



ISC

Structured Strategies

Structured Notes

01

Do swings in the **EQUITY MARKET** create uncertainty about your **FINANCIAL SECURITY**?

02

Is your portfolio ready for the next **MARKET CORRECTION**?

03

Are you concerned about the impact of **INFLATION ON YOUR PORTFOLIO**?

In an equity market with increased volatility, market swings can worry investors. Traditional fixed income strategies are generating lower yields due to the current interest rate environment. Additionally, if we experience greater inflation, the value of bonds in the secondary market could decrease. For an investor looking for downside principal protection and higher upside potential, a structured note may be a good alternative to traditional investments in bonds or equities.

Structured notes are complex investments and may not be appropriate for all investors as they can be highly customized and present unique risks. Structured notes are not for investors who: do not understand the risks of being exposed to various underlying assets, such as equities, commodities, interest rates or foreign exchange rates; do not understand complex pay-out structure and the risks of losses; do not understand volatility, option premium and interest rates, and how they interact; do not want to take the credit risk of the issuer of the structured note; rely on current yield; do not want to risk losing all of their investment; investors should fully review the applicable offering documents or prospectus to fully understand the risks involved with purchasing a structured note.

DID YOU KNOW:

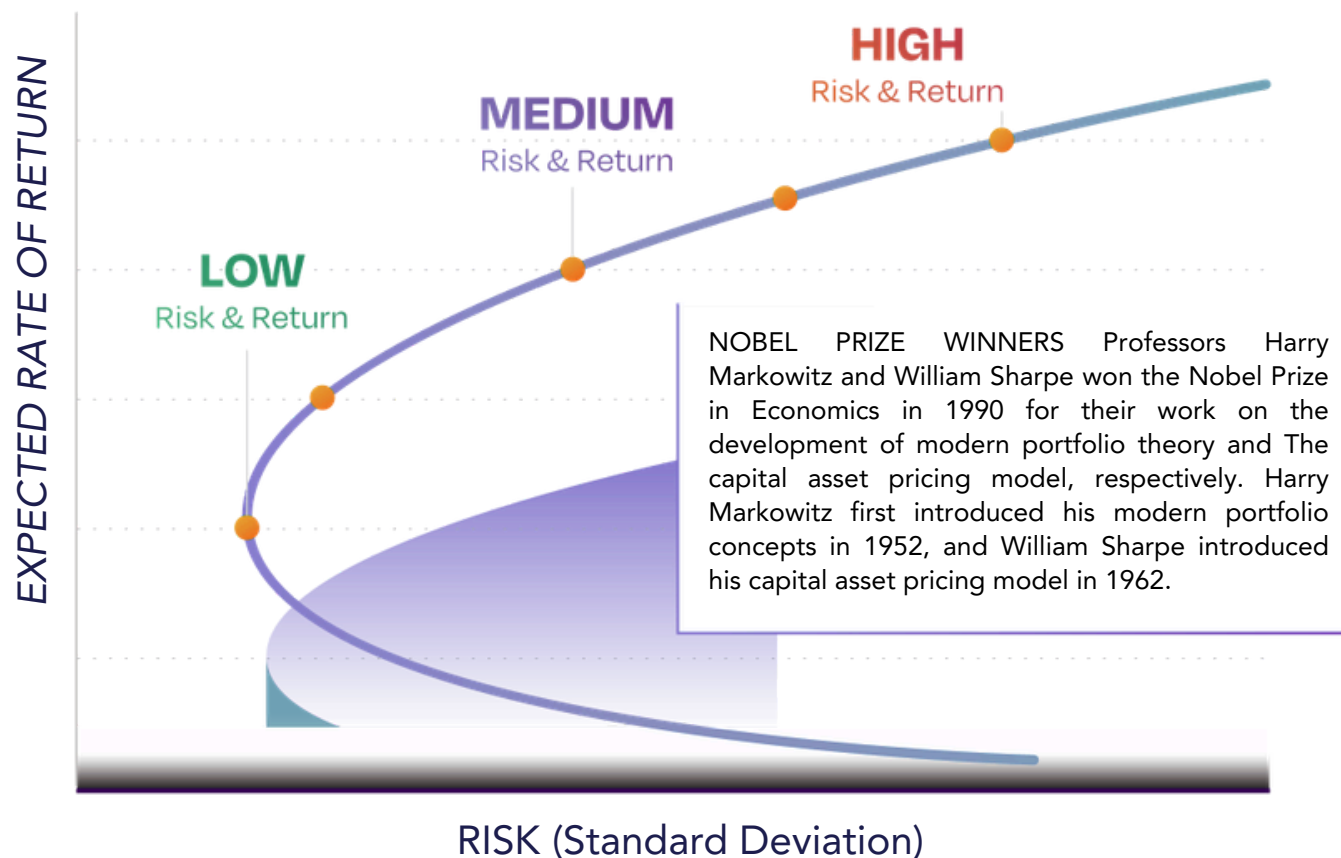
Structured notes, which encompass Principal Protected Notes, Buffer Notes and Barrier Notes can be useful for a range of investors based on the various structures available in the marketplace. A structured note is a debt obligation, more commonly known as a bond, that has its return linked to the performance of an underlying asset using an option or package of derivatives, instead of a fixed rate of return. The return on a structured note is linked to an underlying asset, known as an "underlier", which could be a single stock, index, commodity, exchange traded fund (ETF), or a basket of stocks or indices. These products also offer various types of downside protections that will be discussed later.



