# Structured Investments in Action

## Part III: Understanding Trade-Offs in Pursuit of Enhanced Income

**Learn some of the benefits and considerations of using structured investments to pursue enhanced coupons.**

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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 growth or income.

Income-oriented structured investments are typically used to pursue the opportunity for enhanced coupon payments versus more traditional investments like bonds. Unlike fixed income instruments, the coupon payments on market linked income notes are based on the performance of an "underlier" such as an equity index, a basket of indices, or a single stock.

While the structured investment market is best known for its multitude of risk-managed growth strategies, demand for market linked income notes has increased dramatically in recent years, driven in part by a lack of alternatives in the fixed income markets. So, what do income solutions look like in the structured investment world? A high-level overview can shed some light:

### Income solutions

- Generating yield is the goal
- Generally characterized by the potential to earn coupon payments during the life of the investment
- Have coupons that are generally dependent on the return of an underlier, such as an equity index, a basket of indices, or a stock, so income may not be consistent
- Typically offer contingent downside protection which can expose an investors to the full downside risk of the underlier (though some solutions may provide partial or full protection)

The appeal of market linked income notes is that they typically offer high-single digit to double-digit coupons, depending on factors such as the volatility of the underlier and its dividend yield. This can be attractive to income-seeking investors.

But, as investors look to the structured investment market for these potentially enhanced coupons, it is important to be aware of the trade-offs involved with using equity exposure to try to generate yield. Market linked income notes have certain unique considerations, and investors should:

- Understand that, unlike bonds, some income generating structured investments may carry risk of significant loss and/or risk of receiving no coupon payments at all
- Be aware that they are not eligible to receive dividends on the underlier; they forego their dividend in exchange for the potential coupon
- Understand whether the investment has a call feature and if it does, what catalysts drive its callability
- Understand that market linked income notes are buy-and-hold investments—there is no guaranteed secondary market and while issuers have historically bought back structured investments, they are under no legal obligation to do so
- Be comfortable with the creditworthiness of the issuer since payments made by structured investments are subject to the credit risk of the issuer

One of the more popular income solutions in the structured investment market in recent years has been callable market linked income notes with contingent coupons. These notes can provide income, paid monthly, quarterly, semiannually, or annually, as long as the underlier remains at or above a certain threshold, which is called the coupon contingency level. If the underlier falls below the coupon contingency level on any of the observation dates, the periodic payments stop until the underlier rises above the threshold on a future observation date. They come with different types of call features, and many different levels of downside protection.

For more information on how they are used and how they work, read "A Non-Traditional Approach to Generating Yield."

## 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, pursue income enhancement, 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 pay-out potential, by carefully reviewing the offering documents before investing.

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