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Covered Call Strategies

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As with all investments, your capital is at risk

Investing in China Equities with the Covered Call Strategy

Feb 2026



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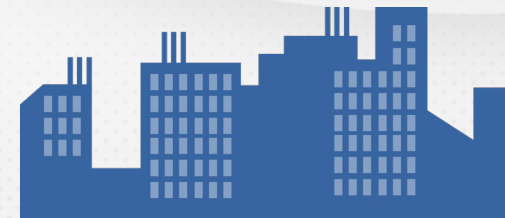
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01

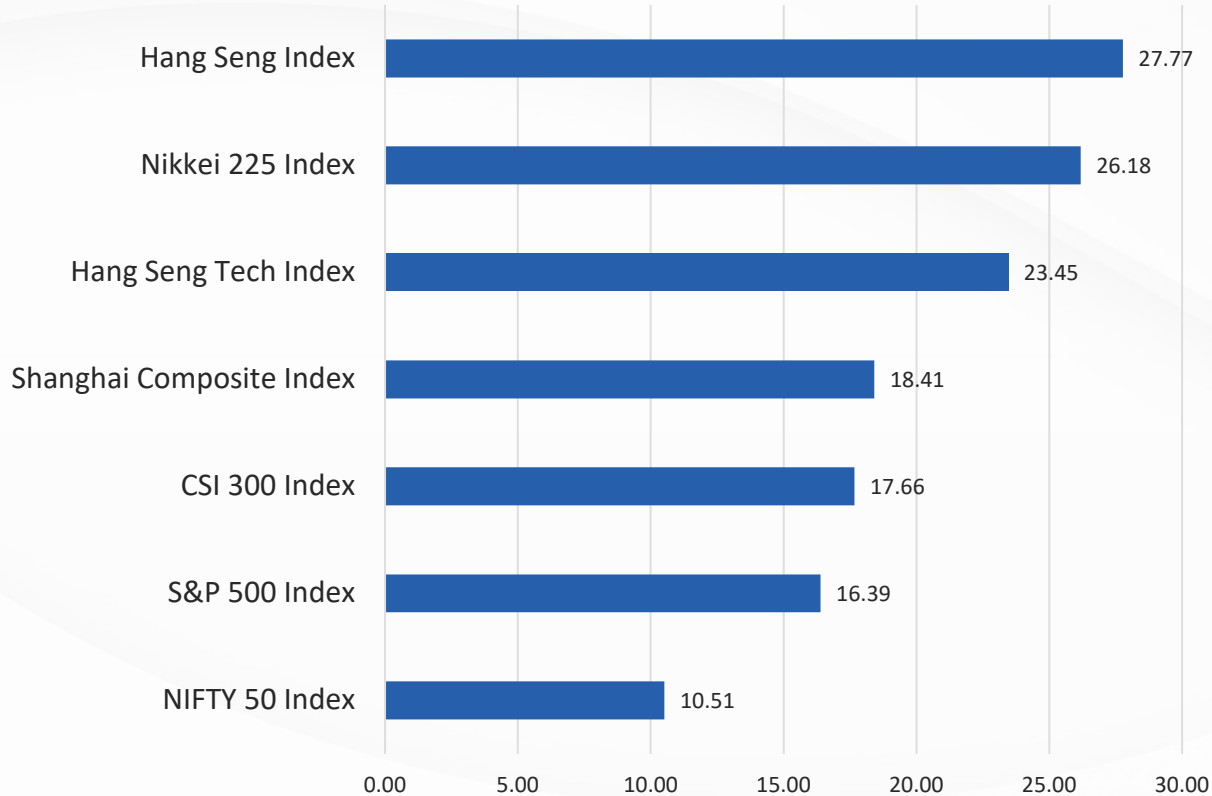
Why Covered Call Strategy?

Income Generator with Downside Buffer

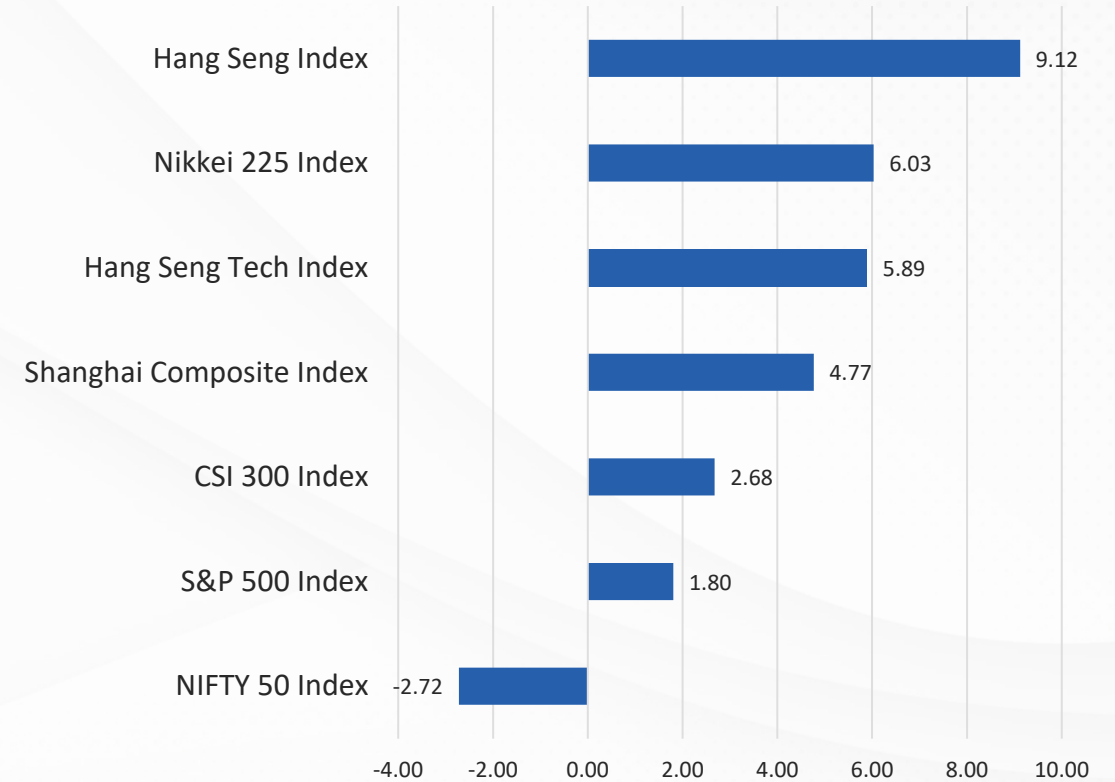


Performance of Major Global Indices

2025 Performance of Major Global Indices



2026 YTD Performance of Major Global Indices



Source: Wind, as of 29 Jan 2026

Some Equity Markets Are Generally More Volatile...

Investors may face diverging volatilities in their investable universe. Some of the markets are generally more volatile than others.

Performance Comparison of Major US & China Indices, 2024-2026



Source: Bloomberg, as of 30 Jan 2026

Income Strategy Matters against Uncertainties

Amid market volatilities against geopolitical tension and deglobalization, **stable income** serves as the foundational pillar of a resilient investment portfolio.

Can You Catch the Market Rally?

Timing is difficult for investors. They may need a **hand-off solution generating consistent cash flow** without frequent market judgments.



How to Maintain Quality of Life after Retirement?

Second to capital appreciation, people need **reliable cash flow to maintain lifestyle after or approaching retirement.**



Seeking for Steady Income that Covers Living Costs?

Monthly stable income provides a liquid buffer for groceries and utilities. **The predictable cash flow ensure essential living cost remain unaffected by market volatility.**

