STRUCTURED PRODUCTS AT JANNEY MONTGOMERY SCOTT

Structured investments are debt securities derived from or based on a single security, basket of securities, index, commodity, foreign currency, or other asset classes. Janney offers two primary types of structured products—Market-Linked Certificates of Deposit (MLCDs) and Structured Notes.

PRODUCT HIGHLIGHTS

Structured products are a hybrid between two asset classes. Typically issued as an unsecured corporate bond or certificate of deposit with a fixed term, they include a derivative component whose cash flow and value are determined from performance of another underlying investment or asset class. **Structured products or market-linked investments:**

- Can be purchased through an initial offering or in a limited secondary market.
- Are issued as a bond or certificate of deposit (CD) with a fixed term or maturity.
- 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.

Structured products can offer portfolio diversification opportunities that may be of interest to investors who seek access to a particular asset class or a potentially higher return or income stream than can be found with conventional fixed income securities. For example, a structured product, issued as a bond or CD, could have cash flow and return based upon an investment sector, such as a stock market index like the S&P 500 or Russell 2000 Index, a single security or basket of securities, an emerging market exchange-traded fund, alternative investments, or assets like silver or other commodities. Since the return and cash flow depend on the underlying investment, structured products may or may not make predetermined payments and may or may not repay all of the original investment at maturity. Yet, they may offer higher return potential or interest rates than a traditional bond or CD.

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.

JANNEY'S STRUCTURED PRODUCTS

Janney offers:

- Market-Linked CDs
- Structured Notes

MARKET-LINKED CDS

Overview

Market-Linked Certificates of Deposit (MLCDs) are 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.

Estate Feature

Most MLCDs offered by Janney include an estate feature, commonly referred to as a survivor's option or "death put," with certain limitations. This provision allows, but does not require, an estate to "put" back a security to its issuer at a price of par, within certain limitations, in the event of the death of the beneficial owner of an MLCD. Investors should not solely base their investment decision on this feature, as there could be multiple reasons that issuers may not allow the security to be "put" back to the estate. For example, an issuer may only allow a set percentage of an issue to be redeemed under the estate feature.

Interest Calculation: Many Variations

As noted, the income generated on most structured products is based on the performance of the underlying securities or indexes. **There are several possible interest calculations for MLCDs:**

- **Point to Point** – The starting point is the value of the underlying index(es) when the MLCD is issued, and the ending point is the value on a predetermined date just before maturity. For example, if the index is 100 at the start and 200 at the end, the index gain is 100%.
- **Averaging** – Many MLCDs use the averaging method. Rather than a point to point calculation, the interest calculation method averages the index value on a series of "observation points" or dates.
- **Income Generator** – MLCDs may offer the potential to earn income during the life of the investment. Coupons are typically contingent on market performance at pre-determined intervals.
- **Ceiling ("Cap")** – Another structuring approach is to have a ceiling on the return. The investor receives a return equal to the percentage return of the underlying index subject to a 40% ceiling, for example, which may limit the potential upside performance of the MLCD.
- **Participation Rate** – This can be another variable. Perhaps the investor will receive only 90% of the return or as much as 125% of the return.
- **Minimum Coupons** – Minimum coupons may also be offered as part of the investment. They may be expressed as a minimum over the life, for example, 10% over six years, or as a minimum annual coupon, 2.5% each year. The investor will receive interest based on the appreciation of the index or the minimum coupon, whichever is higher.
- **Fixed-to-Float** – Some structured investments have a fixed coupon rate for one or more years and then the rate varies based on the underlying investment. For example, a five-year MLCD could pay a 3.5% coupon in years one, two, and three and then either zero or 6.4% in years four and five, depending on whether or not the underlying index, such as the S&P 500, closed higher or lower in each of those last two years.

Risks

Market-Linked CDs offer investors the potential for market exposure while providing FDIC insurance up to the current legal limits. **There are risks associated therein which include:**

- **Liquidity Risk**
  - MLCDs are not traded on any exchanges and are generally less liquid than many other securities, so they are best for investors with longer horizon investment strategies.
  - MLCDs are not traded on any exchanges and are sold before maturity, the value could be lower than the initial principal amount, and an investor may realize a loss, even if the underlying indexes are higher. There is no assurance that there will be a market available when an investor needs to sell.
- **Tax Considerations**
  - Investors may be subject to tax payments even though no interest has been paid in a given year.
  - Investors should contact their accountant or other tax advisor for information specific to their tax situation.
- **Call Risk**
  - MLCDs may have call features that allow the issuing bank to call or redeem MLCDs before their maturity.
  - If called, the MLCD will be redeemed at the call price (typically par), and the investor may not realize the same return as he or she would have if the MLCD had not been called or if it had been called at a later date.
  - In addition, the investor may not be able to reinvest the proceeds in a similar instrument, since interest rates and index levels may have changed since the MLCD was initially purchased.
  - It is important that investors understand that although MLCDs may be callable by the issuing institution, the investor does not have the right to sell the MLCDs back to the issuing institution.
- **Valuation**
  - The market value of a an MLCD may not correspond directly to increases or decreases in the underlying index or securities.

