



Autocallables: Dialing into the Details

A Differentiated Way of Delivering Derivatives Income

At a glance:

- Autocallables, combining features of bonds and equities, may offer enhanced income and customizable outcomes.
- A diversified and resilient index, such as the Nasdaq-100®, may help support both principal protection and income generation.
- The emergence of autocallable ETFs has broadened practical applications for autocallables in portfolios.

With a new era of innovation in indexing, previously unprecedented figures have now become attainable in derivatives income.

Over the past decade, [significant advances](#) have been made in generating systematic income from derivatives in global equity markets through the ETF wrapper. Intense competition among market makers, fintech firms, and asset managers has driven innovation and broadened access to derivatives income products, growing the options ETF market more than 100x during this period (See “Appendix A”). What started with simple covered call option overlays has grown into a

comprehensive suite of offerings, each product strategically designed to enhance and stabilize income generation beyond its predecessor.

The latest wave of income products features the “autocallable” structure, a highly custom financial product that has existed in various forms for over at least two decades. Once exclusively reserved for institutional and ultra-high-net-worth (UHNW) investors, this structure has now been democratized to allow Main Street investors to participate in the high-income generating abilities of autocallables.

Figure 1: Key Benefits of Autocallables

Above-Market Income



Receive premium income across a variety of markets

Downside Protection



Remain protected against mild-to-moderate market selloffs

Customizable Exposure



Invest via customized financial products, while tailoring risk profile

Source: Nasdaq Index Insights.

This paper will dive into the mechanics of autocallables, the investable products available, and how autocallables can be implemented in a client’s portfolio. This paper was written in

collaboration with Nasdaq Index Insights. For more information on their content, check out the following page:

[Nasdaq-100 Index Insights](#)

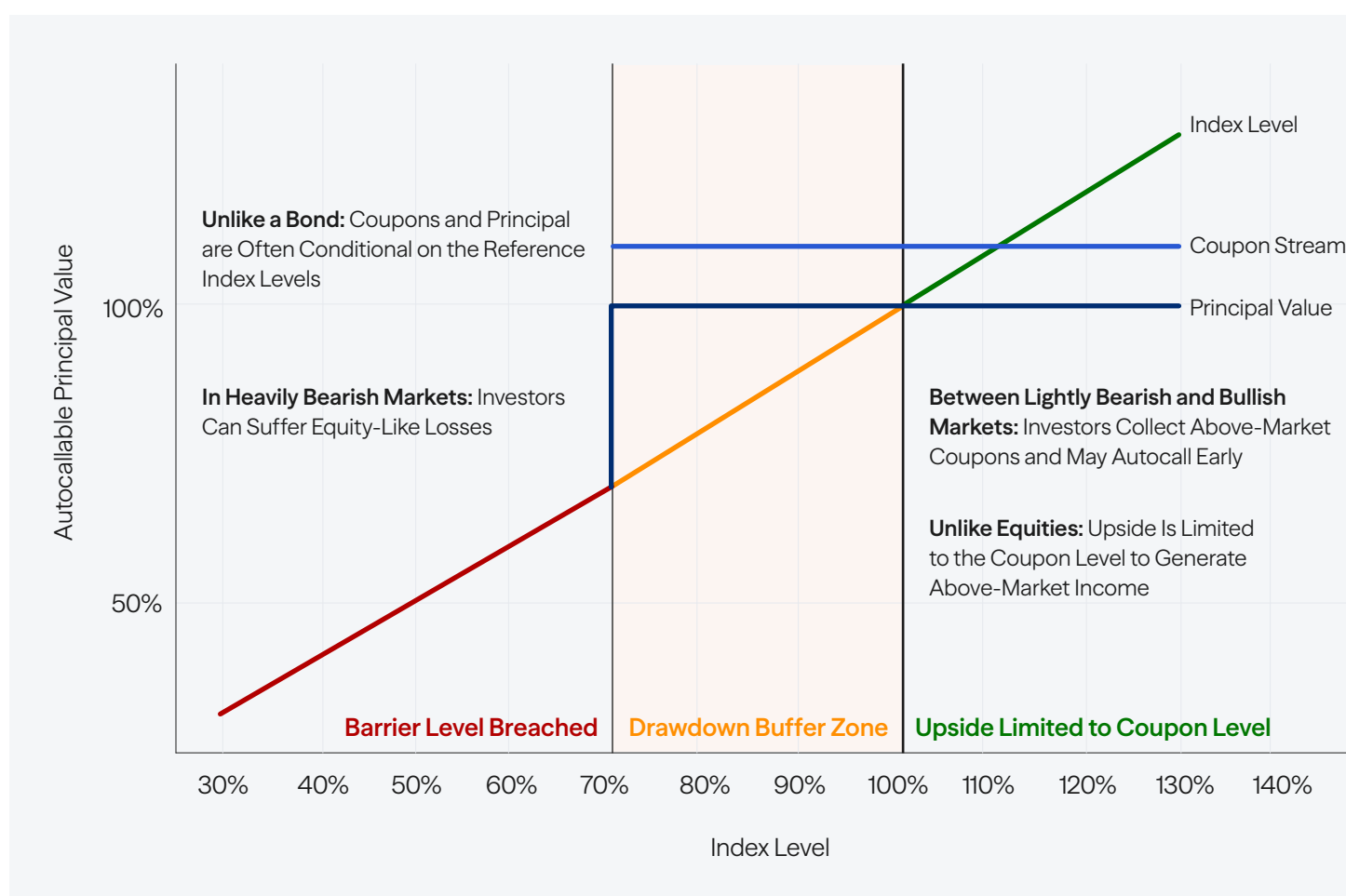
What exactly is an autocallable?

