The Classic Autocall

Explained...

An Autocall is a fixed-term structured product linked to one or more underlying assets, typically stocks or indices. It offers predefined coupons and may mature early (autocall) if certain conditions are met.

An autocall product incorporates the possibility to be reimbursed early if the value of all the underlyings climbs above a certain threshold - the trigger level (typically 100%). This would occur on a scheduled observation date outlined in the product terms – for example it may be every 6 months after the strike date. If a product is autocalled, the investor will receive a pre-determined coupon along with the capital on that observation date. Refer to Example 1 below for when this happens.

If the product hasn't autocalled before the final maturity date, all the coupons due will be paid if the underlyings are then all above the trigger level, and full capital is returned. Otherwise, just the capital is returned in full, unless one of the underlyings has dropped below the Barrier level, then capital return will be reduced on a 1-for-1 basis based on the worst performing underlying. For example, if the Barrier is set at 60% and the worst performing Underlying had fallen to 40% of its original level, 40% of the capital will be returned.

So, what can happen to the product during its life?

1. The underlying(s) are above the autocall trigger level at any observation date during its lifetime and so the product matured early and autocalled. This means all the capital is returned plus the coupons the product had accrued since the strike date.

If the autocall trigger is not met, the product continues to accumulate coupons until maturity. At maturity, three outcomes are possible, based on the performance of the worst-performing underlying in the basket:

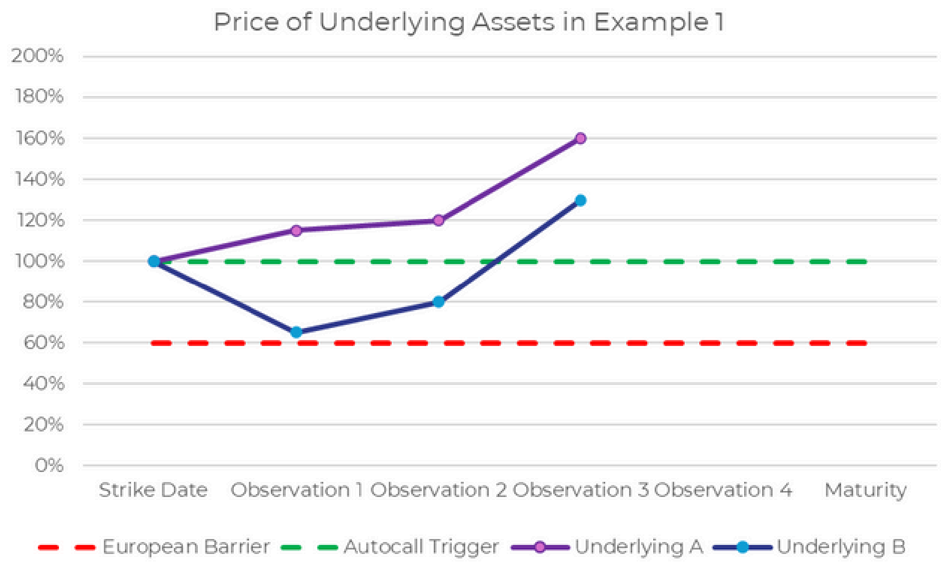
2. All underlyings above the strike level: The investor receives the full notional plus all accrued coupons.

3. At least one underlying below the strike level but none below the European Barrier: The investor receives the full investment amount back, but no coupons.

4. At least one underlying below the European Barrier: Capital is at risk. The final capital return will be reduced on a 1-for-1 basis in line with the worst-performing underlying asset.

Examples: Consider a Classic Autocall structured product with 2 underlying assets (A and B) that delivers a coupon rate of 10% p.a. and an initial investment of £10,000. The strike date is 10/03/2025 with observation dates annually for 5 years until the final observation date which coincides with the maturity date, 10/03/2030. We will now investigate the 4 different scenarios that can occur during the products life. The product will have a typical 100% autocall trigger level and a 60% European barrier.

Example 1: All the underlying assets are above the autocall trigger level before maturity

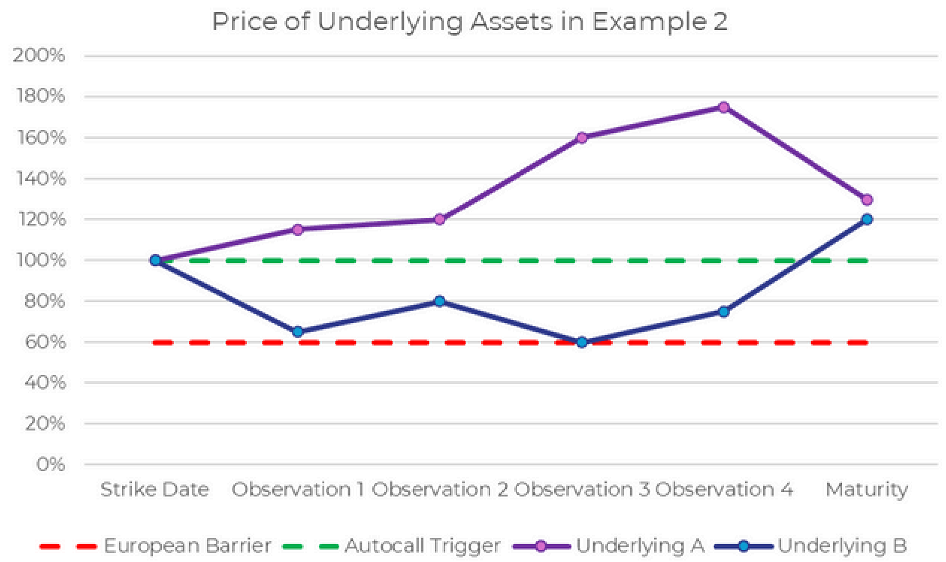


Despite the product not reaching maturity, on Observation date 3, both underlyings were above the autocall trigger level which means the product will autocall and the return will be:

3 coupons + capital returned = 100 + (3 × 10) = 130%

In the majority of our structured products, the autocall triggering before maturity is the most common scenario.

Example 2: All the underlying assets are above the autocall trigger level at the final observation date

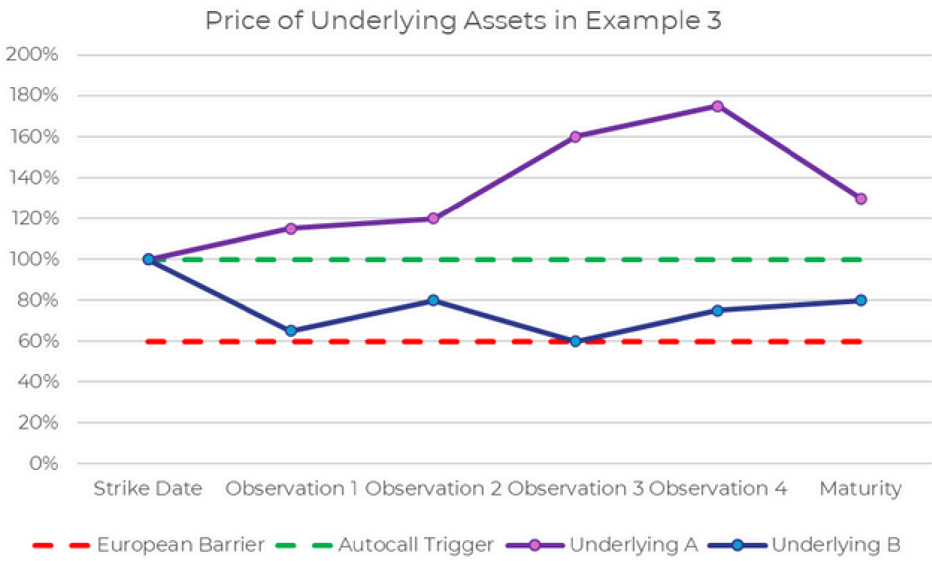


Note: This structured product only autocalls when both underlying assets are above the autocall trigger.

In this scenario, the return will be:

All coupons + capital returned = 100 + (5 × 10) = 150

Example 3: All the underlying assets are above the barrier at maturity

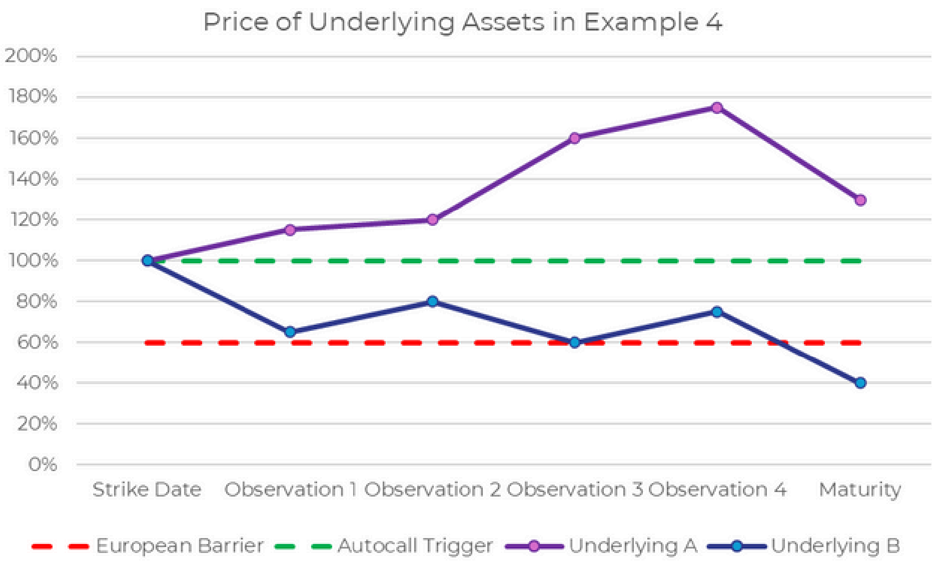


The caveat with this example compared to the last is that none of the recorded observation dates had both underlyings above the trigger level. This means the return will be:

Capital returned = 100%

Example 4: Any of the underlying assets are below the barrier at maturity

Now, we look at the worst-case scenario where at least one of the underlying assets is below the Barrier at maturity.



The worst performing underlying asset has depreciated by more than 40%. The barrier has been breached and the return is now on a 1-for-1 basis of the worst performing underlying asset:

Worst performing underlying asset is at 40% of its price at inception which means the return will be:

Capital returned = 40%