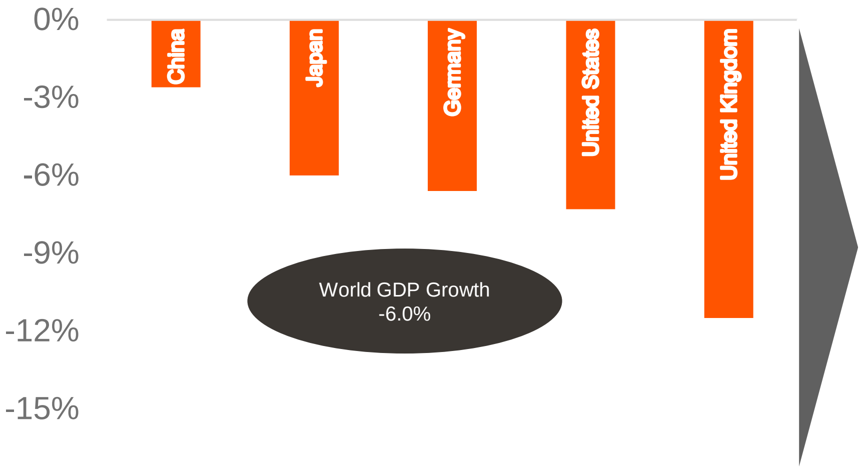
Using Covered Calls As An Income Strategy

Table of Contents

Sluggish Growth

OECD's Economic Outlook



- The world's economy is expected to slow down further if the Covid-19 situation persists.
- Impact of slowdown to affect corporate earnings, lowering equity yields
- Industrial commodities expected to see lower demand over that time period
- Central banks globally expected to continue easing, potentially extending the low to negative yield environment

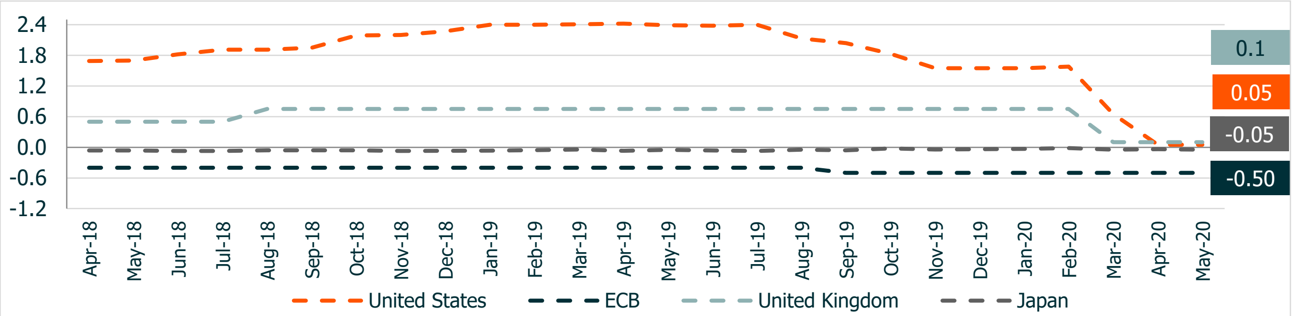
Source: The Organisation for Economic Co-operation and Development – June 2020. The outlook considers single hit scenario where in no another COVID-19 wave occurs before end of 2020.

Central Banks

Central banks around the world have maintained easing monetary conditions, pumping money into the economy, often resulting in lower interest rates

CENTRAL BANK RATES: Trailing 2 years of Policy Rates (%)

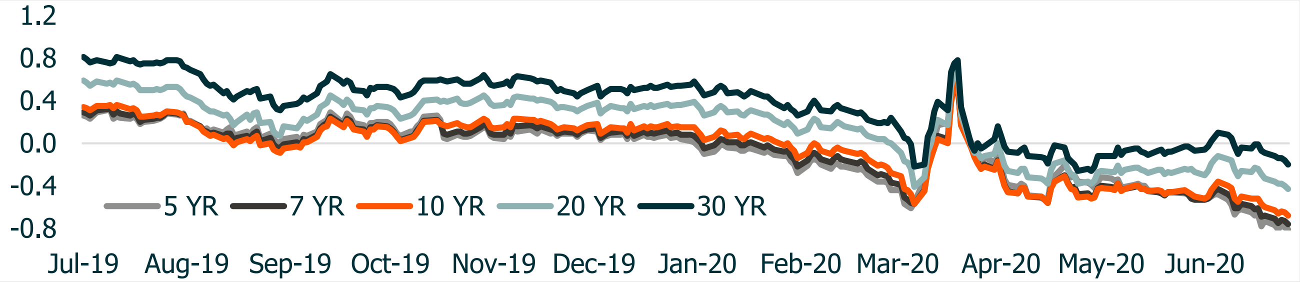
Source: Federal Reserve Bank of St. Louis, Bank of England, European Central Bank, and Bank of Japan as of 05/31/2020



