



# Structured Notes Guide

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# Structured Products – An explanation of key phrases found on IDAD Factsheets



<b>Issuer and Counterparty:</b>	The name of the Bank that is issuing the note Rating given by Credit Rating
<b>Credit Ratings:</b>	Agencies, one of the factors used to gauge issuer risk
<b>Maximum Term:</b>	Maximum number of years the note will run for if it doesn't autocal early
<b>Investment Structure:</b>	Type of note, i.e. Semi-Annual Memory Income Autocall
<b>Autocall:</b>	An investment where there are opportunities for the investor to receive capital back early (subject to certain conditions)
<b>Autocall Opportunities:</b>	The frequency in which the structured product can 'autocall'
<b>Autocall Trigger:</b>	The level at which an underlying needs to be in order for the structured note to 'autocall'
<b>Income Rate:</b>	The percentage of income that is potentially due to be paid (sometimes includes a memory feature)
<b>Income Trigger:</b>	The level at which an underlying needs to be in order for the income payment to be paid
<b>Memory Feature:</b>	Where income previously unpaid, will be included when the income trigger is next activated
<b>Capital Protection Barrier:</b>	Provides a fixed level of protection at maturity i.e. a 60% Final Level (European barrier) means that the underlying has to fall by more than 40% before any capital is at risk
<b>Underlying Basket:</b>	The indices or stocks that make up the investment
<b>Subscription Period:</b>	The length of time the note is open for new trades
<b>Issue Price:</b>	The price paid for the note; all IDAD notes are purchased at 100%
<b>Strike Date:</b>	The start date of the note and the date that the levels are recorded to be used for observation dates
<b>1<sup>st</sup> Coupon Observation:</b>	The first date at which the note can potentially qualify for an income payment
<b>1<sup>st</sup> Autocall Observation:</b>	The first date at which the note can potentially return the investors capital back to them
<b>Final Observation:</b>	The final opportunity ahead of maturity date for the note to qualify for early maturity
<b>Maturity Date:</b>	The end date of the note (if it hasn't already autocalled)
<b>ISIN:</b>	Structured product identifier number to be used on your trade instruction

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# AN INTRODUCTION TO STRUCTURED PRODUCTS

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## What is a Structured Product?

A Structured product is a pre-packaged investment which provides a return based on the performance of an underlying asset such as a stock market index or a basket of shares.

The potential return and level of capital at risk is pre-defined at outset. Payoff profiles can be designed to take advantage of rising, falling or range bound markets, and delivered in a way that can be tailored to meet specific investor needs.

This can help investors plan ahead by offering some certainty over a defined period, and who also want some degree of protection over their initial capital.

## Benefits to Investors

With a low interest rate, many investors are no longer able to secure returns in the bank or building society that they would like. Some have sought higher returns from the stock market, but with uncertainty dogging equity markets many have been disappointed, receiving low returns or even losing money.

So what makes structured investments attractive? 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..

## Why choose IDAD?

- **Innovative Products** – market-appropriate new shapes and payoffs
- **Generic Training and Education** – a wealth of experience
- **Transparency** – explaining products made easy
- **Wide Selection of Issuers** – securing best value for investors
- **Central Support** – always here to deal with generic or specific queries

## 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 with an investors portfolio.

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## Type of Structured Products



### 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.



### Growth

Growth products aim to return a growth payment and a pre-defined level of capital protection at maturity of the investment, this investment can provide the opportunity for larger gains than similar income based notes.



### Capital Protected

Structured products can also be designed for investors seeking high levels of capital protection with a guaranteed return and an opportunity to participate in stock market growth.



### Autocall

All of the above shapes have regular opportunities to mature early returning both capital and income (the 'autocall' feature).

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# AN INTRODUCTION TO STRUCTURED PRODUCTS



