



## **HSBC Innovative Income Solutions: Generating income with market-linked CDs**

HSBC 

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## What are your needs?

Are you looking for investments that can deliver income in today's low interest rate environment?

Are you seeking the security of FDIC insurance?

Are you concerned about safety of principal?

If so, HSBC has created **Innovative Income** investment solutions that could well be the answer to your needs: market-linked certificates of deposit (CDs) that are FDIC-insured. They are designed for investors concerned about preserving principal, while seeking a way to potentially outperform cash or traditional fixed income investments.

A little later on, we'll discuss their similarity and differences so you can see which idea might be best suited for your personal savings and investing needs.

# What is Innovative Income?

## The Quest for Income

A major concern voiced by investors today is: how can I grow my income in the current low interest rate environment? Can I do this without adding a significant amount of risk or complexity to my portfolio? For savers and investors dependent on fixed income, this is an especially difficult situation to manage.

To illustrate the predicament of today's investors, we'd like to share with you a graph that records the past 50 years of yields on 10-year Treasury bonds.

### Time to seek new income sources?



1. Source: *America's Perspective on New Retirement Realities and the Longevity Bonus*. A 2013 Merrill Lynch Retirement Study, conducted in partnership with Age Wave, that pooled 6,300 respondents 45 and older. Past performance not indicative of future results.
2. Paid if all 5 stocks are at or above their respective initial levels on the annual observation date. All payments, including any return of principal, subject to the credit risk of the issuer.

As we can see, for the past 30 years, yields have been declining consistently. Presently we're near the lowest point ever for Treasury yields. We've learned that 74% percent of our clients believe that "providing guaranteed income" is the most important feature in retirement investments. Investors want an instrument that will help generate income in this challenging environment, without adding undo risk.

What may frustrate savers and investors is the fact that 5-year CD rates offered by major banks have been disappointingly low. They are shopping for better interest rates—but finding no promising alternatives.

Fortunately, market-linked CDs can be a viable, innovative solution for generating income in today's restrictive environment.

# What are market-linked CDs?

## What are market-linked CDs?

Investors might want to consider market-linked CDs. They're called market-linked because their performance is linked to a specific underlying investment.

The advantages of market-linked CDs? They can help you

- Potentially **enhance income** within portfolios
- **Protect assets** against market downturns
- Provide unique **estate planning** solutions
- Achieve **long-term wealth management goals**

## HSBC Income-Generating Solution #1: Income Plus CDs

HSBC Income Plus CDs are FDIC-insured and available in 5- or 7-year maturities. They're linked to five well-recognized large-cap stocks.

The CDs feature annual interest payments in the form of a minimum payment each year. An important point: to receive the performance payment at the time of redemption, **all five stocks** must be at a price equal to or higher than the Initial Level (their price when you bought the CD).

Here are two hypothetical examples of performance that Income Plus CDs could deliver:

Hypothetical example – 7-year Income Plus CD		
Fixed <sup>1</sup>	Performance-based <sup>2</sup>	Total Potential Annual Income <sup>2</sup>
1.00%	5.00%	6.00%

- **Different payment combinations available**

1. All payments, including any return principal, subject to the credit risk of the issuer.
2. Paid if all 5 stocks are at or above their respective initial levels on the annual observation date. All payments, including any return of principal, subject to the credit risk of the issuer.

Buyers of market-linked CDs can choose among different fixed amounts of annual guaranteed interest payments, which determine the level of the performance. In addition, Income Plus CDs offer variable payment options: the smaller the guaranteed return, the greater the potential return.

# Income Plus CDs

## Hypothetical example – 7-year Income Plus CD

	Fixed <sup>1</sup>	Performance Based <sup>2</sup>	Total Potential Annual Income <sup>2</sup>
<b>A</b>	1.00%	5.00%	6.00%
<b>B</b>	0.75%	6.75%	7.50%
<b>C</b>	0.50%	8.50%	9.00%
<b>D</b>	0.25%	10.25%	10.50%

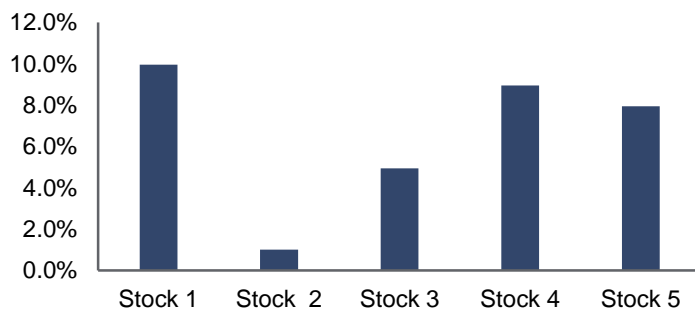
1. All payments, including any return principal, subject to the credit risk of the issuer.
2. Paid if all 5 stocks are at or above their respective initial levels on the annual observation date. All payments, including any return of principal, subject to the credit risk of the issuer.

