

How to Choose a Structured Product

There are six payoff shapes, and three ways to hold each one. The shape is what you want. The wrapper is where the risk and the cost actually live. Here is the order to decide them in, the seven steps we run on every request, and what we found when we ran them.

6 shapes

Almost every structured product on offer is one of them. In four, the investor is the seller of optionality

\$290.0bn

On the listed shelf across 347 funds. Deep where demand is standard, thin where it is bespoke

7 steps

The process we run on any replication request. Most are settled at step two

Almost every structured product you will be shown is one of six shapes

Start here, because the vocabulary in this market is doing real damage.

"Structured product" is not an instrument. It is a category, and underneath it sit a small number of payoff shapes that recur endlessly under different marketing names. Once you can name the shape, the product in front of you stops being bespoke and starts being comparable.

There are six.

THE SHAPE	WHAT YOU ARE ACTUALLY DOING	WHAT IT IS FOR
Capital protected	Buying a zero-coupon bond and spending the discount on a call	You want the upside but cannot lose the principal
Buffered	Selling a put spread, and capping the upside to pay for it	You will absorb a normal correction but not a crash
Accelerated participation	Taking geared upside to a cap	You are mildly bullish and want more than the index gives
Autocallable	Selling a worst-of put on a basket for a coupon	You think nothing falls far, and want paid for saying so
Reverse convertible	Selling a barrier put for a high fixed coupon	You want income and will own the underlying if it breaks
Digital or range	Selling a binary condition	You have a precise view on where something will not go

Read the middle column again. **In four of the six, you are the seller of optionality.** The coupon is not yield. It is the premium you are collecting for a risk you have agreed to carry, and in the autocallable and reverse convertible cases the risk is concentrated exactly where diversification stops working, because a worst-of payoff pays on the single worst performer rather than on the average.

That is not an argument against them. It is an argument for knowing which of the six you are being sold before you discuss the terms.

The shape is what you want. The wrapper is where the risk and the cost live.

Here is the part almost nobody sets out plainly, because whoever is selling you the product generally sells only one of the wrappers.

Every one of those six shapes can now be held in more than one way, and the choice of wrapper changes almost everything that matters, while changing nothing at all about the payoff diagram you were shown.

What is actually available: six payoff shapes, and where each one can be held

The shape is the product. The wrapper is a separate decision, and it is the one that carries the risk

PAYOFF SHAPE	WHAT THE INVESTOR IS DOING	BANK NOTE	LISTED FUND	DIY OPTIONS
Capital protected	Buying a zero-coupon bond and a call	Native	Thin	Yes
Buffered	Selling a put spread, capping the upside	Native	Deep	Yes
Accelerated participation	Geared upside to a cap	Native	Some	Yes
Autocallable	Selling a worst-of put for a coupon	Native	Thin	No
Reverse convertible	Selling a barrier put for a high coupon	Native	Some	Partial
Digital / range	Selling a binary condition	Native	None	Partial

Availability is a judgement on the listed shelf as at 6 August 2026

	BANK NOTE	LISTED FUND	DIRECT OPTIONS
What it legally is	Senior unsecured debt of the issuer	A regulated fund holding listed options	Contracts you hold yourself
What backs your principal	The issuer's credit. Nothing else	Segregated fund custody	Exchange clearing and the US sovereign
Liquidity	The issuer's own bid, or nothing	Daily, on exchange	Daily on the broad indices
Cost	Embedded and not itemised	Disclosed, 0.25% to 1.33%	No wrapper fee, but spreads and margin
Customisation	Anything you can write down	Standard shapes only	Single index, standard tenors
Effort for the client	None	None	Material and ongoing

The wrapper decision is the one that carries the risk, and it is systematically under-discussed relative to the payoff decision. A note's marketing document will spend four pages on the participation rate and one sentence on the issuer.

So the order of operations is: shape first, wrapper second, product third. Most bad outcomes in this market come from a specific product arriving first and a rationale being assembled around it afterwards.