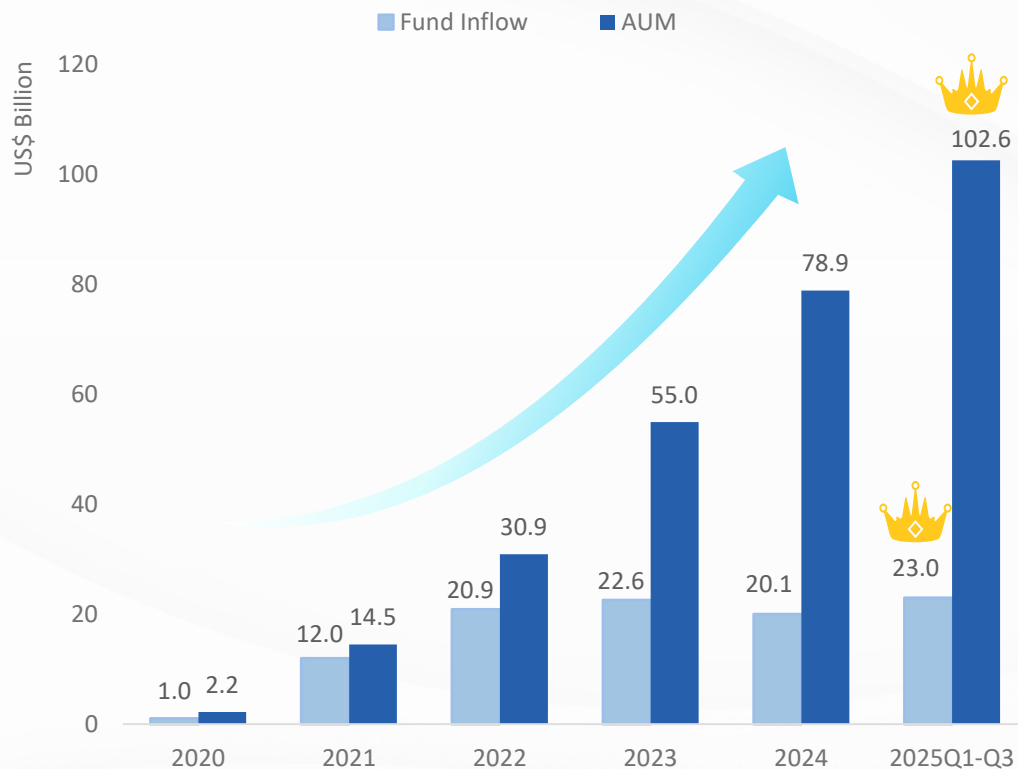


Income Strategy

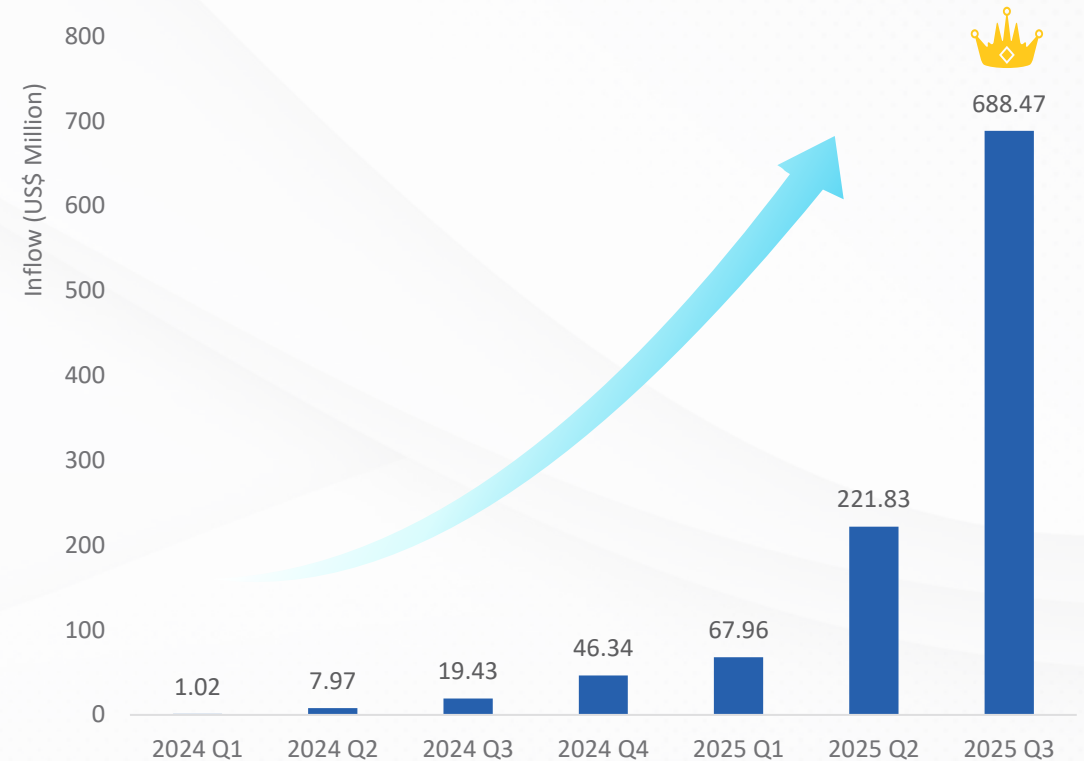
Covered Call — A Popular Income-Oriented Investment Strategy

- The Covered Call strategy first emerged in the US and gained popularity during market downturns. Over the past five years, the AUM of major US Covered Call ETFs have **expanded 35x**, and **both the fund inflows and AUM reached record highs in 2025***.
- Interest in the Covered Call strategy has also grown among HK investors. In 2025Q3, the quarterly fund inflow into local Covered Call ETFs **tripled from the prior quarter**.

Annual Fund Influx and AUM of Major Covered Call ETFs in the US Market[^]



Quarterly Fund Influx to Covered Call ETFs in HK Market[^]

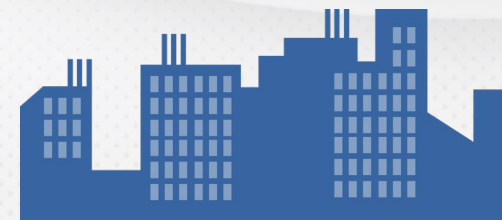


Source: *Bloomberg. Past five years refer to 2020-2024. ^Bloomberg. Major US Covered Call ETFs include QYLD, JEPI, JEPQ, QQQI, DIVO, XYLD, IVVW, RYLD, SPYI, FTHI. The AUM of 2025Q1-Q3 is as of 2025/9/30.

02

What is Covered Call Strategy?

Hold the Spot,
Write the Call Option



What is Covered Call?

Covered Call strategy is an options trading strategy which involves **holding a long position in a particular asset**, whilst **writing call options on the same asset simultaneously**.

Call option represents the right, but not the obligation, for the purchaser to buy the underlying asset at the strike price (or to receive a cash payment equal to any positive difference between the strike price and the market price of the underlying asset from the writer) before/at expiry. In return, **the writer receives a payment of money (premium)**.

Investment Strategy of Covered Call Strategy

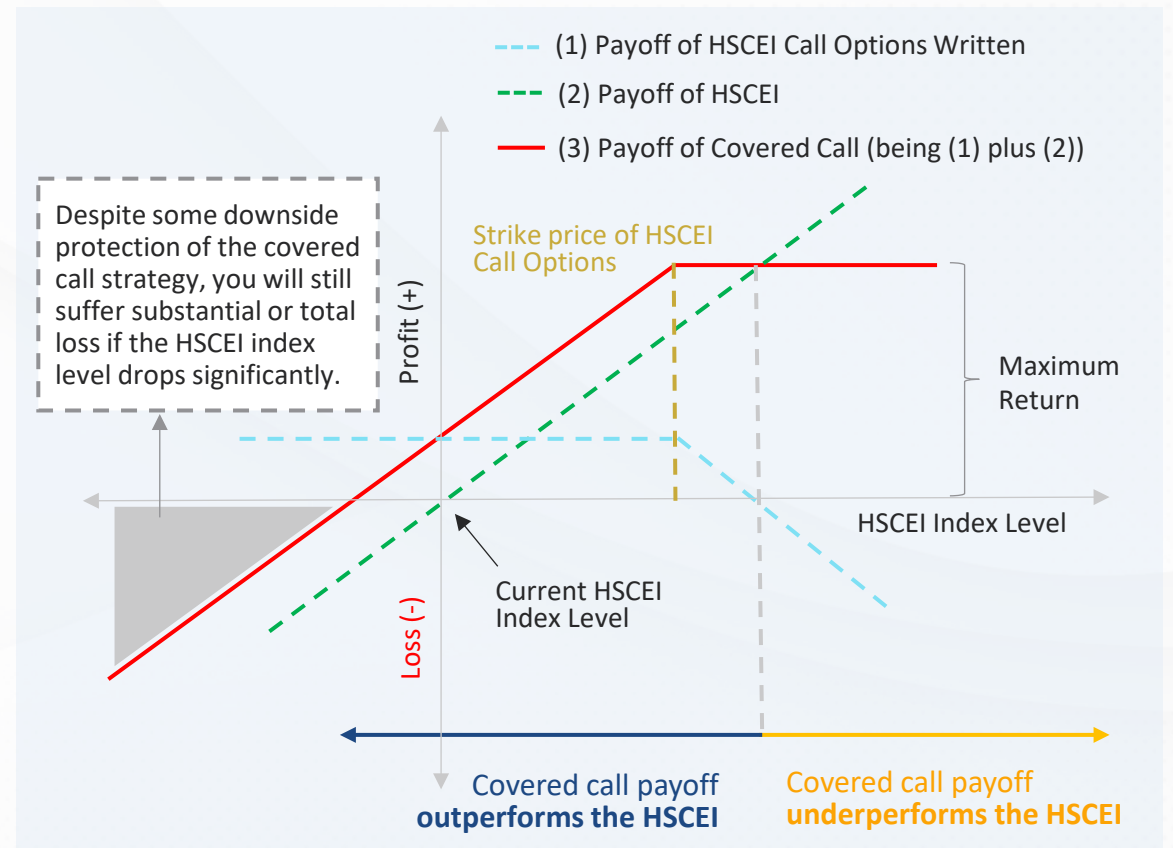
- 1 Hold a Long Position
- 2 Write the Call Option

Investing in a particular asset (for example, a stock, a commodity, a bond, a currency or an index)



Selling call options on the same asset to receive **payments of money from the purchaser of call options ("premium")**.

Payoff Diagram of Covered Call Strategy



What is Covered Call?

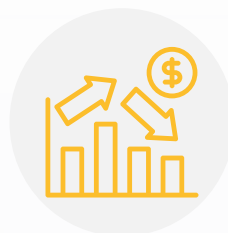
Good Player in Range-trading Market

Adopting Covered Call Strategy in Different Market Scenarios



Bullish market scenario (worst case)

- Upside is limited to the HSCEI call options' strike price plus the premium received.
- Call option exercise will trigger cash payment to the purchaser at expiry.



