BNP PARIBAS
FORTIS

Investmentfunds with capital protection and structured notes

Funds with capital protection (Fixed income funds)

Everyone talks about "funds" or "investment funds". But this general term conceals some important differences. Most funds are Undertakings for Collective Investment (UCI). Each UCI can be considered as an undertaking in its own right and is often set up by a bank. The aim is to pool the savings of numerous investors in a big pot, which the fund or UCI invests according to a predefined strategy.

Some funds sold in Belgium offer capital protection. These funds always have a due date. The aim of these funds is that you at least recover your "deposit", namely the sum you originally invested, on the due date. But be careful, this protection does not legally guarantee that you will recover all your money in every case. This protection can also have an impact on your return. Here, too: the lower the risk, the lower the return.

Capital protection only takes effect on the due date of the fund. If you leave the fund before this, you will not benefit from this protection. At the time of your anticipated exit your shares may be worth more, but equally they may be worth less, than when you purchased them.

Structured notes

The term "structured note" covers a wide range of finite term financial instruments. These are differentiated by their return mechanism, their underlying assets (basket of shares, stock market indices, commodities, etc.) or the form of their profits (fixed and/or variable coupons, surplus value granted at the due date). In certain cases, they entitle the holder to 100% redemption of face value on the due date.

When a new structured note is issued, the investor can subscribe to it on the primary market at a set rate and during a well-defined period called the "share issue period".

Structured notes are traded on the financial markets. To obtain a structured note after the share issue period or sell it before its due date, the investor must go through the secondary market.

The purchase price or sale price is determined by the price of the structured note and brokerage fees. The price of a structured note fluctuates, depending on different factors such as its remaining term, the financial health of the issuer, changes in the underlying asset, market volatility and changes in interest rates.

Advantages

→ **Great variety of formulas** enabling an investment choice adapted to the profile and objectives of the investor.

→ Possibility of targeting a **potentially high return** without investing directly in risky assets and, in certain cases, with a right to redemption at 100% of the capital invested.

→ **Simple access, even with limited initial capital, to complex financial markets** such as commodities markets and emerging markets.

Risks

→ **Risk of a lack of income**: when the return mechanism does not provide for a minimal income, a negative change in the underlying asset can entail the lack of any return on the due date.

→ **Capital risk**: when the right to redemption at 100% of the capital is not provided for, a negative change in the underlying asset can entail a partial or total loss of the capital.

→ **Credit Default**: is directly related to the issuer's quality. Ratings assigned by the rating agencies enable the investor to get a good idea of this. As an issuer of structured notes, BNP Paribas Fortis benefits from an "investment grade" rating (ratings from AAA to BBB- with Standard & Poor's and from Aaa to Baa with Moody's).

→ **Liquidity risk**: depends on the existence and operation of a secondary market for the structured note. Schematically, one can say that the greater the total amount of the share issue, the more chance the transaction volume also has of being higher, which reduces counterparty risk. The market for a structured obligation may turn out to be limited and therefore not very liquid, meaning the investor could be obliged to maintain the investment until the due date.

→ **Foreign exchange risk** for structured products issued in foreign currencies. Foreign exchange risk implies that at the due date, the investor could receive a smaller amount in euros than that initially invested.

→ **Risk of fluctuation in the security's price**: the price of a structured product varies according to general changes in interest rates and also to changes in the underlying asset and market volatility.

Test your knowledge on structured products

Did you know...?

- Structured products often offer capital protection on the final due date. You will therefore recover at least your invested capital, excluding fees.
- The return depends partially or entirely on the changes in an underlying value (basket of shares, stock exchange index, commodities, interest rate, etc.).
- There are structured products offering the prospect of a yearly coupon. And others that allow you to receive any capital gain only at the final due date.
- It is possible to buy/sell a structured note at the market price during the term of the investment.

Like to know more about structured notes?

Go to www.wikifin.be or consult our Financial Instruments Information Brochure on our website www.bnpparibasfortis.be/saveandinvest > MiFID > Like to know more about MiFID?

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