

## Structured products – the latest piece in the puzzle



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Structured Products

Investor demand for structured products that offer capital protection has recently been strong, with inflows in excess of \$1 billion for the year to 30 June 2006\*. Luan Atkinson, Head of Perpetual Structured Products, discusses the benefits of capital protected structured products and shows how they can be used by investors to accumulate wealth.

### So what exactly are structured products?

Structured products are simply products that have been specifically tailored (or structured) by combining shares, managed funds, bonds, indices or commodities with derivatives to achieve a specific investment outcome.

\*Source: Perpetual

While most structured products use shares, bonds or indices as their underlying investment, it has been the new fund-linked versions offering capital protection that have become increasingly popular with investors.

Although these fund-linked versions generally have traditional managed funds as their underlying investment, they often have sophisticated risk management investment strategies also attached to them, which helps the new risk/return outcome set by the issuer to be achieved.

## Benefits offered by capital protected structured products

Structured products that use managed funds as their underlying investments and offer capital protection can provide investors with a range of benefits including:

- **Peace of mind.** Capital protected structured products are able to protect an investor's initial investment, allowing them to benefit from the performance of growth-oriented investments, safe in the knowledge their capital is protected if these investments fall in value.
- **Wealth acceleration.** Capital protected structured products that have a lending facility provide investors with the potential to really accelerate their investment gains. Another benefit is they generally don't have margin calls like more traditional gearing products.
- **Gains lock-in.** Some capital protected structured products allow investors to protect or 'lock-in' unrealised gains within the product, having these paid to them at the end of the investment term. Some

even allow investors to borrow against these unrealised gains, which can help to accelerate their gains even further.

- **Taxation advantages.** Tax deductions may be available for the interest costs incurred when borrowing to invest, with the management costs of some structured products also being deductible.

While the capital protection offered within many structured products aims to ensure investors don't lose their initial investment, investors need to be mindful of the costs associated with 'buying' capital protection, the opportunity costs of only receiving your initial investment back and the commitment involved, as many structured products have an investment term of at least five years.

## Greater choice for investors

As structured products continue to evolve and more innovative designs are developed, the clear winner should be the investor. It is important to remember, however, as with any product, that it is still the underlying investments that drive performance, and so

any structured product still must have high quality assets for it to successfully meet its performance objectives.

## Structured products offering capital protection may be suitable for:

- **Wealth creators.** Those investors who want to create wealth by using 100% gearing to invest in growth assets.
- **Wealth accumulators.** Those investors who want to use a geared investment to accelerate repayment of their mortgage.
- **Wealth maximisers.** Those investors approaching retirement who want to maximise their retirement savings but have insufficient time to absorb any market volatility.

## Watch this space

Our structured products team will shortly be launching an exciting new structured product that offers investors the best of both worlds – accelerated wealth potential with advanced capital protection. More information to come, so stay tuned.

## Using structured products to accelerate your mortgage repayments

Peter earns a very good income and while he has already paid off half of his mortgage, he is keen to pay the rest off even faster without affecting his current cashflow. As Peter pays tax at the highest marginal rate, he is also looking to boost his long-term wealth accumulation strategy through increased tax effectiveness.

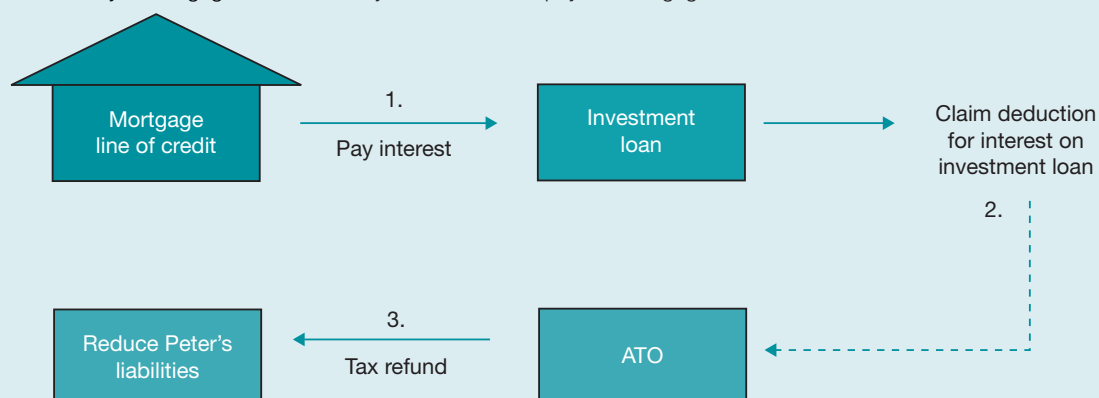
Using a structured product with capital protection and a loan facility, Peter could use a line of credit secured by a mortgage over

his house to pay for the interest costs on the investment loan, which could be used to invest in several growth-oriented managed funds.

Once invested, Peter may be able to claim a tax deduction for the interest payable on the investment loan. These annual tax refunds, together with any distributions from the product and the investment proceeds after repayment of the investment loan at maturity may allow Peter to repay his mortgage

faster, assuming of course the return on the product is greater than the cost of borrowing.

Peter also understands the risks involved, as if the funds he chooses do not perform well, and he receives less than the sum of the interest paid over the life of the investment, he will have actually slowed down his repayments by increasing his mortgage.



Source: Perpetual Investments