Range-trading market scenario (best case)

Covered call strategy can generate positive returns if :

- The asset price stays below strike price at expiry.
- The cash payment at expiry to the purchaser is less than the premium received.



Bearish market scenario

- Option premium offsets some losses from market drop.
- Premium may not fully cover sharp market declines.

Advantages & Disadvantages of Covered Call Strategy

Income Generation

The Covered Call strategy writes call options to collect premium, providing a steady income stream in sideways or moderately bullish markets.

Downside Cushion

The covered call Strategy receives option premiums, which can partially offset drawdowns when market declines.

Capped Upside

Upside participation is limited to the option strike price + premium received. Large market rallies may lead to foregone gains.

Call Option Premium: A New Source of Income

In return for writing a call option, the writer receives a payment of money from the purchaser who buys the call option, which is called the “premium”.

I have a right to buy the asset at a predetermined strike price on the expiration date.



Call Option Buyer
(European Option)

Option Premium

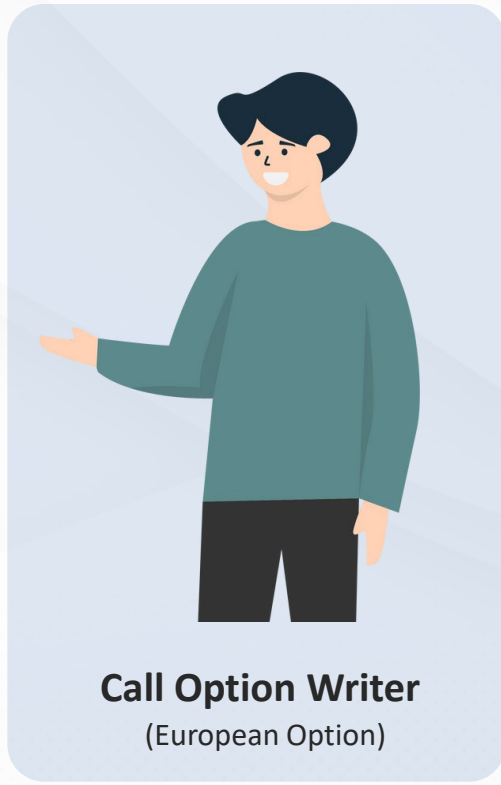


If the asset price < strike price,
there is no obligation for the
writer.



If the asset price > strike price,
the writer delivers asset or pay
cash to the buyer.

Covered Call ETF



Call Option Writer
(European Option)

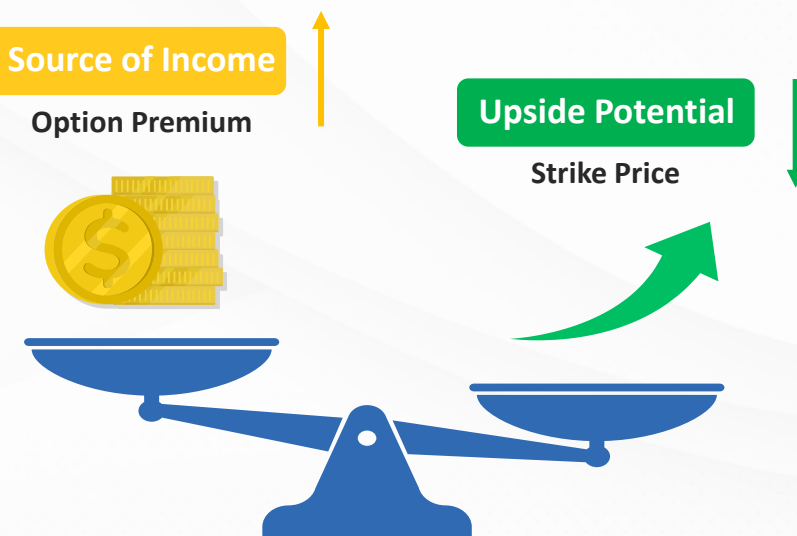
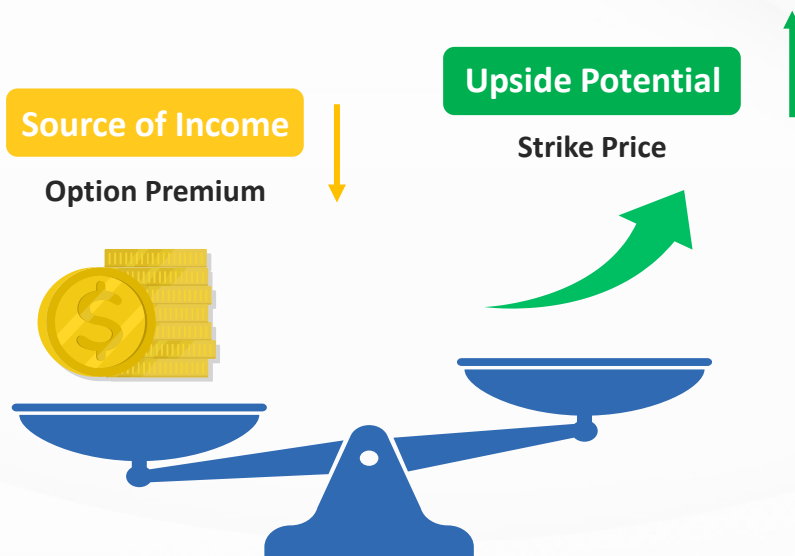
Covered Call Strategy: A Trade-off between Income and Upside Potential

How to choose a strike price involves a trade-off between the option premium (which provides a source of income) and the limits on potential upside gains.

A higher strike price lowers the probability of the option being exercised, which reduces the premium the Covered Call strategy receives for writing the call option.

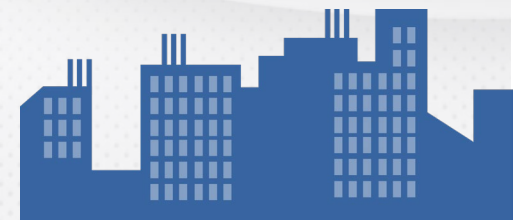
A **higher strike price** may reduce premium income, but also provides **greater potential for upside returns**.

A **lower strike price** may provide **higher premium income**, but it may also **limit potential upside returns**.



