



Meteor Asset Management Structured Product Tailoring Service

Structured products offer investors a transparent investment vehicle which can be built to accommodate varying degrees of investor risk appetite, asset exposure and protection with pre-determined return levels. Our popular structured product tailoring service enables our clients to create a vehicle that is designed to match their investment criteria irrespective of complexity or jurisdiction

Overview

At Meteor we understand that the needs and demands of all investors are unlikely to be satisfied simply by the range of retail structured products available in the market place. As such, we offer a bespoke structured product development service that allows us to individually tailor an investment solution to meet the needs of an individual, small group of investors, organisation, pension scheme or charity.

The construction process is driven by the specific investment requirements of the clients and encompasses basic factors such as the required term, investment return, tax position and the preferred asset class. As the product is being designed solely for the needs of a client their social, environmental and even cultural wishes can be accommodated as required.

Our aim is to offer market leading investment solutions for investors whatever the proposition and we believe we are ideally positioned to bring our client's aspirations to fruition using our extensive network of industry contacts. The minimum investment required by an individual, organisation or group to make the development of a bespoke product viable can be as low as £500,000.

A Growing Market

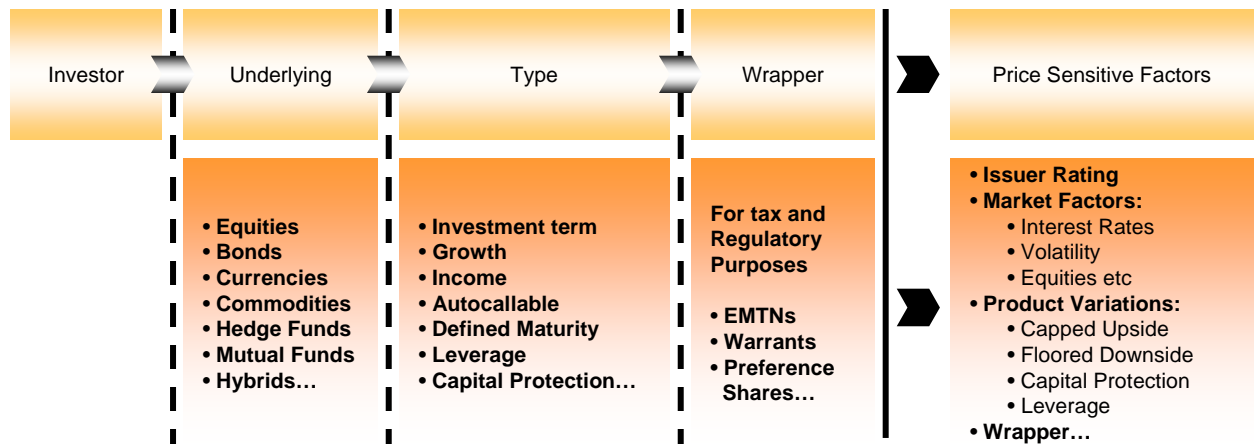
The structured products market has grown dramatically over the past decade, in terms of both the number of products bought to market and sales volumes achieved. In 2000, 191 products were issued achieving sales of £2.64 billion*. In 2008, this figure had grown, with a total of 893 plans being released achieving total sales volumes of £8.54 billion*. This growth can be attributed to two key fundamentals – increased innovation by product providers and counterparties and the increased appreciation by advisers and their clients that structured products provide a meaningful allocation in a balanced investment portfolio.

**Source: Structured Retail Products – June 2009*

This information is for professional investors only and should not be presented to, or relied upon by, private investors.

Product Construction Variables

A client's needs may be driven by either their underlying income or growth investment requirements, or alternatively their desire for exposure to specific asset classes. The diagram below summarises the factors that combine to develop a suitable structured product, whatever the objective.



Income or growth

Whatever a client's investment goal, we can develop a structure that can cater for their requirements. If income is required the levels are usually fixed at inception and are typically very attractive when compared with rates offered by typical high street institutions and indeed Bank of England Base Rate. Whilst these structures generally place capital at risk if a greater degree of capital protection is required products with variable income levels can be created.

Growth contracts come in many guises and offer the opportunity for capital growth which, subject to market conditions and the risk appetite of the investor, provide a clear pre-determined return depending on the performance of the underlying asset class/es.

Term

One of the benefits of tailoring a structured product to meet an investment goal is that we can deliver a product which can cater for any term requirement between 6 months and 10 years. This inherent flexibility is one of the key decision drivers making the use of structures in portfolio construction increasingly popular.

