INVESTMENTS • ADVICE • PLANNING

Case Study

Structured Products Corporate

Scenario

'XYZ Ltd' have built up significant cash reserves that are currently held within a low interest account with a major high street bank. The company directors have confirmed the following:

- The cash is not needed for the day-to-day running of the company.
- They are currently planning some improvements to their office space and anticipate significant expenditure in c.24 months' time.
- They have set aside £1,000,000 for the expenditure; however, they would like to target capital growth in the short-term, in excess of what they are currently receiving from the bank.

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Solution

Given the relatively high amount for the investment, we are able to liaise with the leading providers to obtain 'bespoke' terms for Structured Products to suit 'XYZ Ltd's' needs.

As they have a pending expenditure commitment, we would recommend a deposit-based plan in this instance **to ensure the underlying capital is sufficiently protected.** Moreover, we would ensure the underlying counterparty has a strong credit rating. In addition, we would fix the term to ensure the plan matures in 24 months' time and would favour a 'defensive' feature, i.e. setting the required index level at less than the initial level, to increase the likelihood of a positive return, even in falling market conditions. Current returns for this type of plan are in the region of 5-6% p.a. not compounded.

Based on the lower estimate and assuming the FTSE 100 was at least 90% of its initial level on product maturity, 'XYZ Ltd' would receive their initial investment of £1,000,000 in addition to a return of £100,000.

Importantly, the only risk they have taken with these funds is the counterparty risk associated with the underlying institution (a bank).

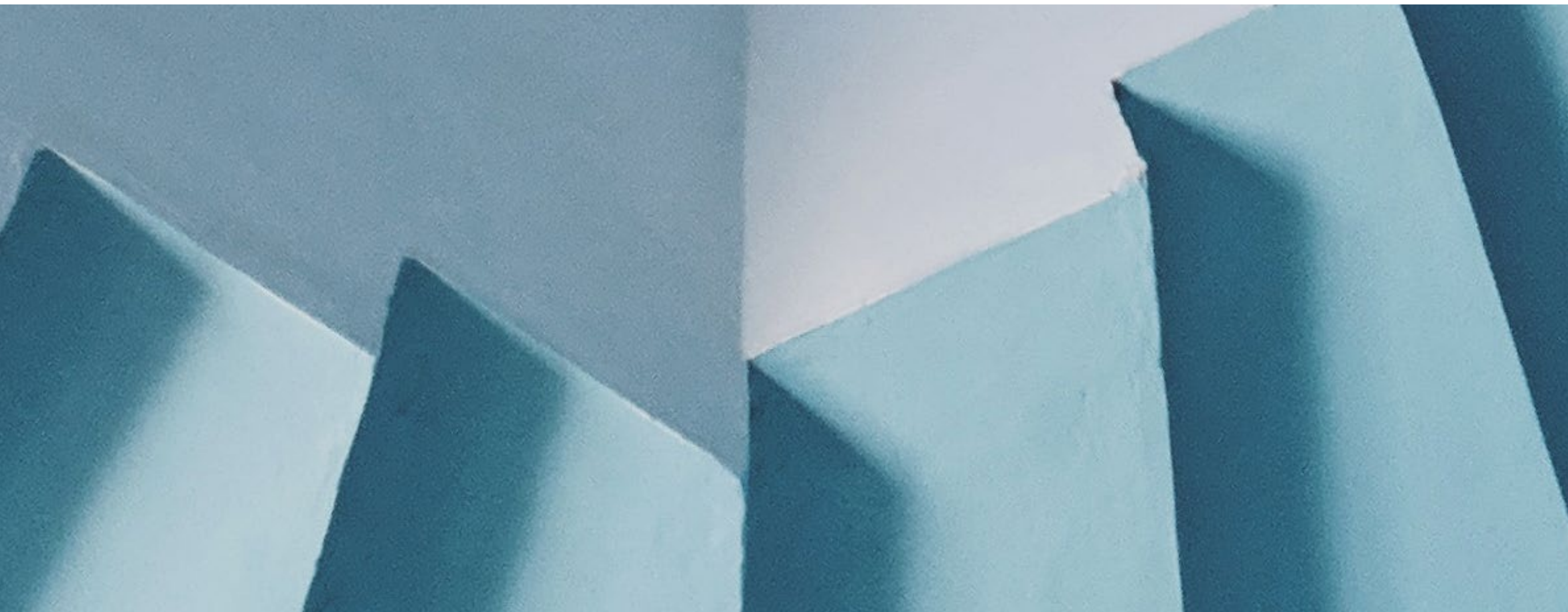
We would of course look to minimise this risk as far as possible by ensuring we only recommend counterparties with sufficient credit strength.

