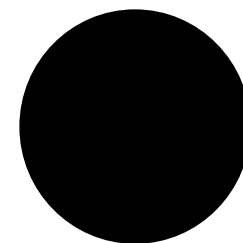




'HICS': THE HILBERT ISSUER AND COUNTERPARTY SCORECARDS

- 'HICS: METHODOLOGY (SCORING AND WEIGHTING)'



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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



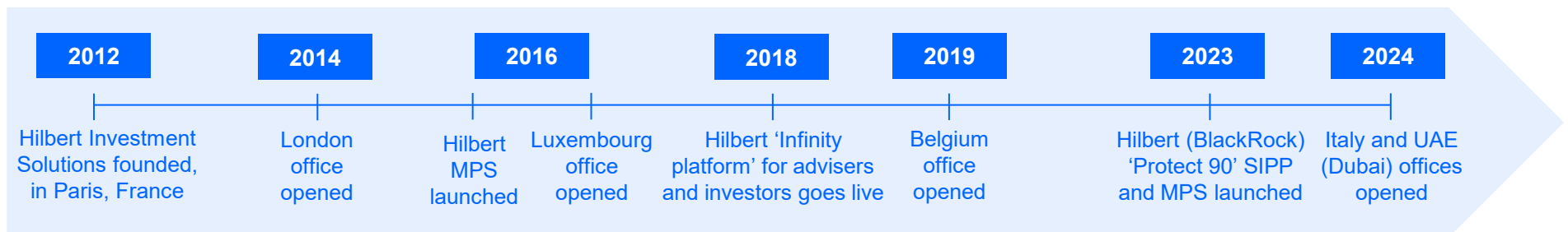
Our team: we are a team of approximately 50 people, operating from offices across Europe and the Middle East, serving individual and institutional clients.

