is not guaranteed or a forecast of return.

1 The underlying stocks

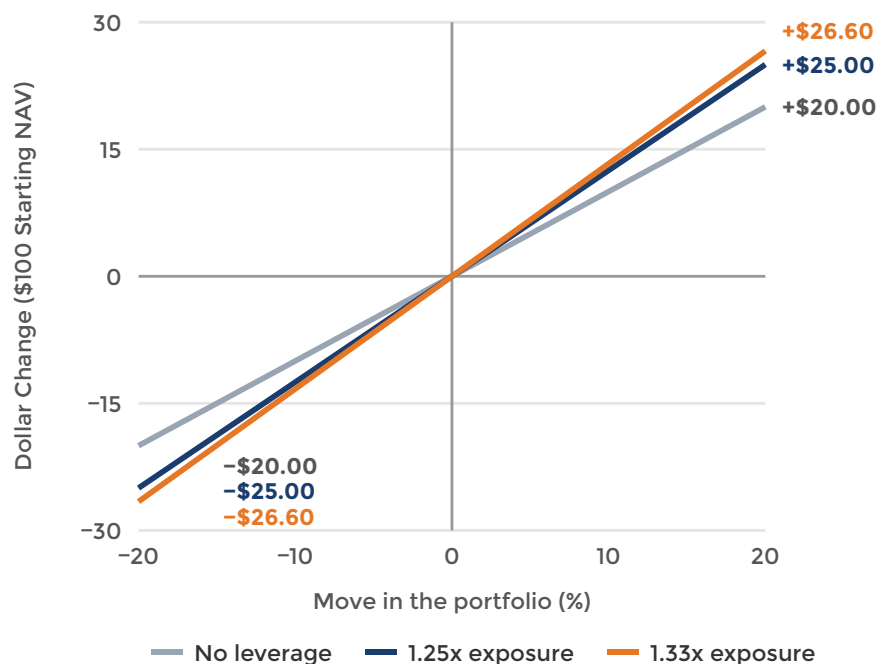
Returns start with the stocks. An investor's return is driven mainly by the performance of the stocks the fund owns. Leverage, covered calls and distributions change how that performance is delivered, but they do not replace it. If those stocks decline in value, the fund's NAV will generally decline as well, so investors should be comfortable owning the underlying portfolio before considering the strategy built on top of it.

2 Leverage

Leverage magnifies market exposure. At 1.33x exposure, each \$100 of NAV has approximately \$133 of market exposure. At 1.25x, it has approximately \$125. The permitted maximum is not necessarily the amount used at all times.

Leverage can therefore increase gains or deepen losses. It adds financing costs and, in a sharp decline, may require the fund to reduce exposure or sell investments at an unfavourable time. UltraYield™ funds may use maximum aggregate leverage of approximately 33%, or 1.33x NAV; Enhanced Yield Plus funds may use approximately 25%, or 1.25x NAV.

Leverage magnifies gains and losses



For illustrative purposes only. The chart excludes options, costs, fees, distributions, taxes and leverage adjustments.

3 Covered calls

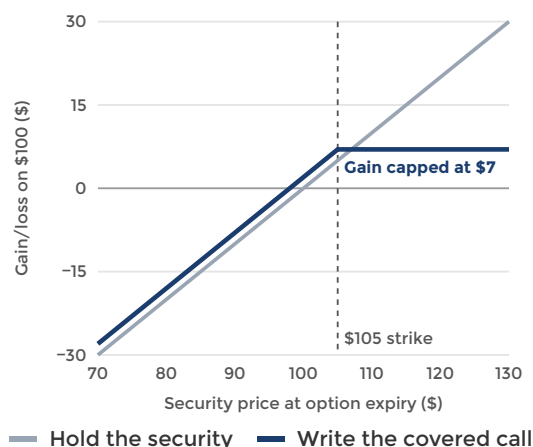
A call option gives its buyer the right to buy a security from the fund at a set price, called the strike price. In return for accepting that obligation, the fund receives an option premium, which is a key source of the income these funds distribute. The call is 'covered' because the fund already owns the underlying security; covered does not mean protected from loss.

The option premium can help in a flat or moderately rising market and provide a limited cushion in a decline, but it does not prevent a substantial loss. If the security rises above the strike price, the fund gives up further gains on the written position. Only positions against which calls have

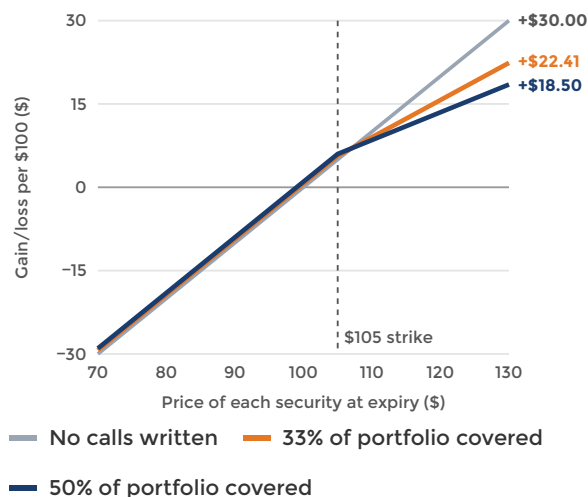
been written are capped; uncovered positions can still participate fully. The overall effect depends on option coverage, option terms and market movements.

