

# A MATTER OF “PRINCIPAL”

## STRUCTURED PRODUCTS WITH PRINCIPAL PROTECTION

WE HAVE PARTICIPATED with our investment bank clients in expanding the universe of principal protected product structures, which remain staples in many markets and are especially common in the retail end of the structured product arena. Our recent work has focused on assisting our clients to extend these structures in ways that accommodate current market trends. In the case of structured notes, intensified interest in gaining exposure to commodity prices and currency exchange rates has prompted principal protected structures based on publicly available commodity price indices, baskets of commodities and/or currencies and even single commodities. We also have addressed the continuing appetite for hedge fund exposure through principal protected notes and other structured products.

Our recent experience in this area encompasses both static and dynamic structures. The static structures most often involve the issuance of a letter of credit or guaranty and the simultaneous purchase of zero-coupon instruments that typically accrete to 100% of the initial investment and, in some structures, also guarantee a portion of the coupon. This work invariably draws on the skills of our colleagues who focus on letters of credit and off-balance sheet structures.

We are also actively involved with dynamic allocation principal protection structures, which seek to optimize investments in underlying assets, such as hedge funds. We have a particular focus on constant proportion portfolio insurance (CPPI) structures, which employ leverage through an allocation and periodic rebalancing of the bond component and the participation in the underlying reference asset.

Another variant on this theme has been our recent work on structured financial warranties that afford principal protection to mutual funds. These structures have led us to call upon the skills of our investment management colleagues.

The core principle for lawyers working with principal-protected structures is that numerous skill sets must be brought to bear by a fully integrated structured products team.