

INTEGER WEALTH GLOBAL

Actively Managed Certificates (AMC)

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An **Actively Managed Certificate (AMC)** is essentially a *‘Structured product issued as a debt instrument’* by a financial institution that ‘wraps’ an actively managed investment strategy into a tradable security.

Its origin and creation combine elements of structured finance, asset management, and note issuance.

PART 1

An ‘AMC’ originates and is created as follow:.

1. Idea / Strategy Origination

The process begins with an **investment idea or strategy**:

- An **asset manager, hedge fund, or trading desk** develops a strategy (e.g., equities, crypto, derivatives, multi-asset).
- This strategy could include:
 - Active trading rules
 - Discretionary portfolio management
 - Quantitative algorithms
- The manager wants a **packaged, scalable, and investable vehicle** without setting up a full fund.

At this stage, the AMC is just a concept: *“Create a certificate that tracks this strategy.”*

2. Partnering with an Issuer

The investment manager partners with a **financial institution (issuer)**, typically:

- An investment bank
- A structured product desk
- A specialized AMC platform provider

The issuer is critical because:

- The AMC is legally a **debt security (note)** issued by them
- Investors take **issuer credit risk** (unless collateralised)



The issuer agrees to:

- Create the certificate
- Replicate or track the strategy
- Handle legal, regulatory, and operational setup

3. Legal Structuring of the AMC

The AMC is structured as a **note issuance under a program** (e.g., EMTN – Euro Medium Term Note program).

Key structuring elements:

a. Prospectus / Terms

Defines:

- Strategy description
- Calculation methodology (NAV or index level)
- Fees (management, performance, structuring)
- Liquidity terms (daily trading, periodic redemption)
- Risk disclosures

b. Reference Strategy or Index

The AMC references:

- A **model portfolio**, or
- A **custom index** that reflects the strategy

c. Rules-based tracking

The certificate includes rules for:

- Rebalancing
- Asset allocation changes
- Trading signals

Legally, the AMC is a **note whose payoff depends on the performance of the strategy**.

4. Portfolio Replication / Hedging Setup

Once structured, the issuer sets up a system to replicate the strategy economically:

Two main approaches:

a. Direct replication

- The issuer actually buys/sells assets in a hedging book
- Trades mirror the manager's instructions



b. Synthetic replication

- Uses swaps, derivatives, or internal hedging
- Bank delivers the performance without holding all underlying assets directly

This ensures that: Performance of the AMC = Performance of the underlying strategy (minus fees).

5. Role of the Investment Manager

The manager operates the strategy through one of two models:

a. Discretionary management

- Sends **trade instructions** to the issuer
- Issuer executes in the AMC hedging portfolio

b. Model-based (rules engine)

- Strategy is codified
- Automatic rebalancing is triggered by defined rules

The manager does not legally own the assets, but rather they control the strategy, not the security itself.

6. Issuance of the Certificate

Once all structures and systems are in place:

a. The issuer issues the AMC as a note, with:

- ISIN (security identifier)
- Initial price (e.g., 100)

b. The certificate is:

- Sold privately to investors, or
- Listed on an exchange

At this point, the AMC becomes a **tradable financial instrument**.

7. Distribution to Investors

a. The AMC is distributed through:

- Private banks
- Wealth managers
- Institutional channels
- Structured product platforms



b. Investors buy the AMC like:

- A bond
- An ETF-like product (in some cases)

8. Ongoing Operation and Lifecycle

After issuance:

a. Daily processes:

- NAV or level calculation
- Strategy rebalancing
- Performance tracking

b. Fees deducted:

- Management fee
- Issuer fee
- Performance fee (if applicable)

c. Liquidity:

- Secondary market trading, or
- Periodic subscription/redemption

9. Redemption / Termination

The AMC ends when:

- It reaches maturity, or
- Issuer calls it, or
- Investors redeem

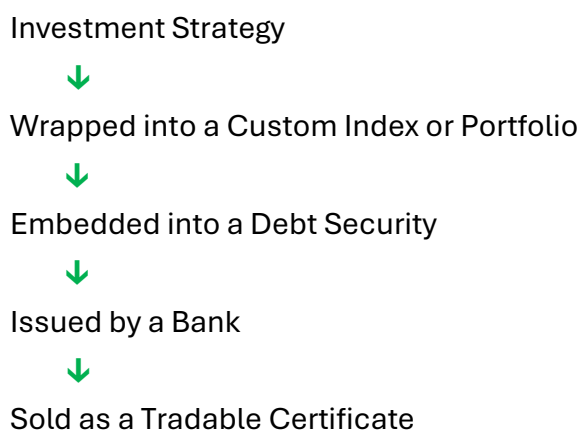
The payoff is:

- Investment Value = Initial Investment × Strategy Performance (net of fees)



10. Key Structural Insight

At its core, an AMC is:



Summary

An AMC originates when an investment strategy is **“securitized” into a note format**. The creation process involves:

1. Strategy design by a manager
2. Structuring by a bank issuer
3. Legal packaging into a debt instrument
4. Hedging/replication setup
5. Issuance with an ISIN
6. Distribution to investors

The key innovation is that it allows actively managed strategies to be delivered like a structured product, without the need to launch a fund.

