BROKER SOLUTIONS

CAPITAL AT RISK

# 4 Year Kick Out Bond 2

# Investment Rationale

## 1. Key Investment Risk & Return Considerations

The table below describes the key Investment Risk and Investment Return characteristics that Financial Brokers should consider when recommending this Bond to retail investor clients:

| Feature | Description |
|---|---|
| **Investment Theme** | Bank Shares Index<br>EuroStoxx Banks Index (SX7E Index) |
| **Rationale for Theme** | Equities (shares) as a long term investment: Although investing in equities (shares) involves a degree of investment risk and there will be volatile periods along the way, in the long term, equities tend to outperform other assets like bonds, property, cash etc. By adopting a medium term approach, equity investors can mitigate the risks and short term volatility associated with stock market investment while benefiting from the long term capital growth potential that stock markets can provide.<br><br>Stock Market Indices provide a broad representative portfolio of investments in multiple companies or shares. Indexes are often used as benchmarks to gauge the movement and performance of market segments or geographic regions. Investors generally use Indexes as a basis for diverse or passive investing.<br><br>The EuroStoxx Banks Index comprises the largest banks in the Eurozone area. |
| **Potential Return** | 6.9% after 1 year.<br><br>If the Index is above its initial level after 1 year, the Bond will mature early, investors will receive back their initial investment and a return of 6.9%. If not, but the Index is above its initial level after 18 months, the Bond will mature early, investors will receive back their initial investment and a return of 10.35%. This process continues every 6 months with the return increasing by 3.45% for each period passed until the return condition is met (i.e. Index is above its initial level) or until the Final Valuation Date. |
| **Investment Risk Level** | Medium to High |
| **SRI** | 6 |
| **Soft Capital Protection** | Investors will receive their capital back unless the Index is below 40% of its initial level on the Final Valuation Date.<br><br>If the Index has fallen by 60% or more at the Final Valuation Date, investors will receive the performance of the Index at Maturity, no matter how much it has fallen. |
| **Investment Term** | 4 Years (Medium) |

| | |
|---|---|
| **Unique Features** | **Kick Out:** The Bond has the potential to Mature Early after 1 year and every 6 months thereafter with a return of 6.9% per year as a result of any positive performance from the underlying Index .<br><br>**Memory Feature:** If any potential Early Maturity and potential coupon return is missed, it can be caught up at a subsequent potential Early Maturity date if the return condition is met i.e. Index is above its initial level. |

| | |
|---|---|
| **Product Compromises** | **Soft Capital Protection:** Investors can lose some or all of the amount invested.<br><br>**Opportunity Cost:** Capital Returns or Investment Income could be higher if the Bond had no Soft Capital Protection feature.<br><br>Capital Returns or Investment Income could be higher if invested in a concentrated portfolio of shares or risky assets rather than an Index.<br>Returns are capped at 6.9% per year and Bond return is capped at 27.6%. Capital Returns could be higher if invested without a performance cap or with unlimited investment returns. |

| | |
|---|---|
| **Liquidity** | Yes |
| **Taxation** | Capital Gains Tax (CGT) in the case of Personal and Company Investors<br>Exempt for Pension & Post Retirement Schemes |

## 2. Investment Rationale in more detail

The investment rationale for investing in the Bond and in this Index can be summarised as follows:-

1. **Soft Capital Protection Feature:** Investors benefit from a Soft Capital Protection feature provided by Morgan Stanley. Capital is Protected unless the Index has fallen by 60% or more at Maturity.

2. **Kick Out Feature:** Potential Return of 6.9% after 1 year. If the Index is above its initial level, investors will receive back their initial capital and a return of 6.9%. If not, but the Index is above its initial levels after 18 months, investors will receive back their initial capital and a return of 10.35%. This process continues every 6 months (with the return increasing by 3.45%) until the Index is above its initial level or until Maturity.

### Equity and Index Investing

Equities (shares) as a long term investment: Although investing in equities (shares) involves a degree of investment risk and there will be volatile periods along the way, in the long term, equities tend to outperform other assets like bonds, property, cash etc. By adopting a medium term approach, equity investors can mitigate the risks and short term volatility associated with stock market investment while benefiting from the long term capital growth potential that stock markets can provide.

Stock Market Indices provide a broad representative portfolio of investments in multiple companies or shares. Indexes are often used as benchmarks to gauge the movement and performance of market segments or geographic regions. Investors generally use Indexes as a basis for diverse or passive investing.

The EuroStoxx Banks Index comprises the largest banks in the Eurozone area.

### Bank Equities/Shares

The outlook for bank shares is influenced by the following factors:

- Higher interest rates are expected to enable banks to become more profitable
- A "normalised" interest rate environment (prevailing interest rates consistent with longer term rates) is expected to normalise banking operations and functionality
- Banks are gradually being allowed to pay dividends to and return cash to shareholders following the debt crisis
- Banks are generally required to be conservatively capitalised following the debt crisis and therefore have buffers in place to dampen the effect of future shocks and downturns
- Many bank share prices remain considerably below previous highs (potential for catch up as profits recover and management teams prove their difference and advancement from the weakness since the debt crisis era)

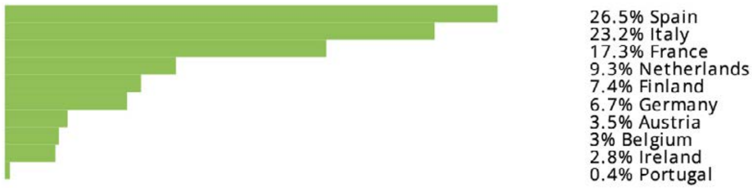
## EuroStoxx Banks Index

The EuroStoxx Banks Index (the Index) comprises the largest banks in the Eurozone area. The market capitalisation of the Index is €622.9 billion.

