Introducing the Global X Sector Covered Call & Growth ETFs (TYLG, FYLG, HYLG)

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Topic: Income, Options

On November 22nd, we listed the Global X Information Technology Covered Call & Growth ETF (TYLG), the Global X Financials Covered Call & Growth ETF (FYLG), and the Global X Health Care Covered Call & Growth ETF (HYLG). TYLG, FYLG, and HYLG are the latest additions to Global X's covered call suite, which is designed to offer investors both income and upside potential (though some may cap that potential). These three funds are our first offerings for sector based covered call solutions for investors, which we believe offers a targeted approach to income and growth potential. These funds write covered calls on 50% of the value of the underlying sector fund. TYLG, FYLG, and HYLG now brings Global X's options-based ETF suite to 18 funds in total.

For the last decade, income investors have struggled to find diversified sources of income for their portfolios. In this current environment, traditional sources of income like dividend paying equities and fixed income solutions have not kept pace with yield objectives for many income investors. Investors are increasingly looking to diversify their portfolios across different asset classes and investment strategies. Our launch of sector covered call funds looks to provide long-term growth potential from specific sector exposures while also providing high income potential.

While there are few investment strategies that do well in volatile markets, we believe that income focused strategies could be well positioned. Another area potentially worth examining for investors is the sector exposure that will be provided by the sectors they currently have allocations to. With the launches of TYLG, FYLG, & HYLG, we believe these funds give investors additional options within specific sectors to consider. Because of the sector differences across healthcare, financials and technology, the macro drivers of the three indexes are likely to be different, both over the long term and even over shorter time frames. This can lead to divergences in performance, volatility, and correlation relative to other income strategies.

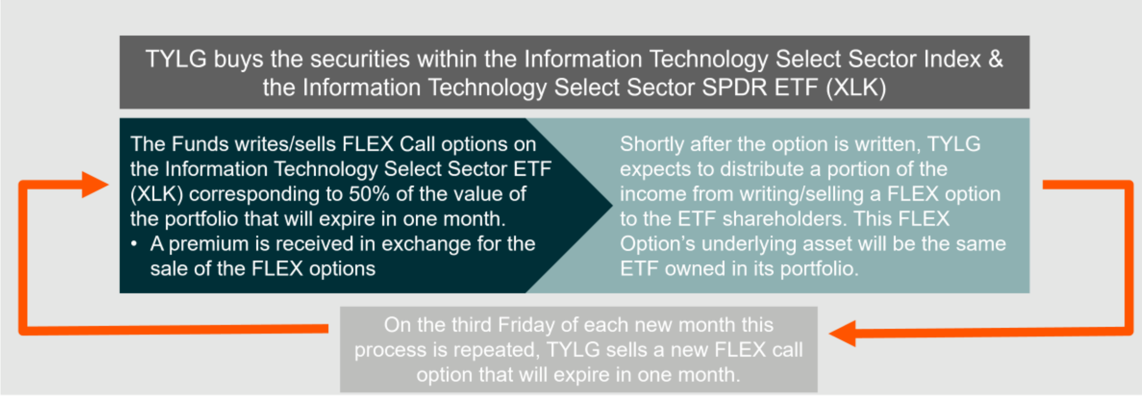
Key Takeaways

- There are potential benefits to investors for diversifying their portfolios. For sectors like Financials, Healthcare, and Technology, potential long-term tailwinds include rising healthcare spending, a growing global economy, and increasing technological advancements. These are also amongst the largest sectors in the S&P 500.
- Healthcare, Technology and Financials may see some continued volatility in the rising rate environment we are seeing today.
- Sector covered call strategies allows investors to stay invested in key sectors in the market, but in a more defensive manner. Income oriented investors may find these strategies attractive as elevated volatility historically leads to higher options premiums collected. TYLG, FYLG, & HYLG sell covered calls on 50% of the notional value of their respective portfolio and offer investors potential income in the form of monthly distributions.