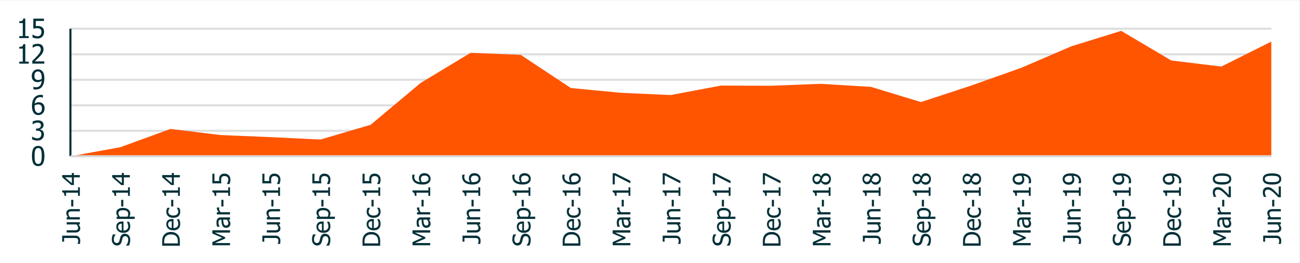
Central Banks	Trajectory
US Federal Reserve	Fed indicated it will continue to maintain near zero rates through 2022.
ECB	Expected to further ease in monetary policy to support crisis struck economy.
Bank of England	BoE slashed its rates to record low of 0.1% in March and launched 200 Billion Pound asset purchase program.
Bank of Japan	Expected to further ease monetary policy in coming time.
China	Easing policies in place and expected to continue easing.

Negative Interest Rate Environment

TREASURY REAL YIELD CURVE RATES: 1 YEAR (%)
Source: Federal Reserve Bank as of 06/26/2020



TOTAL NEGATIVE YIELD DEBT GLOBALLY IN TRILLIONS[1] ($)
Source: Bloomberg as of 06/26/2020

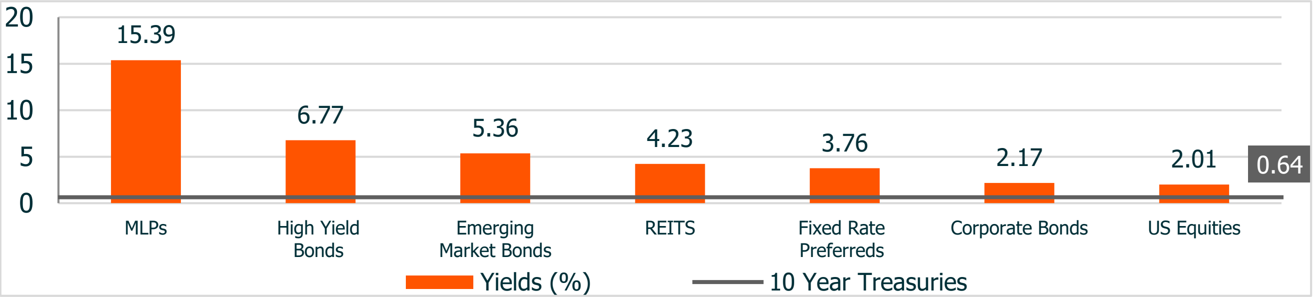


(1) **Bloomberg Barclays Global Aggregate Negative Yielding Debt Market Value Index** : It measures the stock of debt with yields below zero issued by governments, companies and mortgage providers around the world which are members of the Bloomberg Barclays Global Aggregate Bond Index

Interest Rates

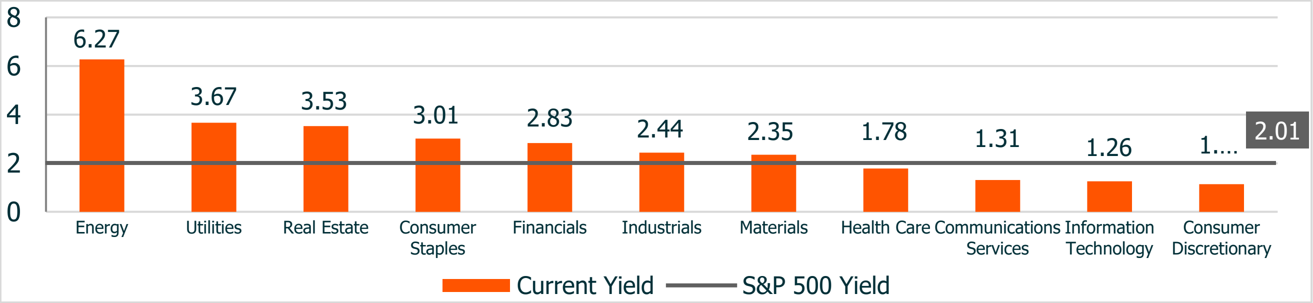
YIELDS BY ASSET CLASS[2] (%)

Source: Federal Reserve Bank of St. Louis, Bank of England, European Central Bank, and Bank of Japan as of 06/26/2020



S&P 500 SECTOR YIELD (%)

Source: Bloomberg as of 06/26/2020



(2) Asset class representations are as follows, MLPs, S&P MLP Index; High Yield Bonds, Bloomberg Barclays US Corporate High Yield Bond Index; Emerging Market (EM) Bonds, J.P. Morgan EMBI Global Core Index; Corporate Bonds, Bloomberg Barclays US Corporate Bond Index; REITs, FTSE NAREIT All Equity REITS Index; Equities, S&P 500 Index; and Preferreds, BofA Merrill Lynch Fixed Rate Preferred Securities Index.

Investor Options

What can an income-oriented investor potentially do in low interest rate environments in an effort to increase their portfolio's yield?

