



VALOR GLOBAL

FAMILY OFFICE | ASSET  
MANAGEMENT



# STRUCTURED PRODUCTS

INFORMATION BOOKLET

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# WHAT IS A STRUCTURED PRODUCT?

Structured investment products (SIPs) are pre-packaged financial instruments that combine different investment components—such as bonds, derivatives, and equities—to offer customized risk-return profiles. They are typically issued by banks or financial institutions and designed to meet specific investment objectives, such as capital protection, enhanced returns, or income generation.

These products can be linked to various underlying assets, including stocks, indices, interest rates, commodities, or currencies.



# TYPES OF STRUCTURED INVESTMENT PRODUCTS

Structured products are broadly classified into three main categories based on their risk-return characteristics:

## 1. Capital Protection Products (Capital Protected Notes - CPNs)

- Aim to preserve the initial investment while offering potential market-linked returns.
- A portion of the funds is invested in fixed-income securities (such as zero-coupon bonds) to ensure the return of principal at maturity.
- The rest is allocated to derivatives (e.g., options) to provide exposure to upside potential.
- Best for: Risk-averse investors looking for a balance of safety and growth.

Example:

A 5-year capital-protected note linked to the S&P 500 Index guarantees 100% of the principal and offers 70% participation in the index's gains.



# TYPES OF STRUCTURED INVESTMENT PRODUCTS

## 2. Yield-Enhancing Products

- Designed to generate higher income than traditional bonds or savings accounts.
- Often include autocallable structures, (barrier) reverse convertibles, or fixed- coupon notes that pay interest even if the underlying asset's price remains flat or slightly declines.
- Typically involve taking on some market risk, as the return is not fully guaranteed.
- Best for: Investors willing to accept some risk in exchange for higher yields.

### Example:

A reverse convertible note pays a 10% annual coupon as long as the stock price remains above a predefined level. If the stock falls below a threshold, the investor may receive shares instead of cash at maturity.



# TYPES OF STRUCTURED INVESTMENT PRODUCTS

### **3. Growth-Oriented Products (Market Participation Notes)**

- Provide exposure to market performance with higher upside potential than capital-protected products.
- Returns are often linked to stock indices, commodities, or foreign exchange markets.
- Some products use leverage to amplify potential gains but come with greater risk.
- Best for: Investors seeking higher returns and willing to accept more risk.

Example:

A leveraged equity-linked note offers 2x the returns of the S&P 500 Index up to a cap of 30%. If the index falls, the investor may lose part or all of their capital.

# KEY FEATURES OF STRUCTURED INVESTMENT PRODUCTS

- Customization: Tailored to different risk appetites and investment goals.
- Diversification: Can include multiple asset classes in one investment.
- Capital Protection (for some products): Reduces downside risk.
- Enhanced Yields: Can offer better returns than traditional fixed-income investments.

## RISKS TO CONSIDER:

- Issuer Credit Risk: Investors rely on the financial stability of the issuing institution.
- Complexity: The structures and payout calculations can be difficult to understand.
- Liquidity Risk: Many structured products have a fixed term and may not be easily sold before maturity.
- Market Risk: Some products expose investors to potential capital loss if the underlying assets perform poorly.

# WHO SHOULD INVEST IN . . . STRUCTURED INVESTMENT PRODUCTS?

- Conservative Investors: Capital protection notes offer security while allowing market exposure.
- Income Seekers: Yield-enhancing products provide higher returns than traditional bonds.
- Growth-Oriented Investors: Leveraged and equity-linked products offer high potential gains.
- Institutional Investors: Pension funds and banks use structured products for risk management and portfolio diversification.

# CAPITAL PROTECTION NOTES (CPNS):

## WHAT IS A CPN?

A Capital Protection Note (CPN) is a structured investment product designed to provide downside protection while allowing participation in market upside. It guarantees the return of all or a portion of the investor's principal at maturity, while linking potential returns to an underlying asset such as stocks, commodities, interest rates, or indices.

Capital Protection Notes are designed to safeguard the investor's initial investment while allowing participation in potential market gains. Depending on the structure, the level of protection can be:

- 100% Protection: The full principal amount is guaranteed at maturity.
- Partial Protection (e.g., 90%, 95%): A portion of the initial investment is protected, meaning investors may lose some capital if the underlying asset performs poorly.
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The protection is achieved by allocating a portion of the investment to a zero-coupon bond or fixed-income instrument, which ensures the return of the principal at maturity.

# HOW IT WORKS

Capital Protection Notes function by dividing the investment into two components:

## 1. Principal Protection Component

- A significant portion of the funds is allocated to a fixed-income security (such as a zero-coupon bond).
- This component ensures that the investor receives the protected portion of the principal at maturity.

## 2. Market Exposure Component

- The remaining funds are invested in derivatives (such as call options) linked to an underlying asset.
- The underlying asset could be stocks, indices, commodities, interest rates, or foreign currencies.
- If the asset performs well, the investor benefits from a portion of the gains based on a predetermined participation rate.
- If the asset performs poorly, the investor still receives their protected capital but may not earn any additional returns.