Sector Covered Call ETFs Designed for Income and Growth Potential

The Global X Sector Covered Call & Growth ETFs, TYLG, FYLG, & HYLG, seek to generate monthly income through covered call writing on their respective sectors. These three sectors are Information Technology, Financials, and Healthcare. Similar to our other Global X broad index Covered Call and Growth ETFs like QYLG, the Sector Covered Call ETFs write "at-the-money" covered calls each month on 50% of the notional value of the portfolio. However, the Sector ETFs write options on the sector SPDR ETF corresponding to their underlying index, whereas our broad index covered call ETFs use exchange traded index options.

Below is an example of the fund structure and roll process with TYLG. Both FYLG and HYLG follow similar process as TYLG.



TYLG is an ETF that implements a half covered call strategy on the Information Technology Select Sector Index.

Owns the stocks in the Info Tech Select Sector Index and the XLK ETF

Components:	1) Underlying stocks in the Information Technology Select Sector Index 2) Information Technology Select Sector SPDR ETF (XLK)

Writes monthly Call Options on the Information Technology Select Sector SPDR ETF (XLK)

Style:	FLEX
Strike Price (SP):	Closest listed SP above last value
Options Strategy:	Written monthly

Additional Info

Ticker:	TYLG
Inception Date:	11/21/2022
Gross Expense Ratio:	0.66%
Net Expense Ratio*:	0.60%
Distributions:	Paid Monthly

*Reflects fees incurred by the Fund after waivers and reimbursements – fee waivers for TYLG are contractual and in effect until at least March 1, 2024.

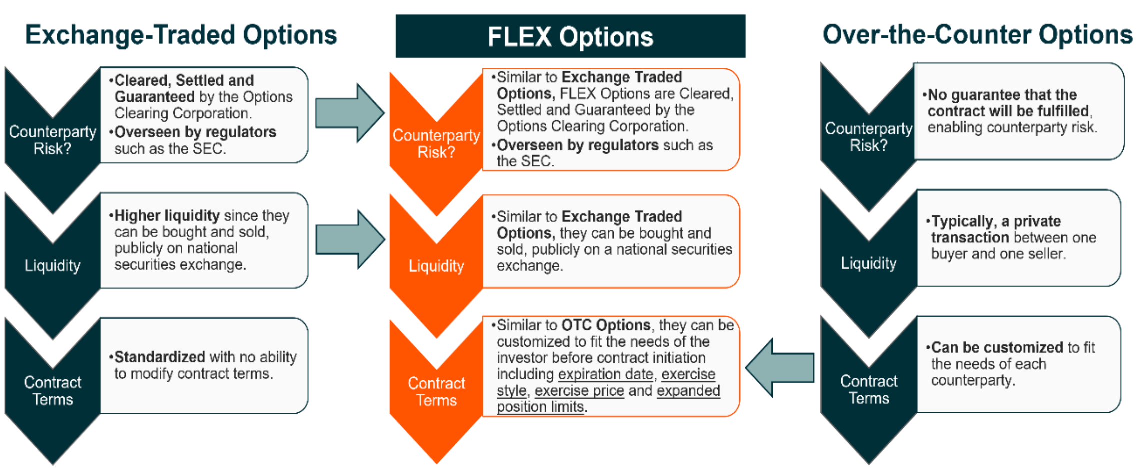
By writing calls on 50% of the portfolio, the strategy allows investors to capture half the upside potential of their respective sector. For instance, TYLG buys the stocks in the Information Technology Select Sector Index and shares of the Information Technology Select Sector SPDR ETF and sells “at-the-money” covered calls corresponding to 50% of the value of the portfolio. This allows the funds the opportunity to monetize options premiums on the ETF tracking the Information Technology Select Sector Index, while also retaining half the upside potential of that index.

	TYLG	FYLG	HYLG
Full Name	Global X Information Technology Covered Call & Growth ETF	Global X Financials Covered Call & Growth ETF	Global X Health Care Covered Call & Growth ETF
Tracking Index	Cboe S&P Technology Select Sector Half BuyWrite Index	Cboe S&P Financial Select Sector Half BuyWrite Index	Cboe S&P Health Care Select Sector Half BuyWrite Index
Underlying Index	Information Technology Select Sector Index	Financial Select Sector Index	Health Care Select Sector Index
Gross Expense Ratio	0.66%	0.66%	0.66%
Net Expense Ratio*	0.60%	0.60%	0.60%
Number of Stock Holdings	79	67	65
Call Options Moneyness	At-the-money	At-the-money	At-the-money
Options Duration	Monthly	Monthly	Monthly
Notional Value of Options	50%	50%	50%

*Fee waivers are contractual and in effect until March 1, 2024.

