Introduction

What Are Structured Products?
Structured products are a hybrid between two asset classes. Generally, they are securities whose value is derived from, or based on, a reference asset, market measure, or investment strategy. Reference assets and market measures may include single equity or debt securities, indexes, commodities, interest rates and/or foreign currencies, as well as baskets of these reference assets or market measures.

Most structured products have a fixed maturity and may pay an interest rate or coupon rate. Structured products also frequently cap or limit the upside participation in the referenced asset, particularly if the security offers principal protection or an enhanced rate of interest. They are usually created to meet specific needs that cannot be met from the standardized financial instruments available in the markets.

Structured products or market-linked investments:
- Can be purchased through an initial offering or in a limited secondary market;
- Can be issued in various forms, including publicly offered and privately placed debt securities, publicly offered and privately placed pooled investments (such as closed end-funds and trusts), and certificates of deposit. Some structured products are listed on securities exchanges, while others trade in over-the-counter secondary markets;
- Have a specified underlying investment, the performance of which will determine cash flow, value, and investment return;
- May include varying levels of capital “protection,” but are also subject to the risk that the issuer defaults or the investment is not held to maturity, which may result in principal loss;
- Are often viewed as “buy and hold” investments.

In general, principal-protected structured products linked to commodities, equities, or indexes do not pay any coupons. The returns, if any, on these products are typically payable at maturity and depend on the performance of the underlying commodities, equities or indexes. Principal-protected structured products linked to interest rates, on the other hand, typically pay higher current coupons than could be achieved by investing directly in traditional debt instruments of similar credit quality and maturity. However, those coupons may be at risk based on the performance of the underlying interest rates, or those structured products may be subject to call risk.

Non-principal-protected structured products do not offer return of principal at maturity. In return for placing their principal at risk, investors may be entitled to higher current yields than could be achieved by investing directly in an equity security, or may be entitled to enhanced upside exposure linked to an underlying asset.

Certain structured products provide direct exposure to global markets, industry sectors, investment strategies and/or asset classes that may not be available to investors directly, or that may not be available to investors in a cost-efficient manner. These structured products may be principal-protected or non-principal-protected.

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Different Types of Structured Products

Market Linked CDs (MLCDs) – Structured products whose performance is largely based on one or more underlying securities or financial indexes. MLCDs are available in many forms and can be based on a wide variety of securities and market indexes with differing features and a number of risks. MLCDs combine the market exposure of an equity or other asset class with the safety and security of a traditional certificate of deposit. Purchasers are typically “buy and hold investors” seeking to participate in the appreciation of an underlying index(es) while retaining protection against a market decline. Instead of paying a fixed rate of interest, MLCDs pay interest at maturity based on the appreciation of an individual security, basket of securities, or indexes. MLCDs may also offer the potential to earn income during the life of the investment based on market performance. The MLCD’s principal is guaranteed by the issuing bank if held to maturity. Additionally, the original principal investment (not any underlying gain) is further insured by the FDIC up to the current legal limits.

Structured Notes – Structured Notes are debt securities created for investors who are seeking exposure to an equity, commodity, currency, index, or basket of securities and also seek some downside protection. Some Structured Notes provide participation in the upside performance of the underlying asset while providing full payment of principal when held to maturity. In some cases, a negative return on the underlying asset will result in a payment of only principal at maturity. Other Structured Notes offer contingent downside protection, in which case the investor would receive principal back as long as the underlying asset did not decline below a pre-defined limit. Structured Notes that return full principal at maturity are principal-protected, subject to the creditworthiness of the issuer, while those not offering this feature can be at risk of partial or full principal loss.

Product Highlights

For those investors who have reviewed their financial situation, investment objectives, risk tolerance, time horizon, diversification needs, and need for liquidity with their Financial Professional, and deem structured products to be a viable investment vehicle, you may benefit from some of the following product features:

Potential for Enhanced Risk-Adjusted Returns – Structured products may complement a portfolio by providing performance characteristics of multiple asset classes within a single investment. For example, a traditional principal-protected index-linked note typically performs more like the underlying index as the underlying index increases in value. On the other hand, it will perform more like a debt security if the underlying index decreases in value. Adding structured products to a well-diversified portfolio may help decrease overall portfolio downside volatility, while offering the opportunity to enhance overall portfolio returns on an absolute or risk-adjusted basis.

Tailoring the Risk/Return Profile of Underlying Investments - Structured products often allow investors to tailor the risk/return profile of underlying investments in order to better express investment views, such as to either maximize expected performance or hedge risks related to individual securities or commodities, interest rates, currencies, inflation and other investments. For example, many enhanced growth and enhanced yield strategies are designed to
Investor’s Guide to Structured Products

outperform their underlying assets in modest growth environments. Many principal-protected strategies are designed to hedge against risk of loss in an underlying asset.

Access to Investment Strategies with Benefit of Economies of Scale – Many structured products are designed to enable investors to obtain exposure to various investment strategies and markets, such as commodities and international equities (with or without currency protection), that may not be readily available through traditional investments. Investors may be reluctant to implement these trading or investment strategies directly due to their high costs, overall complexity, or time-consuming nature. Structured products may allow individual investors to take advantage of cost efficiencies and economies of scale typically available only to institutional investors.

