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Evaluating Autocallable ETFs: Considerations for Financial Advisors

Perspectives on structure, implementation, and portfolio role

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Introduction

From Mechanics to Evolution

Autocallable ETFs have emerged as a new implementation vehicle for a strategy long familiar to many advisors through the structured investments market. Wrapping autocallable exposure into an ETF may offer investors structured income, greater liquidity, diversification across exposures, and operational accessibility. The March 2026 CAIS paper [An Introduction to Autocallable ETFs](#) explored the mechanics of these strategies and the key features that differentiate investing in an ETF relative to transacting in traditional autocallable notes.

The rise of autocallable ETFs comes amid a broader evolution in how advisors source portfolio income. In recent years, both structured investments and derivative-income strategies have seen significant growth as investors seek to diversify beyond traditional income sources such as bond coupons and corporate dividends. Rising adoption of structured investments reflects increasing demand for outcome-oriented solutions that combine income generation with defined payoff characteristics, while the expansion of option-based and volatility-linked income strategies highlights a growing willingness among advisors to access alternative income products.

While autocallable ETFs share common income objectives, differences in downside design, index methodology, volatility management, reinvestment discipline, and portfolio construction can lead to meaningfully different investor experiences. This paper focuses on those considerations and provides a framework for evaluating autocallable ETFs beyond their headline income level. It also provides some perspective on the role these strategies can play as part of a diversified portfolio.



For advisors and investors seeking to broaden the set of income tools available within portfolios, autocallable ETFs offer a differentiated source of cash flow that may complement existing allocations and **potentially contribute to a more balanced and resilient income profile** over time.

Max Guimond
Head of North American Solutions
Schroders

Construction Choices That May Differentiate Strategies

Headline yield is often the most visible characteristic of an autocallable ETF, but it represents only the end-result of a broader set of investment choices. Behind any stated distribution rate are a series of design decisions that determine how the strategy seeks to generate income, how risk is managed, and how the portfolio is expected to behave across different market environments.

These decisions are interconnected. Seeking a higher level of income may require accepting greater downside participation (i.e., principal risk), increased sensitivity to market volatility, the use of leverage, or different reinvestment assumptions. Conversely, features designed to moderate risk may reduce income potential or alter return characteristics. As a result, two autocallable ETFs may target similar yields while arriving there through meaningfully different combinations of risk exposures and portfolio construction choices.

For advisors, the evaluation process therefore extends beyond comparing distribution rates. Equally important is understanding the design decisions that produced those outcomes, the trade-offs embedded within the strategy, and how those characteristics align with the role the allocation is intended to play within an investor's portfolio.

Several strategy design considerations are particularly important:



Downside Design: how downside protection is implemented through a geared-put, knock-in barrier, or other approach.



Volatility Management: whether the underlying reference index includes a volatility-control methodology, the target volatility level and the frequency with which exposures are adjusted.



Reinvestment and Leverage Discipline: whether new autocallable exposures are added only when capital is available or whether leverage is used to maintain or increase exposure in the autocallable index.



Index Provenance and Methodology: the expertise behind the index, the objectives that guided its creation, and the methodology choices that determine how income opportunities are pursued relative to risk exposure.



Distributions and Tax Characteristics: how portfolio construction and distribution policies may influence the composition of income and after-tax investor outcomes.

The sections that follow examine these design decisions in greater detail and their potential implications for portfolio outcomes.