COMPARING FLEX OPTIONS WITH EXCHANGE-TRADED AND OVER-THE-COUNTER OPTIONS

Originating in 1993 by the CBOE Options Exchange, FLEX options were created with the intention of offering the capabilities of an over-the-counter option and exchange-traded option in one product.



Just like Exchange Traded Options, they can be bought and sold, publicly on national securities exchange. Similar to OTC Options, they can be customized to fit the needs of the investor including expiration date, exercise style, exercise price and expanded position limits.

Flex Options are European style options which mean that they can be exercised only on the contract's expiration date. Similar to our broad index Covered Call ETFs, the Sector Covered Call ETFs write "at-the-money" covered calls each month. However, the Sector Covered Call ETFs write FLEX Options on the corresponding Sector SPDR ETF whereas our broad index Covered Call ETFs use exchange traded index options.

EXCHANGE-TRADED INDEX OPTIONS VS. TYLG's FLEX OPTIONS

	TYLG's FLEX Options*	Index Options	Single-Stock Options
Exercise Date	Can only be exercised **on the contract's expiration date**.	Can only be exercised **on the contract's expiration date.**	Can be exercised on **any day up until and including the expiration date.**
Options Style	**European Style -** Can only be exercised **on the contract's expiration date.**	**European Style** - Can only be exercised **on the contract's expiration date.**	**American Style** - Can be exercised on **any day up until and including the expiration date.**
Settlement	**Physically Settled,** a single-security option holder receives (call) or sells (puts) the underlying asset at the contract strike price. (TYLG will buy back its covered call the day before expiration to avoid settlement.)	**Cash-Settled,** an index option holder receives the cash difference between the contract strike price and value of the underlying asset.	**Physically Settled,** a single-security option holder receives (call) or sells (puts) the underlying asset at the contract strike price.
U.S. Tax Treatment	FLEX options are taxed as 100% Short-term Capital Gains.	Index options 1256-Contract and are taxed as 60% Long-term Capital Gains and 40% Short-term Capital Gains.	Single-security options are taxed as 100% Short-term Capital Gains.
Underlying Asset	Underlying ETF Information Technology Select Sector SPDR ETF - XLK	Indices such as S&P 500 Nasdaq 100 Dow Jones Industrial Average	Single-Securities such as Amazon Inc. (Stock) Invesco QQQ Trust (ETF)

*To the specifications of TYLG's FLEX Options. FLEX Options allow investors to customize key contract terms, including exercise date, exercise style, and exercise price.

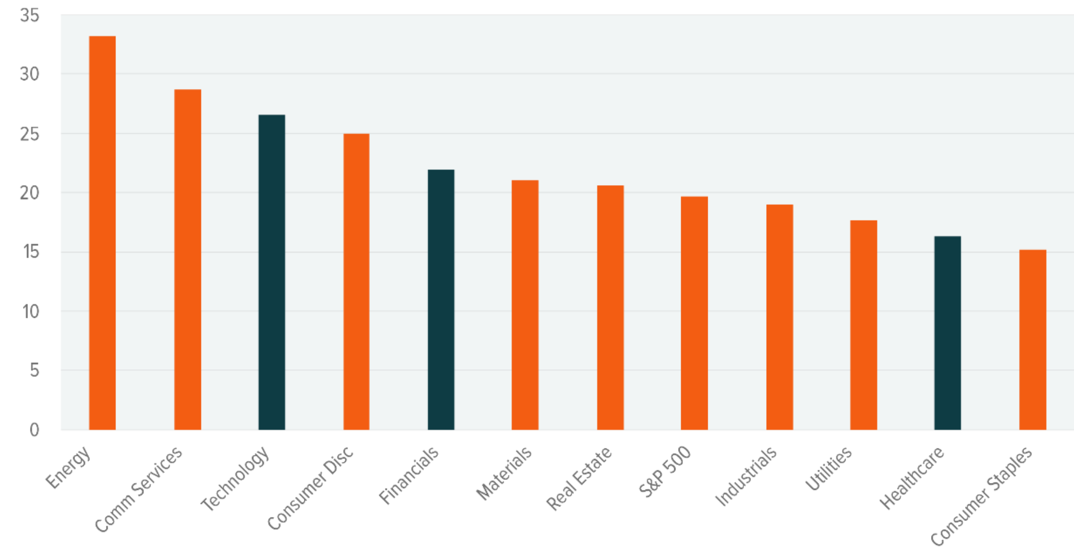
Global X's Sector Covered Call & Growth ETFs offer investors the ability to tailor their portfolio sector risks towards sectors that are often underweight within a typical equity income portfolio or to express a sector view in a more efficient manner. Within an equity portfolio, an investor looking for high income can replace sector index strategies with a sector covered call & growth strategy in an effort to capitalize on volatility within that sector. Additionally, investors looking for portfolio diversification and offset sector imbalances may find sector covered call and growth strategies to be more fitting for their portfolios.

