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All About Autocallables: A Deep Dive

Autocallable notes are a popular type of structured product that has seen significant growth in recent years. They are designed to offer potentially higher yields than traditional fixed-income investments, but with a unique, conditional equity-linked payoff structure.

A Modern Structured Product

Autocallable notes emerged in the early 2000s, building upon the financial engineering foundations of structured products laid in the late 1980s and 1990s. Their rapid adoption was driven by their unique payoff structure: they offer investors a high, predefined coupon if the linked underlying asset, typically a stock index, performs above a specified trigger level on set observation dates. This mechanism provided an attractive alternative to low-yield bonds.

Market Dominance and Rapid Growth

Autocallables represent a vast majority of structured note sales in the U.S. market and the issuance of autocallables has seen explosive growth over the last decade, as evidenced in the rise in US autocallable sales.

Think of an autocallable as a combination of certain features of a traditional bond and a derivative (an option) linked to an underlying asset, which is typically a stock index (like the S&P 500).

Autocallables 101

The fundamental mechanism of an autocallable note is simple: it pays you a coupon and returns your principal either at maturity or earlier if the underlying asset meets a pre-specified level on certain dates.

Let's cover a couple of key terms and then jump into an example.

Reference Index

The underlying asset (such as a stock index) whose performance determines both whether the investor receives an income payment and when and if their principal is returned.

Initial Level

The price or value of the underlying asset on the day the note is issued. This is the baseline for all future comparisons.

Observation Dates

The life of an autocallable is divided by observation dates which occur periodically (i.e. monthly). At these times, the note is checked for a potential early maturity or coupon payment.

Coupon Payment

The payment you potentially receive on an observation date.

Coupon Threshold

The pre-set level which the reference index must stay above on observation dates in order for income to be paid. On every observation date, the issuer checks to see if you receive a coupon payment:

Scenario A	Scenario B
If the reference index is at or above the threshold: The investor receives the pre-specified coupon payment.	If the asset is below the threshold: The investor does not receive a coupon for that period.

The Non-Call Period

Most notes include a non-call period at the beginning (i.e. the first few months). During this time, the note cannot be called (redeemed early), regardless of how well the underlying asset performs. This ensures the note has a minimum life span and that the investor has the opportunity to receive some coupon payments.

The Autocall Trigger

This is the core feature that gives the autocallable its name. On any observation date after the non-call period, the issuer checks the level of the reference index against the pre-determined autocall trigger (often set at 100% of the initial level or less). This also offers the opportunity to issue a new autocallable.

Scenario A	Scenario B
If the reference index is at or above the autocall trigger: The note is "autocalled," meaning the investment ends early. The investor receives their full principal investment back early (instead of at maturity) plus the coupon payment for that period.	If the reference index is below the autocall trigger: The note is not called and the investment continues to the next observation date.

Maturity Date

This is the date the autocallable reaches the end of its lifecycle and, if it has not been redeemed early, when the investor receives their principal back.

Principal Barrier

This is the level the reference index needs to be above on the maturity date in order to return your principal back in full.

Maturity Outcomes: What Happens at the End?

If the note isn't autocalled early, it runs to its full scheduled maturity date. At that point, two things can happen:

1. **Final Coupon Payment -** A check is made on the final observation date (the maturity date) against the coupon threshold. If the condition is met, the final coupon is paid.
2. **Principal Return: The Principal Barrier -** This is the most critical risk component. Principal repayment is determined *only at the final observation date*, based on whether the underlying is above or below the maturity barrier. Interim declines do not matter – only the level at maturity.

Scenario A: Principal Protection Preserved	Scenario B: Principal at Risk
If the reference index is at or above the maturity barrier on the final observation date, the investor receives 100% of their principal back, regardless of how far the asset may have dipped below the barrier during the note's life.	If the reference index is below the maturity barrier on the final observation date, the investor's principal is now exposed to the asset's negative performance on a 1-to-1 basis. The investor receives a final redemption amount that is reduced by the percentage loss of the underlying asset from its initial level (example: if the maturity barrier is 70% and the underlying asset ends at 60% of its initial level, the investor would lose 40% of their principal).

Let's Break this Down with a Hypothetical Example:

An individual invests $100 in principal to buy an autocallable. The autocallable has a 5 year maturity with a 60% coupon threshold and principal barrier. It pays 12% annualized income every month. The investor will receive monthly income as long as the underlying equity index doesn't fall by 40% during an observation period.

1. Let's pretend during the first month the market is up 5%. The investor would get $1.

2. The following month, the market is down 10% (-5% from the initial level). The investor still gets $1 on the observation date.

3. The next month the market is down 40% from the initial level - the investor misses out on the $1 payment for that observation date and the autocallable continues.

4. The following month, the market goes back up 5% (-35% from the initial level), and the investor receives $1 once again. In other words, as long as the market doesn't fall more than 40% from inception on a given observation date, the investor gets their coupon payment.

5. Five years from now, let's say the market is down 20%, the investor will get their principal $100 back in full, because it's above the principal barrier.

What if the market is down further?

If the market is down 40% or more from the initial level, the investor's principal would be at risk. However you likely collected income along the way.

What if the market went up during the life of the autocallable?

The autocall feature would apply if the market is positive after the noncall period and the note gets called away. The investor would get their principal back and get their final coupon payment.

