



A New Way To Think About Income Potential: What Is An Autocallable ETF, And Where Could ARKY Fit In A Portfolio?

Published: October 08, 2026

Author: Grant Banko,
Client Portfolio Manager
ARK Investment Management LLC

Join the conversation on X

@ARKinvest www.ark-invest.com



Table Of Contents

1. What Is An Autocallable?
 2. What Happens When A Coupon Is Missed?
 3. What Does The ETF Structure Add?
 4. How An Autocallable ETF May Behave As Markets Change
 5. What Role Do Interest Rates Play?
 6. How ARKY Turns Research Into Potential Income
 7. Where Could ARKY Fit?
 8. The Bottom Line
-

Introduction

Investors seeking income often rely on bonds, dividend-paying stocks, and, more recently, covered-call funds. Each can provide cash flow, but each comes with trade-offs. Bonds expose investors to interest rate risk, dividends can be cut, and covered-call funds limit gains when stocks rise.

Autocallable ETFs offer another choice, but understanding their structure is only the first step. Investors also need to know what ARKY could replace, and how changing interest rates may affect it.

The ARK Active Autocallable Income ETF (ARKY) seeks to generate monthly income from investments tied to innovation stocks. Instead of owning stocks outright for their growth potential, ARKY uses volatility to potentially generate income. For many investors, ARKY may be their first introduction to autocallables.

This piece seeks to answer the key questions investors may have about an autocallable strategy and ARKY. We invite you to read the full piece from beginning to end or go directly to the questions you want to have answered.

1. What Is An Autocallable?

An autocallable is an investment tied to the price of another asset, such as a stock or an index. It follows a set of rules that determine when income is paid, when the investment ends, and how money can be lost.

Consider a simple example.

A 12-month autocallable is struck on a stock trading at \$100. The investment sets several important price levels. Let's assume quarterly observation dates.

The first is a coupon barrier. Suppose that barrier is \$60. On quarterly observation dates, the stock's price level is evaluated. If the stock is trading above \$60, the autocallable pays income. If the stock is trading below \$60, the income payment is skipped.

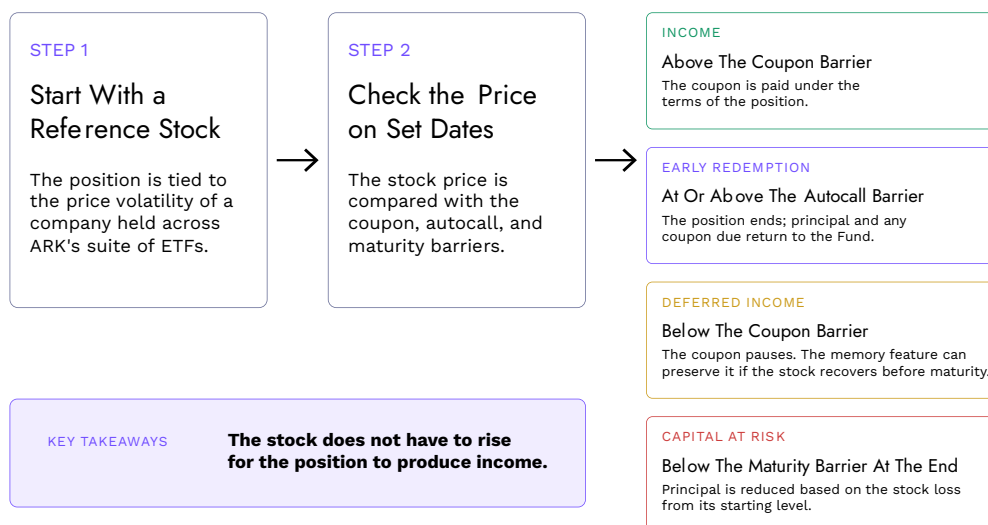
The second is an autocall trigger level, which is often the stock's starting price. If the stock returns to or rises above that level on an observation date, the investment ends early—it is "autocalled." Accordingly, the principal and coupon payment are returned to the investor.

The third is a maturity barrier. This level determines what happens if the investment reaches its final date without having been called. If the stock finishes above the maturity barrier, the position returns its full principal and a final coupon payment on the maturity date. If the stock finishes below it, the position loses value 1-for-1 against the underlying reference asset from the call price down to the closing price of the underlying stock on the maturity date.

The exact terms can differ from one position to another, but the main trade-off is consistent: potentially higher regular income in exchange for exposure to a sharp decline in the reference stock.

