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Why Sector Exposure in an Equity Income Portfolio

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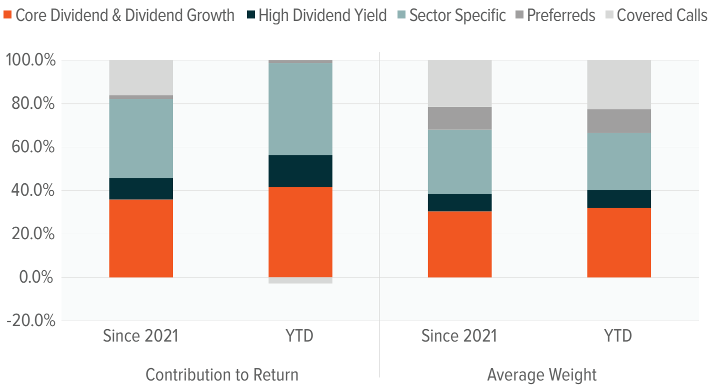
Our Sector Approach

The inclusion of low-yielding sectors may seem out of place in our Equity Income Portfolio, but we believe it's a critical component for a portfolio to balance a high current income with solid total returns.

The question we hear most often about the Sector Specific segment is: why include these exposures, and how are they best managed?

Our answer: Targeted sector exposure is a key differentiator. It helps mitigate concentration risk and adds balance to performance across market cycles. In fact, our Sector Specific segment has accounted for 36.4% of returns since January 2021, and as market leadership has narrowed, it's driven 42.4% of YTD returns.

CONTRIBUTION TO RETURNS



Source: Gross return data from Morningstar as of 8/31/2025.

Which Sector and Why?

The Sector Specific segment fills two key roles: adding back exposures that are missing and expressing a view on areas where we have a favorable market outlook.

We balance exposures across the portfolio by understanding both upside and downside capture to different exposures. The Sector Specific segment targets exposure where we are lacking upside capture to specific areas. Information technology and Communication Services are key examples of sectors that have great representation within our Covered Call exposure but need to have their exposure augmented to balance the portfolio's up capture.[1]

The Sector Specific segment is also used to express views on specific sectors and allows us to be over or underweight sectors or industries at the portfolio level. Our approach combines a top-down macro perspective, complemented by a bottom-up analysis.

Views for the Current Environment

Economic growth is slowing, raising the importance of positioning portfolios in line with tailwinds from both a macro and structural growth perspective. July and August's weak non-farm payrolls and the downward revisions to May and June's employment readings raise concerns that economic activity may have stalled. Obviously there are more factors at play, but this has shifted the market's focus from inflation to economic growth concerns, raising the probability that the Federal Reserve (Fed) shifts to a faster rate-cutting cycle. We believe the intersection of high interest rate sensitivity and low economic growth sensitivity is optimal for this type of shift.

Two areas that stand out: Utilities and selective Real Estate exposure.

— Utilities are capital intensive with high debt burdens. A reduction in interest rates is likely to benefit margins. This is a defensive sector where economic growth has minimal impact on demand. Additionally, the growth in Artificial Intelligence (AI) is a structural tailwind for energy demand. We currently have the largest overweight to the Utilities sector. While we gain Utility exposure from several positions across the portfolio, we have a dedicated Utility sector position that results in this overweight.

— Real Estate is highly sensitive to interest rates – benefiting from reduced debt costs combined with a lower discount rate boosting the valuations of their properties. However, Real Estate is sensitive to the economic environment. As such, focusing on select areas with strong structural tailwinds can be highly beneficial. We've been increasing our exposure to targeted Real Estate, focused on Data Centers & Digital Infrastructure. This segment benefits from lower yields while also having the tailwind of growing AI demand.

Consclusion

Sector exposure differentiates our Equity Income Portfolio while prioritizing its total return objective. Diversifying between high-yielding and lower-yielding areas can lower the portfolio's sensitivity to specific factors, including the value factor, dividend yield, and economic growth. Including sector exposure that is influenced by market views also keeps it relevant and well positioned. Overall, sector exposure can help the portfolio perform more consistently through different market environments.

[1] Covered Calls use option writing to generate income. This limits upside capture during rising markets. Covered Calls perform best in rangebound markets where the premium is received but the option is not exercised.

Need More Info or Modeling?

For advisors who are interested in exploring our model solutions, we offer a wide range of support to help you explain the portfolios to your clients. Beyond factsheets and market insights, we also provide reports explaining the rationale behind our allocation changes, and monthly performance reports that draw attention to the key factors driving performance. Additionally, we put out research and analysis on key areas related to our model portfolios, including portfolio perspectives on equity income investing or establishing a framework for the long-term inclusion of thematic equity.

The Model Portfolio Solutions Team is available to discuss the portfolios, provide insights on our view on the market and how this shapes our portfolio positioning. We understand that outsourcing to a third-party model manager is a big decision. We're available to explain our processes and the support behind our model portfolios.

Please reach out to your Global X representative or contact ModelPortfolioSolutions@globalxetfs.com for more information on how our model portfolios may be a solution for you.

All data sourced from Morningstar as of 8/31/2025 unless otherwise indicated.

Glossary

Upside capture: A performance metric that evaluates how well an investment captures the gain of a benchmark during periods when the benchmark is rising.

Downside capture: A performance metric that evaluates how well an investment avoids losses relative to a benchmark during periods when the benchmark is falling.

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