- **A** Take more duration or credit risk in the bond markets, like high yield and EM bonds
- **B** Look for alternative sources of income, such as high dividend stocks, MLP, REITS or Preferreds.
- **C** Consider income-generating strategies, such as covered-call writing

Writing a covered call means an investor owns an underlying asset, like a stock or basket of stocks, and sells a call option on the asset(s). The strategy trades off upside participation for current income.

Understanding Options

What are Options?

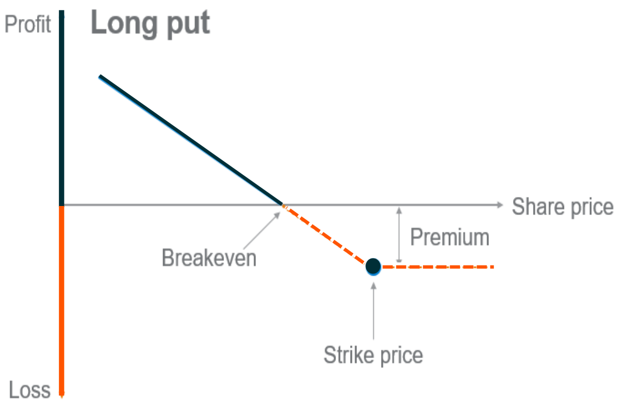
Options are financial instruments which derive their value from underlying asset such as stocks. They give buyers the right, but not the obligation, to buy or sell an underlying asset at an agreed-upon price and date.

Call Options

- Call Options provide a right to purchase an asset at a determined price in a specified time.
- Long Call: Bullish on underlying.

Put Options

- Put Options allows holder to sell an asset at certain price within a specific period of time.
- Long Put: Bearish on underlying.



Option Writing

Writing Call Options

- Writing or Selling a Call Option is when you give the buyer of the call option the right to buy an asset from you at a certain price by a certain date in exchange for receiving the premium.

Writing Put Options

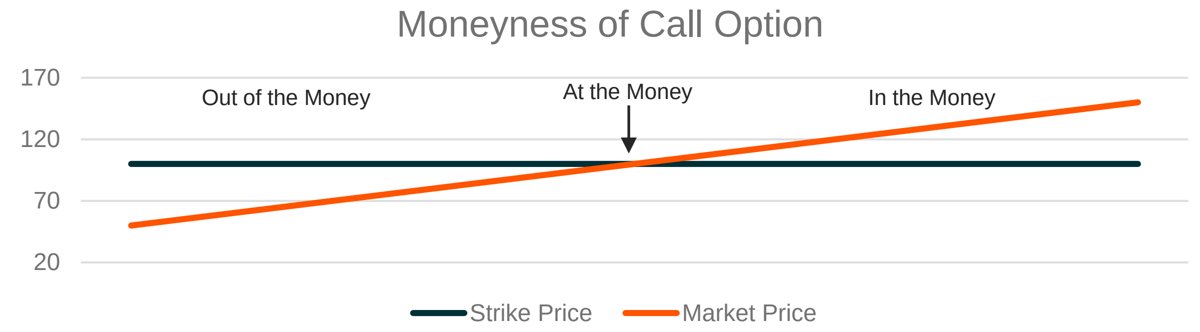
- Writing or Selling a Put Option is when you give the buyer of the put option the right to sell an asset to you at a certain price by a certain date, in exchange for receiving the premium.

Determining Option Premium

The value of a premium paid for buying a call or put, or received for selling a call or put is determined by five factors: 1) Current asset price, 2) the strike price of the option, 3) Time remaining until option expiration, 4) Volatility of the underlying asset, 5) Risk-free rate

Moneyness of Options

Out of the Money (OTM) → At the Money (ATM) → In the Money (ITM)



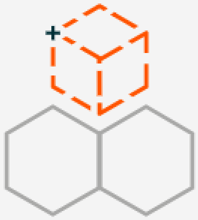
Lower premiums than ATM or ITM options because the chance of the option expiring worthless is highest.

Higher premiums than OTM, but lower than ITM.

Higher premiums than ATM or OTM because the option can be exercised for a profit.

ETFs & Options

ETFs that offer investors exposure to options strategies are becoming increasingly popular, including covered-call ETFs, buffer ETFs, and tail risk-hedged ETFs



Exchange-Traded Funds (ETFs)

Common ETF Strategies That Use Options

Covered Call	Generates income in exchange for upside potential → Gains exposure to stocks in a specific index and sells a call option on that index
Buffer	Provides protection against a predetermined amount of losses → Gains exposure to stocks in a specific index, sells an OTM call option and buys an OTM put option
Tail Risk-Hedged	Provides protection against extreme downside movements → Gains exposure to stocks in a specific index and buys an OTM put option