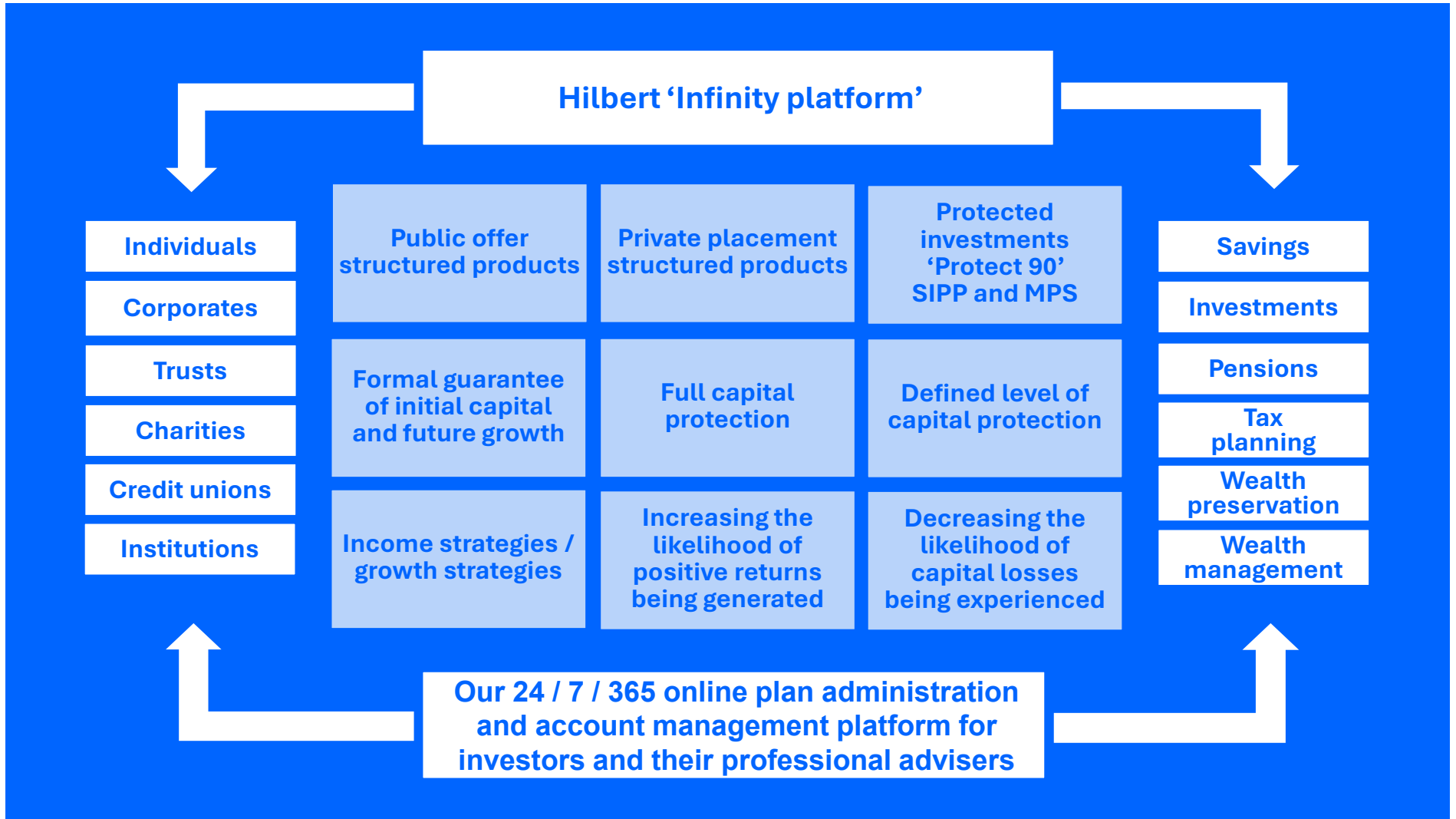


Our partners: we work with approximately 20 investment banks; investment and pension providers; custody service providers; and over 500 professional adviser firms.



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

- HICS covers all 30 G-SIBs, plus a small number of D-SIBs and / or issuers of 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

1. HICS Category Scorecard - Credit ratings ...

- **The 1st of the 5 HICS Category Scorecards is Credit ratings**
- **Credit ratings are widely recognised and generally accepted as a primary indicator of an institution's financial strength / credit risk:**
 - this is, of course, their raison d'être
- **However, there are also potential shortcomings to be aware of and consider, including:**
 - credit ratings being long term focused and potentially slow to react to short term events
 - credit ratings are bought by the institution being rated
- **The HICS Category Scorecard - Credit ratings comprises 6 HICS Factors**
- **The HICS Category Scorecard - Credit ratings has a 40% weighting in the HICS Amalgamated Scorecard**

- **The ratings ascribed by all three main credit rating agencies (Standard & Poor’s, Moody’s and Fitch Ratings) are taken into account, with the ratings from all three agencies equally weighted:**
 - where an issuer / counterparty is not rated by an agency, the other ratings are scaled up proportionately (there is no penalty for not having a rating from each agency: this can be addressed with subjective overlay)
- **CR: F1-3: First, we take take the long-term credit ratings:**
 - each credit rating is attributed a score from 1 to 10, corresponding with the rating scales for investment grade credit ratings used by each agency (AAA to BBB for S&P and Fitch | Aaa to Baa3 for Moody’s):

FACTOR SCORING SYSTEM CR: F1-3 CREDIT RATINGS: LONG TERM CREDIT RATINGS										
LT CREDIT RATING	AAA	AA+	AA	AA-	A+	A	A-	BBB+	BBB	BBB-
SCORE	1	2	3	4	5	6	7	8	9	10

- **CR: F4-6: Second, we take the outlook:**
 - the rating score is decreased by 0.25, kept the same, or increased by 0.25, to reflect the ascribed outlooks:

FACTOR SCORING SYSTEM CR: F4-6 CREDIT RATINGS: OUTLOOK				
RATING OUTLOOK	POSITIVE		STABLE	NEGATIVE
SCORE	Decrease rating score by 0.25		Rating score unchanged	Increase rating score by 0.25

2. HICS Category Scorecard - CDS ...

- **The 2nd of the 5 HICS Category Scorecards is Credit Default Swaps ('CDS')**
- **CDS levels are generally recognised as a relevant, independent metric which reflects the market's view of the financial strength / credit risk of an institution / corporate entity:**
 - CDS levels typically react swiftly to events - potentially pre-empting them
 - unlike credit ratings, CDS levels can be very short term focused: they can therefore be used to complement / counter-check credit ratings, as a secondary factor with differing strengths / weaknesses
 - CDS levels are a function of market supply and demand, meaning that the balance between buyers and sellers affects the prevailing price: this may or may not purely reflect credit risk
- **The HICS Category Scorecard - CDS comprises 4 HICS Factors**
- **The HICS Category Scorecard - CDS has a 15% weight in the HICS Amalgamated Scorecard**

