CIBC GLOBAL ASSET MANAGEMENT

STRUCTURED SOLUTIONS RESEARCH

CIBC Structured Equity Yield Fund: Enhanced yield and downside mitigation

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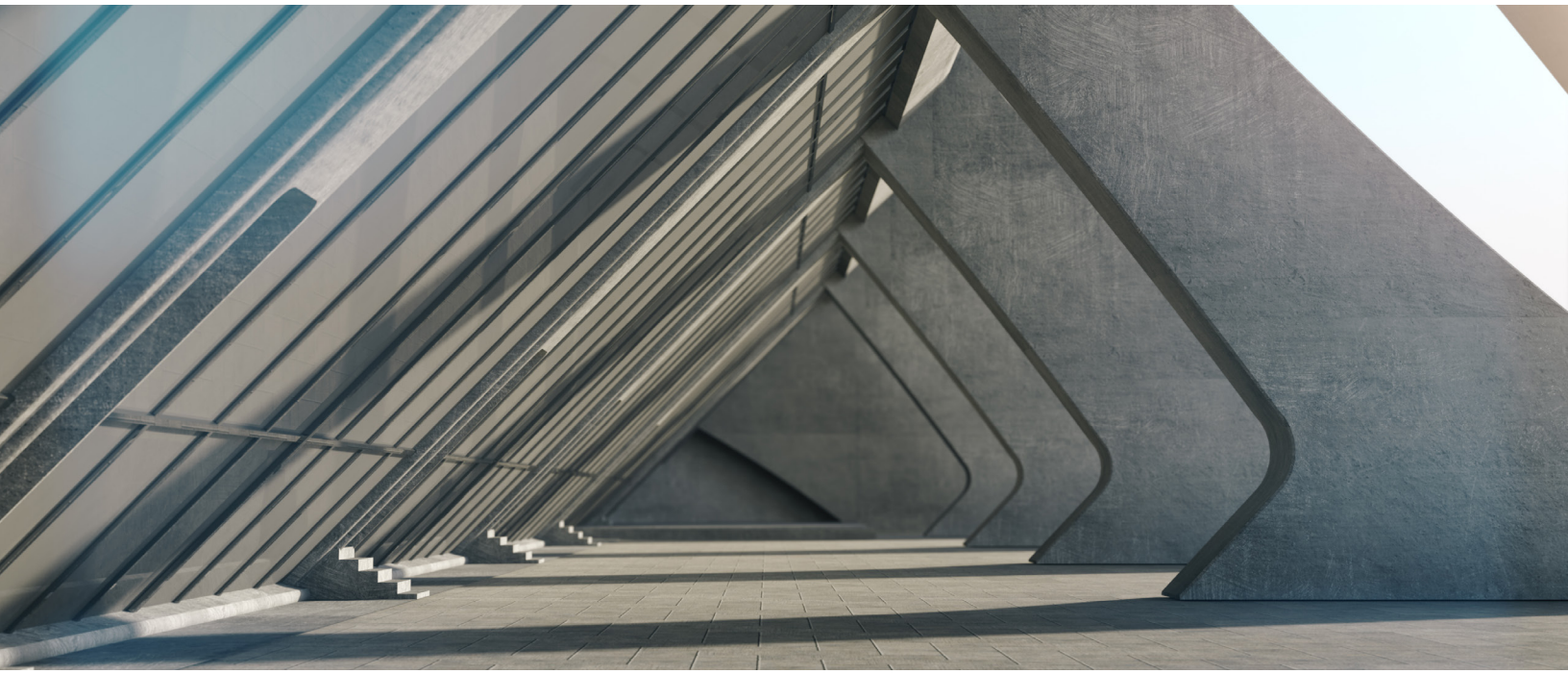
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Key takeaways

- The Fund seeks to replicate the attractive features of autocallable structured notes, offering elevated monthly income potential with contingent downside protection.
- By using a derivative-based approach, the Fund offers a more liquid, transparent, and flexible alternative to investing directly in individual structured notes.
- The strategy incorporates diversification across reference assets and note features to help mitigate mark-to-market volatility, missed coupons, and capital loss risk.
- The Fund is designed to complement traditional equity and fixed income holdings with a differentiated source of yield and risk-adjusted return potential.