03

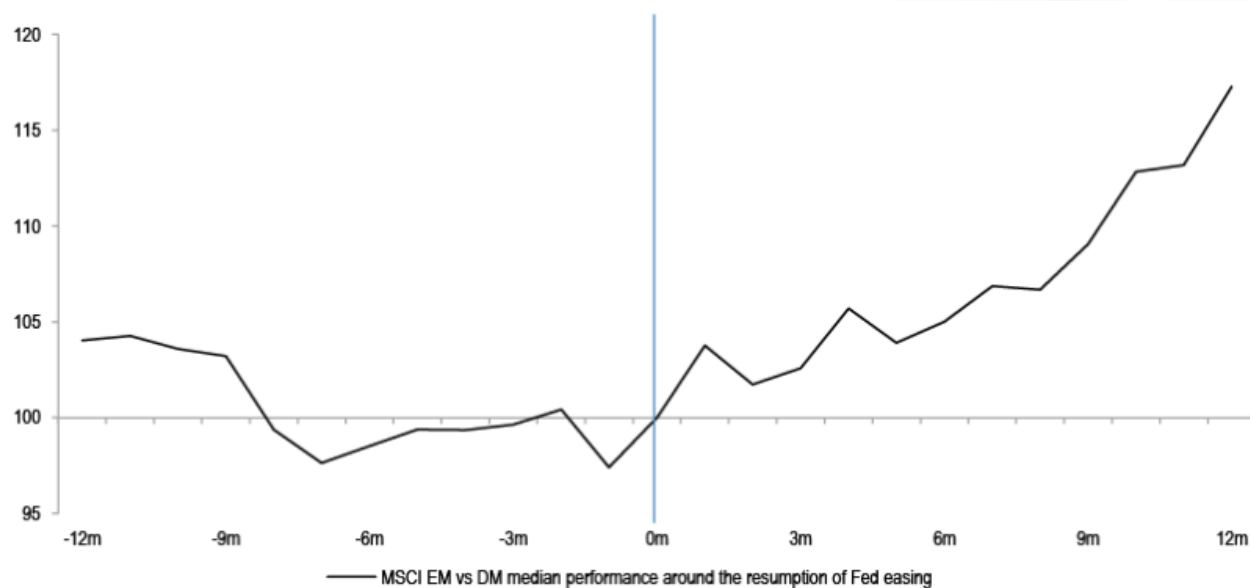
China Equities Update



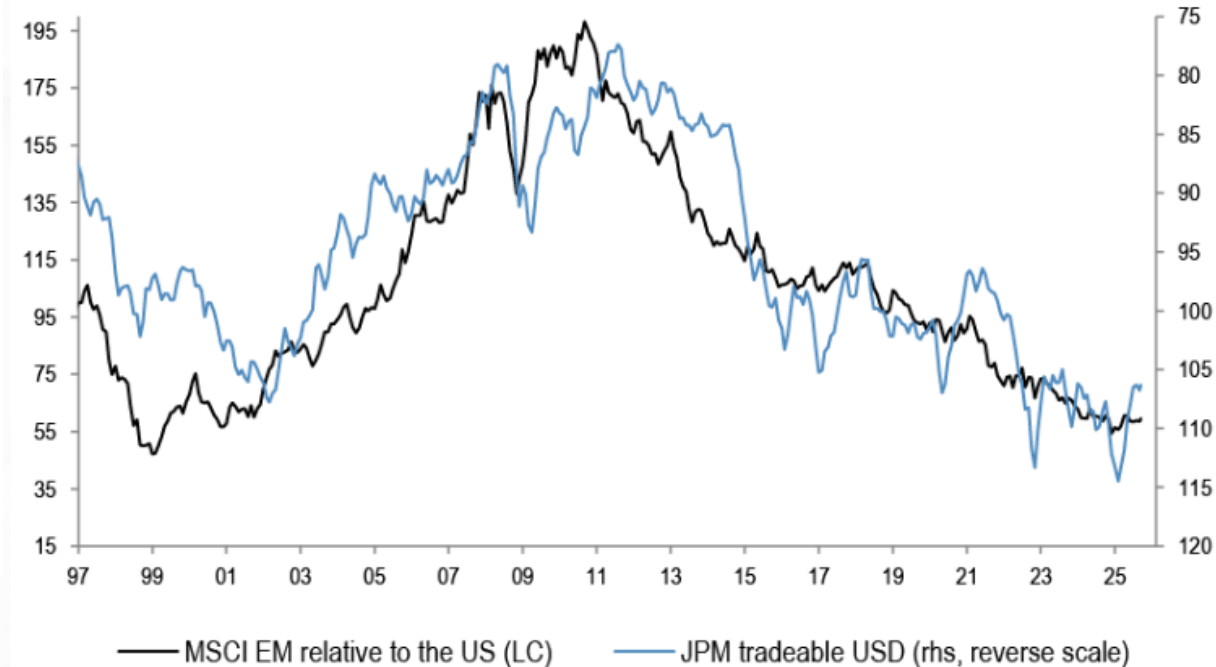
Capital Flows Back to Asia Amid Weak Dollar Trend

- US tariff shocks have triggered a credibility crisis in USD assets. Trump's tax-cut proposals are expected to increase federal debt pressure. The rapidly declining US Dollar Index has driven Asian currencies higher. In a non-recessionary environment, EM assets typically outperform developed markets during Fed easing cycles, boosting attractiveness of Hong Kong and Southeast Asian equities.
- Historical data shows USD weakness reduces appeal of dollar assets, pushing capital back into emerging markets and driving EM equity rallies.

EM Equities Outperform DM in Months Following Fed Easing Resumption



Non-US Markets Rally When USD Weakens



Source: CSOP, JP Morgan. Sample periods: Nov 1995, Oct 2002, Jun 2003, Sep 2008, Feb 2020 (resumption of continuous rate-cut cycles).

Exports: So Far, So Resilient

- Non-tech export recovery in conjunction with cutback in capex to help ease deflationary pressures in 2026

Non-tech exports recovery to help ease deflationary pressures



Tariff reduction by the US to filter through to exports over coming months

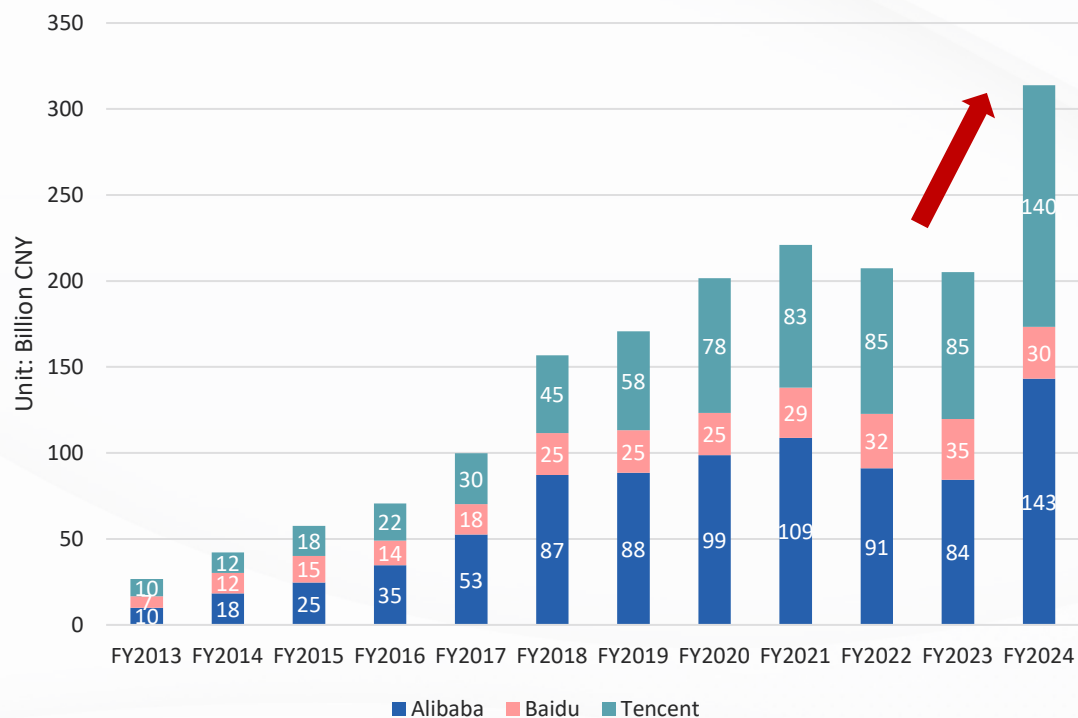


Source: Haver, CEIC, Morgan Stanley Research

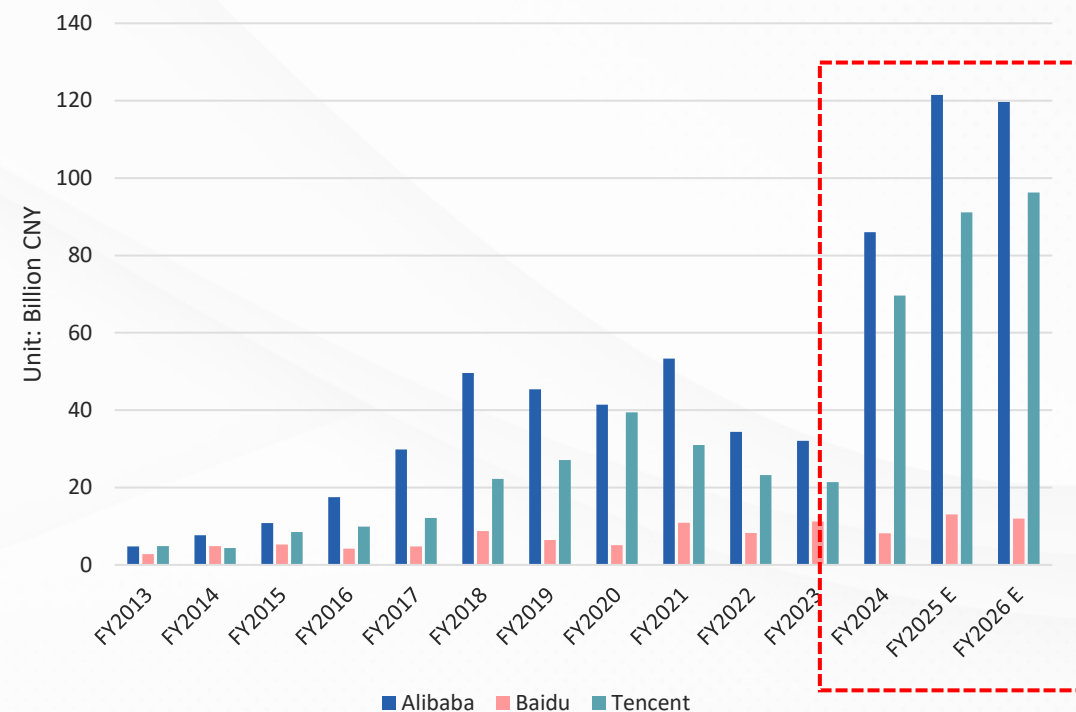
China's AI-Related Companies Entering A New CAPEX Cycle

- Tencent, Alibaba, and Baidu's combined CAPEX and R&D surged 53% YoY from CNY205bn in 2023 to CNY314bn in 2024, with standalone CAPEX projected to continue rise 38% to CNY226bn in 2025.
- The current CAPEX will fuel the growth of future AI revenue. As CAPEX growth is projected to level off in 2026, China tech giants' earnings visibility and share prices may see improvement and stabilization.