■ **CDS: F1 and CDS: F2: Both 5-Yr and 1-Yr CDS levels are taken into account:**

- a higher CDS level indicates that the market considers an issuer / counterparty to be a higher credit risk, which would therefore be attributed a higher score in the HICS Category Scorecard - CDS
- the longer term 5-Yr CDS level is given more weighting, reflecting the longer term of structured products

FACTOR SCORING SYSTEM CDS: F1 CDS: 5-YR CDS										
5-YR CDS LEVEL	0-25	25-35	35-50	50-65	65-80	80-100	100-125	125-150	150-175	175+
SCORE	1	2	3	4	5	6	7	8	9	10

FACTOR SCORING SYSTEM CDS: F2 CDS: 1-YR CDS										
1-YR CDS LEVEL	0-5	5-10	10-15	15-20	20-25	25-35	35-50	50-75	75-100	100+
SCORE	1	2	3	4	5	6	7	8	9	10

■ **CDS: F3 and CDS: F4: In addition to the CDS level, the direction and volatility of the CDS is scored:**

- direction is assessed by calculating how proportionately close (as a percentage) the prevailing CDS is to its own low over the previous 12 mths: the nearer to the low the better, which is awarded a lower score:

FACTOR SCORING SYSTEM CDS: F3 CDS: 5-YR CDS PROXIMITY TO 12 MTH LOW										
CDS DIRECTION	0-10%	10-20%	20-30%	30-40%	40-50%	50-60%	60-70%	70-80%	80-90%	90%+
SCORE	1	2	3	4	5	6	7	8	9	10

- the volatility of the 5-year CDS is assessed over the previous 12 months: a less volatile level CDS is deemed indicative of a more stable institution, which is awarded a lower score:

FACTOR SCORING SYSTEM CDS: F4 CDS: 5-YR CDS VOLATILITY										
CDS VOL	1-10	10-20	20-30	30-40	40-50	50-75	75-100	100-125	125-150	150+
SCORE	1	2	3	4	5	6	7	8	9	10

3. HICS Category Scorecard - Fundamentals (balance sheet) ...

- **The 3rd of the 5 HICS Category Scorecards is Fundamentals (balance sheet)**
- **Identification of balance sheet fundamentals of a prospective issuer / counterparty is a sensible addition - and regulatory expectation - to credit ratings, credit rating outlooks and CDS levels:**
 - as with other factors, there are issues / weaknesses in balance sheets fundamentals to be aware of
 - balance sheet fundamentals are based on audited data, but that data is historic (usually dating back to the date of the last published financial report and accounts): meaning that current metrics could be different
- **The HICS Category Scorecard - Fundamentals (balance sheet) comprises 6 Factors**
- **The HICS Category Scorecard - Fundamentals (balance sheet) has a 30% weighting in the HICS Amalgamated Scorecard**

- This Category uses data from the latest published financial statements of the issuer / counterparty:
 - **BS: F1: Tier 1 capital ratio:** a higher ratio indicates a potentially more conservative issuer / counterparty, with a stronger financial position and is awarded a lower score:

FACTOR SCORING SYSTEM BS: F1 FUNDAMENTALS (BALANCE SHEET): TIER 1 CAPITAL RATIO										
TIER 1 CAP RATIO	25+	20-25	18-20	16-18	14-16	12-14	10-12	8.5-10	6-8.5	0-6
SCORE	1	2	3	4	5	6	7	8	9	10

- **BS: F2: Leverage ratio:** calculated as total assets divided by total equity, a lower ratio indicates a more conservative / stronger issuer / counterparty financial position and is awarded a lower score:

FACTOR SCORING SYSTEM BS: F2 FUNDAMENTALS (BALANCE SHEET): LEVERAGE RATIO										
LEVERAGE RATIO	0-10	10-12	12-15	15-18	18-21	21-25	25-30	30-40	40-50	50+
SCORE	1	2	3	4	5	6	7	8	9	10

- **BS: F3: Loan-to-Deposit ratio:** the loan-to-deposit ratio can reflect a bank's liquidity. Lower than 100 indicates that the bank uses its deposits to make loans. Greater than 100 indicates that the bank borrows funds in the money markets. A low ratio reflects a more liquid institution and is awarded a lower score:

FACTOR SCORING SYSTEM BS: F3 FUNDAMENTALS (BALANCE SHEET): LOAN-TO-DEPOSIT RATIO										
LOAN TO DEP RATIO	0-10	10-20	20-40	40-60	60-80	8-90	90-100	100-125	125-150	150+
SCORE	1	2	3	4	5	6	7	8	9	10

