

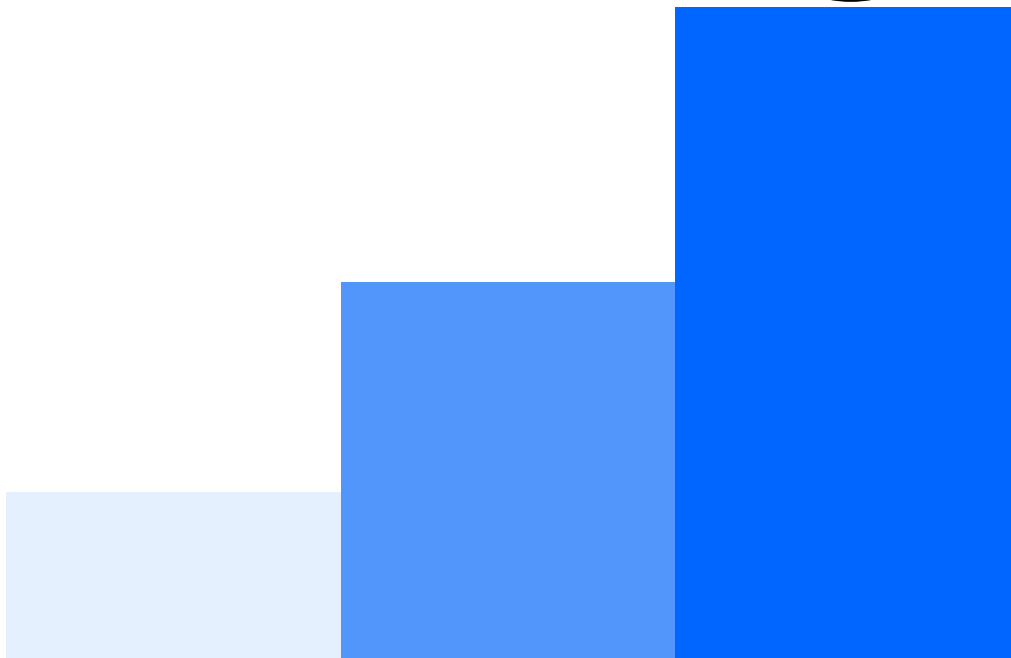
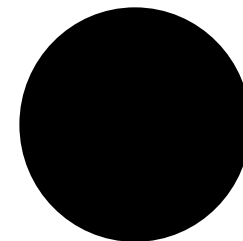


'HICS': THE HILBERT ISSUER AND COUNTERPARTY SCORECARDS

- INTRODUCTION AND OVERVIEW

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An introduction to Hilbert Investment Solutions



Established in Paris in 2012, before opening in London in 2016, and then proceeding to expand our reach further internationally, we have built a reputation for developing innovative investment and pension solutions for a wide range of investors, from individuals to institutions.

We are a multi award-winning structured products and protected investments and pensions firm, operating with scale, with a team of circa 50 people, across Europe, including in the UK, France, Italy, Belgium and Luxembourg, as well as in the Middle East, serving professional advisers and individual and institutional investors.

We aim to provide professionally advised and self-directed investors with innovative investment solutions, including structured products and protected investments and pensions, that are carefully designed to fundamentally increase the likelihood of positive returns being generated and / or decrease the likelihood of losses being experienced.

To us, this is the basic purpose and principle of a good investment strategy – and we think that our products can meet the interests and needs of many savers and investors, as part of a diversified portfolio.

As with any investment product, our products are not without risk. But our products can change and sometimes reduce or even remove some of the risks usually associated with stock market linked investments - and we aim to be as clear about the risks of our products as we are about the potential returns, using simple language and avoiding unnecessary jargon, with the aim of providing clear explanations which everyone can understand.

At the heart of our approach, we want to be known for a client-centric approach that puts investors first, best practice governance and compliance and a bar-raising level of support for professional advisers, presenting a high calibre, specialist investment solutions partner that professional advisers and investors can be genuinely confident in.



From our primary offices in Paris and London, our award-winning team design investment and pension products to meet specific investor interests and requirements, with exceptional plan administration and custody arrangements and service and support.

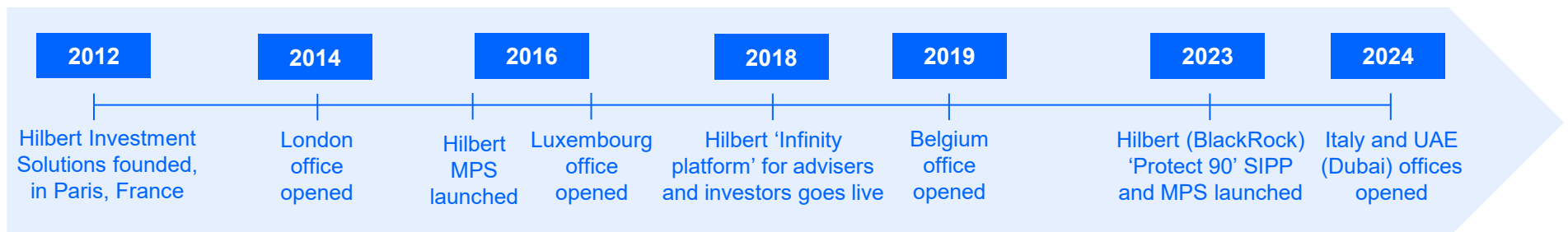
Operating internationally, across Europe and the Middle East