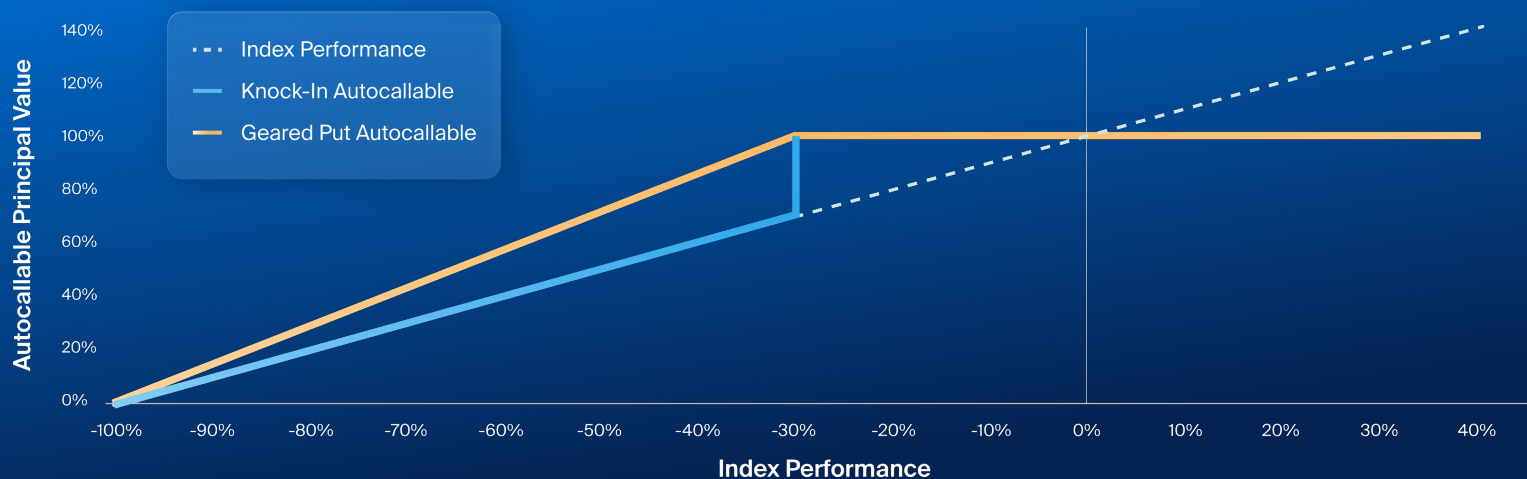
Downside Design: Knock-In Barrier vs. Geared Put Approaches

Autocallable structures within ETFs commonly rely on a knock-in barrier framework to provide downside protection. Under this approach, principal is protected until a predefined threshold is breached; however, if the barrier is breached at maturity, that protection disappears entirely, leaving the investor exposed to the full decline of the underlying index from its initial level. This creates a discontinuous payoff profile—often referred to as “cliff risk”—where relatively small differences in terminal index levels (e.g., finishing just above versus just below the barrier) can result in materially different outcomes.

Other autocallable ETFs employ a traditional geared put structure instead, resulting in a more gradual and transparent downside profile. Protection applies continuously down to the strike, with losses emerging incrementally rather than shifting abruptly once the underlying reference index breaches the put strike. While losses below the strike may be amplified, the transition is smoother and more predictable, enabling a clearer assessment of risk across market scenarios. This approach reduces reliance on a single barrier event and supports a more continuous and intuitive range of outcomes.

Exhibit 1

Illustrative downside payoff profile comparison (ignoring coupons)



Source: Schroders. For illustration purposes only. There is no guarantee investor outcomes can be achieved.

Volatility Management

Volatility is one of the most significant inputs into autocallable structures because it directly influences the pricing of the embedded options that ultimately drive coupon levels. All else equal, higher volatility generally supports higher coupons because investors are assuming greater uncertainty around future market outcomes. Without any volatility management, the economics of newly issued autocallable structures can vary significantly as market volatility changes over time, leading to periods of unusually high or low coupon levels. As a result, many autocallable ETFs hold structures that reference volatility-managed equity indices designed to maintain a more stable level of volatility than broad equity markets.

Exhibit 2

Illustration of Volatility Management Mechanics

Low Volatility

Prices change in a steadier, more predictable manner rather than fluctuating dramatically.

High Volatility

Asset prices can change dramatically over a short period, rising or falling significantly from one day to the next.



Source: Schroders. For illustration purposes only. There is no guarantee the risk management strategy will achieve its desired outcomes.

The use of volatility control techniques, however, introduces its own set of trade-offs. A higher volatility target may support higher coupon levels because option values tend to increase as volatility rises. However, this generally implies a greater probability of large market moves and therefore a greater likelihood that downside protection features come into play. For example, a 70% barrier or put strike provides less downside protection when paired with an underlying index targeting 40% volatility rather than 30%. As a result, volatility targets, coupon levels, and downside design should be evaluated together as interconnected elements of the overall construction process rather than in isolation.

