An Introduction to Structured Products

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What is a Structured Product?

A Structured product is a pre-packaged investment which provides a return based on the performance of an underlying asset such as a stock market index or a basket of shares.

The potential return and level of capital at risk is pre-defined at outset. Payoff profiles can be designed to take advantage of rising, falling or range bound markets, and delivered in a way that can be tailored to meet specific investor needs.

This can help investors plan ahead by offering some certainty over a defined period, and who also want some degree of protection over their initial capital.

Benefits to Investors

With interest rates at an all-time low, many investors are no longer able to secure returns in the bank or building society that they would like. Some have sought higher returns from the stock market, but with uncertainty dogging equity markets many have been disappointed, receiving low returns or even losing money.

So what makes structured investments attractive? Structured products can be designed to deliver positive returns in rising, flat and falling markets. Details of how the performance of the investment will be determined, repayment dates and capital risk are all set out prior to investment.

Why choose IDAD?

- **Innovative Products** – market-appropriate new shapes and payoffs
- **Generic Training and Education** – a wealth of experience
- **Transparency** – explaining products made easy
- **Wide Selection of Issuers** – securing best value for investors
- **Central Support** – always here to deal with generic or specific queries

Diversification

Diversification is the practice of spreading your investments around so that your exposure to any one type of asset is limited. Structured products can be designed using different indices for different products and also incorporating counterparty diversification by limiting exposure to different issuers/banks, this can help mitigate risk and volatility with an investors portfolio.

Types of Structured Products

Income

An income product is designed to provide the investor with a steady stream of payments during the term of the investment whilst still providing a pre-defined level of capital protection.

Growth

Growth products aim to return a growth payment and a pre-defined level of capital protection at maturity of the investment, this investment can provide the opportunity for larger gains than similar income based notes.

Capital Protected

Structured products can also be designed for investors seeking high levels of capital protection with a guaranteed return and an opportunity to participate in stock market growth.

Autocall

All of the above shapes have regular opportunities to mature early returning both capital and income (the 'autocall' feature).

The Classic Autocall

An auto-callable (or 'autocall') product is a fixed term investment which can automatically mature prior to the scheduled maturity date if certain pre-defined conditions are met. The product is designed to offer a pre-determined coupon over a fixed term, based on the underlying asset being above its initial strike level on any given pre-determined observation date.

The criterion for deciding whether the product autocalls is whether the specific underlying is above a predetermined trigger level (the autocall level). This autocall test is usually carried out on a set of pre-defined dates (for example, annually, quarterly, etc.). If a product is autocalled, the investor normally receives a pre-determined coupon along with the capital on that autocall date.

Most autocall products incorporate a protection feature so that, if the autocall trigger has not occurred before the scheduled maturity date, the invested capital benefits from a level of protection. The performance of the underlying in relation to the protection barrier level will determine how much capital is protected and so how much will be returned at maturity.

The diagram below demonstrates how a simple autocall product linked to an index operates. For illustration purposes only, it is assumed that a single index and final level (European-style) barrier have been used. In this example of a five-year semi-annual autocall investment, the autocall barrier is 100%. Consequently the investment autocalls if the underlying index is above its original start level on any of the semi-annual autocall observation dates. The coupon of x% is paid if the product calls on the first observation date, two times x% if the product autocalls on the second date and so on up to and including the maturity date. Should the index level be below the protection barrier level (set at 50%), then capital will be at risk and will be reduced on a 1-for-1 basis.

How the Investment works:

First Observation 12 Months →	**Are all Underlyings at or above 100% of their initial levels?**	**Yes** →	**Early Maturity = Full capital returned Plus a coupon for each half year elapsed.**
	↓ **No = Investment Continues**		
Observations 2 to 10 →	**Are all Underlyings at or above 100% of their initial levels?**	**Yes** →	**Early Maturity = Full capital returned Plus a coupon for each half year elapsed.**
	↓ **No = Investment Continues**		
Final Observation →	**Are all Underlyings at or above 100% of their initial levels?**	**Yes** →	**Full capital returned = Plus all accumulated coupons for each half year elapsed.**
	No →		**Full capital repaid if all are above 50% of initial levels.** **If any are below 50%, capital is reduced on 1-for-1 basis in-line with the worst performing Underlying.**

