Investec
Wealth & Investment

Structured Products Service

Introduction

Investec Wealth & Investment (IW&I) has developed the Structured Product Service to meet the needs of our clients where it is appropriate to manage a portfolio which is comprised 100% of structured products. All portfolios are centrally managed by an IW&I specialist structured products team. Clients can choose from pre-determined portfolio mandates to best reflect their personal circumstances, risk appetite and investment objectives.

What Is A Structured Product?

A structured product is comprised of a:

- **Zero-Coupon Bond**, which pays no income, but is issued at a discounted price.
- **Derivatives Strategy**, which in the context of structured products, typically involves selling 'put' options to generate a positive return. Alternatively a combination of options may be used to generate a particular risk/return profile.

Given their composition, there are various risk parameters which will impact the price of a structured product. The key determinants of price will include; changes in bank credit spreads, movements in the underlying markets, options volatility levels and interest rate changes.

Structured Products – Investment Benefits

A structured product provides a defined return over a fixed period and the potential for a positive return in rising, flat or falling markets. Compared to investing in direct equities or bonds, structured products can help to provide an alternative risk/reward investment profile.

An element of capital protection is often built in, although few structured products offer 100% capital protection.

The secondary market for a structured product is provided by the issuing bank, who will offer real-time pricing and a bid/offer spread around the mid-price which is typically circa 1%.

With regards to taxation, the majority of structured products are subject to Capital Gains Tax (CGT) on any profits, rather than Income Tax, and are eligible for ISA/SIPP wrappers.

Structured Products – Investment Risks

Although structured products offer a degree of capital protection, no investment (including any structured product) can be regarded as free of all risk.

Most structured products represent the senior unsecured debt of a single financial institution, (i.e. they represent a loan to that company). If an underlying bank enters bankruptcy, it could mean that investors in a structured product backed by that bank could lose 100% of their invested capital. Investors in structured products will not be protected by the Financial Services Compensation Scheme in the UK in the same manner as other investments (e.g. bank deposits).

With regards to secondary market trading, it is possible that in a highly volatile environment bid/offer spreads could widen. In addition, supply in the secondary market for a particular structured product can become exhausted, making additional purchases in any size difficult or impossible.

Finally, current tax treatment of structured products is fairly clear. However, tax rules can change, and there can be no guarantee on future tax treatment.

Structured Products – Portfolio Management at IW&I

In order to optimally construct a 100% structured products portfolio, the following key diversification considerations are made by IW&I:

- Credit risk, including the use of collateralised financial instruments (e.g. structured products backed by UK Gilts).
- Interest rate risk
- Market risk
- Volatility risk

In addition to this, we will only invest in structured products which:

- Are on the IW&I Buy List or structured products that have gone through the same due diligence process and will subsequently be added to the IW&I Buy List.
- Have a liquid secondary market.
- Have ‘European’ rather than ‘American’ capital protection barriers.

All investment within the IW&I Structured Produce Service must be made in cash, as we are unable to accommodate in specie investments.

Structured Products Service

What Are The Key Benefits The Structured Products Service Can Offer Our Clients?

- Portfolios will be managed by a dedicated specialist team with a notable level of experience and knowledge of derivatives and bank credit, the two key components of any structured product. The team understands how to optimally design structured products, construct and manage portfolios with 100% structured products and factor in the changing risk parameters of each structured product over its life cycle.
- We adopt an active rather than passive approach to structured product portfolio management as, contrary to popular perception, structured products are not simply 'buy and hold' investments. The management and trading of structured products can help to maximise returns and minimise risk.
- Clients of the service will be able to access a range of high quality structured products selected by the structured products team following the completion of our rigorous due diligence process. Unlike many of our competitors we do not buy 'off the shelf' structured products preferring to construct these in conjunction with leading issuing counterparties.
- Clients will be able to gain access to the 'Institutional' rather than the 'Retail' structured product market, which offers the following key advantages:
  - Substantial cost savings, given that the fees charged in the 'Retail' market are materially higher compared to the fees charged in the 'Institutional' market.
  - Access to structured products which have liquid secondary markets (unlike structured products traded in the 'Retail' market, whereby an investor's money is often 'locked-in' for a multi-year period).

What Portfolio Mandates Are Available For Clients?

Option 1: Defined Returns Structured Product Portfolio (Medium/High Risk):

The portfolio will consist of structured products that are intended to provide a positive return in multiple equity market scenarios, although returns are likely to be negative if equity markets fall substantially (40% to 50%+) and do not recover over a period of time. The sensitivity of the portfolio to the underlying equity markets (Delta) will be between circa 35% to 75% at the initial investment stage. The target return, net of management fees, is UK Base Rate plus 3%.

Minimum Investment: £250,000

Option 2: Diversified Growth Structured Product Portfolio (High Risk):

The portfolio will consist of a range of structured products that are intended to provide greater potential for capital growth (compared to Option 1), but the level of risk is also greater. The sensitivity of the portfolio to the underlying equity markets (Delta) is likely to be nearer the top end of the circa 35% to 75% range at the initial investment stage (and perhaps even greater than 75%). The target return, net of management fees, is UK Base Rate plus 4%.

Minimum Investment: £250,000

Bath	01225 341580	**Edinburgh**	0131 226 5000	**Liverpool**	0151 227 2030
Belfast	02890 321002	**Exeter**	01392 204404	**London**	020 7597 1234
Birmingham	0121 232 0700	**Glasgow**	0141 333 9323	**Manchester**	0161 832 6868
Bournemouth	01202 208100	**Guildford**	01483 304707	**Reigate**	01737 224223
Cheltenham	01242 514756	**Leeds**	0113 245 4488	**Sheffield**	0114 275 5100

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