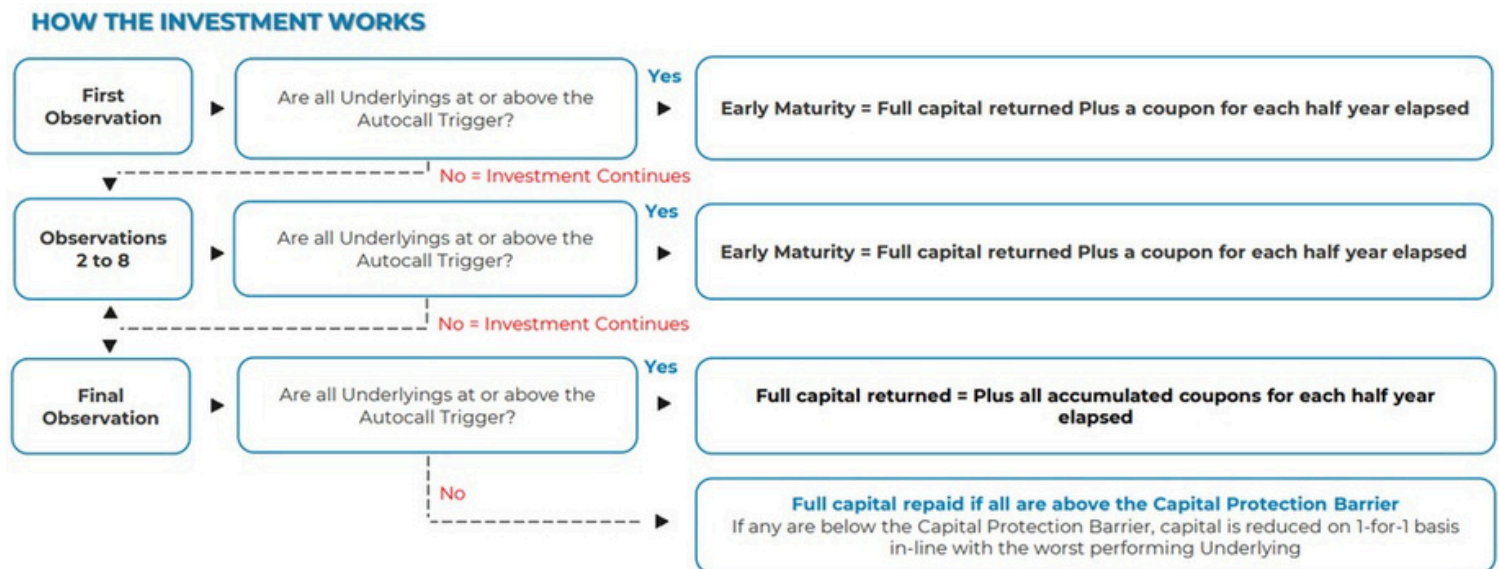
## The Classic Autocall

An auto-callable (or 'autocall') product is a fixed term investment which can automatically mature prior to the scheduled maturity date if certain pre-defined 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.

The criterion for deciding whether the product autocalls is whether the specific underlying is above a predetermined trigger level (the autocall level). This autocall test is usually carried out on a set of pre-defined dates (for example, annually, quarterly, etc.). If a product is autocalled, the investor normally receives a pre-determined coupon along with the capital on that autocall date.

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 five-year semi-annual autocall investment, the autocall barrier is 100%. Consequently the investment autocalls if the underlying index is above its original start level on any of the semi-annual autocall observation dates. 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 50%), then capital will be at risk and will be reduced on a 1-for-1 basis.



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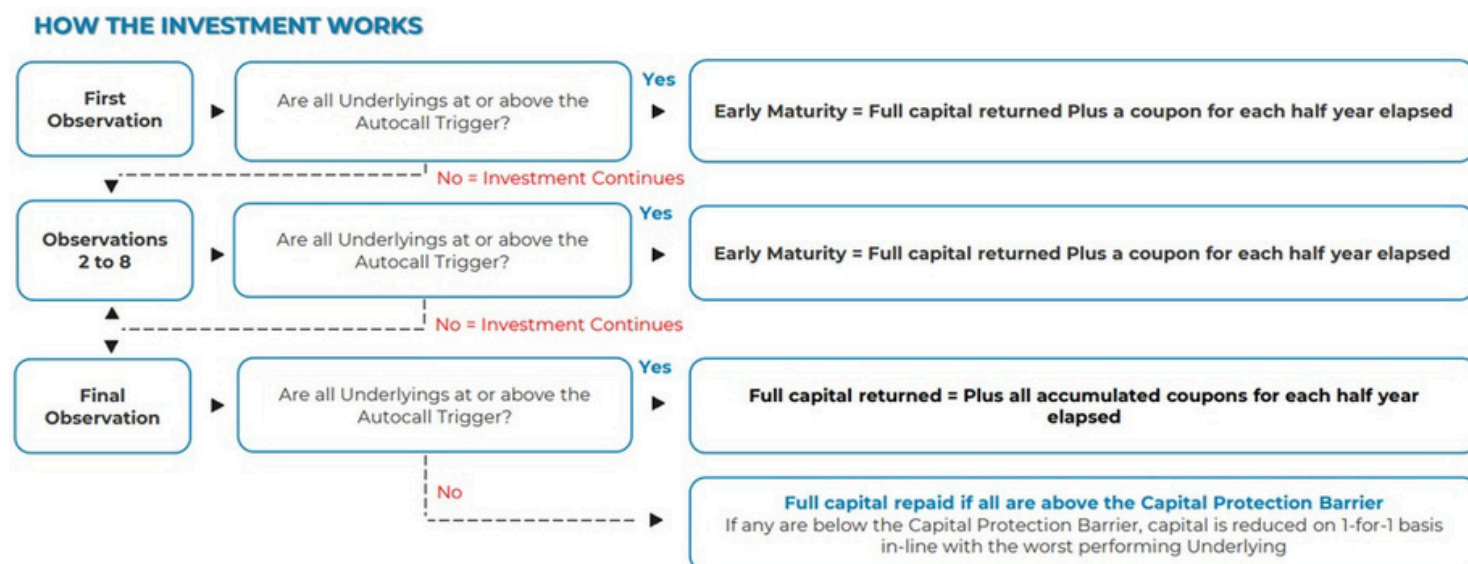