Access to New Return Profiles - Structured products often incorporate return profiles that were previously only available through the use of derivative contracts. In this way, Cantella & Co., Inc. can effectively facilitate investors’ exposure to derivative-like payoffs, a key advantage for investors who cannot participate directly or efficiently in the derivatives market. Moreover, structured products often package the market exposure in a manner that is more suitable and appropriate for individual investors than derivatives contracts.

Product Risks

Investors need to be aware of the risks of an investment in structured products. You should evaluate your individual financial condition and your ability to tolerate risk before investing in structured products. As with any investment, your Cantella Financial Professional can advise you on whether structured products are appropriate for you based on your overall investment objectives.

Set out below are some of the most significant risks associated with investing in structured products. The list is not exhaustive. Particular structured products may involve other risks, which will be disclosed in the offering documents for those products.

Potential Loss of Principal
An investor may lose money investing in structured products. Structured products are typically medium-term investments (terms ranging from 1 to 10 years) and, with limited exceptions, are suitable only for clients who are able to hold the investment until maturity. Some structured products are principal-protected at maturity; others are not. For fully principal-protected structured products, an investor will be entitled to the return of the full principal amount only if the investor holds the structured product to maturity (or the call date if the structured product is callable at par or higher). Between purchase date and maturity, the market value (that is, the amount an investor would receive if he or she sold or redeemed the investment) of a structured product may fluctuate substantially. If an investor sells a structured product before maturity, the price may be less than the original invested amount, regardless of whether the structured product is principal protected or not.
Market Prices May Fluctuate Based on Unpredictable Factors
The market value of structured products will be affected by unpredictable factors that interrelate in complex ways. These factors may include, but are not limited to, the price or level of the underlying asset, the volatility of the underlying asset, interest rates, dividend rates, the issuer's creditworthiness, time remaining to maturity and geopolitical conditions. Apart from these, there are many other factors that may affect the market value of structured products. The past performance of any of these factors is not indicative of future results.

Credit Risk
Many structured products are issued in the form of unsecured debt. Therefore, investors are subject to the credit risk and default risk of the issuer. If the issuer of a structured product defaults on its obligation, investors will receive significantly less than the principal amount of the structured product, even if the product is principal-protected.

Appreciation Potential May Be Limited
The appreciation potential of certain structured products may be limited by an issuer's call right, a pre-defined maximum payment, or a capped value at maturity.

Call Rights May Affect Value
Some structured products allow the issuer to redeem or “call” the structured product at its sole discretion. These structured products are referred to as being “ callable.” On predetermined dates, the issuer can choose to redeem the structured product prior to maturity and pay a stated call price. The call price may be above, below or equal to the par amount of the structured product, and may or may not include accrued but unpaid interest, if any. Typically, the issuer will call a structured product when it is economically advantageous — for example, because the issuer can borrow at a lower rate or because an underlying asset has appreciated sufficiently. If a structured product is called, investors may not be able to reinvest their money at the same rate as the rate of return provided by the structured product that was called. This risk is referred to as “reinvestment risk.” Non-callable structured products may not be called by the issuer prior to maturity.

Value at Maturity/Call Date
In many structured products, the value paid to the investor at maturity or the specified call date is based on the market value of the underlying asset or market measure as of the valuation date, as detailed in the offering documentation. There may be significant fluctuations of the market value between the trade date and the specified valuation date; however, it is the value as of the valuation date that will determine the payout to the investor at maturity/call date.

Interest Payments
Although many structured products are issued in the form of debt securities, there may be periodic interest payments on certain structured products. In some cases, the interest rate may fluctuate, be reduced or be suspended upon the occurrence of specified events. The yield may be lower than on other investments. An investment in a structured product may not reflect the full opportunity cost to the investor when factors that affect the time value of
money are taken into account. In certain cases where there is a significant rise in interest rates, a coupon cap embedded into a structured product could negatively affect the market value of the product.

**Liquidity**
Structured products may or may not be listed on a securities exchange. Even if a structured product is listed on a securities exchange, there is no assurance that a liquid trading market for that structured product will develop.

**Tax Treatment**

Tax treatment of many structured products is potentially complex and may be uncertain. In addition, the tax treatment of an investment in many structured products may differ from the tax treatment of an investment in traditional investments, such as conventional debt securities, CDs, or common stock. Also, the timing and character of income payments, as well as amounts received upon sale, exchange, redemption or maturity, may differ from the timing and character of equivalent payments on more conventional investments, including the assets to which a structured product may be linked.

**Principal-protected Structured Products**
Principal-protected structured products are generally treated as debt for United States federal income tax purposes. Depending on the payoff characteristics of a particular structured product, it will either be treated as conventional debt or it will be subject to special rules governing “contingent payment debt instruments,” often referred to as “contingent debt.” The holder of a contingent debt instrument will generally be required to pay taxes on ordinary income over the term of the contingent debt instrument based on the issuer’s comparable yield, even though the holder may not receive any payments until maturity. This is the case even if the contingent debt instrument is issued at par. In addition, even though a contingent debt instrument is linked to an asset that would otherwise give rise to capital gain or loss upon sale, such as stocks or commodities, any gain or loss realized upon sale, early redemption, or maturity of a contingent debt instrument will generally be treated as ordinary income.