Memory Income Autocall

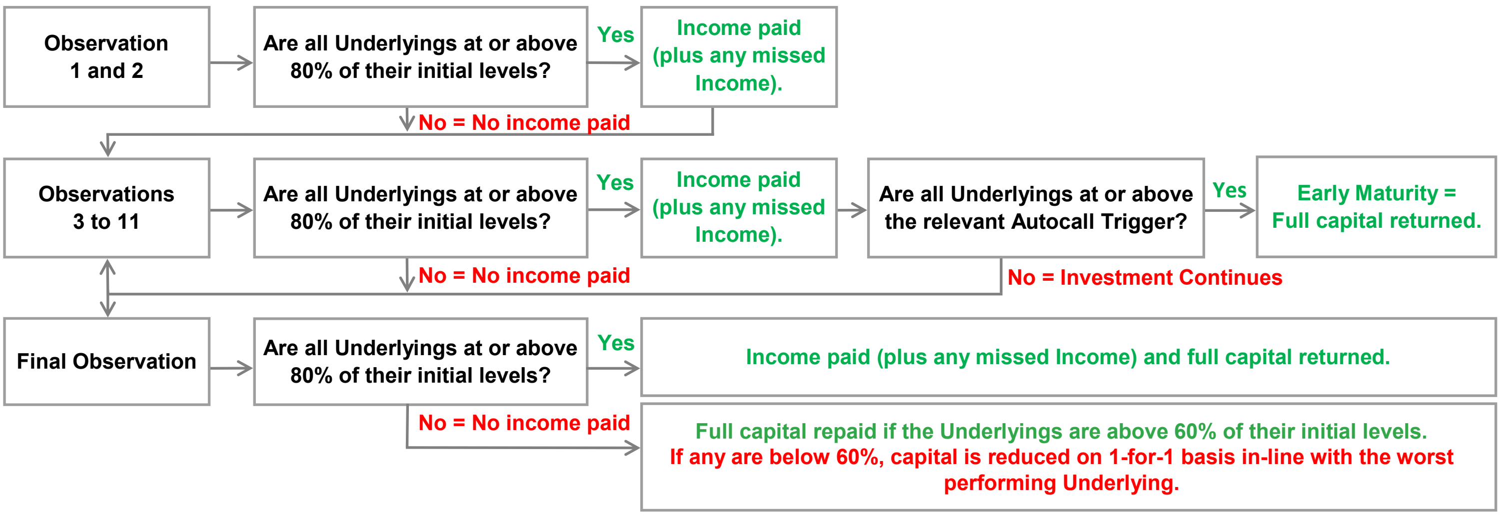
A step on from the Income Autocall is a note that includes the Memory Feature on the income. This feature has become increasingly popular as it increases the probability of the investor receiving a higher number of income payments.

The rest of the features of the note are the same as the Income Autocall. A structured product based around the classic autocall with the difference being it provides the opportunity for regular income payments across a fixed term. The product is also known as a Phoenix and like the classic autocall has the benefit of a possible early maturity.

The payment of the income is conditional upon the underlying being at or above a specified level. An example would be that the income payment would be triggered where the level of the underlying at the observation date was at least 80% of the initial level. Should this not be the case then no payment is made. The added benefit of the memory feature means that any income previously unpaid will be included when the income trigger is next activated.

The diagram below demonstrates how the investment works based on a 6 year Semi-Annual Memory Income Autocall note. (First autocall observation at 12 months). Income Trigger: 80% of initial level, Autocall Trigger: 100% of initial level, Capital Protection Barrier: 60% Final Level (European style).

How the Investment works:



Adding Value to a Portfolio

- Provide a set outcome from the start – if X happens you get Y
- Headline Rates – helps investor focus
- Can provide regular income payments
- Daily Liquidity – if you need to sell out early you can
- Can be designed to produce a suitable level of income or growth at a reduced level of risk
- Provide strong levels of capital protection in exchange for capped returns
- Potential for a positive return in ALL market conditions
- Offer re-investment opportunities if a note matures early

The Emotions of Investing

Key phrases found on IDAD Factsheets

Issuer and Counterparty:	The name of the Bank that is issuing the note
Credit Ratings:	Rating given by Credit Rating Agencies, one of the factors used to gauge issuer risk
Maximum Term:	Maximum number of years the note will run for if it doesn't autocall early
Investment Term:	Type of note, i.e. Semi-Annual Memory Income Autocall
Autocall:	An investment where there are opportunities for the investor to receive capital back early (subject to certain conditions)
Autocall Opportunities:	The frequency in which the structured product can 'autocall'
Autocall Trigger:	The level at which an underlying needs to be in order for the structured note to 'autocall'
Income Trigger:	The percentage of income that is potentially due to be paid (sometimes includes a memory feature)
Income Rate:	The level at which an underlying needs to be in order for the income payment to be paid
Memory Feature:	Where income previously unpaid, will be included when the income trigger is next activated
Capital Protection Barrier:	Provides a fixed level of protection at maturity i.e. a 60% Final Level (European barrier) means that the underlying has to fall by more than 40% before any capital is at risk
Underlying Basket:	The indices or stocks that make up the investment
Subscription Period:	The length of time the note is open for new trades
Issue Price:	The price paid for the note; all IDAD notes are purchased at 100%
Strike Date:	The start date of the note and the date that the levels are recorded to be used for observation dates
1st Coupon Observation:	The first date at which the note can potentially qualify for an income payment
1st Autocall Observation:	The first date at which the note can potentially return the investors capital back to them
Final Observation:	The final opportunity ahead of maturity date for the note to qualify for early maturity
Maturity Date:	The end date of the note (if it hasn't already autocalled)
ISIN:	Structured product identifier number to be used on your trade instruction

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