## The Income Autocall

An income autocall product is a structure based around the classic autocall style, which provides the opportunity for regular income payments across a fixed term. The product is also known as a Phoenix and like the classic autocall has the benefit of a possible early maturity.

The payment of the pre-defined coupon is conditional upon the underlying being at or above a specified level. An example would be that the income payment would be triggered where the level of the underlying at the observation date was at least 80% of the initial level. Should this not be the case then no payment is made. As with the classic autocall, the product continues until an early maturity is triggered or full maturity is reached.

The diagram below demonstrates how and when the income payment would be triggered and possible outcomes where the investment is structured as a 3 year investment, with 100% autocall maturity, 80% income trigger and the final level capital protection barrier set at 50%.



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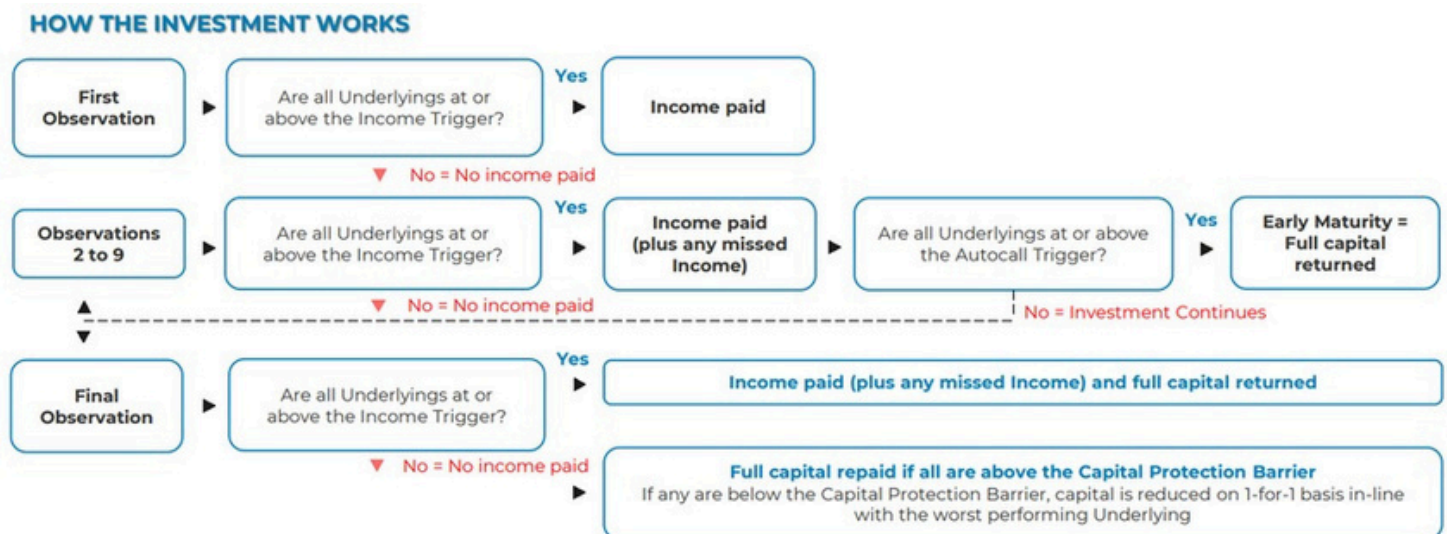
## The Memory Income Autocall

A step on from the Income Autocall is a note that includes the Memory Feature on the income. This feature has become increasingly popular as it increases the probability of the investor receiving a higher number of income payments.

The rest of the features of the note are the same as the Income Autocall. A structured product based around the classic autocall with the difference being it provides the opportunity for regular income payments across a fixed term. The product is also known as a Phoenix and like the classic autocall has the benefit of a possible early maturity.

