HEAD INVESTMENT PARTNERS

"There's a way to do it better – find it."

"To have a great idea, have a lot of them"

--Thomas A. Edison

What are structured solutions?

It's hard to believe that more than 150 years ago, Edison uncannily laid out the purposes and key characteristics of structured products. Put simply, these tools are designed to allow an investor to alter or recalibrate the risk/reward characteristics of an underlying security or index.

How do they work?

Structured strategies are most commonly underwritten by large investment banks. Their teams of experts specialize in ways to provide investors differentiated exposure to investment markets or themes. Accordingly, by prospectus, they back the terms set forth in the structure's prospectus in exchange for an investor's commitment of time and capital.

So what do these notes do that other vehicles don't?

One might more easily answer this question by focusing on what they cannot do. The seemingly endless combination of strategies can be crafted to a client, group of clients, or more broadly to a wide audience. One can be custom built for a singles investor.

On the conservative end of the spectrum, one can access notes with a CD structure that provide a worst-case return of principal and a best-case return linked to the performance of an underlying index.

Further up the risk spectrum, investors can elect varying levels of market participation in exchange for a time commitment and some ultimate exposure to loss. Not all concepts will "price" successfully, but nearly any is worth investigating. Yield, best-of, worst-of, buffered, barrier, and so many more are available in the marketplace.

Let's explore a few examples

The buffered Note

- Linked to the S&P 500 Price Return Index (no dividend)
- 5 Year term (point-to-point)
- 120% upside participation with max (CAP) of 100% return
- 25% downside buffer against loss

  - ➢ Index return positive – Note returns 120% of that to a max of 100%
  - ➢ Index return -25% to 0% - Note returns invested principal
  - ➢ Index return below -25% - Note loses 1:1 beyond -25%
    - i.e. An index return of -30% would equate to -5% for the note

The Dual Direction with a Buffer

- Linked to the S&P 500 Price Return Index (no dividend)
- 3 Year term (point-to-point)
- 100% upside participation with max (CAP) of 34% return
- 15% downside return buffer (offers inverse participation)

  - ➢ Index return positive – Note returns 100% of index to a max of 34%
  - ➢ Index return -15% to 0% - Note returns inverse of the index
    - i.e. An index return of -12% would equate to a note return of +12%
  - ➢ Index return below -15% - Note loses 1:1 beyond -15%
    - i.e. An index return of -20% would equate to -5% for the note

The Dual Direction with Digital Coupon

- Linked to the S&P 500 Price Return Index (no dividend)
- 3 Year term (point-to-point)
- Digital Coupon of 20%
- 15% downside return buffer (offers inverse participation)

- ➢ Index return positive – Note returns 120% of initial investment
- ➢ Index return -15% to 0% - Note returns inverse of the index
  - i.e. An index return of -12% would equate to a note return of +12%
- ➢ Index return below -15% - Note loses 1:1 beyond -15%
  - i.e. An index return of -20% would equate to -5% for the note

Commonly Asked Questions

1. **What is the liquidity of structured investments / notes?**

    - Buffered ETFs trade on the exchange and have demonstrated excellent daily liquidity since they were first introduced

    - Most notes trade similarly to a corporate bond, They are priced at $1000 and trade via a bid system. The complexity of the strategy, overall market conditions, and time components will all play a significant role in the note's ultimate liquidity. Though not an explicit promise, issuers will generally bid to repurchase their own notes at some price should an investor need to sell.

2. **Who are the underwriters who build these notes?**

    - Available on our platform are the following investment banks: JP Morgan, Morgan Stanley, Bank of America, Citigroup, Society General, Royal Bank of Canada (RBC), Credit Agricola, Credit Suisse, Barclays, Bank of Montreal (BMO), Canadian Imperial Bank of Commerce (CIBC), BNP Paribas, and Wells Fargo

3. **What indices can we use? Can individual stocks be used?**

    - The choices are nearly endless, but typical indices include: S&P 500, Dow Jones Industrial Average, Russell 2000, Euro Stoxx 50, Gold ETF (GLD), and occasionally currency baskets

4. **Do other big investors ever use structured strategies?**

    - Mutual Funds, Warren Buffett, Bill Gross, and many others are well known to use structured constructs to manage risk and gain exposures in a way that "meets their eye." These investors will often use the same investment banks listed above to build to their own specifications.

5. **Why haven't I heard of these strategies before now?**

    - Structured strategies are not new. They have ebbed and flowed in popularity over the years, gaining greater traction as instruments for navigating challenging market environments. Additionally, there is minimal advertising of structured strategies.

- Given their variety, complexity, and issuance by prospectus, many advisors simply prefer more mainstream investments (i.e. mutual funds, stocks, ETFs, and bonds).

6. **What am I giving up by investing in a structured note?**

   - For index strategies, investors are giving up any associated dividend

   - In many structures, in exchange for a level of downside protection, the investor agrees to capped upside participation

   - Liquidity of structured solutions is often less favorable than that of owning an individual stock / ETF

   - Structured notes do not trade on an exchange, therefore ease of tracking is a slight sacrifice

7. **So what do I get with my "give ups" by owning structured notes?**

   - An altered risk reward on the underlying index, to potentially include any combination of the following:

     - Buffered / Barrier protection
     - "Coupon"
     - Inverse return of the underlying index
     - Leveraged participation

8. **From what asset classes do people typically move money to fund investments in structured strategies?**

   - In nearly all cases, this depends on what underlying index is being utilized.
     - Equity investors often use the S&P 500 or Russell to replace an active US equity or index fund.

     - Fixed Income investors often look at structured strategies an intermediate step toward increasing equity exposures

     - A common use of structured strategies might take an investor who is 70% stocks and 30% equities to an investor who is 55% stocks, 20% fixed, and 25% structures (diversified across an array of time horizons and strategies)