RATHBONES | Incorporating Investec Wealth & Investment (UK)

Structured Product Service

Investec Wealth & Investment (IW&I) has developed the Structured Product Service to meet the needs of our clients where it is appropriate to manage a portfolio which is comprised 100% of structured products.

All portfolios are centrally managed by an IW&I specialist structured products team. Clients can choose from pre-determined portfolio mandates to best reflect their personal circumstances, risk appetite and investment objectives.

Investec Wealth & Investment (UK) is a trading name of Investec Wealth & Investment Limited

This document is intended for financial advisers only and is not approved for use with clients.

What is a Structured Product?

A structured product is typically comprised of a:

- **Zero-Coupon Bond**, which pays no income, but is issued at a discounted price.
- **Derivatives Strategy**, which in the context of structured products, typically involves an options strategy, which is used to generate a particular risk/ reward profile.

Given their composition, there are various risk parameters which will impact the price of a typical structured product. The key determinants of price will include; changes in bank credit spreads, movements in the underlying markets, options volatility levels and interest rate changes.

We also define Credit-Linked Notes as structured products, which represent synthetic corporate bonds. The price of these instruments will essentially be determined by movements in credit spreads and interest rates.

Structured Products – Investment Benefits

A structured product provides a defined return over a fixed period and the potential for a positive return in rising, flat or falling markets. Compared to investing in direct equities or bonds, structured products can help to provide an alternative risk/reward investment profile.

They typically have a degree of capital protection and can make a positive return in a variety of market conditions.

The secondary market for a structured product is provided by the issuing bank, who will offer real-time pricing and a bid/offer spread around the mid-price which is typically circa 1%.

With regards to taxation, structured products are generally subject to Capital Gains Tax (CGT) or Income Tax, and are eligible for ISA/ SIPP wrappers.

Structured Product – Investment Risks

Although structured products offer a degree of capital protection, no investment (including any structured product) can be regarded as free of all risk.

Most structured products represent the senior unsecured debt of a single financial institution, (i.e. they represent a loan to that company). If an underlying bank enters bankruptcy, it could mean that investors in a structured product backed by that bank could lose 100% of their invested capital. Investors in structured products will not be protected by the Financial Services Compensation Scheme in the UK in the same manner as other investments (e.g. bank deposits).

With regards to secondary market trading, it is possible that in a highly volatile environment bid/offer spreads could widen. In addition, supply in the secondary market for a particular structured product can become exhausted, making additional purchases in any size difficult or impossible.

Finally, current tax treatment of structured products is fairly clear. However, tax rules can change, and there can be no guarantee on future tax treatment.

Structured Products – Portfolio Management at IW&I

In order to optimally construct a 100% structured products portfolio, the following key diversification considerations are made by IW&I:

- Credit risk, including the use of collateralised financial instruments (e.g. structured products backed by UK Gilts).
- Interest rate risk.
- Market risk.
- Volatility risk.

In addition to this, we will only invest in structured products which:

- Are on the IW&I Buy List or structured products that have gone through the same due diligence process and will subsequently be added to the IW&I Buy List.
- Have a liquid secondary market.

All investment within the IW&I Structured Product Service must be made in cash, as we are unable to accommodate in specie investments.

Structured Product Service

What are the key benefits the Structured Product Service can offer our clients?

- Portfolios will be managed by a dedicated specialist team with a notable level of experience and knowledge of derivatives and bank credit, the two key components of a typical structured product.
  The team understands how to optimally design structured products, construct and manage portfolios with 100% structured products and factor in the changing risk parameters of each structured product over its life cycle.
- We adopt an active rather than passive approach to structured product portfolio management as, contrary to popular perception, structured products are not simply 'buy and hold' investments. The management and trading of structured products can help to maximise returns and minimise risk.
- Clients of the service will be able to access a range of high quality structured products selected by the structured products team following the completion of our rigorous due diligence process. Unlike many of our competitors we do not buy 'off the shelf' structured products preferring to construct these in conjunction with leading issuing counterparties.
- Clients will be able to gain access to the 'Institutional' rather than the 'Retail' structured product market, which offers the following key advantages:
  - Substantial cost savings, given that the fees charged in the 'Retail' market are typically higher compared to the fees charged in the 'Institutional' market.
  - Access to structured products which have liquid secondary markets (unlike structured products traded in the 'Retail' market, whereby an investor's money is often 'locked-in' for a multi-year period).

