

Horizons ETFs Launches Nasdaq-100 Covered Call ETF

For more than a decade, Horizons ETFs has managed one of the largest covered call suites in Canada. Effective on June 27, 2022, they've added another to their covered call suite: the Horizons Nasdaq-100 Covered Call ETF (QQCC), which trades on the Toronto Stock Exchange (TSX). For the first time, investors now have a Canadian-listed opportunity to gain exposure to the Nasdaq-100 Index® (NDX®) while enhancing distribution yield and income through an actively managed options strategy.

Like the Global X Nasdaq-100 Covered Call ETF (QYLD), listed on Nasdaq in the U.S., QQCC will have exposure to 100 of the largest domestic and international non-financial companies listed on the Nasdaq Stock Market. QQCC seeks to provide, to the extent possible and net of expenses: (a) exposure to the performance of an index of the largest domestic and international, non-financial companies listed on the Nasdaq stock market (currently, NDX); and (b) monthly U.S. dollar distributions of dividend and call option income. To mitigate downside risk and generate income, QQCC will employ a dynamic covered call option writing program. QQCC will not seek to hedge its exposure to the U.S. dollar back to the Canadian dollar.

While not explicitly a downside protection strategy, QQCC could function as a conservative income-generation vehicle for Canadian investors, where more stable cash flows compensate for the diminished upside that investors receive from any price appreciation in NDX®. The upside is capped directly because of the call options that the fund sells in the market.

Prior to the launch of this product, Canadian investors who wanted to implement a covered call strategy on the NDX® had to build and structure their own portfolios or invest in US-listed ETFs. Most investors and financial advisors do not have the time or expertise to run a covered call fund, but now they can let experts execute the strategy on their behalf through an ETF.

QQCC is co-managed by Hans Albrecht and Nick Piquard – both are Vice Presidents, Portfolio Managers and Options Strategists at Horizons ETFs. Albrecht, who has been overseeing Horizons ETFs' day-to-day options activities for nine years, was previously a floor options market maker and traded a large volatility book for National Bank Financial. Piquard spent nearly 15 years as an institutional derivatives trader with Canadian and international brokerage firms. He specializes in quantitative strategies, trading options volatility, and relative value. The two portfolio managers have over 50 years of collective experience in trading options and derivatives.

According to Albrecht, QQCC's approach is slightly different from QYLD. QYLD is a passive strategy that executes its mandate on the same day each month. The portfolio managers sell options or potentially cover in-the-money options, regardless of the environment. QQCC, on the other hand, is a strategy that adjusts to the prevailing regime, and the portfolio managers decide when to sell options. As such, the approach is more opportunistic.

“We look at things from a volatility and options pricing perspective, and we apply that active outlook to the strategy,” he explains. “QYLD sells 100% coverage, so options are fully written against the underlying holdings, whereas we can be 25% written, 50% written and even higher. We can adjust that as we see opportunities arise.”

Generally, QQCC will write shorter-dated, out-of-the-money covered calls. Shorter-dated options with an expiry of less than two months tend to provide a balance between earning an attractive level of premium while increasing the likelihood that the options will expire without being in the money. This strategy is designed to preserve a portion of the upside price potential of the underlying securities.

Historically, the Nasdaq-100 Index® has not offered a very high dividend yield relative to other U.S. equity benchmarks. This is because many high-growth companies, especially in the Technology sector, do not pay dividends; those that do, tend to have a low dividend yield. A covered call strategy is a way to potentially increase that income stream substantially through the use of covered calls that can help generate an income premium.

Typically, when the constituents in an underlying index are under pressure and volatility rises, options pricing improves and provides additional income and yield for the fund’s investors. Conversely, when underlying index constituents are performing well and volatility is low, the income from writing options is expected to be lower.

Recently, volatility has been high and risk assets have corrected, driven by inflation, rising interest rates, and geopolitical concerns. This environment has hit the Technology sector particularly hard. But Albrecht points out that Nasdaq-focused covered call strategies have continued to bring in assets during 2022 despite the real reset in the NDX®. Overall, he is positive about the long-term prospects of the high-growth companies in the NDX® because their products are shaping the future of our society.

“What better time to launch a fund than when everything has pulled back, and we see valuations at a much more compelling level compared to a few months ago,” he concludes. “Fundamentally, we still have these incredible narratives with staying power, these stories that have 10, 20, 30 years of runway left to them as our world becomes more and more digital.”

Effective June 24, 2022, the investment objectives of the Horizons NASDAQ-100 Covered Call ETF (“QQCC”) (formerly Horizons Enhanced Income International Equity ETF (“HEJ”)) were changed following receipt of the required unitholder and regulatory approvals. The ETF traded under its new fund name and ticker symbol on June 27, 2022. For more information, please refer to the disclosure documents of QQCC on www.HorizonsETFs.com.

Commissions, management fees and expenses all may be associated with an investment in the Horizons NASDAQ-100 Covered Call ETF (“QQCC” or the “ETF”) managed by Horizons ETFs Management (Canada) Inc. The ETF is not guaranteed, its values change frequently and past performance may not be repeated. The prospectus contains important detailed information about the ETF. **Please read the prospectus before investing.**

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