The listed shelf is deep where demand is standard and thin exactly where the note still has a job

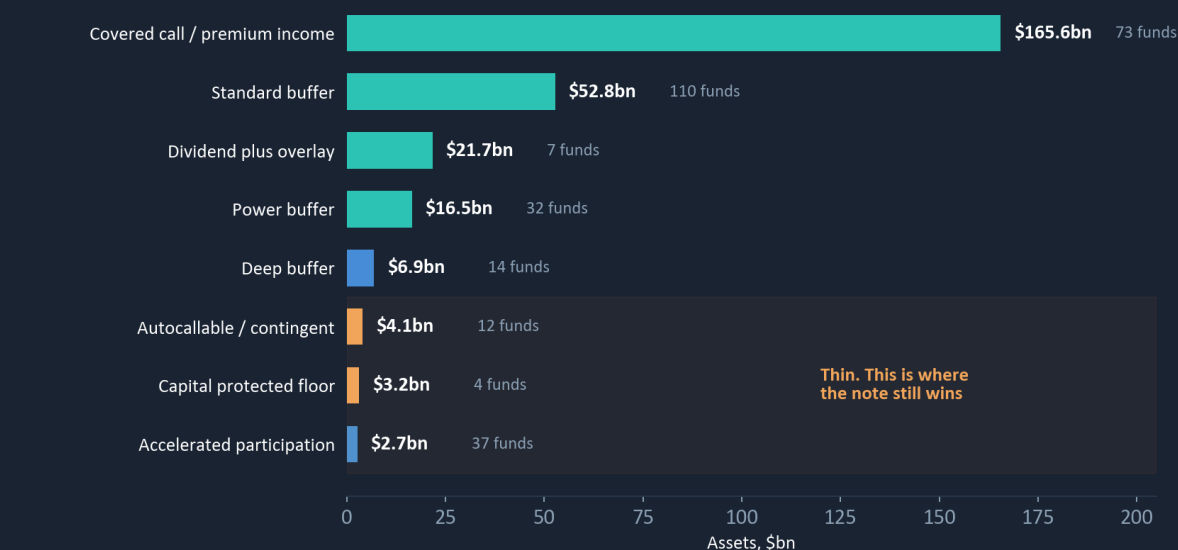
This is the question everything turns on. If you know you want a buffered payoff on a major index, is there already something on the shelf that does it?

We can answer that from our own data rather than from an opinion. Classifying every US listed fund in the two relevant categories by the payoff shape in its name, as at 6 August 2026:

PAYOFF SHAPE	FUNDS	ASSETS
Covered call and premium income	73	\$165.6bn
Standard buffer, roughly 9 to 10% absorbed	110	\$52.8bn
Dividend plus overlay	7	\$21.7bn
Power buffer, roughly 15% absorbed	32	\$16.5bn
Deep buffer, roughly 25 to 30% absorbed	14	\$6.9bn
Autocallable and contingent coupon	12	\$4.1bn
Capital protected floor	4	\$3.2bn
Accelerated participation	37	\$2.7bn

The listed shelf is deep where demand is standard and thin exactly where the note still has a job

US listed funds by payoff shape, 6 August 2026. Classified from fund names, not prospectuses



347 funds, \$290.0bn in total. The classification is drawn from fund names rather than from prospectuses, and 58 of the 347 sit outside these labels, so treat the shape split as indicative and the totals as exact.

Now look at the distribution, because it is the whole answer.

The shelf is enormously deep in two places and almost empty in three. Standard buffered exposure and covered-call income between them account for \$218.4bn of the \$290.0bn. If that is the shape you want on a major index, you are shopping in a liquid, competitive, daily-priced market, and a bespoke note has to work hard to justify itself.

Capital protection is nearly absent: four funds and \$3.2bn. Autocallables: twelve funds and \$4.1bn, and only on standardised baskets. Accelerated participation has 37 funds but only \$2.7bn between them, which is a shelf that exists on paper and is thin in practice.

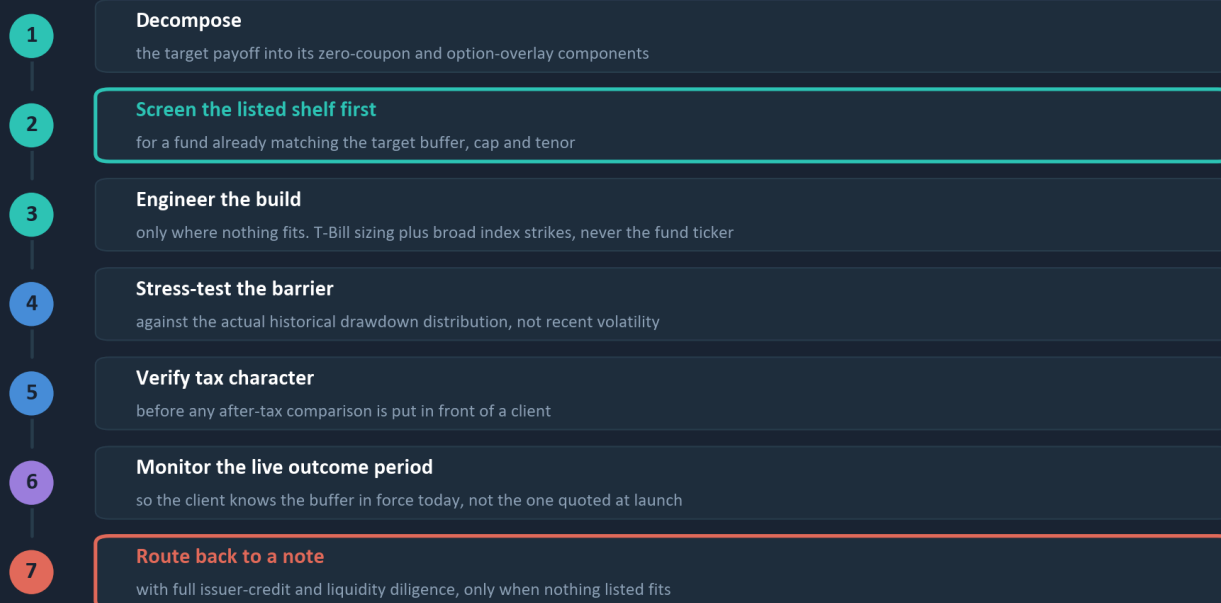
That is a genuinely useful map. **The listed market has industrialised precisely the shapes that are standard, and has barely touched the shapes that are bespoke.** Which tells you, before any analysis at all, roughly which conversation you are about to have.