For Information Technology and Healthcare companies, higher rates can correlate to higher operating costs which can negatively affect their business models. Financials are also affected by interest rate volatility which can lead to increased volatility for the sector. Our sector covered call and growth funds can capitalize on this volatility as higher volatility is generally correlated to higher option premiums.

Below we can see the one-year volatility across the sectors as of September 30th, 2022.

1-YEAR VOLATILITY BY SECTOR

Sources: Global X ETFs with information derived from: Bloomberg, L.P. (n.d.). [S&P 500 sector differences] [Data set].Data as of September 30, 2022 and accessed on October 1, 2022 from Global X Bloomberg terminal.



The Healthcare Sector Growth-Oriented Profile

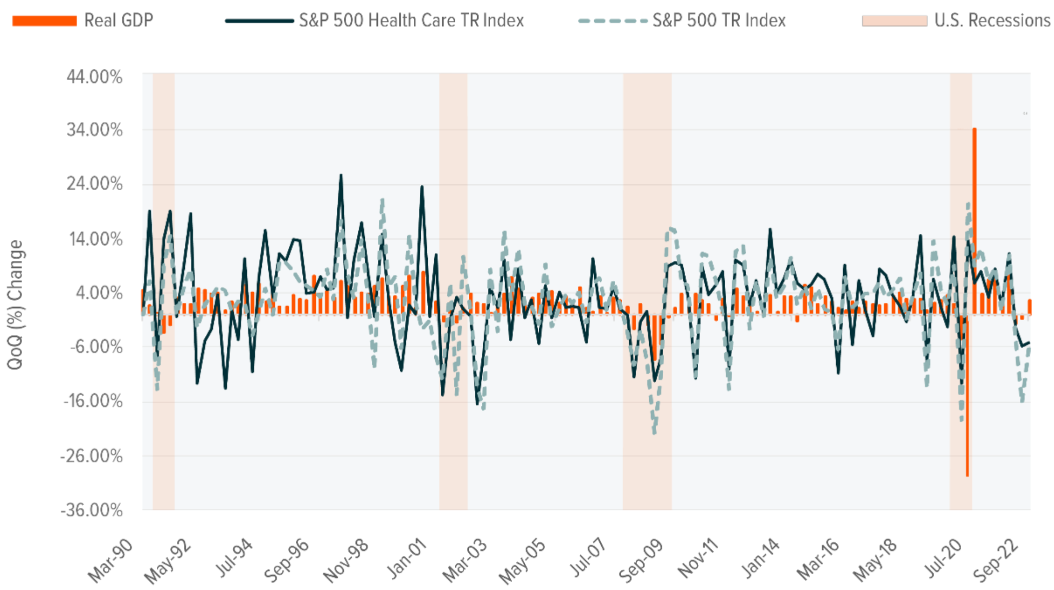
The healthcare sector has not disappointed in the last decade as an aging population and increased care has provided tailwinds for the industry. From 10/19/2011-10/19/2022, the healthcare sector (Health Care Select Index) has displayed annualized returns of 15.57% while the S&P 500 returned 11.63% in that time frame.[1] The healthcare sector has seen strong performance – 78.83%, as measure by the Health Care Select Index – relative to the broad index – 64.18%, as measured by the S&P 500 Index.[2]

