

# An Investor's Guide to Structured Products

## Contents

What are Structured Products?	3
What is a Structured Investment Product?	3
What is a Structured Deposit?	3
What are the features of Structured Products?	4
What are the risks?	5
Product Benefits: Protection, Gearing, Income	6
Product Negatives: Risk of Loss, Caps, No Dividends	6
What else should I consider?	7

# An Investor's Guide to Structured Products

## What are Structured Products?

Structured Products is a collective term for both Structured Investment Products and Structured Deposits.

## What is a Structured Investment Product?

A Structured Investment Product is a legally binding contract between an investor and a bank. The investor lends money to the bank for the life of the product (typically five years). At the end of the product life, the investor receives the product return from the bank.

The product return is based on a formula, sometimes based on the performance of the prices of individual shares, but more typically on a share price index, such as the FTSE 100.

## What is a Structured Deposit?

Structured Deposits are similar to Structured Investment Products except that, instead of lending money to the bank, the investor deposits money in the bank.

Structured Deposits are always designed to return at least the initial amount deposited at the end of the product life.

Depositors benefit from extra protection over lenders; in particular, UK investors in Structured Deposits may benefit from the Financial Services Compensation Scheme's deposit insurance scheme.

# An Investor's Guide to Structured Products

## What are the features of Structured Products?

Structured Products (both Structured Investment Products and Structured Deposits) can provide investors with features that cannot be achieved through “standard” investments such as shares or bonds. For example, some Structured Products provide protection against drops in share prices; some deliver returns that increase faster than share prices themselves; and some can provide positive returns even if share prices do not increase at all.

Product returns are usually clearly defined and quoted net of all fees and charges. This means that “what you see is what you get” (before tax). However, because all fees and charges are already built into the product, you cannot explicitly see what they are.

Structured Products are usually designed to provide a tax-efficient outcome for the typical investor, for example, using the tax benefits of ISAs, SIPPs, off-shore bonds and Capital Gains Tax allowances. This does not mean that a product will be tax-efficient for everyone. You should always check with your financial adviser that a particular product is tax-efficient for your specific circumstances.

Structured Products are often used as part of a wider investment portfolio. In combination with “standard” investments, Structured Products can make a portfolio's returns better match your needs, for example, by reducing your exposure to negative returns.

## What are the risks?

Your initial investment is at risk in Structured Investment Products with product returns that are not fully protected against falls in share prices – see below. This is not the case for Structured Deposits (provided you do not withdraw your money early).

Your money should be committed for the full life of the product. You need to be reasonably certain that you will not need access to it earlier. Banks usually (but not always) allow investors to withdraw their funds early, but your return will reflect current market conditions, and since fees and charges are normally taken upfront, you may get back less than you invested.

You can lose some or all of your money if the bank backing your product goes bust (although the Financial Services Compensation Scheme provides protection for individuals investing into Structured Deposits). You should spread your Structured Product investments across a range of banks, and consider carefully which banks you use. The most widely used measures for assessing banks' financial strength are the opinions of credit rating agencies such as Standard & Poor's or Moody's. However, following the recent financial crisis, some commentators have questioned the effectiveness of such tools used in isolation.

Structured Product returns are usually based on the performance of share prices excluding dividends – whereas if you were to own shares directly you would expect to receive dividends. Most product returns are based on the performance of a broad stock market index, a measure of average share price performance. This diversifies your risk across a range of companies and business sectors. However, some product returns are based on the performance of the prices of individual shares; with these products you should be careful with the choice of shares.

Structured Products should be simple to explain. As with all investment decisions, if you cannot understand a product when it is explained to you by your financial adviser then you should not invest in it.

# An Investor's Guide to Structured Products

## Product Benefits: Protection, Gearing, Income

**Protection:** Structured Deposits (and some Structured Investment Products) are designed with the aim of returning at least your initial investment, regardless of share prices. But that protection normally only applies at the end of the product life; if you need to access your money early then you may get back less than your initial investment.

**Gearing:** some products are designed with the aim of creating returns that increase faster than share prices themselves.

**Income:** some products are designed with the aim of generating income. Normally either your initial investment or the income itself is at risk to the share prices performing badly.

## Product Negatives: Risk of Loss, Caps, No Dividends

**Risk of Loss:** in some Structured Investment Products you also risk losing a proportion or all of your initial investment. Sometimes this risk is somewhat mitigated against a drop in prices to a certain level (typically 50%). This is often referred to as "soft" protection. However, if share prices drop beyond this level the protection is cancelled, meaning that you will most likely lose money.

**Caps:** many products have an upper limit on the maximum possible return. This means that if share prices perform very well, or if there is a significant amount of inflation, your investment returns may not be so attractive and you could lose money in real terms.

**No Dividends:** as stated previously, Structured Products typically do not pay dividends.

## What else should I consider?

Some products have a “kick out” feature, which means that they can end early if share prices perform well, but also might run their full life if prices do not perform so well. These products are only likely to be suitable if you can afford to be flexible on the timing of your product return.

Structured Product returns are often calculated using the average level of prices over the last few months of the product life. This reduces the risk of poor returns from a “last minute” decline in share prices. But conversely, it also introduces the risk that you might miss out on a late rise in share prices.

You should consider whether the product life is long enough to give you a reasonable chance of growth in share prices. The performance of stock markets over a one year investment horizon is widely expected to be somewhat less reliable than over a five year or longer term.

Before deciding on an investment, you should consider the balance between risk and return across your investment portfolio. You may also wish to consider “worst case scenarios” for any potential Structured Product investments, particularly in the context of the performance of your portfolio as a whole. A good Independent Financial Adviser will be able to help you with this analysis.

Finally, if you are in any doubt whatsoever about whether an investment is suitable for you, you should always seek financial advice.

**This guide is not intended as investment or tax advice. If you are considering investing in a Structured Product please consult with your Financial Adviser.**

If you have difficulty in reading this document, please call us on **08000 890 305**.  
We can supply this in a range of formats including large print, audio and Braille.

Investec Structured Products is a trading name of Investec Bank plc which is authorised and regulated by the Financial Services Authority, Registration Number 172330. Investec Bank plc changed its name from Investec Bank (UK) Limited pursuant to a certificate of re-registration as a public company dated 23 January 2009.  
Registered and incorporated in England No. 00489604. Registered address is 2 Gresham Street, London EC2V 7QP.