If you want, I can break down how AMCs differ from ETFs, hedge funds or structured notes in more detail, which is where the nuances become interesting.



PART 2

How AMCs differ from ETF's

AMCs and ETFs can look similar on the surface (both give exposure to a basket or strategy in a single instrument), but they are **fundamentally different in structure, regulation, and risk**.

Below is a breakdown:

Core Difference (one-line)

- **AMC** = a bank-issued debt note tracking an active strategy
- **ETF** = a regulated fund that directly holds assets (or replicates an index)

Structural Differences

Feature	AMC (Actively Managed Certificate)	ETF (Exchange-Traded Fund)
Legal form	Debt security (note)	Investment fund
Issuer	Bank or financial institution	Fund provider (e.g. BlackRock, Vanguard)
Ownership	Investor holds a claim on issuer	Investor owns shares of a fund
Balance sheet	On issuer's balance sheet	Separate fund vehicle (ring-fenced)

Key point: With an AMC, you are effectively **'lending money to the issuer'** whose payoff depends on a strategy.

Credit Risk

AMC:

- YES → Subject to **issuer default risk**
- If the bank fails, investors may lose money (even if the strategy performed well)

ETF:

- NO issuer credit risk (in physical ETFs)
- Assets are **segregated and held by a custodian**

This is one of the **biggest practical risks** separating the two.



Investment Strategy

AMC

- Designed for active management
- Can:
 - Trade dynamically
 - Use derivatives freely
 - Include complex or illiquid assets
- Strategy controlled by a manager or rule engine

ETF

- Traditionally passive (tracking an index)
- Increasingly active ETFs exist, but:
 - Still operate within fund regulations
 - Usually less flexible than AMCs

AMCs offer maximum flexibility, while ETF's offer standardised exposure.

Regulation

AMC

- Lightly regulated (varies by jurisdiction)
- Structured under note issuance programs
- Disclosure via term sheet/prospectus

ETF

- Heavily regulated (e.g., UCITS in Europe, 1940 Act in US)
- Strict rules on:
 - Diversification
 - Liquidity
 - Leverage
 - Investor protection

ETFs are generally more investor protective.

Transparency

AMC:

- Often less transparent
- Holdings may not be disclosed daily
- Depends on issuer/manager

ETF:

- Typically high transparency
- Many disclose holdings daily



Fees and Costs

AMC:

- Flexible fee structure:
 - Management fee
 - Performance fee
 - Structuring fee
- Can be higher and more complex

ETF:

- Usually **low-cost**
- Simple expense ratio
- Rarely performance fees

Liquidity & Trading

AMC:

- Liquidity depends on issuer market-making
- May have limited secondary market
- Sometimes subscription/redemption windows

ETF:

- Traded on exchanges like stocks
- Supported by market makers + creation/redemption mechanism
- Typically very liquid

Complexity & Customisation

AMC:

- Highly customizable
- Can implement:
 - Hedge fund strategies
 - Quant signals
 - Exotic assets (crypto, private assets proxies)
- Often used in private banking or institutional contexts

ETF:

- Standardized product
- Less customization for individual investors

Typical Use Cases

AMC

- Structured products desks
- Private wealth solutions



- Hedge fund-like strategies in a wrapper
- Niche or bespoke strategies

ETF

- Retail investing
- Passive portfolio building
- Broad market exposure
- Tactical asset allocation

Simple Analogy

- **ETF:**
Like buying a **basket of assets directly held in a vault**
- **AMC:**
Like holding a promise from a bank that will pay you whatever a strategy returns

Summary

The key differences:

- **Structure:** Debt note (AMC) vs fund (ETF)
- **Risk:** Issuer credit risk (AMC) vs asset-backed (ETF)
- **Flexibility:** High (AMC) vs regulated constraints (ETF)
- **Transparency:** Lower (AMC) vs higher (ETF)
- **Use case:** Bespoke/active (AMC) vs mainstream/passive (ETF)

AMCs are more flexible and powerful for complex strategies, but they come with higher risk (especially issuer risk) and less regulatory protection.

ETFs are safer, simpler, and more transparent, but less flexible.

PART 3

What risks are associated with AMC's.?