We believe the potential macro circumstances including pass-through consumer inflation and evolving business model along with vertical integration should continue to support sector growth in healthcare. Acceleration of value-based care models and increasing application of technology across the industry may continue to provide benefits into the future. Looking into the next few years, healthcare profit pools are expected to continue to accelerate at 6% per year as overall patient volume increases, spurred by the aging population.[3]

Unlike the majority of GICS sectors and broad market indices, healthcare volatility relative to the S&P 500 tends to rise during periods when the economy is strong and decline during economic turmoil (shown below). Healthcare has long been considered one of the most reliable defensive sectors-an effective portfolio buffer when equity markets turn volatile. This is because hospitals, drug makers, medical device firms and other companies across the healthcare sector generally benefit from steady consumer demand regardless of the economy's strength (i.e., inelastic demand).

S&P 500 HEALTH CARE HISTORICALLY PRODUCES LOWER DECLINES DURING PERIODS OF DECLINING REAL GDP

Sources: Global X ETFs with information derived from: Bloomberg, L.P. (n.d.). [US Real GDP] [Data set]. Data as of September 30, 2022 and retrieved on October 1, 2022 from Global X Bloomberg terminal; National Bureau of Economic Research. (2022). Business cycle dating: Employment rate and recessions since 1948.



In this graph above, we can see that in periods of strengthening real (inflation-adjusted) GDP, healthcare volatility tends to be elevated. In periods of economic expansion, healthcare companies tend to place higher emphasis on research and development (R&D) and compete in major blockbuster areas such as oncology and have greater focus on mergers and acquisitions. In periods of slowing real GDP growth, there tends to be less R&D productivity for pharmaceuticals and biotechnology and less focus on regular health interventions. Per capita health expenditures of countries tends to vary by economic development; higher income countries spend on average $3,000 on each citizen whereas low income countries only spend up to $30 per capita. An increase in healthcare expenditure leads to more regular health interventions which improve labor and productivity and thus in turn GDP.[4]

Macro Tailwinds Have Been Helping the Financial Sector

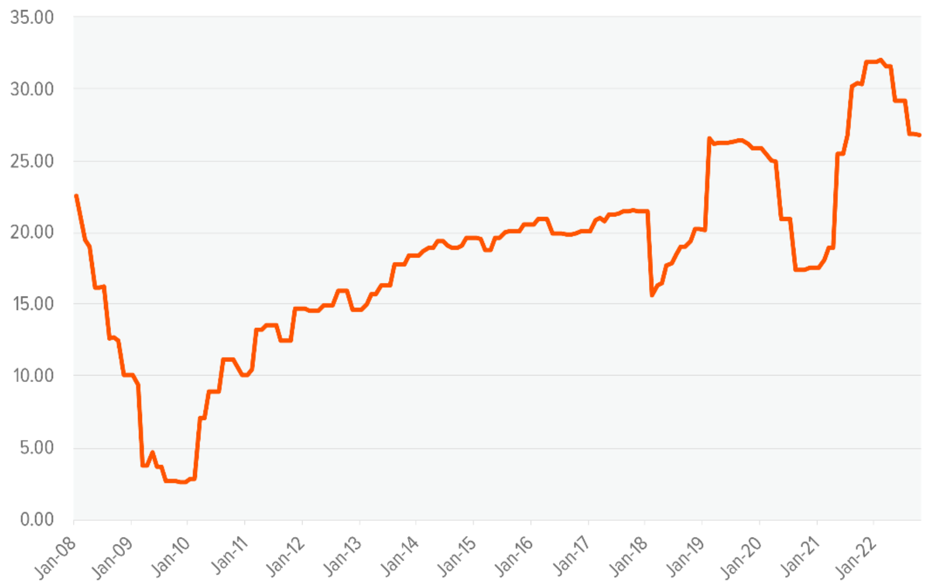
The financial sector has continued to grow in the past few decades. This has provided market environments with a strong macro backdrop for the financial services and asset management industry. Global assets under management saw steady growth over the last 20 years which has been largely driven by strong equity markets around the globe. The financial sector has seen considerable transformation in the sources of investment capital with retail investors becoming the most important investor segment. In 2021, global net flows from retail were significantly higher than that from institutions with 6.6% from retail investors compared to 2.8% from institutions.[5]

