ETF options launch
iShares Gold ETC (IGLN LN)

New options contracts on iShares Physical Gold ETF (IGLN LN / $ listing) launching in May 2018

In response to growing demand from European investors for implementing ETF options strategies alongside their ETF holdings, Eurex will be launching options on IGLN in May 2018.

Gold’s time to shine

- 2018 YTD has shown that the record high risk-adjusted return environment of 2017 is well behind us with returns in 2018 more difficult to be found, and at a higher level of volatility (for e.g. VIX mean at 14.29 vs last year 9.87). Nonetheless we see volatility remaining in the low-vol regime, albeit at higher end of this regime range (Past performance is not a reliable indicator of current or future results.)

- Gold is a good diversifier in this type of environment given correlation with equities. For instance, the 30-day correlation between US equities (S&P 500) and gold has most recently been just in negative territory at -0.17 and the 120-day correlation at -0.02 indicating minimal correlation between the two asset classes.

- The caveat? The opportunity cost of holding gold outright may go up in a rate-rise environment, so investors may consider option strategies on gold as a more effective bet. In fact, based on data on large gold ETF option trading in the US, investors have been increasing demand for gold OTM calls, with demand reaching five year highs in April 2018.

IGLN: the fastest growing gold ETP in Europe

Alongside being one of the cheapest Gold ETPs in Europe (25bps TER), IGLN is also the fastest growing; its AuM has increased by x17 to ~USD3.3bn over the past 3 years while spreads have fallen to ~4bps (see chart 1).
**Popular IGLN options implementations**

1. **Overwriting - yield generation**

   In an environment of low volatility, investors seeking extra yield on their portfolio may look to implement an overwriting strategy – selling out of the money (OTM) calls. This strategy tends to work particularly well with gold as call options on gold tend to be more expensive than puts (U shape volatility).

   An overwriting strategy on gold therefore:
   - Generates yield from an otherwise yield-less holding
   - Reduces max drawdown of the overall position
   - Caps the upside potential of the overall position, which also reduces volatility and improves risk-adjusted returns

   Based on indicative levels as of 8th April 2018, a client would have received a ~1.98% premium by selling a 5% OTM call maturing in 6 months, (see highlighted box in chart 2).

   Please note that by selling an OTM call option, investors cap their upside potential when the underlying market rallies beyond the selected strike price. Hence there are periods in which an overwriting strategy could be unprofitable overall.

2. **UCITs eligible synthetic exposure**

   One key recurring limitation for clients running UCITs portfolios are compliance restrictions around options contracts that could lead to physical delivery of underlying gold bars. These restrictions prevent investors from holding gold commodity options and options on gold futures (since gold futures themselves are physically exercised).

   Options on a UCITs eligible vehicle allows investors to obtain an unfunded exposure to gold. This strategy involves a client buying puts and calls at a same strike and maturity to replicate a long exposure – similarly a client could sell puts and calls to replicate a short exposure to gold. These options can then be exercised physically into UCITs eligible ETF shares or into cash via flex options.

**Comparing IGLN (ETF) options with gold futures (GC1) options**

IGLN options offer the following advantages over GC1 options:
- Physically exercised into a UCITs eligible instrument
- Smaller contract sizes (~USD2,600 vs ~USD120K) offer more flexibility
- Flex options enable investors to exercise their options vs cash

<table>
<thead>
<tr>
<th>Delivery</th>
<th>IGLN options</th>
<th>GC1 options</th>
</tr>
</thead>
<tbody>
<tr>
<td>Type</td>
<td>Physical: UCITs eligible vehicle</td>
<td>Physical: futures that themselves physically exercised into gold bars</td>
</tr>
<tr>
<td>Flex available</td>
<td>Yes</td>
<td>No</td>
</tr>
<tr>
<td>Contract size</td>
<td>~USD2,600</td>
<td>~USD135K</td>
</tr>
</tbody>
</table>
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The tax treatment depends on the individual circumstances of each investor and may be subject to change in the future. You should obtain specific professional tax advice before making any investment decision.

For investors in Denmark

For investors in Finland

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Gold Risk: The value of gold may be subject to substantial fluctuations. Factors such as supply and demand, localised economic, political or environmental events, transportation, customs and fiscal restrictions may impact the value of gold.

Liquidity Risk: Lower liquidity means there are insufficient buyers or sellers to allow the ETC to sell or buy investments readily.

Precious Metal Linked Securities Risk: The value of the ETC will be affected by movements in the price of the precious metal to which it is linked. The price of a precious metal can go down as well as up and the performance of a precious metal in any future period may not mirror its past performance. An investment in the ETC linked to a metal is not the same as investing directly and physically holding the relevant metal and there are risks attached.

Metal markets may suffer from market disruption or volatility caused by shortages of physical metals. Such events could result in sudden increases in metal prices for a short period ("price spikes"). Changes in supply and demand for investment products offering investors an exposure to precious metals will also directly impact on the supply and demand in the market for the underlying precious metals. This may increase the volatility in the price and supply of the relevant precious metals.

The market price of each ETC will be affected by the value and volatility of the metal referenced by the relevant ETC, the value and volatility of metals in general and a number of other factors. Investors should be aware that the secondary market price of the ETC can go down as well as up throughout the life of the ETC.

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