GLOBAL X
by Mirae Asset

# Covered Call Strategies, Explained


1. What are Call Options?
2. What is a Covered Call Strategy?
3. Why include a Covered Call Strategy in your porfolio?
4. What distinguishes different Covered Call approaches?
5. What factors impact Covered Call performance?
6. Global X's **Enhanced Income Covered Call Strategies**


## 1 What are Call Options?

Call options contracts are financial derivatives that give a buyer the right, but not the obligation, to purchase a security at a pre-determined price, called the **strike price**.

Conversely, the seller of an option **must sell the security at that strike price** if the buyer chooses to exercise the option.

Options do not create value, but merely transfer value from one party to another. They can be used for a variety of different strategies such as making leveraged bets on securities, managing risk, and generating income.

The price of the option paid by the buyer, otherwise known as the **premium**, is influenced by the strike price, level of volatility, the option's time to expiration and the price of the underlying security.

## 2 What is a Covered Call Strategy?

A covered call is a popular **risk management and income-generating strategy**, that seeks to **generate income for investors by selling options**.

| A Covered Call consists of **an Investor** both*: | Owning a Stock and Selling a Call Option on that Stock |
|---|---|

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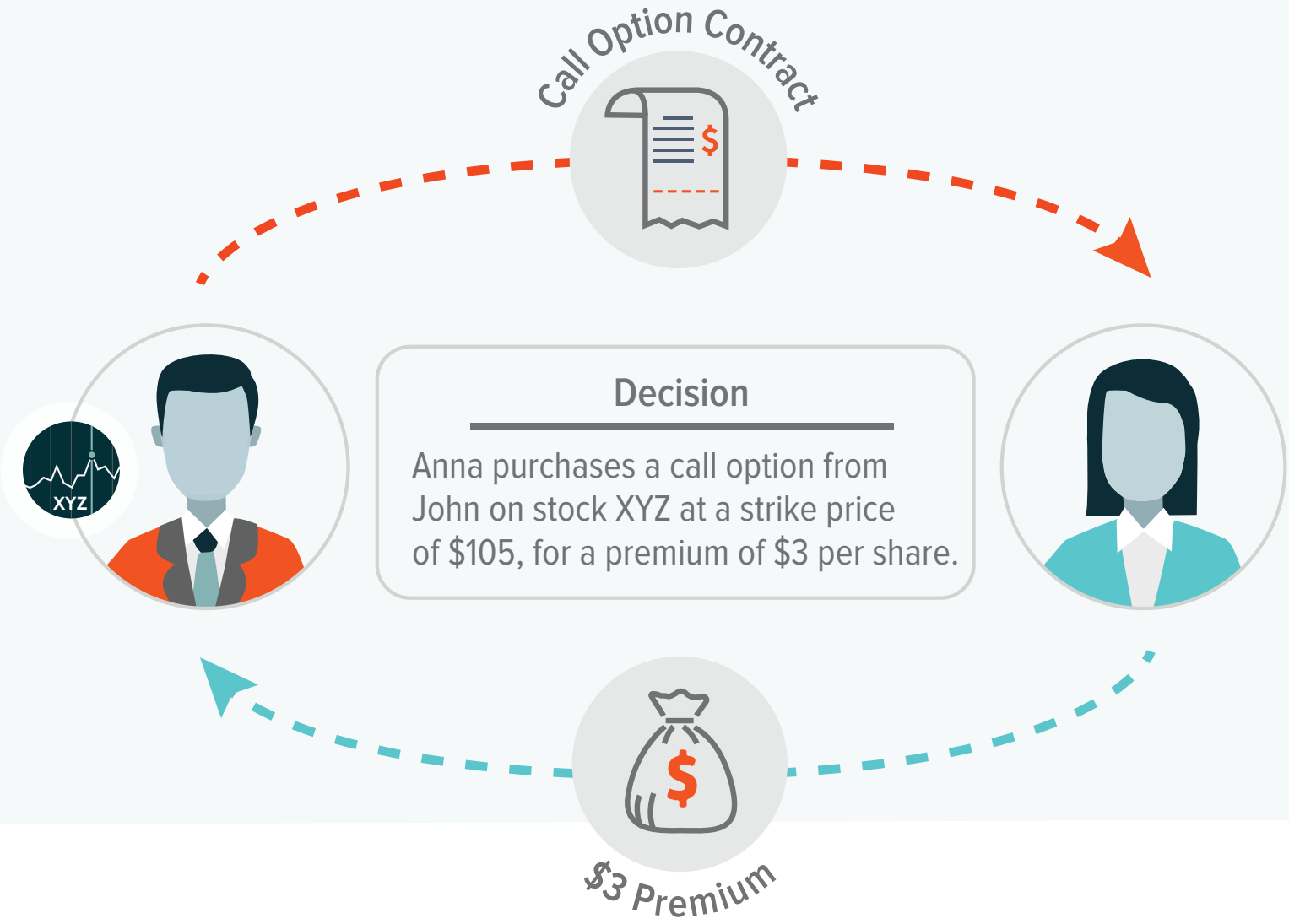
### Anna's Expectation

