

Asset class: Structured products
Educational document for clients

Banque Bordier & Cie SCmA

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*This educational document provides a simple overview of structured products as financial investment instruments. It is intended for clients without financial expertise and **does not replace the key information document (KID) or the official contractual documentation applicable to the product in question.***

1. Introduction

Structured products are **tailor-made financial instruments** that combine several financial components to offer a specific risk/return profile. They can be used to meet a variety of investment objectives, such as seeking returns, partial capital protection or exposure to a particular underlying asset.

In return for this flexibility, structured products are **more complex, highly dependent on market conditions** and involve **specific risks** that must be understood before any investment decision is made.

2. What is a structured product?

A structured product is a financial instrument whose return and, where applicable, capital repayment depend on the performance of one or more underlying assets (shares, indices, interest rates, currencies, commodities, etc.).

It generally consists of two main components:

- a **bond component**, designed to ensure all or part of the capital is repaid at maturity,
- a **derivative component**, which exposes the investor to the performance of the underlying asset according to predefined terms.

Investors hold a claim on the issuer of the structured product. The value of the product changes depending on the underlying asset, the time remaining until maturity and market conditions.

3. Key features of structured products

Structured products have several distinctive features:

- **Return:** The return may be conditional or guaranteed and depends on predefined scenarios linked to the performance of the underlying asset. It may be capped and is not guaranteed.
- **Participation:** Some products allow investors to participate in the positive or negative performance of an underlying asset.
- **Variable capital protection:** Some products offer total or partial capital protection at maturity, while others expose the investor to the risk of capital loss.
- **Fixed term:** Structured products are issued for a fixed term, with a maturity date known in advance.

- **Limited liquidity:** Although a secondary market may exist, resale before maturity may be subject to unfavourable conditions depending on market conditions.
- **Dependence on the issuer:** Investors are exposed to the credit risk of the product issuer.

4. Purpose of structured products

Structured products aim to offer **investment solutions tailored to specific objectives**, including (but not limited to):

- seeking returns in low-directionality markets,
- exposure to an underlying asset with partial or total capital protection,
- generation of conditional guaranteed income,
- portfolio diversification.

They are generally used as **complementary tools**, rather than as core investments.

5. What are the main types of structured products?

Structured products can be classified according to their risk and return profile:

- **Capital-protected products** The capital invested is guaranteed at maturity (subject to the issuer's credit risk). The potential return is generally limited.
- **Conditional capital protection products** The capital is protected up to a certain threshold of decline in the underlying asset. If this threshold is exceeded, the investor may suffer a loss.
- **Yield/income products** These products aim to generate regular conditional or guaranteed income, often in exchange for a risk of capital loss.
- **Participation products** These products allow investors to participate in the performance of an underlying asset, sometimes with a cap on gains.

6. The main players in structured products

An investment in structured products involves several players:

- **Issuer:** Financial institution that designs and issues the product. The investor is exposed to its credit risk.
- **Distributor:** Institution that offers the product to customers and provides prior information.
- **Calculation agent:** Responsible for calculating performance, coupons and redemption at maturity. In most cases, this is the issuer.
- **Supervisory authorities:** They oversee marketing and disclosure requirements in accordance with the applicable regulatory framework.

7. The life cycle of a structured product

A structured product follows a **predefined life cycle**, known at the time of issue, which differs from traditional listed investments in its fixed duration and contractual operating rules.

The first step is the **design of the product by the issuer**. The issuer defines the structure of the product, the underlying reference asset(s), the duration, the yield conditions, the capital protection mechanisms and the repayment scenarios. These elements are formalised in the product documentation.

This is followed **by the issue and subscription phase**, during which investors can subscribe to the product, usually for a limited period. The capital invested is then used by the issuer to set up the necessary financial structure and hedges.

During the **life of the product**, its value changes based on several factors, including:

- changes in the underlying asset(s),
- the time remaining until maturity,
- market conditions (volatility, interest rates),
- the credit quality of the issuer.

Depending on the characteristics of the product, **coupons may be paid periodically**, subject to certain conditions being met. In some cases, the product may also be subject to **automatic early redemption** when the specified conditions are met.

At **maturity**, the product is redeemed according to predefined rules. The redemption may correspond to the initial capital, a higher or lower amount, or a delivery of assets, depending on the structure of the product and the performance of the underlying asset.

8. Structured product return structure

The return on a structured product is conditional or guaranteed and depends directly on the performance of the underlying asset(s) and on compliance with the scenarios defined at the time of issue.