**Non-principal-protected structured products with current income**
In general, depending upon the particular structure, non-principal-protected structured products that pay current income, such as non-principal-protected enhanced yield structured products and certain access structured products, may be characterized either as prepaid forward contracts or, if the product does not provide participation in the appreciation of an underlying asset, may be split into separate instruments for tax purposes, such as a non-contingent debt instrument and a short put option. Other tax characterizations are also possible.

If a structured product that pays current income is characterized as a prepaid forward contract, it is likely that the holder will be taxed on any income payments as ordinary income in the year received. If the structured product is split into a non-contingent debt instrument and a short put option, the portion of the income payments attributable to the debt...
instrument will be taxable as ordinary income in the year received, and the portion attributable to the put option will be deferred.

As a result of the complexities of tax-reporting requirements, and since Cantella is not a tax or legal advisor, you should consult with your tax advisor or attorney prior to investing in structured products.

**Cost of Investing in Structured Products**

Costs and expenses of investing in a structured product may reduce the value of an investment as well as the return on the investment. An understanding of the costs and expenses associated with a structured product is essential in determining whether that product is a suitable investment. The expenses in structured products include, but are not limited to:

- **Underwriting Discounts and Selling Concessions**
  Like most other securities offerings, the offering price for structured products includes underwriting discounts and commissions that are paid to the lead underwriter(s) as compensation for their managing and distributing the securities and for incurring underwriting liability. For publicly registered offerings, the total amount of discounts and commissions is disclosed on the cover page of the related prospectus. The separate components of the total compensation, including the underwriting discount (if any), the selling commissions, and any other similar placement or referral fees, are disclosed in of the related prospectus.

  In a traditional offering of a structured product, the selling concession is paid at the time of the initial offering; however, for certain structured products, a portion of the selling concession may be paid at the time of the initial offering and the remainder may be paid over time to broker-dealers whose clients continue to hold the securities on specified dates.

- **Other Costs**
  The issuer of a structured product will typically seek to hedge its obligations in an effort to reduce its exposure to the price movements of the underlying asset(s). The counterparty that executes these hedges for the issuer (the hedging counterparty) expects to earn a profit in return for assuming the risks of hedging. Therefore, in addition to the underwriting compensation and selling concession, the initial offering price of a structured product typically reflects the cost of hedging the issuer’s obligations, including the projected profit of hedging.

  Some structured products may include an adjustment amount that reduces an investor’s exposure to the underlying asset. The adjustment may be a one-time adjustment at the time of issuance and/or an ongoing adjustment over time. This adjustment can cause the return on the structured product to be lower than the return on the underlying asset(s). This type of fee structure is most common for non-principal-
protected structured products in the Access investment strategy. The adjustment can consist of a number of components, including ongoing selling concessions, hedging costs, expenses and potential profit, and will be disclosed in the prospectus relating to the offering.

Effect of Costs on Secondary Market Transactions
Assuming no change in market conditions or any other relevant factors affecting a structured product, secondary market prices for that structured product will likely be lower than the original issue price, since the original issue price included, and secondary market prices are likely to exclude, commissions paid with respect to the structured product, as well as the projected profit included in the cost of hedging the issuer’s obligations under the structured product.

Before you buy an investment, it is important to review your financial situation, investment objectives, risk tolerance, time horizon, diversification needs, and need for liquidity with your Financial Professional. It is important for any investor to understand the features and risks of structured products before investing. Those features and risks are described in the prospectus. Credit quality of the issuer, performance of the selected asset class, product structure, liquidity, pricing, and tax treatment are important considerations when purchasing such an investment. Structured products are not suitable for all investors. You should consider your individual financial condition and your ability to evaluate and tolerate the risks before you invest in structured products. Cantella & Co., Inc. believes that investors should diversify their investments. It is recommended that investors observe an asset-allocation strategy and not overweight their overall portfolio in any one class of securities. Although asset allocation can be an effective investment strategy, it cannot eliminate the risk of fluctuating prices and uncertain returns.

The information presented herein is taken from sources believed to be reliable, but is not guaranteed by Cantella & Co., Inc. as to accuracy or completeness. Investment products offered are not deposits or obligations of, or guaranteed by, the financial institutions where offered. They also involve investment risk, including the possible loss of principal. Past performance is not an indication of future results. The concepts illustrated here have legal, accounting and tax implications. Neither Cantella & Co., Inc nor its Financial Professionals give tax, legal, or accounting advice. Please consult with the appropriate professional for advice concerning your particular circumstances. Opinions expressed are subject to change without notice and do not take into account the particular investment objectives, financial situation, or needs of individual investors. Any comments are subject to change without notice. There are no guarantees that any investment will meet its objectives or that an investment can avoid losses.