In short, writing covered calls exchanges some potential growth for income.

A covered call limits gains on the written position



Partial coverage leaves some upside uncapped



For illustrative purposes only. Both charts assume a \$100 purchase price, a \$105 strike and a \$2 premium, and exclude costs and taxes. The partial-coverage chart assumes calls are written on 33% or 50% of the portfolio and that every position moves by the same amount.

4 Cash distributions

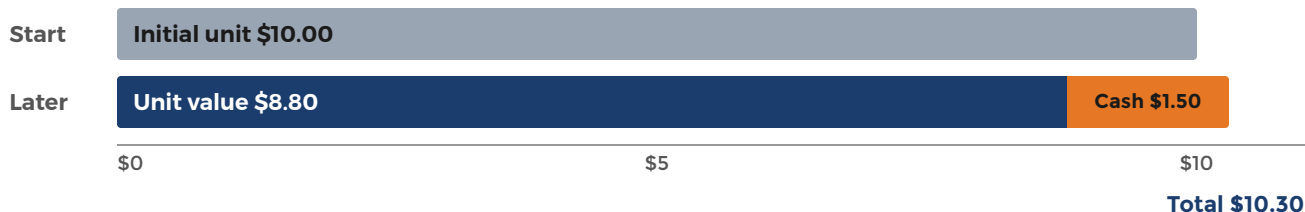
A distribution is cash paid to investors; it is not automatically investment return. It may include income, capital gains and return of capital, and its tax character can vary from period to period. These funds are also managed with a focus on tax efficiency, which can mean a larger share, or all, of a distribution may be classified as return of capital. That reflects how the strategy is taxed and is not, on its own, a signal of how the fund is performing.

Cash distributions reduce the fund's NAV by approximately the amount paid, all else being equal. And because the fund distributes substantially all the option premiums it earns rather than retaining and reinvesting them, those premiums do not compound within the fund. If a distribution is larger than the fund's total return for a period, the difference comes out of the fund's capital, so NAV falls further, leaving a smaller base to generate future returns and distributions.

DISTRIBUTION EXAMPLE

Suppose an investor starts with a unit worth \$10.00, receives \$1.50 in cash distributions and later holds a unit worth \$8.80. The investor's combined value is \$10.30: \$8.80 in the unit plus \$1.50 in cash. Ignoring tax and assuming the cash was not reinvested, the simplified total gain is therefore \$0.30, or 3%.

Cash received must be considered with the remaining unit value



For illustrative purposes only. This example uses hypothetical figures to show how cash distributions and unit value combine into total return; it does not represent the actual, past, or expected performance, NAV, or distributions of any fund. Actual results will differ and may be better or worse than shown. Excludes management fees, expenses, and taxes.

How the features can work together

- **In a rising market**, leverage may increase gains, while calls can limit gains on written positions.
- **In a falling market**, leverage can magnify losses, while option premiums may offset only part of the decline.
- **During a rebound**, the outcome depends on the earlier loss, the leverage then in use and the terms and coverage of outstanding calls. Depending on that market path, the fund may recover differently from the securities it holds.
- **When volatility changes**, option premiums can also change. Higher volatility may increase premiums but brings larger price movements; lower volatility may reduce premiums available to support distributions.

Putting the trade-offs together

The fund receives premiums for writing covered calls, in exchange for limiting gains on the positions covered. Leverage increases both upside and downside exposure. The fund aims to make regular cash distributions, but they are not guaranteed and should be considered together with changes in NAV.

The covered calls and leverage do not operate independently of each other. Leverage increases the size of the positions on which calls may be written. The fund may therefore be able to write calls on a larger notional amount and collect more premiums. At the same time, a larger share of

the portfolio's potential upside may be capped while its downside exposure is magnified.

How this plays out depends on the market environment. In a flat or moderately rising market, the larger premiums may add to returns, and leverage may add to gains on positions that stay below their strike prices. In a strong rally, the calls cap gains on the written positions, so the fund may lag the securities it holds even with leverage. In a decline, premiums may offset part of the loss, but leverage magnifies it and NAV then recovers from a lower base. A sharp decline may also require the fund to reduce exposure at an unfavourable time, leaving a smaller asset base to participate in a recovery while calls on the remaining positions continue to limit gains.

Together, these features can produce a return pattern that differs from directly holding the portfolio or from the fund's benchmark.

Questions to consider

- **Look beyond the distribution rate.** Review total return and NAV history as well as the cash paid.
- **Check the current strategy.** Actual leverage and option coverage can change and may be below the prospectus maximums.
- **Read the fund documents.** The prospectus and ETF Facts describe the permitted strategies, costs and complete risk factors.

Published on October 5, 2026.

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