Conclusion

MLCDs may provide a variety of solutions for investors, but they can be complicated, and it is critical that any investor understand the features and risks before investing. A Janney Financial Advisor can help determine if a given product matches investment objectives and risk profile.

STRUCTURED NOTES

Overview

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 credit worthiness of the issuer, while those not offering this feature can be at risk of partial or full principal loss.

Product Highlights

Structured Notes:

- Are issued as a bond with a fixed term or maturity.
- Have a specified underlying exposure, the performance of which will determine cash flow, value, and investment return.
- Specify 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 can result in principal loss.
- Are often considered "buy and hold" investments.

Interest Calculation: Many Variations

Interest on Structured Notes is calculated based on a formula which may include factors discussed below.

- Valuation Date – Interest computations begin with the percentage change in the value of the underlying asset. It is the change between the "initial valuation date" and the "final valuation date" specified for the Structured Note. For notes that pay contingent income, a "coupon valuation date" is observed.
- Participation Rates – The participation rate dictates the extent to which an investor will participate in the underlying asset's gain.
- Interest Amount – Structured Notes may have a specified minimum and/or maximum interest, or cap, amount that may be paid at maturity.
- Knock-Out Threshold – Notes may contain a feature whereby a decline in the underlying exposure over a pre-determined amount triggers a loss of coupon and/or principal. This is typically expressed as a percentage of the initial valuation set when the note is issued.

Risks

Structured Notes can offer investors the potential for a return that is higher than that of other comparable fixed income investments. **However, there are also a number of risks associated which include:**

- Market Risk
  - Return is dependent on movements in the level, value, or price of the underlying exposure.
- Liquidity Risk
  - There is no guarantee that a secondary market will be maintained for any particular Structured Note.
  - Structured Notes are intended to be held to maturity. The investor may receive less, and possibly significantly less, than the amount invested if the Structured Notes are sold prior to maturity.
- Tax Considerations
  - Structured Notes may be subject to annual income tax calculated based on the interest rate of investments of comparable term at the time of issuance.
  - Investors may be required to pay ordinary income tax on income that has not been received (phantom income).
  - Investors should contact their accountant or other tax advisor for information specific to their tax situation.
- Credit Risk
  - Payout is subject to the risk that the issuer will be able to make scheduled interest or principal payments. The issuer may default, or fail to repay, some or all of the principal of a Structured Note.
- Call Risk
  - Structured Notes may contain call features and may be subject to early redemption, in full or in part, prior to the maturity date.
  - The investor may not realize the same return if a note is called as they would have had it not been called or called at a later date.
  - The investor may not be able to reinvest in a similar instrument, since markets may have changed since the initial purchase.
  - It is important that investors understand that although notes may be callable by the issuing institution, the investor does not have the right to sell the notes back to the issuing institution.
- Valuation
  - The market value of a Structured Note may not correspond directly to increases or decreases in the underlying index or securities.

Conclusion

Structured Notes may be attractive investments for investors who seek access to a particular asset class or potentially a higher income stream than can be found with conventional fixed income securities. However, they can be complicated, and it is essential that any investor understand the features and risks before investing. A Janney Financial Advisor can help make recommendations that align with your investment objectives and risk profile.

WORKING WITH JANNEY

Depending on your financial needs and personal preferences, you may opt to engage in a brokerage relationship, an advisory relationship or a combination of both. Each time you open an account, we will make recommendations on which type of relationship is in your best interest based on the information you provide when you complete or update your client profile.

When you engage in an advisory relationship, you will pay an asset-based fee which encompasses, among other things, a defined investment strategy, ongoing monitoring, and performance reporting. Your Financial Advisor will serve in a fiduciary capacity for your advisory accounts. For more information about Janney, please see Janney's Relationship Summary (Form CRS) on www.janney.com/crs which details all material facts about the scope and terms of our relationship with you and any potential conflicts of interest.

By establishing a relationship with a Janney Financial Advisor, we can build a tailored financial plan and make recommendations about solutions that are aligned with your best interest and unique needs, goals, and preferences.

Contact us today to discuss how we can put a plan in place designed to help you reach your financial goals.