



# Know Your Options – Navigating Option Strategies

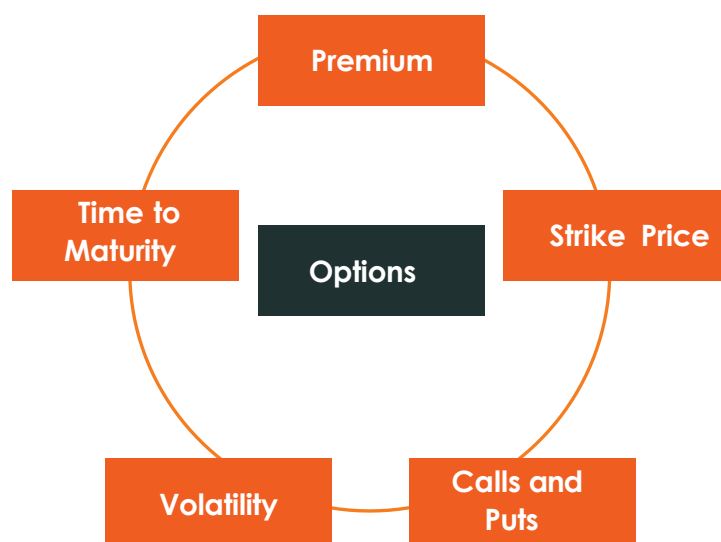
## Winning the Loser's Game

One of the core recipes for long-term investing success is avoiding material drawdowns, or, in other words, winning the loser's game. For certain investors, that means it is crucial to be prepared for market volatility and work with strategies aimed at mitigating losses while staying invested.

Strategies that incorporate options can potentially help manage portfolio risk, generate premium yields, and enhance risk-adjusted returns. While some products use option overlays, for others, options play a more central role in the strategy. This overview highlights these strategies, their benefits, and the AGF products that employ them.

## What are Options?

Options, which are a type of derivative security, are financial instruments whose value is “derived” from underlying securities. Options operate as a contract between two investing parties, offering the buyer the right to buy or sell an underlying asset at a certain price (Strike Price) within an agreed upon time frame ending on a specified date (Expiry Date). The seller of the option – the writer – will charge a premium in exchange for this right. These contracts offer investors the opportunity to bet on the price movements of securities such as stocks, without directly owning the security itself. Simply, options are a way to invest based on how you expect the price of a security will change by a specified expiration date, at a set strike price.



### Two Types of Options:

Options come in two major types: Call Options and Put Options.

#### Call Option

Call options are contracts that grant the purchasing party the right, but not the obligation, to buy the underlying security at a locked-in strike price at any time throughout the life of the contract. With calls, if the buyer exercises their right, the writer must sell the security at the strike price. Regardless of whether the contract is exercised, the writer receives the option premium.

#### Put Option

Put options are contracts that grant the purchasing party the right, but not the obligation, to sell the underlying security at a locked-in strike price at any time throughout the life of the contract. With puts, if the buyer exercises their right, the writer must buy the security at the strike price. Regardless of whether the contract is exercised, the writer receives the option premium.

### Option Strategies

Investors can think of options like insurance policies. Just as insurance markets allow purchasers to protect against uncertain events, option markets allow investors to protect their portfolios from volatility. Options are used in certain investment strategies that use either cash or the value of the underlying portfolio holdings, depending on the type of option, to collateralize the writing of options for additional income potential and/or downside protection offered through the option premiums generated.

Portfolios that employ option-based strategies have the potential to offer an income-generating edge with a favorable risk profile, and often employ two common option types: Covered Calls and Written Puts.

### Key Benefits of Covered Calls and Written Puts

Using an option strategy can provide investors with the opportunity to earn a higher level of income while also managing portfolio risk. Option strategies can benefit investors by:

**Ability to generate higher yield:** As options are written and premiums are collected, the overall portfolio yield generated increases.

**Downside protection:** During market downturns, call options are further away from being in-the-money and thus the chance to collect the full amount of premium without the call option being exercised is higher. Conversely, the likelihood of put options being exercised increases during market downturns, allowing the manager to collect the full amount of premium and buy the underlying security at a desired price point in the case of assignment. The premium collected goes directly into the Fund. This additional income works as a cushion; boosting performance when underlying holdings may be down or flat.

**Volatility reduction and improved risk-adjusted returns:** The option strategy may also lower the overall level of volatility of the Fund, potentially enhancing risk-adjusted returns.

## Covered Calls

A call option is considered to be covered if the writer owns the underlying security that the contract is based upon. By holding the underlying security, the seller is protected if the buyer exercises the option.

By writing out-of-the-money call contracts, the portfolio retains the ability to capture capital appreciation on the underlying stock up until the strike price while also receiving the premiums paid on the options, enhancing the overall income generated within the portfolio on a tax efficient basis. If the option goes unexercised, the portfolio retains its position in the security, earns the premium on the options, and is free to write more options against the position. Should the underlying security decline in value, the premium generated on the option can help offset portfolio losses, therefore protecting the fund from downside risk and elevated market volatility.

The potential downside of this strategy is that the writer of the covered call option may forego further upside potential in the price of the underlying security if the value exceeds the strike price and the buyer of the contract exercises the option.