The Next Evolution: Autocallable ETFs

The immense popularity and yield potential of the autocallable structure has led to its most significant evolution yet: the rise of Autocallable Exchange-Traded Fund (ETF). ETFs such as the [TrueShares S&P Autocallable High Income ETF] (PAYH) and [TrueShares S&P Autocallable Moderate Income ETF] (PAYM), are designed to transform a product traditionally accessed through complex, high-minimum-investment private placements into a liquid, transparent, and scalable security. This mechanism allows investors to benefit from defined-income strategies that have proven so popular.

The primary advantage of the ETF wrapper is significant risk mitigation and streamlined management. Holding a single autocallable note exposes an investor to concentration risk, specific issuer credit risk, and the headache of manual reinvestment if the note is called early.

PAYH and PAYM overcome this by maintaining a professionally managed, dynamic portfolio of dozens of autocallables with varied characteristics like maturity dates and barriers. This provides instant diversification, smooths out the impact of early calls, and eliminates the need for the investor to manually source and re-invest in new products. By offering institutional-level access with daily liquidity, PAYH and PAYM represent a critical step in making these income strategies accessible and efficient for modern portfolios.

Explore what makes PAYH and PAYM different. Visit www.true-shares.com/structuredincome

Before investing you should carefully consider the Fund's investment objectives, risks, charges and expenses. This and other information is in the prospectus, a copy of which may be obtained by visiting www.true-shares.com. This material must be preceded or accompanied by a fund prospectus, please click here. Please read the prospectus carefully before you invest.

Derivative: a securitized contract whose value is dependent upon one or more underlying assets. Its price is determined by fluctuations in that asset.

S&P 500 Index: a major U.S. stock market index tracking the performance of 500 of the largest publicly traded companies.

The investment objective of TrueShares S&P Autocallable High Income ETF (the "Fund") is to generate high monthly income while reducing downside risk. The investment objective of TrueShares S&P Autocallable Defensive Income ETF (the "Fund") is to generate moderate monthly income while reducing downside risk.

These products employ a complex investment strategy involving derivatives and structured-product like payout profiles and may not be suitable for all investors.

The tax treatment of derivatives and structured-outcome strategies may be complex. Investors should consult a tax advisor regarding their individual circumstances.

The funds seek high income, but predictable income is not a guarantee and actual income may decline in certain market conditions. A decline in the index or failure to meet certain performance thresholds may reduce or eliminate monthly income. There is no assurance that the Funds' investment strategy, including their use of derivatives, contingent downside features, or income-generation techniques, will be successful. The strategy may not achieve its objectives, may not perform as expected in different market environments, and could result in investment losses.

The funds are new with no operating history.

An investment in TrueShares S&P Autocallable High Income ETF and TrueShares S&P Autocallable Defensive Income ETF is subject to numerous risks, including possible loss of principal. The ETF is subject to the following principal risks: Authorized Participants, Market Makers, and Liquidity Providers Concentration Risk associated with ETFs; Equity Market Risk; Management Risk; Market Capitalization Risk; Market Risk; New Fund Risk. A full description of risks is in the prospectus. TrueShares S&P Autocallable High Income ETF and TrueShares S&P Autocallable Defensive Income ETF is also subject to the following risks: ***Coupon payment risk:*** *Coupon payment risk refers to the danger that the issuer of a bond may default on its interest payments (credit risk) or that the investor will not be able to reinvest those payments at a favorable rate (reinvestment risk). This risk is present with any fixed-income security that makes regular coupon payments.* ***Autocall barrier risk:*** *Autocall barrier risk is the possibility of losing money on an autocallable financial product because the underlying asset's value falls below a specified barrier level.* ***Maturity barrier risk:*** *If the Underlying Reference Index falls below the Maturity 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.* ***Derivatives and swap counterparty risk:*** *Counterparty risk is the risk that one party in a derivative contract, such as an interest rate or currency swap, will default on its obligations. This means the other party could face a financial loss because the defaulting counterparty fails to make a required payment. The risk is particularly high for over-the-counter (OTC) derivatives like swaps, which are negotiated directly between two parties and are not traded on an exchange.* ***Reference index risk:*** *a reference index risk is the risk that an asset's return will deviate from a benchmark index, or the risk associated with instruments like index options, which are used for trading and hedging against index movements.* ***Equity market risk:*** *Equity market risk is the possibility of losing money in stock investments due to fluctuations in the overall stock market. This risk stems from factors like economic conditions, geopolitical events, and industry trends that cause market-wide price changes, affecting both individual stocks and entire portfolios.* ***FLEX options risk:*** *The Fund may invest in FLEX Options issued and guaranteed for settlement by the OCC. The Fund bears the risk that the OCC will be unable or unwilling to perform its obligations under the FLEX Options contracts. Additionally, FLEX Options may be illiquid, and in such cases, the Fund may have difficulty closing out certain FLEX Options positions at desired times and prices. As the options the Fund invests in derive their performance from the S&P 500 Price Index, the Fund is subject to the equity market risk associated with the index. The ETF's portfolio is more volatile than broad market averages.*

TrueMark Investments, LLC is the investment advisor to the Fund and recieves a fee from the Fund for its services. The fund is distributed by Paralel Distributors LLC, member FINRA. Paralel is not affiliated with TrueMark investments, LLC.

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