This paper is part of a series of Structured Solutions research publications showcasing CIBC Global Asset Management's library of outcome-oriented investment solutions.

The **Structured Solutions Team** helps investors solve for their unique investment and implementation objectives. Drawing on a broad spectrum of financial instruments and engineering methods, our mission is to construct solutions that deliver specific outcomes. As a result, we facilitate a distinct approach to portfolio design that helps investors maximize their probability of success across diverse market conditions.

Growing interest in structured notes across North America

Structured notes were first introduced in Europe in the 1970s, followed by Asia. More recently they have gained popularity in North America, where adoption continues to grow.

This notable surge in popularity across North America in recent years is driven by investors' desire for enhanced yield opportunities, portfolio diversification, and customized risk-return. Financial institutions have responded by expanding their structured note offerings, particularly those featuring equity-linked and autocallable[2] structures. As awareness grows regarding the flexibility and potential benefits of structured notes, more investors are incorporating these instruments into their portfolios.

A structured note is a financial instrument that typically blends a bond with derivatives tied to the performance of an underlying reference asset—for example, equity indices, ETFs, interest rates or commodities (Chart 1). This combination enables the creation of customized investment outcomes, typically tailored to specific investor objectives, such as enhanced yield.

Chart 1 – Structured notes are hybrid securities that combine bonds and derivatives to achieve specific outcomes.



The information was prepared by CIBC Global Asset Management.

The downside of investing in individual structured notes can include a lack of a liquid secondary market and a high investment minimum. To create a more accessible, diversified, and liquid solution, CIBC Global Asset Management introduced the CIBC Structured Equity Yield Fund.

Yield, liquidity, diversification, and downside mitigation

The CIBC Structured Equity Yield Fund seeks to replicate the outcome of an actively managed portfolio of diversified structured notes, primarily through the use of derivatives and/or structured notes that provide exposure to North American and/or global equity indices and securities. The Fund is an innovative solution providing liquid access to a professionally managed strategy that replicates the attractive features of autocallable structured notes—such as elevated coupons, contingent downside protection, and non-linear return profiles—while overcoming the limitations of directly investing in individual structured notes.

By leveraging financial engineering and a derivatives-based approach, the Fund delivers the benefits of autocallable structured notes with greater efficiency, transparency, and flexibility.

This solution is designed to complement traditional equity and fixed income holdings by providing a differentiated source of yield and risk-adjusted returns.

Key advantages of the CIBC Structured Equity Yield Fund

Our solution offers several advantageous characteristics:

- Targets yields at the upper end of the spectrum, currently 7% - 9%, paid monthly.
- Provides daily liquidity, unlike traditional structured notes that are often illiquid and inflexible.
- Contingent principal protection - coverage typically extends to equity declines of up to -20% to -25%.
- Eliminates currency risk.
- Enables efficient implementation through note replication, delivering enhanced flexibility, liquidity, and institutional pricing advantages.
- Mitigates risk through diversification of reference asset and note characteristics, reducing reliance on any single market or feature.

A notable advantage of this solution is the tactical flexibility it provides to the portfolio managers (PMs) of the Fund. For instance, if a replicated note within the Fund experiences a mark-to-market loss due to a decline in its reference asset, the PMs can tactically allocate additional capital to that exposure when appropriate. This active management approach enhances the Fund's ability to respond to changing market conditions and positions the Fund to capture potential value recovery over time.

The engineering advantage behind CIBC Structured Equity Yield Fund

Instead of investing directly in autocallable structured notes, the CIBC Structured Equity Yield Fund constructs a portfolio of derivative instruments specifically designed to replicate the targeted payoff profiles of these notes. This derivative-based approach underpins several key advantages of our solution (see Chart 2).

Chart 2 – Advantages of replicating notes using a derivative-based approach versus purchasing traditional structured notes.