Securities

A variety of underlying securities are available to ensure that the returns achieved from each product are delivered in the most tax efficient way pertinent to each investors circumstances. The options available can provide gains assessable to CGT or in any format that utilises tax planning opportunities which arise from time to time.

For individuals looking to invest via offshore life company bonds we can look, subject to volume, to create structures suitable to both UK and non-UK resident investors.

Protection barriers

Another advantage of commissioning a bespoke structured product is the ability to include appropriate levels of capital protection commensurate with a clients risk appetite. As a general rule it should be noted that the higher the degree of protection required the lower the headline participation rate is likely to be. Typically, products either offer 100% capital protection or have degrees of protection against falls in value of the underlying asset class – hard or soft protection.

Hard protection barrier – provides a cap on the maximum potential losses that an investment may return based on the performance of the underlying asset. This will reduce the potential return the product can offer versus a soft protection barrier

Soft protection barrier – offers protection against falls to a certain level. If this level is breached during the term the underlying will need to recover to a pre-determined level, normally the starting level, otherwise a reduction in capital may result.

Counterparty

The counterparty to a structured product is the institution that provides the underlying securities with the characteristics required to achieve the investment objectives of the product. Whilst different institutions specialise in certain asset classes and product types our key relationships with all the leading investment banks enable us to procure the best trading terms to suit the product specifics.

Assessing the credit quality of a counterparty can be done through credit rating agency assessments and credit default swaps (CDS).

Ratings agencies - there are 3 leading credit rating agencies that are used and recognised in the market place today – Standard and Poor's (S&P), Moody's and Fitch. Investment grade debt ratings from the agencies vary from AAA to BBB- for both S&P and Fitch Ratings and Aaa and Baa3 for Moody's.

Credit Default Swaps – on a very basic level the CDS rating of an institution gives an indication of the potential credit risk associated with the organisation. CDS rates, which are quoted as an annualised spread above Libor, show the cost of insuring against a debt default of the underlying issuer and the higher the CDS rating the higher the potential risk of default and hence the more costly is the insurance against it.

When designing a bespoke product offering we will always take into consideration the specific counterparty demands of the client.

Charges

We will purchase the underlying Securities so that the payoff profile covers all of the establishment and administration costs, the fees and expenses payable to ourselves and each of the financial institutions involved in the provision of the Securities, as well as the cost of any commission we pay to authorised Financial Advisers.

Structured Product Variations

Below are examples of some of the most basic structures which can be used to meet your client's investment requirements.

Auto-callables – These products are structured to be held for a maximum term but have the ability to mature early if certain pre-determined conditions relative to the underlying asset class are met. For example, a plan may have a 6 year term, be based on the FTSE 100 (the Index) and pay an annual coupon of 8%. If on any anniversary the Index is at or above a pre-determined level the plan will mature and pay 8% for each year the plan was in force.

Income products – These are designed to offer enhanced income levels throughout the term with the return of the initial capital dependent on the performance of the underlying asset. For example, a 5 year product linked the FTSE 100 (the Index) that may pay a gross annual coupon of 6%. Initial capital will be returned in full at maturity provided the Final Level of the Index is not more than 50% below its Opening Level.

Growth products – These offer a pre-determined participation in the performance on the underlying asset class. For example, a 5 year plan linked to the performance of an Index may offer a 250% market participation rate in the performance of the underlying asset subject to a cap of 200%, with the capital return at maturity protected by a 50% barrier.

Fine Tuning

Further tailoring can then take place in conjunction with the client and their adviser to 'fine tune' the proposition. 'Fine tuning', for example, may involve changing the levels of protection built into the structure by changing when and how frequently the capital return breach barriers are read. The return of capital could be based on the close of business reading of the underlying asset on the final day of the contracted term, which is deemed to provide a higher level of protection and is therefore more expensive than having the return of capital based on the close of business levels throughout the term, which again, is more expensive than an 'Intra-day option' where the barrier levels are monitored constantly. Alternatively the client could also opt to include 'Averaging' which is where the performance of the underlying asset is determined by calculating the arithmetic mean values of the underlying asset at pre-determined observation dates as opposed to simply observing the performance on the first and final day.

These are but a few examples of the tailoring enhancements that can be considered once the base product framework is established. We would be pleased to discuss all the alternative structuring options available.

Meteor contacts

This document is designed to give a brief overview of the opportunities and options available. We would welcome the chance of discussing your requirements in greater detail. Should you wish to discuss product ideas please contact us using the details provided below

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