THREE HORIZONS CAPITAL / PRODUCT RESEARCH / FOLLOWS OUR PAPER "HOW TO CHOOSE A STRUCTURED PRODUCT"

Off the Shelf

We said screen the listed shelf before you build. That still holds. This is what we found when we took something off it, and why the shelf screen is where the work moved to.

Fund data as at 19 August 2026 | All figures in US dollars | Written for professional investors | No individual fund, provider or issuer is named

2.85%
is the standardised income measure behind a current distribution rate of 15.8 per cent, and a trailing yield of 14.79 per cent, on one fund

45bp
is the overlay fee premium over plain equity beta on either internally consistent basis, against 25bp if the two are mixed

3 legs
of options sit under a product whose name describes a single metal, and every one of them is disclosed

On 12 August we published the order of operations for choosing a structured product. Name the payoff shape. Then choose the wrapper, because that is where the credit, the liquidity and the unquoted cost actually live. Then screen the listed shelf before accepting that anything bespoke is necessary. We described that shelf screen as a gate, and we wrote that **if something on the shelf fits, the remaining steps get very short.**

THE SEVEN STEPS, AS PUBLISHED

1	2	3	4	5	6	7
Decompose the payoff	Screen the listed shelf	Engineer the build	Stress the barrier	Verify tax character	Monitor the outcome period	Route back to a note

Step two is the one this paper expands. The process in full is at threehorizonscapital.com/insights/how-to-choose-a-structured-product

Then a question arrived that ran the process end to end on a live product. An adviser had been shown a newly launched gold income fund and asked the reasonable thing: should a client buy this, or could we build the same exposure ourselves more cheaply. That is the shelf screen arriving in the wild.

The route logic held exactly as published. The shelf screen did not get short. Three separate facts about the product turned out to mean something other than they appear to mean, and all three sit inside that single step. This paper is the expansion of our own process that follows.

What this paper is, and is not. It is not a view on gold, on the product, or on the direction of anything. It is not a revision of the earlier paper: the route framework there is undisturbed, and the fee levels quoted here for the overlay categories are that paper's own published figures. What is new is a baseline, a premium, and three checks that now sit inside step two.

A note on the worked example. The fund that prompted the question is a private-placement vehicle distributed through a bank's wealth channels, and we hold no position, holdings or fee data on it. The analysis below is therefore run on the public listed comparable that operates the same strategy, which is also the better choice for the reader, who can check every figure independently.

1 Two of the four advantages survive contact with a real product, and that is worth saying first

The earlier paper gave the listed route four advantages over a bank note: no issuer-credit line item, daily liquidity, disclosed holdings, and a fee under one per cent. Taking a real product off the shelf tests all four.

Two hold exactly. The option legs are exchange-cleared and the collateral is Treasury bills, so there is no bank balance sheet standing behind the payoff. The ninety-second issuer-credit check we described has nothing to look up, which is the entire point of choosing the listed route. Daily liquidity holds too.

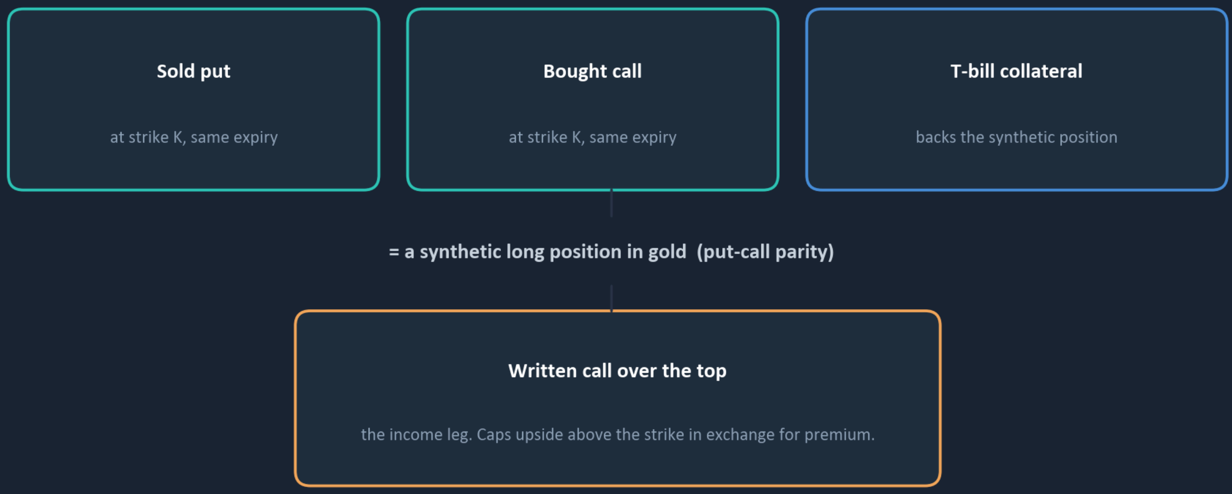
The other two hold as written and mislead as used. And a fifth thing, which the earlier paper had no reason to examine, turned out to matter more than any of them.