Tencent/Alibaba/Baidu's CAPEX and R&D Expense



Tencent/Alibaba/Baidu's CAPEX

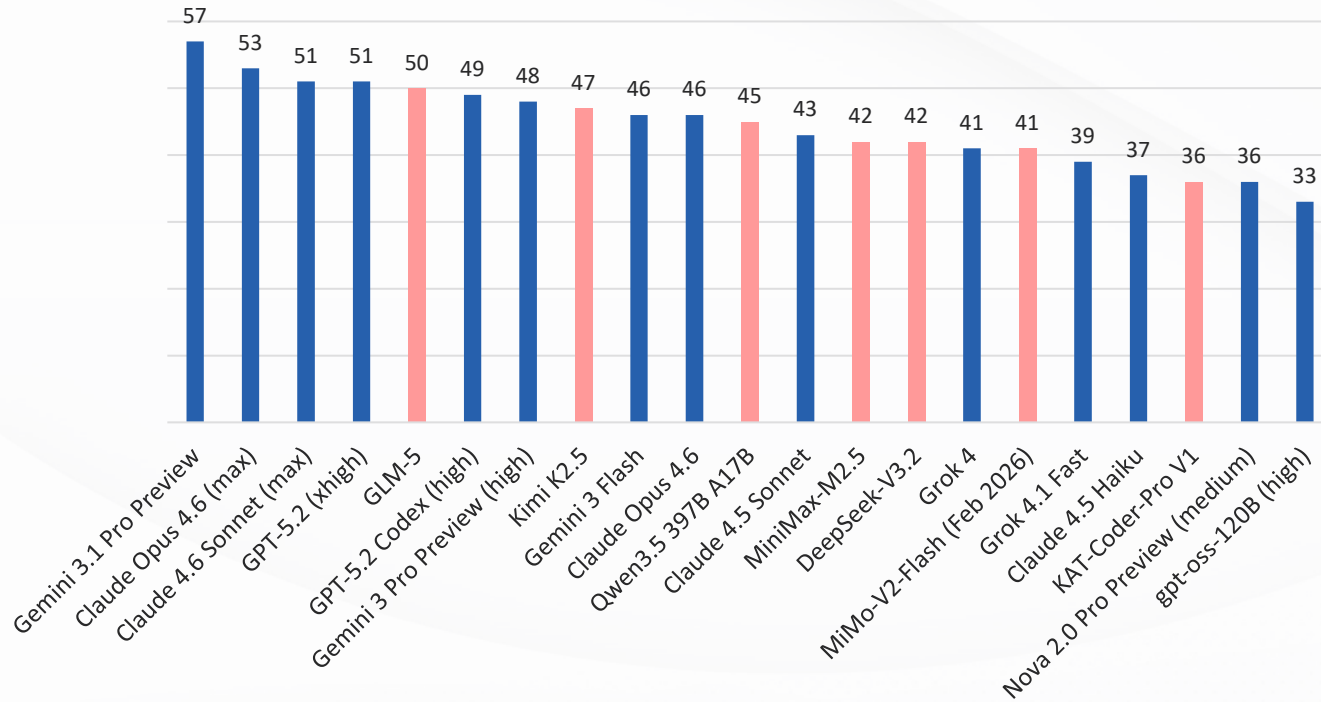


Source: Company Data, Bloomberg, as of 24 Feb 2026

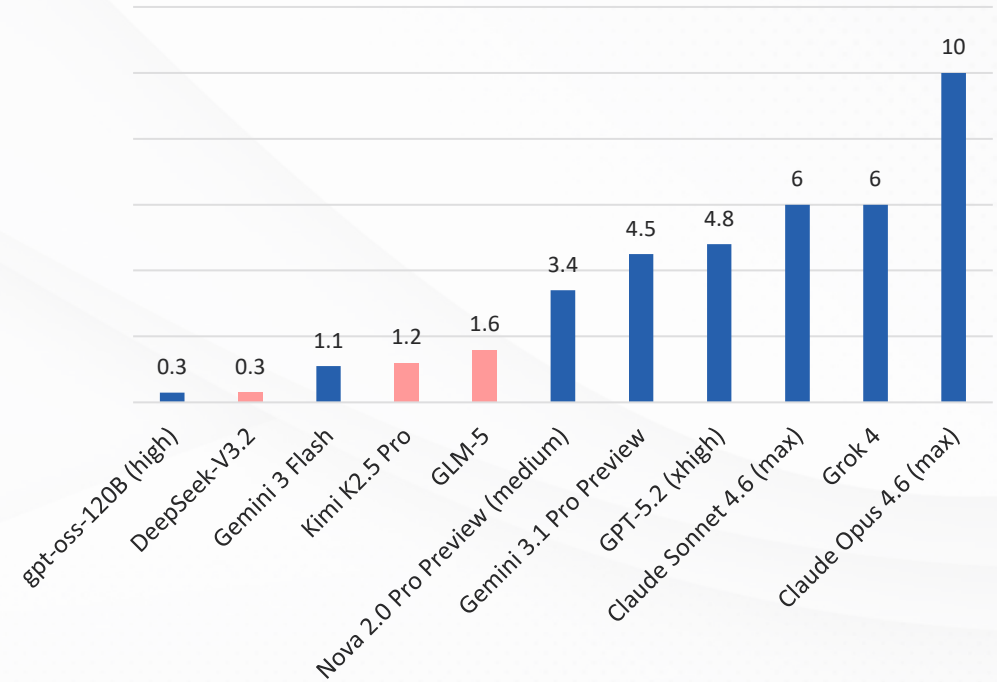
The AI Race Between US & China: Divergent Strategy Paths

- US' strategic focus: "Intelligence Ceiling"
- China's strategic focus: "Open-Source Inclusivity"

Intelligence
Artificial Analysis Intelligence Index



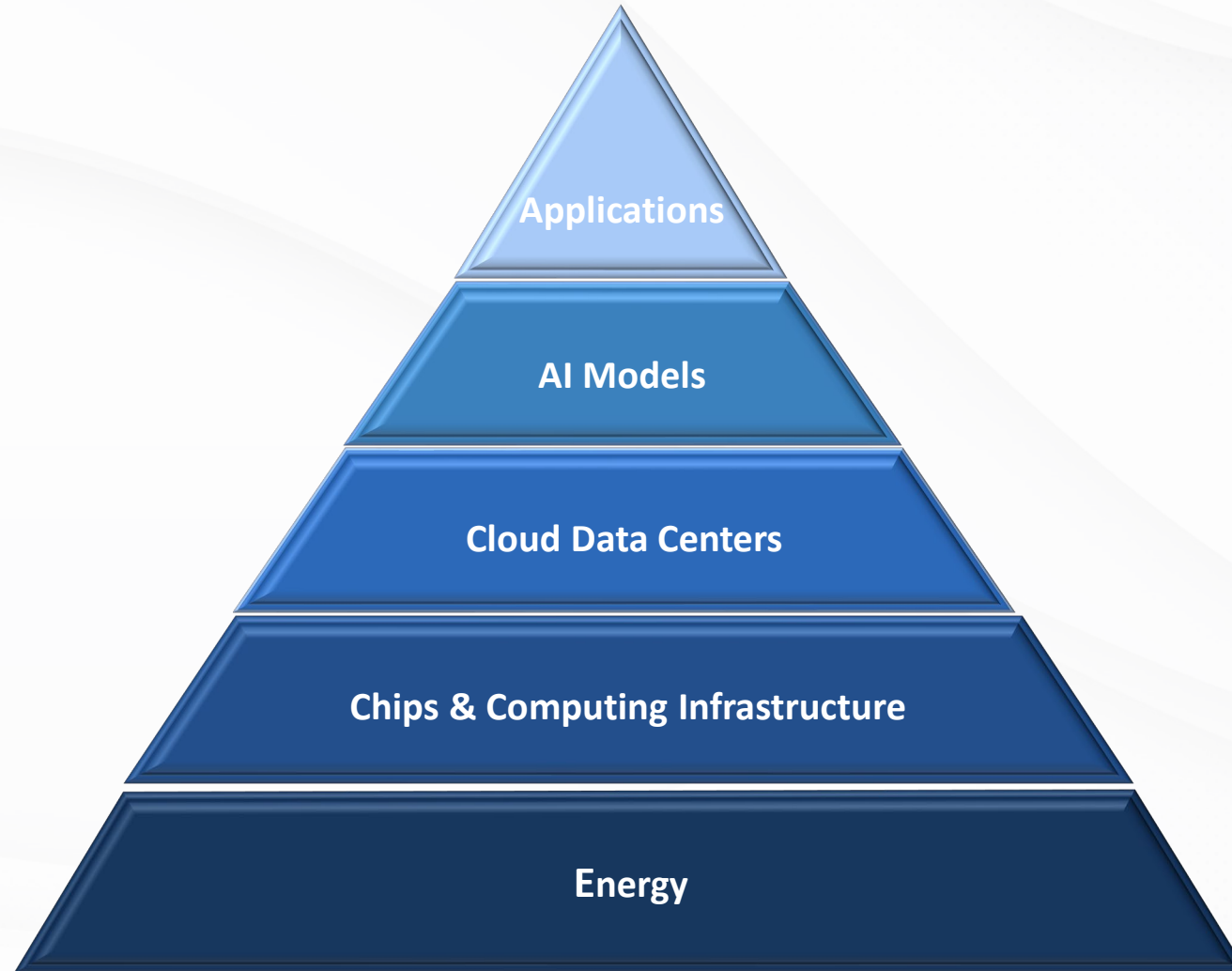
Price
USD per 1M Tokens



Source: Artificial Analysis, as of 24 Feb 2026

The AI Race Between US & China: Divergent Strategy Paths

China and US specialized in different layers of AI's "5-layer cake". Jensen Huang: "This layer on top, ultimately, is where economic benefit will happen".