The payment of the income is conditional upon the underlying being at or above a specified level. An example would be that the income payment would be triggered where the level of the underlying at the observation date was at least 80% of the initial level. Should this not be the case then no payment is made. The added benefit of the memory feature means that any income previously unpaid will be included when the income trigger is next activated.

The diagram below demonstrates how the investment works based on a 6 year Semi-Annual Memory Income Autocall note. (First autocall observation at 12 months). Income Trigger: 80% of initial level, Autocall Trigger: 100% of initial level, Capital Protection Barrier: 60% Final Level (European style).



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## Adding value to a portfolio

- Provide a set outcome from the start – if X happens you get Y
- Headline Rates – helps investor focus
- Can provide regular income payments
- Daily Liquidity – if you need to sell out early you can
- Can be designed to produce a suitable level of income or growth at a reduced level of risk
- Provide strong levels of capital protection in exchange for capped returns
- Potential for a positive return in ALL market conditions
- Offer re-investment opportunities if a note matures early

## The Emotions of Investing

Markets are up 15%  
and you've made  
10%  
HAPPY

Markets are up 1% and  
you've made 10%  
REALLY HAPPY

Markets are down  
30% and you get all  
of your money back  
REALLY REALLY  
HAPPY

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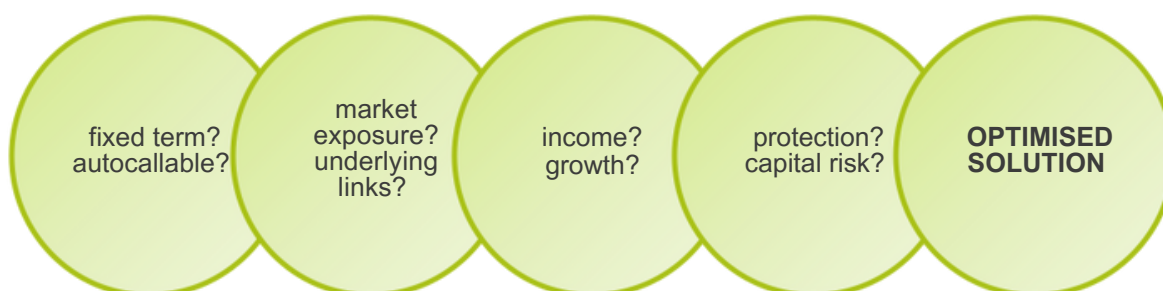
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It was not so very long ago that Structured Products were one of the bad boys of the investment industry. A widespread impression was of people beavering away in the vaults of large financial institutions with a remit to deliver the most complicated investments they could. However the industry has worked hard to dispel this myth and bring respectability to a much maligned investment sector. Great strides have been made in the quality of information and education available leading to a wider understanding and appreciation of the benefits that these investments can bring.

Clients need to invest in all market conditions and there are many views of investment risk. At one end of the spectrum is cash; at the other the more exotic markets, commodities or shares. This risk / reward profile may well differ from client to client but they all have the same desire – a good return on their capital and of their capital, no matter what –surely the ideal investment. In some market conditions achieving that may be relatively easy, but in others it could be well-nigh impossible. Structured products have a flexibility of design that can make squaring that circle just that bit easier, providing solutions to beat both bulls and bears alike.

A structured product will have a defined objective – it may be for income, growth, capital protection or any combination thereof. As a fixed term investment there will be a target date for that objective to be met. The returns offered for any structured product will be a reflection of the risk / reward strategy which in itself will be a reflection of the client's risk profile. A structured product can be created in matter of hours so can snap up opportunities one day that may not exist the next day. And no matter what the markets are like, investment opportunities will exist.



There are a number of long established and well proven structures which form the bulk of the structured product market. Straight participation products which can offer maximum capital protection and cash beating returns; Classic autocalls which can deliver good growth and may return capital before the end of their fixed term; Income products which can provide regular high level coupons across a fixed term. Using the component parts of a structured product it is possible to deliver an optimised and bespoke investment solution as and when it is needed. Innovation is crucial if the industry is to keep up with the ever-changing global market and of course to meet your client's differing wealth needs. For example, we are now "memory" investments which do not require all underlying links to achieve their predefined levels on the same date to trigger an early maturity. Or where shares are as performance links, products which manage the higher risk that shares may have on the final capital return by using the comparatively less volatile performance of an index to identify that capital risk.

With an extensive secondary market now available active management of a client's portfolio can lock-in profits from investments already in the portfolio – or trade in existing risk-aligned notes, where they are attractive priced. Together, the primary and secondary market brings that ideal solution one step closer.

