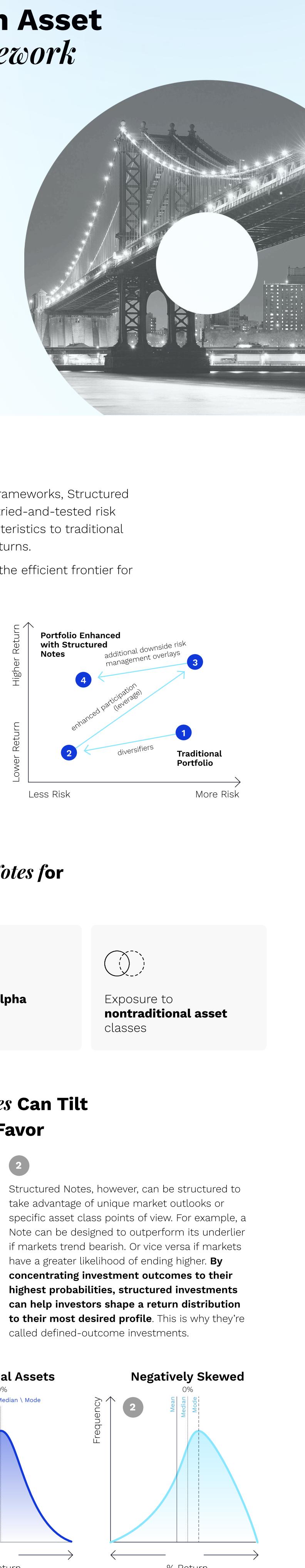


Rethinking Modern Asset Allocation: A Framework for Structured Notes

Looking to improve risk-adjusted outcomes without resorting to overly complex or illiquid alternative investments?

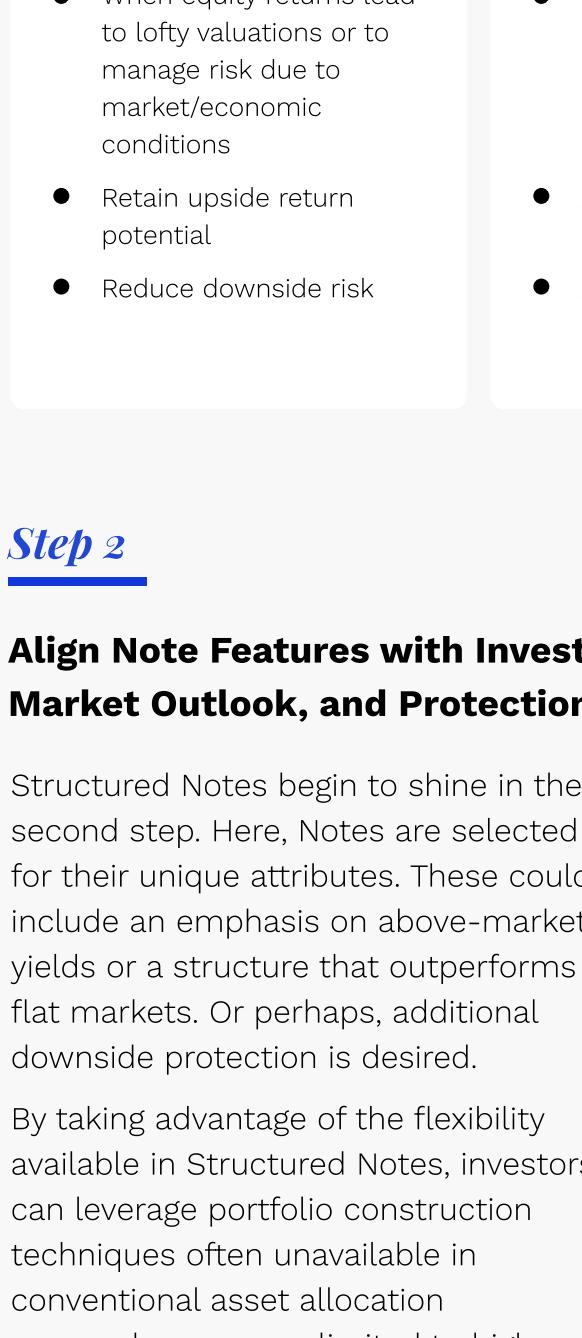
Structured Notes may offer a compelling solution — a versatile tool that may enhance traditional portfolios.