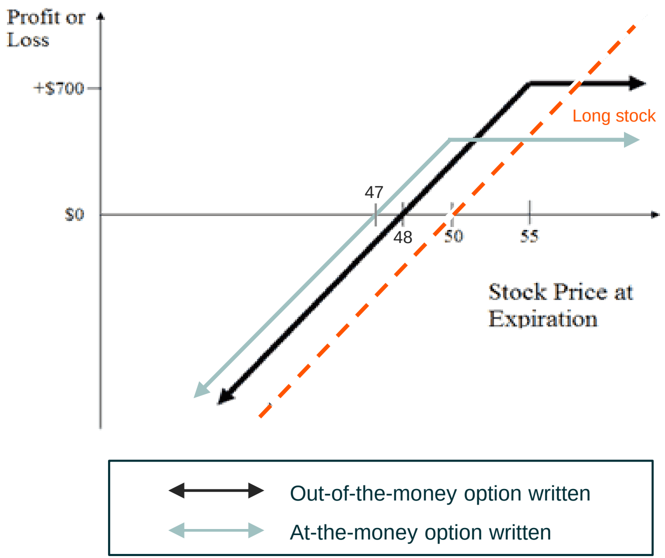
Covered Call Strategy

A covered call is an option strategy in which an investor writes (sells) a call option on an asset he/she already owns.

Factor affecting Covered Call Strategy.

- The payoff of a covered call is affected by its underlying whether it's a single asset or a pool of assets in the form of Index options.
- Premiums collected are dependent on the moneyness of options - whether the option is ATM, OTM or ITM – affects the payoff.
- Option premiums tend to increase during volatile markets.

Covered Call Strategy Payoff



Covered Call Features

- Strategy involves buying stocks in an underlying index and then selling call options on that index
- Generates higher income versus the underlying index itself due to the premiums received from selling call options
- Upside potential is capped in case the stock appreciates beyond strike price.

How This Works: Covered Call Strategy In Practice

Investor looking to deploy an at-the-money covered call strategy on the Nasdaq 100.

Buy all the NASDAQ-100 Index Components

Components:	As per Nasdaq 100 Index
Weighting:	As per NASDAQ 100 Index

+

Writes monthly Call Options on the Nasdaq 100

Style:	European
Strike Price (SP):	At-the-money
Options Strategy:	Written monthly

Additional Info

Index Option Close:	Third Thursday of each month
Index Option Open:	Third Friday of each month
Settlement:	Cash settled
Expiration:	Can't be closed early, unlike American

Covered Call Process Explained

As an example of how an ETF can implement a covered call strategy, the Global X Nasdaq 100 Covered Call ETF (QYLD) maintains exposure to the stocks in the Nasdaq 100, while writing call options on the index each month

QYLD buys all the stocks in the Nasdaq 100 Index

Global X ETF writes/sells Nasdaq 100 Index options (NDX) that will expire in one month

- A premium is received in exchange for the sale of the index options

Shortly after writing the call option contracts, QYLD expects to distribute a portion of the income from writing/selling the NDX index option to the ETF shareholders

On the third Friday of each month, this process is repeated, Global X sells a new Nasdaq 100 Index options (NDX) that will expire in one month

Index Options Details:

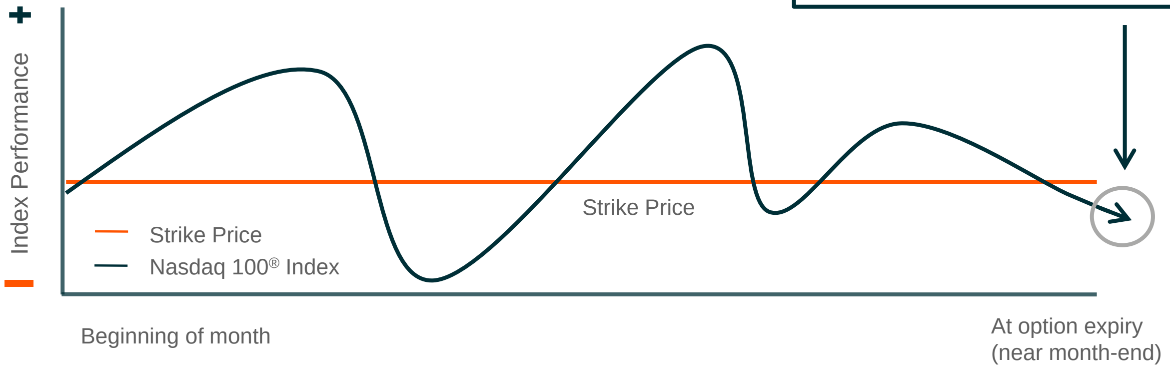
- Cannot be called/exercised early
- Settlement is in Cash

