

# Recovery Strategies with Structured Products

## Recovery Strategies

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### Strategies in scope

We present three type of recovery strategies with parameters to fit a substantial upside view:

- **Capped Outperformance Certificates**
- **Barrier Discount Certificates**
- **Autocall BRC with Conditional Coupon**

In each of them, the investor should sell the troubled stock (or knocked-in product) and switch in the Recovery Strategy in order to avoid increasing the exposure to the stock.

### How to proceed

Appropriate solutions may be assessed and priced directly on Deritrade.

However, for complex situations a consultation with trading desk is advised in order to find the best suitable structure with the best parameters for your client.

# Capped Outperformance Certificates

## Notional recovery with leveraged upside participation

### Strategy

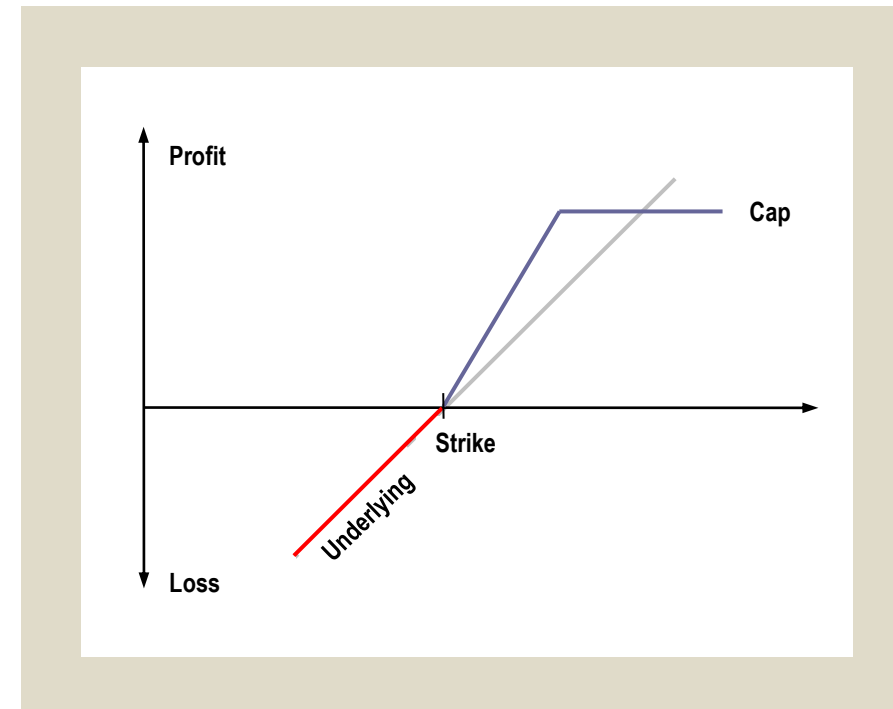
This certificate uses the high volatility for upside leverage while leaving the downside risk equal to the stock. The factor can be 2:1 (double upside participation and single downside participation), 3:1, 4:1, etc. At the same time, the maximum gain is capped at a predefined level.

### Payoff at Maturity

- If the underlying closes at or above the strike price:  
Strike price is paid out plus the difference between the final fixing price and the strike price but not more than the difference between the cap and strike price, multiplied by the stipulated factor
- If the underlying closes below the strike price:  
Physical delivery of the underlying

### Notes

- Keep the tenor as short as possible for this strategy as the leveraged upside performance will only be reflected in the product's price shortly prior to maturity
- Increase the leverage to a fairly high level. It will cost a little bit in terms of maximum return but gives a higher probability of reaching that maximum return



# Capped Outperformance Certificates – Illustration

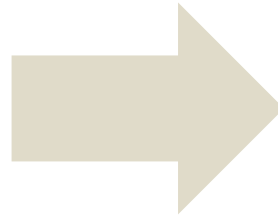
## Notional recovery with leveraged upside participation

### Old product with barrier hit

Initial investment CHF 100'000

Client sells at CHF 80'000

Issuer	Vontobel
Product category	Barrier Reverse Convertible
Underlying	Julius Baer
Currency	CHF
Maturity of product	17.01.2023
Coupon	5.50% p.a.
Current valuation	80%



### New recovery product

Client invests

CHF 80'000

Issuer	Vontobel
Product category	Capped Outper-formance Certificate
Underlying	Julius Baer
Currency	CHF
Tenor	1 year
Strike	100%
Upper Participation	3x
Lower Participation	1x
Cap	109%
Max Yield	27%
Issue Price	CHF 50 (1 unit = 1 share)