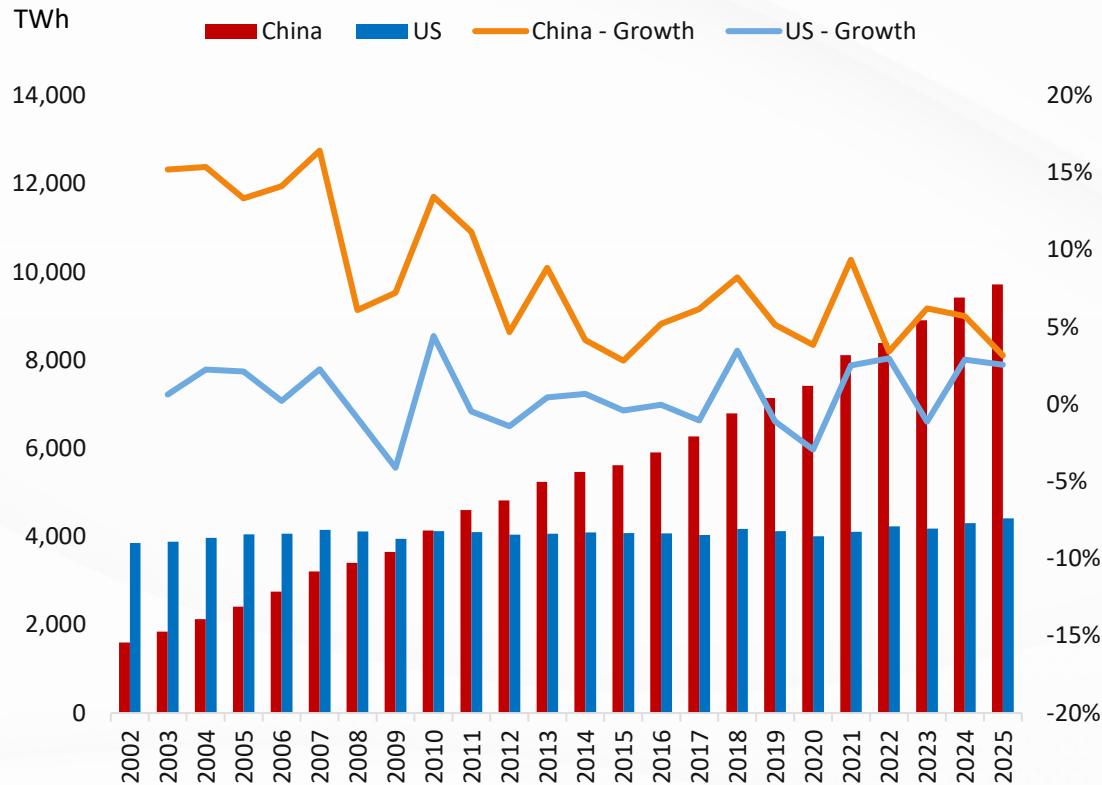


Source: Jensen Huang on World Economic Forum in Davos

The AI Race Between US & China: Divergent Strategy Paths

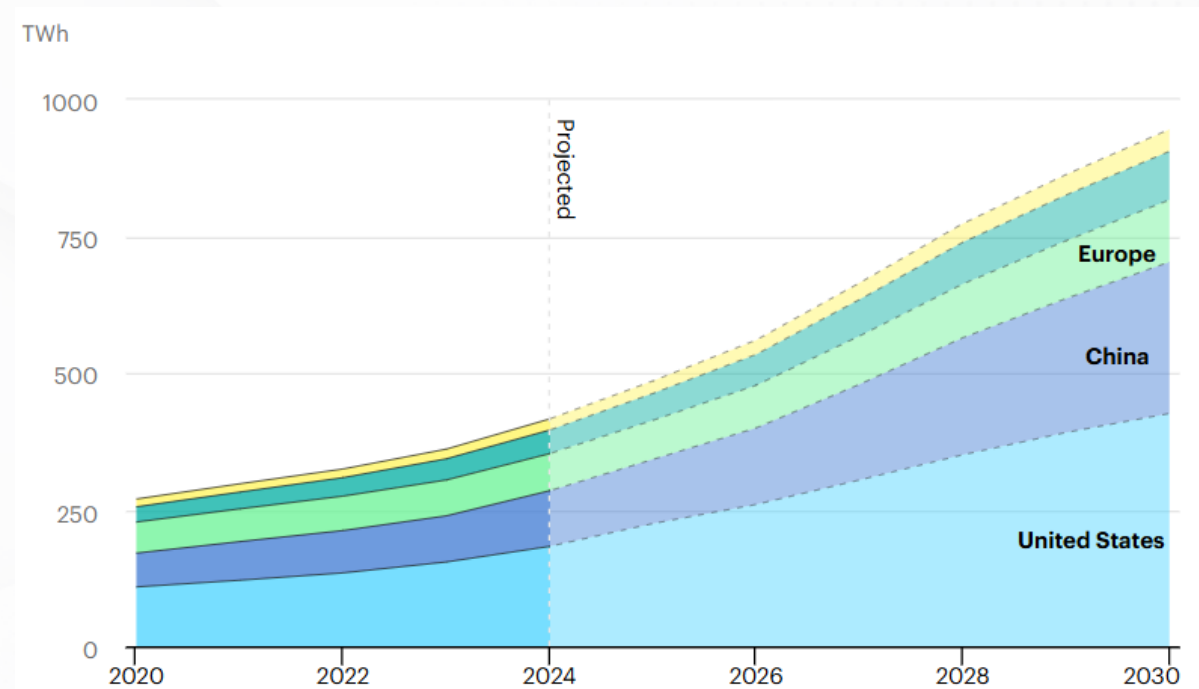
- IEA projections show AIDC driving 175/240 TWh of power growth in China and the US by 2030. While AIDC's massive energy needs pressure the underfunded US grid, China is better equipped to support this growth due to its larger market scale and continuous infrastructure investment.

China Generates more than Twice as much Electricity as the US



Source: IEA, Wind.

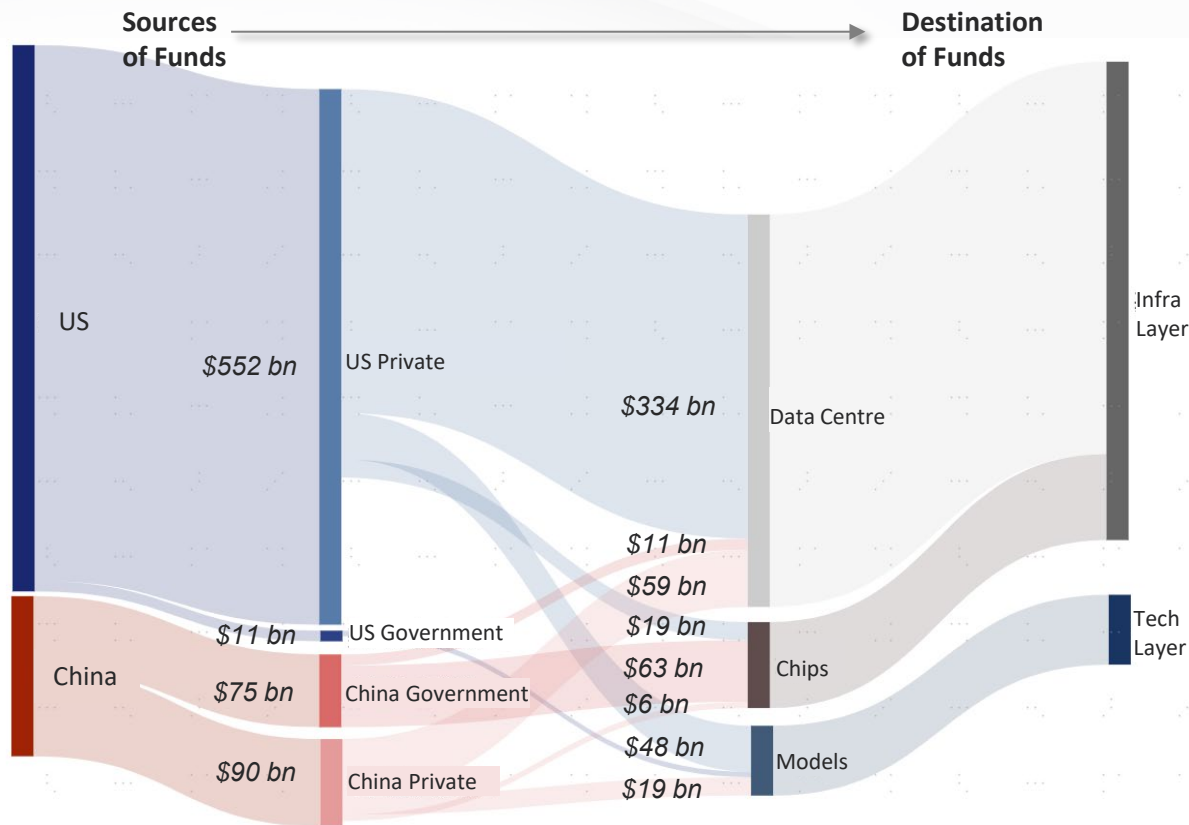
Data Centre Electricity Consumption by Region (base case)