Anna thinks that the stock XYZ (Current Market Price of $100) is going to rise above $105 and hence decides to purchase a call option on stock XYZ.

### John's Expectation

John owns stock XYZ (Current Market Price of $100) and thinks that the price of the stock is unlikely to rise above $105 over the next 30 days.

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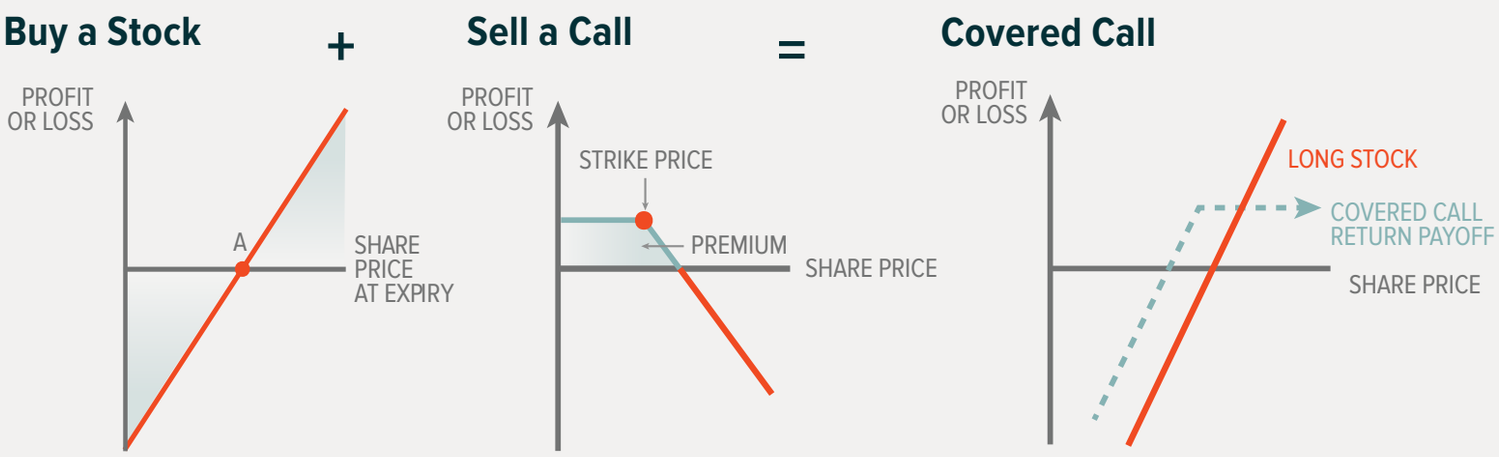
## Upon Contract Expiration

| Potential Outcomes | John takes on **price risk** should the option's value move against him, but earns a **steady income stream** in any outcome. | Anna has **unlimited upside potential** should stock XYZ rise beyond the option's strike price. |
|---|---|---|
| Stock XYZ price **rises above $105** | John has an obligation to sell the stock for $105 to Anna, which is less than the market price, but will earn a $3 premium from the contract. | Anna has the option (but not an obligation) to purchase the stock XYZ at $105 from John even though the stock is above $105, earning all the differences above $105. |
| Stock XYZ price **is exactly $105** | John earns a $3 premium regardless of Anna's decision to purchase stock XYZ from him. | Anna is indifferent between purchasing stock XYZ from John, and simply foregoing the option. |
| Stock XYZ price **falls below $105** | John keeps both stock XYZ and the $3 premium from the contract. | Anna has no reason to buy the stock for $105 which is more than the market price. |

The term '**covered call**' comes from the fact that the seller of the option also owns the underlying stock **i.e. the call option position is covered by the existing stock ownership.**

A **covered call** is considered a conservative strategy because it **helps mitigate the risk of stock ownership while providing additional income;** however, it limits upside potential on significant price increases.