An autocallable is an enhanced-income product issued in the form of a note that is designed to redeem early if an underlying asset (such as an index, ETF, stock, or basket) meets a pre-set performance condition on scheduled dates. If the condition is met, the note automatically redeems (“autocalls”), usually returning principal plus a coupon (or accrued coupons). If the condition is

not met, the note continues to the next observation date—and ultimately to maturity if it never autocalls.

Autocallables are built to pay investors higher income than traditional bonds in exchange for taking risks that are often conditional on an equity index’s performance:

Figure 2: Typical Autocallable Payoff Profile



Source: Nasdaq Index Insights. Autocallable principal value stated as a percentage of initial index value. All terms stated and scenarios laid out are purely hypothetical, illustrative, and are not reflective of real market events. See “Appendix B” for variations on downside protection.

As a result, autocallables tend to be most attractive when an investor expects markets to be range-bound, as that is the market scenario when autocallables typically outperform both bonds and

equities. Bonds tend to preserve principal during bear markets, and equities thrive in bull markets, while autocallables can usually deliver higher income than both in sideways markets.

How autocallables work

To enable the income-generating ability of these products, autocallables are comprised of several integrated components that function cohesively. These components—grouped by

“underlying components” and “structure components”—come together to influence the coupon level and return outcomes an investor can receive:

Figure 3: Typical Autocallable Components

The **Underlying Asset** (“underlying”) is what serves as the basis for the autocallable’s performance.

Underlying Components

Component Name	Component Definition	Impact on Coupon	
Volatility	The measurement of price fluctuation.	Higher volatility raises coupon rates, while a target volatility strategy can stabilize coupons.	↑
Dividends/ Decrements	Dividends: Payments made to investors in an underlying. Decrements: “Synthetic dividends” engineered into an underlying.	Since the dividend/decrement is forfeited by the investor, a larger dividend/ decrement raises coupon rates.	↑
“Worst-of”	A popular option involving holding multiple assets and receiving the worst performing of the basket.	Having a greater number of assets or having less correlated assets raises coupon rates.	↑

The **Structure** defines the payout profile that is being purchased linking to the underlying.

Structure Components

Component Name	Component Definition	Impact on Coupon	
Tenor	The maturity date of a product, often between 1 and 5 years.	A longer tenor will typically lead to slightly lower coupon rates.	↓
Observation Periods	The intervals at which a coupon payment or early redemption (autocall) event may occur, typically on a monthly, quarterly, semiannual, or annual basis.	More observation periods will typically lead to slightly lower coupon rates.	↓
Autocall Trigger	The level at which the product will autocall on an observation date (typically when the underlying is at or above its initial value [100%]).	Moving the autocall trigger level higher will reduce the odds of early autocall, and therefore can lead to slightly higher coupon rates.	↑
Non-Call Period	An optional feature that prevents an autocall from happening for a portion of observation dates.	More non-call periods decrease reinvestment risk, but increase principal risk, resulting in a mixed impact on coupon.	↔
Downside Protection at Maturity	The style and degree of downside protection in a product, ranging between fixed (buffer) and conditional (barrier) downside protection across a variety of thresholds.	Fixed downside protection and lower thresholds will lower coupon rates, while conditional downside protection and higher thresholds will increase coupon rates.	↑
Coupon Barrier	An optional, but common feature that conditions the coupon payment based on the underlying being above a certain level (example: if the underlying level is above 70% of the initial value on an observation date).	Higher coupon barriers decrease the odds of receiving a coupon, therefore increasing coupon rates.	↑
Coupon Memory	When a coupon barrier is present, a coupon memory feature can be added to pay out any previously missed coupons when the underlying is above a coupon barrier on a later observation date.	Coupon memory will lead to lower coupon rates.	↓