Actively Managed Certificates (AMCs) offer flexibility and access to sophisticated strategies, but



they come with a distinct risk profile that is materially different from traditional funds like ETFs or mutual funds.

Below is an overview of the key risks associated with AMCs:

1. Issuer Credit Risk (Most Important)

AMCs are **debt securities issued by a bank**.

- You are exposed to the **creditworthiness of the issuer**
- If the issuer defaults or becomes insolvent:
 - You may lose some or all of your investment
 - Even if the strategy performed well

This is fundamentally different from funds, where assets are ring-fenced.

Example: If an AMC issued by Bank X returns +20%, but Bank X collapses, investors might still suffer losses.

2. Market Risk (Strategy Risk)

The value of an AMC depends on the **underlying strategy performance**:

- Equity, bond, commodity, or crypto exposure can decline
- Active management can underperform benchmarks
- Leverage or concentrated positions can amplify losses

This is the same type of risk as in hedge funds or active portfolios—but often less visible.

3. Manager / Strategy Risk

AMCs rely heavily on **active decision-making**:

- Poor investment decisions
- Model failure (for quantitative strategies)
- Overfitting or breakdown in market conditions
- Key-person risk (if strategy depends on one individual)

Unlike ETFs, performance is not rule-bound or passive.

4. Transparency Risk

AMCs can be less transparent than traditional funds:

- Holdings may not be disclosed daily (or at all)
- Strategy rules may be partially opaque
- Harder to independently assess risk exposures



Investors may not fully understand:

- What assets are held
- How risks are evolving

5. Liquidity Risk

Liquidity depends largely on the issuer's ability and willingness to make markets:

- Secondary market may be thin or inactive
- Bid-ask spreads can widen significantly
- In stressed markets, liquidity may dry up

Investors may struggle to exit positions quickly or at fair value.

6. Replication / Hedging Risk

The issuer typically replicates the strategy internally:

- Imperfect hedging may cause tracking error
- Complex derivatives may introduce additional risks
- Counterparty exposure within the issuer's hedging book

The AMC's return may diverge from the intended strategy.

7. Leverage Risk

Many AMCs allow or embed leverage:

- Amplifies gains—but also losses
- Can lead to rapid capital erosion
- Margin effects or forced deleveraging in volatile markets

Losses can exceed what would occur in an unleveraged portfolio.

8. Fee Complexity Risk

AMCs can have complex and layered fees:

- Management fees
- Performance fees

- Structuring fees
- Trading costs inside the portfolio

These may:

- Be higher than ETFs
- Reduce returns significantly
- Be harder to fully quantify upfront



9. Regulatory Risk

AMCs are typically less tightly regulated than funds:

- Fewer investor protections
- More flexibility for issuers (which cuts both ways)
- Regulatory treatment varies by jurisdiction

Investors may have:

- Less legal recourse
- Less standardized disclosures

10. Early Redemption / Call Risk

Many AMCs allow the issuer to:

- Call (terminate) the certificate early
- Change terms under certain conditions

This can:

- Force investors to exit at an inconvenient time
- Limit upside if strategy is performing well

11. Concentration & Exotic Asset Risk

AMCs often include:

- Concentrated portfolios
- Illiquid or complex instruments (e.g., derivatives, private exposure proxies)

This increases:

- Volatility
- Tail risk (extreme losses)

12. Operational Risk

Because AMCs involve multiple parties (issuer, manager, platform):

- Errors in trade execution
- Valuation mistakes
- System failures

These can impact performance or investor outcomes.



Risk Summary Table

Risk Type	Why It Matters
Issuer credit risk	You depend on issuer solvency
Market/strategy risk	Portfolio value can decline
Manager risk	Active decisions can fail
Transparency risk	Limited visibility into holdings
Liquidity risk	Harder to buy/sell in stress
Replication risk	Performance may diverge
Leverage risk	Losses can be amplified
Fee risk	Returns reduced by complex costs
Regulatory risk	Fewer investor protections
Call risk	Early termination possible
Concentration risk	Higher volatility/tail risk

Bottom Line

AMCs are powerful but higher risk, more complex instruments:

- Advantages: flexibility, access to sophisticated strategies
- Trade-off: credit risk + complexity + lower protection

They are generally best suited for:

- Sophisticated or institutional investors
- Investors who understand structured products and credit exposure



PART 4

What is the role of the issuer in detail.

The issuer is the central pillar in an AMC structure. Without the issuer, the AMC does not exist because legally it is the issuer's debt obligation.

Think of the issuer as simultaneously acting as manufacturer, guarantor, and operator of the financial wrapper.

Below is a detailed, structured breakdown of the issuer's role across the full lifecycle.

