Structured investments tend to offer a well-defined range of potential outcomes, usually with some form of explicit downside protection in exchange for a limit on upside return potential. (UBS)

Why allocate to structured investments?

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When viewed over a long time horizon, investing appears quite easy: Returns are relatively consistent, losses are rare and short-lived, and most asset classes have a chance to deliver results. By contrast, investing can be quite difficult over shorter time horizons, especially because this is where large market losses and periods of dramatic under- and outperformance exist.

Unfortunately, to capture the full benefits of long-term investing, investors must endure—and stay invested throughout—a series of highly volatile and uncertain short-term return periods.

Structured investments are one solution to this challenge, helping to recalibrate the risk-return trade-off such that all investors—especially risk-averse investors—can maintain or increase their exposure to market return and income potential with greater certainty.

To accomplish this feat, structured investments offer the following characteristics:

1. **Greater certainty.** Structured investments tend to offer a well-defined range of potential outcomes, usually with some form of explicit downside protection in exchange for a limit on upside return potential. As a complement to traditional portfolios, structured investments can offer a less volatile path to achieving desired investment outcomes.

2. **Diversification.** Structured investments tend to offer a low correlation to traditional asset classes, which allows investors to use structured investments as a partial replacement of traditional asset classes and thus enhance the portfolio's risk-adjusted return potential.

3. **Risk management.** Structured investments often have explicit downside protection provisions that protect against the risk of realizing losses at maturity. Structured investments also allow investors to commit to a longer time horizon, helping them to bypass shorter time horizons' higher risk of losses. As a case in point, the S&P 500 has historically had a 46% chance of experiencing a one-day loss, a 22% chance of a one-year loss, and only a 7% chance of a five-year loss.[1]

4. **Enhanced return potential.** In addition to enhancing return potential by limiting the risk of losses, some structured investments offer access to leveraged upside potential.

How do structured investments fit in a portfolio context?
In our view, structured investments can play an important role in asset allocation, either as a tactical instrument to manage risk and return potential over a specific time horizon, or as a strategic replacement for a portion of an allocation to stocks or bonds.

Because structured investments are complex and highly customizable investment vehicles, it can be challenging to determine exactly how they can fit into the asset allocation framework. The appropriate amount and type of structures should take into consideration your objectives as well as your willingness and capacity to accept relevant structured investment risks, such as issuer and underlying asset exposure risk, as well as a sacrifice of some liquidity (there is a limited secondary market for structured investments).

To help investors analyze potential structured investment opportunities, we have published a report that analyzes a selection of structured investments' historical risk, return, and correlation characteristics in order to evaluate their effectiveness in an asset allocation framework. To learn more, please download the report here: **Structured investments 101: Risk, return, and positioning considerations**.

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For more information about risks associated with structured investments, please visit our website at

ubs.com/spkeyrisks.

[1]Source: Bloomberg and MorningstarDirect data, from 31 December 1945 to 31 October 2023.