Parametric

Parametric Equity Premium Income ETF (PAPI)

Not all premium income is created equal

Equity premium-income funds typically focus on options overwriting to enhance cash flows from dividends and interest. While their lower risk and higher income potential have garnered strong investor interest, we believe many products suffer from design flaws that limit their ability to deliver stable, tax-efficient income.

Not all distributions are taxed equally, and two equity premium income funds with the same pretax distribution could have very different after-tax results. Thoughtful portfolio design and active tax management can improve overall efficiency, moving distributions from the top of the tax table to the bottom.

DISTRIBUTION TYPE	DESCRIPTION	TAX RATE
Ordinary income	Earned on bonds or equity-linked notes (ELN)	
Ordinary dividends	Don’t meet IRS “qualified” criteria	Highest (40.8%)
Short-term capital gains (STCG)	Realized when security held less than one year	
Qualified dividends	Meet IRS qualified criteria	Preferred (23%)
Long-term capital gains (LTCG)	Realized when security held longer than one year	
Return of capital (ROC)	Distributions in excess of realized income or capital gains	Deferred

Active management seeks to defer and minimize taxes

Though specifics vary across investment types, we believe active tax management has two key objectives: Deferring taxes and reducing them to a lower rate. PAPI can help investors do both by aiming to qualify equity dividends and defer short-term capital gains on options.

Seek to maintain qualified dividend classification
Although qualified dividends are taxed at a lower marginal rate, they can lose qualified status if the options-writing strategy creates a tax straddle.

Seeks to maximize tax-loss harvesting
Realized losses within an equity portfolio may offset gains elsewhere in the portfolio and potentially reduce overall tax liability.

Emphasize distribution rate
SEC yield is based solely on equity dividends and interest, and excludes other regular distribution types that may be more tax advantageous. We believe distribution rate better reflects the entire distribution.

Seek to transform capital gains into ROC
While STCG are taxed at the highest marginal rate, offsetting with proactive tax-loss harvesting may reclassify the ETF income distribution from STCG into a tax-deferred ROC (ultimately taxed at LTCG tax rates when shares are sold, assuming >1-year holding period on ETF).

Sell options directly
Managing an options-selling strategy within an ELN would increase SEC yield income by converting option premiums to income. This subjects investors to the highest tax rate. Selling options directly may allow for any realized losses to offset realized gains, increasing tax efficiency.

Summary

Investors appreciate the distributions equity premium income ETFs generate, but for taxable investors, the details are critical. With tax outcomes that range from 40.8% for the least efficient to 23.8% for the most—often with deferred tax liabilities—few choices are as consequential for the after-tax returns of taxable investors. PAPI’s active tax-management strategy aims to improve those after-tax returns.