The methodologies used to manage volatility can differ meaningfully across providers. Traditional approaches typically estimate risk using end-of-day observations and typically adjust exposure only at market close. More advanced approaches now incorporate intraday monitoring and multiple rebalancing windows throughout the trading day, allowing them to respond more dynamically to changing market conditions and maintain volatility levels closer to their target.

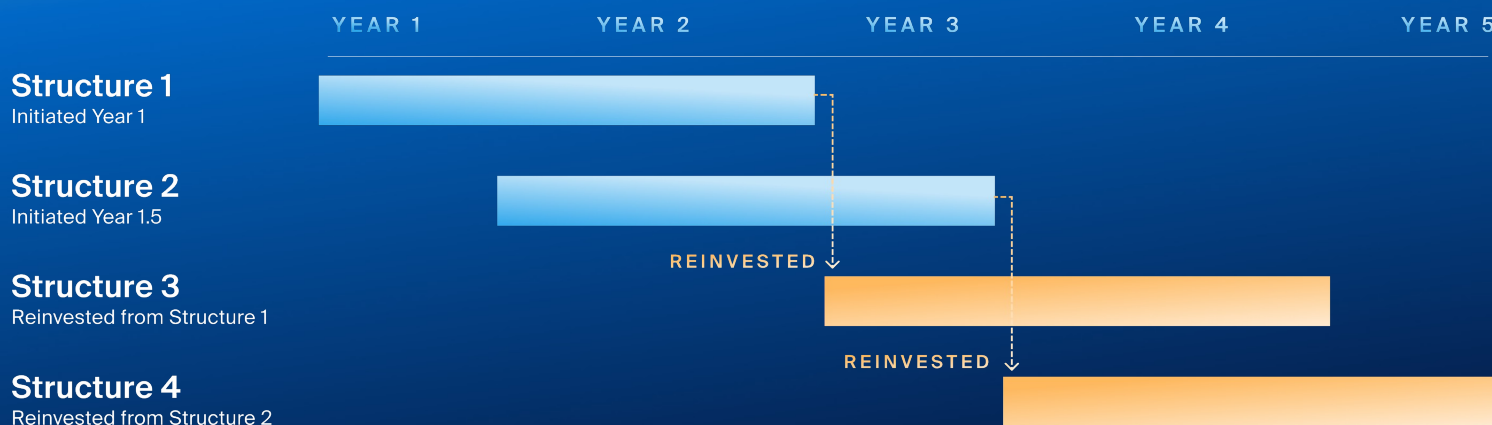
Reinvestment and Leverage Discipline

As discussed in the previous section, many autocallable strategies reference volatility-managed indices that seek to maintain a target level of volatility. When market volatility falls below that target, equity exposure is typically increased to preserve the desired risk profile, introducing leverage at the underlying index level. While this is an inherent feature of volatility management, advisors should also consider whether additional sources of leverage are embedded elsewhere in the autocallable index structure.

This reinvestment process is often combined with a laddered portfolio construction approach, in which autocallable structures are initiated over time rather than through a single allocation date. By distributing entry points across different market environments, this portfolio construction approach reduces concentration in any one issuance vintage and reduces path-dependency risk.

Exhibit 3

Overlapping Autocallables



Source: CAIS

One area where approaches can differ is the reinvestment methodology used to maintain autocallable exposure. Some strategies initiate new autocallable positions on a fixed schedule—such as daily or weekly—regardless of the cash available within the portfolio. While this may maintain a steady pace of note creation, it can also create a second layer of leverage if new positions are added without being funded by existing portfolio cash flows. Over time, this may increase the disconnect between the portfolio's autocallable exposure and the capital available to support it.

Other approaches employ a more disciplined reinvestment framework in which new autocallable exposures are added only when capital becomes available through coupon payments, redemptions, or maturities from existing positions. Under this structure, the portfolio effectively recycles its own cash flows, helping to maintain exposure without introducing additional leverage at the autocallable portfolio level.

Index Provenance and Methodology

The index underlying an autocallable ETF serves as more than a reference benchmark—it is the framework that governs how the portfolio is constructed, maintained, and rebalanced over time. As a result, index design has a meaningful influence on portfolio behavior, income generation, risk characteristics, and ultimately investor outcomes.

