Structured Products
Individuals

These are products designed to provide a return in excess of what is available from traditional bank accounts, whilst also offering a degree of protection on the underlying capital.

Whilst not an exhaustive list, these products can often be used for individuals in the following scenarios:

- Where surplus cash is currently held on deposit earning little or no interest.
- To introduce additional diversification to an existing investment portfolio that an individual may already have.
- To provide the potential of a return in falling/volatile market conditions by providing an element of downside protection.
- Where there's a potential future expenditure commitment, but no requirement for the funds in the short-medium term.
- Where an individual would like the potential for additional 'income' that can be used to support them during retirement or to help provide funds for discretionary expenditure such as gifting to family.

The arrangements link the potential return to an underlying asset, such as an equity index (i.e. FTSE 100 index), commodity or currency. The products that we use would typically to be linked to the FTSE 100 or S&P 500 (although alternative assets are also possible).

Importantly, you do not actually invest in the associated index, it is simply used as a 'trigger' for a potential pay-out.

The arrangements are marketed by an intermediary, with a major institution (a bank) acting as the counterparty (essentially sitting behind the arrangement). We generally recommend products backed by major institutions such as Barclays, HSBC, Morgan Stanley and BNP Paribas. These banks typically have credit ratings of at least 'A' with Standard & Poor's (one of the world's leading credit rating agencies). We only recommend products that we feel have a sufficiently strong counterparty.

As **Independent Financial Advisers**, we are able to assess the whole of market to ensure that we recommend the most suitable products for our clients.

Capital Protection

Unlike traditional forms of investments, these products offer a degree of capital protection, with the strength of this protection dependant on whether the product is deposit based or investment based.

1 **Deposit Based**
These plans typically offer **full capital protection** and they can potentially benefit from the Financial Services Compensation Scheme (FSCS). The benefit of this being that in the event of the underlying institution that sits behind the arrangement (an investment bank) becoming insolvent, you would have redress against the FSCS up to the usual limits (£85,000 per individual, or £170,000 per couple).

2 **Investment Based**
These plans are deemed as 'capital at risk'. Should the underlying asset fall below a pre-determined level (typically 60/65% of the level at the point the plan starts), your investment will be reduced by a similar level. To compensate for the increased risk, these products will generally offer the potential for a higher return.

How the Products Work

Structured Products come in a variety of forms, although the underlying 'mechanics' will generally be the same, with them having the following characteristics:

A Set Return

This will be determined by the provider at outset and will generally be a set amount per annum. The return will either be paid in full on maturity of the plan or as an 'income' on a monthly (or annual) basis.

Importantly, the quoted return is not compounded each year.

Currently, we would expect to see returns on deposit-based plans of between 5-7% p.a. with investment-based plans being as high as 10% p.a. although this cannot be guaranteed.

A Fixed Term (with set observation points)

The arrangements will have a pre-determined term with us typically recommending plans of between 2-8 years (although bespoke versions of these plans can sometimes be offered for shorter terms, such as 1 year).

Certain products, termed 'kick-out' plans, will have pre-set observation points where the underlying asset will be measured. If this is at the required level on the observation date, the plan will mature early and the agreed return will be provided for each of the years the plan has been in force.