What Portfolio Mandates are available for clients?

Option 1: Defined Returns Structured Product Portfolio (Low-Medium Risk)

The portfolio will consist of structured products that are intended to provide a positive return in multiple market scenarios. The portfolio will only include structured products with 100% capital protection*. The target return, net of management fees, is UK Base Rate plus 3%.

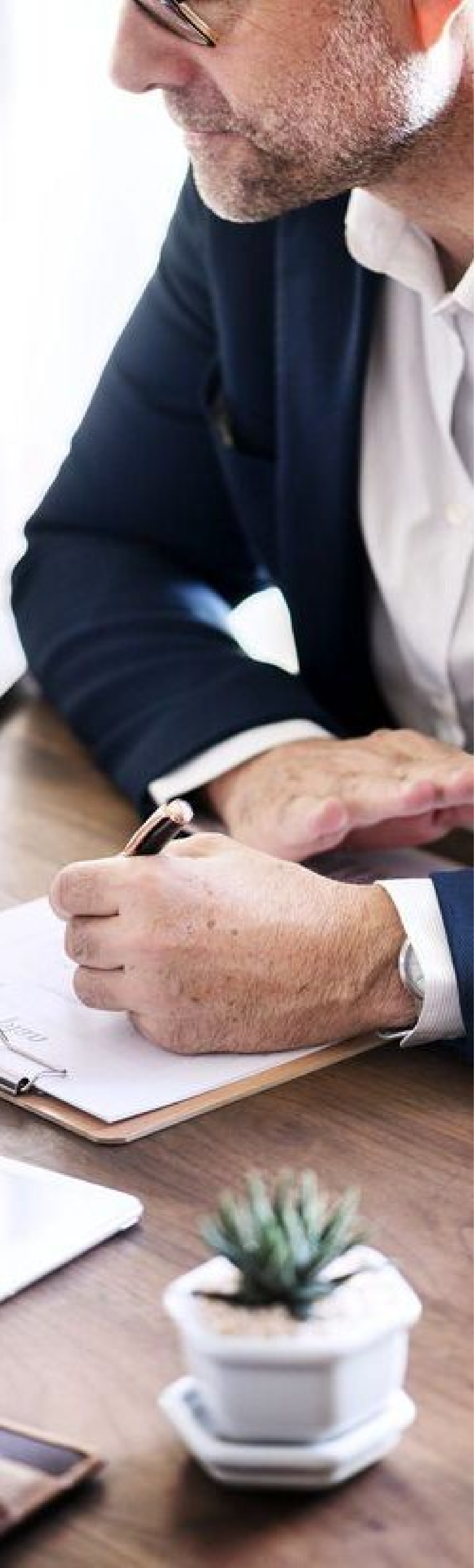
Minimum Investment: £250,000

Option 2: Diversified Growth Structured Product Portfolio (Medium Risk)

The portfolio will consist of structured products that are intended to provide a positive return in multiple market scenarios. The portfolio will only include structured products with 100% capital protection*, although the overall level of portfolio risk will be higher compared to Option 1. The target return, net of management fees, is UK Base Rate plus 4%.

Minimum Investment: £250,000

*Note: With regards to a Capital Protected Structured Product, capital could be at risk if the issuer defaults. The products may also produce a capital loss if sold before the end of their term and/or if they have been purchased above the "protected" price in the secondary market.



Risk Warnings

Structured products are specialist investment vehicles that are principally designed to provide investors with a return, which may be in the form of income, capital or a mixture of the two.

Principally they are designed to provide those returns in a less volatile manner than would be provided by a direct investment in the underlying investments in which they typically invest (equities, bonds etc.). They typically do this by attaining exposure to the underlying investment via options (or derivatives) and combining this with a bond.

