

Given the uncertain outlook, how can investors gain exposure to favourable market movements without having an equal chance of losing money?

- 1) One interesting product idea can be viewed as an alternative to conventional bonds.
- Mortgage Backed Securities (MBS)** are bonds issued by mortgage lenders, where the coupon payments are effectively funded by mortgage repayments. Underlying security is provided by the properties against which the mortgages are secured. It is possible to pool together a number of large mortgage lenders, thereby diversifying the exposure further. Packaged into a note, this offers the investor a choice of currencies (£,\$ or), weekly pricing and liquidity, together with a AA credit rating. A most important additional feature is that the note is 100% capital protected at maturity – 6 years in the current example. Analysing the past returns of such a product show historical average annual yields of

between 8.19% (USD) and 10.24% (GBP), comparing favourably to US Treasury bonds or UK Gilts.

- 2) Another product that may have appeal is known as the *Eagle Note*. This links together elements of equity market exposure with some characteristics of a bond. The note is issued at par (100), and is linked to the performance of the European equity market (DJ Eurostoxx 50). It has a maximum maturity of 5 years, but will be called (matured early) if the DJ Eurostoxx 50 closes higher than its starting level on any anniversary of the issue date. If this early redemption occurs, the product accrues at an annual rate of 9%. It is denominated in sterling. This product is not capital

protected entirely, but does offer a 50% protection. For example, if at maturity the DJ Eurostoxx 50 is at 60% of its original value when the product commenced, then the investor receives back 100% of capital invested. Only where the value falls below 50% at maturity would the investor realise a capital loss. As can be seen, this product may appeal to an investor who requires the potential for a relatively high annualised return (but not an annual coupon) and who is neutral to slightly bullish for equity markets, but perhaps already has some conventional 'long-only' exposure and does not see the European market falling by more than one half over the next 5 years. Structured as a note, this again offers liquidity to investors.

In summary, there is more uncertainty ahead and at SG Hambros we feel it is more important than ever to offer our clients creative solutions to meet their objectives. By customising each solution according to client requirements and market conditions, it is now possible to choose an appropriate level of risk/return, rather than merely be exposed to the full upside or downside of a chosen market or asset class.

For more information on any of the products and services available from SG Hambros Bank & Trust (Jersey) Ltd, please contact either Philip McLurath or Daniel Thebault:

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SG Hambros



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RECENT DEVELOPMENTS

Peritus Investment Consultancy uniquely seeks to guide wealthy clients through the difficult process of choosing investment managers. With complete impartiality Peritus can identify portfolio managers for any need, negotiate institutional terms and with total transparency pass back all discounts to the client often resulting in the service being paid for by these rebates.



Located in Zurich, Peritus is a privately owned, niche wealth advisory service with strong values of integrity, independence and freedom to offer impartial guidance. All employees are encouraged to be owners of the

company with a partnership culture to ensure a long term relationship and excellent service for their private clients. Custody risk is outsourced to the Investment manager or a leading Custodian.

The ongoing performance of the managers is monitored against agreed benchmarks and peer groups. Rigorous site visits provide early warning signals such as teams departing or when processes change. A quarterly report and performance charts on each individual manager is provided which also includes a client friendly consolidated summary.

The company investment philosophy believes that in any financial climate and particularly this one, hard earned wealth needs to firstly be preserved and then grown. In addition, no single

approach is effective in volatile, dynamic markets and that the selection of pro-active managers is the best solution.

Managing Director, James Day, established one of the first investment wealth management platforms as Director at Ernst and Young Trust Company. Prior to this he was Head of Private Client Banking and Investments at ABN AMRO Bank. 'I wanted to provide a service, sophistication and transparency of delivery that is normally only available to ultra high net worth family office clients. As our approach is deliberately focused it has allowed us to care for clients with assets greater than £2m rather than the £50m that a family office normally requires.'

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