The AI Race Between US & China: Divergent Strategy Paths

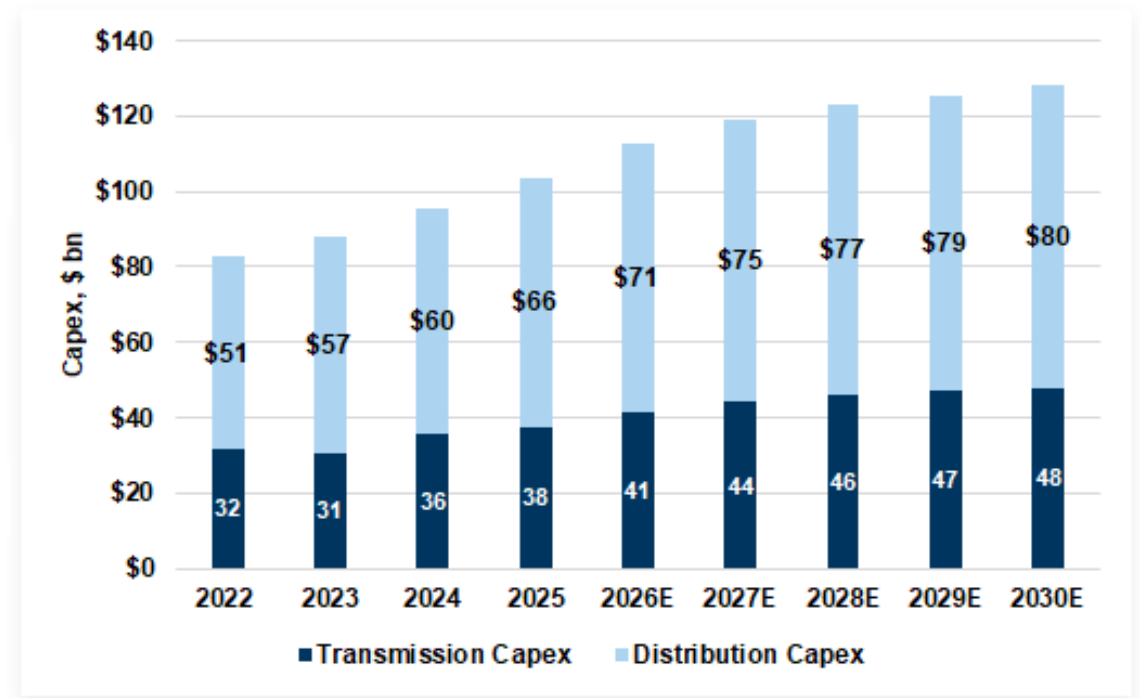
- As a result, US AI investment is more heavily weighted toward infrastructure, necessitating increased investment in the national power grid. The resulting disparity in infrastructure may provide China with a strategic edge during the '1 to 10' phase of AI expansion.

US has a Higher Proportion of Investment in Infrastructure



US Power Grid Requires \$600 bn Investment before 2030

Grid capex, \$ bn

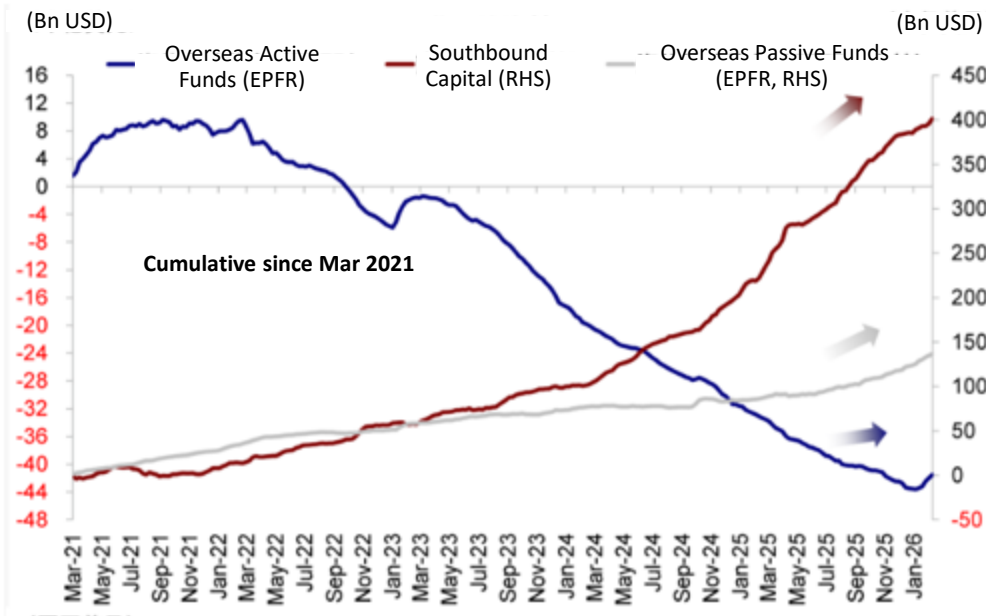


Source: FactSet, CICC, Goldman Sachs.

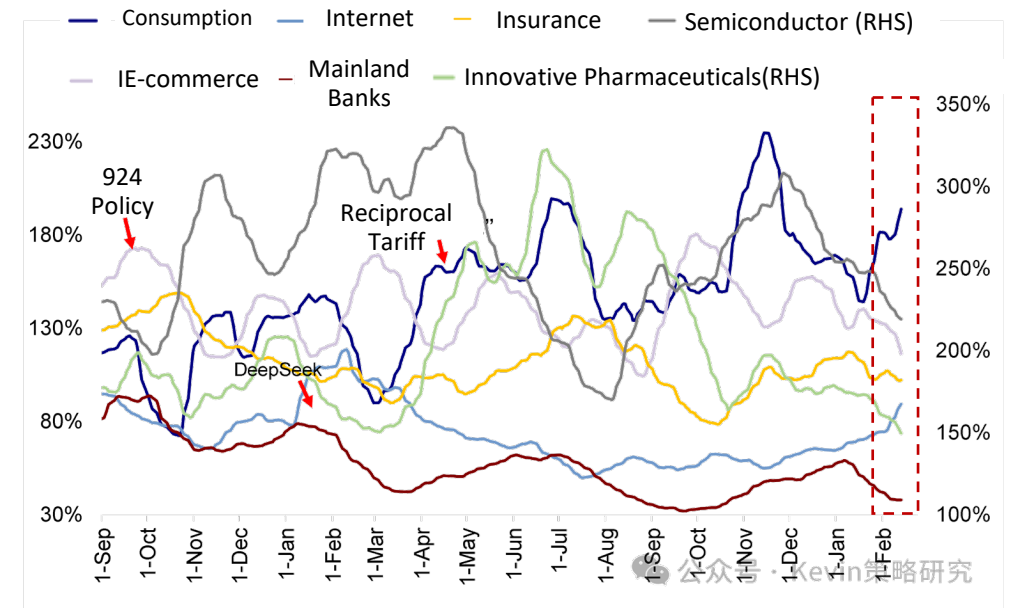
Liquidity: Active Foreign Outflows Slow Down, Internet Sector "Crowdedness" Rises

- Active foreign funds have flowed into HK equities for six consecutive weeks, and passive year-to-date inflows continue to expand
- Domestic LLMs launches and frequent robot news have lifted internet sentiment since February

Foreign Capital Flows into HK Equities



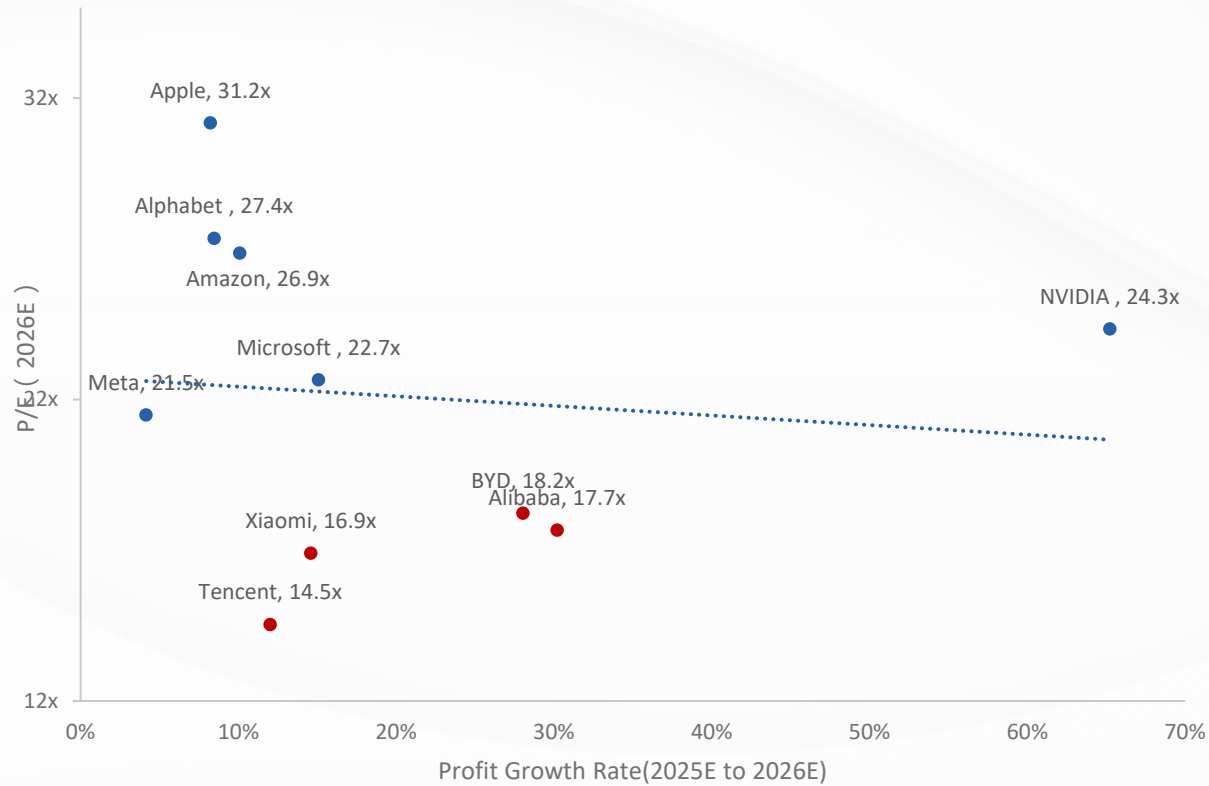
"Crowdedness" of Thematic Rallies (Turnover-to-Market-Cap Ratio)



