VegaShares

A Beginner's Guide to Autocallable ETFs

How to Earn Income from Equities

Income investing has always involved a trade-off between yield and risk. Bonds offer stability but modest returns. Dividend stocks offer income but full equity exposure. A newer category of structured investment — the autocallable note — sits in between equities and fixed income: higher income potential than most fixed-income options, with a clearly defined set of equity-linked risks.

Until recently, autocallable notes were only available to institutional investors and high-net-worth clients through private banks and broker-dealer structured product desks. That's changing. A new generation of autocallable ETFs is bringing this strategy to a much broader audience — and changing what income investing can look like in a diversified portfolio.

What Are Autocallable Notes?

An autocallable note is a structured, market-linked investment that pays a periodic coupon as long as a reference index stays above a predefined level. If the index rises in value, the note can be automatically called early and returns principal ahead of its scheduled maturity date. If the index falls in value and stays down, income can be interrupted and principal can be at risk.

The reference index is usually a broad equity benchmark — the S&P 500®, the Nasdaq-100®, or in the case of the VegaShares U.S. Equity Autocallable Income ETF (ticker: VAIE), a family of target volatility indexes based on U.S. large-cap equities. The performance of the reference index relative to a set of predefined thresholds determines everything: whether a coupon gets paid, whether the note gets called early, and whether principal is returned in full at maturity.

The appeal is straightforward: autocallable coupons are typically well above what investment-grade bonds offer, because investors are being compensated for accepting equity-linked downside risk rather than just credit or duration risk. The income is usually higher because investors are compensated for accepting equity-linked risk and the additional structural features embedded in the note.

How Autocallable Notes Work: The Key Structural Terms

Every autocallable is defined by a set of parameters. Understanding these is essential to understanding what you own.

The Coupon Barrier

If the reference index level is below the coupon barrier at the periodic observative dates, coupon income stops. In VAIE, this is set at 70% of the initial index level — meaning the index would need to fall more than 30% before coupons are interrupted. If the index is above this barrier on its (typically, monthly) observation date, the coupon is paid. If it closes below, that payment is skipped and cannot be made up later. Autocallable income is contingent, not guaranteed.

The Autocall Barrier

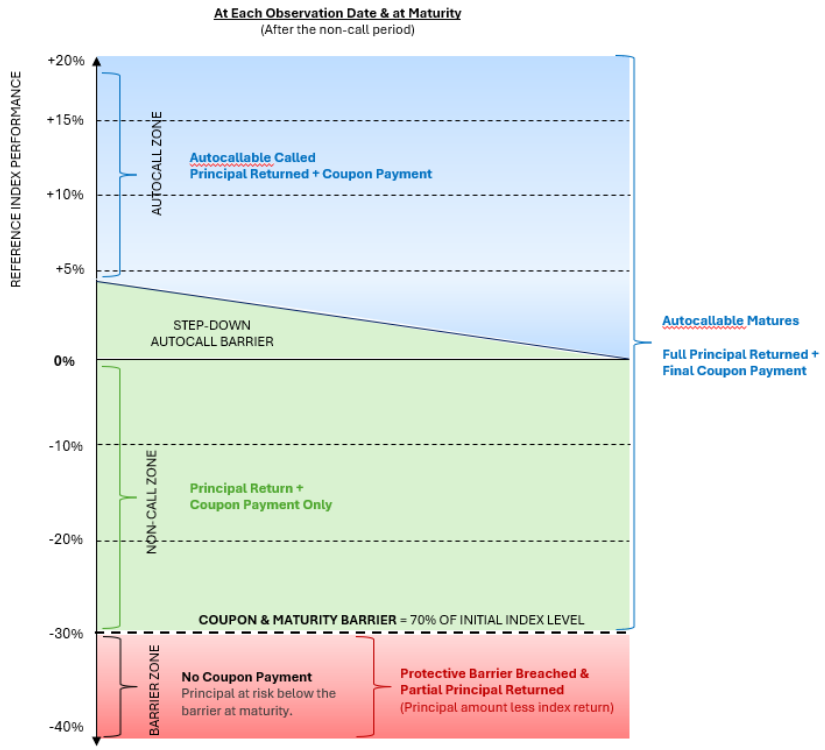
The level at which the note redeems early. In VAIE, the autocall barrier starts at 104.50% of the initial index level during the first observation period, at the end of the non-call period (details below), then steps down quarterly by 0.25% to 100%. Once the index reaches the autocall barrier, the note is called and principal is returned.

