

What is a Structured Product?

Structured products are pre-packaged financial instruments that combine traditional investments [like bonds or equities] with derivatives to create a customized risk-return profile. They are typically designed to meet specific investment goals, such as capital protection, enhanced yield, or market-linked returns, often over a fixed term.

What is a Barrier Reverse Convertible [BRC] Note?

Barrier Reverse Convertible Notes [BRCNs] are short- to medium-term structured products that offer high coupon payments in exchange for taking on downside risk linked to one or more underlying assets [usually equities].

How do they work in practice?

1. Coupon Payments:

The investor receives fixed, guaranteed, often high, periodic coupons [e.g. monthly or quarterly], regardless of how the underlying performs.

2. Barrier Level:

A key feature is the barrier, typically set at 60–80% of the initial price of the worst-performing underlying.

It can be European [only checked at maturity] or American [monitored continuously].

Payoff



3. Redemption Scenarios:

If the barrier is not breached during the term: Investor receives 100% of the initial capital at maturity, plus the coupons. If the barrier is breached, and the worst-performing asset is below its initial price at maturity:

The investor receives the value of that worst-performing asset [in cash or shares], resulting in a capital loss.

Benefits of a BRC note

High Coupon Income:

Offers attractive periodic payments, often far higher than dividend yields or interest rates. Coupons are typically paid regardless of the underlying's performance.

Market-Neutral or Slightly Bearish Strategy:

Ideal if you believe the underlying stock[s] will stay flat or decline moderately. Returns are earned even if the stock goes down—as long as the barrier isn't breached.

Customizable Risk-Return

Terms [coupon, barrier, maturity, underlying] can be tailored to market view and risk appetite.

Enhanced Yield in Low-Rate Environments:

Valuable when traditional bonds or fixed income investments offer low returns.

Worst-of Basket Opportunity

Can offer diversification across several names, although it increases risk.

What are the risks of using BRCS?

Downside Risk Below the Barrier

If the worst-performing underlying breaches the barrier and is below initial value at maturity, you may incur significant capital losses. You could be "put" the worst-performing stock [or its cash equivalent], exposing you to full downside.

No Participation in Upside

Gains are capped at the fixed coupons; if the underlying rallies, you miss the upside.

Credit Risk



You are exposed to the issuer's creditworthiness. If the issuer defaults, your capital is at risk

When is best to use a BRC note?

Neutral to Moderately Bearish Market Outlook

You expect the underlying[s] to remain flat or drop slightly, but not breach the barrier.

Income Generation Focus

You seek regular, high-yielding income and are willing to accept capital risk.

Tactical Play on Volatility

When implied volatility is high, coupons tend to be more attractive—making issuance more favourable.

Diversification Tool

You want to complement equity or bond exposure with a product that behaves differently under certain scenarios.

What is a Capital Protection Note?

Capital Protection Notes [CPNs] are structured products designed to preserve all or part of the invested capital at maturity, while offering potential upside linked to the performance of an underlying asset [e.g. equity, index, or basket].

How do Capital Protection Notes Work?

Capital Protection Component

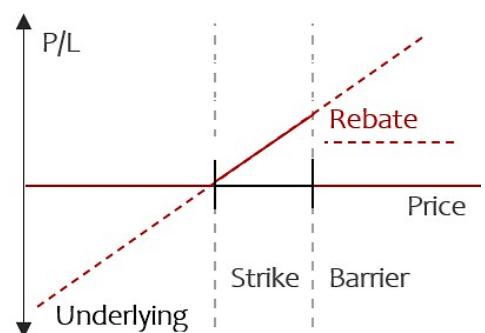
A portion of your investment is used to buy a zero-coupon bond, which ensures that you receive 100% [or a predefined percentage, e.g. 95%] of your principal back at maturity.

Market Participation via Derivatives

The remaining amount is used to buy options or derivatives that provide exposure to the upside of the underlying asset[s].

Payoff at Maturity

If the underlying performs well: You receive your capital back plus a return, often capped or conditional. If the underlying performs poorly: You still receive your protected amount [e.g. 100% or 95%]—no loss on the protected portion.



Pros of A Capital Protection Note

Principal Protection

You are guaranteed to receive all [100%] or a predefined portion [e.g., 95%] of your capital back at maturity, even if markets fall. This makes them suitable for risk-averse investors/clients.

Participation in Market Upside

Offers exposure to the performance of an underlying asset [e.g., stock, index, basket] via derivatives. Gains are possible without risking the protected capital [though usually not full upside participation].

Customizable Payoff Structures

Can be tailored with caps, participation rates, conditional rebates, or barrier enhancements depending on market views and client needs.

Diversification Tool

Adds a unique risk-return profile to portfolios; behaves differently from traditional stocks or bonds. Often used to complement risky equity exposure with downside protection.

Psychological Comfort

Knowing your capital is protected can help investors stay invested during volatile periods and avoid emotional selling.



Cons of Capital Protection

Limited or Capped Upside

Participation in gains is usually partial [e.g., 70–80%] and sometimes capped at a maximum return [e.g., 10%]. In strong bull markets, this may underperform traditional investments.

No Coupon or Interim Returns

Typically, there are no periodic income payments—all return comes at maturity. This may not suit income-focused investors.

Credit Risk of Issuer

Although capital is "protected," this depends on the solvency of the issuer. If the issuer defaults, the protection may not hold.

When is best to Use Capital Protection?

Defensive Market Outlook

When you're uncertain or bearish on the market but still want some upside participation without risking capital.

Risk-Averse Investors

Ideal for conservative investors who prioritize capital preservation over aggressive returns, such as retirees or cautious savers.

Volatile or Uncertain Environments

In times of high volatility or geopolitical/economic uncertainty, CPNs provide a safe harbour with growth potential.

Portfolio Stabilization

As part of a diversified allocation, CPNs can reduce portfolio drawdowns while keeping some equity exposure.

Planning for a Specific Horizon

Useful for goal-based investing [e.g., saving for tuition or a house in 3–5 years], where the investment term matches a known future liability.

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