Source: Nasdaq Index Insights. See “Appendix B” for variations on downside protection.

With the breadth of features that can be present inside of an autocallable structure, there are two key points to take note of:

1. Each feature balances coupon value with downside protection and coupon redeemability; a higher coupon suggests the market anticipates either greater downside risk or reduced odds of earning the coupon.

2. Autocallables exist as a vehicle of risk customization. The investor can choose where they want to add risk to enhance income potential, be it less downside protection, a less redeemable coupon trigger, or a higher volatility underlying.

When engaging with an autocallable product, market participants can use the above table as a checklist to determine which features are present in a product.

Understanding the payoffs

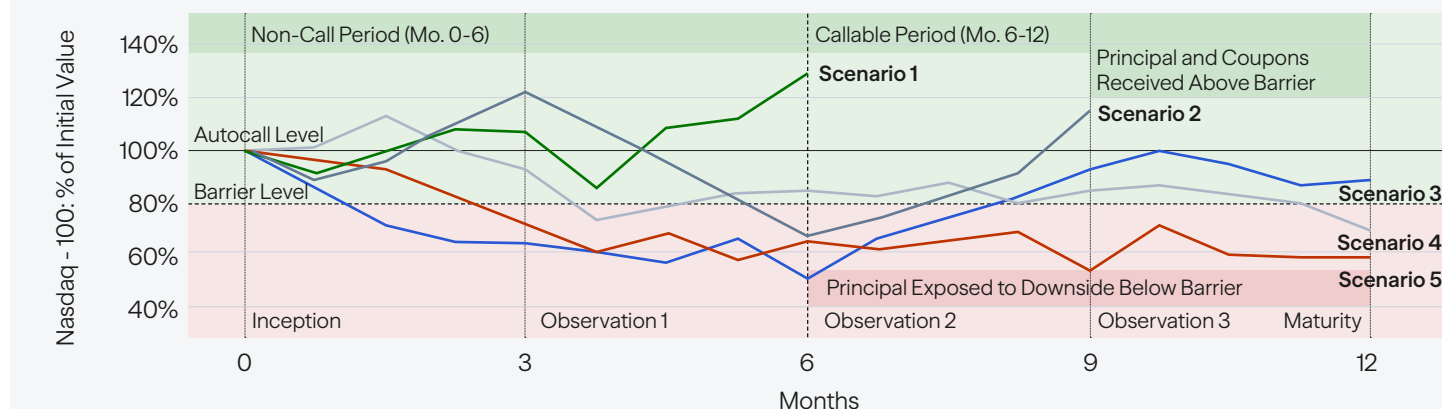
Putting the features together, below is a hypothetical simulation of five different scenarios of a hypothetical autocallable product:

Figure 4: Examining Hypothetical Product Outcomes

Terms of the Hypothetical Autocallable Product:

Underlying Asset	Tenor	Observation Periods	Autocall Trigger	Non-Call Period	Downside Barrier	Coupon Barrier	Coupon Memory	Coupon
Nasdaq-100	12 months	Quarterly	100% of initial value	6 months	80% of initial value	80% of initial value	Yes	10% per annum

Outlining 5 Hypothetical Scenarios on a Quarterly Observation with the Above Terms:



Scenario Guide:

Inception Non-Call	Scenario 1 Bullish	Scenario 2 Mildly Bearish to Bullish	Scenario 3 Bearish to Mildly Bearish	Scenario 4 Bearish	Scenario 5 Very Bearish
Observation 1 Non-Call	Coupon 1 Received	Coupon 1 Received	Coupon 1 Withheld	Coupon 1 Received	Coupon 1 Withheld
Observation 2 Autocallable	Called: Principal and Coupon 2 Received	Coupon 2 Withheld	Coupon 2 Withheld	Coupon 2 Received	Coupon 2 Withheld
Observation 3 Autocallable		Called: Principal and Coupons 2 and 3 Received	Received Coupons 1, 2, and 3	Coupon 3 Received	Coupon 3 Withheld
Observation 4 Maturity			Matured: Principal and Coupon 4 Received	Matured: Principal at Risk and Coupon 4 Withheld	Matured: Principal at Risk and Coupon 4 Withheld
Outcome	5% Income in 6 Months 100% Principal Returned	7.5% Income in 9 Months 100% Principal Returned	10% Income in 12 Months 100% Principal Returned	7.5% Income in 12 Months 70% Principal Returned	No Income 60% Principal Returned

Source: Nasdaq Index Insights. All terms stated and scenarios laid out are purely hypothetical, illustrative, and are not reflective of real market events. See "Appendix B" for variations on downside protection.

While these scenarios are not exhaustive and are only representative of a single autocallable product, they present the diversity of outcomes that can occur and reinforce the types of markets in which they perform best—modestly bearish to bullish markets.

The rise of the “easy button”—autocallable ETFs

For several decades, the autocallable product traded in “note format”—packaged inside of a bond. This structure enabled securitization of previously inaccessible OTC derivative strategies, while also providing transparency and clear contractual payoff obligations. However, this format still required high minimum capital allocation, had low-to-no liquidity, and exhibited credit risk from the bond component (see “Appendix B” for autocallable risk factors).

Thanks to the relentless innovation within the ETF industry, the autocallable ETF finally emerged in the past year—taking the autocallable structure and packaging it inside of an ETF instead of a bond. Doing so has made the following improvements to the structure:



Ease of purchase

- Investors can acquire shares at any point during market hours, frequently with smaller capital allocations. Additionally, model portfolio managers can more readily incorporate these as a component within their strategies.



No issuer credit risk

- Since there is no bond, there is no risk of issuer default given that funds will be held by an independent custodian/trustee.



Laddered exposure to multiple autocallables at once

- The diversification enabled by this can often reduce tail risk, smooth coupon distribution rates, and simplify principal reinvestment.

These distinctions have allowed asset managers to launch autocallable ETFs that have generated high levels of adoption, not solely as a result of cannibalizing the autocallable note business but by growing the “autocallable pie,” so to speak.

Where autocallables fit in an investor's portfolio

As previously mentioned, autocallable ETFs have not replaced autocallable notes, but instead complement them by offering new ways to expand portfolio use cases. This raises the question: when

is it appropriate to choose a note versus an ETF? Broadly speaking, notes provide customizability in the structure, while ETFs provide customizability in the holding of that structure.

Figure 6: Using an Autocallable Note versus ETF

Investing in an Autocallable

Note



Customizability in setting structure terms and underlying.



A contract-bound payout that provides a defined outcome after a set period.

ETF



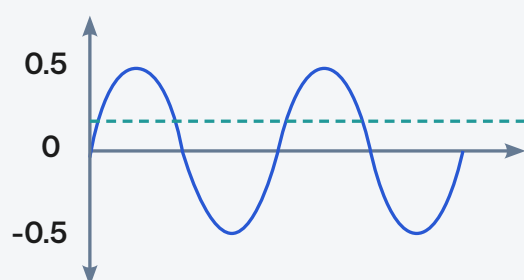
A laddered broad market underlying as a sleeve in a portfolio, “set it and forget it”



Flexibility in your entry and exit point in the product, minimizing path dependency.

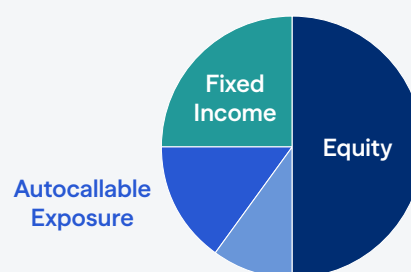
Allows You To

Tactically capitalize on a sideways market view



Autocallable notes—with their contractual payout and customizable nature—can provide an effective way to express a sideways market view while being compensated with above-market income.

Deliver aggressive income objectives beyond fixed income



Autocallable ETFs—with their ease of purchase and maintenance—can help investors achieve strategic income objectives through a mix of equity and debt allocation in a broader portfolio.