Source: CICC

Attractive Risk Reward in China

HK tech leaders' P/E ratios are lower than US tech leaders



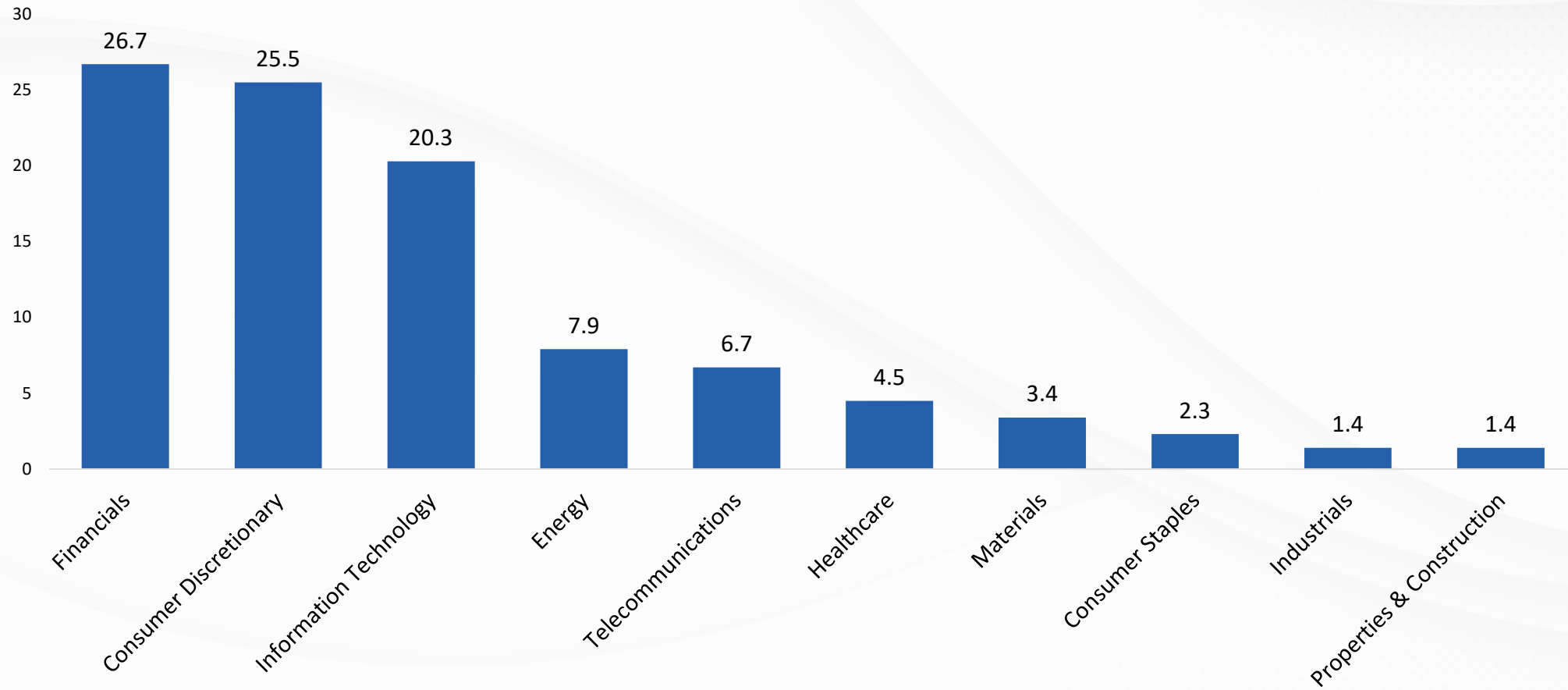
Source: Capital IQ, as of Feb, 20, 2026

HK tech leaders' average profit growth rate is on par with US tech leaders

	Ticker	Market Cap (Million USD)	P/E (2025E)	P/E (2026E)	Profit Growth Rate (2025E to 2026E)	
HK						
	Alibaba	SEHK:9988	345,267.0	23.0x	17.7x	30.2%
	Tencent	SEHK:700	607,911.1	16.3x	14.5x	12.0%
	Meituan	SEHK:3690	63,077.1	n.m.	25.9x	n.m.
	Xiaomi	SEHK:1810	117,236.5	19.4x	16.9x	14.6%
	BYD	SEHK:1211	115,787.4	23.3x	18.2x	28.0%
	Average			20.5x	18.7x	21.2%
US						
	NVIDIA	NASDAQGS: NVDA	4,612,436.2	40.2x	24.3x	65.2%
	Microsoft	NASDAQGS: MSFT	2,949,682.6	26.1x	22.7x	15.1%
	Apple	NASDAQGS: AAPL	3,884,336.0	33.7x	31.2x	8.2%
	Meta	NASDAQGS: META	1,658,528.3	22.4x	21.5x	4.2%
	Amazon	NASDAQGS: AMZN	2,255,514.2	29.6x	26.9x	10.1%
	Alphabet	NASDAQGS: GOOGL	3,809,878.0	29.7x	27.4x	8.5%
	Average			30.3x	25.6x	18.5%

Hang Seng China Enterprises Index Sectors

Sector Weightings of Hang Seng China Enterprises Index



Source: Hang Seng Index, as of Feb 20th, 2026.

Hang Seng China Enterprises Index Member (1)

	Ticker	Name	Industry	Dividend Yield (%)	Weighting (%)
1	9988	BABA - W	Consumer Discretionary	1.3	7.7
2	939	CCB	Financials	5.4	7.0
3	700	TENCENT	Information Technology	0.9	6.9
4	1810	XIAOMI - W	Information Technology	0	5.9
5	1398	ICBC	Financials	5.2	4.8
6	941	CHINA MOBILE	Telecommunications	6.5	4.4
7	2318	PING AN	Financials	3.9	4.3
8	3690	MEITUAN - W	Consumer Discretionary	0	4.0
9	883	CNOOC	Energy	5.5	3.6
10	1211	BYD COMPANY	Consumer Discretionary	1.5	3.2
11	3988	BANK OF CHINA	Financials	5.6	3.0
12	981	SMIC	Information Technology	7.1	2.8
13	6160	BEONE MEDICINES	Healthcare	0	2.4
14	2899	ZIJIN MINING	Materials	1.0	2.3
15	9999	NTES - S	Information Technology	2.6	2.3
16	2628	CHINA LIFE	Financials	2.1	2.3
17	1024	KUAISHOU – W	Telecommunications	0	1.8
18	857	PETROCHINA	Energy	5.4	1.8
19	3968	CM BANK	Financials	4.5	1.7
20	9618	JD - SW	Consumer Discretionary	3.8	1.7
21	9992	POP MART	Consumer Discretionary	0.4	1.6
22	9888	BIDU - SW	Information Technology	0	1.5
23	1288	ABC	Financials	4.9	1.4
24	9987	YUM CHINA	Consumer Discretionary	1.9	1.4
25	1801	INNOVENT BIO	Healthcare	0	1.3

Source: Hang Seng Index, as of Feb 20th, 2026.

Hang Seng China Enterprises Index Member (2)

	Ticker	Name	Industry	Dividend Yield (%)	Weighting (%)
26	1088	CHINA SHENHUA	Energy	5.6	1.3
27	386	SINOPEC CORP	Energy	5.8	1.1
28	1378	CHINAHONGQIAO	Materials	4.4	1.1
29	2020	ANTA SPORTS	Consumer Discretionary	2.8	1.1
30	2328	PICC P&C	Financials	3.6	1.0
31	9868	XPENG - W	Consumer Discretionary	0	1.0
32	175	GEELY AUTO	Consumer Discretionary	2.0	0.9
33	1109	CHINA RES LAND	Properties & Construction	4.6	0.9
34	9961	TRIP.COM - S	Consumer Discretionary	0.6	0.9
35	2015	LI AUTO - W	Consumer Discretionary	0	0.9
36	9633	NONGFU SPRING	Consumer Staples	1.7	0.9
37	2057	ZTO EXPRESS - W	Industrials	2.8	0.8
38	1093	CSPC PHARMA	Healthcare	2.5	0.8
39	267	CITIC	Conglomerates	4.9	0.6
40	992	LENOVO GROUP	Information Technology	4.2	0.6
41	6690	HAIER SMARTHOME	Consumer Discretionary	3.9	0.6
42	6618	JD HEALTH	Healthcare	0	0.6
43	3328	BANKCOMM	Financials	5.9	0.6
44	1658	PSBC	Financials	5.5	0.5
45	688	CHINA OVERSEAS	Properties & Construction	4.2	0.5
46	2313	SHENZHOU INTL	Consumer Discretionary	4.0	0.5
47	2319	MENGNU DAIKY	Consumer Staples	3.3	0.5
48	762	CHINA UNICOM	Telecommunications	5.9	0.4
49	291	CHINA RES BEER	Consumer Staples	3.2	0.4
50	2382	SUNNY OPTICAL	Industrials	0.9	0.4

Source: Hang Seng Index, as of Feb 20th, 2026.

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