2 "Disclosed holdings" is true. What is disclosed is two options and a Treasury bill, not gold.

The long exposure in this fund is assembled rather than held. A sold put and a bought call at the same strike and the same expiry combine, by put-call parity, into a synthetic long position, collateralised with Treasury bills. The income overlay is then a third leg written against that synthetic position, using customisable exchange-cleared options so the manager can reset strikes as the position moves, with protective structures added opportunistically. External

What you own when you own a gold income fund

The long exposure is assembled, not held. Three option legs on Treasury collateral.



The exposure is assembled from options and Treasury collateral rather than from bullion, and the construction is disclosed in the published methodology. A minimum of three option legs, plus the discipline to reset strikes as the position moves.

Construction as described in the sponsor's published methodology, cross-checked against independent trade press and against portfolio holdings data on the Three Horizons Capital data platform as at 8 August 2026. The holdings data confirms the option-leg construction at a point in time; the dynamic reset discipline is from the published methodology.

This connects directly to the earlier paper's central move. We wrote there that every payoff shape decomposes to a bond plus an option position, and that until that decomposition is written down, nothing downstream can be compared. **Here the fund has already performed that decomposition and holds the result.** It is not holding the asset and selling calls against it. It is holding the synthetic equivalent of the asset, and selling calls against that.

Nothing is concealed. It is set out in the published methodology, and the construction is a legitimate and capital-efficient way to obtain the exposure. It is also most of what the fee buys. The point is narrower and more practical: **"gold income fund" and "three option legs on Treasury collateral" describe the same product at two different altitudes, and only one of those descriptions reaches the end client.**

SO WHAT

An allocator who bought this to hold gold owns a derivative structure whose economics track gold. That is a defensible thing to own and a different thing to own. It changes the collateral profile, the capital efficiency, the behaviour in a dislocation, and what the client believes is in the account.

3 The headline yield is 15.8 per cent. The standardised income measure is 2.85 per cent.

This is the finding the paper exists for, and it is the one dimension the earlier paper never examined, because a wrapper comparison had no reason to reach it.

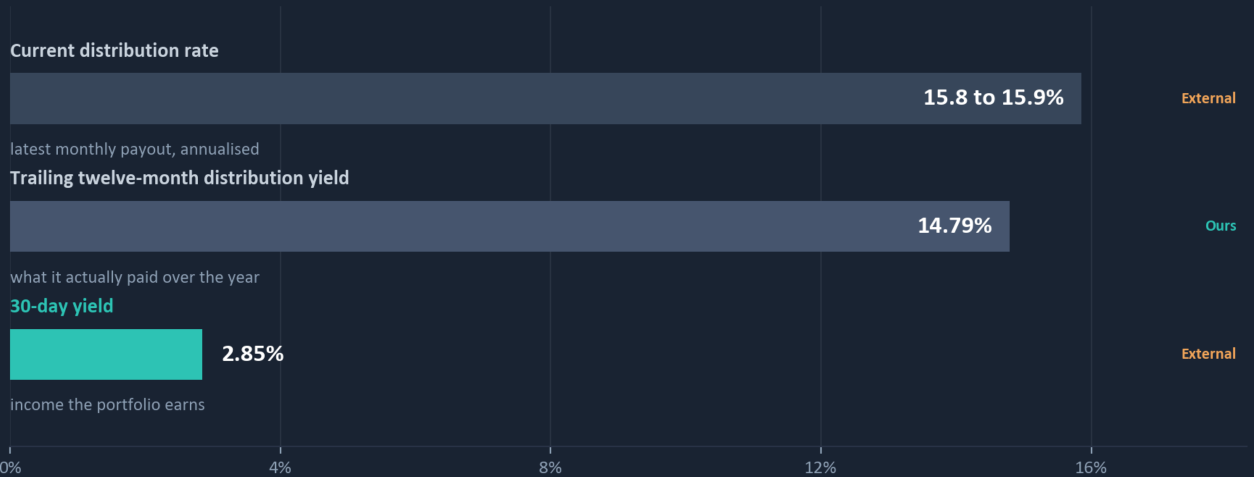
Three yield figures are published for this fund, and they answer three different questions. Its **current distribution rate**, the latest monthly distribution annualised against current net asset value, is around 15.8 to 15.9 per cent.

