

Why invest in Structured Products?

A structured product can be broadly defined as a pre-packaged investment that **combines multiple financial instruments** into one investment vehicle designed to meet specific investor needs and objectives.

It generally consists of two main components such as an **underlying asset** (such as an index or a basket of securities) and a **derivative component** which is used to customize the risk-return and create specific payoff structures.

The structures may differ and could include: capital protection, income generation, leveraging and participation. Each structure and component will have its own characteristics and risk-return profile.

Many participants classify structured notes as an alternative asset class; however Momentum Securities would categorise structured notes as an **alternative to achieving investment goals** by defining the expected outcome before the investment is made.

BENEFITS

Diversification

Structured notes provide clients with exposure to a variety of underlying assets or alternative asset classes without necessarily increasing their risk profile. It provides the client with access to alternative markets which they would not normally consider for a direct investment, with the option to build in protection which lowers the client's risk.

For many clients nearing retirement, conservative asset classes may be more appealing. However, structured notes will afford the client the opportunity to remain invested in the equity market with capital protection, potentially providing a larger opportunity for capital growth than a cash/bond alternative.

Enhanced returns

Participation can be geared to provide an enhanced return providing additional growth over and above what the underlying asset provided.

Protection

Protection refers to the level of guarantees applied to the initial investment amount. This can be done on different levels, meaning that investors may receive their initial investment back at maturity even if the underlying asset declined.

Income generation

Income can be payable regularly throughout the term of the product. This may be in the form of a fixed or variable coupon, or dividends from the underlying asset.

RISKS AND CHARACTERISTICS

It is important that the client understands the risks of a structured note before adding it to their portfolio.

Counterparty risk

Counterparties must be able to meet the contractual terms of the bond they issue – this is largely dependent on their solvency. Issuers of notes are typically banks and financial institutions.

Credit ratings are an accepted method to indicate the financial strength of an institution.

Asset classes

Consider the underlying asset class as it can provide exposure for a client that they would normally not include as a direct holding. A basket of assets can also be attractive when the assets are non-correlated which can potentially provide a better return than what would normally be provided by a conventional product.

Investment returns

Risk of underperformance of the market is a different type of risk than counterparty risk. Clients in a capital protected investment can therefore rest assured that they will receive their full return of their capital regardless of market performance.

Cost of protection

Interest rates play a major role in the cost of protection. Capital protection is usually provided by a

zero coupon bond or derivative instrument.

Depending on the cost of protection the payout profile might need to change if there is less of the investment available to drive investment performance.

Offer period

It is important to note the offer period for this type of structure won't be open for an unlimited period due to the pricing factors. If the investment is not done within the offer period, the pricing and guarantees may not be apply or become unavailable.

Concentrated Strike date

Take note of the Strike date of the investment as all future observations will compare back to the value of the underlying asset on the strike date.

Observation methods

Understand what the product is monitored with regards to best of, worst of or average, including frequency of observations and the impact on the expected outcome.

Liquidity

Most Structured products are fixed for a specified period. The client will only be able to access the investment at market value as no guarantee values will apply at that time.

For more information, please contact your portfolio manager, or our Client Services team on 011 550 6270.



Please note:

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