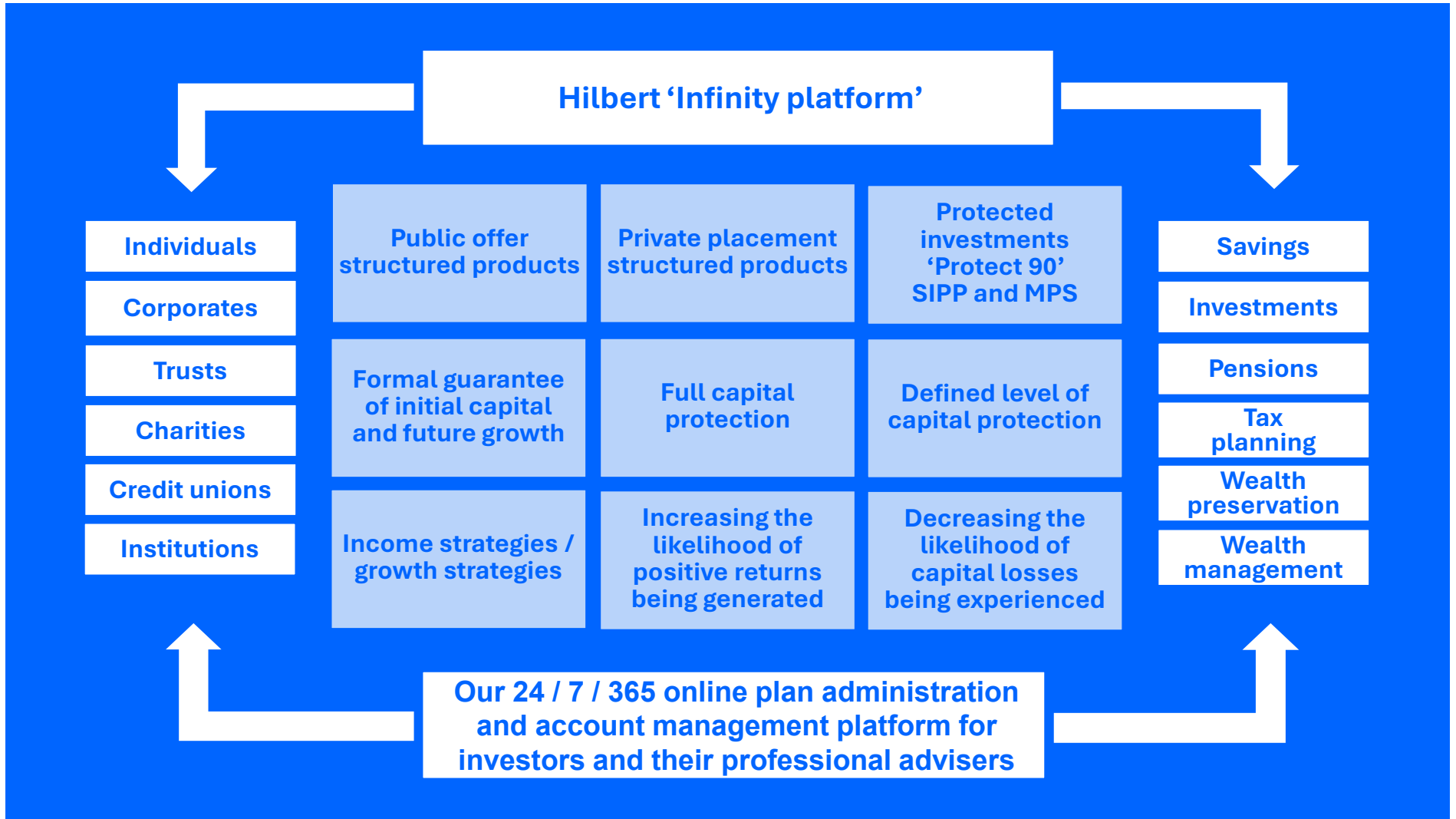


Our team: we are a team of approximately 50 people, operating from offices across Europe and the Middle East, serving individual and institutional clients.

Our partners: we work with approximately 20 investment banks; investment and pension providers; custody service providers; and over 500 professional adviser firms.

Our assets under management and administration: we have launched more than 500 products to date, with in excess of £750m under management and administration.