External Its **trailing twelve-month distribution yield**, the sum of what it actually paid over the past year, is 14.79 per cent. Ours And its **30-day yield**, the standardised measure of the rate at which the portfolio generates income, is around 2.85 per cent. External

The gap between the first two is small and mechanical. The fund is young, just past its first twelve-month mark, and its monthly payout has been rising, so a backward-looking sum lags the current run rate. Both are legitimate and both are quoted. **The gap that matters is between either distribution figure and the 30-day yield**, and it is roughly twelve to thirteen percentage points of returned capital and realised gains distributed alongside genuine option premium.

Three yields, one fund, three different questions

Two measure what the fund pays out. One measures what it earns. Only the third can be a replication target.



A distribution rate measures cash sent to the holder. A 30-day yield measures income earned by the portfolio. All three are correct and all three are published. Sizing a replication to either payout figure means underwriting to a number that is not sustainable option income.

Payout rates sponsor-published. Trailing figure ours, unrefreshed since 3 August.

The current distribution rate and the 30-day yield are sponsor-published, cross-checked against independent trade press and re-confirmed 19 August 2026; they are not drawn from the Three Horizons Capital data platform. The trailing twelve-month figure is from our platform. The three carry different as-of dates and are shown as three conventions on one fund, not as a single-day snapshot.

This is standard, disclosed practice for aggressive monthly-income overlay funds. It is not a defect and it is not concealed. Both numbers are published, both are calculated correctly, and the fund is doing what it says it does. The difficulty is that the two measure different things. A distribution rate measures cash sent to the holder. A 30-day yield measures income earned by the portfolio. When a product is being assessed as an income source, the first is the number that gets quoted and the second is the number that matters.

One caveat from our own feed, published rather than buried

The trailing figure above is ours, and it carries a qualification we would rather state than omit. Ours That field has returned the same value, 14.79 per cent, on every one of the thirteen extractions taken between 3 and 19 August, while the asset totals on those same records moved on almost every one of them. A field that holds still while its neighbours update is more likely to be awaiting a refresh than to be reporting a genuinely flat yield. We treat it as last known rather than live, and it should be re-read once the next monthly distribution posts.

The consequence lands directly on step three of the earlier process, where a build is engineered. **An adviser who sizes a replication to match the 15.8 per cent is underwriting to a number that is not sustainable option income.** There are only two ways to hit it: take materially more risk than the packaged product takes, or return the client's capital to them and describe it as yield. The honest target for a replication is the 2.85 per cent order of magnitude.

The same error, a second time. Our last flow paper found a normalised score that measures the **pace** of buying being read as a measure of its **direction**. This is the same class of error in a different place. Both metrics are correct. Both answer a narrower question than the one being asked of them. It is worth developing the habit of asking what a number measures before asking what it says.

SO WHAT

Before comparing any shelf product to a build, establish which of its headline numbers are standardised measures and which are outputs of a payout policy. Only the first kind is comparable across products, and only the first kind can be a replication target.

4 "A fee under one per cent" is true. The comparison that number invites is not.

