Structured products with capital protection

This document contains information about the properties of structured products with capital protection and informs you about potential benefits and risks of this class of products. These principles can support you in your investment decisions. Please contact your Client Advisor if you would like further information or have any questions.

General Information

Structured products are debt securities with a value comprised of different components. They usually have pre-defined terms. Their underlying assets can be bonds, stocks, indices, currencies, and commodities, as well as derivatives of the named investment categories.

Structured products with unconditional capital protection usually consist of two elements. The first element offers the capital protection at maturity. For example, this can be a money market investment or a fixed-interest investment. The amount of the capital protection is determined by the issuer at issuance and stated as a percentage of the par value. Consequently, depending on the design, the capital protection may be well below 100 %. As a rule: the lower the capital protection, the higher the earnings potential. The capital protection does not take effect until the end of the term. The second element is responsible for the return, or participation. This can be a derivative or even a riskier underlying asset than the first element. The participation portion determines the investor's share in the development of the underlying asset or assets. The combination allows the investor to participate in the development of one or more underlying assets and at the same time limit the risk of loss.

Structured products with conditional capital protection lose the protection upon exceeding or failing to reach a pre-defined threshold value (barrier, knock-out level). Repayment is then dependent on the development of one or more underlying assets.

Types of structured products with capital protection

The following product types can be designed with unconditional or conditional capital protection.

Capital protection without a cap: Repayment at maturity is at least in the amount of the capital protection. The investor profits without limitation and under consideration of the price increase of the underlying assets.

Capital protection with a cap: Repayment at maturity is at least in the amount of the capital protection. The investor profits under consideration of the participation up to a pre-defined value (cap) in the price increase of the underlying assets. The profit potential is limited to the amount of the cap.

Exchangeable certificates: Repayment at maturity is at least in the amount of the capital protection. The investor profits starting at an exercise-price (conversion price) without limitation in the price increase of the underlying assets.

Capital protection with coupon: Repayment at maturity is at least in the amount of the capital protection. The investor profits from a coupon, the amount of which depends on the development of the underlying assets.

Capital protection with knock-out: Repayment at maturity is at least in the amount of the capital protection. The investor profits in the increasing underlying assets up to a pre-defined knock-out level. If the underlying assets rise above this level, the investor loses the participation opportunity. Repayment is then in the amount of the capital protection stated in the respective product documentation.

Conditional or unconditional capital protection: With investments with unconditional capital protection, the investor profits upon maturity from the guaranteed minimum repayment in the amount of the capital protection. With conditional capital protection, the protection applies up to a pre-defined threshold value. If this value is reached, the capital protection is lost.

Potential benefits

Higher potential returns: Structured products with capital protection allow higher returns than comparable money market investments.

Access to markets and alternative strategies: Through structured products, investment classes and markets can be covered that would otherwise be difficult for private investors to access

601 0300 VP70 2.21

Potential risks

Limited return potential: Usually, lower yields are obtained with structured products with capital protection than with a direct investment in the underlying assets, since capital protection has a cost.

Risk of loss: The maximum loss at payout of a structured product with capital protection is the difference between the purchase price and capital protection to the par value, if the product is held until maturity. The capital protection product may drop below this value during the term.

For structured products with only conditional capital protection, if the underlying assets develop very unfavourably part or all of the invested capital may be lost. If the product is sold early, a potential loss may result due to market price fluctuations.

Credit risk: The credit risk may occur in case of insolvency of the issuer and lead to a partial or total loss of the invested capital. If the credit rating of an issuer deteriorates during the term of the product, the secondary market price of the product may decrease. This may also result in a loss in case of a sale before the end of the term.

Market risk: The value of the investment may decrease during the term; for example, due to interest rate changes, changes in the credit rating of the issuer, or market price fluctuations of the underlying assets.

Liquidity risk: The investor bears the risk that the investment must be held until the end of the term in an illiquid market or sold before maturity at an unfavourable price.

Foreign currency risk: If the financial instruments or the underlying assets are listed in a different currency from the local currency of the investor, there is a risk that fluctuations in the exchange rate will decrease the value of the investment from the investor's perspective. It is possible that the price gains of an investment result in a total loss for the investor due to exchange rate fluctuations. Exchange rates can fluctuate substantially.