The Non-Call Period

An initial window during which early redemption cannot happen even if the index is above the autocall barrier. In VAIE, this can range from six to fifteen months.

The Principal Barrier (Maturity Barrier)

If a note is never called, it runs to final maturity — five or five and three quarter years in VAIE. The principal barrier determines what happens to the investor’s capital at that point. In VAIE, this is set at 70% of the initial index level. If the index finishes above that level, investors receive full principal. If below, principal is reduced based on the index’s full decline from its starting level. For example: a 40% index decline on a note with a 70% principal barrier would return 60% of its initial investment.



The Four Outcome Scenarios

Regardless of what happens in between, autocallable notes resolve into one of four broad outcomes depending on where the index finishes on its observation dates.

Scenario 1 — The Good Outcome (Bull Market)

Index rises and gets called prior to maturity

The note is called prior to maturity with coupons paid. Full principal is returned.

Scenario 2 — The Great Outcome (Flat Market)

Index stays flat or declines no more than 30% through maturity

The note is not called early and runs to maturity with coupons paid throughout. Full principal is returned. This is the intended outcome the strategy is built around — generating above-market yields in market environments without severe drawdowns.

Scenario 3 — The Mediocre Outcome (Volatile Market)

Index declines by 30% and hovers around coupon and principal barrier

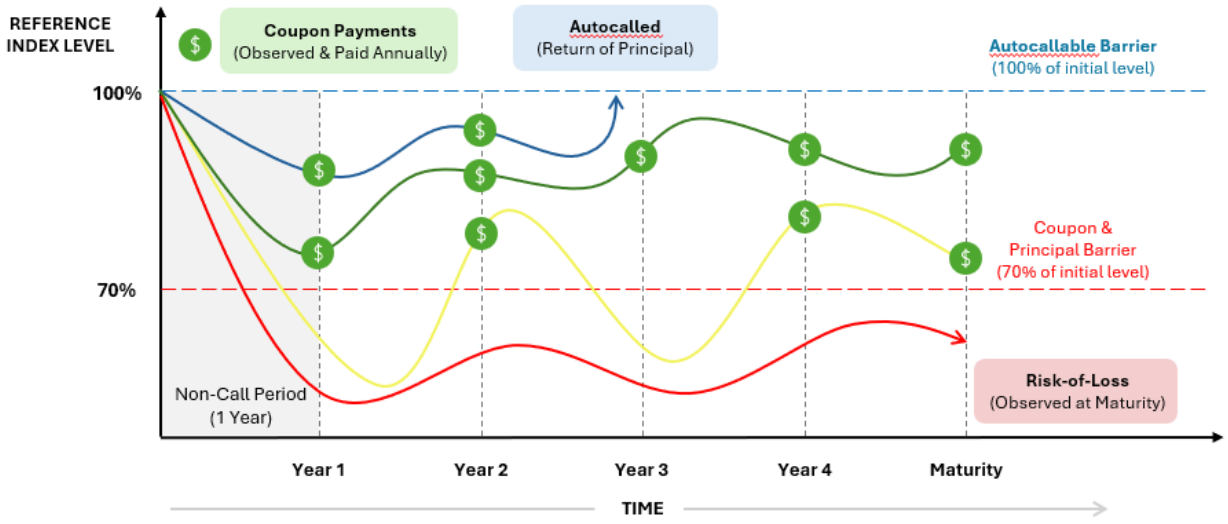
Income is paused below the 70% coupon barrier, but the index finishes at or above the 70% principal barrier at maturity. Full principal is returned. Income is uneven, but capital is intact.

Scenario 4 — The Worse Outcome (Bear Market)

Index declines by more than 30% and stays there through maturity

Income is paused and principal is impaired based on the index's full decline from its starting level. A meaningful capital loss. This outcome requires a severe, sustained drawdown that persists over the full term of the autocallable — a historically rare but not impossible event.

