

ETFs | FUNDS

## New 'Autocallable' ETFs Offer Yields Up to 14%. Yes, There's a Catch.

BY AMEY STONE

If it's income you're after, Wall Street has a new innovation: autocallable yield exchange-traded funds. Tread carefully.

Most of these ETFs—a subcategory of derivative income ETFs—offer double-digit yields, as well some downside protection and potential tax advantages. They mainly hold autocallables, a type of structured note formerly available only to institutional investors or clients of selected financial advisors, which offer high yields tied to a stock or stock index.

Janus launched two new autocallable ETFs on April 22: Janus Henderson Equity Linked High Income and Janus Henderson Equity Linked Moderate Income. The riskier high-income one expects to yield in the 11% to 14% range, and the lower-risk one 7% to 9%.

Calamos has dominated the category in terms of assets. Its flagship \$860 million Calamos



Know the risks before jumping into autocallable ETFs. Here, the Charging Bull statue in New York's Financial District.

ANGELA WEISS / AFP / GETTY IMAGES

Autocallable Income ETF yields about 14%, while Calamos Nasdaq Autocallable Income yields about 18%, and it launched two additions to its autocallable lineup in April. TrueMark, GraniteShares, and Innovator also have minted new ETFs in the category.

How do they do it? Autocallable yield notes are generally structured to pay a high rate of income over a

three- or five-year period, as long as the underlying stock or index doesn't fall more than a predetermined amount, or "barrier."

If that happens, coupons may stop and the note holder may be on the hook for the loss in principal. If it falls less than the barrier, however— or if the note is called early—investors aren't subject to any loss. They still get the coupons

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and get all their principal back in full at the end of the term.

These notes are typically called automatically at the end of a year if the underlying stock or index is up from the date of issue, hence the “autocallable” moniker. The fund then reinvests in other notes.

The notes vary in structure, and the ETFs may complicate the strategy further by deploying leverage, swaps (another type of derivative contract), and other strategies. “You can’t paint these with too broad a brush,” says Michael Humbert, a portfolio manager at Kestra Investment Management who has a 5% allocation in the Calamos Autocallable Income ETF in a multi-asset portfolio.

Autocallables can sound like a low-risk opportunity: What are the chances the S&P 500 is going to fall

40%, you might ask? Yet the notes trade over the counter and are priced daily, so the ETFs fluctuate in price. That explains why several autocallable ETFs are currently trading at a loss this year, even as they deliver that high income. The Calamos Autocallable Income ETF’s return since its inception last June is 11%, but it’s down more than 3% in the past three months.

“It kind of looks like a bond,” says Humbert. “It has a monthly coupon, and you get your principle back at maturity or when the note gets called, but don’t expect it to behave like fixed income.” The risk level is more like equities, he says.

So, why bother with something so complex? For the income, of course. In addition to high yields, the coupons tend to be consistent, unlike covered-call ETFs, where

monthly payouts fluctuate based on volatility and options prices. “There’s fluctuation in underlying net asset value, but cash flow is fairly consistent,” says Mike Loukas, CEO of TrueMark.

Tax efficiency is another plus. Depending on the ETF, some of the income can be tax-deferred or may qualify for long-term capital-gains treatment if the ETF is held for a year. Natasha Sibley, a portfolio manager of the new Janus funds, says tax efficiency is an important goal for the new ETFs.

For investors interested in autocallables, make sure you get into the weeds before jumping in. “Autocallables are one of the most complex things coming to an ETF wrapper,” says Kestra’s Humbert. “That means an increased need for due diligence.”

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***An investment in the Fund(s) is subject to risks, and you could lose money on your investment in the Fund(s).*** There can be no assurance that the Fund(s) will achieve its investment objective. Your investment in the Fund(s) is not a deposit in a bank and is not insured or guaranteed by the Federal Deposit Insurance Corporation (FDIC) or any other government agency. The risks associated with an investment in the Fund(s) can increase during times of significant market volatility. The Fund(s) also has specific principal risks, which are described below. More detailed information regarding these risks can be found in the Fund’s prospectus.

The principal risks of investing in the **Calamos Autocallable Growth ETF** include: authorized participant concentration risk, autocallable structure risk, contingent income risk, early redemption risk, barrier risk, calculation methodology risk, cash holdings risk, correlation risk, costs of buying and selling fund shares, counterparty risk, credit risk, derivatives risk, equity securities risk, FLEX Options risk, index risk, interest rate risk, investment in a subsidiary, laddered portfolio risk, liquidity risk, market maker risk, market risk, new fund risk, non-diversification risk, other investment companies risk, premium-discount risk, secondary market trading risk, swap agreement risk, tax risk, trading issues risk, valuation risk, and volatility target index risk.

The principal risks of investing in the **Calamos Autocallable Income ETF** and the **Calamos Nasdaq® Autocallable Income ETF** include: autocallable structure risk, contingent income risk, early redemption risk, barrier risk, authorized participant concentration risk, calculation methodology risk, cash holdings risk, correlation risk, costs of buying and selling fund shares, counterparty risk, credit risk, derivatives risk, equity securities risk, index risk, interest rate risk, investment in a subsidiary, laddered portfolio risk, liquidity risk, market maker risk, market risk, new fund risk, non-diversification risk, premium-discount risk, secondary market trading risk, swap agreement risk, tax risk, trading issues risk, valuation risk, and volatility target index risk.

**Autocallable Structure Risk**—The Fund's returns are correlated to the performance of a synthetic portfolio of autocallable notes tracked by the Laddered Autocall Index.

Each Fund's returns are correlated to the performance of a synthetic portfolio of autocallable notes tracked by an Autocallable Index. Autocallable notes have specific structural features:

—**Contingent Income Risk:** Coupon payments from the Autocalls are not guaranteed and will not be made if the Underlying Index falls below the Coupon Barrier on observation dates. This means the Fund may generate significantly less income than anticipated during market downturns.

—**Early Redemption Risk:** Autocalls in the Portfolio may be called before their scheduled maturity if the Underlying Reference Index reaches or exceeds the Autocall Barrier on observation dates. This automatic early redemption could force reinvestment of that portion of the portfolio at lower rates if market yields have declined.

—**Barrier Risk:** If the Underlying Reference Index falls below the Protection Level Barrier at the maturity of an Autocall in the Portfolio, that portion of the Portfolio will be fully exposed to the negative performance of the Underlying Reference Index from its initial level. This conditional protection creates a binary outcome that can result in sudden, significant losses if barriers are breached.

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