- **BS: F4: Price-to-book ratio:** the P/B ratio is a way to evaluate a stock price but also credit risk. A low P/B ratio means an institution / it's stock price is supported by tangible assets. A high P/B ratio reflects investors future expectations for the institution: a low P/B ratio is therefore awarded a lower score:

FACTOR SCORING SYSTEM BS: F4 FUNDAMENTALS (BALANCE SHEET): PRICE-TO-BOOK RATIO										
PRICE TO BOOK RATIO	0-25	25-50	50-75	75-100	100-125	125-150	150-175	175-200	200-250	250+
SCORE	1	2	3	4	5	6	7	8	9	10

- **BS: F5: Tier 1 capital size (\$bln):** The amount of Tier 1 capital reflects the scale of an issuer / counterparty and a potentially stronger financial position and is awarded a lower score:

FACTOR SCORING BS: F5 FUNDAMENTALS (BALANCE SHEET): TIER 1 CAPITAL SIZE (\$bln)										
TIER 1 CAP SIZE	250+	200-250	150-200	125-150	100-125	75-100	50-75	25-50	10-25	0-10
SCORE	1	2	3	4	5	6	7	8	9	10

- **BS: F6: Total assets (\$bln):** the level of total assets indicates the scale of an issuer / counterparty and a potentially stronger financial position and is awarded a lower score:

FACTOR SCORING SYSTEM BS: F6 FUNDAMENTALS (BALANCE SHEET): TOTAL ASSETS (\$bln)										
TOTAL ASSETS	3000+	2000-3000	1500-2000	1000-1500	750-1000	500-750	250-500	150-250	50-150	0-50
SCORE	1	2	3	4	5	6	7	8	9	10

4. HICS Category Scorecard - Fundamentals (market indicators) ...

- **The 4th of the 5 HICS Category Scorecards is Fundamentals (market indicators)**
- **Identification of market capitalisation and share price performance fundamentals provides the markets / equity investor's views of an institution, in addition to balance sheet fundamentals:**
 - this may be considered to be less directly relevant than balance sheet fundamentals, in identifying the financial strength / credit risk of an institution:
 - ... however, analysis of the TICS Category Scorecard: Fundamental (market indicators) highlights an apparent link between market indicators and overall financial strength / credit risk
- **The HICS Category Scorecard - Fundamentals (market indicators) comprises 6 Factors**
- **The HICS Category Scorecard - Fundamentals (market indicators) has a 10% weighting in the HICS Amalgamated Scorecard**

▪ **This Category uses the following data:**

- **MI: F1: Market Cap (\$bln):** a larger market capitalisation reflects a bigger scale issuer / counterparty, which is awarded a lower score:

FACTOR SCORING SYSTEM MI: F1 MARKET INDICATORS: MARKET CAPITALISATION (\$bln)										
MARKET CAP	250+	200-250	150-200	125-150	100-125	75-100	50-75	25-50	10-25	0-10
SCORE	1	2	3	4	5	6	7	8	9	10

- **MI: F2: 260-Day share price volatility:** lower share price volatility reflects a more stable issuer / counterparty institution, from a market perspective, and is awarded a lower score:

FACTOR SCORING SYSTEM MI: F2 MARKET INDICATORS: 260 DAY SHARE PRICE VOLATILITY										
260D SH. PRICE VOL	0-10	10-20	20-30	30-40	40-50	50-60	60-70	70-80	80-90	90+
SCORE	1	2	3	4	5	6	7	8	9	10

- **MI: F3: 5-Year share price beta:** lower beta reflects a more stable issuer / counterparty institution and is awarded a lower score:

FACTOR SCORING SYSTEM MI: F3 MARKET INDICATORS: 5 YEAR SHARE PRICE BETA										
SH. PRICE BETA	0-0.5	0.5-0.7	0.7-0.9	0.9-1.1	1.1-1.3	1.3-1.5	1.5-1.7	1.7-1.9	1.9-2.0	2.0+
SCORE	1	2	3	4	5	6	7	8	9	10

- **MI: F4: Direction of 1-Year share price:** similar to CDS, the prevailing share price is compared to its high point over the previous 12 months - the closer to the high the better, which is awarded a lower score:

FACTOR SCORING SYSTEM MI: F4 MARKET INDICATORS: SH. PRICE PROXIMITY TO 12MTH HIGH										
SH. PRICE DIRECTION	90+	80-90	70-80	60-70	50-60	40-50	30-40	20-30	10-20	0-10
SCORE	1	2	3	4	5	6	7	8	9	10