In our example below, we assume that each autocallable has a fixed 1-year non-call period, the call level is 100% of the reference index's initial level, coupons are observed and paid annually and each autocallable has a term of 5 years.



What Makes VAIE Different: Adaptive Volatility

Most autocallable notes reference a standard equity index like the S&P 500 directly or a single fixed volatility-targeted index. VAIE takes a different approach. Its reference a family of volatility-controlled indexes with exposure to U.S. large-cap equities. At the inception of each new autocallable, the index selects a target volatility that most closely matches current market conditions (subject to a floor and a cap). That selection is then fixed for the life of the autocallable.

The income of an autocallable is driven by volatility — higher volatility environments support higher coupons because the structured payoff carries more embedded risk. When volatility is low, new notes carry lower coupons. When volatility is high, new notes carry higher coupons. Each note's coupon is locked in at inception and does not adapt to changing conditions.

VAIE's target volatility indexes seek to solve this problem by targeting specific levels of volatility (ranging from 25% to 35% across the portfolio), with each index dynamically adjusting its equity exposure daily to maintain its target. Each index also includes a 6% annual decrement — a fixed daily reduction in the index's value that directly funds the autocallable coupon.

> In practical terms: when a new autocallable is struck, VAIE selects the applicable target volatility index. In calm markets, new autocallables link to lower volatility targets, generating lower coupons, and with lower risk profiles. In volatile markets, new autocallables link to higher volatility targets, adaptively capturing higher coupons. The portfolio's weighted average vol target at any point reflects the market conditions under which each note was struck — diversifying across both time and volatility regimes.

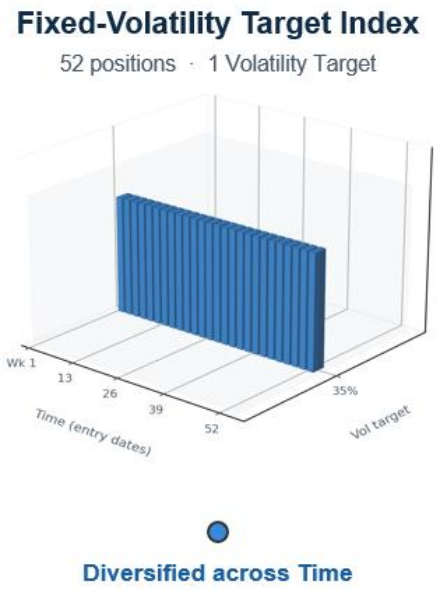
Not All Autocallable ETFs Are Built the Same

Most autocallable ETFs on the market today use some form of fixed volatility-targeted reference index rather than referencing the S&P 500 directly, and ladder positions across time to diversify concentration risk. By fixing the volatility target, an ETF may take on additional leverage and risk in a low volatility environment. VAIE is different. VAIE not only ladders positions across time but also diversifies across a range of volatility targets.

The Fixed Volatility Target Index Approach

Most autocallable ETFs use a fixed volatility-targeted reference index. Each fund picks one volatility target — say 35% or 40% — and every autocallable position in the portfolio is written against that same index. The entire fund's income depends on one volatility target.

This creates a specific form of risk. If the volatility target is set too high, the index carries excessive leverage in calm markets, If set too low, the index may not produce enough volatility to generate attractive coupons. The "right" target depends on market conditions that change over time — and a single fixed target cannot adapt.



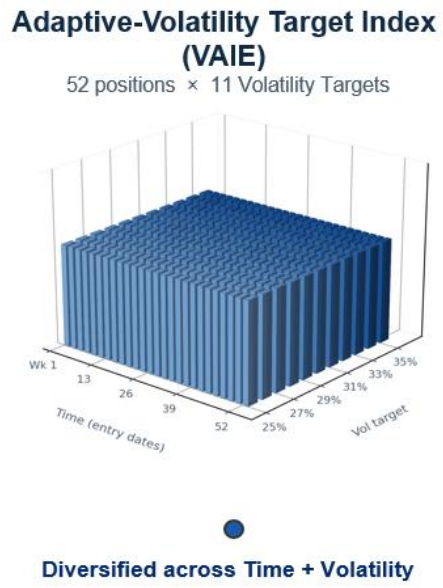
VAIE's Approach: Two Dimensions of Diversification

VAIE is built differently. Rather than referencing a single fixed volatility target index, VAIE's reference portfolio uses 11 distinct target volatility indexes, each targeting a different volatility level ranging from 25% to 35%.