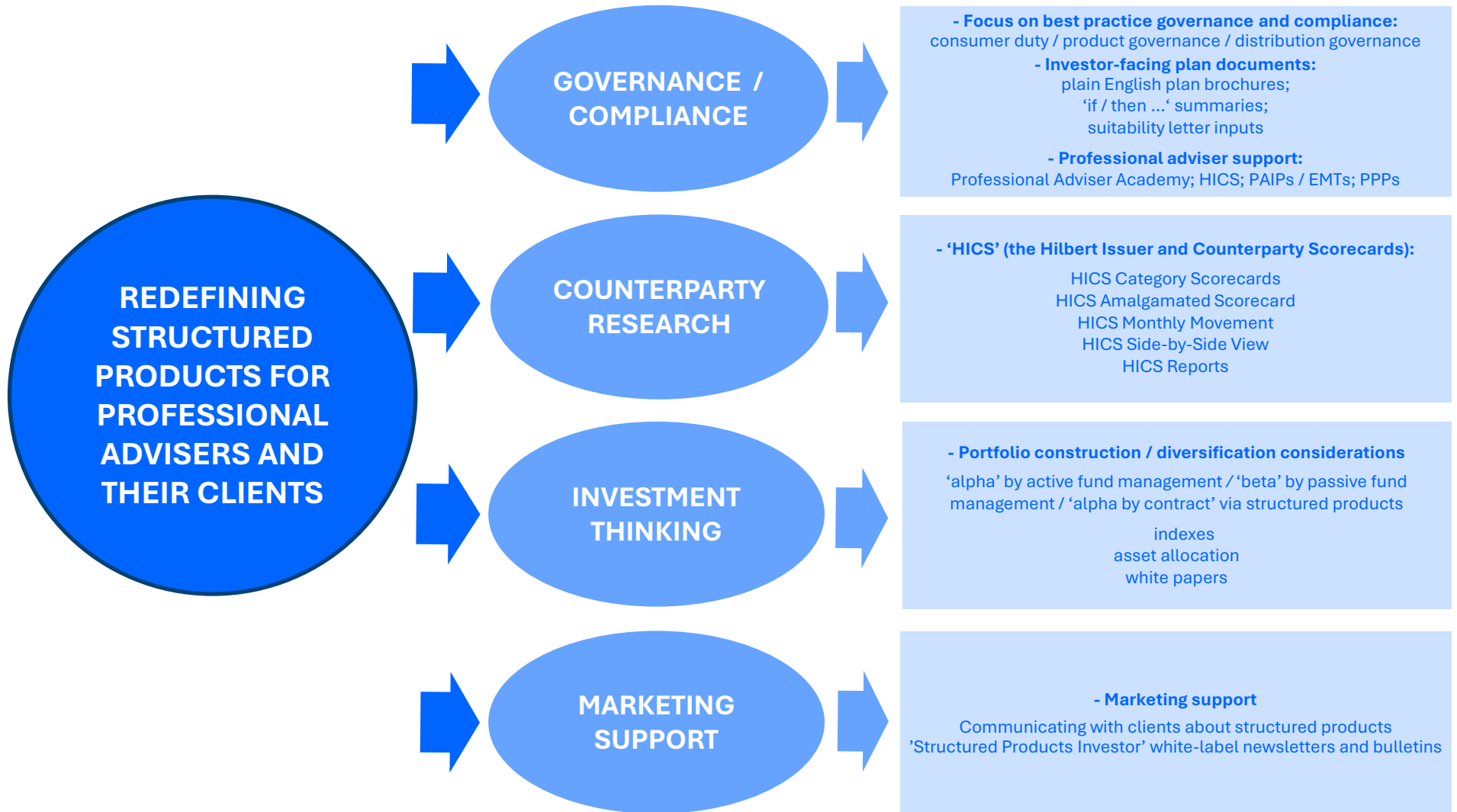
- **This presentation provides our ‘HICS: Introduction and overview’**
- **Please also see:**
 - our ‘HICS: Methodology (scoring and weighting)’ presentation
 - a recording of our ‘**HICS: Workshop**’ video webinar presentation for professional advisers is also available:
<https://tempo-sp.com/newsroom/recorded-video-webinars>

- **We want to be known for a client-centric approach that puts investors first, best practice governance and compliance and a bar-raising level of support for professional advisers, presenting a high calibre, specialist investment solutions partner that professional advisers and investors can be genuinely confident in:**
 - our aim is to meet and even surpass regulatory requirements / expectations and guidance, recognising that good governance is a cultural core value not just a regulatory requirement

- **We believe that best practice governance and compliance is:**
 - first and foremost, client-centric
 - second, best for the professional adviser firms which we work with
 - third, best for us as a business: an opportunity for us to demonstrate best practice, raise the industry bar, and show how we think structured products can be done and should be done

- **We think many professional advisers share these views and want to be confident of best practice governance and compliance in the providers that they deal with:**
 - notably, achieving best practice processes and outcomes for investors requires the parties involved in manufacturing and distribution to work closely together in a joined-up approach

- **We work hard to provide a bar-raising calibre of support for professional advisers using structured products with their clients, both generally and specifically for our products:**
 - our aim is to help strengthen professional adviser understanding and working knowledge of structured products, including regulatory requirements / expectations and guidance and portfolio construction considerations
 - our approach to best practice governance and compliance is designed to help professional advisers strengthen what they do, including plan manager due diligence, product research, and how they document the advice they give to clients



PROD (3.3.11(3)) states that:

‘... distributors [e.g., professional advisers] should consider the impact that the selection of a manufacturer [e.g., plan managers, who are ‘co-manufacturers’] could have on clients, in terms of various factors, including the financial strength of the manufacturer’

PROD (3.2.16 (2)) requires manufacturers to make: *‘... all appropriate information on our product approval process’* available to distributors