Traditional structured note approach	Derivative-based replication
Limited liquidity Structured notes are generally illiquid, with secondary market trading often limited or costly.	**Greater liquidity** The use of derivatives allows for more frequent trading and daily portfolio rebalancing.
Operational complexity Managing multiple notes with varying terms, features, and issuers can be complex and resource-intensive.	**Cost efficiency** Avoids the embedded fees and spreads typically associated with structured notes issued by third parties.
Transparency and pricing Notes may have a more limited degree of transparency, and mark-to-market pricing may provide only an indication of fair value.	**Transparency** Investors benefit from clear, real-time pricing and full visibility into the Fund's holdings and exposures.
	Customization The Fund can dynamically adjust its exposures, reference assets, barriers, buffers, and observation dates to optimize yield and risk/return characteristics as market conditions evolve.
	Risk Management Enables more effective hedging and risk mitigation through diversified reference assets and derivative positions.

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Portfolio construction with multi-dimensional diversification

Diversification of both note features and reference assets are used to mitigate risk in the management of our solution (Chart 3).

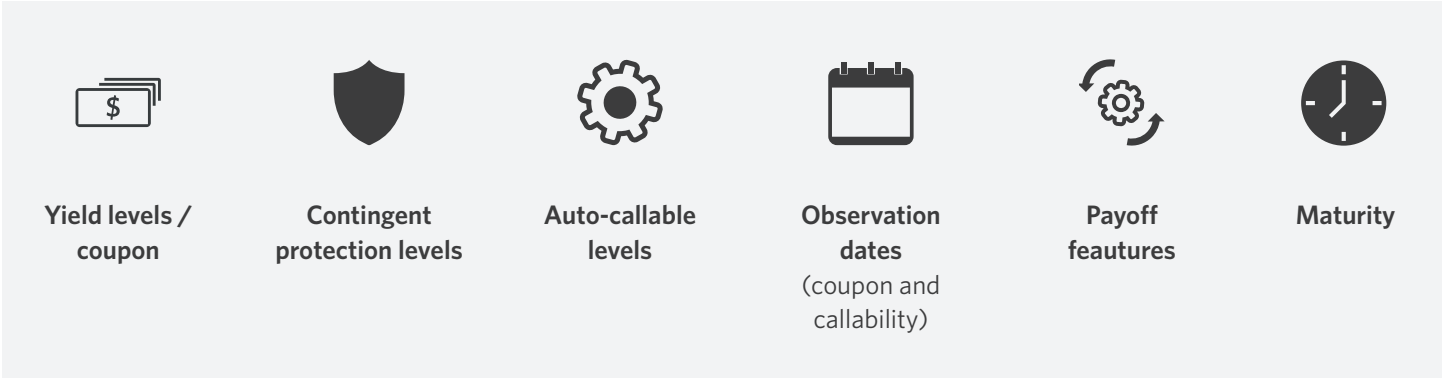
For reference assets, our approach leverages a diversified set, primarily encompassing broad Canadian and US equity markets and sectors. For enhanced international diversification, we may include a modest allocation to European equity markets.

Furthermore, our solution may integrate 'target volatility' and 'maximum volatility' reference indices. These indices are designed to reduce the magnitude of drawdowns and deliver a smoother investment experience compared to their traditional counterparts.