Example:

- An investor places \$10,000 in a 5-year CPN linked to the S&P 500 Index with 100% capital protection and a 70% participation rate.
- If the index rises 50%, the investor gains 70% of 50% = 35%, making their final payout \$13,500.
- If the index falls 20%, the investor still receives \$10,000 back at maturity.

### 3. Risk and Rewards

#### Rewards:

- Principal Protection: Offers peace of mind that the initial investment (or a portion) is safeguarded.
- Market Participation: Allows investors to gain exposure to potentially high-growth assets.
- Diversification: CPNs can be linked to various asset classes, providing a diversified investment option.
- Customizable Features: Some notes offer additional benefits like currency protection or leverage.

#### Risks:

- Limited Upside: Investors do not get full exposure to market growth due to participation rates.
- Credit Risk: The return of principal depends on the financial strength of the issuer (e.g., a bank). If the issuer defaults, investors may lose their capital.
- Liquidity Risk: CPNs typically have a fixed term and may not be easily sold before maturity.
- Complexity: The structure can be difficult to understand compared to traditional investments.

## 4. Type of Investors

Capital Protection Notes are ideal for:

- Conservative Investors – Those who want market exposure while ensuring capital safety.
- Retirees & Low-Risk Investors – Individuals who prioritize principal protection over high-risk returns.
- Institutional Investors – Pension funds, insurance companies, and wealth managers seeking stable yet growth-oriented investments.
- Moderate-Risk Investors – Investors who want to diversify beyond fixed deposits or government bonds while maintaining some level of security.

# COMPARISON OF BRCN AND CPN

## Barrier Reverse Convertible Note

- Guaranteed coupon payment – usually 10-20% p.a. or higher
- Volatile stocks provide higher coupons
- Notes are more volatile since the pricing depends on the worst-performing stock
- Max loss = worst performing underlying below barrier + coupon
- Max gain = coupon + full capital redemption

Ideal for clients who seek a guaranteed coupon return on attractive and volatile equities.

## Capital Protection Note

- Guaranteed capital protection i.e. 95% upon maturity
- Upside gain in a single or basket of underlyings e.g. equities, indices
- Less Volatility needed but higher Volatility stocks provide higher upside
- Max loss = 100% - capital protection level %
- Max gain = capital protection level % + capped participation in underlying upside

Ideal for clients seeking upside exposure to underlyings whilst having most or all of their capital protected.

# LOMBARD LOANS:

## WHAT IS A LOMBARD LOAN?

A Lombard loan is a type of secured loan where a borrower pledges liquid financial assets—such as stocks, bonds, mutual funds, or other securities—as collateral to borrow cash. It is commonly offered by private banks and wealth management firms to high-net-worth individuals (HNWIs) and institutional investors.

Lombard loans are often used for short-term liquidity needs, investment opportunities, or lifestyle purchases while allowing the borrower to keep their investment portfolio intact.

### How Lombard Loans Work

# HOW IT WORKS

## 1. Collateral Pledge:

- The borrower pledges financial assets (e.g., equities, bonds, or investment funds) as collateral.
- The loan amount granted depends on the Loan-to-Value (LTV) ratio, which varies based on asset type and risk.

Example:

- Blue-chip stocks → LTV of 50%–60%
- Government bonds → LTV of 70%–80%
- Riskier assets (e.g., emerging market stocks) → Lower LTV (30%–40%)

## 2. Loan Disbursement:

- Once approved, the borrower receives cash, which can be used for various purposes (excluding direct investment in the same pledged securities in some cases).

## 3. Interest & Repayment:

- The borrower pays interest on the loan, which can be fixed or variable based on market rates.
- The loan can be repaid fully or partially at any time before maturity.

## 4. Margin Calls & Risks:

- If the pledged assets decline in value and the LTV ratio exceeds the agreed limit, the bank may issue a margin call, requiring the borrower to either:
  - Provide additional collateral, or
  - Repay part of the loan.
- If the borrower fails to meet the margin call, the bank may liquidate the pledged assets to recover the loan amount.

# KEY FEATURES OF LOMBARD LOANS

- **Quick Access to Liquidity:** Allows borrowing against investment portfolios without selling assets.
- **Flexible Use of Funds:** Can be used for real estate purchases, business financing, or personal expenses.
- **Retain Portfolio Benefits:** Borrowers continue earning dividends, interest, or capital gains on pledged assets.
- **Low Interest Rates:** Generally lower than unsecured loans due to collateral security.

## **Risks to Consider:**

- **Market Volatility:** If asset prices fall significantly, margin calls may be triggered.
- **Forced Liquidation:** If the borrower fails to meet the margin call, the bank can sell the pledged securities.
- **Interest Costs:** Continuous borrowing increases overall financial liabilities.

## **Who Uses Lombard Loans?**

- **High-Net-Worth Individuals (HNWIs):** To access liquidity while maintaining investment exposure.
- **Entrepreneurs & Business Owners:** For business expansion, short-term financing, or acquisitions.
- **Investors & Institutions:** To leverage portfolios for additional investment opportunities.

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