Normally such investments have a fixed lifespan and whilst it is possible to exit many of these vehicles by a market trade ahead of the redemption point it is very important to understand that early redemption is both not necessarily available and/or could lead to a significant diminution in capital against holding to redemption.

Construction of Structured Products

An understanding of the mechanics that sit behind the headline return of these products is important. They are complex and risks can be generated from a number of angles. Careful selection can reduce these risks but they are not designed to be a replacement for cash deposits.

There are typically two principal elements to the "structure";

- **A zero coupon bond (ZCB) issued by a bank:** that is a debt security that does not pay any interest. As a result, such bonds are typically traded at a discount to their face value, thereby creating a "profit" when they are redeemed.

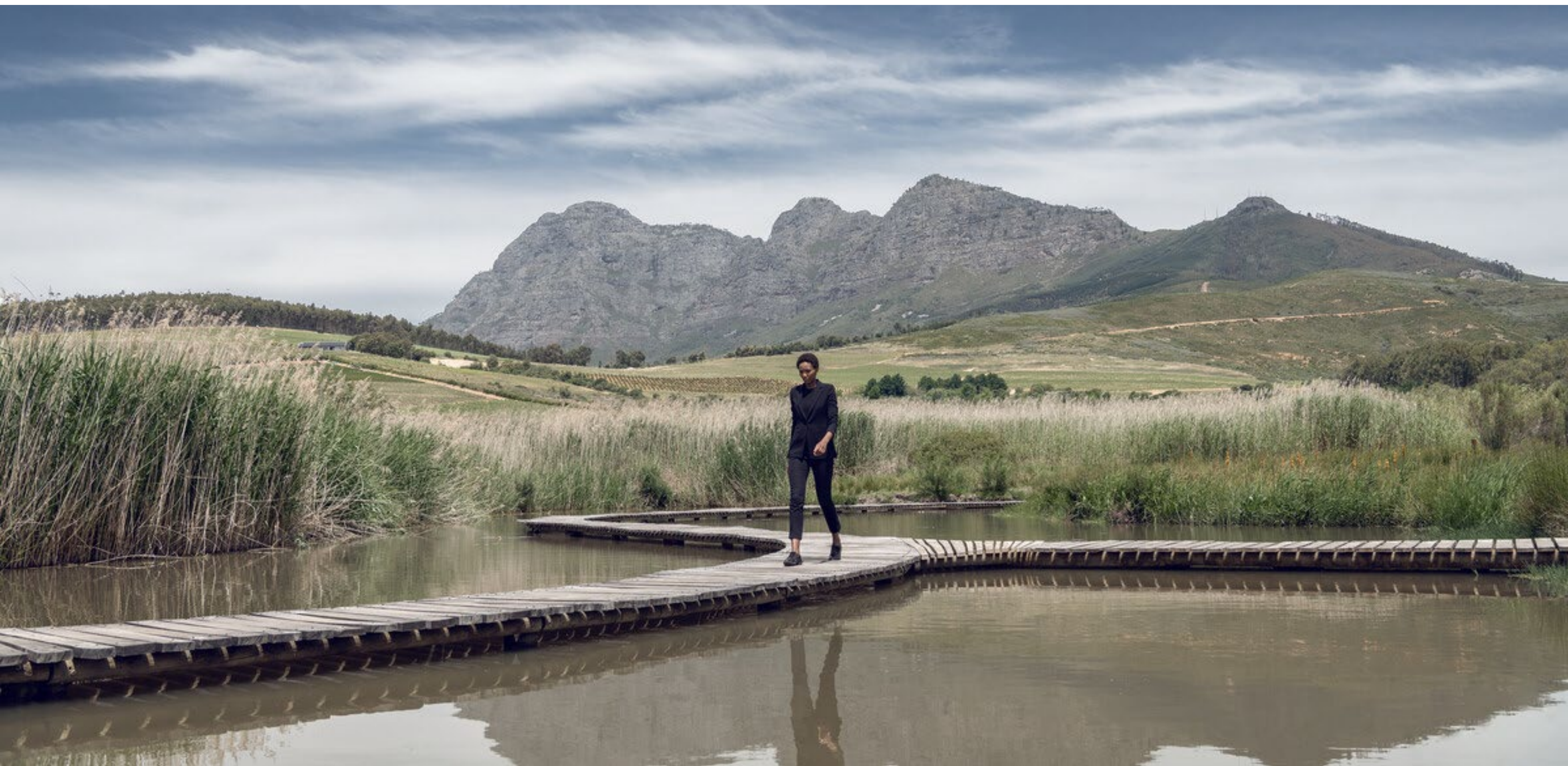
Risk Warnings (continued)

