STRUCTURED PRODUCTS

CASTLEFIELD

THE THOUGHTFUL INVESTOR

STRUCTURED PRODUCTS

What are they?

Structured products are investment tools designed for retail and institutional investors alike. They have numerous benefits, including the potential for capital protection, risk/return profile optimisation and diversification.

Structured products must contain at least two components, typically a bond and a financial derivative. The bond forms the legal instrument bought and sold by investors. The derivatives are used to define the strategy of the note and deliver the final pay-off to investors. The most commonly used type of derivatives used for structured products are Options. By using a combination of options in a single product, investors can access investments with a tightly defined profit and loss profile. This allows investors to access markets in a substantially de-risked way and potentially even benefit when the chosen asset class declines in value. Issuers can provide a range of common strategies including Autocalls, synthetic zeros, range accruals, reverse-convertibles and participation notes.

AUTO CALLABLE NOTES

What are they?

Auto-calls are one of the most common strategies used within structured products. These products reference an underlying asset, usually an equity index. They have a defined maximum maturity plus "Observation dates" at regular intervals throughout the life of the note. The product is "called" i.e. redeemed early by the issuer, along with the accrued coupons up to that date, if the reference asset is at or above a pre-determined level on one of the observation dates. If the reference index is below the observation level, the product continues for another year up until the next observation date or the final maturity date. It is possible to set an observation level that declines each year, increasing the chances of an early auto-call. This also means that the product can generate profits even when the underlying asset has fallen in value. Unlike a direct investment in the reference asset, the appreciation potential in autocallable notes is limited to the premium or coupon amount albeit with the advantage of capital protection to a certain level.

Example: 6-YR Auto callable Note with Decreasing Strike

Autocall coupon: 7.70%

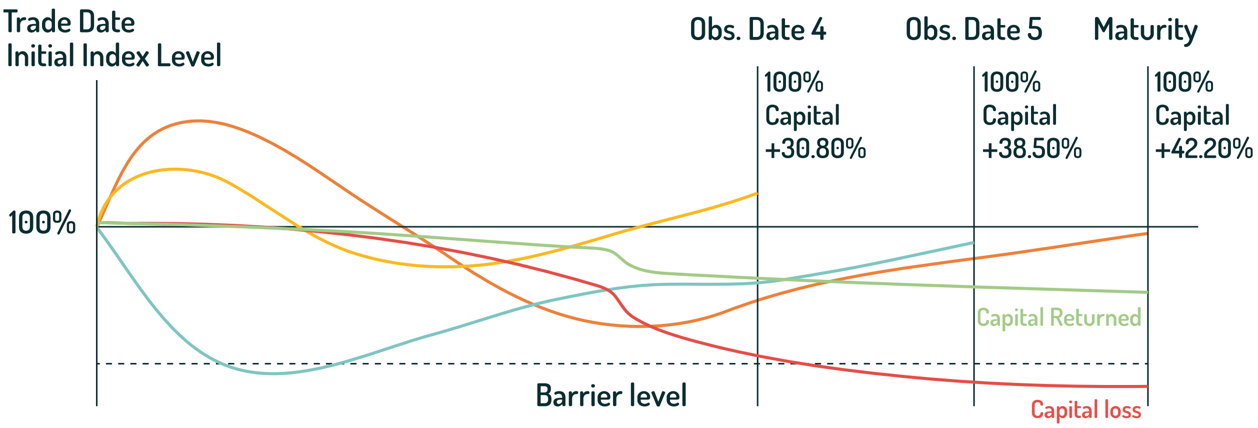
Capital Protection barrier: 60%

OBSERVATION DATE	AUTOCALL STRIKE	REDEMPTION PRICE
1 (12 months after trade date)	100% x INDEXinitial	107.70%
2	100% x INDEXinitial	115.40%
3	90% x INDEXinitial	123.10%
4	80% x INDEXinitial	130.80%
5	75% x INDEXinitial	138.50%
6 (Maturity)	70% x INDEXinitial	142.20%

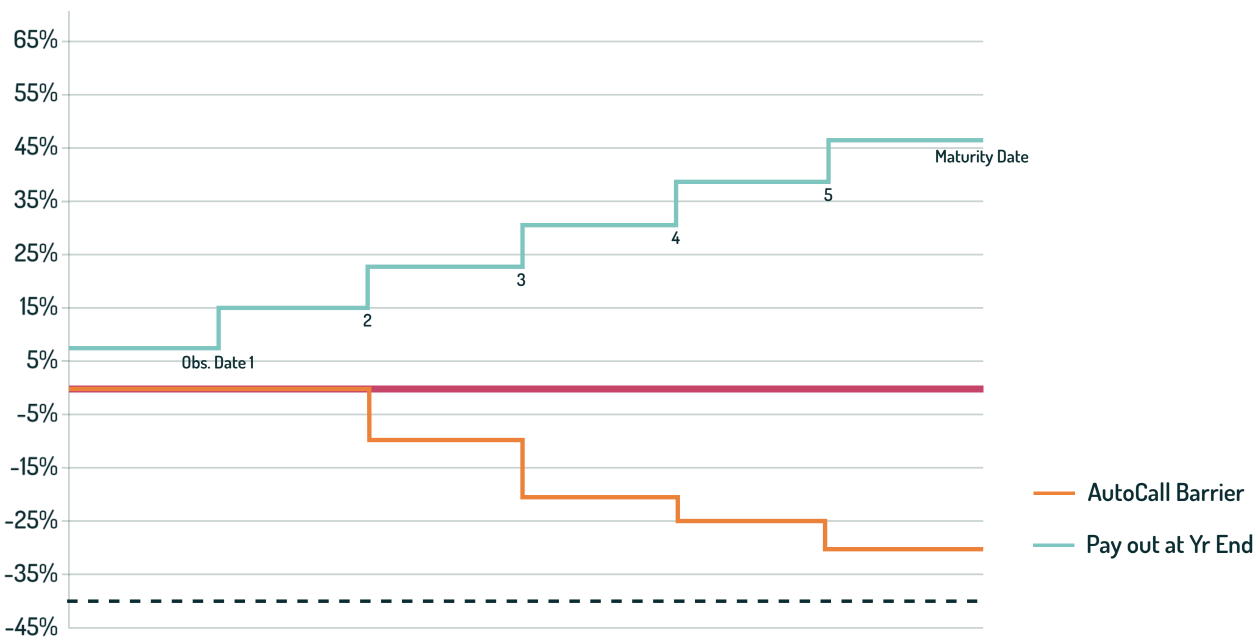
REDEMPTION PRICE AT MATURITY

On maturity, if the Notes have not redeemed early, the Redemption Price depends on the performance of the underlying:

- If on Final Valuation Date the official closing level of the Index is greater than or equal to 70% of its initial level, the notes will redeem at 142.20% of the Denomination.
- If on Final Valuation Date the closing level of the Index is greater than or equal to 60% of its initial level, the notes will redeem at 100% of the Denomination.
- If on Final Valuation Date the official closing level of the Index is lower than 60% of its initial level, the investment falls 1% for every 1% fall in the Index.



Example: Autocall – 7.7% 6 year Pay Out Profile and Barrier Levels



Source: Castlefield

CAST
LEFI
ELD

THE THOUGHTFUL INVESTOR

8th Floor
111 Piccadilly,
Manchester M1 2HY
0161 233 4890
castlefield.com

TNRRSP/050320

EMPLOYEE OWNERSHIP