#### Advantage:




- 3x upside participation of the underlying
- Similar downside risk with old product
- Underlying needs to trade +8.33% higher at maturity in order to fully recover original notional

#### Disadvantage:

- Underlying has to perform positively for the strategy to work
- Longer term (January 23 vs. June 23)

# Capped Outperformance Certificates – Illustration

## Notional recovery with leveraged upside participation

	Scenario 1 	Scenario 2 	Scenario 3 
<b>Description</b>	Rising underlying	Stagnating underlying	Falling underlying
<b>Underlying value</b>	Julius Baer	Julius Baer	Julius Baer
<b>Term</b>	1 year	1 year	1 year
<b>Issue price</b>	CHF 50.00	CHF 50.00	CHF 50.00
<b>Capital employed</b> (1'600 certificates x CHF 50)	CHF 80'000	CHF 80'000	CHF 80'000
<b>Participation</b>	300%	300%	300%
<b>Cap</b>	109%	109%	109%
<b>Underlying at initial fixing</b>	CHF 50.00	CHF 50.00	CHF 50.00
<b>Underlying at maturity</b>	CHF 54.90	CHF 50.00	CHF 45.50
<b>Performance Underlying</b>	9%	0%	-9%
<b>Payoff</b>			
<b>Calculation</b>	(300% * 9% * CHF 80'000) + CHF 80'000	CHF 80'000	1'600 certificates * CHF 45.50
<b>Redemption</b>	CHF 101'600	CHF 80'000	CHF 72'800
<b>Profit / Loss</b>	<b>27%</b>	<b>0%</b>	<b>-9%</b>

# Barrier Discount Certificates

## Notional recovery

### Strategy

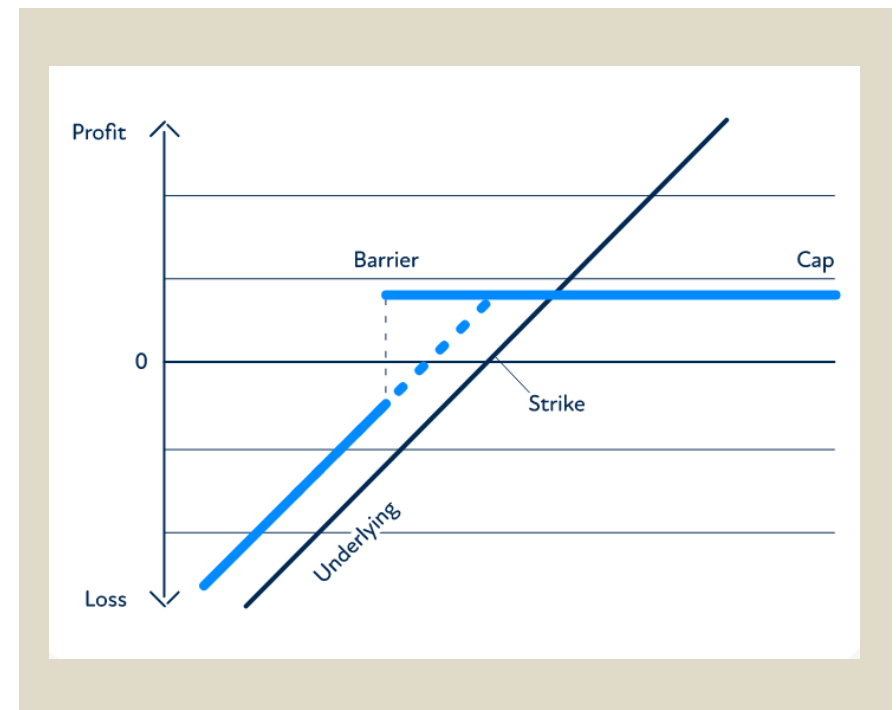
This recovery strategy uses a strike price placed significantly above the current spot level and a European Barrier that is placed at current spot level to recover (part of) the loss. For the product to be redeemed at maximum level the stock doesn't need to perform at all, it needs only to close at or above current levels.

