

Structured Income ETFs: Expanding Advisors' Income Solutions

Equity-linked note ETFs provide diversified access to derivative-based income strategies, helping advisors manage operational complexity while addressing client cash flow needs.



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Higher interest rates have restored some yield to traditional fixed-income portfolios, but they have not eliminated the income challenge facing many investors. An aging population, elevated equity valuations and persistent market volatility continue to complicate advisors' efforts to generate consistent cash flow while managing downside risk for clients.

As a result, advisors continue looking for ways to generate income to complement the traditional 60/40 portfolio framework. Structured income strategies, in particular equity-linked income notes, have been around for decades and may provide such a complement. However, these strategies have histori-

cally required bespoke notes and ongoing monitoring, with limited transparency—creating barriers for many advisors. The use of an exchange traded fund wrapper is now helping to remove those frictions, enabling more scalable, transparent and portfolio-compatible access to structured income.

How Equity Linked Notes Work

Unlike traditional income strategies that rely primarily on bond coupons or equity dividends, structured income approaches use derivative-based outcomes to reshape the risk-return profile. The objective is not to eliminate risk, but to define it more precisely in exchange for enhanced income potential.

ELNs are a common building block within this framework. Issued by banks, these notes seek to generate income based on the volatility of a given

underlying exposure (stocks/indices). This is done by embedding a package of options that determine in advance the potential income an investor might earn and the potential losses they might need to absorb.

In income-oriented ELN structures, investors typically receive elevated coupon payments and full principal back at maturity, provided the underlying asset remains above a predefined threshold and there are no issuer credit events such as a bank default. If that predefined threshold is breached, income payments may be reduced or eliminated, and at maturity, investors may experience principal losses in line with the underlying assets' performance. In exchange for this higher income potential and clearly defined downside parameters, investors generally forgo upside participation.

A Growing Market Segment

The broader structured-products market has expanded steadily in recent years, but historically, ELNs were accessed almost exclusively through individual note purchases. That approach required advisors to manage multiple maturities, call features, issuer exposures and performance dynamics across separate securities. Referred to as "lifecycle management," this process created a significant operational burden for many practices.

The introduction of ELN-based ETFs is helping to alleviate the burden of lifecycle management. Actively managed structured income ETFs typically hold diversified portfolios of notes or derivatives such as swaps with staggered (laddered) maturities and exposure to multiple issuing banks. While diversification does not eliminate risk, it can help smooth income distributions and reduce reliance on any single issuer, structure, or maturity date.

Beyond diversification, the ETF wrapper offers daily liquidity, transparency into holdings and

consolidated reporting. Furthermore, from a practice-management perspective, the ability to access structured income through a single fund significantly improves scalability and consistency across client accounts.

Portfolio Applications

For advisors evaluating where structured income strategies may fit, ELN-based ETFs offer several practical applications. For example, they may enhance income within fixed income allocations while diversifying away from credit/duration sensitivities. Additionally, given the potential for higher income, advisors may view ELN-based ETFs as a complement to some of their private asset allocations, without needing to sacrifice liquidity. They may also complement existing individual ELN portfolios.

Understanding the Trade-Offs

As with any income-oriented solution, a higher yield comes with trade-offs. There are two distinctive risks associated with ELNs. One is the barrier breach: If the underlying index falls far enough, income and principal are both at risk. The second is issuer credit risk, meaning investors are exposed to the financial health of the bank behind the note. These risks are present even when diversified across multiple counterparties and structures.

Expanding the Income Solutions Toolkit

As income-focused ETF strategies evolve, equity-linked approaches are becoming a meaningful component of the broader derivative-income landscape. For advisors navigating shifting market cycles and rising client income demands, structured income ETFs deserve consideration as part of a modern, expanded portfolio toolkit.