

CIBC EXCHANGE TRADED FUNDS

What you're really getting with a covered call ETF



A covered call ETF is designed to do more than just hold stocks — it's built to generate consistent monthly cash flow by writing options on those stocks. That means it can deliver income while still keeping you invested in the market.

Understanding the core components

What is an ETF?

An exchange-traded fund (ETF) holds a collection of stocks, bonds, or other assets and trades on an exchange like a stock.

What is a call option?

A financial contract that gives the buyer the right (but not the obligation) to buy a stock at a predetermined price within a specific time frame.

What is a covered call?

A strategy where an investor sells call options on stocks they already own to generate income.

How do covered call ETFs use options?

They sell call options on stocks in the portfolio to collect premiums, which can be distributed as income to investors.

The benefits of covered call ETFs

This strategy combines income generation with risk management, making it an attractive option for income-focused investors. With professional management, it offers a simplified way to benefit from options without the need for hands-on involvement.

How the strategy comes together

A covered call ETF starts with a portfolio of high-quality stocks and layers in an option strategy to generate income. Here's how it works behind the scenes, step by step.



Inside the trade: A step-by-step example

To bring the strategy to life, here's a simple example that shows what's happening at each step, and how income is potentially generated along the way.

Step 1 Own the stock

The ETF holds shares of one or more underlying stocks. For example, it might own 100 shares of a stock trading at \$100 per share.

Step 2 Set the strike price

The ETF decides on a strike price for the call options it will sell. Typically, the strike price is set above the current market price (e.g., \$105), allowing for some potential price appreciation.

Step 3 Sell the call option

The ETF sells (writes) call options on the stocks it owns. This gives another investor the right (but not the obligation) to buy the ETF's shares at the strike price (\$105) within a set period (e.g., 30 days).

Step 4 Earn the premium (cash flow)

By selling the call option, the ETF collects a premium (cash payment) from the buyer of the option. This premium is income for the ETF and its investors.

Step 5 Possible outcomes at expiry

1. If the stock price stays below \$105, the option expires worthless, and the ETF keeps both the shares and the premium.
2. If the stock price rises above \$105, the shares may be called away at \$105, but the ETF still keeps the premium.

How markets move shape the outcome

The performance of a covered call ETF is closely tied to how the underlying stocks move. Whether the market is flat, rising, or falling, the strategy is designed to generate income while balancing potential trade-offs. Below, we explore how this approach plays out in different market conditions.

Market scenario	What it means for investors
Stock stays at or below strike	Investors keep the premium as income and retain the stock for potential future growth.
Stock rises above the strike	Investors benefit from the premium and stock appreciation up to the strike price, but gains above the strike are capped.
Stock falls	The premium helps offset some losses, but investors remain exposed to declines in the stock’s value.

Why covered calls are gaining traction with investors

Covered calls are a versatile strategy that can help investors achieve a range of financial goals. Whether you’re seeking to generate income, manage portfolio risk, or stay invested for long-term growth, covered calls provide a flexible tool to support your investment strategy.

For many investors, it offers a practical way to get more from equities they already own and understand, without having to manage the complexity of options on their own.



Generate cash flow

Premiums can provide a source of monthly income, potentially enhancing cash flow for income-focused investors.



Reduce portfolio volatility

Premiums may help cushion against market swings, potentially smoothing out equity returns for risk-averse investors.



Stay invested in equities

Maintain equity exposure without needing to sell, helping growth-focused investors stay invested for long-term potential.



Support retirement income needs

Can complement and enhance dividend strategies by offering an additional source of income for retirees or those drawing down their savings.



Navigate sideways or choppy markets

May generate income even when stock prices are flat or range-bound, offering flexibility for investors seeking stability in uncertain markets.



Support tax-aware income planning

Distributions from covered call ETFs may include option premium income, which is generally taxed as capital gains. Some distributions may also include return of capital, which can help defer taxes and enhance after-tax income in non-registered accounts.*

* There can be no assurance that the CRA will agree with the tax treatment adopted by each CIBC covered call ETF.

Ready to explore the benefits of covered call ETFs?

CIBC Canadian Banks Covered Call ETF

CCCB

Management fee:
0.35%

CIBC Canadian High Dividend Covered Call ETF

CCDC

Management fee:
0.50%

CIBC U.S. High Dividend Covered Call ETF

CUDC
CUDC.F (hedged)

Management fee:
0.50%

Discover if CIBC's Covered Call ETFs are right for you by speaking with your licensed financial professional, or visit cibc.com/gam-etfs.

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The fund pays a management fee and fixed administration fee to the Manager in respect of ETF units. The fund also pays fund costs and transaction costs. For more information about the fees and costs of the fund, please read the prospectus.

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