

March 2026



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Introduction

2025 was a year marked by uncertainty, yet risk assets delivered strong returns¹, culminating in what could be described as an “almost everything” bull market. As we look ahead to 2026, we believe the conditions are in place for the market advance to continue but we are mindful of the need for diversification as macro factors continue to evolve. Amid this changing backdrop, Asia-based investors continue to demand certainty and tangibility in the form of regularly realized cash flows.

Traditional sources of income

Balancing measured outcomes across capital appreciation, or preservation, and income generation continues to be a challenge for investors, especially during times of market uncertainty and geopolitical tension.

Based on market trends, investors in Asia have historically looked at high dividend-seeking equity strategies and fixed income investment grade and high yield credit. While these strategies may deliver income to investors, they are not without challenges. Equity dividend strategies may deliver income at the expense of total return, and in the case of fixed income credit strategies, investors typically need to move down the quality spectrum for only incremental improvements in yield.

While traditional high dividend and fixed income credit strategies still have parts to play in client portfolios, we think they can be meaningfully extended upon in a way that enhances yields but also balances for risk by diversifying across a variety of income drivers. Such strategies could be accessed conveniently and efficiently through low cost, transparent Exchange Traded Funds (ETFs).

Innovating income generation from equities

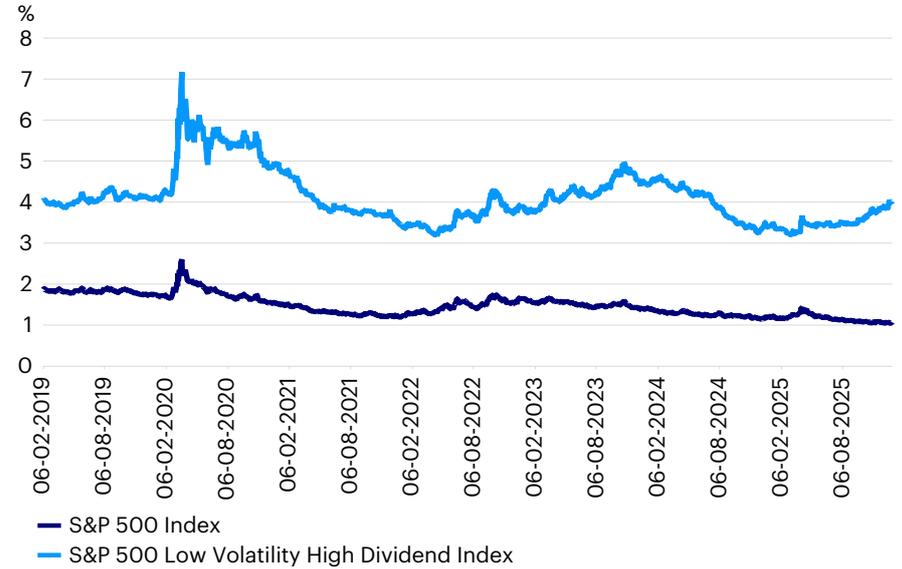
High dividend strategies can be negatively impacted by market volatility and deliver “value traps”. For example, these strategies may be allocated to companies that seem to offer high dividend yields but actually provide stable or even relatively low dividends. These yields only look large as a proportion of a price that is now lower due to a steep market drawdown. This can not only reduce overall income generation, but it can also result in meaningful underperformance in total return relative to equivalent market-cap weighted strategies.

Investors could enhance such allocations by overlaying a low volatility filter to these high dividend strategies. This works by first screening the relevant stock universe for high dividend securities (e.g., look at the top 75 stocks offering the highest yield in the S&P 500) before applying a low volatility filter (e.g., look at the top 50 stocks within the new 75 universe with the lowest realized volatility) and then weighting by trailing 12 month dividend yield. Taking this approach could deliver similar levels of volatility and drawdown risk while potentially delivering improved yield relative to the broad market.

1. Source: Bloomberg in USD, MSCI ACWI Net Total Return Index returned 22.34% versus the Bloomberg Global Agg Treasuries Total Return Index, which returned 6.82% for the calendar year of 2025.

