Structured Product Overview – 2nd November 2009

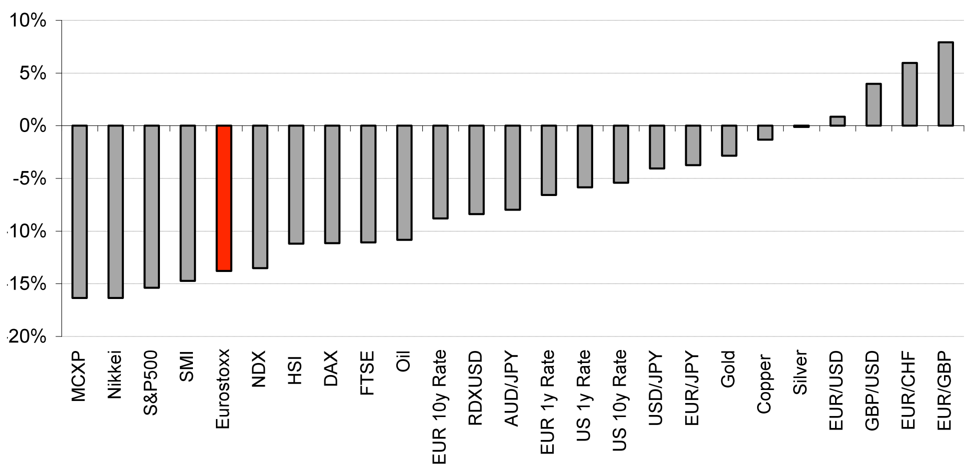
Summary

This week we cover: market colour, recent trade / price highlights, Income, Asia / Emerging Markets, Commercial Property, Reverse QE, Long Volatility (VIX).

Selected Market Movements

Indicator	Market	Level 30 Oct 08	Level 23 Oct 09	Level 30 Oct 09	% Weekly Change	% Annual Change
Price	FTSE	4291.65	5242.57	5044.55	-3.78%	17.54%
Price	EuroStoxx 50	2528.04	2886.08	2743.5	-4.94%	8.52%
Price	S&P 500	954.09	1079.6	1036.19	-4.02%	8.61%
3 Year Implied Vol	FTSE	35.09%	23.51%	24.04%	0.53%	-11.05%
3 Year Implied Vol	EuroStoxx 50	36.32%	24.60%	25.20%	0.60%	-11.12%
3 Year Implied Vol	S&P 500	32.91%	24.50%	24.92%	0.42%	-7.99%
3 Year Swap Rates	GBP	4.36%	2.58%	2.54%	-0.04%	-1.82%
3 Year Swap Rates	EUR	3.74%	2.29%	2.21%	-0.08%	-1.53%
3 Year Swap Rates	USD	3.16%	1.97%	1.83%	-0.14%	-1.33%
Inv Grade Credit	iTraxx Europe	1.52%	0.83%	0.89%	0.06%	-0.63%

Change on week for 3m ATM implieds (% change from initial level, not vol point change



Recent Trades / Pricing Highlights

- **Citi UK Structured Growth UCITS Fund – NAV ~101.11 with potential GRY 10.5% - Open to subscriptions**
- **JPM Defensive FTSE Auto-Call (8%) – 6yr max term, 60% KI (European), auto-call barrier at 100% years 1-4 then fall to 70% of the strike in year 5 and then 60% in year 6. TRADES THU 5th November**
- **SG Oil Range Accrual – 4yrs, 9%, range between $55-90bbl. Capital at risk if oil < $32bbl. Traded so available in the secondary market**

Income / Synthetic ZDP

We have decided to launch an income product with Nomura as a response to the high level of interest for the recent Citi secondary deal, which we could have sold 3 times over. Furthermore, we believe Nomura's funding level represents excellent value, given the level of their CDS.

Trade 1 – Quarterly Income Note – linked to the FTSE, with an unconditional quarterly coupon of 2.15% over the 5 year term and capital protection unless the index is down by 40% or more on the final day

Trade 2 – Income & Growth – linked to the FTSE, with an unconditional quarterly coupon of 1.25% over the 5 year term and a capital return of 36% at maturity if the index is equal to its initial level. Capital protection unless the index is down by 40% or more on the final day

Trade 3 – Synthetic ZDP – linked to the FTSE, with capital return of 147p the 5 year term and capital protection unless the index is down by 40% or more on the final day

Asia / Emerging Markets

Probably the only area where there's anything that resembles a consensus.

Asian Auto-Call – linked to the Hang Seng index, with an annual coupon of 15-16% p.a and a maximum term of 5 year and capital protection unless the index is down by 50% or more at any time. Due to poor investor sentiment on GBP, this trade is priced in HKD, so investors would pay in GBP on trade date, with the proceeds buying a HKD auto-call.

Emerging Markets vs. US Outperformance (Protected) – investors receive 100% of any outperformance of the iShares MSCI EM vv. S&P 500 over the 5 years with a minimum return at maturity of 105%. This was priced by Nomura for a client in USD so we can price in GBP, if requested.

We like this type of trade as it's a pure relative bet on EM and at worst investors get 105% back at maturity. Looking very simplistically over the last 5 year this would have return 115%. The trade can be made punchier through putting capital at risk if the US outperforms EM.

Commercial Property

Early stage enquiries into this sector and we're discussing whether the banks we deal with can trade vanilla calls and puts on the IPD. However, other ideas include:

EPRA – either participation or selling high vol to generate yield via auto-calls, reverse convertible or synthetic ZDP's

Large Cap Stock Baskets – ideas as above, though may sit more comfortably as names more visible, plus selling vol may suit dealers

Pricing available this week so please call for more info.

Portfolio Insurance – QE Reversed or The VIX

This basis of this idea comes from a client who is concerned that equities, gold and bonds have all rallied due to QE, and that this may reverse, when the stimulus is removed. Pricing available this week so please call for more info.

Long Volatility – Buy the VIX through a Structured Product

After the recent fall in implied volatility, some investors are looking at 'buying volatility', perhaps thinking that the recent bull run is overdone and a correction that would bring increased market volatility is possible. A pure way to trade this would be through buying a structured product that simply tracks the VIX Index 1:1. We can now have this type of product structured so please call if this is of interest.

Pricing Summary

We hope to make this slighter broader and slicker as the weeks progress, but for this week here goes:

All FTSE, 5 year, in GBP with 100% issue price:

100% Capital Protected, Participation = 85%

50% Soft Protection (European), Participation = 155%

Standard Auto-Call with 50% Soft Protection = 10%

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