This means VAIE diversifies across two independent dimensions simultaneously:

Dimension 1: Time (the ladder). 52 autocallable positions with staggered entry and maturity dates. The strikes and barriers of the 52 autocallables are determined and measured across different times, seeking to reduce market timing and concentration risk..

Dimension 2: Adaptive Volatility . The ability to reference eleven target volatility indexes, ranging from 25% to 35% volatility targets, means that VAIE's coupon is not dependent on one fixed volatility environment. In a low-volatility environment where the market is steady and/or rising, new autocallables reference lower volatility targets, thereby seeking to reduce risk of losing principal if markets subsequently decline. In a high-volatility environment during markets sell-off, new autocallables would link to higher volatility targets, seeking to capture higher coupons. As the reference index recovers from the sell-off, higher-volatility target autocallables that were struck during the sell-off tend to get called away if the reference index rises above the autocall barrier, and the portfolio would gravitate towards a lower average volatility target.



Who Autocallable Notes Are Designed For

Autocallable notes are designed for investors who want higher income than traditional fixed income offers and are willing to accept equity-linked downside risk. They are not a fixed-income substitute, and they are not meant as a way to participate in equity upside outside of contingent

income. Upside is capped at the coupons received, except, and unless a note is purchased after its value has decreased because there is a risk of principal loss, but the underlying index recovers above the principal barrier and full principal is return at maturity. For income-focused investors who understand that trade-off, autocallables can serve as a meaningful portfolio component — particularly as a source of yield that is not correlated to interest rate movements the way bond income is.

Why Invest in Autocallable Notes Through an ETF?

The ETF structure solves nearly every practical problem that has historically kept individual investors out of this asset class.

Access. Bank-issued autocallable notes have traditionally required minimums of $250,000 or more per note. An autocallable ETF has no formal minimum beyond the price of a single share.

Liquidity. Bank-issued notes have a limited secondary market. ETF shares trade on exchange throughout the day with liquidity from various market makers.

Tax simplicity. Autocallable ETFs issue standard 1099 reporting. ETF distributions may be taxed as return-of-capital where structured note distributions are typically taxed at ordinary income rate.

Automatic reinvestment. When a note is called or matures inside an ETF, proceeds are automatically reinvested into new positions. No action is required from the investor.

Timing Ladder. A single autocallable note creates concentrated exposure to one specific moment in time. If that note's observation dates coincide with a period of market stress, the outcome suffers regardless of what the market did before or after. This is concentration risk. An autocallable ETF addresses this by adding new notes with different start dates and different maturity dates, such that the portfolio holds positions tied to different market levels and different observation date schedules.

Volatility Ladder. A single volatility-targeted index creates concentrated exposure to one specific volatility target. If that volatility target requires excessive leverage in the prevailing market conditions, then the index may carry excessive risks. VAIE addresses this by accessing 11 target volatility indexes with different volatility targets, such that the portfolio holds exposure tied to many different volatility targets rather than a single fixed volatility target.

VAIE's Adaptive Volatility Autocallable Index holds 52 synthetic autocallable positions, each with a different maturity date, varying volatility targets and therefore a different set of risk characteristics. New positions are added immediately when existing ones are called or mature.

The fund's aggregate exposure to the autocallable income strategy is diversified across 52 different market reference points.