Source: Nasdaq Index Insights. All terms stated and scenarios laid out are purely hypothetical, illustrative, and are not reflective of real market events.

Conclusion

Autocallables have emerged as a compelling solution for investors seeking to enhance portfolio outcomes beyond the traditional scope of fixed income and equity markets. Their hybrid nature—blending characteristics of both stocks and bonds—positions autocallables as versatile instruments capable of delivering meaningful income and capturing value across a range of market

environments. By providing defined outcomes and adaptability in terms of structure and market exposure, autocallables enable investors to better align their portfolios with their financial goals. As investor needs continue to evolve, autocallables may play a critical role by delivering both opportunity and resilience in an ever-changing market landscape.

To learn more about the Nasdaq-100® (NDX®), check out the following resources:

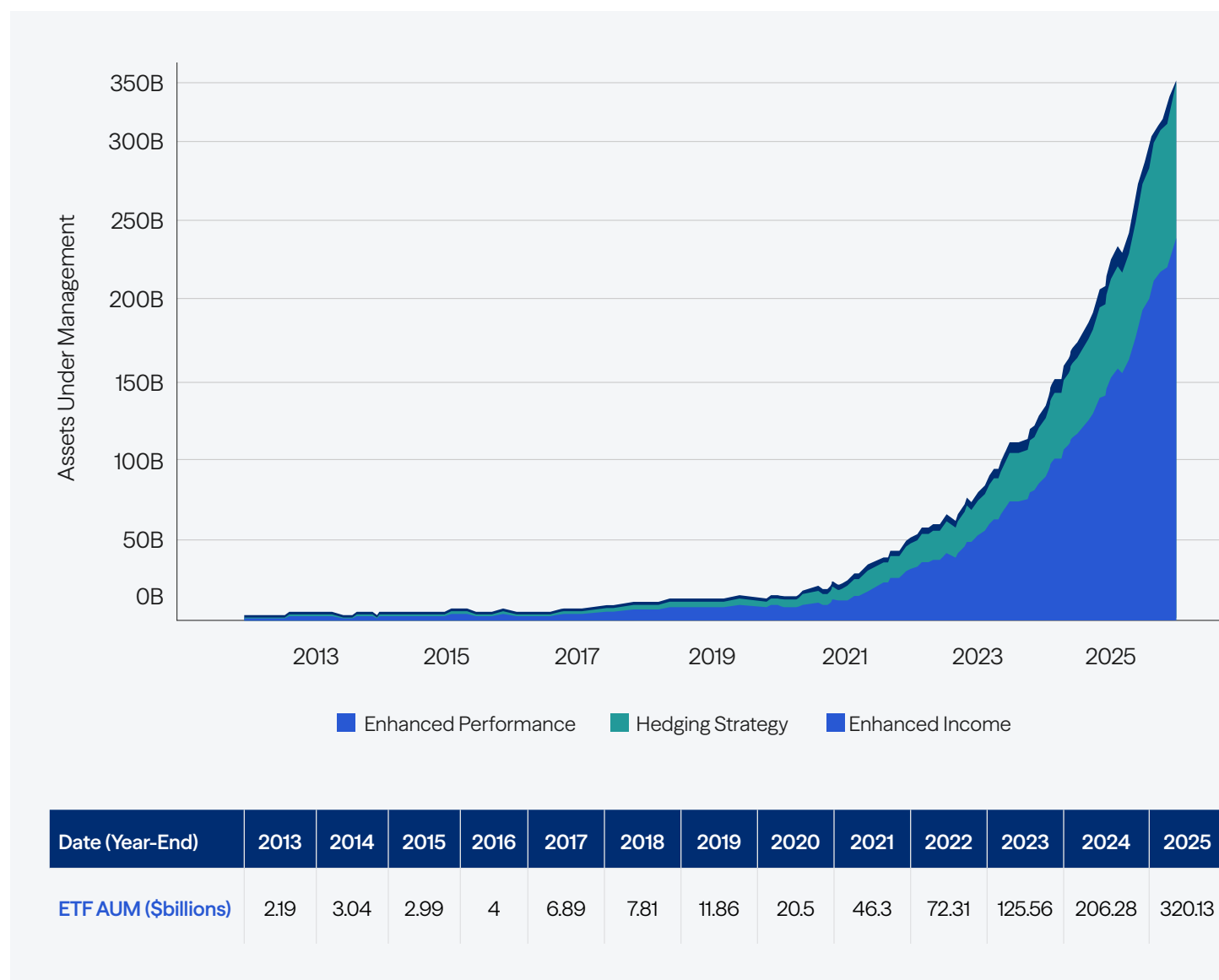
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Appendix A: Growth in options ETFs

The chart below displays the AUM growth experienced by Options ETFs over the past ~14 years.