1. Legal Creator of the AMC

The issuer (typically an investment bank):

- Creates the AMC as a debt instrument (note)
- Issues it under a program (e.g., EMTN – Euro Medium Term Note program)
- Assigns:
 - ISIN (security identifier)
 - Legal documentation (prospectus, final terms)

Legally: The investor is lending money to the issuer, not directly investing in the underlying assets.

2. Risk Bearer (Credit Counterparty)

The issuer is the counterparty to the investor:

- Promises to pay returns linked to the strategy
- Bears the obligation regardless of how it hedges internally

Key implication:

- Investors are exposed to issuer credit risk
- The AMC is only as strong as the issuer's balance sheet

This is why large, investment-grade banks dominate AMC issuance.

3. Structurer of the Product

The issuer designs the AMC's structure, including:

a. Economic design

- How performance is calculated (NAV or index level)
- Fee structure
- Rebalancing frequency
- Leverage rules



b. Legal terms

- Redemption conditions
- Early termination clauses
- Investor rights

c. Operational rules

- How trades are implemented
- Data sources and pricing

The issuer translates an investment strategy into a tradable, legally enforceable payoff formula.

4. Strategy Replication / Hedging Engine

One of the most critical roles: The issuer ensures the AMC's performance by replicating the strategy internally.

How it works:

- The bank sets up a **hedging book**
- It executes trades that mirror the strategy:
 - Equities
 - Bonds
 - Derivatives
 - FX
 - Commodities

Two models:

- **Physical replication:** buying actual assets
- **Synthetic replication:** using swaps/derivatives

Important: The investor does **not own these assets**—they sit on the issuer's balance sheet.

5. Execution Agent

The issuer acts as the execution hub:

- Receives trading instructions from:
 - The strategy manager, or
 - A rules-based model
- Executes trades in real markets
- Ensures:
 - Timely implementation
 - Best execution (subject to internal policies)

The issuer controls the mechanics of turning strategy into trades.



6. Valuation & NAV Calculation

The issuer is responsible for:

- Calculating the AMC's daily value
- Determining:
 - Net Asset Value (NAV) or index level
 - Performance returns
- Applying:
 - Fees
 - Costs
 - Adjustments

This introduces valuation and transparency reliance on the issuer.

7. Liquidity Provider / Market Maker

In most AMCs, the issuer provides liquidity:

- Quotes bid and ask prices
- Allows investors to:
 - Buy (primary or secondary market)
 - Sell before maturity

However:

- Liquidity is not guaranteed like ETFs
- Spreads can widen in stress markets

The issuer effectively controls how easily investors can enter or exit.

8. Distributor (or Distribution Enabler)

The issuer:

- Lists the AMC on exchanges (optional)
- Distributes via:
 - Private banks
 - Wealth managers
 - Institutional channels

In many cases, the issuer's sales network is key to the AMC's adoption.

9. Risk Manager

Internally, the issuer must manage multiple risks:

a. Market risk

- From hedging the strategy



b. Hedging mismatch risk

- Differences between strategy and executed trades

c. Counterparty risk

- From derivatives used in replication

d. Operational risk

- Systems, pricing, execution errors

The issuer runs a **mini trading operation behind the AMC**.

10. Lifecycle Manager

The issuer manages the AMC throughout its life:

Includes:

- Rebalancing execution
- Strategy updates
- Corporate actions handling
- Investor subscriptions/redemptions

Also controls:

- Early termination (call rights)
- Amendments under certain conditions

The issuer remains **active from issuance to maturity**.

11. Control Over Termination & Conditions

Most AMCs give the issuer powers such as:

- Early call (terminate product)
- Suspend trading in extreme conditions
- Adjust methodology if needed (per documentation)

This creates **asymmetry**: The issuer often has more control than investors.

12. Transparency Gatekeeper

The issuer determines:

- What information is disclosed
- How often holdings are published
- Level of reporting detail



Investors depend on the issuer for:

- Visibility
- Accuracy
- Timeliness

11. Putting It All Together

The issuer is simultaneously:

Role	Function
Legal entity	Issues the note
Counterparty	Bears credit obligation
Structurer	Designs payoff and rules
Trader	Executes strategy replication
Valuation agent	Calculates performance
Market maker	Provides liquidity
Risk manager	Manages hedging risks
Operator	Runs the product lifecycle

13. The Simple Analogy

Think of the issuer as a bank that builds and runs a custom investment machine, then sells you a contract promising to deliver whatever that machine produces.

You do not own the machine, you own the promise.

Bottom Line

The issuer is the central engine of an AMC, responsible for:

- Creating and structuring the product
- Replicating the strategy
- Managing risk and operations
- Providing liquidity and pricing
- Ultimately delivering returns

This central role is powerful, however it is also why issuer risk and reliance are the defining features of AMC's.