



Structured High Income Strategy

Piton Investment Management





Active / Opportunistic / Uncorrelated

Using Volatility to Generate Income

Tactical, *actively-managed*
portfolio of income
securities known as reverse
convertible Structured Notes

Opportunistic & Timely

Uses *market-driven* changes in
equity volatility to generate
income from high conviction,
large-market-cap companies

Uncorrelated Income

May be *less correlated* to
traditional income sources such
as bonds, high-dividend-paying
stocks, REITs, and MLPs



Using Volatility to *Generate Income*

Market events create opportunities that can be monetized via reverse convertible Structured Notes

01

Interest, dividends, rents, and royalties, are among the many sources of investment income

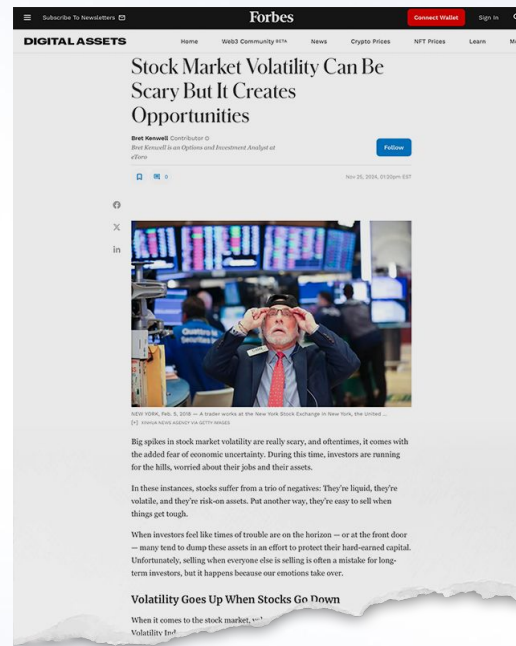
02

However, these are not the only potential sources – equity volatility¹ can also be used to generate investment income

03

The strategy seeks to generate income by building a diversified portfolio of customized, income-generating securities known as reverse convertible Structured Notes

¹ Briefly, equity volatility is a statistical measure of how much a stock's or an index's price changes over a given period, meaning the dispersion of expected returns (forward volatility) or prior returns (historic volatility) for a specific stock or equity index.





Reverse Convertible *Structured Notes*

- **Reverse convertible Structured Notes** generate income by selling the volatility² of individual equities or equity indices
- Sales of volatility via options are synthetically embedded in each **reverse convertible Structured Note**, and the proceeds of these sales are used to pay noteholders fixed, periodic coupon payments
- The strategy seeks to capitalize on short-term, market-driven changes in volatility by using a tactical or opportunistic approach to the selection and structuring of custom-created **reverse convertible Structured Notes**

² Much like any other asset, volatility may be traded or bought and sold in numerous ways. The Piton Structured High Income Strategy sells volatility by investing in reverse convertible Structured Notes which, in turn, synthetically sell the issuer of the note a put on the related single stock or equity index. Selling a put is implicitly a sale of volatility, in this case to the issuer of the Structured Note. However, it should be noted that the purchaser of reverse convertible Structured Notes is not directly trading and does not directly own the synthetically sold put option.



Monetizing Opportunities

01

Attractive Entry Point

Declining equity prices are typically associated with increasing equity volatility

02

Higher Implied Volatility

Higher implied volatility generally results in greater income generation which can be paid to noteholders in the form of periodic coupons

03

Fundamentally Sound

Strategy targets well-known, large, fundamentally sound U.S. listed companies

04

Monetization Opportunity

Strategy *Objective*

- The strategy seeks to opportunistically position around market-moving events and capture income by investing in reverse convertible Structured Notes when a stock's volatility has increased
- Actively applying this process to build a diversified portfolio of multiple customized Structured Notes helps to both diversify issuer credit risk and manage portfolio cash-flows and maturities
- This holistic approach is well positioned to generate unique income opportunities as macroeconomic and company-specific events occur





Uncorrelated *Income*

01

Depending upon the circumstances, equity volatility and the income that can be generated from selling it may be lower or even uncorrelated to the overall level of economic activity

02

While equity volatility can and does change due to macroeconomic risk, it can also change for reasons that are specific to a given company or sector

03

Against an otherwise benign economic backdrop, a specific company may face a material change to its perceived business outlook – such as a quarterly earnings miss, a change in senior leadership, or a regulatory event – which in turn may create a short-term increase in volatility

Identifying Income Opportunities

This strategy targets well-known, U.S.-listed companies with a significant market capitalization that are leaders in their respective industries

Typically, companies are constituents of the S&P 500 Index, the most widely regarded basket of large-cap U.S. equities

The strategy seeks to structure around single underlying names or pairs of names that share commonality (such as by industry, sector, or thematic grouping)



Illustrative *Criteria*

Widely Held, Industry Leading, U.S. Listed
Equity Names

Multi-Billion Market Cap

Fundamentally Attractive

Potential Income Opportunity:

- What is creating it?
- Is it company or sector specific?
- Is it stemming from broader economic/market-driven forces?
- How long will it persist?