For Illustration Purposes Only

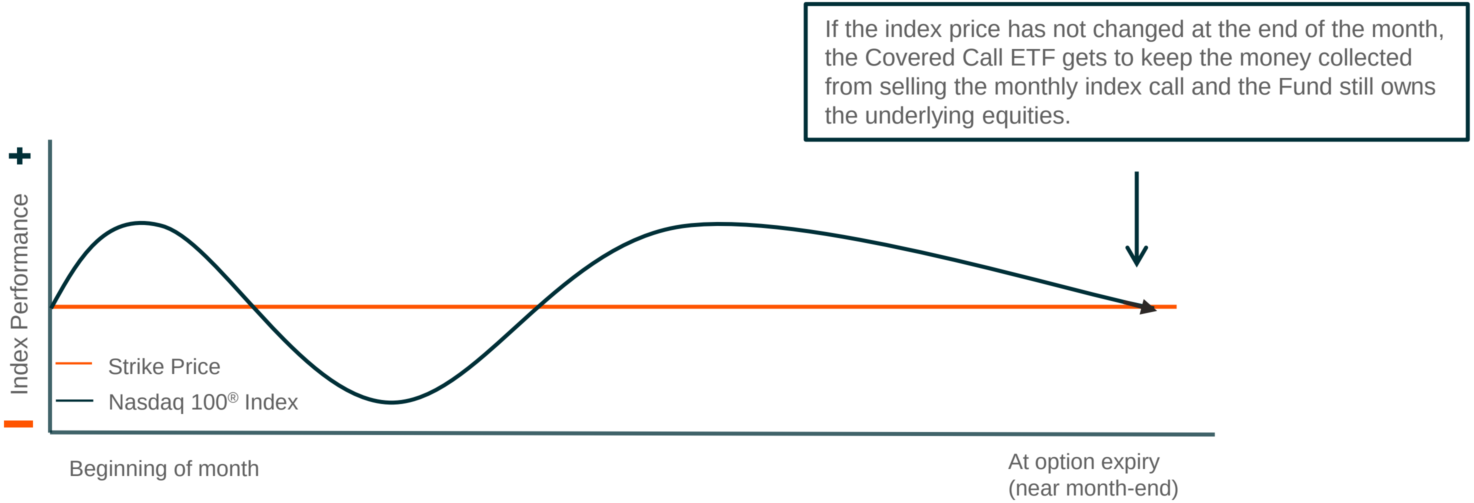
Market Scenarios: Market Goes Down

Since the index options cannot be called early, it only matters where the index finishes for the month. Prior to expiration, all market swings that take place throughout the month don't matter

In this example the Nasdaq 100 index ended the month below the strike price. So, the QYLD Fund which sold the call option would potentially benefit from the premium received. This may offset some or all of the index decline.

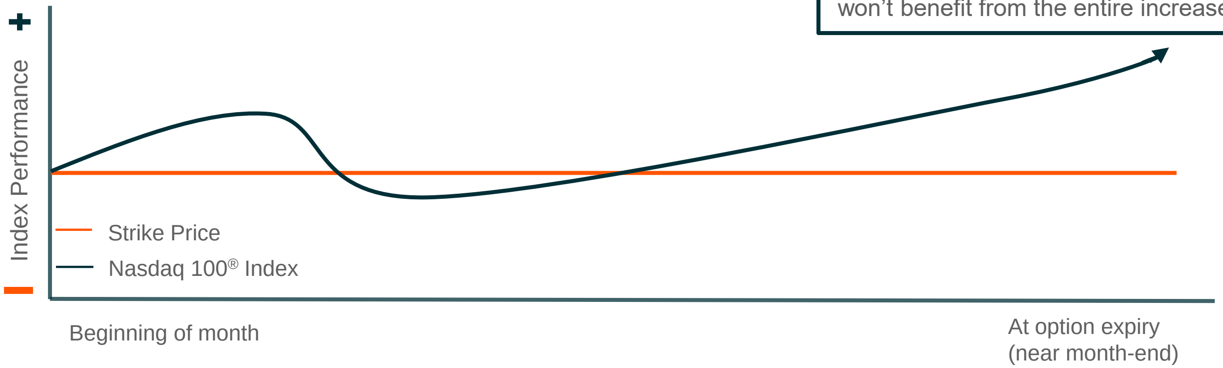


Market Scenarios: Market Stays Flat



Market Scenarios: Market Goes Up

However, if the index price rises at the end of the month, potential gain will be limited since the Fund sold a call option at a predefined strike price. As the index rises above the strike price, the Fund still keeps the money collected from selling the monthly index call option, but won't benefit from the entire increase in the index value.



Volatility

Options Volatility

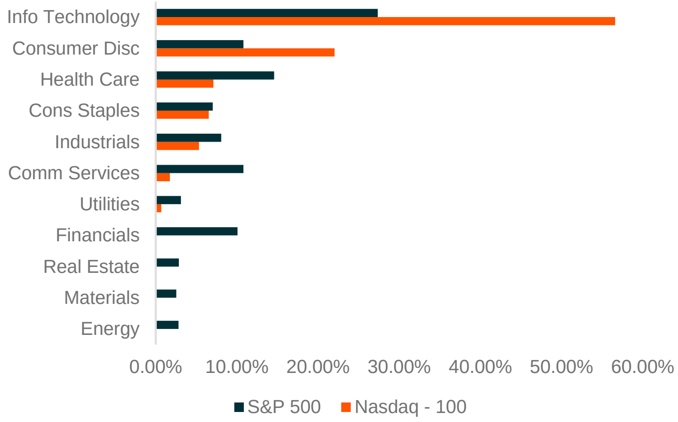
The difficulty of predicting the behavior of a volatile index commands a higher premium for the option because of the additional risk/reward it poses.

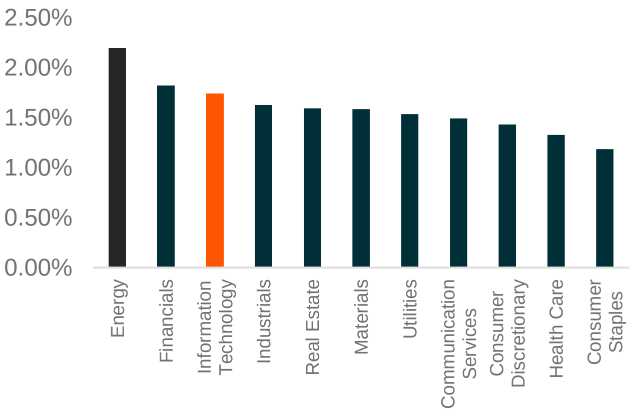
Sector Exposure

- NASDAQ- 100 Index has highest exposure to the Information Technology sector.

