Structured Notes

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SATOVSKY
ASSET MANAGEMENT

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Introduction

What are Structured Notes?

Structured Notes are contracts with counterparties, usually large banks (e.g. JPMorgan, Goldman Sachs, Citigroup, and others), who agree to pay the buyer a certain return based on the performance of an underlying assets or security, most commonly a stock index.

There are four key parts to a Structured Note:

Term – every Structured Note has a specific maturity date. Typical terms range from 2-5 years, but the range can extend from 1 month to 10 years.

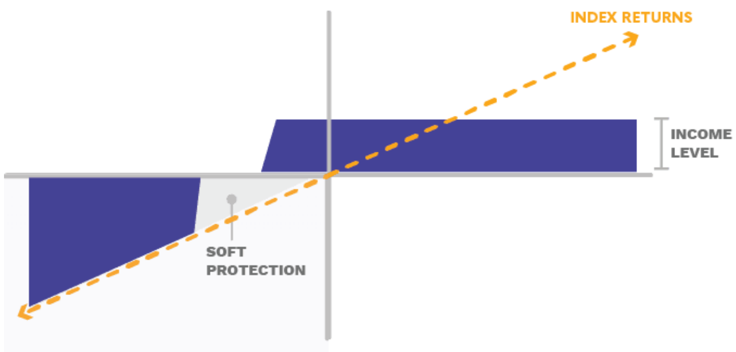
Reference asset – a Structured Note's performance is linked to the price return of a reference asset such as a stock index, but also can include individual stocks and ETFs, interest rates, commodities, and other securities that have a liquid derivatives market.

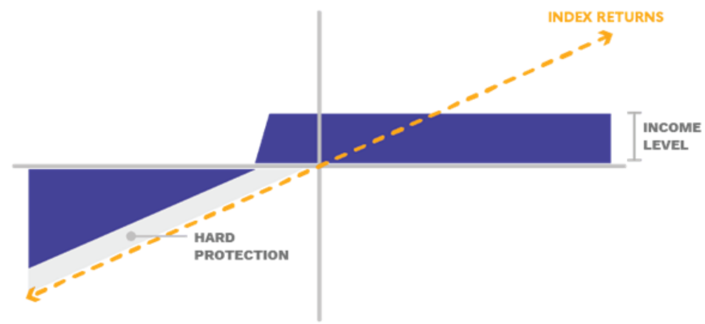
Protection – protection is the primary reason why investors are drawn to Structured Notes. We'll discuss this in more depth on the next slide.

Payoff – payoffs are often divided into two categories: Growth or Income. We'll discuss this later as well.

Protection

Structured Notes absorb the whole loss if the loss in the underlying reference asset is below the protection level. For example, if the protection level is 30% and the underlying asset declines by less than 30% at the end of the term, the holder of note will get their full principal back.





Soft Protection: Amount up until the shield is protected; everything after the shield is a full loss (e.g., if underlying is down 31% and the shield is 30%, buyer still has 31% loss)

Hard Protection: Amount up until the shield is protected; everything after the shield is a loss less the shield (if the shield is 30% and the underlying is down 31%, the return of the note is a loss of 1%)

*Payoffs above are for income notes, but protection works the same way for growth notes
**30% shield used as an illustration; actual amount of protection is customizable and varies per note.

Source: Halo Investing.

Payoffs

In positive return scenarios, growth notes pay a percentage of the price appreciation of the reference asset at maturity, say, for example, 90% of the S&P.

Income notes typically pay a fixed rate at a predetermined frequency (say for example 8%), similar to how a typical bond yield works.

Structured notes generally fall into one of two broad categories:

Growth Notes

Investors receive a percentage, known as the participation rate, of the underlying asset's price appreciation.

Income Notes

Investors receive a fixed payment, known as a coupon, over the life of the note.

Income notes do not participate in the upside returns the way a growth note does—but they may generate a higher income stream than a standard debt security or dividend-paying stock. This is because protection is offered for both the principal and the coupon payments.

Source: Halo Investing.

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