Out of the Ordinary®
Investec
Structured Products

PRIIPS KID Guide

Q: What is PRIIPS?

From 1 January 2018, manufacturers and distributors of Packaged Retail and Insurance Based Investment Products (PRIIPs) will have to comply with EU Regulations on Key Information Documents (KID) for PRIIPs. These regulations were passed by the European Parliament on 26 November 2014. The regulations oblige manufacturers and distributors of products that fall under the regulations to produce and provide a pre contractual disclosure document (which must meet very specific requirements) that clearly describes, amongst other things, the product features and risks to retail investors before they invest.

Q: What category of PRIIP do Structured Products fall under?

Structured Products fall under category 3, defined by the regulator as:
Reflects prices of investments but not as a constant multiple of the prices with history of two years of daily pricing, four years of weekly pricing or five years of monthly pricing (or with suitable proxies available)

Q: What is the Summary Risk Indicator (SRI)?

A summary risk indicator, displayed as a number between 1 and 7, represents the combined market risk and credit risk of the product. Prescribed methodologies for calculating the market risk measure (MRM) and credit risk measure (CRM) are specified by the regulator.

The MRM requires a stochastic calculation with a minimum number of 10,000 simulations. It uses a bootstrapping technique whereby individual simulations are selected randomly from the daily returns over the five-year history. These are used to project the value at maturity. The value at the 2.5th percentile of outcomes is chosen as the VaR and this is converted to a VaR equivalent volatility (VEV) and assigned to an MRM according to the below table. The CRM is based on the median LT issuer rating of the Issuer.

MRM	Annualised Volatility (VEV)
1	<0.5%
2	0.5% - 5%
3	5% - 12%
4	12% - 20%
5	20% - 30%
6	30% - 80%
7	>80%

Q: Why does a product issued by Investec Bank plc have a minimum SRI of 3?

- The MRM is based on the annualised volatility of the product. The higher the annualised volatility, the higher the MRM.
    - Structured deposits: MRM = 2
    - Structured investments paying income: MRM = 3
    - **Structured investments with 60% european barrier: MRM = 4 and above
- The CRM is based on the median LT issuer rating of the Issuer.
    - Investec Bank plc is rated BBB+ by Fitch which corresponds to a CRM of 3.

- As shown below, the overall SRI score for an Investec issued structured product will always be a minimum of 3.
- If an issuer is rated A- or above, this corresponds to a CRM of 1 or 2; this means the SRI will equal the MRM.

Summary Risk Indicator

	MRM						
	1	2	3	4	5	6	7
CRM							
1	1	2	3	4	5	6	7
2	1	2	3	4	5	6	7
3	**3**	**3**	**3**	**4**	**5**	**6**	**7**
4	5	5	5	5	5	6	7
5	5	5	5	5	5	6	7
6	6	6	6	6	6	6	7

**The exception is a structured investment with a 50% european barrier, which results in an MRM = 2

Q: What do the performance scenarios mean?

The scenarios relate to how the product performs rather than how the market performs. This means that for Kick-Out products, the favourable scenario does not necessarily reflect a bull market; it reflects a high product return.

For example, the highest possible return for the below Kick-Out product = 60% at Year 6. The regulation requires that the 90th percentile outcome is selected for the favourable scenario which corresponds to a return of 50% at Year 5. The KID does not show the probability of these outcomes occurring.

Scenario	Percentile	Outcome (based on 10,000 outcomes ranked from worst to best)
Stress	5th	The 500th outcome for the other periods
Unfavourable	10th	The 1000th outcome
Moderate	50th	The median or 5000th outcome
Favourable	90th	The 9000th outcome

Maturity	Level of Underlying compared to its starting level	Return	Return based on an investment of £10,000	KID Performance Scenario
Year 1	Higher than 100% of its starting level	10%	£11,000	
Year 2	Higher than 100% of its starting level	20%	£12,000	Moderate
Year 3	Higher than 100% of its starting level	30%	£13,000	
Year 4	Higher than 100% of its starting level	40%	£14,000	
Year 5	Higher than 100% of its starting level	50%	£15,000	Favourable
Year 6	Higher than 100% of its starting level	60%	£16,000	
Year 6: initial investment back only	Lower than 100% of its starting level	0%	£10,000	Unfavourable
Year 6: Capital loss in the event the 60% barrier is breached.	Lower than 60% of its starting level	-45%	£5,500	Stress

Q: Why do some performance scenarios show N/A?

In the case of Kick-Out products, a product may mature early (ie. prior the end of the recommended holding period). The timing of the maturity is shown in the Duration column of the table, with the corresponding maturity value shown in the Maturity column. In cases where the product matures before the intermediate period, as labelled in the middle column, a performance scenario does not exist for this period and therefore this is shown as N/A.

For example, the product in the above table matures in year 2 under the moderate scenario. This means that there is no performance for the intermediate period of 3 years under the moderate scenario. This would result in N/A being shown.

Q: What is included in the Total costs?

Total costs are equal to the sum of the upfront entry costs already priced into the product (ie. not deducted from the initial investment) and the exit penalty charged if the product is cashed in early. Any further costs will be disclosed by the distributor/adviser.

Q: What does the (RIY) Reduction In Yield mean?

- This is the reduction in annual return over the period that is equivalent in overall effect to the erosion of value due to Total Costs.
- The RIY assumes that both the return the product will pay, and the duration of the product, are according to the moderate performance scenario.

Q: Why are the entry costs in the Composition of Costs table different to those in the commentary below the table?

- The entry costs disclosed in this table are a repetition of the RIY at maturity.
- The entry costs disclosed in the paragraph below the table refer to the upfront costs as a percentage of an initial investment of £10,000. This is used to calculate the RIY.