ADVISORS ASSET MANAGEMENT

EXAMINING BUFFER ANNUITIES AND BUFFERED NOTES

The 2008 financial crisis was the worst since the Great Depression of the 1930's. Many investors took a substantial hit to their investment portfolios as a result of a rapid rise in market volatility. Combined with today's markets reacting in real-time to news and social media posts (e.g. Twitter), and it is clear why investors remain apprehensive about the "bumpiness" of their investment returns.

As a result, we have seen new investments emerge which are structured to allow investors to participate in market growth (sometimes capped), while providing some downside principal protection. Generally, the more downside protection an investment provides, the less upside participation they receive, and vice versa. It is vital investors fully understand the benefits and complexities of each individual investment, the associated risks, and how it will perform in varying market scenarios.

Let's examine a couple of these structured investment types

	Buffer Annuity	Buffered Note
DEFINITION	Annuity that combines the traits of both traditional variable and fixed indexed annuities, investing client premiums in structured products or options contracts instead of mutual-like separate accounts. It offers upside growth potential that is tied to the performance of an underlying asset, such as an options contact, with some amount of downside protection.	A structured investment which offers upside participation, sometimes enhanced and sometimes capped, in the performance of an underlying asset, such as an index, with some amount of downside protection.
RELATED PRODUCT NAMES[1]	✓ Variable Indexed Annuity ✓ Hybrid or Structured Annuity ✓ Index-Linked Variable Annuity (ILVA) ✓ Structured Product-Based Variable Annuity (spVA)	✓ Buffered Return Enhanced Note (BREN) ✓ Accelerated Market Participation (AMP) Note
PRODUCT TYPE	Insurance contract with an investment component issued by insurance companies and sold through financial professionals.	Unsecured debt obligation generally issued by a corporation or bank and sold through financial professionals.
TERM	Offered for a specific duration, generally 1 to 6 years but can be longer.	Maturities typically ranging from 1 to 5 years but can be longer.
PARTICIPATION RATE	1-for-1 participation as well as opportunities for leverage upside returns. Upside participation may be capped around 8-9%, but caps can be higher. Cap rates will vary by contract and current market volatility and can be lower.	1-for-1 participation as well as opportunities for leveraged upside returns. Returns are sometimes capped depending on the offering.
PRINCIPAL PROTECTION	Partial. Investors are subject to losses beyond the downside buffer protection amount.	Partial. Investors are subject to losses beyond the downside buffer protection amount.
PERIODIC PAYMENTS	Vary. There are a variety of payout options available, including systematic withdrawals and annuitization.	None. Typically, does not pay interest or dividends during the term of the note. Any returns are payable at maturity based on the performance of the underlying referenced asset.

	Buffer Annuity	Buffered Note
RATE OF RETURN	Dependent on the performance of the underlying asset (or subaccounts) selected by the annuity holder or the index options chosen along with the annuity's terms and limits.	Dependent on the performance of the underlying reference asset and the note's terms.
CHARGES/FEES	May have a number of fees, including, but not limited to: investment management fees, mortality and expense charges, charges for optional guarantee features, administrative, advisory or annual fees, and/or surrender or sales charges. Investors should consider all hidden costs associated with the individual annuity product terms, including caps, limits, and downside exposure, among others.	Any fees are disclosed in the prospectus and only apply at the purchase date. Sales concessions are paid to brokerage accounts and may range from 0.25% to 3.00% depending on the tenure.
LIQUIDITY	Not liquid; penalties and/or taxes generally applied if sold prior to annuity's term.	Typically, the issuer maintains a secondary market; however, there is no obligation to do so. As such, there may be little to no secondary market available.[2]
TAX-DEFERRED ACCUMULATION[3]	Yes, generally allow for tax-deferred savings; however, early withdrawals may be subject to ordinary income tax as well as federal income tax penalties.	No. Gains and/or losses are generally treated as long-term capital gains or losses if held longer than one year.
DEATH BENEFITS	Yes. Basic death benefits generally available at no charge. Beneficiary typically receives the greater of accumulated value of premiums paid (adjusted for withdrawals). Optional death benefits sometimes available for an additional fee.	No. Beneficiary generally receives market value of the account at the time of the owner's death should they choose to sell the security prior to maturity.
EARLY WITHDRAWAL PENALTIES	Yes. Generally, any early withdrawal of taxable amounts may be subject to ordinary income tax and federal income tax penalties. Surrender charges may be applied, which can reduce an investor's account balance and the amount received.[4]	Generally, no; however, Buffered Notes should be considered buy-and-hold investments. If an investor chooses to sell the note prior to maturity, the investment will be subject to market risk in the secondary market, if available, and subject to the creditworthiness of the issuer.
GUARANTEES	Annuity payments are guaranteed subject to the claims paying ability of the insurance company. Investors should consider the creditworthiness of the insurance company.	Payments are subject to the creditworthiness of the issuer.
HOW TO PURCHASE	Sold through insurance agents and licensed financial professionals.	Sold through licensed financial professionals. Generally, offerings are launched at the beginning of the month with indications of interest (IOIs) submitted by the professional for their clients during the order period. Orders are executed at the end of the order period. IOIs can be removed during the offering period with no penalty.

*[1] **Related Product Names** refer to terms used by insurance carriers and structured product issuers. Individual products will vary by insurance carrier or issuer.*

[2] Buffered Notes should be considered buy-and-hold investments and may not be appropriate for investors who cannot hold them to maturity as they are not traded on an exchange, and there may be little to no secondary market available.

[3] Any discussion of taxes is for general informational purposes only. This content should not be considered complete and does not cover individual situations and circumstances. Neither AAM, nor its affiliates and employees provide tax advice and investors should consult their tax professional before investing in any structured product or annuity.

[4] Due to the underlying derivative positions, calculating an account value for a Buffer Annuity on any day prior to maturity can be very complicated and may be subject to a variety of conditions and risks. Generally, each contract has a provision which allows policyholders to withdraw a portion of their account value without incurring a withdrawal fee; however, this varies by product.

The information contained herein is not intended to be a complete description of the terms, risks, and benefits associated with any specific Buffer Annuity or Buffered Note offering. Neither Buffer Annuities nor Buffered Notes are principal protected and therefore investors may receive less than their initial investment at maturity. This report is for informational purposes only, does not pertain to any security product or service, and is not an offer or solicitation of an offer to buy or sell any product or service. Investment decisions should be made based on an investor's objectives and circumstances and in consultation with his or her advisor.

Buffer Annuities are more complex than traditional variable annuities. The principal protection offered by the buffer may not compensate for the expected value lost due to the cap on potential upside gains. As with any investment vehicle, Buffer Annuities are subject to risk, including possible loss of principal. Investment returns and principal will fluctuate with market conditions so that contract values, upon distribution, may be worth more or less than the original investment.

Buffer Annuities include certain contractual guarantees which are subject to the creditworthiness of the insurance company providing the annuity. The insurance company's creditworthiness is an important consideration in evaluating a Buffer Annuity.

Buffered Notes are considered complex and may not be suitable for all investors. Buffered Notes are sold only by prospectus and investors should read the prospectus and pricing supplement carefully before investing as they contain a detailed explanation of the risks, tax treatment, and other relevant information about the investment. Investors should consult accounting, legal, or tax professionals before investing. Structured products are sold through financial professionals.

Buffered Notes are unsecured obligations of the issuer, and therefore subject to risk of default. The issuer's creditworthiness is an important consideration in evaluating a structured product. Typically, the issuer of a Structured Product maintains a secondary market; however, there is no obligation to do so.

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