The seven steps we run on any replication request

When a client brings us a target payoff, whether it arrived as a term sheet from a private bank or as a description of what they are trying to achieve, we run the same seven steps. They exist so that route selection and product selection stay two separate, auditable decisions.

The seven steps we run on any replication request

Route selection before product selection, as two separate and auditable stages



Steps 2 and 7 are the gates. Almost every request is settled by step 2.

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- 1 Decompose the target payoff** into its zero-coupon and option-overlay components. Every one of the six shapes reduces to a bond plus an option position. Until that is written down, nothing downstream can be compared.
- 2 Screen the listed shelf first** for a fund that already matches the target buffer, cap and tenor, including the listed autocallable-income funds for standardised basket payoffs. This is a gate, not a formality. If something on the shelf fits, the remaining steps get very short.
- 3 Engineer the build only where nothing fits.** T-Bill sizing plus index option strikes. On S&P 500 exposure that means SPX or XSP, **never SPY**, because only the broad-based index contract carries the tax treatment. The same distinction applies to NDX against QQQ and RUT against IWM, and building on the wrong ticker forfeits the entire advantage while the position looks identical.
- 4 Stress-test the barrier** against the underlying's actual historical drawdown distribution, not its recent volatility. A barrier that looks comfortable against trailing twelve-month vol can be well inside the distribution of things that have actually happened.
- 5 Verify tax character** before any after-tax comparison is put in front of a client. Notes are frequently ordinary income at maturity, and if structured as a contingent payment debt instrument can create imputed income annually with no cash distributed. Funds pass through the character of their own option book, which the holder does not control.

6 **Monitor the live outcome period and the roll dates** so the client knows the buffer and cap actually in force today, rather than the ones quoted at fund launch. Buffer funds reset on a fixed cycle. Buy mid-cycle and you receive the residual, which can be materially better or worse than the headline.

7 **Route back to a note**, with full issuer-credit and secondary-liquidity diligence, only when a fully bespoke basket, a worst-of on custom underliers, or a tenor beyond about three years has no liquid listed alternative.

Steps two and seven are the gates. Everything between them is engineering. And on the evidence of the shelf map above, the large majority of index-linked requests are settled at step two, which is the cheapest possible outcome for the client and the fastest.

The two steps most often skipped are six and seven, and they are skipped for opposite reasons. Six is skipped because it is unglamorous and continuous. Seven is skipped because pricing an issuer's credit is assumed to be hard.

It is not.