- Focus on best practice governance and compliance:
consumer duty / product governance / distribution governance

- Investor-facing plan documents:

plain English plan brochures;
‘if / then ...’ summaries;
suitability letter inputs

- Professional adviser support:

Professional Adviser academy; HICS; PAIPs / EMTs; PPPs

- ‘HICS’ (the Hilbert Issuer and Counterparty Scorecards):

HICS Category Scorecards
HICS Amalgamated Scorecard
HICS Monthly Movement
HICS Side-by-Side View
HICS Reports

- Portfolio construction / diversification considerations

‘alpha’ by active fund management / ‘beta’ by passive fund management / ‘alpha by contract’ via structured products

indexes
asset allocation
white papers
‘Debating Chamber’ / white papers

- Marketing support

Communicating with clients about structured products
‘Structured Products Investor’ white-label newsletters and bulletins

FSA Retail Product Development and Governance: Structured Product Review, 2012 Thematic Review:

‘Firms should carry out sufficient due diligence into the counterparty and not rely solely on credit rating agencies ...’ / ‘We expect firms to look more broadly than just the credit rating, such as the rating, outlook, credit default swap [‘CDS’] spreads and other market information, as well as ‘fundamentals’ on the issuer’s balance sheet.’

- **We are an independent plan manager (not a bank issuing its own bonds / securities / products)**
- **We think it's straightforward and important to state the obvious:**
 - issuer / counterparty risk is the most fundamental risk of a structured product
 - both the potential returns of a structured product and the repayment of capital usually depend upon the financial stability of the issuer / counterparty bank throughout the investment term
 - professional advisers and investors should seek to identify structured products which are backed by strong issuers / counterparties: **not least as this is a regulatory requirement / expectation for professional advisers**

- Professional advisers are expected to undertake robust issuer / counterparty due diligence
- The regulatory expectations are explicit - the following extracts are taken from the FCA ‘Retail Product Development and Governance: Structured Product Review, 2012 Thematic Review’:
 - *“firms should carry out sufficient due diligence into the counterparty and not rely solely on credit rating agencies ...”*
 - *“we expect firms to look more broadly than just the credit rating, such as the rating, outlook, credit default swap (‘CDS’) spreads and other market information, as well as ‘fundamentals’ on the issuer’s balance sheet.”*

- **There are a number of metrics which are widely considered relevant in identifying and assessing the financial strength / credit risk of a prospective issuer / counterparty bank**
- **The UK retail structured products sector and professional advisers have ‘upped their game’ since the gfc:**
 - there is reasonable knowledge of and attention paid to credit ratings
 - there is some knowledge and awareness of credit default swap (‘CDS’) levels
 - and there is some - albeit less - knowledge and consideration of ‘fundamentals’ (e.g., Tier 1 capital ratios, etc.)
- **But more could and should be done by the sector / plan managers to prompt professional advisers to carefully consider this critical aspect of structured products and to support them in their research and due diligence:**
 - the importance of this aspect of professional adviser research should be considered absolutely key

In the past, support was basic and limited (e.g. alphabetical lists) ...

Bank / Institution	Region	S&P (LT) Rating	S&P Outlook	Moody's LT Rating	Moody's Outlook	Fitch (LT) Rating	Fitch Outlook
ABC	Asia	A	STABLE	WR	STABLE	A	STABLE
Aviva	UK	A	STABLE	A2	STABLE	A+	STABLE
Bank of America	North America	A-	STABLE	A2	STABLE	A+	STABLE
Bank of China	Asia	A	STABLE	A1	STABLE	A	STABLE
Bank of Ireland	Europe	BBB-	NEGATIVE	Baa2	STABLE	BBB	NEGATIVE
Barclays	UK	BBB	STABLE	Baa2	STABLE	A	NEGATIVE
BNP Paribas	Europe	A+	NEGATIVE	Aa3	STABLE	A+	NEGATIVE
BONYM	North America	A	STABLE	A1	STABLE	AA-	STABLE
BPCE Natixis	Europe	A+	NEGATIVE	A1	STABLE	A+	NEGATIVE
CCB	Asia	A	STABLE	A1	STABLE	A	STABLE
Citi	North America	BBB+	STABLE	A3	STABLE	A	NEGATIVE
Credit Agricole	Europe	A+	NEGATIVE	Aa3	STABLE	A+	NEGATIVE
Credit Suisse	Europe	BBB+	STABLE	Baa1	STABLE	A-	STABLE
Danske Bank	Europe	A	STABLE	A3	STABLE	A	NEGATIVE
Deutsche Bank	Europe	BBB+	POSITIVE	A3	STABLE	BBB	POSITIVE
Goldman Sachs	North America	BBB+	STABLE	A2	STABLE	A	NEGATIVE
HSBC	UK	A+	STABLE	A1	STABLE	AA-	NEGATIVE
ICBC	Asia	A	STABLE	A1	STABLE	A	STABLE
ING Bank	Europe	A-	NEGATIVE	Baa1	STABLE	A+	NEGATIVE
Investec Bank plc	UK	NULL	NULL	A1	STABLE	BBB+	NEGATIVE
JP Morgan	North America	A-	STABLE	A2	STABLE	AA-	NEGATIVE
Lloyds	UK	BBB+	NEGATIVE	A3	NEGATIVE	A+	NEGATIVE
Mitsubishi	Asia	A-	STABLE	A1	STABLE	A-	STABLE
Mizuho	Asia	A-	STABLE	A1	STABLE	A-	STABLE
Morgan Stanley	North America	BBB+	STABLE	A1	STABLE	A	STABLE
MSIP	UK	A+	STABLE	A1	POSITIVE	NULL	NULL
Nomura	Asia	BBB+	STABLE	Baa1	STABLE	A-	STABLE
Nordea	Europe	AA-	STABLE	Aa3	STABLE	AA-	NEGATIVE
Prudential	UK	A	STABLE	A2	STABLE	A	NEGATIVE
RBC	North America	AA-	STABLE	A2	STABLE	AA	NEGATIVE
RBS	UK	BBB	NEGATIVE	Baa2	POSITIVE	A	NEGATIVE
Santander	Europe	A	NEGATIVE	A2	STABLE	A-	NEGATIVE
Societe Generale	Europe	A	NEGATIVE	A1	STABLE	A-	STABLE
Standard Chartered	UK	BBB+	STABLE	A2	STABLE	A	NEGATIVE
State Street	North America	A	STABLE	A1	STABLE	AA-	STABLE
Sumitomo	Asia	A-	STABLE	A1	STABLE	A	NEGATIVE
Toronto Dominion	North America	AA-	STABLE	Aa3	STABLE	AA-	NEGATIVE
UBS AG	Europe	A-	STABLE	Aa3	STABLE	A+	NEGATIVE
Unicredit Group	Europe	BBB	NEGATIVE	Baa1	STABLE	BBB-	STABLE
Wells Fargo	North America	BBB+	STABLE	A2	NEGATIVE	A+	NEGATIVE