- **MI: F5: Consensus analyst views (buy, hold, sell):** reflect analyst’s current views of the future outlook for an institution - a buy is awarded a low score of 1, a hold is neutral at 5, and a sell a high score of 10:

FACTOR SCORING SYSTEM MI: F5 MARKET INDICATORS: CONSENSUS ANALYSTS VIEWS										
CONSENSUS AN. VIEWS	BUY			HOLD				SELL		
SCORE	1	2	3	4	5	6	7	8	9	10

5. HICS Category Scorecard - Systemic importance ...

- **The 5th of the 5 HICS Category Scorecards is Systemic importance**
- **A final consideration is the systemic importance of prospective issuers / counterparties:**
 - our view is that it is preferable for an issuer / counterparty to be systemically important: and for the sovereign country in which this is so to be a strong and stable country, with a government which may reasonably be considered to be capable of and regulatorily / politically inclined to support its banks
- **The HICS Category Scorecard - Systemic importance comprises 6 Factors**
- **The HICS Category Scorecard - Systemic importance has a 5% weighting in the HICS Amalgamated Scorecard**

▪ **This Category assesses the following Factors:**

- **SI: F1: G-SIB status:** if an issuer / counterparty is an FSB-designated Global Systemically Important Bank ('G-SIB'), it is awarded a low score of 0 / if it is not a G-SIB, it is awarded a high score of 10:

FACTOR SCORING SYSTEM SI: F1 SYSTEMIC IMPORTANCE: G-SIB STATUS										
G-SIB STATUS	YES									NO
SCORE	1	2	3	4	5	6	7	8	9	10

- **SI: F2: The additional Tier 1 capital ratio required by the FSB:** the greater the additional requirement the more the issuer / counterparty is considered systemically important, which is awarded a lower score:

FACTOR SCORING SYSTEM SI: F2 SYSTEMIC IMPORTANCE: ADDITIONAL TIER 1 CAP REQUIRED										
ADDITIONAL TIER 1 CAP	BUCKET 5 3.5%		BUCKET 4 2.5%		BUCKET 3 2.0%		BUCKET 2 1.5%			BUCKET 1 1.0%
SCORE	1	2	3	4	5	6	7	8	9	10

- **SI: F3: Total deposits:** an issuer's / counterparty's deposit base, particularly its retail deposit book, is a potential indicator of its systemic importance – a bigger deposit base is awarded a lower score:

FACTOR SCORING SYSTEM SI: F3 SYSTEMIC IMPORTANCE: TOTAL DEPOSITS (\$bln)										
TOTAL DEPOSITS	2000+	1500-2000	1000-1500	750-1000	500-750	400-500	300-400	200-300	100-200	0-100
SCORE	1	2	3	4	5	6	7	8	9	10

- **SI: F4: Sovereign credit rating:** the credit rating of the relevant (ultimate group entity) Sovereign, ascribed by Standard & Poor's, is taken into account:

FACTOR SCORING SYSTEM SI: F4 SYSTEMIC IMPORTANCE: SOVEREIGN S&P CREDIT RATING										
SOVEREIGN S&P RATING	AAA	AA+	AA	AA-	A+	A	A-	BBB+	BBB	BBB-
SCORE	1	2	3	4	5	6	7	8	9	10

- **SI: F5: Sovereign credit rating outlook:** the credit rating outlook of the relevant (ultimate Group entity) Sovereign, ascribed by Standard & Poor's, is taken into account:

FACTOR SCORING SI: F5 SYSTEMIC IMPORTANCE: SOVEREIGN CREDIT RATING OUTLOOK			
RATING OUTLOOK	POSITIVE	STABLE	NEGATIVE
SCORE	Decrease rating score by 0.25	Rating score unchanged	Increase rating score by 0.25

- **SI: F6: Number of employees:** the total number of employees is taken into account:

FACTOR SCORING SYSTEM SI: F6 SYSTEMIC IMPORTANCE: NOS OF EMPLOYEES										
NOS OF EMPS	250,000 +	200,000 - 250,000	150,000 - 200,000	100,000 - 150,000	75,000- 100,000	50,000- 75,000	30,000- 50,000	20,000- 30,000	10,000- 20,000	0- 10,000
SCORE	1	2	3	4	5	6	7	8	9	10

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

The purpose of HICS: to provoke and support due diligence ...

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 provoke and support 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

Important information



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