In some cases, the return takes the form of periodic coupons, paid as long as the underlying asset meets certain conditions (e.g. remaining above a predefined threshold).

In other structures, the return is mainly realised at maturity, in the form of a share in the performance of the underlying asset. This share may be capped and does not necessarily reflect the full performance of the underlying asset.

The gross return on the product is influenced by several factors:

- the level of capital protection,
- the volatility of the underlying asset,
- the duration of the product,
- market conditions at the time of issue.

It is important to note that fees and margins are generally built directly into the product structure. The return shown is therefore a return net of explicit fees, but implicitly includes the issuer's remuneration and hedging costs.

Commenté [QD1]: Guaranteed

9. Risk structure of structured products

Investing in structured products involves several specific risks, which must be understood before making any investment decision.

- **Market risk:** The performance of the product depends on the performance of the underlying asset(s). Unfavourable developments may result in no return or even a loss of capital.
- **Capital loss risk:** In the absence of full capital protection, or if unfavourable mechanisms are triggered, the investor may suffer a partial or total loss of the capital invested at maturity.
- **Issuer credit risk:** The investor holds a claim on the product issuer. In the event of default or insolvency of the issuer, the investor may lose all or part of their investment, regardless of the performance of the underlying asset.
- **Liquidity risk:** Reselling the product before maturity may be difficult or may result in a price lower than the expected value. The resale price depends on market conditions and the issuer's redemption policy.
- **Complexity risk:** Structured products are based on mechanisms that can be complex. An insufficient understanding of scenarios, thresholds and redemption conditions may lead to unrealistic expectations or a misjudgement of risk.
- **Market conditions risk:** Changes in interest rates, volatility or correlation between assets may affect the value of the product, even if the underlying asset performs well.

These risks can be partially mitigated by careful product selection, a good understanding of how they work and diversification of investments. However, they cannot be eliminated entirely.

10. Main advantages and disadvantages

Advantages	Disadvantages
<ul style="list-style-type: none"> ▪ Tailor-made investment solutions ▪ Diversity of risk/return profiles ▪ Possibility of conditional capital protection 	<ul style="list-style-type: none"> ▪ High complexity ▪ Limited liquidity ▪ Capped return ▪ Issuer credit risk

The above is a summary and non-exhaustive presentation of the main advantages and disadvantages of structured products.

11. How to invest in structured products

Investments are made by subscribing to the product when it is issued or on the secondary market, subject to eligibility. It is essential to understand the repayment scenarios and risks before making any decision.

12. How to liquidate your position

Liquidation occurs at the product's maturity or through early sale on the secondary market, where one exists. The resale price may be lower than the capital invested.

13. Bordier's range of structured products

The Bank offers a diverse selection of structured products designed to provide investment solutions tailored to its clients' profiles and objectives. The offering is based on a prudent approach and a rigorous analytical framework, aiming to combine potential returns with controlled risk management. The recommended products are part of a diversification strategy and a search for solutions tailored to market conditions. Thanks to its open architecture, Bordier ensures that it offers its clients the best market conditions.

14. Important information

This document is provided for informational and educational purposes only and does not constitute personalised financial advice. Nor should it be interpreted as an advertisement or an offer of financial instruments. The content presented is neither exhaustive nor intended to cover all the characteristics and risks associated with the relevant category of financial instruments.

This information is intended to provide a factual overview and should not be used as the sole basis for investment decisions. Past performance is not indicative of future results, and the value of investments may fall as well as rise.

For general information on financial instruments, please refer to the Swiss Bankers Association's brochure entitled 'Risks inherent in trading in financial instruments', available on our website under the heading Legal & Compliance, Switzerland, FINSA, Guidelines Risks Involved in Trading Financial Instruments (published by SBA): <https://www.bordier.com/legal-and-compliance/switzerland/finsa/>.

If, for the relevant type of financial instrument, a key information document (KID) or a prospectus has been drawn up in accordance with the applicable legal provisions, these documents can be viewed and downloaded from our website under the heading Legal & Compliance, Switzerland, FINSA, Key Information Document (KID), at the following address: <https://www.bordier.com/legal-and-compliance/key-information-documents-kids/>

Before making any investment decision, investors are advised to carry out their own checks and carefully assess the potential risks. It is strongly recommended that they seek the assistance of a qualified financial adviser. The relationship manager is available to provide, upon request, any further information and to supply the relevant documentation. The Bank accepts no liability for decisions made on the basis of the information provided in this document.

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