How Autocallables Can Turn Volatility Into Income Potential

Each position follows preset rules on scheduled observation dates



Source: ARK Investment Management LLC, 2026. For illustrative purposes only. Income and principal are not guaranteed; exact terms vary by position. For informational purposes only and should not be considered investment advice or a recommendation to buy, sell, or hold any particular security.

2. What Happens When A Coupon Is Missed?

ARKY's positions include a feature known as a memory coupon.

Return to the earlier example. Suppose the stock falls below the \$60 coupon barrier on an observation date. The coupon will not be paid on that observation date. If the stock later recovers above the coupon barrier before the position matures at a subsequent observation date, the missed coupon is "remembered" and paid along with the next coupon.

If the stock does not recover before the position ends, the missed coupon may never be paid.

For investors, this means that monthly income can change over time for someone invested in ARKY. Because of the structure of ARKY, however, this risk is mitigated due to the diversification across names and maturities.

3. What Does The ETF Structure Add?

A traditional autocallable usually is purchased as an individual structured note. That requires assumption of issuer credit risk.

An autocallable ETF places many autocallable positions inside one fund diversified across names and maturities. Investors can buy or sell shares of the fund on an exchange, just as they would with any another ETF.

This structure can make autocallables easier to access and manage.

The diversification can reduce the effect of one company or one badly timed investment. It does not guarantee income nor prevent losses.

4. How An Autocallable ETF May Behave As Markets Change

Market direction alone does not determine an autocallable's result. The path and timing of each reference stock matter because coupons and early calls are tested on scheduled observation dates. Two stocks can finish a period at the same price but produce different cash flows if one stayed above its barriers while the other crossed a barrier on an observation date.

ARKY adds another layer because its positions begin and mature at different times. The Fund's result reflects many individual paths rather than one market call or one maturity date. That diversification can reduce reliance on any single company or date, but it cannot prevent losses. The Fund's net asset value (NAV) also can move between observation dates as stock prices, expected volatility, interest rates, and time to maturity change.

The Same Structure Can Lead To Different Outcomes

Results depend on where each reference stock trades relative to its barriers



Source: ARK Investment Management LLC, 2026. Conceptual scenarios only; not forecasts or Fund performance. For informational purposes only and should not be considered investment advice or a recommendation to buy, sell, or hold any particular security.

5. What Role Do Interest Rates Play?

Interest-rate changes can affect ARKY in two places: the market value of positions already in the portfolio and the terms available when positions are called or mature and capital is reinvested. Because the Fund holds positions with different maturity dates, a new rate environment works through the portfolio gradually rather than resetting every position at once.

Rate direction by itself therefore is not a forecast of Fund performance. The reason rates are moving, the response of the reference stocks, and changes in expected volatility can matter more than the move in rates alone. ARKY does not yet have a long enough live history to show results across complete interest-rate cycles, so this framework explains the mechanics instead of presenting hypothetical performance.

Interest Rate Drivers Matter More Than Direction

Rates can rise alongside equities when real growth is doing the work

$$\text{Nominal Yield} = \text{Real Yield} + \text{Inflation}$$

Rates Rise With Stronger Real Growth

WHAT DRIVES THE MOVE

The position is tied to the price volatility of a company held across ARK's suite of ETFs.

WHAT IT CAN MEAN FOR ARKY

Stronger stocks can support barriers. Higher yields and price volatility also can improve terms on new positions.

Rates Rise With Higher Inflation

WHAT DRIVES THE MOVE

Inflation expectations increase and investors demand more compensation for holding assets.

WHAT IT CAN MEAN FOR ARKY

Pressure on innovation valuations can increase barrier risk, even when higher volatility supports coupon terms.

Long Rates Fall With Technology-Led Deflation

WHAT DRIVES THE MOVE

Innovation raises productivity and pushes the cost of goods and services lower.

WHAT IT CAN MEAN FOR ARKY

Lower long-term rates can support innovation valuations, while coupons continue to depend on volatility and barrier levels.

Rates Fall With Weaker Growth

WHAT DRIVES THE MOVE

Slower demand or recession concerns lead markets to expect easier monetary policy.

WHAT IT CAN MEAN FOR ARKY

Lower rates do not remove equity risk. Falling stocks can interrupt coupons and put principal at risk.

ARK'S VIEW

AI-driven real growth could push short-term rates higher while technology-led deflation pulls long-term rates lower.

