How to Use Structured Products in a Portfolio

I want …	***Consider …***
To invest in the stock market but am worried it might fall	A growth-oriented structured product that seeks stock market participation with limited downside protection, such as a buffered structured note
Potentially attractive levels of investment income	A yield-oriented structured product designed for ongoing, periodic payouts, such as an income structured note
Higher potential returns than CDs but with FDIC insurance	A market-linked CD that combines principal protection with a degree of stock market upside

EDGE PORTFOLIO MANAGEMENT

Structured Products: Key Takeaways

1. Links one security to the performance of another asset using options
2. Flexible design helps better define investment outcome potential
3. Helps broaden traditional diversification by providing a degree of downside protection and/or enhanced return potential
4. As with any investment, carefully weigh potential benefits vs. fees and risk exposures

Frequent Misperceptions

The reality:

"Sounds too good to be true"	• Highly customized exposures can be additive to traditional portfolio allocations • Liquidity and issuer credit risk and fees are all key considerations
"Too complicated"	• Understand what you are buying and how it is likely to perform in different market scenarios • Helps to better define outcomes within a portfolio
"Too illiquid"	• Benefits realized when held to maturity; selling prior may result in a loss • Meant as part of a broader portfolio • Each bank may make a market for their own outstanding offerings, though not required
"Too risky "	• As with any investment, carefully weigh risk exposure vs. potential benefits • Generally offered by prospectus – includes detailed information about terms and other key considerations

General Structured Product Characteristics

Potential benefits	Offer customized risk/reward profiles to meet a wide range of potential goals
Pricing	Matrix pricing, banks provide a continuous bid/offer
Liquidity	Not actively traded; generally held to maturity (or when called) – banks may make a market in their own offerings
Main risks	Liquidity and issuer credit risk; underlier returns outside protections/upside caps
Dividends	Generally no (income notes typically provide coupons under set parameters)
Tax treatment	Gains can be taxed as ordinary income, capital gains or original issue discount (depending on offering) – see term sheet and consult with your tax advisor for specific issue details

Key Risks

Some Key Risks

- **Market Risk**:
  - Investors could lose all or a substantial portion of principal invested and could receive no coupon payments
- **Issuer Credit Risk**:
  - Structured notes are general unsecured debt obligations of the issuer and consequently they are subject to the credit risk of the issuer. If issuer defaults, the noteholder may lose their entire investment
  - Actual or anticipated declines in the issuer's creditworthiness may result in a decrease in the market value of the structured notes.
- **Market Making/Illiquidity**:
  - One or more parties may make a market in the notes, but no party that makes a market is obligated to do so and any of them may stop doing so at any time without notice. No assurance can be given as to the liquidity or trading market for the notes. Structured notes will not be listed on any securities exchange.