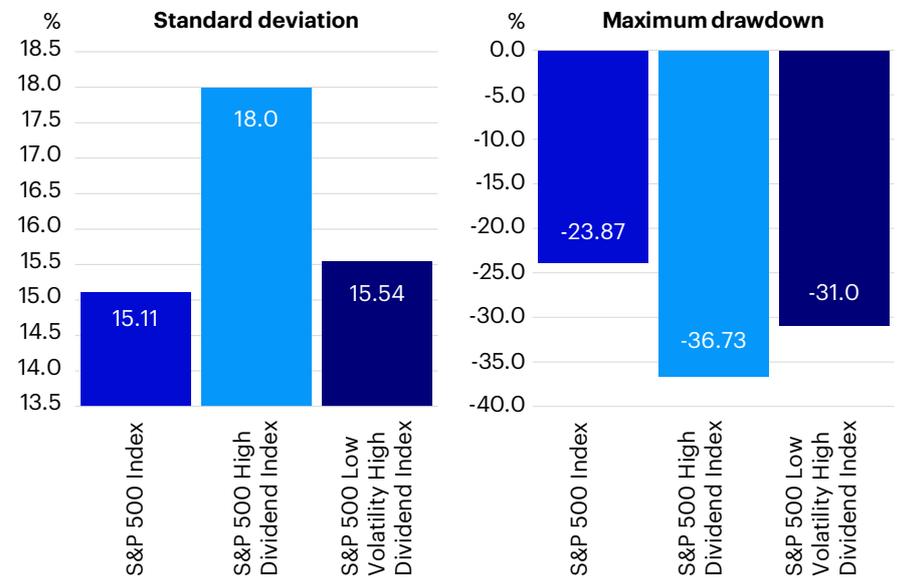
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Figure 1 – Trailing 3-year 12 month distribution rate



Source: Bloomberg, L.P. Data from February 1, 2019 to December 31, 2025. **Past performance is not a guarantee of future results.** Trailing 12-month dividend yields do not represent index returns, and are calculated using the sum of dividend per share amounts that have gone ex-dividend over the prior 12 months, divided by the current price.

Figure 2 – Standard deviation and maximum drawdown of S&P 500 indices



Source: Morningstar Research Inc. Performance data is based on monthly total return from September 30, 2015, to December 31, 2025. An investor cannot invest directly in an index. **Past performance is not a guarantee of future results.** Index returns do not represent fund returns.

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Options-based strategies

Investors could complement high dividend-low volatility strategies and further enhance income generation with options-based strategies, an innovative way to derive income from equity exposures while aligning with existing portfolio asset allocations. Options-based income strategies could deliver yields above those of traditional equity dividends, including indices such as the Nasdaq 100, by systematically selling covered calls and cash secured puts and capturing the associated option premiums.²

Options-based strategies enable investors to incorporate not only income into their existing portfolios but also downside mitigation. For example, an investor may hold an allocation to the Nasdaq-100, an exposure delivering growth through innovation. However, given the turbulence in Big Tech stocks seen in recent months, investors may want to start building in downside mitigation into their US equity sleeves while staying invested, to capture any continued strength off the back of still high earnings and earnings estimates.

Incorporating options-based strategies into portfolios could provide market participation, strong income potential and downside mitigation through reduced market beta. Accessing such strategies via UCITS ETFs means typical Asia-based investors won't be giving away 30% of this total yield through US foreign withholding tax and will instead only pay 15% US withholding tax on dividends paid from Nasdaq-100 securities where the Nasdaq-100 currently pays a dividend yield of 0.47%.³

So, an investor with a Nasdaq-100 allocation as part of their strategic asset allocation could blend this with an options-based strategy over the Nasdaq-100 for diversified income, downside mitigation and market participation. These strategies won't necessarily outperform broad market equivalents over long periods of time but could provide reduced downside capture with reasonable upside capture. During down markets, they may outperform market-cap weighted equivalents. These exposures may come with no duration risk.

Innovating income generation from credit

We began 2026 with a new Fed chair appointment, a steepening yield curve, expected rate cuts and with credit spreads at historically tight levels.⁴ More so than ever, solving for income requires a more deliberate approach to fixed income sleeve portfolio construction.

For this reason, the market trend for many Asia-based investors may be to allocate a part of their fixed income portfolios to various active managers; however, active management may not always be the solution and may result in underperformance relative to broad markets.

For investors seeking income, 82% of active funds underperformed the iBoxx USD Liquid HY Index over the last 15 years and 95% over the last 12 months (for equities, over the last 15 years, 88% of all large-cap US equity funds underperformed the S&P 500 Index).⁵

Investors outsourcing their income objectives to managers might be achieving higher income but at the cost of lower overall total returns due to these higher income yields being returned to investors from capital.

This doesn't necessarily mean active management isn't effective, it just means investors need to be deliberate about which managers they allocate to, should seek to understand what those managers are investing in and how they source income.

Today, innovative fixed income exposures used extensively by active managers, once only available to large institutional investors, can now be accessed through low-cost ETFs with intra-daily liquidity.

