Intoduction to Structured Products

What is a structured product?

A structured product is a pre-packaged investment that combines traditional assets, such as bonds or deposits, with derivatives to deliver a return based on the performance of an underlying asset – typically indices, stocks, or other market benchmarks.

The potential return and the level of capital at risk are defined in advance. Payoff profiles can be designed to capture various market premiums – including equity and volatility – while maintaining control over risk exposure.

Structured products are tailored to meet a specific investors' objectives and can offer features such as upside participation with partial or full downside protection.

Benefits to Investors

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.

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 within an investor's portfolio.

Types of Structured Products

Whilst there are a variety of product shapes available to investors, the most common shapes are autocall ('kick-out'), income, growth and capital protected.
This section lays out the fundamentals for understanding these different types of structured products.

Autocall

An autocall product is a fixed term structured product which can automatically mature prior to the final maturity date if predefined 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.

Autocallable structured products are by far our most popular structured products, and so in order for you to feel most informed, there are separate documents (that you can find in the same place as this document) that go into more detail – please refer to these if needed.

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.

Below are the common variations of an income structured product:

Fixed income: A fixed income is paid every period regardless of performance in the underlying(s)

Conditional Income/Phoenix Income: Income is paid after each pre-determined observation point if the underlying(s) is/are at or above a certain level.

Memory/Catch-up Coupons: The memory feature in a structured product is a very attractive addition to an income product. If, for example, there are 10 observation dates and the first 5 are below the coupon trigger level, the investor will have received no additional income during the period of the structured product. However, if on the 6^{th} observation date, the coupon trigger level is achieved, all the missed coupons will be paid.

Growth

A growth product is designed to deliver a lump sum at maturity and it is typically suited to investors with a bullish market view who expect the underlying to rise.

An example of a growth structured product is one that offers participation in the growth of the underlying investment and is designed to pay a multiple of any percentage rise in its value. A product with a participation rate of 200% linked to the S&P 500 index, for example, would receive 2% growth for every 1% rise in the S&P 500 index. This type of product may sometimes have a cap on the maximum investment return, or be 'callable' early at the discretion of the issuer in return for a fixed annual amount.

The growth feature is also very common in our autocall structured products, which typically have a snowballing coupon. This is the feature where if the first 3 observations, say, are below the autocall trigger, but the 4^{th} breaches it, then the product will autocall and the investor will receive their full capital + 4 coupons.

Capital Protected

A capital protected product is equivalent to a bond but also gives investors the ability to profit from the equity risk premium without being fully exposed to the downside risk associated with investing in stocks.

A capital protected structured product offers full protection from downside risk and some participation to the upside potential of the underlying. Specifically, if the underlying appreciates over the life of the product, the investor is paid back the notional and participates to the positive performance of the underlying. However, if the underlying investment falls in value, the investor recovers the invested capital in full.

The only risk is the possibility of a bank defaulting, if that were to happen the investor's capital could be partially or completely lost.