3 Year S&P 500 sector volatility

- Technology sector has high volatility compared to other sectors.

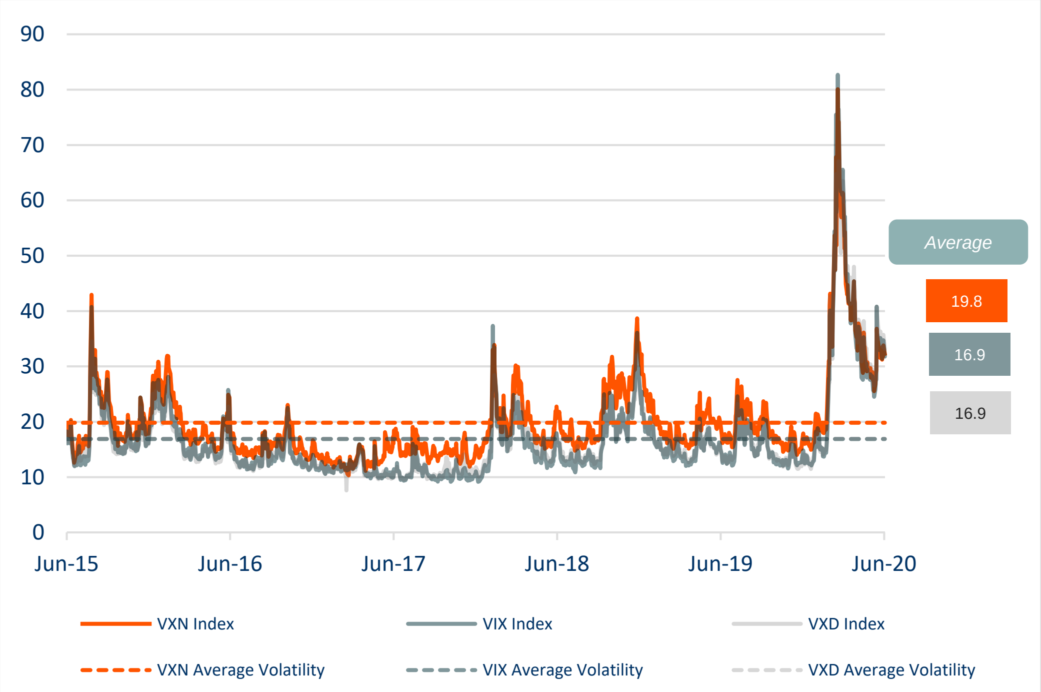




Source: Bloomberg as of 29th June, 2020

Covered Call Strategy

The Nasdaq 100 Is a Popular Index For a Covered Call Strategy



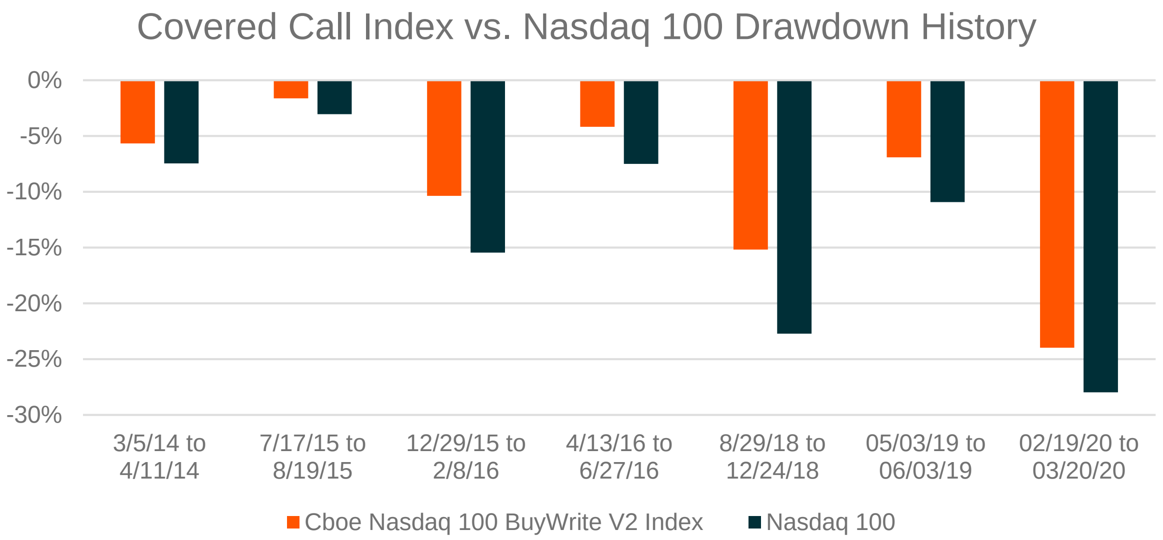
Source: CBOE. Data as of 29th June, 2020

Volatility impact on Options

- Volatility tends to increase in uncertain market environments.
- Current market is influenced by Global Crisis, Trade War and Geopolitical tensions.
- Higher volatility leads to higher options premiums.
- Past 5 year data shows VXN index is up from 19% to 32% now.