Risk considerations

Diversification does not eliminate risk of loss. There is no assurance that a fund will achieve its investment objective. Funds are subject to market risk, which is the possibility that the market values of securities owned by the fund will decline. Market values can change daily due to economic and other events (e.g., natural disasters, health crises, terrorism, conflicts and social unrest) that affect markets, countries, companies or governments. It is difficult to predict the timing, duration and potential adverse effects (e.g., portfolio liquidity) of events. Accordingly, you can lose money investing in this fund. Please be aware that this fund may be subject to certain additional risks. In general, **equities securities'** values also fluctuate in response to activities specific to a company. **Active management risk.** In pursuing the fund's investment objective, the advisor and/or subadvisor has considerable leeway in deciding which investments to buy, hold or sell on a day-to-day basis and which trading strategies to use. For example, the advisor and/or subadvisor, in their discretion, may determine to use some permitted trading strategies while not using others. The success or failure of such decisions will affect the fund's performance. **New fund risk.** A new fund's performance may not represent how the fund is expected to or may perform in the long term. In addition, there is a limited operating history for investors to evaluate, and the fund may not attract sufficient assets to achieve investment and trading efficiencies. **Clearing member risk.** Transactions in some types of derivatives, including FLEX options, are required to be centrally cleared ("cleared derivatives"). In a transaction involving cleared derivatives, the fund's counterparty is a clearing house, such as the Options Clearing Corporation (OCC), rather than a bank or broker. Since the fund is not a member of clearing houses and only members of a clearing house ("clearing members") can participate directly in the clearing house, the fund will hold cleared derivatives through accounts at clearing members. In cleared derivatives positions, the fund will make payments to and receive payments from a clearing house through their accounts at clearing members. The fund is also subject to the risk that a limited number of clearing members are willing to transact on the fund's behalf, which heightens the risks associated with a clearing member's default. If a clearing member defaults, the fund could lose some or all of the benefits of a transaction entered into by the fund with the clearing member. The loss of a clearing member for the fund to transact with could result in increased transaction costs and other operational issues that could impede the fund's ability to implement its investment strategy. If the fund cannot find a clearing member to transact with on the fund's behalf, the fund may be unable to effectively implement its investment strategy. **Counterparty.** Counterparty risk generally refers to the risk that a counterparty on a derivatives transaction may not be willing or able to perform its obligations under the derivatives contract and the related risks of having concentrated exposure to such a counterparty. If an OCC clearing member or OCC becomes insolvent, the fund may have its positions closed or experience delays or difficulties in closing or exercising its FLEX options positions, and the fund could suffer significant losses. **Tax risk.** The fund intends to limit the overlap between its stock holdings and the stock holdings of the underlying ETF or underlying index of options to less than 70% on an ongoing basis to avoid being subject to the "straddle rules" under federal income tax law. The fund expects that the options contracts it writes will not be considered straddles. Under certain circumstances, however, the fund may enter into options transactions or certain other investments that may constitute positions in a straddle. The straddle rules may affect the character of gains (or losses) realized by the fund. **Authorized participant concentration risk.** The fund has a limited number of intermediaries that act as authorized participants, and none of these authorized participants is or will be obligated to engage in creation or redemption transactions. As a result, shares may trade at a discount to net asset value (NAV) and possibly face trading halts and/or delisting. **Trading risk.** The market prices of shares of the fund are expected to fluctuate, in some cases materially, in response to changes in the fund's NAV, the intraday value of holdings and supply and demand for shares. The advisor and subadvisor cannot predict whether shares will trade above, below or at their NAV. Buying or selling shares in the secondary market may require paying brokerage commissions or other charges imposed by brokers as determined by that broker. **Income risk.** The fund's ability to distribute income to shareholders will depend on the yield available on the equity securities held by the fund and the premiums received by the fund with respect to its written call options. The amount of the fund's distributions for any period may exceed the amount of the fund's income and gains for that period. In that case, some or all of the fund's distributions may constitute a return of capital to shareholders. **Call option writing risk.** Writing call options involves the risk that the fund may be required to sell the underlying security or instrument (or settle in cash an amount of equal value) at a disadvantageous price or below the market price of such underlying security or instrument at the time the option is exercised. As the writer of a call option, the fund forgoes, during the option's life, the opportunity to profit from increases in the market value of the underlying security or instrument covering the option above the sum of the premium and the exercise price but retains the risk of loss should the price of the underlying security or instrument decline. In addition, the fund's call option writing strategy may not fully protect it against declines in the value of the market. In rising markets, a fund with a call writing strategy could significantly underperform the same fund without such an options writing strategy. The fund will also incur a form of economic leverage through its use of call options, which could increase the volatility of the fund's returns and may increase the risk of loss to the fund. There are special risks associated with uncovered option writing which expose the fund to potentially significant loss. **FLEX options.** The fund utilizes FLEX options 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. In the unlikely event that the OCC becomes insolvent or is otherwise unable to meet its settlement obligations, the fund could suffer significant losses. FLEX options are subject to the risk that they may be less liquid than certain other securities, such as standardized options. In addition, in connection with the creation and redemption of fund shares, to the extent market participants are not willing or able to enter into FLEX options transactions with the fund, the fund's NAV and, in turn, the share price of the fund could be negatively impacted. The value of a FLEX option may not directly correlate to its underlying reference security or index. The fund may experience losses from certain FLEX options positions and certain FLEX options positions may expire with little to no value. **Illiquid securities.** The fund may make investments in securities that are or become illiquid or less liquid and that may be more difficult to sell and value (liquidity risk). **Derivative instruments** may disproportionately increase losses and have a significant impact on performance. They also may be subject to counterparty, liquidity, valuation, correlation and market risks.

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