The earlier paper described the listed wrapper's cost as disclosed, in a range of 0.25 to 1.33 per cent, against a note's cost being embedded and not itemised. That contrast holds and it remains the strongest practical argument for the listed route. **What we did not examine, because the question there was note against fund rather than fund against fund, is whether those disclosed numbers are comparable to each other.** Frequently they are not.

The two sides of the comparison are not the same kind of fund

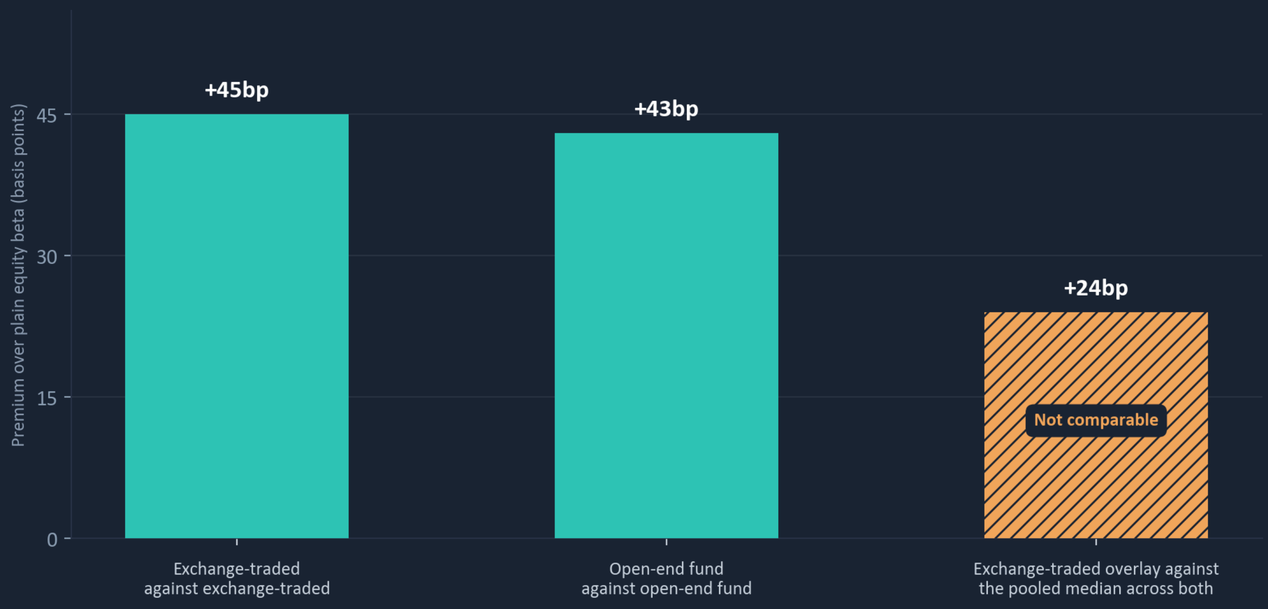
Options-overlay categories are almost entirely exchange-traded. Plain equity beta is not: it is roughly 44 per cent exchange-traded and 56 per cent open-end, **and the two halves price at 0.30 per cent against 0.79 per cent.** Ours That is a gap of 49 basis points inside the baseline itself, before any overlay has been priced at all.

Pool the two wrapper types and the median of the combined population is 0.53 per cent, which describes neither half of it. Ours Compare an all exchange-traded overlay category against that pooled median and the premium comes out at about 24 basis points. Compare it against the exchange-traded half alone and it is about 45. That difference is not a modelling preference. One of those baselines is half-populated with funds the overlay category cannot be bought instead of.

Every figure in the table below is a median, including the pooled baseline. A pooled median is not the same thing as an average of the two sub-medians weighted by fund count, which on the same population is 0.58 per cent. We publish the pooled median because it is the number an adviser actually gets by taking the category as a whole, which is the comparison this section is about. **The construct matters more than the value, and stating it is the point of the piece.**

The overlay premium is about 45bp on either consistent basis, and 24bp only if you mix them

Median expense ratio, one row per strategy, US-domiciled. The pooled figure is the median of the combined population.



