Introduction to structured bonds

A structured bond is a security, the return on which relies on the performance of the underlying asset - for instance, a share, a share price index, a commodity or a currency.

The product consists of:
- **A bond** - often a bond that has no coupon payments (zero-coupon bond).
- **Financial instruments** - for instance, options that can be used to yield a return and/or provide protection for investments.

Types of structured bonds
- **With principal protection:** Your principal will always be repaid at maturity, regardless of market performance.
- **With partial or no principal protection:** You may lose some or all of your investment, if the market moves unfavourably to/for you.

1. Target group

Structured bonds are mostly relevant for investors with investment experienced who want to have access to advanced - without investing directly in the underlying markets.

Make sure you:
- Always read the product material.
- Thoroughly study the bond's strategy, structure and risks.
- Assess whether the product matches your risk profile and time horizon.

2. Pros and cons

Pros	Cons
Provides access to markets and strategies that are usually not accessible to retail investors.	Rarely listed and often difficult to sell early.
Can be designed to match specific market expectations.	You are dependent on the issuers ability to pay - also in case of principal protection.
Products with no principal protection may yield a higher return, especially when the market moves favourably.	The construction is complex, and the return relies on a number of conditions and calculation methods.
For products with principal protection, the principal will be repaid at maturity.	Principal protection only applies at maturity. If you sell early, you may sustain a loss.

3. Returns

The return relies on the construction and the performance of the underlying assets. This means that the result may fluctuate more or less than the asset itself.

With principal protection
- If the asset depreciates, the principal will still be repaid at maturity.
- If the asset appreciates, you will only receive some of this gain. The return is determined by the participation rate - meaning your proportion in the underlying price gain. The participation rate may be below or above 100%.

Without principal protection
- The return is positive, if the value at maturity is higher than what you originally paid for the bond.
- You have the chance to gain from the performance in e.g. shares, indices, currencies or commodities.
- However, the return may also be negative, and you risk losing all or some of your investment.

4. Risk

When you invest i structured bonds, the value may appreciate or depreciate. The risk relies on how the products is constructed and how the underlying asset performs.
- **With principal protection:** The principal is secured at maturity, but you may still lose any potential premium and return.
- **Without principal protection:** You may lose all or some of your investment.

Liquidity risk
Structured bonds are rarely traded in regulated markets. Sell-back transactions are often made directly with the issuer, and liquidity is limited.
- You may find it hard to sell whenever you want to.
- The sell-back price may be lower than expected.
- Low liquidity may cause more uncertain pricing.

Credit risk on/towards issuer
At purchase, you assume a risk that the issuer - often a bank - will not be able to repay.
- If the issuer goes into bankruptcy, you will lose the entire investment - even with principal protection.
- Structured bond are usually unsecured securities.
- They may be covered under EU's BRRD, which provide the authorities the opportunity to:
  - Write down the principal, meaning your repayment amount will decrease.
  - Convert the bond into shares in the issuer.

Currency risk
If you buy bonds in a foreign currency, any changes in the exchange rate will impact the value of your investment.
- For instance, if the dollar rate drops, your investment will lose value in Danish kroner.
- If the dollar rate rises, your investment will gain value in Danish kroner.

Benchmark risk
If the bond is linked to a benchmark - e.g. an interest rate - movements in this benchmark may affect your investment.
- The calculation method may be changed.
- A benchmark can simply be discontinued.
- Both cases will affect the return and value.

Interest-rate risk
Structured bonds are often built on zero-coupon bonds, which are specifically sensitive to interest rate changes.
- When interest rates rise, value falls.
- Due to the interest components embedded in the construction, changes in interest rates may also have a negative impact on both return and value - especially at early redemption.

5. Special circumstances

When you invest in structured bonds, there are a number of circumstances that you need to be aware of. They may have a great impact on both you risk, return and opportunities to invest or sell.
- **Prospectus:** Contains all terms and conditions, calculations and risks. Make sure you always read it carefully.
- **Minimum investment:** A certain lower threshold has often been defined, in terms of the investment amount, e.g. DKK 100,000 or EUR 10.000 EUR.

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- **Issue price:** Often between the price of 100 and 110. If you pay more than 100, you have a premium that may be lost, although your principal is repaid.

6. Useful information

Taxation

Tax rules differ based on how you make your investment - e.g. as a private individual, via pension savings or other structures.

We can only offer general advice on taxation. For specific tax advice, we recommend that you consult an auditor.

Costs and expenses

You will always be informed about all costs and expenses, before making an investment. These may consist of:
- **Brokerage fee:** Paid to the bank in connection with buying/selling
- **Currency fee:** For the purchase of foreign bonds
- **Stock exchange or foreign security fee:** Dependent on the rules applicable in the specific country
- **Custody fee:** For safe-keeping your bonds
- **Non-recurring costs:** To issuer at purchase.
- **On-going administration:** Is included in the price and depends on the products construction.

Whether you trade on your own or through a relationship manager, we disclose the total costs associated with executing the transaction and holding the security.

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