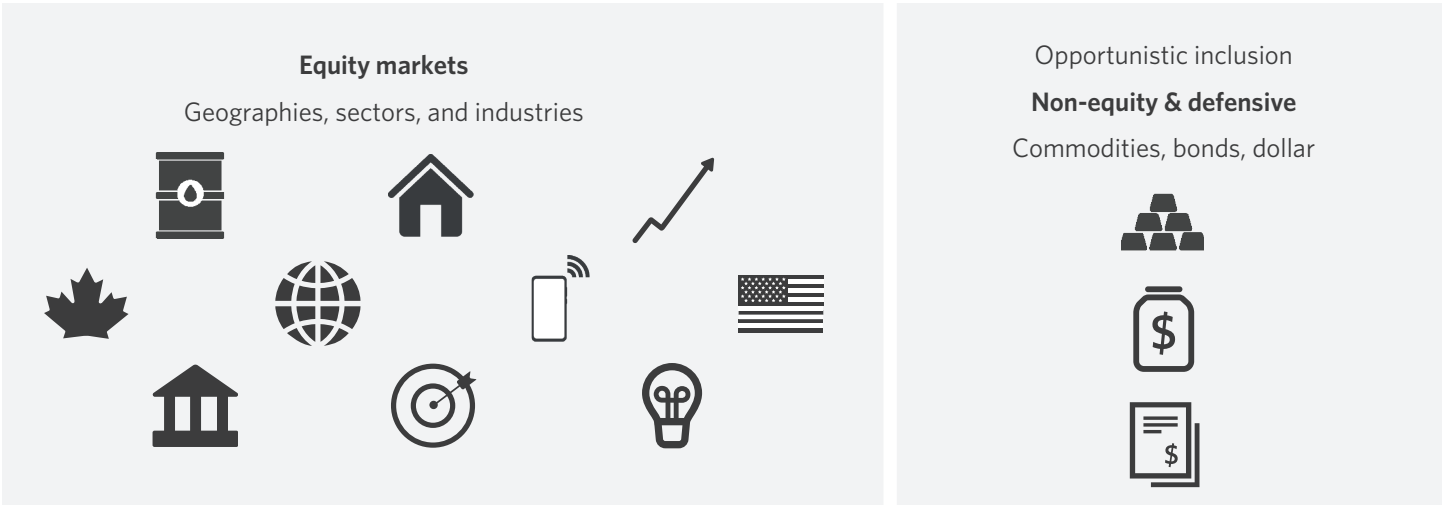
Additionally, our solution may incorporate an opportunistic and limited allocation to non-equity and defensive reference assets. These assets, which tend to be less correlated with equities and often outperform during market downturns, may add an extra layer of risk mitigation to the portfolio.

Chart 3 – Multi-dimensional diversification.

Note features diversification



Reference assets diversification



The information was prepared by CIBC Global Asset Management.

Main risks and their mitigation

There are three main risks investors should be aware of: 1) Mark to market losses, 2) missed coupons, and 3) loss of capital (Chart 4).

Chart 4 – Three main risks and examples of mitigation.

1. Mark to market losses

Mainly due to falling prices of notes' reference assets

Example 1: Following US "Liberation Day"

Performance from April 1st to April 30th

Reference Asset	Return
Canadian Broad Equity Market	-3.2%
Canadian Banks	2.2%
Canadian Energy	-13.5%
Canadian Utilities	1.2%
North America Gold Miners	6.7%
US Broad Market Equity	0.3%
US REITs	-1.1%

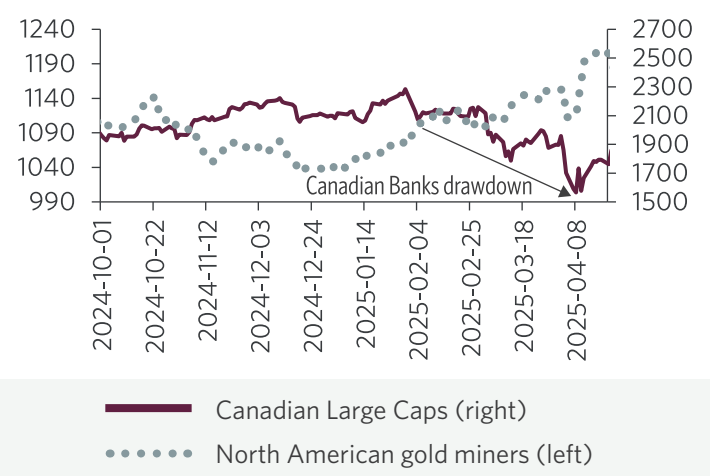
Reference Asset	Return
US Semiconductors	0.4%
Europe Broad Equity Market	-3.0%
Europe Large Cap Banks	-14.3%
US Long Bonds	-2.2%
Gold	5.6%
USD Index	-4.1%