Source: https://qontigo.com/index/sx7e/
Index Fact Sheet: https://qontigo.com/index/sx7e/?factsheet=true (29 February 2024)

**Warning: This Index is a Price Return Index. Dividends or income distributed by the Index constituents will not be re-invested in these Indices nor distributed to investors.**

## Country Weighting




Source: https://qontigo.com/index/sx7e/?factsheet=true (29 February 2024)

## Index Top 10 Holdings

| Company | Supersector | Country | Weight (%) |
|---|---|---|---|
| BCO SANTANDER | Banks | Spain | 11.527% |
| BNP PARIBAS | Banks | France | 11.121% |
| UNICREDIT | Banks | Italy | 10.217% |
| UNICREDIT | Banks | Germany | 10.217% |
| BCO BILBAO VIZCAYA ARGENTARIA | Banks | Spain | 10.149% |
| INTESA SANPAOLO | Banks | Italy | 8.779% |
| ING GRP | Banks | Netherlands | 8.073% |
| NORDEA BANK | Banks | Finland | 7.360% |
| DEUTSCHE BANK | Banks | Germany | 4.671% |
| GRP SOCIETE GENERALE | Banks | France | 3.336% |

Source: https://qontigo.com/index/sx7e/?factsheet=true (29 February 2024)

## Index Past Performance

The Index has had an annualised return of 4.5% over the last 5 years as follows:

| Index returns | Return (%) | | | | | Annualized Return (%) | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Last month | YTD | 1Y | 3Y | 5Y | Last month | YTD | 1Y | 3Y | 5Y |
| EURO STOXX 50 Index | 0.7 | 3.3 | 3.3 | 45.7 | 24.5 | N/A | N/A | 3.3 | 13.5 | 4.5 |


Source: https://qontigo.com/index/sx7e/?factsheet=true (29 February 2024)

**Warning: Past Performance is not a reliable guide to future performance.**

## Product Back Testing

We conducted back testing of this Bond between March 2004 and March 2024. Please contact your Financial Broker for details or for more information.
Financial Brokers can access Back Testing information in the Broker Training Guide.

**Warning: Investors should not consider this product back test illustration or previous product results as an indication of the potential for, or likelihood of, positive outcomes or investment gains in the future.**

## Limited Usefulness of Past Performance and Back Testing

Past Performance and Back Testing are useful for information purposes only. The analysis of the past performance of any investment asset(s) or the back testing of any investment product is purely academic and has no bearing on, or provides limited benefit in the assessment of the future performance potential of the investment asset(s) or the investment product in question. The future performance of any investment asset(s) or investment product depends solely on future events and circumstances that cannot be known in advance and that are not necessarily informed by or influenced by what has happened in the past, more recently or otherwise.

**Warning: Past Performance and Simulated Past Performance are not a reliable guide to future performance.**

**Warning: Product Back Testing is not a reliable guide to future performance.**

## Key Information Document (KID) Product Performance Scenarios

Market developments in the future cannot be accurately predicted. The scenarios shown are only an indication of some of the possible outcomes based on recent returns. Actual returns could be lower.

**Recommended holding period:** Until the product is called or matures. This may be different in each scenario and is indicated in the table.

**Example Investment: EUR 10,000.00**

| Scenarios | | If you exit after 1 Year | If you exit at call or maturity |
|---|---|---|---|
| Minimum | There is no minimum guaranteed return. You could lose some or all of your investment. | | |
| Stress (product ends after 4 years) | What you might get back after costs<br>Average return each year | EUR 2,783<br>-71.97% | EUR 1,232<br>-40.75% |
| Unfavourable (product ends after 4 years) | What you might get back after costs<br>Average return each year | EUR 6,993<br>-29.94% | EUR 3,394<br>-23.67% |
| Moderate (product ends after 1 year) | What you might get back after costs<br>Average return each year | | EUR 10,690<br>6.86% |
| Favourable (product ends after 2 years) | What you might get back after costs<br>Average return each year | EUR 10,302<br>3.00% | EUR 11,380<br>6.67% |

This table shows the money you could get back over the next 4 years under different scenarios, assuming that you invest €10,000.

The scenarios shown illustrate how your investment could perform. You can compare them with the scenarios of other products.

The scenarios presented are an estimate of future performance based on evidence from the past on how the value of this investment varies, and are not an exact indicator. What you get will vary depending on how the market performs and how long you keep the product.

The stress scenario shows what you might get back in extreme market circumstances, and it does not take into account the situation where we are not able to pay you.

The figures shown include all the costs of the product itself, but may not include all the costs that you pay to your advisor or distributor. The figures do not take into account your personal tax situation, which may also affect how much you get back.

**Warning: Performance Scenarios are not a reliable guide to future performance.**

# 3. Warnings

| |
|---|
| Warning: If you invest in the Bond you may lose some or all of the money you invest. |
| Warning: The value of your investment may go down as well as up. |
| Warning: This document is intended for Financial Broker firms only and is not suitable for potential Investors. This document should be read in conjunction with the product Brochure where a full list of warnings is provided. |

BROKER
SOLUTIONS

101 Morehampton Road
Donnybrook Village
Dublin 4, D04 T0C2

www.brokersolutions.ie