TEMPO STRUCTURED PRODUCTS

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Long Kick-Out Plan: August 2018 (Issue 2) – Option 3 *('LKO3')*

MATURITY PERFORMANCE: AND COMPARISON

Tempo Long Kick-Out Plan - August 2018: Option 3 *('LKO3')* reached its year-3 kick-out anniversary date on 24 August 2021.

The terms of Issue 2, LKO3 defined: if the FTSE 100 EWFD closed at or above 100% of the start level on any kick-out anniversary date, the plan would kick-out, generating a return of 10.75% for each year that the plan ran and repaying the initial investment.

Tempo Long Kick-Out Plan – August 2018 (Issue 2): Option 3 *('LKO3')* / Counterparty: Société Générale								
Start date	24 August 2018							
Index	FTSE 100 EWFD		Protection barrier (level and type)			60% / End of term		
Start level	1,042.10		Protection barrier level			625.26		
Kick-out date anniversary	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
Kick-out date	24.08.21	24.08.22	24.08.23	27.08.24	26.08.25	24.08.26	24.08.27	24.08.28
Kick-out level required %	100%	100%	100%	100%	100%	100%	100%	100%
Index level required	1042.10	1042.10	1042.10	1042.10	1042.10	1042.10	1042.10	1042.10
Kick-out potential return	32.25%	43.00%	53.75%	64.50%	75.25%	86.00%	96.75%	107.50%
FTSE 100 EWFD level	1,073.75	n/a	n/a	n/a	n/a	n/a	n/a	n/a

Maturity performance: and comparison

The FTSE 100 EWFD closed at 103.04% of the start level on the 24 August 2021, meeting the kick-out condition, generating a return of 32.25% for investors (equivalent to 10.75% p.a. simple and 9.77% compound) and maturing early - also repaying the initial investment in full (without any explicit charges impacting on investors' initial capital or the stated level of return).

The following table highlights the performance of Tempo LKO3, compared to the FTSE 100 EWFD and the FTSE 100:

Tempo Long Kick-Out Plan – August 2018 (Issue 2): Option 3 *('LKO3')*; FTSE 100 EWFD; FTSE 100			
	Start level (24.08.2018)	Year 3 level (24.08.2021)	3 year performance
Tempo LKO3	100	132.25	32.25%
FTSE 100 EWFD	1,042.10	1,073.75	3.04%
FTSE 100 (price return)*	7,577.49	7,125.78	-5.96%
Vanguard FTSE 100 Index Acc**	120.05	125.72	4.72%

Source: Tempo Structured Products / Bloomberg. * Price return, excluding dividends. ** FT.com, NAV to NAV, gross dividends reinvested. Tempo LKO Plan counterparty: Société Générale.

Past performance is not a reliable indicator of or guide to future performance and should not be relied upon, particularly in isolation.

Comparison of Tempo Issue 1, LKO3, with the FTSE 100 EWFD and FTSE 100 highlights the **strong performance of the FTSE 100 EWFD** compared to the FTSE 100 and the **significant outperformance of both by Tempo LKO3**:

- **Tempo LKO3 delivered 32.25% over 3 years compared to 4.72% for the FTSE 100 tracker: this can be seen as *'alpha by contract'* of 27.53%, equivalent to 8.44% p.a.**

The **materially different – and arguably better – risk / return profile** should also be recognised:

- Tempo LKO3 was designed to **generate 32.25% at year 3 without requiring the FTSE 100 EWFD to rise**: in fact, **it would have generated 32.25% at year 3 even if the FTSE 100 EWFD had closed c.3 percentage points lower**;
- Tempo LKO3 would have **increased the return it generates at each subsequent kick-out anniversary date, without the index condition needed to trigger kick-out increasing**: this contrasts with active and passive funds, which typically only generate increasing returns for investors based on / dependent on the level of the market / index increasing;
- Tempo LKO3 would have **generated 107.50% at year 10 even if the FTSE 100 EWFD had not risen, by legally binding contract**: whereas active or passive funds, while benefitting from dividends, would typically need the market / index to have risen materially over 10 years in order to generate a similar level of return for investors, with active funds also dependent on a fund management process and the skill (or lack of skill) of a fund manager;
- Tempo LKO3 included a **defined and significant level of protection from stock market risk at maturity, that would have allowed the FTSE 100 EWFD to fall by 40% from the start level.**