2. Missed coupons

More missed coupons than anticipated

Example 2: Inclusion of gold miners as reference asset

Canadian Banks vs. North American Gold Miners



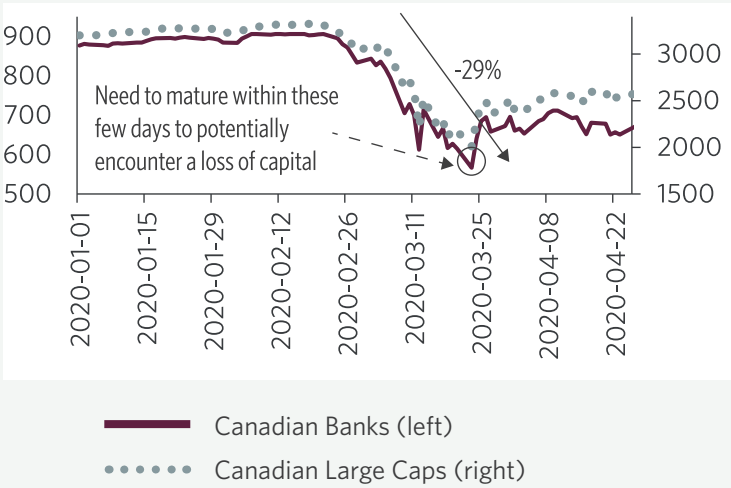
3. Loss of capital

More than anticipated realized principal losses

Example 3: Diversification of maturity dates

Synchronised COVID drawdown

Canadian Banks vs. Canadian Large Caps



The information was prepared by CIBC Global Asset Management using data from the third party data provider Bloomberg. Data as of April 30, 2026.

1. **Mark to market losses –** A primary risk associated with our solution is the potential for mark-to-market losses, resulting from declines in the market value of the replicated structured notes. When the value of the reference asset of a note falls, the note's market value also decreases, even if coupon payments remain unaffected. However, as long as the reference asset stays above the lower barrier or buffer level, coupons continue to be paid and the replicated note is expected to recover its market value over time, either upon being called or at maturity.

   A portfolio diversified across multiple reference assets helps mitigate mark-to-market losses. As illustrated in the first example in Chart 4, following the US Liberation Day in 2025, the performance of several reference assets varied significantly during this risk-off event. In this scenario, only two replicated notes experienced a notable mark-to-market loss.

   To a lesser extent, diversifying note features also helps mitigating this risk.

   Another way to mitigate mark-to-market losses is through the tactical use of protective derivative instruments. For example, ahead of the anticipated US Liberation Day in 2025, protective puts could have been tactically employed on a portion of the portfolio's reference asset exposures to help offset potential temporary mark-to-market losses.

2. **Missed coupons –** Another risk is the possibility of more missed coupons than anticipated. A coupon is missed if the reference asset of a replicated note is below its lower barrier or buffer level at a coupon observation date.

   To mitigate this risk, diversifying the reference assets, timing of coupon observation dates, and the level of the lower barrier or buffer levels, are employed within the portfolio construction of our solution. As outlined in the second example of Chart 4, including underlyings such as gold miners helps mitigate this risk by offering diversification in the timing of drawdowns that may result in missed coupons.

3. **Loss of capital –** Although historically rare for the reference assets considered within our solution, the risk of capital loss is real. A loss may occur if a replicated note reaches maturity (e.g. 7 years after initiation) and its reference asset is below the lower barrier or buffer level.

   In addition to diversifying replicated notes' reference assets, barrier or buffer levels, and maturity dates, this risk can also be mitigated by including geared buffer note[3] exposures, as well as in avoiding a reference asset that may decrease in value and stay at these lower values for several years.

Why invest in the CIBC Structured Equity Yield Fund?

The CIBC Structured Equity Yield Fund is designed for investors seeking:

- Enhanced income potential
- Diversification beyond traditional asset classes
- Access to advanced yield-generating strategies in a liquid, transparent, and professionally managed format

For advisors, the Fund may serve as a complementary or satellite allocation within a diversified portfolio, alongside traditional equity and fixed income holdings, for clients seeking enhanced monthly income and a differentiated source of risk-adjusted returns. By replicating the benefits of a portfolio of structured notes through a derivative-based approach, the Fund delivers a more efficient, flexible, and investor-friendly solution for today's market environment.

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Appendix I – Autocallable notes for enhanced yield generation

Autocallable notes are a popular type of structured notes in Canada. They provide exposure to an underlying reference asset and deliver elevated coupons along with contingent downside protection. The structure and features of autocallable notes can be explained through the following key concepts (Chart 5).