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## Your flexible friend

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The last few years have seen the wide acceptance of structured products as a choice for the many, not just the few. An investment that was initially available only to the offshore investor is now a staple of the UK market. Structures have evolved to meet the ever changing economic climate with a fund of structured products being just one recent innovation. And this flexibility which enables structured products to deliver in many different markets is the key to their success. With a continuing commitment to disclosure, clarity and innovation the structured product solution is one for all seasons.

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# FIVE IMPORTANT THINGS TO LOOK FOR WHEN CHOOSING A STRUCTURED PRODUCT

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When assessing past and present structured products, it is clear that products have been offered that failed to meet investors' expectations. For this reason, it is important that advisers have a clear understanding of what structured products are, and how to evaluate them. Below are the five most important things advisers should look for when determining whether a structured product is right for their client.

## 1. Counterparty Risk

Every structured investment you encounter will probably rely on a single financial institution to deliver the returns offered, in just the same way as a fixed rate deposit does. What this means is that seeking a higher return from a riskier bank may mean that should the bank default, the client could potentially lose some of if not their entire investment. Always be clear on who the counterparty is and what the associated risks are. Product promoters should be transparent and be able to supply you with an up-to-date commentary, including credit ratings, CDS levels and general financial strength.

## 2. Is the pay-off suitable?

If investors are seeking 100% capital protection it is important, they understand the minimum return on such a structure is unlikely to be more that they could achieve in a deposit account or with a fixed rate bond. Advisers should always consider the validity of the investment and express realistic expectations to their clients. Higher returns come with either less probability of achieving them, more risk to capital, or both. It is important to clarify both the level of risk and the probability of achieving the returns offered.

## 3. Scrutinise the risk level of the product's basket of investments

Some structured products are designed which seem to prioritise the level of fees over that of the client returns. As any additional fees will reduce the amount of the client's capital available to deliver the returns, this is an important factor for advisers to consider and fee levels should normally be readily available. In the quest for higher headline rates, products may need to be linked to inherently riskier underlyings. Indices are the most widely used, with the performance of a diverse selection of stocks seeking to manage overall volatility. Stocks are also used more widely now, and it is important that the criterion for the selection is sound. Questions like:

- Is it a strong and reputable company?
- Do market analysts feel the outlook is good?
- Do the analysts have major concerns?
- Is the company involved in discussions about mergers etc.

should be considered. Advisers must be transparent about the level of risk to investors' capital. If an investor has qualms and would be reluctant to invest directly into the shares of a company, perhaps it is not right for them.

## 4. Liquidity and value

Any investment is worth only what it can be sold for. Recent years have shown the importance of investing in assets that are priced on a "mark to market" basis rather than a "mark to model" basis. What this means is that the bid price of an investment reflects the price it can be sold for – either because it's listed and market makers will offer a price, or because there is a firm price quoted that will be paid by the issuing bank (in the case of most structured products). Mark to model pricing involves the investment manager/promoter/administrator making assumptions about the value of assets and converting this into a price for investors.

This can be a useful way of valuing property assets for example, but the pricing methodology can vary considerably. Every structured product should be valued on a mark to market basis and should offer regular liquidity to investors.

There should be no restrictions on sales or lock-in periods. If there are, it's worth exploring different solutions.

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## 5. Reputation normally counts

You may be familiar with several investments that have failed, sometimes spectacularly. Remember traded endowment funds, geared with-profit funds, life settlement funds? Certain timber funds, mortgage funds, property development funds? Surprisingly certain product developers and promoters seem to move from one investment that looks great, but collapses in chaos, to another that does the same thing.

If you consider buying a structured product from a distributor with a track record of promoting disappointing investments, it may be worth investigating alternative options. Remember an investment that pays a lot of commission and is easy to sell, won't necessarily deliver a good outcome for investors. The main priority should be finding investments that are suitable and appropriate for your client's financial objectives.

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## 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.