A required level for the underlying asset to reach

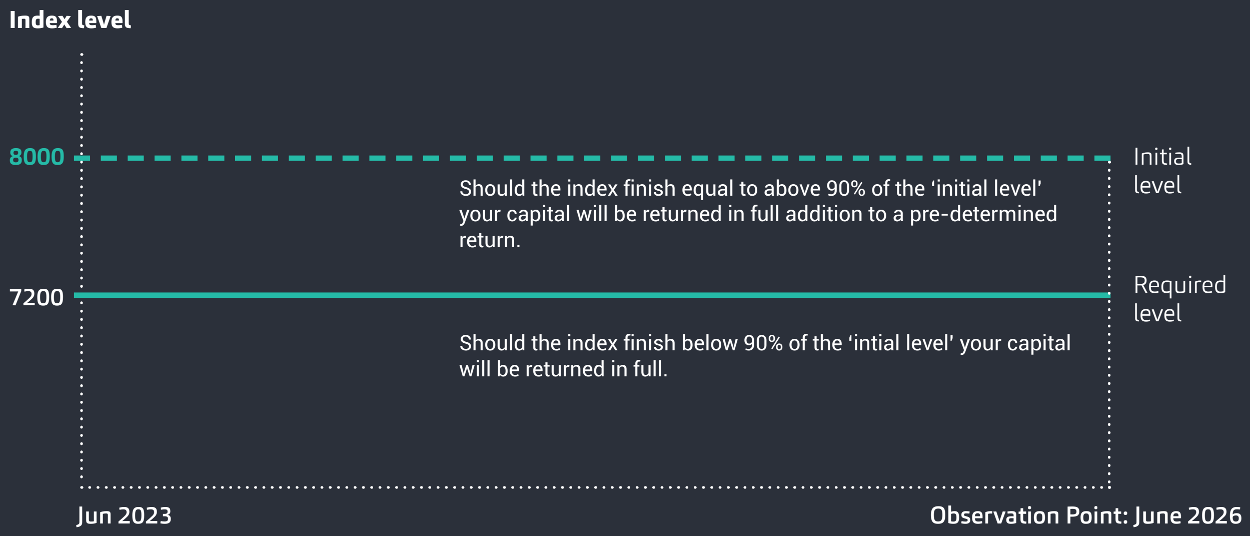
The plan will specify a level for the asset to be at on the observation/maturity date for the plan to provide the agreed return. Generally, plans will be offered at 100% of the initial level, however, 'defensive' plans are available that allow the asset to fall with the return still being provided. As such, these plans can provide returns even in falling markets making them an extremely useful tool.

Capital at risk 'barrier' (Investment Based Only):

As previously mentioned, investment-based plans will include a 'barrier' for protection purposes that is often around 60% or 65%, meaning that if the underlying asset falls below this at the maturity date, your capital will be at risk, generally on a one-for one basis i.e. a 45% drop in the asset will reduce your investment by 45% at maturity.

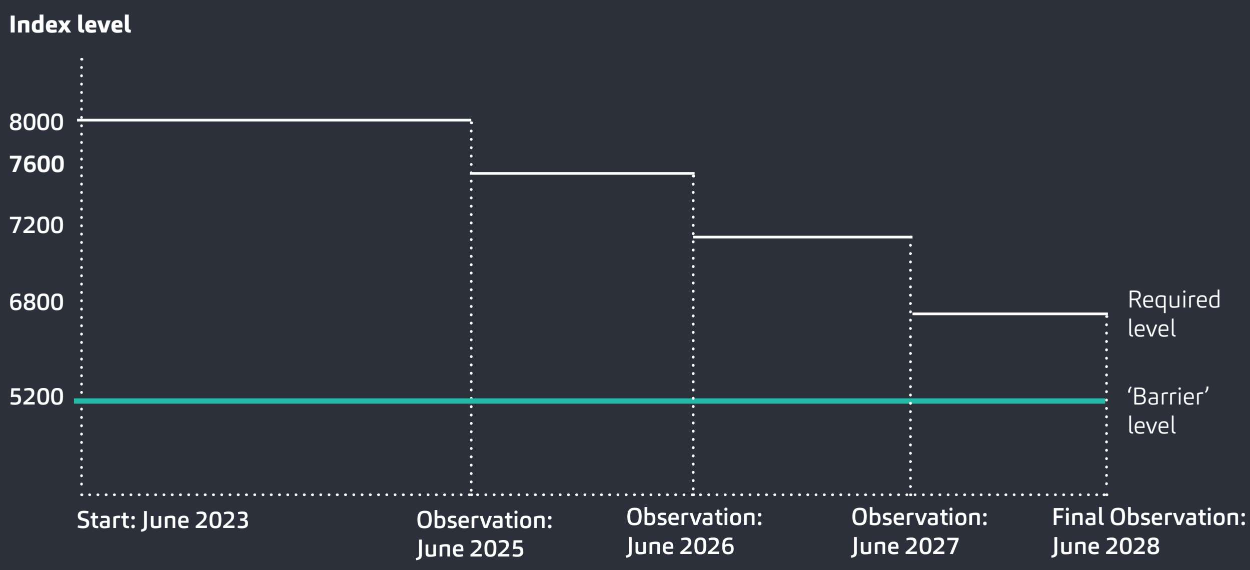
See below a series of 'visuals' to illustrate how these plans work (please note, these are just some of a range of products that are available):