Source: Thomson Reuters: 01 Mar 2020.

- **Module 4 of our Professional Adviser Academy explains counterparty research and due diligence, including credit ratings, credit default swaps ('CDS') and fundamentals**
- **'HICS' (the Hilbert Issuer and Counterparty Scorecards) provides a bar-raising resource supporting professional adviser issuer / counterparty research and due diligence:**
 - HICS covers all 30 G-SIBs, plus a small number of D-SIBs and other issuers of / counterparties to UK retail structured products
 - HICS compiles multiple Factors across various Categories pertinent to analysing and considering issuer / counterparty financial strength / credit risk, using a robust methodology, including a scoring system
 - HICS is designed to provoke and support more detailed and objective analysis, assessment, understanding and comparison of issuer / counterparty financial strength / credit risk
- **We update and publish HICS each month, producing 9 outputs:**
 - **HICS Category Scorecards:** which identify 27 HICS Factors across 5 HICS Categories
 - **HICS Amalgamated Scorecard:** which combines all of the HICS Factors and HICS Categories
 - **HICS Monthly Movement:** which summarises any significant changes (positive and negative) each month
 - **HICS Side-by-Side View:** which displays the raw data for the main UK retail issuers / counterparties
 - **HICS Reports:** which are provided for the main UK retail issuers / counterparties

- **Our approach as an independent plan manager, able to select and deal with issuers / counterparties without bias, is that we seek to identify and deal with strong issuers / counterparties**
 - the FT Banker Database identifies approximately 3400 banks globally
 - the Financial Stability Board ('FSB') identifies 30 Global Systemically Important Banks ('G-SIBs') each year (usually in November)
 - as the name suggests, G-SIBs are fundamentally the more important banks globally
 - as a result, they are subject to more stringent regulatory requirements, including higher Tier 1 capital ratios / TLAC, etc.
 - it's hard to argue with the rationale of recognising G-SIBs as stronger (and certainly more important) banking groups
 - we therefore deal predominantly with banking groups which are regulatorily identified as G-SIBs or, as a minimum, Domestic Systemically Important Banks ('D-SIBs')

- **We developed HICS (at Tempo) for internal purposes to help us analyse, assess, understand and compare issuers / counterparties, in order to objectively identify strong issuers / counterparties:**
 - the widely recognised measures and indicators of financial strength / credit risk and scoring system support and can provoke detailed and objective analysis, assessment, understanding and comparison of issuers / counterparties

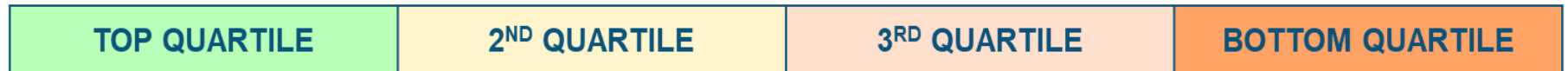
- **In addition to using HICS internally, we publish HICS to provide a bar-raising resource for professional advisers, to support them in meeting their regulatory research and due diligence responsibilities when using structured products:**
 - HICS provides professional advisers with easy access to multiple, widely recognised indicators of financial strength / credit risk, pertinent to assessing and considering financial strength / credit risk
 - HICS uses a robust methodology, including a scoring system, supporting (and provoking) detailed and objective analysis and comparison of issuer / counterparty bank financial strength / credit risk
 - HICS supports best practice professional adviser issuer / counterparty research and due diligence
- **Professional advisers using HICS should take the time to look at the ‘HICS: Introduction and overview’ and ‘HICS: Methodology (scoring and weighting)’ presentations and video webinar recording of the HICS workshop**