Chart 5 – Key concepts for autocallable notes.



1. Coupon payment



2. Observation dates



3. Contingent downside protection



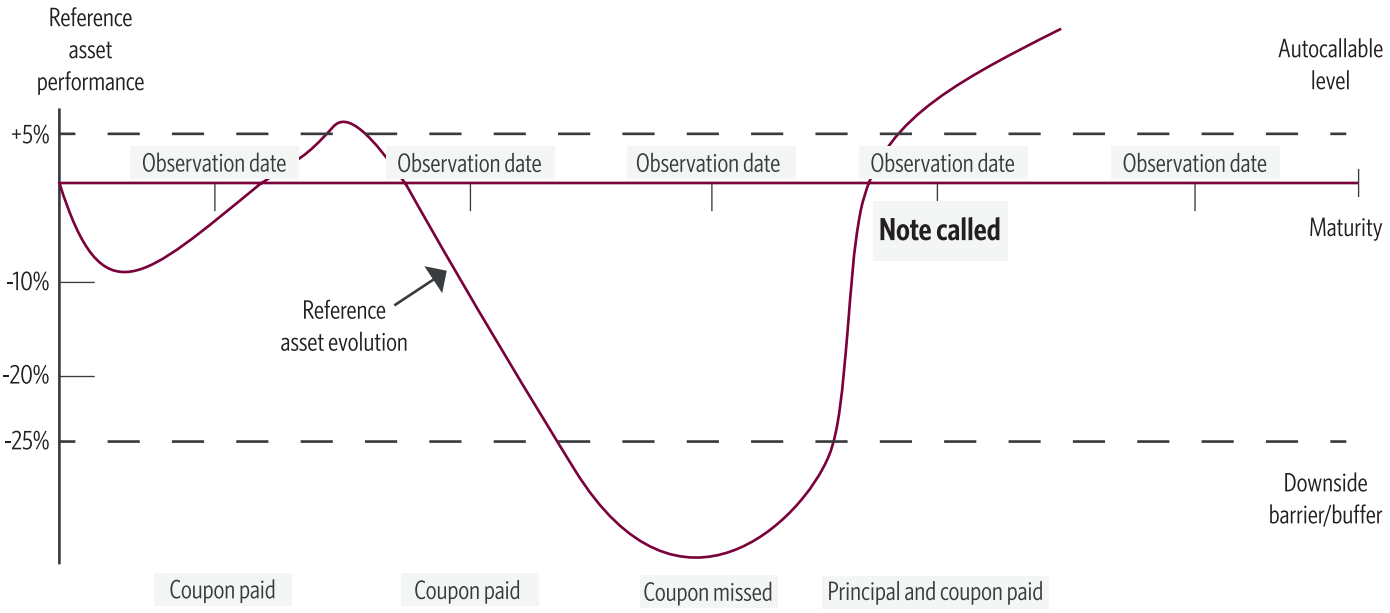
4. Autocallable

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1. **Coupon payments:** An autocallable note pays a periodic coupon (e.g., 7%–9% annualized) as long as the reference asset remains above a predefined downside barrier or buffer level (e.g., 20%–25% below the initial value) at each coupon observation date.
2. **Observation dates:** Predetermined dates on which coupon payments, note maturity, and callability are assessed.
3. **Contingent downside protection:** If the reference asset is above the downside barrier or buffer level at maturity, the final coupon is paid and the full principal is returned. Conversely, if the reference asset is below this level, the final coupon is not paid and there may be a loss of principal (see examples in the Appendix II).
4. **Autocallable feature:** If the reference asset is above the note's autocallable level at a related observation date, the note is automatically called (i.e., terminated), and both the full principal and coupon are paid to the investor.

Below is an example of an autocallable note (Chart 6) to demonstrate how the performance of the reference asset, at each observation date, determines the outcome for investors. This structure provides opportunities for regular coupon payments and the potential for early redemption, depending on market conditions.

Chart 6 – Autocallable barrier or geared buffer note hypothetical example.



