

FAQs

PAYH TrueShares S&P Autocallable High Income ETF

PAYM TrueShares S&P Autocallable Defensive Income ETF

The TrueShares S&P Autocallable High Income ETF (PAYH) and TrueShares S&P Autocallable Defensive Income ETF (PAYM) seek to deliver monthly income—in high and defensive tiers, respectively—while reducing downside risk. Both strategies employ dynamically calibrated, systematic management and seek to achieve their investment objectives through exposure to synthetic portfolios of autocallable notes tied to custom volatility indexes. Under normal market conditions, each exchange-traded fund (ETF) allocates at least 80% of its total assets to U.S. Treasuries, cash equivalents, and unfunded total return swaps that generate targeted returns linked to the Autocallable Index.

What is an autocallable note?

An autocallable note is an equity-market linked, structured financial instrument with certain characteristics of both a bond and an option. It is designed to provide periodic coupon payments and the return of principal at maturity assuming the underlying reference index remains within pre-determined thresholds on specified observation dates.

Key features include:

- **Enhanced Potential Income** – Autocallable notes are tied to equity market performance and may offer higher income compared to traditional fixed-income investments.
- **Income Stream** – Autocallable notes are designed to pay periodic coupon payments, as long as the reference index stays above a certain barrier level, which may be appealing for income-focused investors.
- **Contingent Downside Protection** – The barrier feature also provides a degree of capital protection against moderate declines in the reference index's price. Investors only start losing principal if the underlying asset falls below a specific, predetermined level at maturity.
- **Autocall Feature** – The autocall feature shortens the autocallable note's lifespan if the trigger is met, which can be attractive to investors who expect a flat to moderately rising market and may want to receive their principal back sooner to reinvest. However, it also means the investor may miss out on future coupons and could be exposed to principal loss if the market falls significantly.

Autocallable notes offer investors an opportunity for enhanced income and risk diversification, but without the credit or duration risks typical of bonds. Their distinct risk-reward profile may help mitigate overall portfolio volatility while supporting income objectives.

How can investors gain access to autocallable notes?

Traditionally, investors could only access autocallable notes by purchasing them directly through a broker or financial professional connected to the note issuers, typically global financial institutions. Today, a new avenue exists: investors can now seek to gain diversified exposure to portfolios of these autocallable notes—actual or synthetic—through ETFs.

Diversification does not eliminate the risk of experiencing investment losses.

Are there structural benefits to investing in autocallable ETFs compared to individual notes?

While all investments have risks, direct ownership of autocallable notes come with certain drawbacks – such as single issuer credit and concentration risk, lack of liquidity, reinvestment risk and tax inefficiency – all that can be mitigated by investing in an ETF.

- **Diversification** – Autocallable ETFs may offer diversified exposure through portfolios of multiple underlying notes or synthetic positions, each with staggered start dates, barrier levels, and maturities. This dynamically managed approach helps mitigate the risks of timing, issuer credit, and asset concentration typically inherent in single-note investments.
- **Liquidity** – As exchange traded products, autocallable ETFs offer daily liquidity and transparency. This is unlike owning individual notes, which can be difficult to sell before maturity.
- **Reinvestment** – Autocallable ETFs are rebalanced through a systematic process on a weekly basis, which automatically reinvests proceeds from called notes into new ones. With an individual note, the investor bears the risk of an early call which may mean finding a replacement in an unfavorable interest environment.
- **Tax Efficient Distributions** – Instead of holding the autocallable notes directly, an autocallable ETF can enter into a total return swap with a counterparty. The ETF receives a payment based on the total return of the underlying notes, and the counterparty receives a payment based on the performance of a reference index. This approach can convert the coupons from the underlying autocallable notes, which would normally be taxed as ordinary income, into a more tax-efficient distribution within the ETF structure.

This is provided to you for informational purposes only, and should not be considered tax advice. Please consult your tax advisor for further assistance.

What are the specific terms and features of the autocallable portfolios within PAYH and PAYM?

Consistent with our strategy, PAYH and PAYM achieve exposure to autocallable notes through total return swaps, not by holding the individual notes directly. Key investment guidelines are detailed below:

- **Autocallable Index¹** – The Morgan Stanley Autocallable Indices measure the combined performance of 4-26 autocallable investments. Each autocallable may differ in terms of maturity and structure. Their performance is tied to a reference index which provides exposure to E-mini S&P 500 Futures while adjusting for market volatility.
 - » **PAYH:** [Morgan Stanley US Large Cap High Income Autocallable Index](#)
 - » **PAYM:** [Morgan Stanley US Large Cap Moderate Income Autocallable Index](#)
- **Reference Index²** – The reference index is the underlying index or asset whose performance determines the investment's potential coupon payments, early redemption (autocall) features, and principal repayment at maturity.
 - » **PAYH:** [S&P 500[®] Futures 35% Intraday VT 4% Decrement Index](#)
 - » **PAYM:** [S&P 500[®] Futures 20% Intraday VT 2% Decrement Index](#)
- **Non-Callable Period** - The initial time after the investment is made during which it cannot be automatically called by the issuer. This period is a specified duration during which the product will not be redeemed early. The autocall feature only becomes active after this period ends, on specific observation dates.
 - » **PAYH and PAYM:** One to six months after issue date
- **Autocall Trigger** - If the value of the Reference Index is at or above a pre-defined threshold on a specified observation date after the expiration of a non-callable period, the Autocallable is automatically called back, meaning it matures and the investor receives the full principal plus the coupon for the observation period.
 - » **PAYH and PAYM:** 100% of the value of the Reference Index, observation dates are monthly
- **Coupon Payments** - An autocallable coupon is a periodic interest payment that is contingent upon whether the value of the Reference Index is above or below the predetermined coupon barrier.
- **Coupon Threshold** - A pre-determined level determined by examining market conditions among other factors.
 - » **PAYH:** Between 50-80% of the Reference Index
 - » **PAYM:** Between 50-90% of the value of the Reference Index
 - » **Observation dates are monthly**

The US Large Cap High Income Autocallable Index is not a proxy for TrueShares, TrueShares S&P Autocallable High Income ETF (PAYH). The results of the US Large Cap High Income Autocallable Index will differ to those of PAYH. Investors should consider the risks of investing in PAYH and review the prospectus prior to investing. The US Large Cap Moderate Income Autocallable Index is not a proxy for TrueShares, TrueShares S&P Autocallable Defensive Income ETF (PAYM). The results of the US Large Cap Moderate Income Autocallable Index will differ to those of PAYM. Investors should consider the risks of investing in PAYM and review the prospectus prior to investing. Unmanaged index returns, unlike fund returns, do not reflect fees, expenses or sales charges. Investors cannot invest directly in an index.

- **Principal Barrier** - An autocallable principal barrier is the level which the reference index must be above in order to return the investor's principal in full.
 - » **PAYH:** Between 50-80% of the value of the Reference Index
 - » **PAYM:** Between 50-90% of the value of the Reference Index
- **Maturity** - Assuming an autocallable is not automatically called back on any of the observation dates, it will continue until its maturity date. If, at the maturity date, the value of the Reference Index is above the Principal Barrier, the investor will be repaid the entirety of the principal. If and only, at the maturity date, the value of the Reference Index is below the Principal Barrier, investors will be exposed to the full downside performance of the Reference Index and the amount of principal repaid to the investor will be reduced an amount equal to the negative performance of the Reference Index measured over the life of the autocallable.
- **Hedge Index³** – One of PAYH and PAYM's core differentiators is their always-on downside hedge, represented by two Morgan Stanley indices, which seek to help provide protection in severe market stress – without sacrificing the strategy's core income potential.
 - » **PAYH:** [Tactical Put Participation High Index](#)
 - » **PAYM:** [Tactical Put Participation Moderate Index](#)

Index performance does not represent TrueShares fund performance. It is not possible to invest directly in an index. The funds seek high income, but predictable income is not a guarantee and actual income may decline in certain market conditions.

Want to know more? Visit true-shares.com/autocallable-income-etfs

1- Autocallable Index: The Autocallable Index tracks the aggregate performance of a hypothetical portfolio of up to twenty-six autocallables, with each autocallable included in the Autocallable Index varying based on maturity and the other characteristics. The performance of each autocallable is linked to the respective Reference Indexes of PAYH and PAYM. The Morgan Stanley US Large Cap High and Moderate Income Autocallable Indices measure the performance of a dynamically rebalancing basket of synthetic Autocallables linked to an Underlying Index which itself provides volatility-controlled exposure to E-mini S&P 500 Futures.

2- Reference Indices:

PAYH: The S&P 500® Futures 35% Intraday VT 4% Decrement Index measures the performance of a long-only, dynamically adjusted strategy based on E-mini S&P 500 futures. The index seeks to achieve a 35% volatility target, subject to an annual deduction of 4%, by using an intraday rebalance strategy based on volume-weighted average prices computed during different time windows in the day, and it may be levered up to four times to achieve its target.

PAYM: The S&P 500® Futures 20% Intraday VT 2% Decrement Index measures the performance of a long-only, dynamically adjusted strategy based on E-mini S&P 500 futures. The index seeks to achieve a 20% volatility target, subject to an annual deduction of 2%, by using an intraday rebalance strategy based on volume-weighted average prices computed during different time windows in the day, and it may be levered up to four times to achieve its target.

3- Hedge Indices: The Morgan Stanley Tactical Put Participation High and Moderate Indices follow a rules-based strategy that aims to provide a tactical hedge against equity market downside through systematic sub-strategies.

E-mini S&P 500 futures are futures contracts traded on the Chicago Mercantile Exchange (CME) that provide exposure to the performance of the S&P 500 Index. Micro E-mini S&P 500 futures are similar contracts that are one-tenth the size of a standard E-mini S&P 500 futures contract.

Before investing, carefully consider the TrueShares ETFs investment objectives, risks, charges and expenses. Specific information about the fund is contained in the prospectus and a summary prospectus, copies of which may be obtained by visiting www.true-shares.com. 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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