- HICS covers all 30 G-SIBs, plus a small number of D-SIBs and other issuers of or counterparties to UK retail structured products
- We update and publish HICS each month, producing 9 outputs:

HICS
1. HICS Category Scorecard - Credit ratings
2. HICS Category Scorecard - CDS
3. HICS Category Scorecard - Fundamentals (balance sheet)
4. HICS Category Scorecard - Fundamentals (market indicators)
5. HICS Category Scorecard - Systemic importance
6. HICS Amalgamated Scorecard
7. HICS Side-by-Side View
8. HICS Reports
9. HICS Monthly Movement

- There are 27 '**HICS Factors**' across 5 '**HICS Category Scorecards**':
 - each of the 27 HICS Factors generate a score, ranging between 1 (best) and 10 (worst)
 - each of the 27 HICS Factors is attributed a weighting, which are combined to produce the 5 HICS Category Scorecards
 - each of the 5 HICS Categories generate a score, ranging between 1 (best) and 10 (worst)

- The ‘HICS Amalgamated Scorecard’ combines all of the 27 HICS Factors and 5 HICS Categories:
 - each of the HICS Category Scorecards is attributed a weighting, which combine to make the HICS Amalgamated Scorecard
 - the HICS Amalgamated Scorecards is based on a score out of 1,000 (with a low score best and a high score worst)
 - the HICS Amalgamated Scorecard uses colour to identify the quartile position of each issuer / counterparty



- the colours attributed to each issuer / counterparty in the Amalgamated Scorecard are retained in the HICS Category Scorecards, so it is possible to see at a glance how each issuer / counterparty scores in the HICS Amalgamated Scorecard

- The ‘HICS Side-by-Side View’ displays the raw data for the main UK retail structured product issuers / counterparties
- Individual ‘HICS Reports’ are provided for each of the main UK retail structured product issuers / counterparties
- The ‘HICS Monthly Movement’ summarises any significant changes (positive and negative) in each of the HICS Category Scorecards and the HICS Amalgamated Scorecard each month

- **Please see our ‘HICS: Methodology (scoring and weighting)’ presentation for full details and explanation of the HICS methodology, scoring and weighting, which explains:**
 - each of the HICS Factors
 - the scoring system for each HICS Factor
 - the weighting of each HICS Factor within each HICS Category
 - the scoring system for each HICS Category
 - the weighting of each HICS Category within the HICS Amalgamated Scorecard
 - the scoring system for the HICS Amalgamated Scorecard

- **Careful consideration was given to the development of HICS, the HICS Factors and HICS Categories:**
 - including the methodology, scoring and weighting and how the HICS Factors and HICS Categories interlink
 - we would suggest that the HICS scoring is logical and broadly self-selecting: however, we highlight that the HICS methodology, scoring and weighting is based on our views of the metrics and their relative importance

- We also highlight additional considerations regarding the HICS Factors and HICS Categories that we bear in mind, such as the ‘angle’ and ‘status’:
 - **‘angle’ refers to the direction in time:** for example, credit ratings are *‘forward-looking’*; CDS levels are prevailing; past volatility of CDS levels or share prices are *‘backward-looking’*; balance sheet fundamentals are *‘historical’* (as at the date of the last set of published report and accounts)
 - **‘status’ refers to facts, views or indicators:** for example, balance sheet fundamentals are *‘facts’*, taken from the financial reports and accounts; credit ratings are simply the *‘views’* of credit rating agencies; and CDS levels may be thought of as an *‘indicator’*, being neither a fact nor a view

- **The data sources for HICS are:**
 - Bloomberg
 - FT Banker Database
 - where data is not available via these sources, inputs are requested from the issuers / counterparties

HICS weighting: Category Scorecards and Amalgamated Scorecard



HICS CATEGORY SCORECARD - CREDIT RATINGS						HICS AMALGAMATED SCORECARD 40%
S&P (LT) credit rating	S&P rating outlook	Moody's (LT) credit rating	Moody's rating outlook	Fitch (LT) credit rating	Fitch rating outlook	
33.3%		33.3%		33.3%		

HICS CATEGORY SCORECARD - CDS				HICS AMALGAMATED SCORECARD 15%
5-Yr CDS	1-Yr CDS	Direction of 5-Yr CDS	5-Yr CDS volatility	
60%	15%	15%	10%	

HICS CATEGORY SCORECARD - FUNDAMENTALS (BALANCE SHEET)						HICS AMALGAMATED SCORECARD 30%
Tier 1 capital ratio	Leverage ratio (asset / equity)	Loan-to-deposit ratio	Price-to-book ratio	Tier 1 size (\$Bln)	Total assets (\$Bln)	
40%	15%	15%	15%	10%	5%	

HICS CATEGORY SCORECARD - FUNDAMENTALS (MARKET INDICATORS)					HICS AMALGAMATED SCORECARD 10%
Market capitalisation (\$Bln)	260-Day share price volatility	5-Yr beta	Direction of 1-Yr share price	Consensus analyst views	
40%	15%	15%	15%	15%	

HICS CATEGORY SCORECARD - SYSTEMIC IMPORTANCE						HICS AMALGAMATED SCORECARD 5%
G-SIB status	Additional Tier 1 capital ratio	Total deposits (\$Bln)	Sovereign S&P credit rating	Sovereign S&P rating outlook	Number of employees	
50%	15%	15%	10%	5%	5%	

HICS weighting: Factors and additional considerations ...