### Payoff at Maturity

- If the underlying does not touch the barrier at maturity:  
Nominal Value is paid out
- If the underlying touches the barrier at maturity:  
Physical delivery of the underlying

### Notes

- Refrain from setting the strike price too high (higher than the old product), because this would add additional risk



# Barrier Discount Certificates – Illustration

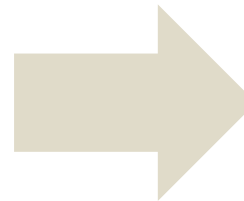
## Notional recovery

### Old product with barrier hit

*Initial investment*      *USD 100'000*

*Client sells at*      *USD 80'000*

Issuer	Vontobel
Product category	Barrier Reverse Convertible
Underlying	Alphabet, Amazon Meta Platforms
Currency	USD
Maturity of product	15.02.2023
Worst perf. stock	Amazon
Coupon	13.40% p.a.
Coupon frequency	Quarterly (1 received)
Current valuation	80%



### New recovery product

*Client invests*      *USD 80'000*

*Notional*      *USD 100'000*

Issuer	Vontobel
Product category	Barrier Discount Certificate
Underlying	Amazon
Currency	USD
Tenor	1 year
Strike	130% (ITM, same as old product)
Barrier	100% European
Issue Price	80%

#### Advantage:

- Worst of 3 risk reduced to single equity risk
- Amazon only needs to close above barrier (above current level) in order to recover notional
- Strike Amazon is in the money, same strike as in the old product (same risk)

#### Disadvantage:

- No coupon
- Longer term (February 23 vs. June 23)

# Barrier Discount Certificates – Illustration

## Notional recovery

	Scenario 1	Scenario 2	Scenario 3	Scenario 4
<b>Description</b>	Rising underlying	Slightly rising underlying	Slightly falling underlying	Falling underlying
<b>Underlying value</b>	Amazon	Amazon	Amazon	Amazon
<b>Strike Level</b>	130%	130%	130%	130%
<b>Knock-in Level (Barrier)</b>	100%	100%	100%	100%
<b>Capital employed</b>	USD 80'000	USD 80'000	USD 80'000	USD 80'000
<b>Notional</b>	USD 100'000	USD 100'000	USD 100'000	USD 100'000
<b>Term</b>	1 year	1 year	1 year	1 year
<b>Issue price</b>	80%	80%	80%	80%
<b>Amazon at initial fixing</b>	100%	100%	100%	100%
<b>Amazon at maturity</b>	120%	102%	98%	80%
<b>Barrier breached?</b>	No	No	Yes	Yes
<b>Performance Amazon</b>	20%	2%	-2%	-20%
<b>Payoff</b>				
<b>Investment</b>	USD 80'000	USD 80'000	USD 80'000	USD 80'000
<b>Redemption</b>	USD 100'000	USD 100'000	Delivery of Amazon shares at Strike	Delivery of Amazon shares at Strike
<b>Profit / Loss</b>	25%	25%	-4.6%	-18.5%
			<i>Similar loss as with original strategy (-24.6%)</i>	<i>Similar loss as with original strategy (-38.5%)</i>



# Autocall BRC with Conditional Coupon

## Notional recovery with coupon

### Strategy

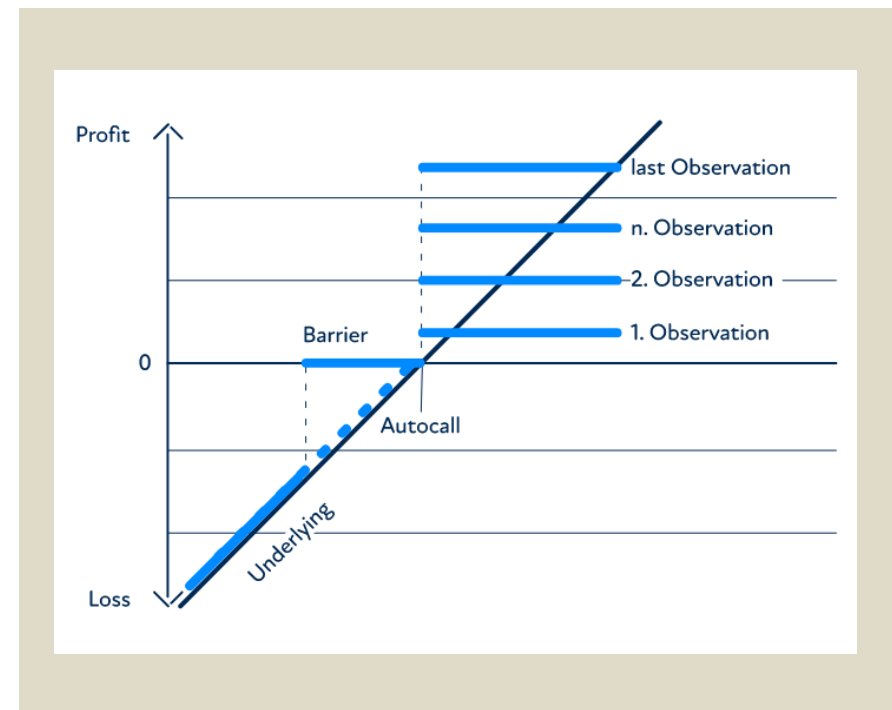
In this approach, we combine “Fallen Angels” in one Recovery Strategy. They should be in the portfolio to begin with. Among the presented strategies, this is the only one which also features a decent downside protection, and where it is less important to “catch the bottom”. This product offers a coupon payment that is conditional on the underlyings reaching the respective Coupon Trigger.