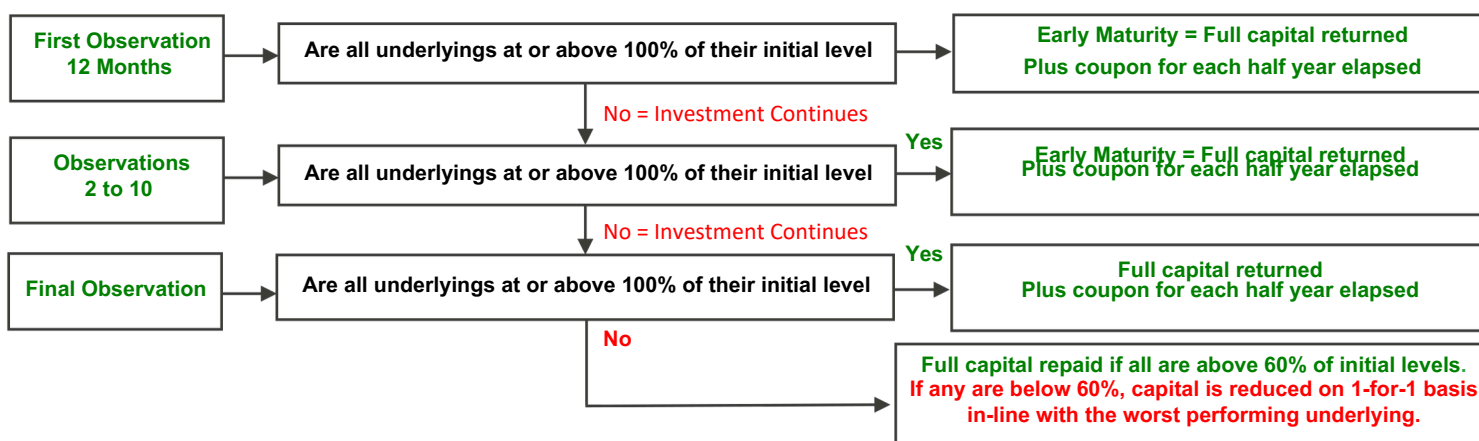
In addition to the opportunity for capital back early, the autocall note is also designed to offer the investor a coupon payment over a fixed term. Again, this is based on the underlying asset being above its initial strike level on the set observation dates. If the note does autocall, the investor can 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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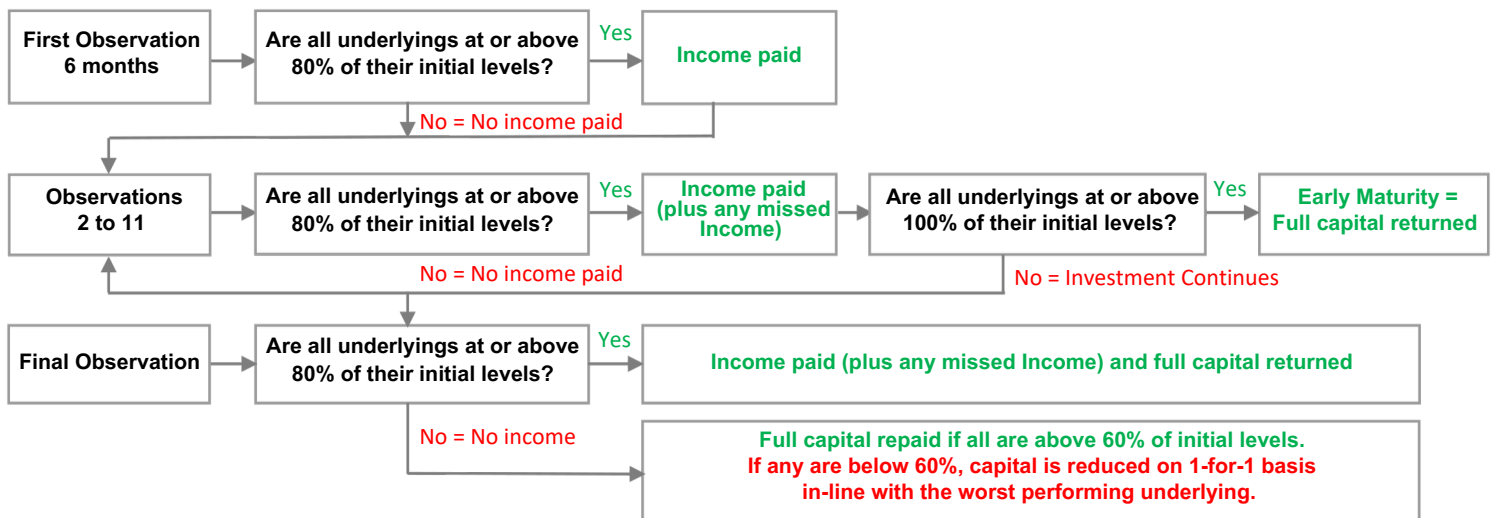
A step on from the Income Autocall is a note that includes the Memory Feature on the income. This feature has become increasingly popular as it increases the probability of the investor receiving a higher number of income payments.

The rest of the features of the note are the same as the Income Autocall. A structured product based around the classic autocall with the difference being it provides the opportunity for regular income payments across a fixed term. This product like the classic autocall and income autocall has the benefit of a possible early maturity.