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Additionally, even with a low historical likelihood of occurrence for the reference assets considered within our solution, it is important to consider that if an autocallable structured note is never autocalled and reaches maturity (e.g. 7 years after initiation) with the reference asset below the lower barrier or buffer level, a loss of capital occurs (see examples in the Appendix II).

In such a case, for a barrier autocallable note, the principal returned is reduced by the performance of the reference asset. Using the example from Chart 6, if at maturity the reference asset has fallen by -24.9% (just above the barrier at -25%), there is no capital loss and the full principal is returned to the investor. However, if the performance is -25.1% (just below the barrier), there is a corresponding -25.1% loss of capital, and only the remaining principal is returned.

In contrast, in the case of a geared buffer autocallable note—another type of note replicated in our solution—the impact of the reference asset ending below the lower buffer level at maturity is less severe. In this case, the loss in principal starts at zero at the buffer level. Using the same example from Chart 6, if the reference asset is down -25.1% (just below the barrier) at maturity, the loss of principal is only around -0.13% (proportional on the gearing of the note).

Appendix II – Downside exposure at maturity examples for both geared buffers and barrier autocallable notes

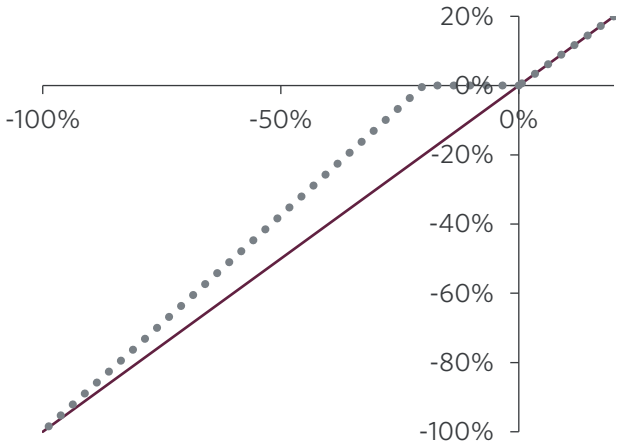
Chart 7 – Examples of downside exposure at maturity for barrier and geared buffer autocallable notes.

Geared buffer vs. barrier

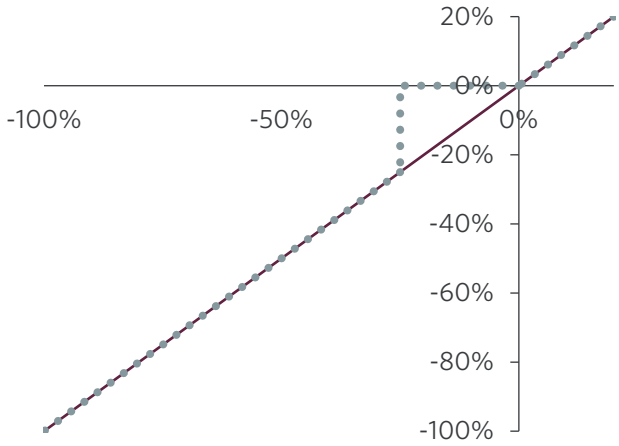
Geared buffer: Contingent principle protection at maturity provided the asset return is at or above -20.00%, otherwise incremental loss beyond -20% multiplied by 1.25 (125%)

Barrier: Contingent principal protection at maturity provided the reference asset return is at or above -25.00%, otherwise 1:1 loss beyond -25.00%

Downside exposure at maturity 80% geared buffer



Downside exposure at maturity 75% barrier



Underlying asset Note return

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[1] Lead Portfolio Manager and Portfolio Manager for our CIBC Structured Equity Yield Fund.

[2] Autocallable notes are investment products where your principal is at risk. They offer a fixed coupon that you receive under certain conditions, and they can end early if specific criteria are met. If, on a scheduled review date, the underlying asset—like a stock index—is above a set level, the note will mature ahead of schedule. In that case, you get back your original investment along with any earned coupons. Autocallable structured notes are described in more detail in the appendix.

[3] Geared buffer notes are structured notes that absorb a defined range of losses on the reference asset up to a specified buffer level at maturity; beyond this threshold, any additional losses are borne by the investor at a magnified rate greater than 1:1, with this trade-off typically offering enhanced coupon or upside potential in return.

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