

The Advantage of an ETF Structure for Autocallable Notes

Autocallable notes are investments that typically offer high, contingent coupon payments and an opportunity for early redemption and return of principal if the underlying asset meets a predefined barrier level on an observation date. While attractive individually, a portfolio approach dramatically enhances the risk-adjusted return profile and offers a level of diversification.

However, managing a portfolio of autocallables individually presents significant operational challenges. A portfolio of individual notes requires constant, manual maintenance, especially in the context of a strong, rising market. Using an ETF wrapper designed to manage portfolios of autocallables like TrueShares S&P Autocallable Income ETFs (PAYH & PAYM) can offer efficiencies and advantages.

The Risks of Holding a Single Autocallable

Holding only a single autocallable note exposes the investor to highly concentrated and specific risks. A portfolio approach addresses the vulnerabilities of a single note by spreading risk across multiple instruments.

- **Inconsistent Income Risk:** The single autocallable's coupon payments are all tied to the same fixed series of observation dates. A brief market downturn that causes the reference index to fall below the coupon barrier on a key date can mean a missed coupon payment.
- **Concentrated Maturity Risk:** With a single autocallable, the entire investment relies on the performance of a single underlying reference index. If this single reference index breaches the downside barrier at maturity, the entire investment is fully exposed to the index's negative performance, potentially leading to a principal loss.
- **Continuous Autocall Risk:** If the underlying reference index performs well, as can be the case in rising market conditions, the autocallable is automatically called early. This is a positive scenario that returns the full principal back to the investor. However, in order to continue receiving an income stream, the investor needs to immediately find a new autocallable investment - potentially in a less favorable market environment or with lower prevailing coupon rates.
- **Liquidity Risk:** Autocallables are not typically listed on an exchange. If an investor needs to sell before the maturity date, they must generally sell back to the issuer, who is not obligated to provide a price, and the price received may be substantially less than the principal investment. The lack of an active secondary market makes early liquidation difficult, time-consuming, and potentially costly, forcing the investor to hold the investment until it is autocalled or matures.

Benefits of a Portfolio of Autocallables

A solid portfolio of autocallables can be built by the investor buying multiple notes at different times, making sure they are set up to have staggered dates.

This staggering of dates takes the potentially choppy income from single autocallables and turns it into a more stable and predictable cash flow. It essentially smooths out the timing of cash flow events. If one autocallable misses a coupon, successful payments may still be received from other autocallables, which can help ensure a more consistent income stream.

Plus, the investor gets diversification by mixing notes with varying structural details, like different maturities, different barrier levels, and different coupon yields. This combination creates a blended risk-reward profile, which optimizes the portfolio for varying market outcomes.

The Operational Burden of Manually Managing a Portfolio of Autocallables

Keep in mind, manually managing a portfolio of autocallables can come with operational headaches. The investor must constantly monitor dozens of underlying assets.

Continuous Reinvestment

In a consistently rising market (which much of the last decade has been), the underlying reference index is likely to exceed the autocall trigger level quickly. This leads to constant early redemptions of multiple autocallables in your portfolio. Every time a single autocallable is called, the investor receives their principal back. This money is now idle cash, not generating the target yield, and must be immediately reinvested to maintain the portfolio's expected return.

The investor must then manually source a new, suitable autocallable note structure from an issuer, negotiate the terms, and execute the trade—a process that involves significant time and often high transaction costs.

The time lag between the note being called and the cash being successfully reinvested into a new note can be a period of lost high-yield income. This drag might compound across multiple autocallables.

The success of the autocall feature—getting your principal back—creates a continuous, high-effort administrative nightmare that must be reset manually for every single note.

Paperwork

The initial administrative hurdle of buying autocallables directly is substantial. The investor must navigate a heavy paper trail for every unique autocallable. This involves reading and signing off on multiple legal documents, including the official prospectus, the detailed term sheet that defines the specific barrier levels and coupon mechanisms, and the required product highlights sheet. These disclosures are often dozens of pages long and must be thoroughly reviewed before a purchase decision.

Plus, due to the inherent complexity of autocallables, their direct purchase process often requires the investor to undergo a mandated risk warning assessment or suitability check. This is to ensure they demonstrate a sufficient understanding of the note's derivative¹ components, the issuer's credit risk, and the potential for limited secondary market liquidity.

1- Derivative: a kind of financial contract between two or more parties, the value of which fluctuates based on the price of one or more underlying assets.

This entire administrative hurdle (the sourcing, compliance, and execution paperwork) is a manual, time-consuming process that must be repeated for every individual autocallable, making portfolio management administratively overwhelming.

Upfront Costs and Investment Barriers

The direct purchase of individual autocallables is often prohibitively expensive for most retail investors due to high minimum investments. Historically, structured products were available only to institutional or high-net-worth investors, with typical minimums starting at \$100,000 to \$1 million per single autocallable.

The direct purchase price of an autocallable also has a variety of hidden costs that directly reduce the investor's potential return. These include underwriting discounts, sales commissions, and structuring fees taken by the issuer. These upfront fees can be substantial, often adding up to a few percentage points of the principal.

Building a diversified portfolio of multiple notes purchased at different times means the total investment required is high.

Reducing the Manual Work with an ETF Wrapper

An ETF structured specifically to hold and manage a portfolio of autocallables, like TrueShares S&P Autocallable Income ETFs (PAYH & PAYM), transforms this labor-intensive process into a simple, single-ticker solution.

Automated Reinvestment and Maintenance

The primary benefit of the ETF structure is the automation of the call-and-reinvest cycle.

- **Seamless Management:** The ETF is actively managed. When a note within the portfolio is called, the principal is instantly redeployed into a newly sourced autocallable, maintaining the fund's target structure and yield profile.
- **Elimination of Reinvestment Risk:** For the end investor, the capital remains continuously invested. The investor buys the ETF once and benefits from the immediate, professional reinvestment of autocalled principal, eliminating the idle cash drag and the stress of repeated manual sourcing.

- **Professional Management:** The ETF maintains a portfolio of autocallables with staggered maturities and call dates, ensuring the fund has a stable stream of coupons and consistent yield potential. In the case of PAYH and PAYM, the portfolio of autocallables are reverse engineered from the target yield.

Accessible Structure with Daily Liquidity

- **No Investment Barriers:** ETFs often have lower NAVs than traditional autocallables, making them more accessible.
- **Liquidity and Transparency:** Unlike individual autocallables (which are generally illiquid), the ETF trades on an exchange, offering daily liquidity and transparent pricing throughout the trading day.

Holding a single autocallable can be operationally inefficient and high-risk strategy, particularly in sustained bull markets where continuous auto-calls require constant manual intervention and can potentially cause yield loss.

ETFs like the TrueShares S&P Autocallable Income ETFs (PAYH & PAYM) provide an elegant solution: they aim to harness the high-yield potential of autocallables while automating the management process, lowering reinvestment risk, maximizing diversification, and offering the liquidity and efficiency of an exchange-traded product.

To learn more about TrueShares S&P Autocallable Income ETFs (PAYH & PAYM), visit www.true-shares.com/autocallable-income-etfs

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.

Parallel Distributors LLC, distributor. The funds are distributed by Parallel Distributors LLC. Parallel is not affiliated with TrueMark Investments, LLC. 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 Hedged Structured Income High ETF and TrueShares S&P Hedged Structured Income Moderate 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.

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