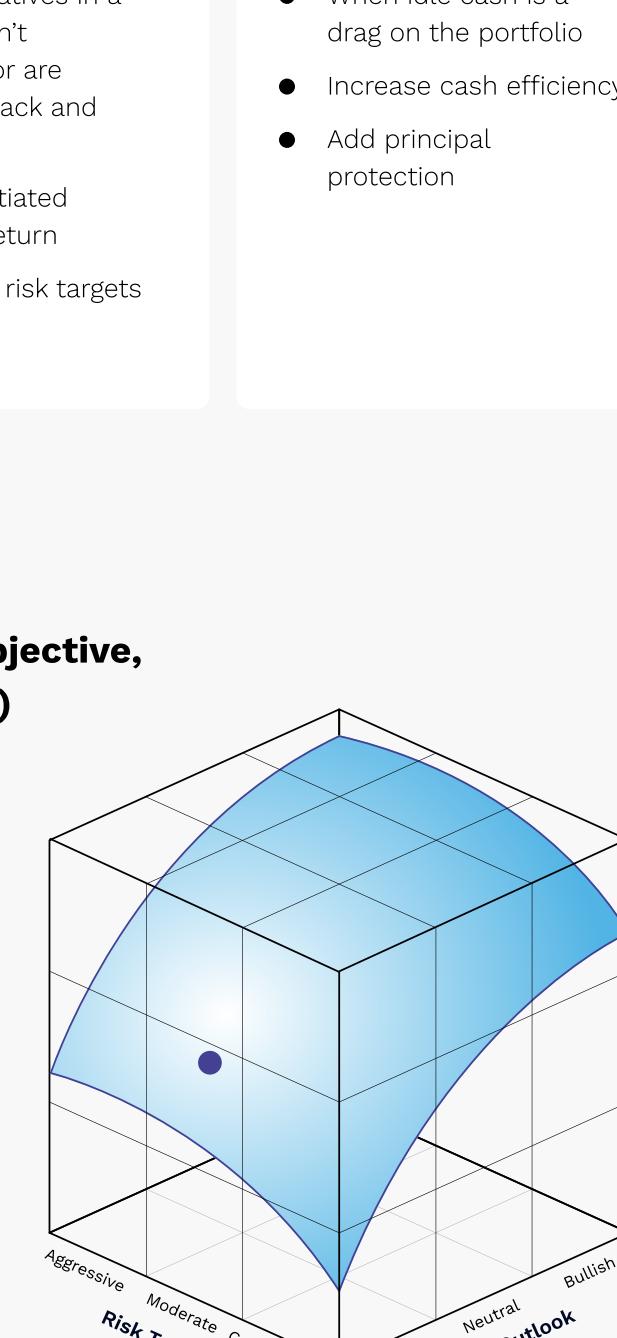
But How?

When complementing existing asset allocation frameworks, Structured Notes make it possible to build portfolios using tried-and-tested risk management techniques with similar risk characteristics to traditional portfolios, but with the potential for improved returns.

More specifically, Structured Notes can position the efficient frontier for a "Z-shift."



Source: Halo Investing. For illustrative purposes only.