Catering to Your Desired Level of Risk and Reward

The Efficient Frontier, is a cornerstone of the modern portfolio theory, which postulates that a set of portfolio constructions seeks to provide optimal performance for varying degrees of risk, as shown in the diagram below.

The efficient frontier can help highlight which investments might be suitable based on an individual's risk tolerance.



It is important to consult your financial advisor on how to appropriately cater your investing strategies to match your respective goals and risk tolerance. Structured notes come in a variety of forms that can be helpful in balancing your portfolio.

The most common use of different efficient frontier portfolios is to manage risk matched to the investors' ages. Generally, as investors approach retirement, they may seek to avoid the risk of large swings in the underlying retirement nest egg that can come from stock market exposure.

What amount of your investment are you comfortable risking?

LOWER RISK

HIGHER RISK

Principal Protected Note

If you are looking for an alternative to bonds, a Principal Protected Note² may be an option because it may generate higher returns while still being fully protected. A principal-protected note, compared to other types of structured notes, usually has lower risk and lower return potential due to the principal protection. This product has 100% principal protection if held to maturity and can generate higher returns than a typical fixed-rate investment.

LOWER RISK

HIGHER RISK

Partial Principal Protected Note

An investor who is willing to risk a small portion of their investment in return for a higher potential gain than a fully principal-protected note may find that a Partial Principal Protected Note may be a good fit. This product allows for a loss of principal until a certain percentage, usually 5% to 10%, before the principal remaining is protected and therefore you have a known maximum loss. If a PPN is purchased, the investor is guaranteed the return of some of their initial principal at the set maturity date—typically ranging up to ten years from issuance.

LOWER RISK

HIGHER RISK

Buffered Note

For more bullish investors, looking for protection against initial losses and willing to risk more of their investment in order to receive more upside exposure, there is a Buffered Note. A buffered note has principal protection down to a specific threshold, like a cushion, but once the underlier passes below this level, the investor will start to suffer losses.

LOWER RISK

HIGHER RISK

Barrier Note

A Barrier Note is for an investor with a bullish outlook who is comfortable losing their initial investment if there is a large decrease in the underlier. A barrier note has contingent principal protection. Once the underlier passes this barrier threshold, there is no longer principal protection, and a barrier note investor suffers the full negative return.

Structured Notes have two primary appreciation strategies: growth and income.



A Growth Strategy focuses on the related capital appreciation of the underlying asset over the term of the structured note. Any gains on the note can be accelerated through a participation rate on the gain of the underlying asset, that multiplies the return of that asset by a fixed percentage which is then paid as interest on the note at the end of the term. This gain may be capped at a certain percentage that in effect creates a maximum upside potential.