Figure 7: AUM Growth in Global Options ETFs



Source: Nasdaq Index Insights. Data between 1/31/2012 and 12/31/2025. Assets under management stated in billions of dollars.

During this period, enhanced income ETFs (such as covered call ETFs and the aforementioned autocallable ETFs) have led in AUM, with hedging strategy ETFs (such as buffer ETFs) having also seen sharp growth in the past 5 years. Enhanced performance currently exists as a more niche market, with potential to grow in the future.

Appendix B: Key risk factors of autocallables

Below is a list of key risk factors to be considered when purchasing an Autocallable. Please note that this list is not exhaustive, and is reflective of information as of the publication date of this paper:

- **Market Risk:** Returns depend on the performance of the underlying index, stock, or basket. Sustained declines can prevent coupon payments and result in capital loss.
- **Reinvestment Risk:** Early redemption can force reinvestment, sometimes at lower yields and in less favorable market conditions.
- **Liquidity Risk:** Autocallable exposures are not designed for frequent trading. During periods of stress, bid-ask spreads may widen and exit prices may be materially unfavorable.
- **Path Dependency:** Outcomes depend on the trajectory of the underlying, not just its initial and final level. Interim drawdowns may suppress coupons, while interim rallies may lead to autocall events. Two identical final index levels can produce very different investor outcomes.
- **Model Risk:** Pricing and expected outcomes rely on quantitative models that are often proprietary to a hedging counterparty. Assumptions (volatility, correlation, liquidity) may break down in stressed markets.

Structured Note-Format Risks:

- **Issuer Credit Risk:** Structured notes are typically issued as unsecured obligations of the issuing bank. If the issuer defaults, investors may recover less than contractual payoffs regardless of underlying performance. Credit risk is independent of market risk.
- **Secondary Market Risk:** Early exit from a structured note (designed to be held until maturity) results in lower prices reflective of issuer credit spreads and hedging costs. Secondary prices may diverge materially from contractual maturity outcomes.

ETF-Format Risks:

- **Tracking Error:** Performance may deviate from expected autocallable payoffs and theoretical option models, with no contractual obligation to provide a specific payout. Tracking error typically increases during volatile or illiquid conditions.

Autocallables embed layered risks across market performance, volatility, path dependency, and structure; structured notes emphasize contractual certainty and issuer credit risk, while ETFs trade defined outcomes for liquidity, transparency, and strategy flexibility.

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ETF shares trade on an exchange at market prices rather than net asset value (NAV) and may trade at prices above (a premium) or below (a discount) NAV. Investors buying or selling shares may incur brokerage commissions, may pay bid-ask spreads, and other trading costs. While ETFs are designed to provide investment exposure consistent with their stated objectives, there can be no assurance that an ETF will achieve its investment objective or strategy.

Certain ETFs may employ complex investment strategies, including the use of derivatives such as options, futures, or swaps, which may increase volatility and amplify gains and losses. Diversification does not guarantee a profit or protect against loss in declining markets.

Coupon payments from the Autocallables are not guaranteed and will not be made if the Underlying Reference Index falls below the Coupon Barrier on observation dates. This means an investment may generate significantly less income than anticipated during market downturns.

An investment's returns are correlated to the performance of a theoretical portfolio of Autocallables notes reflected by the Autocall Index. Autocallables have specific structural features that may be unfamiliar to many investors.

An investment may generate significantly less income than anticipated during market downturns.

Credit rating downgrades and defaults (failure to make interest or principal payment) may potentially reduce the Fund's income and share price.

Barrier Risk: If the Underlying Reference Index falls below the Maturity Barrier at the maturity of an Autocallable in the Index Portfolio, that portion of the Index Portfolio will be fully exposed to the negative performance of the Underlying Reference Index from its initial level. This conditional protection can result in sudden, significant losses if barriers are breached.

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