Source: ARK Investment Management LLC, 2026. Conceptual framework only; not a forecast of Fund performance. For informational purposes only and should not be considered investment advice or a recommendation to buy, sell, or hold any particular security.

6. How ARKY Turns Research Into Potential Income

ARKY combines ARK's innovation research with active autocallable management. ARK defines the universe of possible reference stocks using companies held across its suite of ETFs. Those companies may be working

in artificial intelligence, robotics, energy storage, public blockchains, or multiomics.

Disruptive innovation is inherently volatile. Artificial intelligence and other technologies are advancing quickly, forcing investors to estimate the future value of companies whose markets and business models are still developing. That uncertainty often appears as larger swings in stock prices. As AI accelerates, uncertainty about which companies will create the most value is likely to remain high.

In our view, volatility does not equal risk. It measures uncertainty through changes in market prices. Long-term business risk is different. It includes the possibility that a company fails to adapt, loses its advantage, or becomes less valuable over time. A company building the future can have a volatile stock price, while a company with a steadier price can face serious risk from technological change.

Stocks in ARK's innovation universe often have more volatility than the broad market. That volatility can support high autocallable income. In this way, volatility is the source ARKY seeks to harvest for income.

ARK's research is central to that process. When our research suggests that the market is placing more uncertainty on a company than its long-term business outlook warrants, ARKY can seek to capture the additional income available from that implied volatility. The strategy is designed to earn income from market-implied uncertainty that ARK believes may be overstated.

SCG Asset Management, ARKY's sub-adviser, actively manages the autocallable portfolio. It evaluates each reference company and sets the coupon, barriers, maturity, and position size. It also can wait, resize, or decline a trade when the available income does not justify the downside risk. The goal is consistent contingent income and preservation of the Fund's NAV, not the highest headline coupon.

7. Where Could ARKY Fit?

A useful way to think about ARKY is as a supporting income allocation within a broader portfolio. Because its income is linked to stock prices, investors should size the position based on how much market risk they can accept, not simply on the size of the monthly distribution.

Before investing, it helps to define the job ARKY is expected to do. Is the goal to provide income for spending, generate income that will be reinvested, or add a different source of return to an existing portfolio? The answer can help determine both the size of the allocation and where the money should come from.

Where ARKY Could Fit Depends On What It Replaces

The funding source changes both the potential benefit and the risk

 Cash POSSIBLE ROLE Not a cash substitute POTENTIAL BENEFIT Higher income potential than cash. KEY TRADE-OFF The share price can fall. Do not use money needed for emergencies or near-term spending.	 Bonds POSSIBLE ROLE Income complement POTENTIAL BENEFIT Adds an equity-linked source of income with less direct reliance on traditional bond duration. KEY TRADE-OFF Less stability than high-quality bonds and meaningful stock-market downside risk.	 Stocks POSSIBLE ROLE Income-first equity sleeve POTENTIAL BENEFIT Turns some equity upside potential into current income. KEY TRADE-OFF Gives up much of the stock upside while retaining risk during a severe decline.	 Other Income Strategies POSSIBLE ROLE Income diversifier POTENTIAL BENEFIT Adds a different income engine alongside dividends, covered calls, or credit. KEY TRADE-OFF Risks can overlap. A high distribution can coincide with a falling NAV.
--	--	---	--

Source: ARK Investment Management LLC, 2026. This framework is general and is not investment advice. For informational purposes only and should not be considered investment advice or a recommendation to buy, sell, or hold any particular security.

Investors also should consider what they already own. Someone who holds ARK's ETFs or other innovation stocks may already have exposure to some of the same companies referenced by ARKY. Adding ARKY changes how that

exposure seeks a return, from stock-price appreciation to contingent income, but it does not make the underlying company risk disappear.

The appropriate size will depend on the investor's time horizon, need for ready access to cash, ability to accept a decline in NAV, and existing exposure to stocks and disruptive innovation. Once invested, the focus should remain on total return, changes in NAV, the health of the underlying positions, and the consistency of distributions, not the headline yield alone.

8. The Bottom Line

ARKY offers a new way to seek income from disruptive innovation. It does not require every reference stock to rise sharply. Stocks can remain flat, or sometimes fall, while positions could continue paying coupons if their rules are met. In return, investors give up much of the stocks' upside and accept the risk of missed coupons and principal loss.

The key decision is not simply whether autocallables sound attractive. It is which role the investment will play, which asset will fund it, how the underlying stocks may behave as rates change, and whether an actively managed group of single-stock exposures is a better match than a broad-based index autocallable.