## Covered Call Strategy Payoff




## 3 Why Include a Covered Call Strategy in your Portfolio?

**Covered call** strategies can be **used strategically in income focused portfolios**, or tactically **for investors who believe that the underlying**

stock or index will not rise significantly from current levels.

**Income**

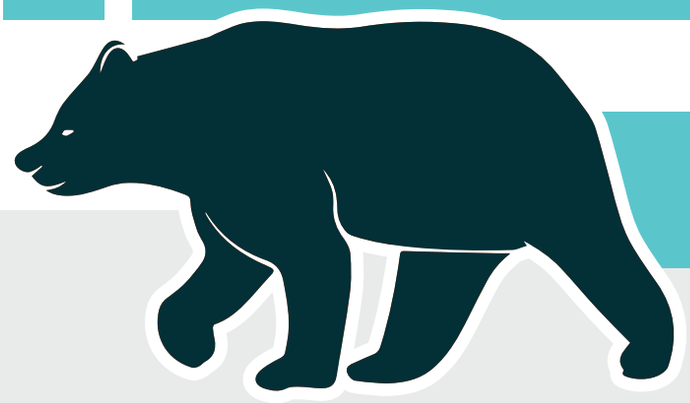
Covered call strategies provide **income-driven investors** with a means by which to **increase the yield on their existing portfolios while diversifying away some of the market risk** that is typically inherent in traditional income-generating securities. They offer an **opportunity to benefit from rising levels of volatility** that might otherwise have a negative impact on bonds or dividend paying stocks.

**Tactical**

More tactical portfolios may find use cases for covered call strategies as well. Below, we show at a broad level how investors in covered call strategies could expect to fare in **different market environments.**

**Bull Market:** An investor may underperform the market as they keep the option premium but forfeit some or all of the upside as the price increases.

**Flat Market:** The investor may outperform as the markets go sideways, but the investor keeps the premium from selling the call option.



**Bear Market:** The investor may outperform the market as they keep the premium received from selling the call option, which offsets some of the stock's decline.

## 4 What Distinguishes Different Covered Call Approaches?

### 1. Active Covered Call ETFs

This approach aims to **maximize income and potentially outperform the market**, while requiring more time, effort, and market monitoring. It also allows for adjusting to market conditions and individual security movements.

## 2. Passive Covered Call ETFs

This approach typically involves **less frequent trading and focuses on steady income generation with less emphasis on market timing**. Often uses a more systematic approach, such as writing calls at regular intervals or at a certain moneyness.

# 5 What Factors Impact Covered Call Performance?

There are numerous ways to implement a covered call strategy, but three of the most important factors to consider include:

### Option Coverage Percentage

The coverage percentage determines whether the call option is written on the value of the entire portfolio or a smaller portion.

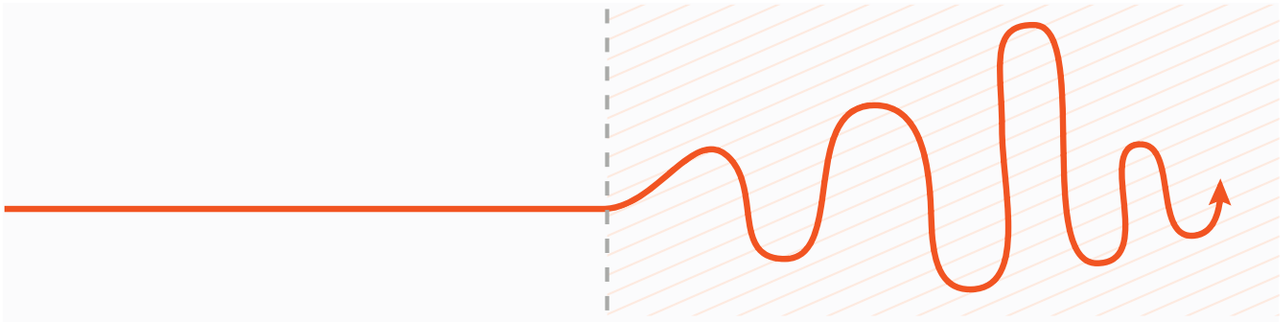
### Underlying Investment(s)

The underlying securities owned by the strategy.

