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Structured Investments in Action Part II: Risk-Managed Growth Potential

How and why structured investments are used within a portfolio to pursue growth objectives.

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Structured investments have evolved a lot over the last few decades, with increasingly flexible ways to tailor a portfolio to the needs of investors looking for either income or growth.

HOW AND WHY STRUCTURED INVESTMENTS ARE USED WITHIN A PORTFOLIO TO PURSUE GROWTH OBJECTIVES.

Growth-oriented structured investments are typically used to achieve consistent market exposure, with embedded protective features that can provide a degree of risk management in a portfolio. Other times, and still on the growth side of the portfolio, structured investments can be used to try to capitalize on a specific market outlook (bullish or bearish) or to gain efficient, risk-tailored exposure to strategies that may be difficult to access directly.

Growth investors considering any structured investment should do the following:

- View structured investments as buy-and-hold strategies whose payouts are not promised until maturity.
- Understand there is no guaranteed secondary market and that while issuers have historically bought back structured investments, they are under no legal obligation to do so.
- Be comfortable with the issuer's creditworthiness since payments made by structured investments are subject to the credit risk of the issuer.

What do growth-oriented solutions look like in the structured investment world? A high-level overview can shed some light:

Growth solutions:

- Enable investors to participate in the potential growth of a desired market, often with some risk mitigation.
- Are generally characterized by a single payment at maturity.
- Are tied to the return of an underlier, such as an equity index, a basket of indices or a stock.
- Can offer full principal protection, partial protection, or no protection at all.

Highlighted below are a few hypothetical scenarios to show structured investments can be used to achieve growth objectives.

GROWTH USE CASE #1: INTERNATIONAL EXPOSURE, WITH A DEGREE OF PROTECTION

The objective: An investor seeks the potential growth and diversification that may come with international equity exposure. She is optimistic about emerging markets specifically, and comfortable with equity risk. However, she would appreciate some downside protection should those markets experience a slight to moderate decline.

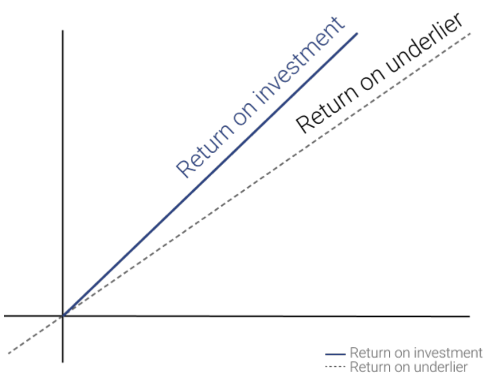
A potential solution: A market linked growth note with upside participation tied to a broad emerging market equity index, along with barrier protection.

This type of note can be visualized in the below hypothetical illustration:

Underlier: MSCI Emerging Markets Index

Term: 4 years

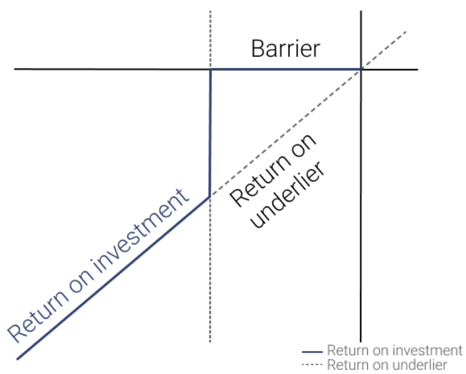
Payment details: 1.5x upside participation



For illustrative purposes only

At maturity, an investor would receive a return that is 1.5x any gains in the index, uncapped, on a price return basis.

Protection details: 20% barrier (observed at maturity)



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At maturity, the barrier would absorb the first 20% of any losses in the index but after that, protection would disappear, and losses would be one-to-one from the index's initial level.

In other words, if the index is at 80% or above of its initial level at maturity, an investor would receive his or her full principal back. However, if the index is below 80% of its initial level at maturity, an investor would take losses from the index's initial level.

Benefits:

- Leveraged and uncapped participation in any gains in the underlier at maturity.
- Return of principal, so long as the underlier has not declined below the barrier at maturity.

Considerations:

- The potential for losses that are one-to-one from the underlier's initial level should the underlier close below the barrier level at maturity; losses could be significant.
- The underlier's return is based on price return only and does not include dividends.

EXAMPLE #2: EXPRESSING AN INVESTMENT VIEW

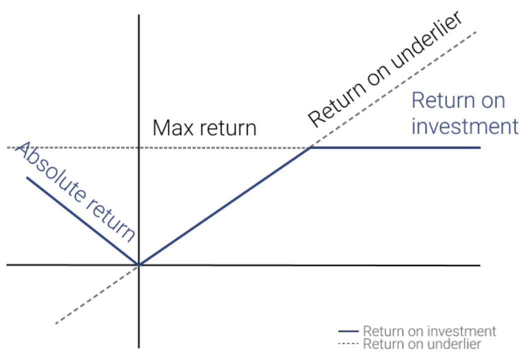
The objective: An investor follows the market closely and feels that over the coming 18 months U.S. equity returns may be more muted, or even slightly negative (he expects single-digit returns, either positive or negative). He wants to remain engaged in the markets, but also somewhat protected if market gains do not continue.

A potential solution: A market linked growth note that offers exposure to U.S. equities with the potential for a return regardless of whether market performance is positive or negative, and a degree protection against a market decline.

Underlier: S&P 500 Index

Term: 18 months

Payment details: 1x upside participation (to 15% max return) 1x absolute return (to 10% hard buffer)



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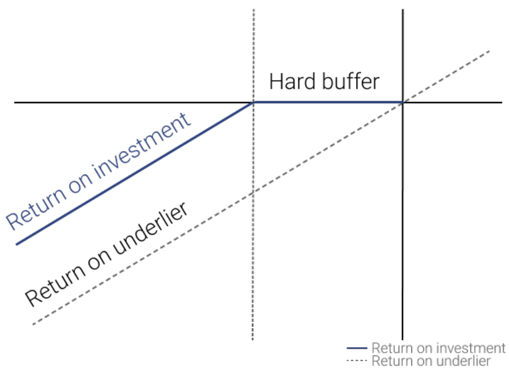
Protection details: 10% hard buffer (observed at maturity)



For illustrative purposes only

At maturity if the underlier has increased, an investor would participate in any gains in the underlier up to a pre-determined maximum return of 15%.

If the underlier has declined but is at or above 90% of its initial level, an investor would receive an absolute return payment in the amount of the decline.

At maturity, the barrier would absorb the first 20% of any losses in the index but after that, protection would disappear, and losses would be one-to-one from the index's initial level.

In other words, if the index is at 80% or above of its initial level at maturity, an investor would receive his or her full principal back. However, if the index is below 80% of its initial level at maturity, an investor would take losses from the index's initial level.

Benefits:

- Upside participation (up to a cap) in any gains in the underlier.
- Payment even if the underlier return is negative, as long as negative return is not below the hard buffer level at maturity.

Considerations:

- The hard buffer only protects principal against a degree of decline in the underlier; losses could be significant.
- The underlier's return is based on price return only and does not include dividends.

INFORMED INVESTING

Structured investments come in a wide variety with different terms and conditions. There's one for almost any market outlook or investment goal, giving investors the chance to stay in the market and choose how much protection they need to feel comfortable.

When considering any structured investment, investors should understand the type of protection it offers, if any, as well as its payout potential, by carefully reviewing the offering documents before investing.

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