Why Advisors Like Structured Notes for Portfolio Enhancement

New sources of diversification

Potential for alpha generation

Exposure to non-traditional asset classes

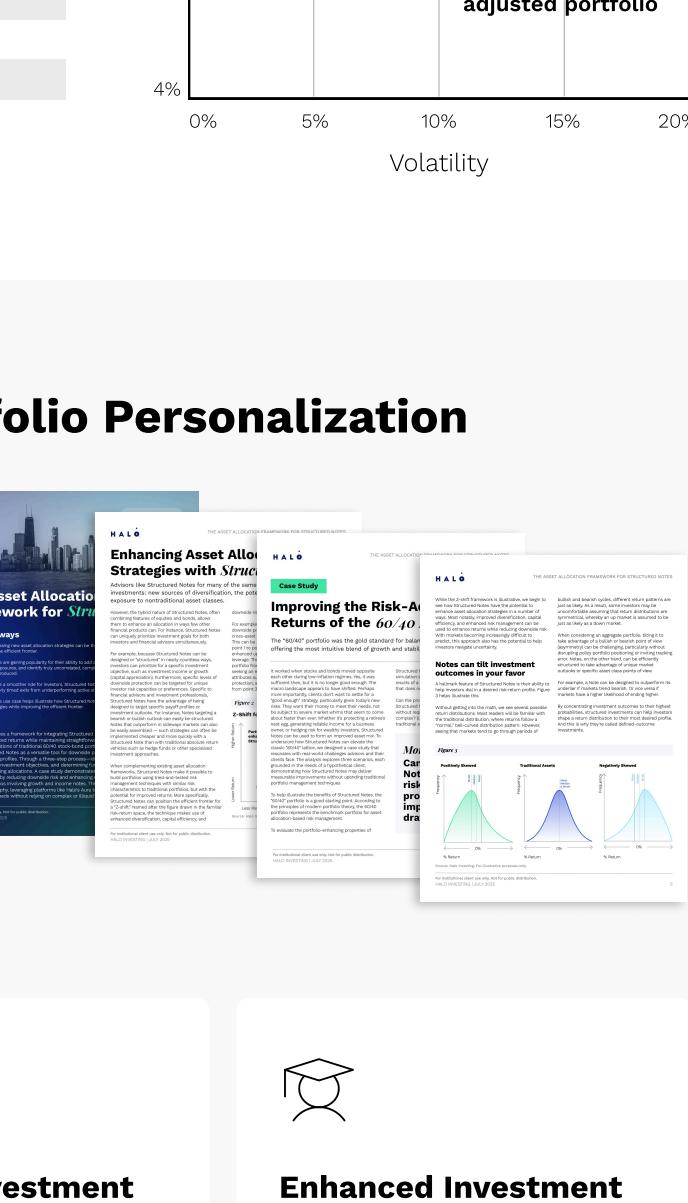
Visualizing How Structured Notes Can Tilt Investment Outcomes in Your Favor

1
You're probably familiar with the traditional distribution, where returns follow a "normal," bell-curved pattern. However, seeing that markets tend to go through periods of bullish and bearish cycles, different return patterns are just as likely. For an aggregate portfolio, tilting it to take advantage of a bullish or bearish point of view (asymmetry) can be challenging, particularly without disrupting policy portfolio positioning or incurring tracking errors.

2
Structured Notes, however, can be structured to take advantage of unique market outlooks or specific asset class points of view. For example, a Note can be designed to outperform its underlier if markets trend bearish. Or vice versa if markets have a greater likelihood of ending higher. **By concentrating investment outcomes to their highest probabilities, structured investments can help investors shape a return distribution to their most desired profile.** This is why they're called defined-outcome investments.



Source: Halo Investing. For illustrative purposes only.



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Step 1

Identify investment or portfolio challenge

Begin by identifying your investment or portfolio challenge. For example, this could include inadequate investment income available in conventional fixed income instruments, or sequence of return risk for an investor nearing retirement or the decumulation phase.

Determining the issue to be addressed by a Structured Note is essential to setting up Step 2, selecting a Note's features.

EXAMPLES / Common use cases

Hedge equities

- When equity returns lead to lofty valuations or to manage risk due to market/economic conditions
- Retain upside return potential
- Reduce downside risk

Alternative to Alts

- When alternatives in a portfolio aren't performing or are difficult to track and manage
- Add differentiated sources of return
- Add specific risk targets

Cash off the sidelines

- When idle cash is a drag on the portfolio
- Increase cash efficiency
- Add principal protection

Source: Halo Investing. For illustrative purposes only.

Step 2

Align Note Features with Investment Objective, Market Outlook, and Protection Level(s)

Structured Notes begin to shine in the second step. Here, Notes are selected for their unique attributes. These could include an emphasis on above-market yields or a structure that outperforms in flat markets. Or perhaps, additional downside protection is desired.

By taking advantage of the flexibility available in Structured Notes, investors can leverage portfolio construction techniques often unavailable in conventional asset allocation approaches or once limited to high-net-worth and institutional investors.

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Step 3

Funding an Allocation to Structured Notes

Funding an allocation to Structured Notes is straightforward. Generally, advisors pull from equities, fixed income, or alternative investments.

However, specific portfolio objectives requiring a more precise allocation and funding strategy could arise. For instance, an investor may want to reduce specific risks, such as equity, longevity, or duration.

Our framework features two funding strategies:

The layered approach: Structured Notes are layered on top of existing asset allocations. For example, a Note linked to the S&P 500 shouldn't be substituted, but rather, a complementary allocation to an existing exposure.

The replacement strategy: To shift a portfolio's exposure from one asset class to another, a replacement approach is a direct way to fund a new allocation to Structured Notes.

Source: Halo Investing. For illustrative purposes only.

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