Please note:
The rates detailed above are based on the FTSE 100 index and are in no way guaranteed.

Summary

By recommending these investments, 'XYZ Ltd' will potentially achieve their objectives as follows:

- The rates currently on offer, assuming the plans provide the associated return, will likely be comfortably in excess of what is available from conventional cash-based deposits.
- Given the deposit-based nature of this plan, the underlying capital will be sufficiently protected in advance of the impending liability.
- The underlying capital will be protected from market volatility, an important factor given the short-term requirement for these funds. In contrast, investments into traditional products are made with a long-term investment objective and as such, would not be suitable in this instance.



Risk Warnings:

MHA Caves Wealth is authorised and regulated by the Financial Conduct Authority (FCA), Financial Services Register number 143715.

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Key Risks: Past performance is not a guide to future performance. The performance of these products is not guaranteed; therefore, you may not get back the amount originally invested.

Investment markets and conditions can change rapidly. Capital should not be invested that may be needed during the investment term.

Corporate clients: Structured Deposit

- Structured products often have complicated features that can make it difficult to understand the return you are likely to get.
- Structured deposits are not like typical deposit accounts. Depending on the performance of the relevant index, you could receive no interest payments at all for the whole term of the plan.
- Past performance of any linked index should not be seen as an indication of future performance.
- Past performance is no guarantee of future returns, and the final level of the relevant Index may be lower than the initial level.
- You may not get back the original capital invested if the reference index has not met its objectives at the maturity date.
- You will not receive a return on top of the original capital if the reference index as not met its objective at the maturity date. You shouldn't enter into the transaction unless you're prepared to lose some or all of the investment.
- If you are forced to realise your capital before the maturity date, you may get back less than the amount you originally invested and may be subject to early redemption penalties. Fixed-term products cannot be cashed in according to market sentiment.
- In certain market conditions it may be difficult to sell a structured product which may increase the risk of owning it.
- Inflation will reduce the real value of any proceeds received on maturity and may reduce what you can buy in the future.
- The tax treatment of structured products could change at any time.
- The guarantees associated with this type of investment have an extra cost which will be reflected in the overall return achieved.
- In relation to counterparty risk, the strength of the protection of the plan is only as good as the strength of the bank or institution acting as counterparty. The returns of the product are dependent on the financial instrument issued by the counterparty and the major risk is the counterparty being unable to meet its financial obligations when they fall due. If the counterparty providing the capital protection fails, the corporate/entity investor could lose all of their money. (See information in reference to FSCS).

FSCS:

- With respect to Structured Deposits, if the issuer of the Securities fails or becomes insolvent, it's unlikely the corporate entity would be covered by the Financial Services Compensation Scheme (FSCS). However, the FSCS may consider a claim on a case-by-case basis, but there is no guarantee of this.

Corporate clients: Structured Investments

- Structured products often have complicated features that can make it difficult to understand the return you are likely to get.
- Structured investments are not like typical deposit accounts. Depending on the performance of the relevant index, you could receive no investment returns/growth at all for the whole term of the plan.
- Past performance of any linked index should not be seen as an indication of future performance.
- Past performance is no guarantee of future returns, and the final level of the relevant Index may be lower than the initial level.
- You will not receive a return on top of the original capital if the reference index as not met its objective at the maturity date.
- You may not get back the original capital invested if the reference index has not met its objectives at the maturity date.
- Should the specified reference index have fallen or be below a specified level at the maturity date, then your original capital invested could be reduced, meaning you'll get back less than you invested originally.
- You shouldn't enter into the transaction unless you're prepared to lose some or all of the investment.
- If you are forced to realise your capital before the maturity date, you may get back less than the amount you originally invested and may be subject to early redemption penalties. Fixed-term products cannot be cashed in according to market sentiment.
- In certain market conditions it may be difficult to sell a structured product which may increase the risk of owning it.
- Inflation will reduce the real value of any proceeds received on maturity and may reduce what you can buy in the future.
- The tax treatment of structured investment products could change at any time.
- Any guarantees associated with this type of investment have an extra cost which will be reflected in the overall return achieved.
- In relation to counterparty risk, the strength of the protection of the plan is only as good as the strength of the bank or institution acting as counterparty. The returns of the product are dependent on the financial instrument issued by the counterparty and the major risk is the counterparty being unable to meet its financial obligations when they fall due. If the counterparty providing the capital protection fails, the corporate/entity investor could lose all of their money. (See information in reference to FSCS).

FSCS:

With respect to Structured investments, if the issuer of the Securities fails or becomes insolvent, you would not be covered by the Financial Services Compensation Scheme (FSCS).

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