	HICS FACTOR	CAT. WEIGHT	AMALG. WEIGHT	ANGLE	STATUS	ADDITIONAL CONSIDERATIONS
CR:F1	S&P RATING	30%	12%	FORWARD	VIEW	Commentators criticising credit rating agencies and their ratings generally highlight that ratings are simply views, which are not infallible, and that ratings are requested by and paid for / bought by the obligor, i.e. the entity being rated. Further, critics point to rating agencies and ratings generally being long-term focused and that they can be slow to react to events. A point frequently made by critics is that rating agencies generally 'missed' the global financial crisis – and some commentators would even suggest that they contributed to it. However, following the global financial crisis, rating agencies have been more tightly regulated.
CR:F2	MOODY'S RATING	30%	12%	FORWARD	VIEW	
CR:F3	FITCH RATING	30%	12%	FORWARD	VIEW	
CR:F5	S&P OUTLOOK	3.3%	1.3%	FORWARD	VIEW	
CR:F6	MOODY'S OUTLOOK	3.3%	1.3%	FORWARD	VIEW	
CR:F6	FITCH OUTLOOK	3.3%	1.3%	FORWARD	VIEW	
CDS:F1	5-YEAR CDS	60%	9%	PREVAILING	INDICATOR	CDS levels are viewed as market indicators, reflecting supply, demand the views of credit risk. Unlike credit ratings, the CDS market participants can be very short-term focused and CDS levels can be very quick to react to events. This can make it sensible to consider both credit ratings and CDS levels, when thinking about issuer / counterparty financial strength / credit risk. We also identify volatility and direction.
CDS:F2	1-YEAR CDS	15%	2.25%	PREVAILING	INDICATOR	
CDS:F3	CDS DIRECTION	15%	2.25%	BACKWARD	INDICATOR	
CDS:F4	CDS VOLATILITY	10%	1.5%	BACKWARD	INDICATOR	
FBS:F1	TIER 1 CAP RATIO	40%	12%	HISTORIC	FACT	Tier 1 capital ratios provide a measure of a bank's 'best' capital.
FBS:F2	LEVERAGE RATIO	15%	4.5%	HISTORIC	FACT	Total assets, divided by total equity, indicates debt level.
FBS:F3	LOAN-TO-DEP RATIO	15%	4.5%	HISTORIC	FACT	The loan-to-deposit ratio can indicate a bank's liquidity.
FBS:F4	PRICE-TO-BOOK	15%	4.5%	HISTORIC	FACT	Price to book measures market capitalisation relative to balance sheet book value.
FBS:F5	TIER 1 CAP SIZE	10%	3%	HISTORIC	FACT	Tier 1 capital size simply provides the amount of Tier 1 capital a bank has.
FBS:F6	TOTAL ASSETS	5%	1.5%	HISTORIC	FACT	Total assets simply provides the amount of a bank's total assets.
FMI:F1	MARKET CAP	40%	4%	PREVAILING	INDICATOR	Market capitalisation is the size of a bank: the number of shares x by their price.
FMI:F2	260-DAY VOLATILITY	15%	1.5%	BACKWARD	INDICATOR	1-yr share price volatility measure: but not indicating direction.
FMI:F3	5-YEAR BETA	15%	1.5%	BACKWARD	INDICATOR	5-yr share price volatility measure, relative to the overall market.
FMI:F4	SHARE PRICE DIR.	15%	1.5%	BACKWARD	INDICATOR	Assessment of the direction of share price movement.
FMI:F5	ANALYST VIEWS	15%	1.5%	FORWARD	VIEW	The consensus views of analysts covering stocks for equity investors.
SI:F1	G-SIB STATUS	50%	2.5%	PREVAILING	FACT	The banking groups considered systemically important, regionally / globally.
SI:F2	ADD. TIER 1 CAP RAT	15%	0.75%	PREVAILING	FACT	G-SIBs are required to hold additional Tier 1 capital, as a ratio.
SI:F3	TOTAL DEPOSITS	15%	0.75%	HISTORIC	FACT	The size of retail deposits reflects scale: may be a factor in systemic importance.
SI:F4	NUMBER OF EMPs	15%	0.75%	HISTORIC	FACT	The number of employees reflects scale: may be a factor in systemic importance.
SI:F5	SOVEREIGN RATING	10%	0.5%	FORWARD	VIEW	Identifying whether banks are based in strong countries / sovereigns (additional consideration of whether sovereigns are likely to / or capable of support is also key).
SI:F6	SOVEREIGN OUTLOOK	5%	0.25%	FORWARD	VIEW	