Step seven, done properly, takes about ninety seconds

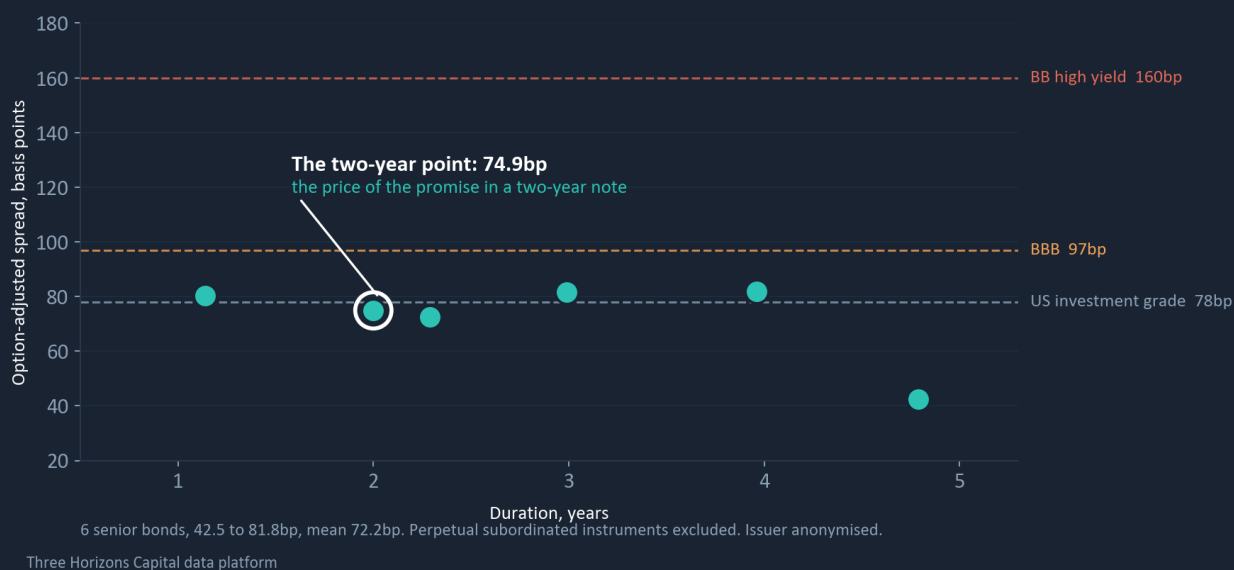
When the answer genuinely is a note, the client is being asked to take a specific bank's credit, unsecured, for the life of the structure. The document they receive covers that in a rating.

The market prices it continuously. If the issuer has public bonds outstanding, the exact risk being transferred is quoted, in basis points, every trading day.

We ran it on a live example. A large Gulf commercial bank was named as a hypothetical note issuer, the kind of institution that actually distributes these structures to regional family offices. Within about a minute and a half we had its traded curve: twelve securities, ten senior with a live spread print. Setting aside two perpetual subordinated instruments, which are loss-absorbing bank capital on a different risk tier and should never be blended into an issuer-level read, the senior curve as of 7 August 2026 showed **six senior dollar bonds spanning 42.5 to 81.8 basis points**, mean 72.2, with **the two-year point at 74.9**.

The credit inside the note is quoted every trading day

A large Gulf bank senior dollar curve, option-adjusted spread, 7 August 2026



On the same date the broad US investment-grade index sat at 78 basis points, BBB at 97, and BB high yield at 160. Against its own peer group the median senior spread was 80.3 basis points against 79.5, 80.1 and 82.1 for three comparable regional names.

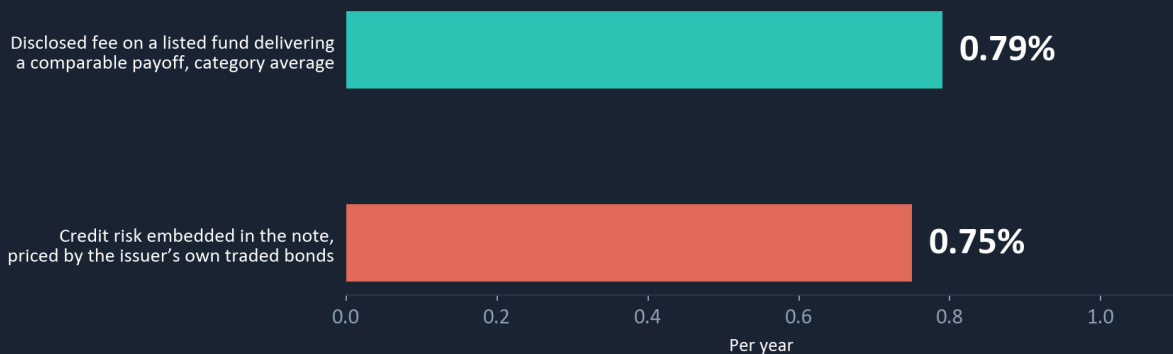
The issuer trades inside the investment-grade index and squarely in line with its peers. This is a strong credit, and that is the point. The finding is not that the issuer is risky. The finding is that the risk has an observable, unremarkable price, and that essentially nobody buying the note ever looks it up.

Put in the terms a client would use: **a two-year note from this issuer carries credit risk the market prices at roughly 75 basis points a year, or about 1.5% of principal over the life of the structure.** That is an approximation which ignores recovery assumptions, and the spread compensates for liquidity as well as default risk.