### Moneyness of the Options

Similar to coverage percentage, moneyness of the call option determines the tradeoff between upside potential and premium income.

## Underlying Investment(s)*



⇩ Lower Volatility
⇩ Lower Premiums

### CANADIAN BROAD MARKET STOCKS

**Market Conditions:** Well-suited for diverse market conditions, as it provides exposure to a wide range of sectors, that can offer stability during market fluctuations.

**Risk and Reward:** Lower potential income from premiums, but less risk of having the stock called away due to low volatility. Suitable for investors seeking a balance between growth and stability seeking steady income with lower risk.

⇧ Higher Volatility
⇧ Higher Premiums

### TECHNOLOGY STOCKS

**Market Conditions:** Better suited for bullish or volatile markets where higher premiums can be commanded.

**Risk and Reward:** Higher potential income from premiums, but greater risk of having the stock called away due to high volatility. Suitable for investors willing to trade-off potential capital appreciation for higher income.

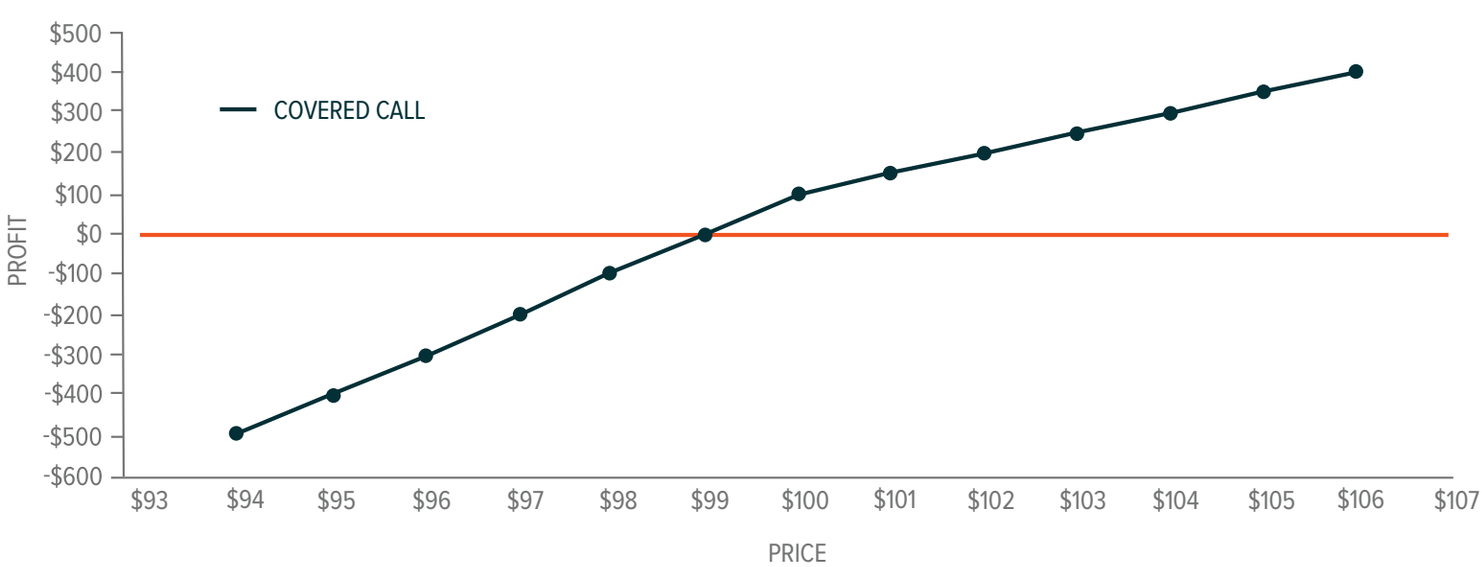
## Coverage Percentage*

**100% Covered Portfolio**

Maximizes the premium income but forfeits all upside.