Cyclicalty & *Structuring*

- Companies and sectors often experience periods of headwinds and tailwinds as prevailing and anticipated economic climates change
- Company-specific challenges and periods of growth can result in significant market valuation changes over time
- These “re-valuations” typically coincide with periods of increasing implied volatility creating income-generation opportunities as the associated option premiums are the primary source of income creation for reverse convertible Structured Notes

Portfolio *Construction*

Building a portfolio of customized reverse convertible Structured Notes allows us to determine the timing, terms, and features of each investment such as coupon frequency, coupon contingencies, callability, and stated maturity

Each custom reverse convertible Structured Note is bid out to multiple potential issuers via the Halo Investing platform in an auction-type process to achieve competitive terms





About **Piton Investment Management**

Founded in 2015, Piton Investment Management is a boutique asset management company that specializes in creating customized fixed-income and yield-oriented solutions for its clients

\$871M

Assets Under
Management as
of 12/31/24

160+

Advisor on 160+ separate
accounts, two ETFs, and
one private fund

100+

More than 100+ years
combined investment and
industry experience

2015

Firm Launched

2018

SMA Business Launched

SEC Registered

Investment Adviser



About **the Portfolio Manager**

- Kris Konrad has been managing capital for more than 26 years through multiple market and interest-rate cycles across a multitude of products
- Kris currently serves as a Managing Partner at Piton and manages several unique custom mandates which include Structured Notes, agency MBS, U.S. large-cap equity, and listed-energy master limited partnerships (MLPs)
- Prior to founding Piton, Kris served as Chief Investment Officer and Head of Portfolio Management at Annaly Capital Management from 2000 to 2014, where he directed a leveraged portfolio of over \$140 billion of government agency MBS and managed all of the interest rate and convexity hedging for the company



Kristopher Konrad

Founding Partner

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Structured products are unsecured obligations of a particular issuer with returns linked to the performance of an underlying asset. Depending on the terms of the investment, investors could lose all or a substantial portion of their investment based on the performance of the underlying asset. Investors could also lose their entire investment if the issuer becomes insolvent. Piton Investment Management. does not guarantee in any way the obligations or the financial condition of any issuer or the accuracy of any financial information provided by any issuer. Structured products are not traditional investments and investing in a structured product is not equivalent to investing directly in the underlying asset. Structured products may have limited or no liquidity, and investors should be prepared to hold their investment to maturity.

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Important Disclosures

What are Structured Notes?

Structured notes are securities issued by financial institutions whose returns are based on, among other things, equity indexes, a single equity security, a basket of equity securities, interest rates, commodities, and/or foreign currencies. Thus, your return is “linked” to the performance of a reference asset or index. Structured notes have a fixed maturity and include two components—a bond component and an embedded derivative. Financial institutions typically design and issue structured notes, and broker-dealers sell them to individual investors. Some common types of structured notes sold to individual investors include: principal protected notes, reverse convertible notes, enhanced participation or leveraged notes, and hybrid notes that combine multiple characteristics.

Risks and Other Considerations with Structured Notes Complexity

You and your broker should take time to fully understand the manner in which your return on a structured note is calculated. You should understand the reference asset(s) or index(es) and determine how the note’s payoff structure incorporates such reference asset(s) or index(es) in calculating the note’s performance. This payoff calculation may include leverage multiplied on the performance of the reference asset or index, protection from losses should the reference asset or index produce negative returns, and fees.

Market Risk

Some structured notes provide for the repayment of principal at maturity, which is often referred to as “principal protection.” This principal protection is subject to the credit risk of the issuing financial institution. Many structured notes do not offer this feature. For structured notes that do not offer principal protection, the performance of the linked asset or index may cause you to lose some, or all, of your principal. Depending on the nature of the linked asset or index, the market risk of the structured note may include changes in equity or commodity prices, changes in interest rates or foreign exchange rates, or market volatility.

Issuance Price and Note Value

The price you will pay for a structured note at issuance will likely be higher than the fair value of the structured note on the date of issuance. Issuers now disclose an estimated value of the structured note on the cover page of the offering prospectus, allowing investors to gauge the difference between the issuer’s estimated value of the note and the issuance price. The estimated value of the notes is likely lower than the issuance price of the note to investors because issuers include the costs for selling, structuring or hedging the exposure on the note in the initial price of their notes. After issuance, structured notes may not be re-sold on a daily basis and thus may be difficult to value given their complexity.