- **An option (or derivative) strategy:** where various individual options with different parameters can be combined in order to gain exposure to a specific type of opportunity or risk, and depending on the investment outlook allow the strategy to benefit from bullish, bearish, or neutral views. The combination of options within the strategy, can include both going long (buying) or short (selling) different individual options. The option positions within a strategy can give rise to a structured product have capital at risk. As there are an unlimited number of ways different options can be combined it is important to understand whether the strategy is long or short.

There are elements that can affect the risk of the overall investment, including;

- Credit spreads, (where the credit spread is the difference in yield between two bonds of similar maturity but different credit quality. Widening credit spreads indicate growing concern about the ability of corporate borrowers to service their debt. Narrowing credit spreads indicate improving private creditworthiness).
- Interest rates.
- Implied volatility levels, (where implied volatility is the estimate of future price fluctuations in the underlying asset. For long option positions, an increase in implied volatility will be beneficial, but for short option positions this will be negative).
- The performance of a specified index/strategy, time etc.

The Structured Product portfolio we propose also contains a relatively small proportion of the total investment in Credit-Linked Notes (CLNs). The risks to CLNs specifically are defined by movements in interest rates and the Credit Default Swap (CDS) of the relevant entity. The CDS is the level of risk that the market assigns to a particular company or entity.
The CDS level is in effect the premium that is paid by the buyer in order to insure against non-payment by the relevant entity. If the CDS increases it indicates a growing concern about the ability of the entity to service its debt. If the relevant entity has a credit event (as determined by International Swaps and Derivatives Association), the seller of the CDS would provide protection to the buyer against potential loss. The holder of a CLN is selling this protection in return for a premium.



Risk Warnings (continued)