Covered Calls in your Portfolio

Covered call strategies can play a useful role in a portfolio during downturns

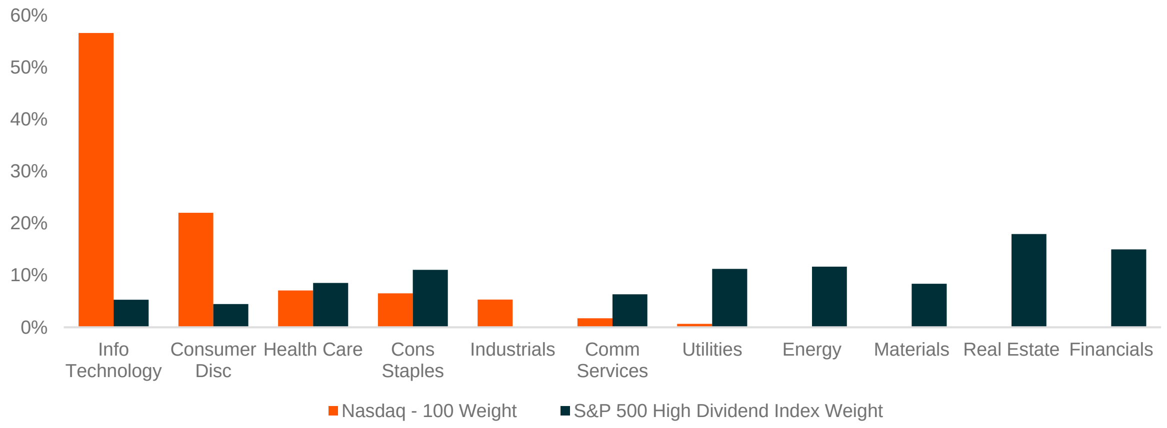


For Covered Call Index, its drawdowns tend to be lower in most downturns compared to the Nasdaq 100 Index because the option premiums help buffer against drawdowns.

Source: Bloomberg. Data measured through 12/11/13 to 6/30/20. Measured by drawdowns lasting one month or longer.

Diversification advantage of Covered Calls

NASDAQ 100 Vs S&P 500 High Dividend Index Sector Weights



Covered Call Advantages

- Nasdaq-100 is weighted heavily towards Information Technology and Consumer Discretionary while whereas most dividend strategies tend to favor sectors like **Energy, Real Estate, and Utilities.**
- Monthly options premiums are **not greatly impacted by interest rates.**

Source: S&P Indices, Nasdaq, Bloomberg. Data as of 29th June, 2020

Diversification does not ensure a profit or guarantee against a loss

Why Use A Recurring Covered Call Strategy?

Volatility Enhances Income	Efficient Options Execution	Cash Flow Stream
Historically, as volatility rises, so too does the level of premium that can be generated on call writing.	Index call options on the Nasdaq-100 Index are listed on exchanges and do not expose investors to early exercise risk like single stock call options might.	The frequency and cadence of writing call options, for example monthly, provides investors a cash flow stream.

Investor Choices For a Covered Call Strategy

		Benefits	Drawbacks
A	**Individual Accounts**	DIY Customization, no direct management fee	Execution Risk, Options Trading Risk, Market Familiarity
B	**Passive ETF Manager**	Professional management, consistency of strategy	Management fee
C	**Active Mutual Fund Manager**	Dynamic exposures, potential alpha	Underperformance, strategy drift, high management fee
D	**Professional Financial Advisor**	Professional management, customization	Advisor fee, potential strategy drift

Definitions

For more information on high dividend strategies, please visit: www.globalxetfs.com/superdividend or www.globalxetfs.com/sdiv

S&P MLP Index provides investors with exposure to the leading partnerships that trade on the NYSE and NASDAQ. The index includes both master limited partnerships (MLPs) and publicly traded limited liability companies (LLCs), which have a similar legal structure to MLPs and share the same tax benefits.

Bloomberg Barclays US Corporate High Yield Bond Index measures the USD-denominated, high yield, fixed-rate corporate bond market. Securities are classified as high yield if the middle rating of Moody's, Fitch and S&P is Ba1/BB+/BB+ or below. Bonds from issuers with an emerging markets country of risk, based on Barclays EM country definition, are excluded.

J.P. Morgan EMBI Global Core Index is a broad, diverse U.S. dollar-denominated emerging markets debt benchmark that tracks the total return of actively traded external debt instruments in emerging market countries.

FTSE NAREIT All Equity REITS Index is a free float adjusted market capitalization weighted index that includes all tax qualified equity REITs listed in the NYSE, AMEX, and NASDAQ National Market.

Bloomberg Barclays US Corporate Bond Index measures the investment grade, fixed-rate, taxable corporate bond market. It includes USD denominated securities publicly issued by US and non-US industrial, utility and financial issuers.

MSCI USA High Dividend Yield Index is based on the MSCI USA Index, its parent index, and includes large and mid cap stocks. The index is designed to reflect the performance of equities in the parent index (excluding REITs) with higher dividend income and quality characteristics than average dividend yields that are both sustainable and persistent. The index also applies quality screens and reviews 12-month past performance to omit stocks with potentially deteriorating fundamentals that could force them to cut or reduce dividends.