Understand the source of the income. Compare the full set of risks. Then decide whether the trade-off fits the portfolio.

Important Information

Investors should carefully consider the investment objectives and risks as well as charges and expenses of an ARK ETF before investing. This and other information are contained in the ARK ETFs' prospectuses and summary prospectuses, which may be obtained by visiting www.ark-funds.com. The prospectus and summary prospectus should be read carefully before investing.

An investment in an ARK ETF is subject to risks and you can lose money on your investment in an ARK ETF. There can be no assurance that the ARK ETFs will achieve their investment objectives. The ARK ETFs' portfolios are more volatile than broad market averages. The ARK ETFs also have specific risks, which are described in the ARK ETFs' prospectuses.

The principal risks of investing in the ARK Active Autocallable Income ETF (ARKY) include:

Derivatives Risk: The Fund's use of derivatives involves risks that may be greater than those associated with traditional investments, including market, leverage, liquidity, counterparty, and valuation risks. Changes in the value of an underlying asset may result in losses that exceed the Fund's initial investment. Derivatives may be difficult to value or exit, particularly during periods of market stress, and the Fund could experience losses if a counterparty fails to meet its obligations.

Leverage Risk: The Fund's use of leverage may magnify gains and losses, increase volatility, and cause the Fund to liquidate investments at unfavorable times to meet its obligations.

Liquidity Risk — Synthetic ELNs: There is no liquid secondary trading market for Synthetic ELNs. Terminating the Synthetic ELNs may require the payment of a premium or acceptance of a discounted price and may take longer to complete. These features may adversely impact the value of the Synthetic ELNs and the value of your investment.

Equity Securities Risk — Synthetic ELNs: The Fund gains its investment exposure primarily through Synthetic ELNs that reference individual equity securities. The value of these Synthetic ELNs may decline due to market conditions, economic events, industry developments, company-specific factors, changes in interest rates, inflation, or investor sentiment affecting the underlying reference securities. Broad market declines may adversely affect the value of the Fund's investments and performance.

SPAC Risk: The Fund's Synthetic ELNs may reference Special Purpose Acquisition Companies (SPACs). SPAC investments may be speculative and highly dependent on management's ability to complete and successfully execute a business combination. If a transaction is not completed or does not perform as expected, the value of the referenced SPAC securities, and therefore the Fund's Synthetic ELNs, may decline.

Disruptive Innovation Risk: The Fund's Synthetic ELNs may reference companies pursuing disruptive technologies or business models. Such companies may fail to develop, commercialize, or profit from innovative technologies, may face significant competition or regulatory challenges, and may experience greater volatility than the broader market. The success of a disruptive innovation may not translate into improved financial performance or higher security values, which could adversely affect the Fund's performance. Additional risks of investing in ARKY include market, management and non-diversification risks as well as risks associated with the various sectors and industries in which the fund invests. Detailed information regarding the specific risks of the ARKY ETF can be found in the prospectus.

Swap Risk. Swap agreements are contracts for periods ranging from one day to more than one year and may be negotiated bilaterally and traded OTC between two parties or, for certain standardized swaps, must be exchange-traded through a futures commission merchant or swap execution facility and/or cleared through a clearinghouse that serves as a central counterparty.

New Fund Risk. There can be no assurance that the Fund will grow to or maintain an economically viable size, in which case the Board may determine to liquidate the Fund if it determines that liquidation is in the best interest of shareholders. Liquidation of the Fund can be initiated without shareholder approval. As a result, the timing of the Fund's liquidation may not be favorable.

Shares of ARK ETFs are bought and sold at market price (not NAV) and are not individually redeemed from the ETF. ETF shares may only be redeemed directly with the ETF at NAV by Authorized Participants, in very large creation units. There can be no guarantee that an active trading market for ETF shares will develop or be maintained, or that their listing will continue or remain unchanged. Buying or selling ETF shares on an exchange may require the payment of brokerage commissions and frequent trading may incur brokerage costs that detract significantly from investment returns.

Cash flow refers to money received from or paid by an investment, including distributions, interest, dividends, or other payments. “

Coupon refers to a payment that may be made under an autocallable's terms if specified conditions are met. Coupon payments are not guaranteed and may be missed or never paid.

ARK Investment Management, LLC is the investment adviser to the ARK ETFs.

Foreside Fund Services LLC, distributor.