Here is how varying stock performance could affect the CD's investment yield:

## Hypothetical example – 7-Year Income Plus CD

### Scenario 1

All stocks up

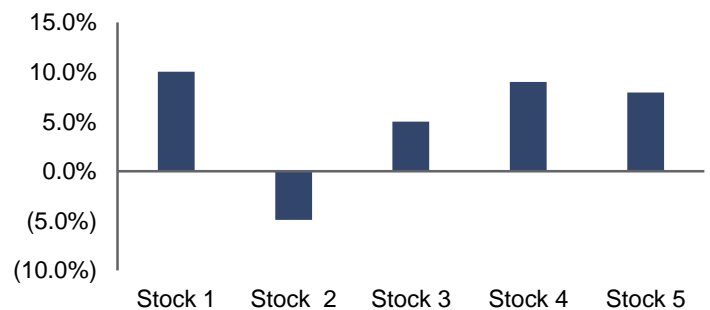


Coupon Calculation<sup>1</sup> – Minimum **PLUS** performance

- **Choice A:** 1.00% + 5.00% = 6.00%
- **Choice B:** 0.75% + 6.75% = 7.50%
- **Choice C:** 0.50% + 8.50% = 9.00%
- **Choice D:** 0.25% + 10.25% = 10.50%

### Scenario 2

At least one stock down



Coupon Calculation<sup>1</sup> – Minimum **ONLY**

- **Choice A:** 1.00%
- **Choice B:** 0.75%
- **Choice C:** 0.50%
- **Choice D:** 0.25%

1. Subject to the credit of the issuer.

# What are Rate Builder CDs?

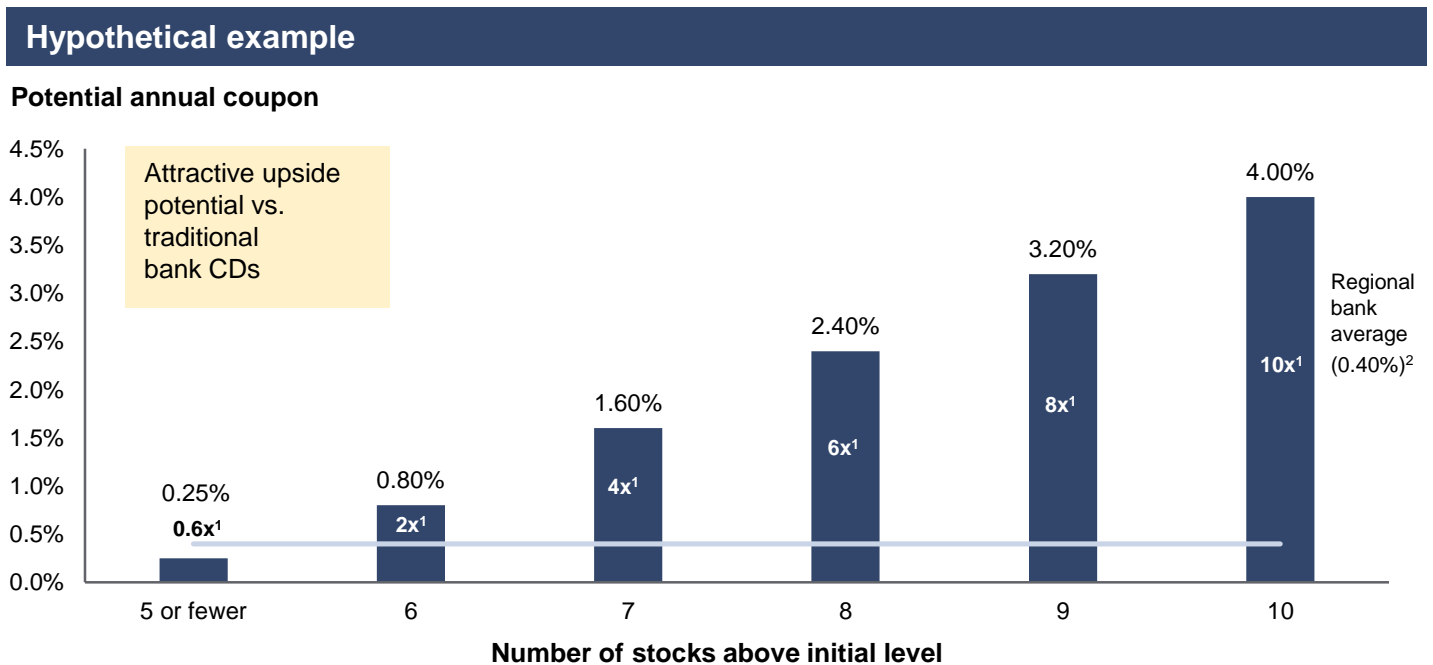
Factors to consider when purchasing Income Plus CDs are:

- They might offer less interest than comparable traditional bank CDs.
- The underlying stocks are static over the term.
- The annual performance interest payment is measured against the stock price on the day you purchased your market-linked CD.

## HSBC Income-Generating Solution #2: Rate Builder CDs

Like Income Plus CDs, Rate Builder CDs are FDIC-insured and available in 5- or 7-year maturities with annual interest payments and a minimum payment each year. But where Income Plus CDs are linked to five widely-recognized stocks with large market cap, Rate Builder CDs are linked to a basket of 10 large-cap stocks chosen from the Dow Jones Industrials. And secondly, while the Income Plus CD interest payment depends on whether **all five** stocks rise together, the Rate Builder CDs interest payment increases whether **more** stocks are at or above the Initial Level.

The bar chart below illustrates a hypothetical example comparing Rate Builders' attractive upside potential compared to traditional bank CDs.



1. Five-year Rate Builder return compared against the average 5-year CD rate of a basket of regional banks composed of Fifth Third, First Niagara, Huntington, Key Bank and PNC, based on bankrate.com date obtained May 26, 2015.  
2. Source: bankrate.com, as of May 26, 2015.

# Consider Innovative Income

Considerations regarding Rate Builder CDs include:

- Minimum and performance interest payments are subject to issuer credit risk.
- They might offer less interest than comparable CDs.
- The underlying stocks remain the same over the term.
- The annual interest payment is measured against the stock prices on the day you purchased your market-linked CD.

## **Choosing Innovative Income**

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What kind of investor might find Innovative Income a suitable solution? Those who wish to obtain a higher interest rate than with a bank CD without assuming additional risk.

In summary, HSBC Market Linked CDs offer:

- Annual income
- Flexible offerings with different terms
- FDIC insurance
- Large-cap companies
- IRA-eligible