S&P 500 Index tracks the performance of 500 leading U.S. stocks and captures approximately 80% coverage of available U.S. market capitalization. It is widely regarded as the best single gauge of large-cap U.S. equities.

BofA Merrill Lynch Fixed Rate Preferred Securities Index tracks the performance of fixed-rate U.S. dollar-denominated preferred securities issued in the U.S. domestic market.

10-Year Government Bond Note is a debt obligation issued by the United States government with a maturity of 10 years upon initial issuance. A 10-year Treasury note pays interest at a fixed rate once every six months, and pays the face value to the holder at maturity.

The Bloomberg Barclays Global Aggregate Negative Yielding Debt Market Value Index measures the stock of debt with yields below zero issued by governments, companies and mortgage providers around the world which are members of the Bloomberg Barclays Global Aggregate Bond Index.

Definitions Continued

Volatility is a statistical measure of the dispersion of returns for a given security or market index. In most cases, the higher the volatility, the riskier the security.

The Cboe DJIA Volatility Index (VXD) is based on real-time prices of options on the Dow Jones Industrial Average^{SM} (DJIA, with an options ticker of DJX), and is designed to reflect investors' consensus view of future (30-day) expected stock market volatility.

The VIX Index is based on real-time prices of options on the S&P 500® Index (SPX) and is designed to reflect investors' consensus view of future (30-day) expected stock market volatility.

The Cboe NASDAQ-100 Volatility Index^{SM} (VXN^{SM}) is a key measure of market expectations of near-term volatility conveyed by NASDAQ-100 Index (NDX) option prices. It measures the market's expectation of 30-day volatility implicit in the prices of near-term NASDAQ-100 options.

Nasdaq-100 includes 100 of the largest domestic and international non-financial companies listed on the Nasdaq Stock Market based on market capitalization.

Cboe NASDAQ-100 BuyWrite Index (BXN) is a benchmark index that measures the performance of a theoretical portfolio that owns a portfolio of the stocks included in the NASDAQ-100 Index®, and "writes" (or sells) NASDAQ-100 Index (NDX) covered call options.

The S&P 500 High Dividend Index serves as a benchmark for income seeking equity investors. The index is designed to measure the performance of 80 high yield companies within the S&P 500 and is equally weighted to best represent the performance of this group, regardless of constituent size.

Indices are unmanaged and do not include the effect of fees, expenses or sales charges. One cannot invest directly in an index.

Disclosures

Global X Management Company, LLC serves as an advisor to the Global X Funds. The Funds are distributed by SEI Investments Distribution Co. (SIDCO, 1 Freedom Valley Drive, Oaks, PA, 19456), which is not affiliated with Global X Management Company, LLC.

Investing involves risk, including possible loss of principal. International investments may involve risk of capital loss from unfavorable fluctuation in currency values, from differences in generally accepted accounting principles or from economic or political instability in other nations. Investments in securities of MLPs involve risk that differ from investments in common stock including risks related to limited control and limited rights to vote on matters affecting the MLP. MLP common units and other equity securities can be affected by macro-economic and other factors affecting the stock market in general, expectations of interest rates, investor sentiment towards MLPs or the energy sector, changes in a particular issuer's financial condition, or unfavorable or unanticipated poor performance of a particular issuer (in the case of MLPs, generally measured in terms of distributable cash flow). Investments in the energy industry, entail significant risk and volatility.

High yielding stocks are often speculative, high-risk investments. These companies can be paying out more than they can support and may reduce their dividends or stop paying dividends at any time, which could have a material adverse effect on the stock price of these companies.

The Covered Call suite engages 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, in this case U.S. common equities, 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 funds limit their opportunity to profit from an increase in the price of the underlying index above the exercise price, but continue to bear the risk of a decline in the index. A liquid market may not exist for options held by the funds. While the funds receive premiums for writing the call options, the price they realize from the exercise of an option could be substantially below the indices current market price.

Bonds and bond funds will decrease in value as interest rates rise. High yield bonds involve greater risks of default or downgrade and are more volatile than investment grade securities, due to the speculative nature of their investments. In addition to the normal risks associated with investing, real estate and REIT investments are subject to changes in economic conditions, credit risk and interest rate fluctuations. Emerging markets involve heightened risks related to the same factors as well as increased volatility and lower trading volume. Preferred stock is subject to many of the risks associated with debt securities, including interest rate risk. In addition, preferred stock may not pay a dividend, an issuer may suspend payment of dividends on preferred stock at any time, and in certain situations an issuer may call or redeem its preferred stock or convert it to common stock.

U.S. Treasury securities are considered to be of high credit quality and are backed by the full faith and credit of the U.S. government. U.S. Treasury securities, if held to maturity, guarantee a return of principal while no other securities mentioned in this material offer such a guarantee.

The information provided is not intended for trading purposes, and should not be considered investment advice.

Carefully consider the funds' investment objectives, risk factors, charges, and expenses before investing. This and additional information can be found in the funds' summary or full prospectus, which may be obtained by calling 1-888-493-8631 or by visiting globalxetfs.com. Please read the prospectus carefully before investing.