A buffet of buffered ETFs for jittery investors

By Kerry Pechter *Thu, Jun 4, 2020*

Allianz Life will compete in the structured ETF space against Innovator Capital Management, which invented this type of investment in 2018, First Trust, and New York Life Investments, which will distribute a structured ETF built by m+.

Allianz Investment Management LLC (AllianzIM), a unit of Allianz Life Insurance Company of North America this week launched two structured investment products, each linked to the performance of an exchange-traded fund (ETF) consisting of options on the S&P 500 Price Return Index.

The new products are **AllianzIM U.S. Large Cap Buffer10 Apr ETF** and **AllianzIM U.S. Large Cap Buffer20 Apr ETF**. The Buffer10 version protects the owner from any loss that doesn't exceed 10% over the ownership period, while the Buffer20 version eliminates any loss that doesn't exceed 20%. The products will be available on the **Halo Investing** structured products distribution platform.

There are now at least four competitors in this product space, all hoping to attract business from today's (justifiably) nervous investors:

Innovator Capital Management, which pioneered this concept in 2018; New York Life Investments, which announced on April 23 that it will distribute a version engineered by **m+**; First Trust, which offers **Target Outcome Funds**; and now AllianzIM, which touts its experience with indexed products and risk management as a competitive advantage.

For those unfamiliar with structured ETFs or structured indexed annuities, these products offer investors a defined range of outcomes, with upper limits on gains (caps) and partial downside protection (buffers). Allianz is a leading issuer of indexed annuities, but the new structured ETFs work very differently.

When an investor buys a indexed variable annuity (IVA), the money goes into a life insurer's general account and earns income. Part of the income is used to purchase options on the performance of an equity index or ETF. In a structured ETF, by contrast, the investor owns a basket of **FLEX** options (on an ETF chassis) on the S&P 500 Index. For a deeper explanation, click **here**.

As noted above, Innovator Capital Management**,** in partnership with Milliman, the actuarial consulting firm, invented the category and considers the technology behind the Defined

Income concept to be proprietary. (Patents are pending.) Innovator has launched 46 Defined Outcome structured ETFs since 2018, and has $2.9 billion in assets under management.

Innovator this week announced the upside caps and return profiles for its new June Series of S&P 500 Buffer ETFs, running from June 1, 2020 to May 31, 2021. The series include Innovator S&P 500 Buffer ETF (Cap of 16.35% and buffer of -9%), Innovator S&P 500 Power Buffer ETF (11.30% cap and buffer of -15%), and Innovator S&P 500 Ultra Buffer ETF (7.25% cap and downside protection between -5% and -35%).

The current cap for the AllianzIM Large Cap Buffer10 is 10.6% before fees (10% after fees) for the one-year term, where the issuer absorbs the first 10% of losses, according to Allianz. The current one-year cap for the Large Cap Buffer20, which doubles the contract owner's downside protection, is 5.41% before fees (4.79% after fees).

"We're bringing our institutional risk management expertise to retail investment options," said Corey Walther, head of business development and distribution relationship management at Allianz Life, in an interview with *RIJ*. He noted that the new product complements the Allianz Index Advantage suite of structured annuities.

"The ETF opens up a broader audience than we've historically approached. We can have a broader conversation with advisers. We don't have to talk about annuities alone," Walther said.

The product also broadens Allianz Life's potential audience. "Investors in their late 20s and early 30s wouldn't usually be part of the target market for annuities, but with the buffer ETF we can still give them a level of protection they can't get elsewhere," he said. "For consumers in their mid-60s, our testing shows that their biggest fear, for years, has been that a financial crisis will hit just before they retire. We now have a solution that lets them stay invested for the long-term."

Cost-wise, the products are roughly in the same range, he added, if you recognize that advisory fees will be added to the ETF but not to the IVA, whose distribution cost is built into the crediting rates. "Our structured ETF has an expense ratio of 74 basis points not counting adviser compensation. Our Index Advantage structured annuity (a commission product) has a 1.25% product fee. "Where the caps and buffers on the ETFs are good for 12 months, the annuity offers a potential duration of up to six years, which can provide more potential upside," Walther said.

In April, New York Life Investments announced that it would join this niche. According to a press release, New York Life Investments would be the exclusive distributor of a suite of defined outcome retail solutions produced by m+.

“Using regularly issued m+ funds, investors can adjust their exposure to a broad-based market ETF over a fixed time period to seek enhance upside capture potential, downside protection potential, or both,” the release said.

m+ funds offer three types of strategies: Preservation, Buffered and Growth. “Preservation” and “Buffered” m+ funds aim for upside exposure to an ETF, but with varying levels of protection in down markets depending on the strategy terms. “Growth” m+ funds aim for higher upside, with no downside protection. All m+ funds are offered under a fiduciary framework, provide full transparency on fees and holdings, contain no corporate credit risk, have efficient tax treatment, and provide daily liquidity at net asset value (NAV).