One important consideration is the extent to which the ETF sponsor is involved in the design process. In some cases, sponsors may utilize third-party index methodologies with limited influence over the underlying construction. In others, the sponsor plays a more active role in developing a purpose-built framework designed specifically for the investment objective the strategy seeks to achieve. The distinction matters because every aspect of an autocallable portfolio—from downside protection and volatility management to reinvestment policies and diversification rules—ultimately reflects a series of design choices embedded within the index methodology.

A purpose-built index approach leans more heavily on the ETF sponsor's broader investment capabilities to incorporate its portfolio management, quantitative research, derivatives structuring, trading, and risk oversight expertise. Rather than focusing solely on maximizing coupon levels, the design process focuses instead on a broader set of objectives, including income generation, risk management, diversification, implementation efficiency, and portfolio consistency across market environments.

“

A wider range of outcome-oriented strategies is reaching advisors than ever before. The opportunity now is understanding what sits beneath the headline number and how it fits.”

Marc Premseelaar
Partner, Head of Capital Markets
CAIS

Distributions and Tax Characteristics

Beyond portfolio construction, the tax character of the distributions of an income strategy can be an important differentiator. The ETF structure provides flexibility in managing realized gains and losses, which can lead to improved tax efficiency on distributions. Some autocallable ETFs may generate distributions that are classified partially as “return of capital” for tax purposes. Return of capital is a tax classification rather than an indication of portfolio deterioration and can arise through normal portfolio management activities, including the realization of losses to offset gains.

Unlike interest income or dividends, return of capital distributions are generally not taxable in the year received. Instead, they reduce an investor's tax basis, deferring tax recognition until shares are sold, often at the lower long-term capital gains rate. Combined with the ability to defer realizing gains within the ETF structure, these features can improve the tax efficiency of distributions. As a result, autocallable ETFs may offer not only the potential for higher yields, but also the potential for investors to retain a greater portion of that income after taxes.

Tax treatment will vary based on an investor's individual circumstances and applicable tax rules. Tax outcomes are not guaranteed, and investors should consult their tax advisors regarding their specific situation.

Comparison Across Income Strategies

As the income toolkit has expanded, advisors have more ways to source portfolio cash flow beyond traditional bond coupons and equity dividends. That broader opportunity set creates more flexibility, but it also requires a more precise framework for evaluation.

A useful comparison therefore starts not with the level of income alone, but with the underlying exposure being transformed into cash flow. For example, bond income is primarily compensation for duration and credit risk. Equity dividends are tied to corporate profitability and equity ownership. Private credit may offer higher contractual yields, but typically in exchange for credit risk, illiquidity, and reduced transparency.

Income Strategy	Primary Risks Being Monetized	Liquidity Profile	Equity Market Sensitivity	Tax Efficiency Potential
Autocallable ETFs	Downside volatility / Structured equity-linked payoff profile	High when implemented through ETFs	Moderate, equity-linked structure with some downside protection features	Potential for tax-efficient "return of capital" distributions
Core Bonds	Duration and limited credit risk depending on quality	Generally high	Typically low, can show negative correlation in risk-off environments	Interest income generally taxed as ordinary income
High Yield / Non-Core Bonds	Duration, credit and default risk	Generally liquid in normal markets but can deteriorate in stressed period	Moderate market sensitivity through credit spreads	Interest income generally taxed as ordinary income
Equity Dividends	Corporate earnings and equity risk	Generally high	High	Qualified dividends may receive preferential tax treatment
Private Credit	Illiquidity, underwriting complexity and credit risk	Illiquid	Varies, but often sensitive to credit cycle and economic conditions	Generally limited tax efficiency; depends on structure
Covered Calls	Upside volatility / Foregone equity upside participation	High when implemented through ETFs	High, no explicit downside protection	Potential for tax-efficient "return of capital" distributions

Source: Schroders. For illustrative purposes only. Shown for educational purposes and not representative of any specific product or allocation. Should not be interpreted as investment guidance. Tax liabilities among individual investors may vary due to a number of factors.

Although covered call and autocallable strategies are often grouped together as derivative income solutions, they generate income from fundamentally different sources of volatility risk. Covered call strategies generate income by selling equity upside volatility, exchanging a portion of future market appreciation for option premium while remaining fully exposed to downside equity risk.

By contrast, autocallable strategies generate income by selling downside volatility through out-of-the-money put options, with coupons linked to the underlying remaining above specified levels. Because these puts are struck below the current market level, the structure provides a defined buffer before downside exposure is realized, providing some degree of protection against equity drawdowns.