Highlighting the USPs of structured products; evidencing the efficacy of structured products; and shining a light on the potential merits of including structured products in diversified portfolios

The maturity performance and comparison highlights the **significant and important USPs of structured products**, evidences the **efficacy of structured products**, and shines a light on the potential **merits of including structured products in diversified portfolios**:

- Structured products can **generate positive returns without requiring the stock market to rise**, or even if it falls;
- Structured products can **include defined and significant levels of protection from stock market risk at maturity**;
- Structured products are **based on legally binding contracts**, offering *'alpha by contract'* in ways and with risk / return profiles which neither active nor passive funds offer.

In other words, structured products can **increase the likelihood of positive returns being generated**, while **decreasing the likelihood of capital losses being experienced**.

And, unlike actively managed mutual funds, structured products are not subject to a fund management process and the skill (or lack of skill) of a fund manager. With a structured product, if the counterparty bank is solvent at maturity, they are legally obligated to deliver the terms of the bonds that they issued, which the structured product is based upon.

Of course, in addition to understanding the USPs 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 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 **may be affected by various factors**: and while accessing an investment is usually possible, during normal market conditions, **this is not guaranteed**.

The FTSE 100 EWFD: developed to improve the terms of structured products for investors

Our plans use an equal weight, fixed dividend version of the FTSE 100, known as the FTSE 100 EWFD.

The FTSE 100 EWFD was developed by FTSE Russell, in collaboration with Société Générale, with the aim of **improving the terms of structured product for investors**. Improved structured product terms can include:

- **Lower** end of term barrier levels; **lower** conditions for generating positive returns; and **higher** potential returns.

The FTSE 100 EWFD comprises the same 100 stocks as the FTSE 100. FTSE Russell calculate and publish the FTSE 100 EWFD. As its name suggests, the FTSE 100 EWFD differs to the FTSE 100 in two important ways:

- ***The 'EW'***: the 100 companies in the FTSE 100 EWFD are all equally weighted, by FTSE Russell, instead of being weighted according to their market capitalisation
- ***The 'FD'***: unlike the FTSE 100, the FTSE 100 EWFD is based on a total return index, including dividends paid by the companies - however, a fixed dividend of 50 points per year is deducted when FTSE Russell work out the daily index level

Société Générale has an exclusive licence for the FTSE 100 EWFD with FTSE Russell. Tempo has an exclusive arrangement with Société Générale to use the FTSE 100 EWFD in our plans with professional advisers in the UK.

We provide **extensive materials and input for professional advisers to introduce and overview the FTSE 100 EWFD**, with various resources accessible through our website, including a CPD-accredited video webinar:

- We explain the **background to market capitalisation indexes**, including potential issues which are embedded in market capitalisation methodology;
- We draw attention to the **academia and rationale for equal weighting index methodology**, including highlighting what the index providers say about the merits and benefits;
- We provide **comprehensive and granular performance analysis**, detailing: performance; risk-adjusted performance / sharpe ratios; drawdown; recovery; volatility, etc, including comparison to the FTSE 100.

To access the resources page for the FTSE 100 EWFD that we provide for professional advisers, please click here:

https://tempo-sp.com/adviser-resources/about-the-ftse-100-ewfd

Committed to *'deliberately defensive'* products

We are **committed to *'defensive'* products, with attractive risk / return profiles for investors**. While lots of structured product providers do lots of defensive structured products, we are the only plan manager to only do defensive structured products: we describe our product suite as ***'deliberately defensive'***:

- Our products are designed so that they can **generate at least some or all of their potential returns without requiring the stock market to rise**, while including **a defined and significant level of protection should it fall**.

