



3 Key Features of Structured Notes

1 Maturity

Similar to bonds, structured notes have a predetermined maturity date. The maturity dates can range from 12 months, 24 months, 3 years, 5 years, 10 years, and everything in between. At the end of the maturity date the issuing bank is obligated to return the investment amount based on the terms of the structured note.

At *Ancorato*, within our portfolios we typically invest in notes with varying maturity dates to help reduce the risk of market timing.

2 Coupon or Participation Rate

Two primary types of structured notes are notes that either provide income or notes that provide growth.

Income notes provide a coupon rate, also known as the annualized distribution rate, and have payment frequencies that can range from monthly, quarterly, bi-annually or annually. At *Ancorato*, we typically prefer income notes that pay monthly.

Growth notes provide a participation rate which is a predetermined amount at the end of the maturity date, assuming the terms of the note have been met. Oftentimes the participation rate is a multiple of the performance of the underliers.

3 Protection Level

A very unique feature of structured notes are their protection levels. Due to the derivatives associated with a note, notes can provide access to market-like returns while potentially minimizing against the losses of the market.

Although most notes don't own any assets such as stocks, most will use stocks or other investment products as their underlier. Protection is based on the performance of the underliers. If an underlier falls below a protection level, this is called a breach. Coupon protection ensures the coupon is paid assuming the underliers don't breach on the valuation date. Principal protection ensures that the original investment amount is returned assuming the underliers don't breach at maturity.

How Do Structured Notes Work?

Structured notes are debt obligations (IOUs) by financial institutions (“bank”) to investors. When a bank issues a structured note, it also issues a CUSIP to coincide with the note. The security of the note is backed by the financial strength and credit quality of the bank issuing the note.



A structured note is typically a zero-coupon bond with derivatives, aka options contracts, to either generate the coupon rate or the participation rate. The derivatives can be based on individual stocks, indices, ETFs, aka underliers. They can either be based on a single underlier or a collection of underliers. Structured notes are not direct investments into the assets/underliers. Notes track the value of the underliers to determine if the options contracts have been met or breached.

Types of Underliers for Structured Notes

- Equity-linked structured notes
- Interest rate-linked structured notes
- Commodity-linked structured notes
- Credit-linked structured notes
- Currency-linked structured notes

Risks of Structured Notes

Below are common risks associated with structured notes, however the below list is not inclusive of all risks associated with investing in structured notes.

Market Risk:

Due to the derivatives associated with structured notes, even with protection levels built in, if an underlier breaches the principal protection level on the final valuation date, there is risk of principal loss. Likewise, if an underlier breaches the coupon protection level on a coupon valuation date, there is risk of not receiving a coupon payment.

Financial Institution Risk:

Since structured notes are debt obligations by financial institutions (“bank”), they are backed by the credit worthiness of the bank. If the bank fails, so do the structured notes.

Liquidity Risk:

Similar to stocks, the value of structured notes is typically determined by the current market price. There is potential that if an investor is trying to sell their note(s) before the maturity date, the price may differ, either above or below, from the original par value when the note was created. There is typically a 5-7 business day period to receive funds from liquidity request.