A modern portfolio toolkit therefore distinguishes income strategies not merely by the amount of cash flow they may produce, but by the underlying exposure being monetized and the role that exposure is intended to play. For advisors, this means evaluating whether a strategy is compensating investors for duration, credit, equity ownership, illiquidity, upside volatility, or downside volatility—and whether that trade-off complements the broader portfolio objectives.

Portfolio Role and Manager Perspective

Once autocallable ETFs are viewed as a distinct source of portfolio income, the implementation discussion shifts from product selection to capital allocation. An autocallable ETF does not enter a portfolio in isolation; it is typically funded by reducing or reshaping an existing exposure. The source of funding is therefore central to the analysis, because it defines the portfolio trade-off: which risk premia are being reduced, which exposures are being introduced, and what role the new allocation is intended to serve within the broader income framework.

Autocallable ETFs are generally most relevant in parts of the portfolio where investors are already seeking enhanced income, differentiated sources of return, or alternatives to traditional cash-flow generation.

- ➔ They may complement traditional fixed income by reducing reliance on duration and credit as the primary sources of income.
- ➔ They may diversify equity-income allocations by offering a different risk/return profile than dividend-based cash flow.
- ➔ They may serve as a satellite allocation within an income or alternatives sleeve.
- ➔ For investors with private-market exposure, they may also provide a liquid complement to less liquid income-oriented strategies.

The table below outlines several potential implementation approaches and the role autocallable ETFs may play within a diversified income framework.

Where Autocallable ETFs May Fit in a Portfolio

Potential Funding Source	Portfolio Role	Implementation View
Equity / Equity Income Sleeve	Converts a portion of direct equity exposure into equity-linked structured income potential	A natural funding source because autocallable ETFs remain linked to equity market outcomes
Other Derivative Income (Call Overwriting)	Diversify strategies which generate income primarily by selling equity upside volatility through call options	Autocallable ETFs' source of income is about selling downside volatility through put options within an equity structured payoff profile to generate income
High Yield / Non-Core Income Sleeve	Diversify income away from credit and default risk	Potentially useful for investors seeking income without simply adding more duration or credit exposure
Alternatives Sleeve	Provide liquid, transparent income exposure alongside less liquid private strategies	May complement private credit or other income-oriented alternatives
Core Fixed Income Sleeve	Client under-allocated to equities, but aware they need growth/income	Less compelling as a primary funding source because autocallable ETFs introduce additional equity-linked risk

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Autocallable strategies may improve the portfolio's overall mix of income sources, risk exposures, liquidity characteristics, and after-tax income potential. In some portfolios, the most natural use case may be diversifying an existing derivative-income allocation. In others, it may involve reshaping a portion of equity income, high yield, or alternative-income exposure into a more structured source of cash flow. The appropriate role will depend on the investor's existing exposures, tolerance for equity-linked downside risk, liquidity needs, tax profile, and desired income objective.

The ETF wrapper introduces several practical features that could potentially make them easier to incorporate within a portfolio:

- ➔ **Laddered exposure across issuance dates**, helping diversify entry points and reduce dependence on a single market environment
- ➔ **Systematic reinvestment** of coupons and proceeds from autocall events, supporting more consistent exposure over time
- ➔ **Diversification across multiple autocallable structures**, accessed efficiently through a single ticker in one efficient vehicle
- ➔ **Transparency** with observable pricing and daily liquidity
- ➔ **Tax-efficient distribution**, including the potential of “return of capital” characterization

Conclusion

Autocallable ETFs represent an important development in the continued evolution of structured investments and outcome-oriented strategies. As new funds continue to come to market, advisors are gaining access to a growing range of approaches for delivering structured income through the ETF wrapper. With greater choice, the discussion is naturally shifting from understanding what autocallable ETFs are to evaluating how they are constructed and where they fit within a portfolio.

Although yield often attracts initial attention, the more important considerations lie beneath the surface. Differences in downside design, volatility management, reinvestment discipline, leverage, index methodology, and tax characteristics can lead to materially different investor outcomes. As a result, selecting among autocallable ETFs increasingly becomes an exercise in understanding the portfolio construction decisions that ultimately drive risk, income, and investor outcomes.

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