## Written Puts

Written puts work similarly to covered call options, except that in selling a put option, the writer inherits the obligation to buy the underlying security at the strike price on the contract.

A written put option is considered to be cash-secured when the writer sets aside the capital needed to purchase the security should the option be exercised. The capital is held either as cash or in risk-free treasury bills and is only deployed to purchase the security from the option holder should they choose to exercise their option. A written put can also be uncovered, whereby the writer does not set aside the full cash amount for the purchase, effectively employing a form of leverage to enhance exposure to the portfolio's position. This approach allows the writer to employ capital elsewhere but carries additional risk, as the writer may need to liquidate other positions to fulfill the purchase if the option is exercised.

By writing out-of-the-money put contracts, the portfolio inherits the obligation to purchase shares at a discount to the current market price while earning premiums paid on the options, which enhances the overall income generated. The potential downside of this strategy is that the writer may have to participate in a drawdown if the underlying stock price falls below the strike price, and the buyer exercises the option. Both types of put writing strategies offer the potential to earn additional income from option premiums and may help deliver a return profile with a low correlation to traditional asset classes over the long term.

## Summary of Core Option Strategies

	Covered Calls	Written Puts
In Simple Terms	Agreement to sell existing underlying stock at a price (strike price) and date (expiry date) selected by the manager. As the option writer, the manager receives a premium from the option buyer.	Agreement to buy a stock at a price (strike price) and date (expiry date) selected by the manager. As the option writer, the manager receives a premium from the option buyer.
Market Considerations	Outperforms equivalent long-only portfolios in flat or down markets. Relative performance can be mixed in up markets depending on the degree of price change of the underlying stock relative to the strike price.	Outperforms equivalent long-only portfolios in flat or up markets. Relative performance can be mixed in down markets depending on the degree of price change of the underlying stock relative to the strike price.
Getting Called or Assigned	The manager sells the underlying stock at the strike price, but retains the premium earned on the contract.	The manager buys the underlying stock at the strike price, while retaining the premium earned on the contract.
Costs/Risks	If the stock appreciates in value after being called away (exercised), upside potential and future gains are forgone.	If the stock price falls well below the selected strike price, manager is required to buy the stock at the strike price.

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### AGF Funds Using Option Strategies

The managers of several AGF strategies employ an option strategy for yield enhancement and risk-management purposes. Options are either employed as a core part of the investment process or added as a complement to the core strategy which works to generate additional premium income and produce enhanced risk-adjusted returns.

The portfolio manager regularly evaluates the opportunity to write options for eligible holdings in the Fund. The decision is made using a quantitative derivative model

coupled with qualitative fundamental analysis. The quantitative option model screens the Fund's holdings for factors such as volatility, momentum, and pricing, among other things, and highlights opportunities to write either calls or puts. From there, the portfolio manager analyzes the option model's suggestions, evaluating them based on other fundamental factors and practicality.

AGF Funds That Employ Options	Fund Codes							
	MF	F	T	V	FV	Q	W	ETF
AGF Canadian Dividend Income Fund <sup>1</sup>	799	185	2121	3027	2503	1226	1433	-
AGF Enhanced U.S. Equity Income Fund	-	5041	-	-	-	-	-	AENU
AGF Enhanced U.S. Income Plus Fund	739	5046	-	-	-	-	-	-
AGF Global Real Assets Fund <sup>3</sup>	333	645	-	-	-	-	-	AGLR
AGF North American Dividend Income Fund <sup>2</sup>	967	826	4200	3002	-	1242	1431	-
AGF Systematic Global Infrastructure ETF <sup>4</sup>	-	-	-	-	-	-	-	QIF



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Commissions, trailing commissions, management fees and expenses all may be associated with mutual fund investments. Please read the prospectus before investing. Mutual funds are not guaranteed, their values change frequently and past performance may not be repeated.

<sup>1</sup>AGFiQ Canadian Dividend Income Fund was renamed AGF Canadian Dividend Income Fund on January 27, 2023. Harmony Canadian Equity Pool merged into AGF Canadian Dividend Income Fund (formally AGFiQ Dividend Income Fund) ("the Fund") on June 28, 2019. AGF Canadian Growth Equity Fund merged into the Fund on May 21, 2019. The merger may have material effect on the performance of the fund.

<sup>2</sup>AGFiQ North American Dividend Income Fund was renamed AGF North American Dividend Income Fund on January 27, 2023.

<sup>3</sup>On April 18, 2019, the Fund's investment objective was changed to offer increased flexibility to allocate the Fund's capital to real assets beyond those companies operating in the precious metals and natural resources sectors. Performance prior to this date would have been different had the current objective been in effect.

<sup>4</sup>AGFiQ Global Infrastructure ETF was renamed AGF Systematic Global Infrastructure ETF on January 27, 2023. Effective January 27, 2023, AGF Investments LLC became a subadvisor to AGF Systematic Global Infrastructure ETF. The addition of the sub-advisor may have a material effect on the performance of the fund.

Series F securities can be purchased under the simplified prospectus only through a registered dealer who has obtained consent of AGF to offer Series F securities.

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