Now set it beside the disclosed fee on the listed route, which averages 0.79% a year.

The cost you cannot see is the same size as the cost you can

Annual cost of each route, in percent



Not economically equivalent quantities, and not netted against each other.

The point is the size. Only one of the two is ever quoted to the buyer.

Three Horizons Capital data platform

The two are not equivalent quantities and we are not netting them. One is compensation a bondholder receives for bearing a risk; the other is a fee a shareholder pays for a service. **But they are the same size, and only one of them is ever quoted to the buyer.** The commercial case for a note has always rested implicitly on the absence of a visible expense ratio. The cost is not absent. It is unquoted.

Where each route wins

YOUR SITUATION	DEFAULT ROUTE	WHY
Standard buffer or income payoff on a major index, off-the-shelf terms acceptable	Listed fund	No issuer-credit line item, daily liquidity, disclosed holdings, sub-1% fee. This settles most requests
Single broad index, tax character is the priority, and you can carry the operational load	Direct index options	Best available character, provided it is built on SPX or XSP rather than SPY
Fully bespoke basket, worst-of on custom underliers, or tenor beyond about three years	The note	Correlation is not a traded input. No listed substitute exists for a genuinely custom basket
Capital protection with a hard floor	Usually the note	Only four listed funds and \$3.2bn exist in this shape. The shelf is thin enough that it often cannot help
Concentrated single-stock position needing protection without a sale	Case dependent	A correlated index proxy may be close enough. If the hedge must sit on the name itself, that is a bespoke collar
Liquid placeholder while private capital calls land	Listed fund, or a short note	Both give known maturity and payoff, unlike a J-curve. Prefer the fund unless you need a shape the shelf lacks

The structural reason the note survives is worth stating precisely, because it is not a temporary gap that competition will close. **A worst-of payoff on a bespoke basket is a position in correlation, and correlation is not a liquid, traded input the way single-index volatility is.** You cannot assemble it from single-name listed options at any sensible price. It can only be transferred to a counterparty willing to warehouse it. Where correlation is the product, the note is not a wrapper preference. It is the only wrapper.

What we could not find

Four gaps, stated rather than papered over, because a process is only worth as much as its disclosed limits.

Nobody tracks the note market. There is no dataset, ours or public, covering over-the-counter structured note issuance, terms or volumes, and no standardised tape comparable to the bond or fund markets. Every note-side comparison above reflects documented market structure and legal construction, not a live feed.

A credit spread history we expected to have did not exist. Having produced the issuer read above, we went looking for a multi-year trend to put it in context. The legacy index panel held no rows for the name. The bridge period carried duration but no spread. Real coverage began about six months ago. There is a **nineteen-month window with**

no usable spread for this issuer anywhere in our data. The spot read stands. The trend does not exist, and it is better to say so next to the finding than to leave the impression we have it.

The shape classification is name-based. It is drawn from fund names rather than prospectus review, and 58 of 347 funds fall outside the labels. Good enough to map a shelf. Not good enough to select a product, which is why step two is a screen we run rather than a table we publish.

The tax treatment is external. It reflects the US Internal Revenue Code and third-party practice commentary, not a determination we have made. It is load-bearing for step three and step five, and it should be confirmed with counsel before any client-facing after-tax comparison.

If you have a term sheet on your desk

The practical version of all of this is short.

Name the shape. It is almost certainly one of the six. Then decide the wrapper separately from the shape, and in that order, because the wrapper is where the credit, the liquidity and the unquoted cost all live. Then screen the listed shelf before you accept that a bespoke build is necessary, because on current evidence the shelf settles most standard index-linked requests outright.

And if the answer genuinely is a note, look up what the issuer's own paper yields before you sign, because it takes ninety seconds and nobody else in the chain is going to do it for you.

If you would rather we ran it

Send us a term sheet, or just a description of the outcome you are trying to build. We will run the seven steps and come back with:

- the shape it actually decomposes to
- whether the listed shelf already covers it
- what the alternatives cost, side by side
- where the risks sit, with the issuer's credit priced

If the answer is that the note in front of you is the right instrument, that is what we will tell you.

Prepared by Three Horizons Capital. Fund counts, category assets, expense ratios, payoff-shape classification and issuer credit spreads are derived from the Three Horizons Capital data platform, as of 6 August 2026 for fund data and 7 August 2026 for credit data. Payoff-shape classification is name-based and indicative. Tax treatment described is general commentary on the US Internal Revenue Code and third-party practice sources, is not a Three Horizons Capital determination, and should be confirmed with qualified tax counsel before any client-facing use. Index contract references describe tax-code categories, not investment recommendations. No individual fund, provider

