Complex Bond Risk Disclosures

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Before considering investing in Complex Bonds, please read this important information.

- Your capital is at risk. You may not get back the amount you invested.
- Complex bonds include additional features (often called embedded derivatives) that can link returns to factors such as interest rates, inflation, market movements or the issuer's financial position. These features can increase the risk of loss and make returns harder to predict.
- Investment decisions should be based on the full details set out in the relevant product documentation.
- The value of complex bonds can change during their term and may require closer monitoring by the investor.
- You should consider seeking independent financial advice before investing.
- You should only invest if you fully understand how the bond works and the risks involved.

What Are Complex Bonds?

Complex Bonds differ from traditional bonds because they may include additional features that affect how returns are paid or when the bond can be repaid. These features can make prices more volatile and harder to predict.

Examples of features include:

- The ability for either the issuer or investor to repay early
- Payments that vary with interest rates or inflation
- Links to credit events or other market factors
- No fixed maturity date (in some cases)

Types of Complex Bonds

Callable Bonds
The issuer can repay the bond early on specific dates.

What this means for you: if the bond is called, you stop receiving coupon payments and may need to reinvest at a lower rate.

Puttable Bonds
The investor can ask for the bond to be repaid early at certain times. What this means for you: this option can benefit you if interest rates rise or the bond's price falls.

Perpetual Bonds
These bonds have no maturity date. Coupons may be paid indefinitely unless the issuer chooses to redeem the bond. What this means for you: you may never receive your original capital back.

Permanent Interest-Bearing Shares (PIBS)
Issued by building societies, these pay a fixed rate of interest. They can be very volatile and are not covered by the Financial Services Compensation Scheme (FSCS). What this means for you: you could lose money if the issuer gets into difficulty.

Perpetual Subordinated Bonds (PSBs)
A type of perpetual loan stock that ranks behind other creditors. What this means for you: in a default, you may get back little or nothing.

Index-Linked Bonds
Coupon payments and capital values move in line with inflation. What this means for you: they aim to protect your purchasing power, but prices can still fluctuate.

Mortgage-Backed Securities
These are bonds backed by a pool of mortgages. What this means for you: returns depend on the performance of those underlying mortgages.

Subordinated Debt
Debt that ranks below other loans if the issuer fails. What this means for you: this increases the risk of loss if the issuer becomes insolvent.

Risks to Consider

Credit risk
The issuer may be unable to make interest payments or repay the bond.

Liquidity risk
Some Complex Bonds trade infrequently, meaning you may not be able to sell them quickly or at a fair price.

Default risk
If the issuer defaults, you may lose some or all of your investment.

Interest rate risk
Bond prices generally fall if interest rates rise. This may impact you if you need to sell before maturity.

Currency risk
If the bond is in a foreign currency, exchange rate changes can affect the value of your investment.

Call risk
The issuer may repay the bond early, meaning you could lose future income.

Collateral risk
If the bond is secured and the value of the collateral falls, this increases your risk of loss.

Inflation risk
Inflation reduces the real value of fixed coupon payments.