Additionally, the changing interest rate landscape could provide another macro tailwind for the sector. As higher interest rates are occurring with the Federal Reserve in the midst of its interest rate hiking cycle, profit margins could expand for financials issuers. As investors fret about the possibility of higher interest rates, many financial companies stand to benefit, as higher interest rates generally increase earnings.

Comprising 23% of the Financials Select Sector Index (as of 10/31/2022 from Morningstar), the Big 4 Banks – JP Morgan Chase, Bank of America, Wells Fargo Bank, Citibank - are key drivers in the overall economy, lending to companies across many different sectors. As we can see below, since the Great Recession major banking institutions had their net margins increase, depicting positive financial positioning.

AVERAGE NET MARGIN PERCENT

Sources: Global X ETFs with information derived from: Morningstar Direct, as of 10.31.2022. Dates of Net Margins range from 01.01.2008-10.31.2022 and include average Net Margins of JP Morgan (JPM), Bank of America (BAC), Wells Fargo (WFC), Goldman Sachs (GS), Citigroup (C), and Morgan Stanley (MS), PNC Financial (PNC), Truist Financial (TFC), U.S. Bancorp (USB), Capital One (COF).



The Growth Oriented Profile of the Technology Sector

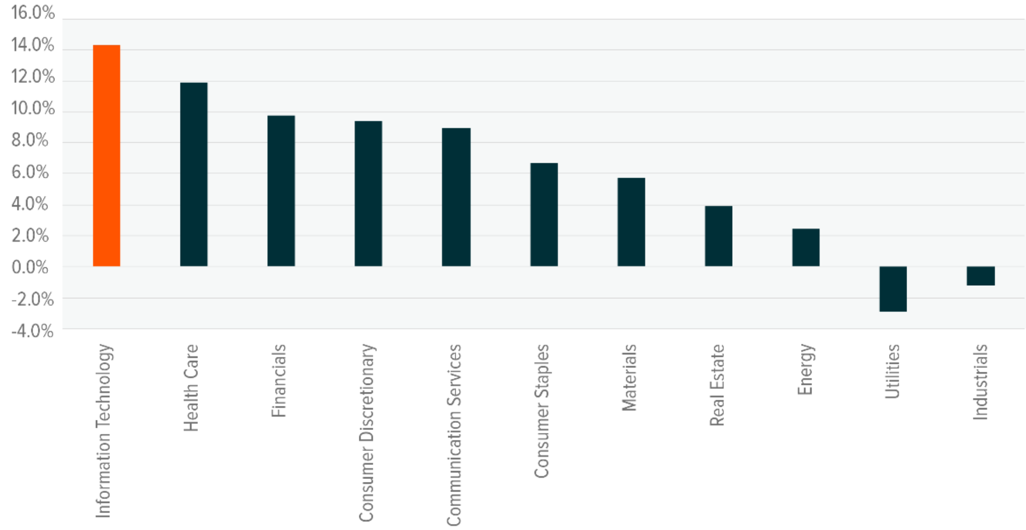
The technology sector is likely to see tailwinds from increased adoption of key disruptive technologies such as cloud computing, cleantech and cybersecurity. Increased focus on productivity by companies is also likely to provide a boost to software names. Technology has continued to be a significant portion of the globalized market as companies increasingly rely on technology as a crucial element of their business.[6]

Cloud technology and increased analytics have helped companies to grow effectively. Cloud native infrastructure software has helped companies launch and scale quickly without needing to be on top of public cloud resources. Additionally, it has allowed companies to pay as they go based on their use rather than make large upfront outlays; thus, allowing them to focus on other key areas of business growth. Drawing insights from large data sets has permitted companies to offer customers more real-time feedback and adjustments across platforms.