The payment of the income is conditional upon the underlying being at or above a specified level. An example would be that the income payment would be triggered where the level of the underlying at the observation date was at least 80% of the initial level. Should this not be the case then no payment is made. The added benefit of the memory feature means that any income previously unpaid will be included when the income trigger is next activated.

The diagram below provides an example of a 6 year Semi-Annual Memory Income Autocall note, first autocall observation at 12 months. Income trigger: 80% of Initial level, Autocall trigger: 100% of Initial level, Capital protection barrier: 60% Final level (European style).

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## CAPITAL PROTECTION BARRIERS

One of the most popular barriers is having a **CAPITAL GUARANTEE**.

This means it does not matter how the product performs, full capital **will be returned** to the client at maturity.



This feature is much more expensive than using a European Barrier which is why the observations are less frequent and the returns are much lower than a similar shape with a European Barrier.

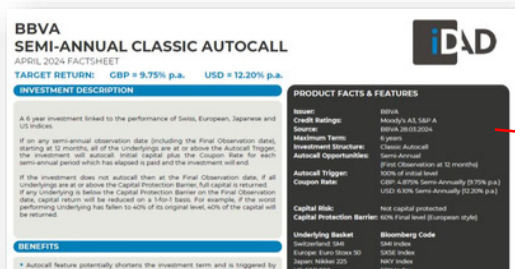
## WHAT'S THE RISK

The Capital Guarantee is only as good as the issuer who is backing the Guarantee. This is why we use A rated issuers as the risk of default is far lower than using a non investment grade issuer.

If the issuing bank becomes insolvent then you may lose your initial investment.

All our products are issued as Unsecured Senior Debt. This means you are high up the line to get paid from any assets of the issuing bank in the event of insolvency.

For peace of mind we have not had a single product lose money from issuer insolvency since we were formed in 2002.



<b>Issuer:</b>	Barclays Bank PLC
<b>Guarantor:</b>	Barclays
<b>Credit Ratings:</b>	Fitch A+, Moody's A1, S&P A+

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## DIFFERENT RANGES OF CAPITAL PROTECTION

- You can choose how much capital protection you would like between 50%-100%.
- The most popular range is between 90-100%
- If the product is 90% capital protected then there is a risk to 10% of your capital.
- For example we currently have a 100% Capital Protected product, details of this is as follows:

A 6 year investment linked to the performance of Japanese, Italian and Spanish Indices.

If on any semi-annual observation date (including the Final Observation date), starting at 36 months, all of the Underlyings are at or above the Autocall Trigger, the investment will autocall. Initial capital plus the Coupon Rate for each semi-annual period which has elapsed is paid and the investment will end.


The Product is 100% Capital Protected so full capital will be returned to investors at maturity irrespective of the performance of the Underlyings.

### MORGAN STANLEY

## 100% CAPITAL PROTECTED AUTOCALL

APRIL 2025 FACTSHEET

Target Return:    **GBP = 8.80% p.a.**    **USD = 8.60% p.a.**



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#### Investment Description

A 6 year investment linked to the performance of Japanese, Italian and Spanish Indices.

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#### Product Facts and Features

Issuer:	Morgan Stanley B.V.
Guarantor:	Morgan Stanley
Credit Ratings:	Moody's A1, S&P A-, Fitch A+
Source:	Morgan Stanley 11.03.20
Maximum Term:	6 years
Investment Structure:	Capital Protected Autocall
Autocall Opportunities:	Semi-Annual (First Observation at 36 months)
Autocall Trigger:	100% of initial level
Coupon Rate:	GBP: 4.40% Semi-Annually (8.80% p.a.) USD: 4.30% Semi-Annually (8.60% p.a.)
Capital Risk:	None
Capital Protection:	100% Capital Protected at maturity

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#### Benefits

- Autocall feature potentially shortens the investment term and is triggered by minimal market growth.
- Snowballing coupon.
- 100% Capital Protected at maturity.
- Early maturity provides an opportunity to re-assess client's wealth strategy.
- Daily pricing.

#### Underlying Basket

Japan: Nikkei 225  
Italy: FTSE MIB  
Spain: IBEX 35

#### Bloomberg Code

NKY Index  
FTSEMIB Index  
IBEX Index

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#### Risks

- The return is limited to the pre-defined investment terms.
- The coupon payment is conditional upon the Underlying performance.
- Investors will be exposed to the credit risk of the Issuer. If the Issuer becomes insolvent or cannot make the payments on the Product for any other reason, investors could lose some or all of their investment. A decline in the Issuer's credit quality is likely to reduce the market value of the Product and therefore the price an investor may receive for the Product if they were to sell them in the market.
- Should investors need to sell their investment before maturity, the trading price will likely mean they get back less than they invested.