2. Applications of stock index options for income enhancement, Journal of Asset Management, September 2024

3. Bloomberg as at 9 March 2026

4. Bloomberg as at 9 March 2026

5. Source: S&P Global, SPIVA as at 30 June 2025

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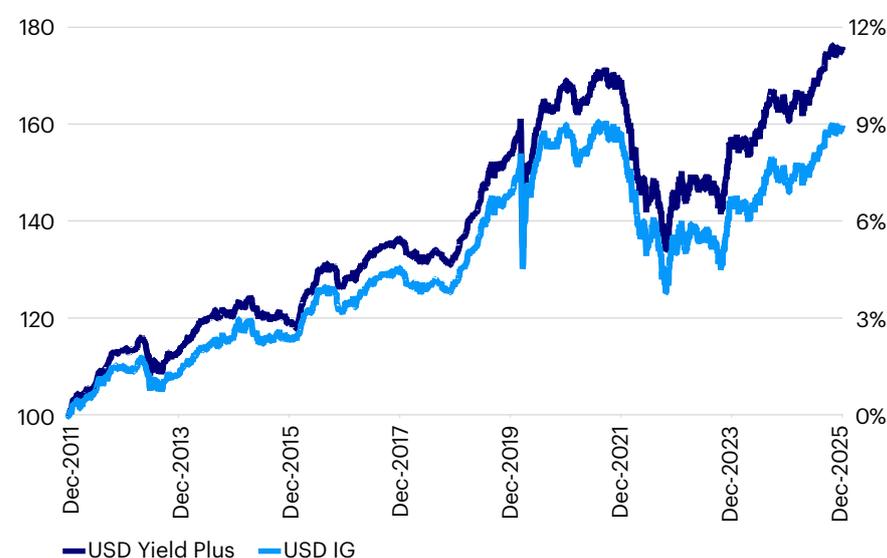
1. Enhancing yields through rules-based strategies

Investors may consider rules-based strategies systematically allocating to USD IG bonds with higher spreads while maintaining the overall shape of the broad market across sectors and duration.

Maximizing carry - that is, biasing the portfolio towards 'cheaper' bonds with higher spreads - could be a key source of alpha for actively managed credit strategies. However the higher fees typically required for actively managed products could erode a material portion of the alpha.

With innovative index design, it's possible to systematically capture that carry and enhance returns relative to traditional benchmarks, whilst still benefitting from the lower costs typically associated with passive approaches.

Figure 3 – Index performance comparison



Source: SPDJI, Bloomberg, as at 31 Dec 2025. USD Yield Plus is based on the iBoxx EUR Corporates Investment Grade Spread Select Top 50% TCA Index, the USD IG is based on the Bloomberg US Corporate Bond Index starting on 30 Dec 2011.

Investors can use a similar systematic approach to access USD high yield bonds targeting capital appreciation and a generally higher quality than the broad market by looking at high yield fallen angels i.e., an investment grade bond that has been downgraded to high yield. When a high yield bond is upgraded back to being investment grade, investors may observe capital appreciation while continuing to earn income.

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2. Enhancing yields by diversifying across the capital stack

Many active managers allocate to USD additional tier 1 capital bonds for their attractive high-yield-like coupons issued by investment grade quality banks for regulatory purposes. Additionally, senior secured bank loans are also popular allocations based on their high coupons and attractive risk profiles.

For investors seeking higher quality exposures, collateralized loan obligation (CLO) AAA notes could deliver attractive yields over investment grade (IG) credit. USD CLO AAA notes have never experienced a default, even through the 2008 global financial crisis.⁶ Both bank loans and CLO AAA notes are floating rate notes and have limited duration risk potential. Currently a positive carry may also exist when investors allocate to EUR bonds with a USD hedge.

Figure 4 – Yield, rating and effective duration comparison of various indices

	Yield to Maturity	Average Rating	Effective Duration
USD AT1	5.8*	BBB-	3.7
EUR AT1 USD-Hedged	6.3*	BB+	3.5
USD Bank Loans	7.0	B	0.3**
USD AAA CLO	4.8	AAA	0.2
EUR AAA CLO USD-Hedged	5.2	AAA	0.2
USD IG	4.9	AA-	6.9
USD HY	7.0	B+	3.0

*Uses YTW

** Uses modified duration

Source: Bloomberg, data as at Jan 30 2026. USD AT1 and EUR AT1 are represented by iBoxx USD Contingent Convertible Liquid Developed Market AT1 (8% Issuer Cap) Index and iBoxx EUR Contingent Convertible Liquid Developed Markets AT1 (8% Issuer Cap) Index, respectively. USD Bank Loans are represented by Morningstar LSTA US Leveraged Loan 100 Index. USD IG and USD HY are represented by Bloomberg US Corporate Bond Index and Bloomberg US Corporate High Yield Bond Index, respectively.

3. Enhancing yields by being deliberate about duration

Rather than investing in full curve bond exposures, investors can take advantage of higher yields at certain points of the yield curve and lock these in with term maturity ETFs. These ETFs allow investors to target a particular maturity date for asset liability matching or duration targeting purposes and to gain a traditional bond experience of buying at a particular price before experiencing pull-to-par, coupon payments and a principal payment at maturity, all through the convenience of one, transparent ETF holding 100+ individual bonds.

Every decision is an active one, including the decision to allocate to, and blend together, different income-seeking strategies to meet investor outcomes.

6. Source: Citi Research, Moody's as of 31 Dec 2022

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Investment risks

The value of investments and any income will fluctuate (this may partly be the result of exchange-rate fluctuations) and investors may not get back the full amount invested.

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