When looking at 5-Year Sales Growth we can see how the Information Technology Sector has led the way in growth relative to the other GICS sectors.

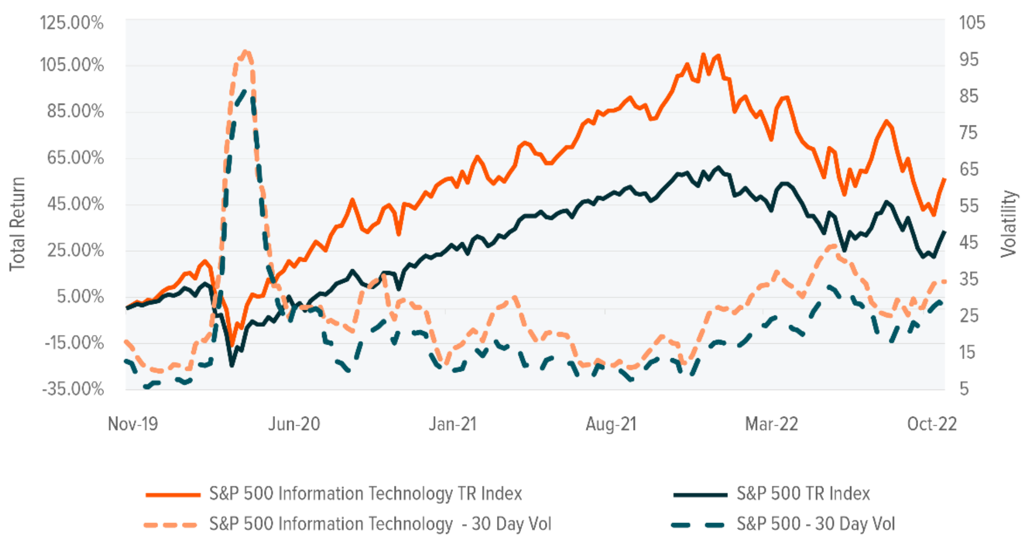
5-YEAR TRAILING SALES GROWTH PERCENT

Sources: Global X ETFs with information derived from: Morningstar Direct, as of 10.31.2022.
Each sector is represented by their corresponding Select Sector Index.



TOTAL RETURN PERCENTAGE AND VOLATILITY FOR S&P 500 INFORMATION TECHNOLOGY TOTAL RETURN INDEX

Sources: Global X ETFs with information derived from: Bloomberg, L.P. (n.d.). S&P 500 Information Technology TR Index, S&P 500 TR Index, S&P 500 Information Technology – 30 day volatility, S&P 500 – 30 day volatility, from November 1, 2019 to October 31, 2022] [Data set]. Data accessed on November 1, 2022 from Global X Bloomberg terminal.



Covered Call Strategies Can Thrive in Volatility

If there continues to be a period of rising interest rates, one potential way to benefit portfolio returns is with the premiums sought out from a covered call strategy. This involves purchasing the stocks in the underlying index (in the case of the Global X Sector Covered Call & Growth ETFs, healthcare, technology, financials indexes) and subsequently writing call options on the sector. Covered calls strategies limit upside participation but may generate income through collecting the premiums received from option-writing. In volatile markets, option premiums tend to rise, and therefore, covered call strategies tend to perform best in choppy or sideways markets rather than in major bull or bear markets.

Investors with an indifferent or bearish view on a specific sector tend to either hold or sell their positions, respectively, to avoid potential losses. However, a sector covered call & growth strategy allows investors to express this view more efficiently in the form of selling covered call options (and therefore receiving premiums).

Accordingly, investors who are hoping to express a bullish sector view can also do it with a sector covered call and growth strategy. For instance, investors with a bullish view on a specific sector tend to overweight their positions to seek higher potential returns. As the sector covered call and growth strategy is limited to only half the upside from the option's strike price, investors who hope to express their view more conservatively are able to maintain their equity exposure while also mitigating a degree of downside risk with the covered call premiums that they receive through the funds' distributions.