The merits of *'long'* plan options

For professional advisers and investors who believe that stock markets can be expected to rise over time and that market risk can be mitigated through time, it follows that the longer the time horizon of an investment:

- The **greater the likelihood of positive returns being generated**, i.e. mitigating the *'upside market risk'*, of stock markets not rising, or not rising to the level wanted or needed; **and the lower the likelihood of losses being experienced**, i.e. mitigating the *'downside market risk'*, of stock markets falling

We think that **longer-term time horizons and longer maximum investment terms**, focusing on the simple potential benefits of *'time'*, **can optimise the risk / return profiles of structured products**. We therefore offer *'long'* plan options, i.e.:

- **Longer maximum investment terms** (e.g., 10 years), which can mitigate both upside and downside market risk, increasing the likelihood of positive returns being generated and decreasing the likelihood of losses being experienced;
- **Combined with short term kick-out potential** (e.g., early maturity potential from year 3, with daily liquidity throughout the term - including within the first 3 years);
- **Combined with defensive investment strategies** (e.g., strategies that can generate positive returns without needing the stock market to rise, and / or with options that allow it to fall).

It's important to understand that ***'long'* kick-out plans, i.e. plans with a longer maximum term, will kick-out at the exact same anniversary as shorter-term plans**, if stock market / index conditions for kick-out are met.

However, ***'long'* kick-out plans include a *'tail'*, that only comes into play in scenarios where shorter-term products wouldn't kick-out successfully**, providing additional time for successful kick-out: in other words, potentially allowing products that might otherwise only return capital, or generate a loss, to generate positive returns for investors.

'Long' kick-out plans which are designed with the first potential kick-out date later than the more common 1st or 2nd year anniversary can also offer **higher potential returns** than the lower levels of capped return offered by comparable products designed to kick-out earlier - noting that investors can access our plans intra-term, at any point:

- Our plans offer **daily liquidity during the investment term, with no charges** which can often be found in other structured products) for partial encashments, total encashments or transfers out of a plan.

Redefining structured products: find out more...

If you would like to find out more about everything Tempo is doing to ***'redefine structured products'*** for professional advisers and their clients, focusing on ***'doing the right things - and doing simple well'***, please let us know:

Website: www.tempo-sp.com | **Email:** info@tempo-sp.com | **Adviser line:** +44 (0)20 7391 4551

It should be noted that the FTSE 100 EWFD will perform differently to the FTSE 100, due to the equal weighting and fixed dividend. This means that the returns from plans linked to the FTSE 100 EWFD might be higher or lower than the returns from similar plans linked to the FTSE 100. While the fixed dividend can help provide improved terms for structured products, it can affect the level of the FTSE 100 EWFD negatively, when the fixed dividend is higher than the level of dividends being paid by companies in the index. It is important to carefully consider the current level of the FTSE 100 EWFD, the level of its fixed dividend and the outlook for its future level. Importantly, we identify the target market for our plans as investors who have a positive view of the future level of the FTSE 100 EWFD, over the medium to long term.

This document is intended solely for FCA authorised persons, including financial advisory firms and wealth managers ('Professional Advisers'). It is not suitable for, and should not be distributed to, clients or potential clients. The 'Important risks' section of our website highlights the key and other risks of structured product plans, in addition to explaining important information for Professional Advisers who may use our structured product plans with their clients. To see our full 'Important risks', please see www.tempo-sp.com / home / important-risks. It should always be understood that: i) structured products are not suitable for everyone; ii) past performance is not a reliable indicator of or guide to future performance and should not be relied upon, particularly in isolation; iii) the value of investments and the income from them can go down as well as up; iv) the value of structured products may be affected by the price of their underlying investments; v) the potential returns of a structured product and the repayment of money invested in a structured product depend on the financial stability of the issuer and counterparty; vi) capital is at risk and investors could lose some or all of their capital.