Dimension	Autocallable ETF	Autocallable Structured Note
What you own	Shares of a 1940 Act registered investment fund	Senior unsecured bank debt
Where is it traded	Exchange-traded (NYSE)	Over-the-counter (issuing bank is the sole dealer)
If the issuer fails	Assets protected at the custodian (US Bank NA)	General unsecured creditor claim
What are the minimums	1 share	$250K+
Who sets the price	Competing market makers	The issuing bank as the sole dealer
What are the fees	0.74% management expense ratio	1-3% underwriting fees and commissions (may differ depending on structure)
Who is the counterparty	Goldman Sachs as current swap counterparty	The issuing bank as issuer and underwriter of the note
What is the diversification	52 autocallables, choice of 11 volatility targets (diversify concentration and volatility risk)	None, single note with concentration risk
How are the distributions taxed	Expected return-of-capital (ROC)	Ordinary income
Are the distributions DRIP eligible?	Yes; dividends can be directly reinvested back into the ETF	No
Is there automatic reinvestment	Yes; index automatically reinvests proceeds from called or matured notes into new autocallables	No; advisors/investors must source new notes

Is it model portfolio ready	Yes	No

The practical effect of this diversification is meaningful. The autocallables inside of VAIE will have varying coupon barriers, maturity barriers, and autocallable barriers, reducing the dependency of the performance of any one autocallable. . The fund's aggregate income is a blend across all 52 positions. A single bank issued autocallable note issued at the market high would have its income and principal at risk in a subsequent down market. The weekly roll mechanism ensures that as positions are called or mature, new positions are added at current market levels — entry point diversification is continuously maintained.

What to Know Before You Invest

Income is not guaranteed. Distributions depend on the reference indexes staying above the coupon barrier on each observation date. In a significant market decline, distributions can stop and will not be made up when markets recover.

Principal can be at risk. In a severe, sustained downturn where the index finishes below the principal barrier at the end of the term, investors can lose a significant portion of their original investment.

Upside is capped. In a strong bull market, notes will be called early and proceeds reinvested — but investors won't participate in market gains beyond the coupon income.

The underlying mechanics are complex. VAIE gains exposure through total return swaps with the current swap counterparty, Goldman Sachs. There and risks involved and investors should consult a financial professional before investing.

The Bottom Line

Autocallables offer something different from other income investments: high periodic income tied to equity market behavior. The ETF structure removes the barriers that have historically kept this strategy out of reach — the high minimums, the illiquidity, the operational complexity, and the concentrated timing risk of holding a single note.

VAIE goes further than simply wrapping autocallable notes in an ETF. Its two-dimensional diversification — 52 laddered positions across time and across volatility regimes — means the portfolio adapts to changing market conditions without requiring active intervention. Laddering

with adaptive volatility target selection turns a concentrated structured product into a more diversified income strategy.

For income-focused investors, VAIE offers contingent above-market yield with built-in adaptation and the potential for principal protection across full market cycles.

Glossary

S&P 500 Index — A market-capitalization-weighted index of 500 large-cap U.S. companies listed on U.S. stock exchanges, widely used as a benchmark for the overall U.S. equity market.

Nasdaq-100 Index — A modified market-capitalization-weighted index of 100 of the largest non-financial companies listed on the Nasdaq Stock Market.

Structured Investment — A pre-packaged financial instrument that combines elements of fixed income and derivatives to deliver a customized return profile linked to the performance of one or more underlying reference assets.

Market-Linked Investment — A financial instrument whose income, principal repayment, or both are determined by the observed performance of an underlying market reference asset, such as an equity index, relative to predetermined thresholds.

Credit Risk — The risk that a counterparty or issuer fails to meet its contractual obligations, potentially resulting in partial or total loss of expected income or principal.

Duration Risk — The sensitivity of a financial instrument's value to changes in prevailing interest rates, whereby longer-duration instruments experience greater price volatility in response to rate movements.

Observation Date — A specified date on which the level of an underlying reference asset is measured to determine whether a predetermined condition has been met, such as the payment of a contingent coupon, an autocall event, or principal protection at maturity.

Concentration Risk — The risk of disproportionate loss arising from significant exposure to a single issuer, sector, asset class, geography, or counterparty.

Return of Capital — A distribution that represents a return of an investor's own invested principal rather than income or realized gains, which reduces the investor's cost basis and may have deferred tax implications.

DRIP (Dividend Reinvestment Plan) — A program that allows investors to automatically reinvest cash distributions into additional shares of the same fund or security at the prevailing market price on the reinvestment date.