Implementing a Sector Covered Call and Growth Strategy

Should yields continue to rise, this could present headwinds to the Healthcare, Technology and Financials sectors and equity income and fixed income sources. However, tailwinds from an aging population, rising interest rates and increased technology infrastructure could provide potential long-term tailwinds for these sectors.

Sector covered call strategies such as on information technology & financials & healthcare could be beneficial in volatile market environments. Higher volatility is correlated with higher option premiums from selling covered calls which can benefit return potential in a trendless market. Sector covered call strategies also allow investors to stay in the market in a more defensive manner while potentially benefitting from the Federal Reserve's hawkish trajectory as the funds seek to provide monthly income.

Related ETFs

TYLG: Global X Information Technology Covered Call & Growth ETF

FYLG: Global X Financials Covered Call & Growth ETF

HYLG: Global X Health Care Covered Call & Growth ETF

Click the fund name above to view current performance and holdings. Holdings are subject to change. Current and future holdings are subject to risk.

Footnotes

1. Bloomberg, L.P. (n.d.). [Annualized returns from October 19, 2011 to October 19, 2022] [Data set]. Data accessed on October 20, 2022 from Global X Bloomberg terminal.
2. Bloomberg, L.P. (n.d.). [5 year performance of Health Care Select Index and S&P 500 Index from October 31, 2017 to October 31, 2022] [Data set]. Data retrieved on November 1, 2022 from Global X Bloomberg terminal.
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Glossary

At-the-money (ATM): An option in which the underlying's price equals the strike price
Standard Deviation: This is a measurement of the degree to which an individual probability value varies from the distribution mean. The higher the variation, the greater the risk.
Volatility: A measure of the risk of price moves for a security calculated from the standard deviation of day-to-day logarithmic historical price changes. The 30-day price volatility equals the annualized standard deviation of the relative price change for the 30 most recent trading days closing price, expressed as a percentage.

This material represents an assessment of the market environment at a specific point in time and is not intended to be a forecast of future events, or a guarantee of future results. This information should not be relied upon by the reader as research or investment advice regarding the funds or any stock in particular.

Index returns are for illustrative purposes only and do not represent actual fund performance. Index returns do not reflect any management fees, transaction costs or expenses. Indexes are unmanaged and one cannot invest directly in an index. Past performance does not guarantee future results.

Investing involves risk, including the possible loss of principal. Diversification does not ensure a profit or guarantee against a loss. Concentration in a particular industry or sector will subject the funds to loss due to adverse occurrences that may affect that industry or sector. The healthcare industry could be adversely affect by various political, regulatory, supply-and-demand, and other economic factors. Technology investments can be affected by rapid product obsolescence and intense industry competition. Investors should be willing to accept a high degree of volatility in the price of the fund's shares and the possibility of significant losses.

The funds engage in options trading. An option is a contract sold by one party to another that gives the buyer the right, but not the obligation, to buy (call) or sell (put) a stock at an agreed upon price within a certain period or on a specific date. A covered call option involves holding a long position in a particular asset and writing a call option on that same asset with the goal of realizing additional income from the option premium. By selling covered call options, the fund limits its opportunity to profit from an increase in the price of the underlying index above the exercise price, but continues to bear the risk of a decline in the index. A liquid market may not exist for options held by the fund. While the fund receives premiums for writing the call options, the price it realizes from the exercise of an option could be substantially below the index's current market price. An investor who purchases shares of the funds other than on the day that the Fund writes the monthly call options, or who sells shares other than on the day that the call options expire, may experience different investment returns that the fund's strategy, depending on the relative difference between the strike price of the funds' call options and the price of the reference index. Investment in the Fund is subject to the risks of the underlying fund. The Global X Sector Covered Call & Growth ETFs are non-diversified.

Shares of ETFs are bought and sold at market price (not NAV) and are not individually redeemed from the Fund. Brokerage commissions will reduce returns.

Carefully consider the funds' investment objectives, risks, and charges and expenses before investing. This and other information can be found in the funds' full or summary prospectuses, which may be obtained at globalxetfs.com. Please read the prospectus carefully before investing.

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