#### Key Information

Subscription Period:	11 Mar 2025 – 15 Apr 2025 (4:30pm UK Time)
Issue Price:	100%
Strike Date:	16 April 2025
Issue Date:	GBP: 25 April 2025 USD: 23 April 2025
1st Autocall Observation:	18 April 2028
Final Observation:	16 April 2031
Maturity Date:	23 April 2031
Denominations:	1,000 then lots of 1,000
ISIN:	GBP = XS2996291634 USD = XS2996291477

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# STRUCTURED PRODUCTS FAQs

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As with any investment, the final decision as to which side you come down on will be reached by a thorough investigation of the facts and figures. Whilst we are all aware of the "frequently asked questions" when looking at all manner of things - not just investments - "frequent" does not necessarily equate to "important" so let's look at the questions we should be asking and not just the answers we are being given.

**What actually is a structured product?** To put it simply, it is the investment product that results from a combination of bonds and options put together to achieve the desired return for investors. Demonstrating how these blocks are put together to deliver different structures and returns, brings clarity to the response. The client should understand how the investment is designed with the assistance of explanatory diagrams at the investor's disposal. Most products will have a clear set of outcomes depending on the performance of the underlying indices or stocks the product is linked to.

**What is my client buying?** A common misconception is that a structured investment is the same as a mutual fund; or they believe that they have invested directly into the underlying index, commodity etc. Here the client needs to understand that the investment takes the form of a loan to the issuer who agrees to pay back to them the capital and returns being offered subject to a set of pre-defined conditions. There is no need to hide this fact - a cash investment does the same thing.

**What happens to my client's money?** Knowing the name of the institution that is responsible for delivering the returns and the capital is crucial. Unless the investment is fully guaranteed, the client needs to be fully aware of the risk that they may lose a portion if not the entire investment. Despite recent history, the majority of banks remain robust, therefore that risk does need to be put into context. Information from the rating agencies, lending rates and capital ratios can help clients and advisors evaluate the risks.

**How viable is the investment?** Unpredictability and uncertainty are inevitable parallels of the future; however, we should be able to assess how an investment would have worked based on the historic data. This information should always be made available and will serve to bring the investment "to life". Even if the results are not to your nor the client's liking, they should not be hidden.

**If it is a fixed term investment, what penalties are there if I need to sell out early?** In the past structured products offered very limited liquidity. But the market proved that this was an obstacle for some investors and daily trading is now available for most structured investments. As with a mutual fund, the price of the investment is determined by the value of the underlying components and so it will change from day to day. And like a mutual fund, the client will be offered the bid price for their investment should they need to redeem.

There are many styles of structured products but presenting the client with the facts in a form which brings clarity is generally the best approach – present the product in its entirety.

## More about the counterparty banks

It goes without saying that counterparties (the banks investors are "lending" their money to) are very important when creating structured products. Most of the major banking groups will have an investment arm that can provide the necessary components to build such products. As with any market, there are a number of key factors to consider when selecting and reviewing counterparties.

## Financial Strength

Rating Agencies analyse an institution's financial strength with a view to providing an opinion on the probability that they can repay debts. As a general rule we would require the rating to show that the bank is low risk with its ability to meet its obligations seen as good. An "A" rating by any of the three main agencies confirms that this criterion is met. A further pointer is the progress towards the institutions "Tier 1" or capital adequacy target - the level of capital that must be put aside to cover its debts.

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**Fair Value** The CDS (credit default swap) rate is the premium that an investor would pay to insure against a default on a bank's debt. In terms of a structured investment, it is useful as an indication of how "risky" the market feels a particular institution is and also as a guide for the rate payable by the bank in return for borrowing the investors' money. This rate a bank pays to "borrow" money is often referred to as their "funding level". The higher the funding level of the counterparty bank, the more cash will be available to provide the returns to the client. If a bank's funding level is close to its CDS rate, this can be an indication that investors are receiving fair value for the credit risk they're taking. But this still needs to be viewed as part of the assessment as a whole.

## Market view

A company's reputation, its relative industry standing, and analysts' views are also part of this assessment. Negative publicity can make the counterparty unattractive, by undermining investors' confidence and impacting the share price. Whilst these views are sometimes subjective rather than substantive, they are considered in the assessment process.

## Summary

Together these factors provide a rounded picture of the counterparty, and it is this which will underlie our decision to work with them.

## Ongoing Assessment

This is not a one-off, stand-alone process. Corporate announcements, changes in market focus and product innovations can give an insight to the company's future path and comparisons with competitors can reveal their ability to derive, provide and maintain good value from differing markets and investment strategies.

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