### Payoff at Maturity

- If the underlyings are higher than the barrier at maturity:  
Nominal value is repaid
- If the underlyings are lower than or equal to the barrier at maturity:  
Physical delivery of the underlying

### Notes

- Clearly opine that stocks will not fall much further, at least no more than the Barrier
- Setting the Coupon Trigger higher impacts the Coupon level substantially
- Use a European Barrier



# Autocall BRC with Conditional Coupon - Illustration

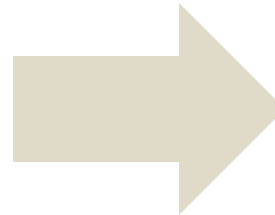
## Notional recovery with coupon

### Old product with barrier hit

Initial investment USD 100'000

Current notional USD 80'000

Issuer	Vontobel
Product category	Barrier Reverse Convertible
Underlying	Alphabet, Amazon, Meta Platforms
Currency	USD
Maturity of product	15.02.2023
Worst perf. stock	Amazon
Coupon	13.40% p.a.
Coupon frequency	Quarterly (1 received)
Current valuation	80%



### New recovery product

Client invests USD 80'000

Issuer	Vontobel
Product category	Autocall BRC with conditional Coupon
Underlying	Alphabet, Amazon, Meta Platforms
Currency	USD
Tenor	1 year
Strike	100%
Barrier	80% European
Coupon Barrier	80% with memory
Coupon	25% p.a. (monthly paid)
Autocall level	100%, first time in 11mths (1 obs.)
Issue Price	100%

#### Advantage:

- Additional 20% downside protection with (new) European Barrier
- Higher Coupon (conditional with memory)
- Lower strikes compared to old product

#### Disadvantage:

- Longer term (February 23 vs. June 23)
- Coupon is conditional

# Autocall BRC with Conditional Coupon - Illustration

## Notional recovery with coupon

	Scenario 1	Scenario 2	Scenario 3	Scenario 4	Scenario 5
<b>Description</b>	Rising underlying, all coupons received	Slightly rising underlying, all coupons received	Slightly falling underlying, all coupons received	Falling underlying, 11 coupons received	Early redemption, all coupons received
<b>Underlying value</b>	Basket	Basket	Basket	Basket	Basket
<b>Term</b>	1 Year	1 Year	1 Year	1 Year	1 Year
<b>Nominal amount</b>	USD 80'000	USD 80'000	USD 80'000	USD 80'000	USD 80'000
<b>Autocall level</b>	100%	100%	100%	100%	100%
<b>Knock-in Level (Barrier)</b>	80% European	80% European	80% European	80% European	80% European
<b>Coupon on observation dates</b>	2.08% (monthly)	2.08% (monthly)	2.08% (monthly)	2.08% (monthly)	2.08% (monthly)
<b>Capital employed</b>	USD 80'000	USD 80'000	USD 80'000	USD 80'000	USD 80'000
<b>Initial fixing</b>	100%	100%	100%	100%	100%
<b>Worst-of at maturity</b>	120%	105%	90%	75%	105%
<b>Payoff</b>					
<b>Redemption of Notional</b>	USD 80'000	USD 80'000	USD 80'000	USD 60'000	USD 80'000
<b>Total Coupon received</b>	USD 20'000	USD 20'000	USD 20'000	USD 18'333	USD 18'333
<b>Profit / Loss</b>	25%	25%	25%	-2%	22.9%

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