**50% Covered Portfolio**

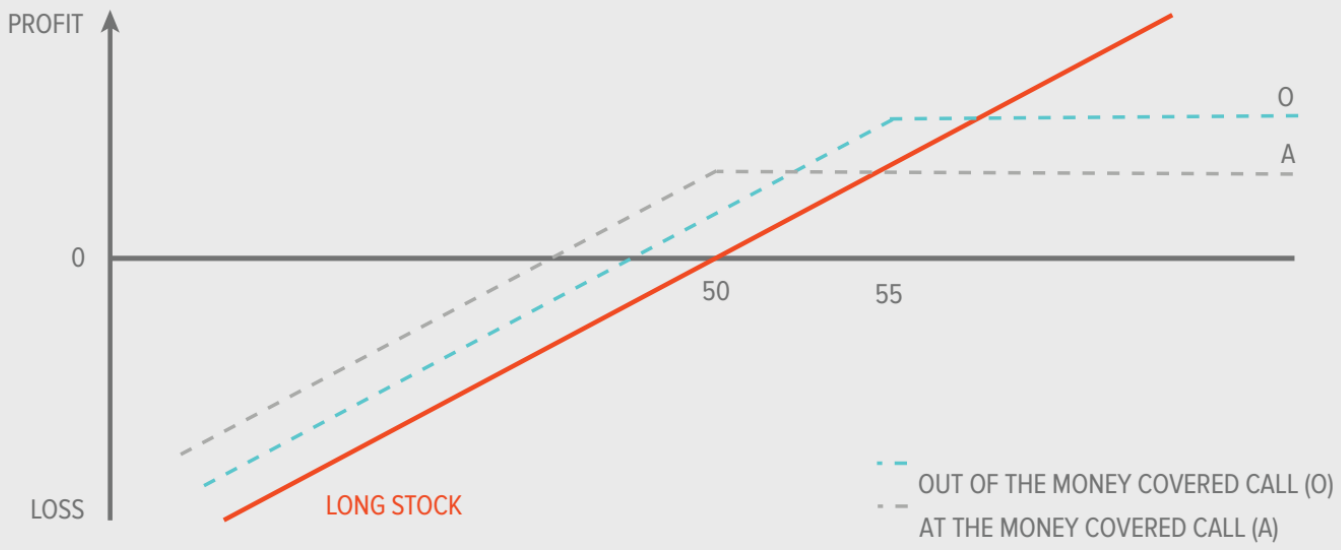
Half the premium income but participates in half the upside of the underlying securities.



## Moneyness of the Options*

The further out of the money the call options are written, the lower the chance of the option being exercised. However, this results in lower premiums since it is less likely that underlying will reach the strike price.

# At the Money/Out of the Money Covered Calls

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# 6 Global X's Enhanced Income Covered Call Strategies

**Global X's Covered Call ETFs** combine equity exposure with regular distributions, potential capital growth, and reduced volatility compared to direct equity holdings. This strategy leverages three sources of return: equity appreciation, dividend income, and option premiums.

### INDEX ETFs

| CNCC | CNCL | USCC |
|---|---|---|
| Global X S&P/TSX 60 Covered Call ETF | Global X Enhanced S&P/TSX 60 Covered Call ETF | Global X S&P 500 Covered Call ETF |

| | | | |
|---|---|---|---|
| Fund Overview | Get consistent and competitive monthly income from some of the largest and most liquid large-cap companies listed in Canada, through an active covered call strategy. | Get consistent and competitive monthly income from some of the largest and most liquid large-cap companies listed in Canada, through an active covered call strategy and light leverage of approximately 25% to enhance growth potential and yield. | Get consistent and competitive monthly income from some of the largest and most liquid U.S. companies, through an active covered call strategy. |
| Management Fee[1] | 0.39% | 0.65% | 0.39% |
| Annualized Distribution Yield | 8.78% | 10.92% | 10.92% |

| INDEX | USCC.U[2] | USCL | QQCC |
|---|---|---|---|
| | Global X S&P 500 Covered Call ETF | Global X Enhanced S&P 500 Covered Call ETF | Global X Nasdaq-100 Covered Call ETF |
| Fund Overview | Get consistent and competitive monthly income from some of the largest and most liquid U.S. companies, through an active covered call strategy. | Get consistent and competitive monthly income from some of the largest and most liquid U.S. companies, through an active covered call strategy. | Get consistent and competitive monthly income with an opportunity for growth from 100 of the largest non-financial companies listed on the NASDAQ stock exchange (currently, the NASDAQ-100® Index) through an active covered call strategy. |
| Management Fee[1] | 0.39% | 0.65% | 0.65% |
| Annualized Distribution Yield | 10.98% | 13.87% | 12.10% |