Disclosures

Before investing, carefully consider the fund's investment objectives, risks, and charges and expenses. The prospectus and summary prospectus contain this and other important information and may be obtained by visiting VegaSharesETFs.com or calling 1-888-862-3299. Read it carefully before investing.

The fund, its investment adviser Vega Capital Partners LLC (the “Adviser”), and its distributor do not provide tax, legal, or investment advice. Investors should consult a financial professional regarding an investment in the fund and should carefully consider the fund’s investment objectives, risks, charges, and expenses before investing.

The VegaShares US Equity Autocallable Income ETF is a series of VegaShares ETF Trust (the “Trust”) and is an exchange traded fund. Shares of the fund are bought and sold at market price (not net asset value) and are not individually redeemed from the fund. Brokerage commissions and bid/ask spreads will reduce returns.

Goldman Sachs is not an advisor, promoter, in any way affiliated with the fund and has no responsibility for the fund's performance, marketing, or trading, or any responsibility regarding the suitability of the fund as an investment.

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An investment in the fund is subject to risks, and you could lose money on your investment in the fund. There can be no assurance that the fund will achieve its investment objective. Your investment in the fund is not a deposit in a bank and is not insured or guaranteed by the Federal Deposit Insurance Corporation (FDIC) or any other government agency. The risks associated with an investment in the fund can increase during times of significant market volatility. The fund also has specific principal risks, which are described below. More detailed information regarding these risks can be found in the fund's prospectus.

Investing involves risks. Loss of principal is possible. The fund faces numerous market trading risks, including authorized participation concentration risk, capital protection risk, capped upside risk, cash holdings risk, clearing member default risk, correlation risk, derivatives risk, equity securities risk, investment timing risk, large-capitalization investing risk, liquidity risk, market maker risk, market risk, non-diversification risk, options risk, premium-discount risk, secondary market trading risk, sector risk, tax risk, trading issues risk, underlying ETF risk and valuation risk. For a detailed list of fund risks see the prospectus. The principal risks of investing in the VegaShares US Equity Autocallable Income ETF include: autocallable structure risk, contingent income risk, early redemption risk, barrier risk, authorized participant concentration risk, calculation methodology risk, cash holdings risk, correlation risk, costs of buying and selling fund shares, counterparty risk, credit risk, derivatives risk, equity securities risk, index risk, interest rate risk, laddered portfolio risk, liquidity risk, market maker risk, market risk, new fund risk, non-diversification risk, premium-discount risk, secondary market trading risk, swap agreement risk, tax risk, trading issues risk, valuation risk, and volatility target index risk.

Autocallable Risk. The Fund's returns are correlated to the performance of the autocallables included in the NYSE® U.S. 500 Adaptive Vol Autocallable Index. Autocallables are unique financial instruments and have certain characteristics that may be unfamiliar to many investors:

- Coupon Payment Risk. A coupon payment from an autocallable is not guaranteed and will not be made if the respective reference index breaches the respective coupon barrier on any given observation date. As a result, the fund may generate significantly less income than anticipated during market downturns.

- Autocall Barrier Risk. If the respective reference index reaches or breaches the respective autocall barrier for any given autocallable on an observation date after the expiration of the respective non-callable period, then the autocallable will be called before its scheduled maturity. This automatic early redemption could force reinvestment of that portion of the portfolio at lower rates if market yields have declined.

- Maturity Barrier Risk. If the respective reference index is below the respective maturity barrier for an autocallable on the day that the autocallable matures, the fund will be fully exposed to the downside of the respective reference index from its initial level and the amount of principal repaid to the Fund will be reduced by an amount equal to that downside performance of the respective index. This conditional protection creates a binary outcome that can result in sudden, significant losses if a maturity barrier is breached. If a reference index's value is at or near its maturity barrier for an autocallable at the end of the autocallable's maturity, small changes in the value of the reference index could result in dramatic changes in the value of the autocallable and NYSE® U.S. 500 Adaptive Vol Autocallable Index and therefore the Fund's NAV. Investors should understand these risks before investing in the fund.

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