Structured Products

Short Term

We're often asked for short-term structured products and generally we suggest investment options that may have longer terms – although often still with the possibility of early auto-calls to 'lock-in' gains. The reason for this approach may not always seem apparent, but perhaps the easiest way to look at it is by comparing the same structured product with a maturity of 1 year and 6 years.

Example:

Our assumptions will be as follows:

- **Underlying Indices:** S&P 500 and FTSE 100
- **European Barrier:** 60%
- **Autocall Trigger:** 100%
- **Coupon:** Paid annually if autocalled

Note: This is for illustrative purposes only and may not reflect prevailing pricing conditions.

Feature	1-Year Autocall	6-Year Autocall
Maturity	1 year	up to 6 years
Return	6-8%	9-12%
Market Exposure	Short: More sensitive to short term events	Long: More time for recovery & growth
Autocall Observation	The observation will be at maturity	Observed yearly for 6 years - a higher probability to autocall
Capital Protection	Limited opportunity for market to recover	Longer period allows for recovery, if market dips temporarily
Cost Efficiency	Lower fees but fewer years to justify cost	Better amortisation of fees over time
Best Case Scenario	Market is above 100% at maturity = coupon & capital back	Product autocalled early or matures at year 6 with all the coupons paid & capital returned
Worst Case Scenario	Market down more than 40% at maturity = Capital loss	Market down more than 40% at maturity = Capital loss

- The return on a 1-year autocall is typically lower because the issuer holds the investor's capital for a shorter period. From the bank's perspective, having access to funds for up to 6 years is more valuable than holding them for just one. As a result, longer-term structured products usually offer more attractive potential returns to reflect the extended commitment of capital.
- Markets are volatile in the short term. If the underlying indices drop temporarily, a short-term product might fail to trigger a positive outcome (e.g., autocall or capital return), even though markets may recover shortly after.
- You don't get the benefit of mean reversion or long-term upward trends in equities.
- Structuring fees and commissions have less time to be justified or 'absorbed' into returns in a 1-year term compared to a 6-year term.