| INDEX | QQCL | EACC | EACL |
|---|---|---|---|
| | Global X Enhanced Nasdaq-100 Covered Call ETF | Global X MSCI EAFE Covered Call ETF | Global X Enhanced MSCI EAFE Covered Call ETF |
| Fund Overview | Unlock the growth potential of some of the largest and most liquid stocks listed on the NASDAQ stock exchange - (currently, the NASDAQ-100® Index) with QQCL, which uses a covered call strategy and light leverage of approximately 25% to enhance growth potential and yield. | Get consistent monthly income along with potential long-term capital growth from leading companies across diverse industries in the EAFE region, that have demonstrated strong growth potential. | Unlock the growth potential of 750+ large and mid-cap companies across developed markets including countries in Europe, Australasia and the Far East with EACL, which uses a covered call strategy and light leverage of approximately 25% to enhance growth potential and yield. |
| Management Fee[1] | 0.85% | 0.49% | 0.75% |
| Annualized Distribution Yield | 15.90% | N/A[3] | N/A[3] |

| INDEX | EMCC | EMCL | RSCC |
|---|---|---|---|
| | Global X MSCI Emerging Markets Covered Call ETF | Global X Enhanced MSCI Emerging Markets Covered Call ETF | Global X Russell 2000 Covered Call ETF |

| | | | |
|---|---|---|---|
| Fund Overview | Get consistent monthly income along with potential long-term capital growth from large and mid-sized companies across 24 emerging markets, as tracked by the MSCI Emerging Markets Index, that accounts for nearly 11% of the global equity opportunity set. | Unlock the growth potential of 1300+ large and mid-cap companies across 24 emerging markets countries with EMCL, which uses a covered call strategy and light leverage of approximately 25% to enhance growth potential and yield. | Access a comprehensive and unbiased small-cap barometer that can unlock the long-term growth potential of 2000 U.S. small-cap equities in a single fund. Designed to provide a consistent monthly income with an opportunity for growth. |
| Management Fee[1] | 0.65% | 0.85% | 0.65% |
| Annualized Distribution Yield | N/A[3] | N/A[3] | N/A[3] |

## SECTOR ETFs

| | BKCC | BKCL | ENCC |
|---|---|---|---|
| | Global X Equal Weight Canadian Bank Covered Call ETF | Global X Enhanced Equal Weight Canadian Banks Covered Call ETF | Global X Canadian Oil and Gas Equity Covered Call ETF |
| Fund Overview | Get equal-weight exposure to the performance of the core dividend-paying Canadian Big Six banks, along with a consistent monthly income. | Unlock high monthly cash distributions and the opportunity for capital appreciation by investing, on a levered basis with BKCL that offers equal-weight exposure to the performance of the dividend-paying Canadian Big Six banks. | Get equal-weight exposure to the performance of some of the largest and most liquid Canadian companies involved in the crude oil and natural gas industry, along with a consistent monthly income. |
| Management Fee[1] | 0.39% | 0.65% | 0.65% |
| Annualized Distribution Yield | 12.69% | 15.99% | 13.16% |

## SECTOR

| | ENCL | GLCC | HGY |
|---|---|---|---|
| | Global X Enhanced Canadian Oil and Gas Equity Covered Call ETF | Global X Gold Producer Equity Covered Call ETF | Global X Gold Yield ETF |
| Fund Overview | Unlock high monthly cash distributions and the opportunity for capital appreciation by investing, on a levered basis with ENCL that offers some of the largest and most liquid Canadian oil and natural gas companies. | Get consistent and competitive monthly income from some of the largest and most liquid North American-listed gold producers, through an active covered call strategy. | Get consistent and competitive monthly income from gold bullion, that offers a hedge against economic uncertainty and reduces market risk, through an active covered call strategy. |
| Management Fee[1] | 0.85% | 0.65% | 0.60% |
| Annualized Distribution Yield | 16.56% | 8.15% | 5.65% |