Overlay categories are almost entirely exchange-traded. Plain equity beta is roughly 44 per cent exchange-traded and 56 per cent open-end, and the two halves price at 0.30 per cent against 0.79 per cent. The median of the combined population is 0.53 per cent and describes neither half.

Median expense ratio, one row per strategy, US-domiciled, as at 19 August 2026, from the Three Horizons Capital data platform. Overlay category fee levels are as published in our earlier paper on structured products; the baseline and the resulting premium are new here.

BASIS	PLAIN EQUITY BETA	INCOME OVERLAY	DEFINED OUTCOME	PREMIUM
Exchange-traded against exchange-traded	0.30%	0.75%	0.79%	+45 to +49bp
Open-end against open-end	0.79%	1.22%	n/a	+43bp
Overlay against a pooled median	0.53%	0.75%	0.79%	+22 to +26bp

Two internally consistent bases, constructed independently of each other, land between 43 and 49 basis points. The third mixes wrapper types and produces a materially smaller number. **The premium is about 45 basis points on either consistent basis, and about 24 only if you mix them.**

Where nothing is mixed, the gap is wide and uncontested

The bespoke commodity case is the cleanest comparison in this paper, because it is one wrapper type, one fee field and one category throughout. The overlay product charges 0.99 per cent against 0.25 per cent and 0.17 per cent for physical bullion exposure, **a gap of 74 to 82 basis points.** Ours No basis question arises. That is what the wrapper premium looks like when there is nothing to mix.

The same trap, visible in a single row

While assembling the comparison the fee feed returned an impossible reading: one large physical gold fund showed a fee of 0.00 per cent on its own row, and its ticker was shared by an unrelated European gold-miners fund carrying 0.55 per cent. Ours Two different funds, one ticker, one figure that cannot be right. We excluded both from the comparison and are saying so here, rather than publishing a table that looked clean.

SO WHAT

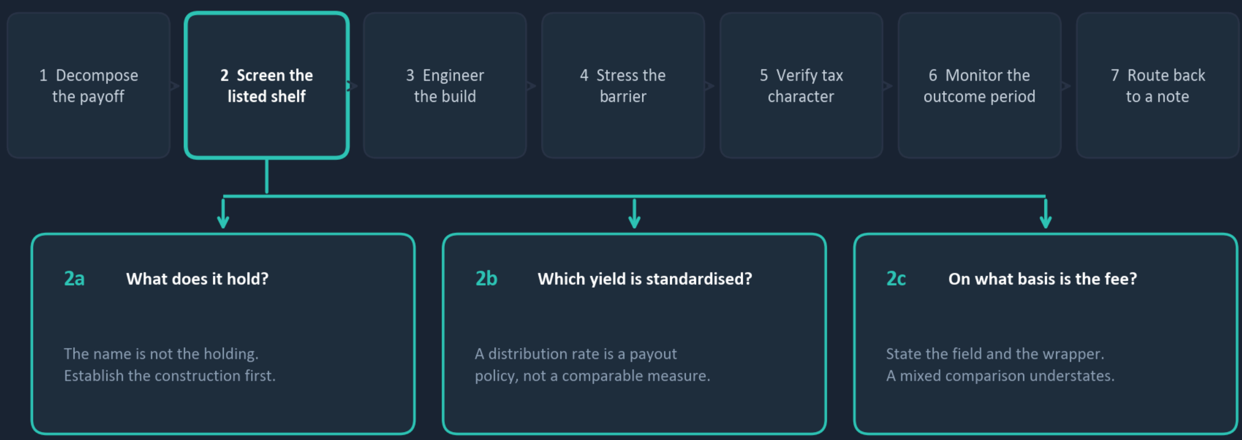
The premium is real, and it is larger than the tidy version. What matters more is where the trap sits. It is not in an exotic corner of the data. It is inside the most natural comparison an adviser could run, on the most ordinary question they could ask: what does this cost against plain beta. Ask it without settling which wrapper is on each side, and the answer is out by roughly half.

5 So the shelf screen grows three checks, and the cases where buying is the only option are unchanged

The earlier process stands. Steps two and seven remain the gates, and the route logic is undisturbed. What changes is the weight inside step two.

