

THE DIVIDEND LINK

DIVIDEND RETURNS IN A STRUCTURED NOTE

A STRUCTURED PRODUCT linked to an equity index is by far the most common retail structured product. Within this category, most of linked indices are “price-return” indices, which measure only the price performance of the relevant securities, and do not reflect an investor’s returns represented by cash dividends. A somewhat smaller group of linked indices are “total return indices,” which measure both the price performance, **and** the dividend returns, of the relevant securities.

With our client, we solved for the missing link: linking to an equity index that measures only the dividends, without regard to the market prices of the relevant securities. We advised our clients on the first series of U.S. registered offerings linked to an index that tracks only dividends. This required consideration of a variety of issues of first impression. How does an index of this kind work? How does it differ from other equity market measures? How can one present the index’s prior performance? What are the unique risks arising from linking to a measurement of dividends?

Of course, it also required crafting disclosure that helped a potential investor differentiate between this type of underlying asset and the more typical form of equity market measure. We suspect price-tracking indices will continue to be among the most popular index-linked assets for structured products. But for those equity investors seeking exposure to dividend returns, there now exists a viable approach that can be tailored to their needs.