## ASSET ALLOCATION ETFs

| GRCC | EQCC | EQCL |
|---|---|---|
| Global X Growth Asset Allocation Covered Call ETF | Global X All-Equity Asset Allocation Covered Call ETF | Global X Enhanced All-Equity Asset Allocation Covered Call ETF |

| | | | |
|---|---|---|---|
| **Fund Overview** | Get consistent and high monthly income with moderate long-term capital growth through from a 80% equity / 20% fixed income portfolio with GRCC that helps investors unlock a new income stream through a dynamic option writing program. | Get consistent and high monthly income with potential long-term capital growth through a globally-diversified 100% equity portfolio, with an active covered call strategy. | Unlock the growth potential long-term capital growth through a globally-diversified 100% equity portfolio with EQCL, which uses a covered call strategy and light leverage of approximately 25% to enhance growth potential and yield. |
| **Management Fee[1]** | 0.49% | 0.49% | 0.75% |
| **Annualized Distribution Yield** | 9.44% | N/A[3] | 12.34% |

## FIXED INCOME ETFs

| | PAYS | PAYM | PAYL |
|---|---|---|---|
| | Global X Short-Term Government Bond Premium Yield ETF | Global X Mid-Term Government Bond Premium Yield ETF | Global X Long-Term Government Bond Premium Yield ETF |
| **Fund Overview** | Get consistent and high monthly income and option premiums through a dynamic option writing program with PAYS, with exposure to the performance of mostly Government of Canada debt securities, generally targeting a duration less than 3 years. | Get consistent and high monthly income and option premiums through a dynamic option writing program with PAYM, with exposure to the performance of mostly Government of Canada debt securities, generally targeting a duration between 5 and 10 years. | Get consistent and high monthly income and option premiums through a dynamic option writing program with PAYL, with exposure to the performance of mostly Government of Canada debt securities, generally targeting a duration over 10 years. |
| **Management Fee[1]** | 0.40% | 0.45% | 0.50% |
| **Annualized Distribution Yield** | N/A[3] | N/A[3] | N/A[3] |

## FIXED INCOME

| | SPAY/SPAY.U[2] | MPAY/MPAY.U[2] | LPAY/LPAY.U[2] |
|---|---|---|---|
| | Global X Short-Term U.S. Treasury Premium Yield ETF | Global X Mid-Term U.S. Treasury Premium Yield ETF | Global X Long-Term U.S. Treasury Premium Yield ETF |
| **Fund Overview** | Get consistent and high monthly income and option premiums through a dynamic option writing program with SPAY/SPAY.U, with exposure to the performance of U.S. Treasuries, generally targeting a duration of less than 3 years. | Get consistent and high monthly income and option premiums through a dynamic option writing program with MPAY/MPAY.U, with exposure to the performance of U.S. Treasuries, generally targeting a duration between 5 and 10 years. | Get consistent and high monthly income and option premiums through a dynamic option writing program with LPAY/LPAY.U, with exposure to the performance of U.S. Treasuries, generally targeting a duration over 10 years. |
| **Management Fee[1]** | 0.35% | 0.40% | 0.45% |
| **Annualized Distribution Yield** | 7.16% / 7.20% | 8.84% / 8.89% | 9.93% / 9.98% |

As at March 31, 2025.
[1]Plus applicable sales tax.
[2]Trades in U.S. dollars.
[3]Investment fund regulations restrict the presentation of performance figures until a fund reaches its one-year anniversary.

**Effective June 24, 2022, the investment objectives of the Global X S&P/TSX 60 Covered Call ETF ("CNCC") (formerly Horizons Canadian Large Cap Equity Covered Call ETF), the Global X Canadian Oil and Gas Equity Covered Call ETF ("ENCC") (formerly Horizons Canadian Oil and Gas Equity Covered Call ETF), the Global X Equal Weight Canadian Bank Covered Call ETF ("BKCC") (formerly Horizons Equal Weight Canadian Bank Covered Call ETF), the Global X S&P 500 Covered Call ETF ("USCC.U, USCC") (formerly Horizons US Large Cap Equity Covered Call ETF), the Global X NASDAQ-100 Covered Call ETF ("QQCC") (formerly Horizons NASDAQ-100 Covered Call ETF), and the Global X Gold Producer Equity Covered Call ETF ("GLCC") (formerly Horizons Gold Producer Equity Covered Call ETF), were changed following receipt of the required unitholder and regulatory approvals. For more information, please refer to the disclosure documents of the ETFs at www.GlobalX.ca.**

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GLOBAL X by Mirae Asset

Innovation meets Investing

55 UNIVERSITY AVE.
SUITE 800
TORONTO, ON M5J 2H7

1 (866) 641-5739
@GLOBALXCA

GlobalX.ca