Step two is where the work moved to

The seven-step selection process, with the three checks that now sit inside the shelf screen.



The seven-step selection process as published, with the three checks that now sit inside the shelf screen. Revised 17 August 2026.

Each of the three is answerable from documents the reader already has, and each takes minutes rather than hours. **What does it hold**, because the name is not the holding. **Which of its yield figures is a standardised measure**, because a distribution rate is a payout policy and cannot be a replication target. **On what basis is the fee recorded**, because a comparison that spans wrapper types has no single field available to it and will understate the premium unless the basis is stated.

What has not changed

With those checks run, the honest reading of the cost comparison is that the wrapper premium buys engineering, capital efficiency and administrative simplicity, rather than a different payoff. For a desk with derivatives capability operating at scale, replication is credible on cost grounds. Below that scale it is not. Judgement

And the decision reverses completely, not marginally, wherever the wrapper carries an attribute that a listed-options replication cannot reproduce at any price. A Sharia-compliant structure using Murabaha or Wakala contracts is compliant because of how it is constructed, and no arrangement of listed options reproduces that. A contractual principal floor is guaranteed by an issuer, not manufactured by an option book. Embedded issuer credit is inherent to the instrument. In each of those three cases the cost comparison is not close; it is irrelevant.

Carried forward

6 The shelf still settles the route. It does not settle the product.

The conclusion of the earlier paper was about the note: the cost is not absent, it is unquoted, and the buyer is the only person in the chain who never looks it up. **The conclusion here is the mirror image, and it is the less comfortable of the two. On the listed route the cost is quoted, the holdings are disclosed and the yield is published, and all three still have to be read.**

Disclosure and comprehension are not the same thing. The listed wrapper solves the first completely, which is why it remains the right default for standard payoffs on major indices. It does nothing at all for the second. Every finding in this paper came out of documents that were public, complete and accurate on the day we read them.

WHAT WE COULD NOT ESTABLISH

Two of the three yield figures are not ours. The current distribution rate and the 30-day yield are sponsor-published and cross-checked against independent trade press. Only the trailing twelve-month figure comes from our platform, and that field has not refreshed since 3 August, so we report it as last known rather than live. All three are load-bearing for Section 3 and should be re-confirmed against the current fact sheet before any client use.

We hold no data on the fund that prompted the question. It is a private-placement vehicle with no public fund-data coverage, so everything above is run on the listed comparable rather than on the product an adviser was actually shown.

We cannot price a replication. Our catalog holds no current gold-options implied-volatility or skew data, so the conclusion that replication wins at sufficient scale is directional rather than priced. Sizing a real overlay needs live exchange or over-the-counter option quotes, which sit outside our data and inside most readers' own execution desks.

Expense ratio and management fee are different constructs. The premium range above rests on two independently constructed bases landing between 43 and 49 basis points, rather than on either basis alone. **Every fee figure quoted is a median at strategy grain, and the pooled baseline is the median of the combined population rather than a weighted average of the two sub-medians.**

One regional question is excluded rather than answered. Our sources disagree on the direction of European demand for the overlay categories over the same window, so no regional claim appears in this paper.

If you are being shown one of these, send us the fact sheet.

Our earlier paper asked for term sheets, and that stands. This one asks for something easier. If a product is already on the shelf and someone is proposing it, send the fact sheet and we will run the three checks against it: what it holds, which of its yield figures is standardised, and what its fee actually compares to. If the answer is that it is the right instrument at a fair price, that is what we will tell you.

Three Horizons Capital, 20 August 2026. Fund counts, category fee levels, wrapper-type splits, the trailing twelve-month distribution yield and the gold fee comparison are derived from the Three Horizons Capital data platform as at 19 August 2026, with portfolio holdings data as at 8 August 2026; one physical comparator carries a 14 August extraction. Overlay category fee levels are as published in our earlier paper on structured products, dated 11 August 2026 and published 12 August 2026, from fund data as at 6 August 2026. The current distribution rate and the 30-day yield are sponsor-published figures cross-checked against independent trade press and re-confirmed 19 August 2026; they are not derived from our data. Morningstar category is used as the classification construct. No individual fund, provider or issuer is named.