Liquidity

Your ability to trade or sell structured notes in a secondary market is often very limited as structured notes (other than exchange-traded notes known as ETNs) are not listed for trading on security exchanges. As a result, the only potential buyer for your structured note may be the issuing financial institution’s broker-dealer affiliate or the broker-dealer distributor of the structured note. In addition, issuers often specifically disclaim their intention to repurchase or make markets in the notes they issue. You should, therefore, be prepared to hold a structured note to its maturity date, or risk selling the note at a discount to its value at the time of sale.

Important Disclosures

Daily Pricing

The pricing accuracy is questionable because most structured notes never trade after issuance. Prices are usually calculated by a matrix, which is very different than net asset value. Matrix pricing is essentially a best-guess approach by the issuer.

Tax Considerations

The tax treatment of structured notes is complicated and, in some cases, uncertain. Before purchasing any structured note, you may wish to consult with a tax advisor. You also should read the applicable tax risk disclosures in the prospectuses and other offering documents of any structured note you are considering purchasing.

Payoff Structure

Structured notes may have complicated payoff structures that can make it difficult for you to accurately assess their value, risk and potential for growth through the term of the structured note. Determining the performance of each note can be complex and this calculation can vary significantly from note to note depending on the structure. Notes can be structured in a wide variety of ways. Payoff structures can be leveraged, inverse, or inverse-leveraged, which may result in larger returns or losses for you. You should carefully read the prospectus for a structured note to fully understand how the payoff on a note will be calculated and discuss these issues with your broker. For example, the payoff on structured notes can depend on:

Participation rates

Some structured notes provide a minimum payoff of the principal invested plus an additional payoff to you based on multiplying any increase in the reference asset or index by a fixed percentage. This percentage is often called the participation rate. A participation rate determines how much of the increase in the reference asset or index will be paid to investors of the structured note. For example, if the participation rate is 50 percent, and the reference asset or index increased 20 percent, then the return paid to you would be 10 percent (which is 50 percent of 20 percent).

Capped Maximum Returns

Some structured notes may provide payments linked to a reference asset or index with a leveraged or enhanced participation rate, but only up to a capped, maximum amount. Once the maximum payoff level is reached, you do not participate in any additional increases in the reference asset or index. For example, a note may provide the investor 100% of all funds invested at the end of two years, plus an enhancement of any rise in the performance of the S&P 500 up to 20%. If the performance of the S&P 500 increases 25% in those two years, you only receive a return of 20%.

Knock-In Feature

If the reference asset or index falls below a pre-specified level during the term of the note, you may lose some or all of your principal investment at maturity and also could lose coupon payments scheduled throughout the term of the note. This pre-specified level may be called a barrier, trigger, or knock-in. When this level is breached, the payout return changes on the note. For example, if the reference asset or index falls below the knock-in level and its value is lower than on the date of issuance, instead of receiving a return of your principal, you may instead receive an amount that reflects the decline in value of the reference asset or index. For certain types of structured notes, you may actually receive the reference asset that has declined in value during the term of the note.

Credit Risk

Structured notes are unsecured debt obligations of the issuer, meaning that the issuer is obligated to make payments on the notes as promised. These promises, including any principal protection, are only as good as the financial health of the structured note issuer. If the structured note issuer defaults on these obligations, investors may lose some, or all, of the principal amount they invested in the structured notes as well as any other payments that may be due on the structured notes.

Important Disclosures

Call Risk

Some structured notes have “call provisions” that allow the issuer, at its sole discretion, to redeem the note before it matures at a price that may be above, below or equal to the face value of the structured note. If the issuer “calls” the structured note, investors may not be able to reinvest their money at the same rate of return provided by the structured note that the issuer redeemed.

Additional Considerations Before Investing in Structured Notes

Before investing in any structured note, do your research and ask your Halo investment professional:

- Fees and other costs associated with the investment.
- Cost premium above an issuer's estimated value of a structured note investor will be paying for the structured note and its relevance to the investment decision.
- Structured notes may not be a suitable investment for you. You should review your investment objectives, tolerance for risk and costs with your broker or financial adviser before you consider investing in a structured note.
- Alternative products that may be available that provide investment exposure to similar assets, indices or strategies. Carefully consider what might be a suitable investment for you, and whether there are better alternatives to the structured note you are considering, both from a return, fee, and risk perspective. Structured notes are meant to be illiquid typically held to maturity. Investors could lose a significant portion of their investment if principal is needed prior to maturity.
- Understand applicable call features to ensure you understand what can trigger the call and the earliest date that the structured note may be called and if so, potential returns can be negatively impacted or capped.
- Consult with a tax advisor to understand the consequences of any particular structured note, including imputed interest and any foreign tax consequences.
- Purchasing a structured note does not guarantee positive returns. The reference asset or index might not increase in value – or even if it does, there may be conditions that limit your returns.
- Be sure to understand the financial condition of the issuer and read its disclosures as carefully as you would for any other investment.
- Many structured notes are complex so it is important to review disclosure materials and discuss all aspects of the investment with your financial professional.

Piton Structured *High Income Strategy*

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