

The Classic Autocall



DEFINITION

The Classic Autocall product is a fixed term investment which can mature early, meaning investors can potentially receive their capital back before the note reaches its full term i.e. 6 years. An autocall will take place if a specific underlying is above a pre-determined trigger level. Within the note there will be set observation dates where the autocall event can take place. For each investment the observation dates should be clearly stated on the factsheet. The frequency of the observation dates can vary however, the most common periods tend to be, quarterly, semi-annually or annually.

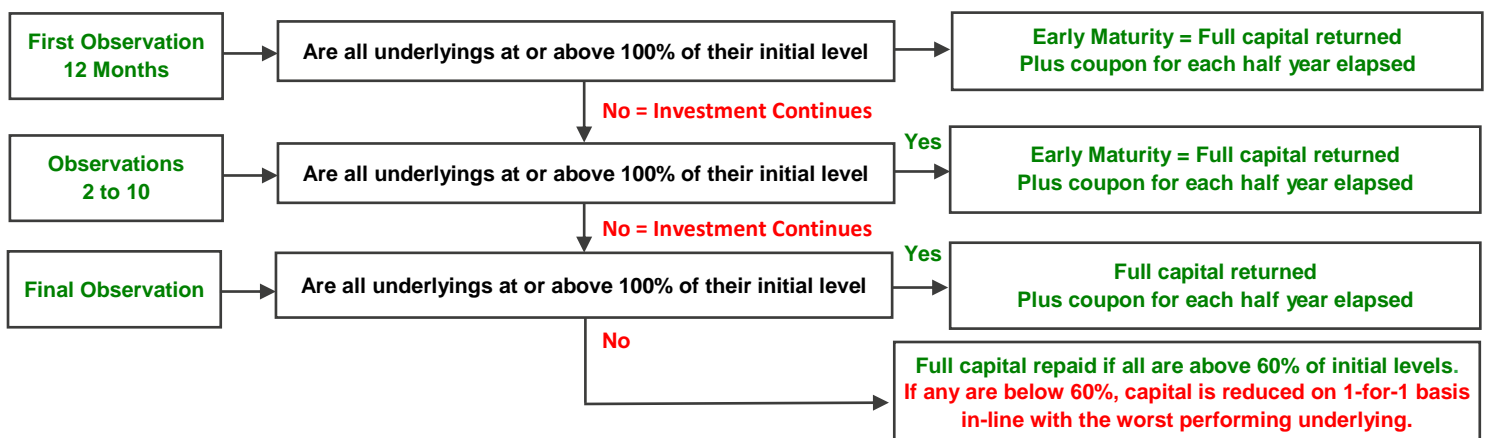
In addition to the opportunity for capital back early, the autocall note is also designed to offer the investor a coupon payment over a fixed term. Again, this is based on the underlying asset being above its initial strike level on the set observation dates. If the note does autocall, the investor can expect to receive their capital back along with the appropriate coupon payment. If the note does not autocall at the first observation date but later qualifies at a subsequent observation date, the coupon will 'snowball' which effectively means the coupons will 'roll up' and be paid in a lump sum when the note autocalls.

Most autocall products incorporate a protection feature so that, if the autocall trigger has not occurred before the scheduled maturity date, the invested capital benefits from a level of protection. The performance of the underlying in relation to the protection barrier level will determine how much capital is protected and so how much will be returned at maturity.

The diagram below demonstrates how a simple autocall product linked to an index operates. For illustration purposes only, it is assumed that a single index and final level (European-style) barrier have been used. In this example of a six year semi-annual autocall investment, the autocall trigger level is 100%.

Consequently the investment autocalls if the underlying index is 100% of its initial level on any of the semi-annual autocall observation dates, first autocall opportunity at 12 months. The coupon of x% is paid if the product calls on the first observation date, two times x% if the product autocalls on the second date and so on up to and including the maturity date. Should the index level be below the protection barrier level (set at 60%), then capital will be at risk and will be reduced on a 1-for-1 basis.

HOW THE INVESTMENT WORKS



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