- **We publish HICS to provide transparency regarding our internal processes - and to provide a resource to support professional advisers in meeting their regulatory research and due diligence responsibilities:**
 - but it is important that professional advisers using HICS understand what HICS is: **and what HICS is not**
- **What HICS is:**
 - we developed HICS (at tempo) for internal purposes in order to aid us in analysing, assessing, understanding and comparing issuers / counterparties, to help us identify strong issuers / counterparties
 - the widely recognised measures and indicators of financial strength / credit risk and scoring system support and can provoke detailed and objective analysis, assessment, understanding and comparison of issuers / counterparties
- **What HICS is not:**
 - **HICS is *not* independent research or an investment recommendation**
 - we do not provide any warranty regarding the HICS, the data, our methodology, weighting or scoring: and we expressly exclude any liability for any judgement or interpretation based upon or influenced by HICS
 - professional advisers should reach their own judgement of issuer / counterparty financial strength / credit risk
 - the scoring system within HICS ‘ranks’ issuers / counterparties, but professional advisers should understand that this is not the intended purpose of HICS per se:
 - ... the purpose of HICS is to provoke and support objective analysis, assessment, understanding and comparison of issuers / counterparties

ANALYSE

ASSESS

UNDERSTAND

AND COMPARE

- **Issuer / counterparty risk is the most fundamental risk of a structured product**
- **We developed HICS (at Tempo) for internal purposes to help us analyse, assess, understand and compare issuers / counterparties, in order to objectively identify strong issuers / counterparties:**
 - HICS covers all 30 G-SIBs, plus a small number of D-SIBs and other issuers of or counterparties to UK retail structured products
 - HICS compiles multiple Factors across various Categories pertinent to analysing and considering issuer / counterparty financial strength / credit risk, using a robust methodology, including a scoring system
 - HICS is designed to support and provoke detailed and objective analysis, assessment, understanding and comparison of issuer / counterparty financial strength / credit risk
- **The regulator expects professional advisers to undertake ‘sufficient due diligence’, such as ‘the rating, outlook, CDS and other market information, as well as ‘fundamentals’ on the issuer’s balance sheet’:**
 - we publish HICS to support professional advisers in meeting their regulatory research and due diligence responsibilities
 - we explain HICS clearly, including the scoring and weighting methodology for the HICS Factors, HICS Categories and HICS Amalgamated Scorecard – and we also highlight what HICS is **and what HICS is not**
- **Supporting professional adviser research in this critical aspect of structured products is important:**
 - HICS is part of what we do differently at Hilbert to ‘redefine structured products’, focusing on ‘doing the right things’

Important information: risks and limitations of structured products



In addition to understanding the features and benefits of structured products, professional advisers also need to understand their risks and limitations:

- structured products present counterparty risk, which needs to be understood and accepted: the potential returns and the repayment of money invested in a structured product usually depend on the financial stability of the issuer and counterparty throughout the investment term
- the level of return a structured product generates may be capped and / or less than the level of return generated by direct investment in the stock market or via active or passive funds
- the terms of structured products can predefine what can be expected at maturity and at certain other dates, such as potential 'kick-out' and early maturity dates: but these terms do not apply during the investment term
- the value of structured products during the investment term may be affected by various factors: while accessing an investment is usually possible, during normal market conditions, this is not guaranteed
- past performance is not a reliable indicator of or guide to future performance and should not be relied upon, particularly in isolation: the value of investments and the income from them can go down as well as up
- capital is at risk and investors could lose some or all of their capital

Important information: risks and limitations of structured deposits



In addition to understanding the features and benefits of structured deposits, professional advisers also need to understand their risks and limitations:

- while structured deposits are very similar to bank or building society fixed term deposits, a key difference is that the level of interest that a structured deposit pays may be linked, either fully or partly, to a stock market (or other asset class) index, such as the FTSE 100 or similar
- some structured deposits may offer non-conditional, fixed levels of interest; some may offer conditional levels of interest that are linked to the level of a stock market index; and some may offer a combination of both
- some conditional, stock market linked structured deposits may require the stock market index to rise in order to generate some or all of their potential interest, however many structured deposits do not require the stock market index to rise in order to pay stock market linked interest and some may allow the index to fall
- it is important to carefully consider that while structured deposits offer the potential to generate higher levels of interest than high street bank / building society deposits, the level of interest actually paid may be less than the level of risk free interest paid by high street bank / building society deposits
- notably: even if the interest is conditional and based on a link to the level / performance of a stock market index, the repayment of money in a structured deposit is not subject to stock market risk at maturity
- the value of structured deposits during the deposit term may be affected by various factors: while accessing a structured deposit is usually possible, during normal market conditions, this is not guaranteed
- as per any bank or building society deposit, structured deposits present deposit taker risk, which needs to be understood and accepted: the potential interest of a structured deposit and the repayment of money saved in a structured deposit usually depend on the financial stability of the deposit taker throughout the deposit term
- importantly: as per bank / building society deposits, structured deposits may benefit from FSCS protection, assuming the deposit taker is licensed in the UK and deposit holders are eligible claimants and claims are within claim limits

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