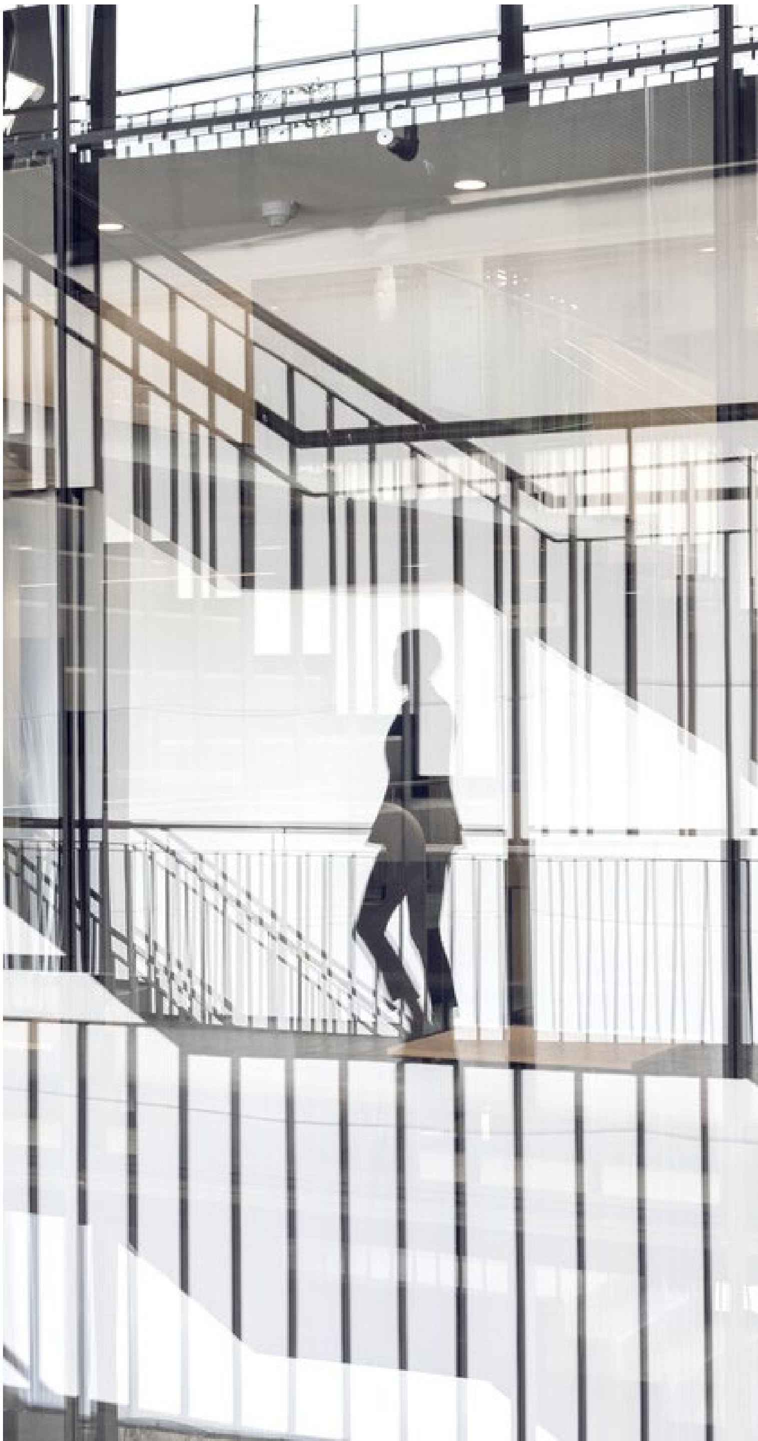
As outlined credit risk is typically one of the key risks when investing in any Structured Product. Most Structured Products represent the highest level of debt not secured against any asset (called senior unsecured debt) of a single financial institution, (i.e. they represent a loan to that company). If an underlying bank enters bankruptcy, it could mean that investors in a Structured Product backed by that bank could lose 100% of their invested capital. **Investors in Structured Products will not be protected by the Financial Services Compensation Scheme in the UK in the same manner as other investments (e.g. bank deposits)**.

The degree of defined capital protection varies between different types of Structured Product. Some Structured Products contain barriers linked to a specified index/strategy, which if breached, could result in a substantial capital loss. We anticipate that all of the Structured Products within the portfolio we propose will have 100% capital protection, meaning that capital is protected to the value of the initial launch price of the Structured Product.

However, no investment (including any ‘capital protected’ Structured Product) can be regarded as free of all risk. Even with regards to a Structured Product with 100% capital protection, capital could be at risk if the issuer defaults. A ‘credit event’ could also lead to a capital loss on a CLN. Either product may as outlined also produce a capital loss if sold before the end of their term and/or if they have been purchased above the ‘protected’ price in the secondary market. The real value of any investment may also be eroded by inflation. Structured Products (and even diversified Structured Product portfolios) are therefore not suitable for investors with no capacity for loss and should most certainly not be viewed as a ‘cash alternative’.

With regards to secondary market trading, the bid/offer spread is typically 1% or less. However, it is possible that in a highly volatile environment the bid/offer spreads could widen. In addition, supply in the secondary market for a particular Structured Product can become exhausted, making additional purchases in any size difficult or impossible.

Finally, current tax treatment of structured products is fairly clear. However, tax rules can change, and there can be no guarantee on future tax treatment.



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The information contained within this brochure does not constitute financial advice or a personal recommendation. Investors should remember that the value of investments, and the income from them, can go down as well as up and that past performance is no guarantee of future returns. You may not recover what you invest. References to taxation are based on our current understanding of the legislation but we do not represent that it is accurate or complete and it should not be relied upon as such. Tax laws are subject to change.

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