An Income Note may have regular coupon payments during the term of the note that are tied to the performance of the underlying asset, or, in some cases, may have a minimum guaranteed coupon payment. Coupon payments on the note that are linked to the performance of the underlying asset(s), could generate an income stream higher than traditional fixed income investments.

Importantly, these products are designed to be held to maturity and are not as liquid as a traditional stock or bond; therefore, a secondary market may be created for a structured note to be sold prior to maturity*. Although the return on a structured note may be linked to an underlying asset such as a stock or an index, an investor is not buying shares of any stock or index; a structured product investor does not have rights of ownership in the underlying asset, such as the right to receive dividends and voting rights.

Structured notes may be treated as a **“contingent payment debt instrument”** for U.S. Federal taxation purposes. This means that an investor will pay annual incomes taxes on a comparable yield from a coupon paying debt instrument. This is also known as Original Issue Discount (OID).

Other structured notes may be considered **“variable rate debt instruments.”** The interest paid on these products will be taxed as ordinary interest income unlike a capital gain realized from stock investment.

Things to Consider When Investing in a Structured Note:

Credit Risk — Evaluate the risk associated with the issuer defaulting on the structured note.

Taxation Implications — Please consult a tax professional on the treatment of these products, as ISC Group does not provide tax advice.

Liquidity Risk — Structured notes do not have a traditional secondary market and are designed to be held to maturity; therefore, these products should be considered illiquid when purchased. However, if a structured note is repurchased by the issuer prior to maturity, the amount received may be less than the principal amount due to market factors and the time to maturity.

Performance Risk — Structured notes offer potential for greater upside, but there is no guarantee that the investment will outperform the risk-free rate of the return.

Principal Risk — If structured notes are repurchased by the issuer prior to maturity, principal can be lost as these investments are designed to be held to maturity.

Reinvestment Risk — if a product is auto called or redeemed early, there is no guarantee that the investor may be able to reinvest the cash flow into another investment with a comparable return or product with similar level of risk.

Market Risk — Structured notes are linked to the performance of an underlying asset. If the underlying asset does not go up, then the structured note may not create a return and may even generate a loss.

Disclosures

1. Structured notes are complex investments and may not be appropriate for all investors as they can be highly customized and present unique risks. Structured notes are not for investors who: do not understand the risks of being exposed to various underlying assets, such as equities, commodities, interest rates or foreign exchange rates; do not understand complex pay-out and the risks of losses; do not understand volatility, option premium and interest rates, and how they interact; do not want to take the credit risk of the issuer of the structured note; rely on current yield; do not want to risk losing all of their investment; investors should fully review the applicable offering documents or prospectus to fully understand the risks involved with purchasing a structured note.
2. Any promise to repay some or all of the money invested in a Principal Protected Note will depend on the creditworthiness of the issuer of the note. Also, some Principal Protected Notes have conditions to the protection or offer only partial protection, so an investor in this product could lose principal even if the issuer does not go bankrupt. Finally, a holder of a Principal Protected Note will receive principal protection only if that note is held until maturity—if a holder needs to sell a Principal Protected Note before maturity, there may not be secondary market for the note and the issuer may refuse to redeem it early. Even if a secondary market exists, the note may be quite illiquid and could be sold for substantially less than the purchase price.
3. While structured notes with principal protection have the potential to outperform the total fixed interest payments that would be paid on typical bonds, CDs or money market accounts, these notes could also underperform these investments and could earn no return for the entire term of the note, even if held to maturity. The terms and structures of Principal Protected Notes also can be more complex than traditional bonds, CDs or money market accounts making them more difficult for investors to evaluate. Finally, unlike CDs, Principal Protected Notes are not FDIC insured, and as with structured products generally, structured notes with principal protection may have hidden or imputed costs that can be relatively difficult to understand



Institutional Securities Corporation

3500 Oak Lawn Ave Suite 400, Dallas TX, 75219, United States | 800-888-3520

© 2026 ISC Group, Inc. All rights reserved.