Deposit Based 'Defensive' Plan



- The plan above would have a 3-year term with a set observation date at the end of the plan term.
- The required level is represented by the solid aqua line. In this example, it is 90% of the FTSE 100 index, illustrating that these plans can provide returns even in falling market conditions.
- Unlike the investment versions, there is no 'capital at risk' barrier.

Investment Based 'Step Down Kick Out' Plan



- The plan above would have a 5-year term with annual observation dates from year 2 onwards (June 2025).
- The required index level is represented by the solid aqua line and in this example, it starts at 100% and thereafter drops by 5% each year. Should the index be above the solid aqua line at any of the observation dates, the plan would 'kick out' and you would receive your return in addition to the initial investment.
- Unlike the deposit versions, there is a 'capital at risk' barrier represented by the aqua line. If the plan reaches the end of the term and is at or above this line, your capital will be returned in full. However, should the index finish below this line, your investment will likely be reduced on a one-for-one basis.

Taxation

If these investments are held direct, tax will be due on any return generated with this being dependant on the type of plan.

Generally, our understanding is that investment-based plans (non-income producing) will be subject to Capital Gains Tax.

Deposit-based plans and income producing plans will likely be subject to Income Tax at your highest marginal rate.

However, this may vary, and we would always recommend you consult your accountant/tax adviser to confirm this.

How to Invest

MHA Caves Wealth are independent, whole-of-market, financial advisers, who are able to advise on a wide range of investments, including Structured Products. It should be noted that you can hold these products as follows:

- As a direct investment, please note, you will incur a tax liability in this instance as detailed above.
- Within an ISA wrapper, up to the usual limits. In addition, most providers will facilitate ISA transfers in.
- Within a Self-Invested Personal Pension (SIPP).
- Within some Offshore Bond Wrappers.
- Within Trusts.
- As part of an investment portfolio held within a Family Investment Company.
- As a corporate investment.

Review Your Financial Plan with MHA Caves Wealth

To arrange an appointment, you can contact us via your usual MHA adviser, or directly on **01604 621 421** or **enquiries@mhacaves.co.uk**

Risk Warnings:

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.

Individual 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 interest payments.
- 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 the event of your death, your estate can choose to cash in the Plan(s) or transfer ownership to a beneficiary. If they are cashed in, the provider will pay the market value at date of receipt of all required documentation. This means that you could get back less than you initially invested.
- 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 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, you would be covered by the Financial Services Compensation Scheme (FSCS) up to the protection limit.
- In the event of the underlying institution that sits behind the arrangement ((the "counterparty" an investment bank) becoming insolvent, you would have redress against the FSCS up to the usual limits (£85,000 per individual, or £170,000 per couple). Investments can be made in excess of these limits but would obviously not benefit from the FSCS protection in respect of any such excess.

Individual 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 has 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 the event of your death, your estate can choose to cash in the Plan(s) or transfer ownership to a beneficiary. If they are cashed in, the provider will pay the market value at date of receipt of all required documentation. This means that you could get back less than you initially invested.
- 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 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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