SRPInsight

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SIP Nordic partners with BNP Paribas to enter South African market

After failed attempts in the US and UK markets, the Swedish distributor has launched its first products in South Africa with the French bank.

Swedish structured products marketing firm SIP Nordic has entered the South African market via a collaboration with BNP Paribas and investment platform iTransact.

SIP Nordic South Africa is headed by Peter Steele as managing director. Steele joined the firm in early 2020 to establish the firm's sales distribution in South Africa.

Steele was previously in charge of structured products and unit trusts distribution at Cadiz Asset Management in South Africa. He said SIP Nordics SA will offer 'a carefully designed range of structured products to bridge the gap between investors' capital growth and income needs, and protection from market falls'.

The SIP Nordic team is completed with Graziella Wall also formerly at Cadiz AM, and Leanne Weiss and Selest Hinton as business development managers.

The firm is seeking to expand the existing offer for South African investors which is mainly focused on unit trusts, with a range of structured income plans.

This is the third attempt by the Swedish firm led by Mats Halvorsen to expand beyond the Nordics. SIP Nordic launched SIP America, a US registered broker-dealer, in 2010 to replicate its service and support model for structured products in the US intermediary space, but exited in the market in 2013. The firm also launched in the UK in 2009 to assist RBS with the distribution of structured products in the UK adviser market but closed its UK business in 2015 and was relaunched as Meteor Consulting Ltd, which is an appointed representative of Meteor Asset Management.

> **“This is the third attempt by the Swedish firm to expand beyond the Nordics**

SIP Nordic has a number of live products across markets including three live products in the UK set to mature between March and June 2021 worth an estimated US$22m, as well as 141 live products in Sweden, 81 in Finland, and 26 in Norway.

SIP Nordic opened offices in South Africa in January 2020, and launched its first products in mid-February 2021 via the iTransact platform which carries structured products from other South African providers such as Absa and Investec.

The current offer includes three ZAR-denominated uncapped call products hedged by BNP Paribas which will be available for subscription until 31 March.

The BNP Paribas Enhanced Growth Certificate series 2 is a five-year fully protected structure and will pay at maturity 145% participation on the average performance of the Nasdaq Yewno Global Innovative Tech Index, which is comprised of 100 stocks of leading companies that are positioned at the forefront of innovation in the world by investing extensively in six innovative fields.

The BNP Paribas Tandem Plus Certificate (ZAR) Series 1 is a five-year structure linked to the Solactive Sustainable Development Goals World RC8 EUR Index, which is made up of a diversified portfolio of companies worldwide contributing to the Sustainable Development Goals and which has the addition of a risk control (RC) mechanism.

The products will pay a 12% coupon on a quarter of the initial investment after one year and a 24% on a quarter of the initial investment after three years regardless of the index performance and 150% participation at maturity on the index performance on 50% of the investment alongside the initial capital.

The BNP Paribas Tandem Certificate (ZAR) Series 2 is also a five-year 100% capital protected structure linked to the Solactive Sustainable Development Goals World RC8 EUR Index. The product will pay a 12% coupon on half of the initial investment after one year and a 150% participation on the performance of the underlying.

Belgian market sees renewed interest for structured products

Structured products contributed to the recovery of the financial markets end-2020 as many investors include them in their portfolio.

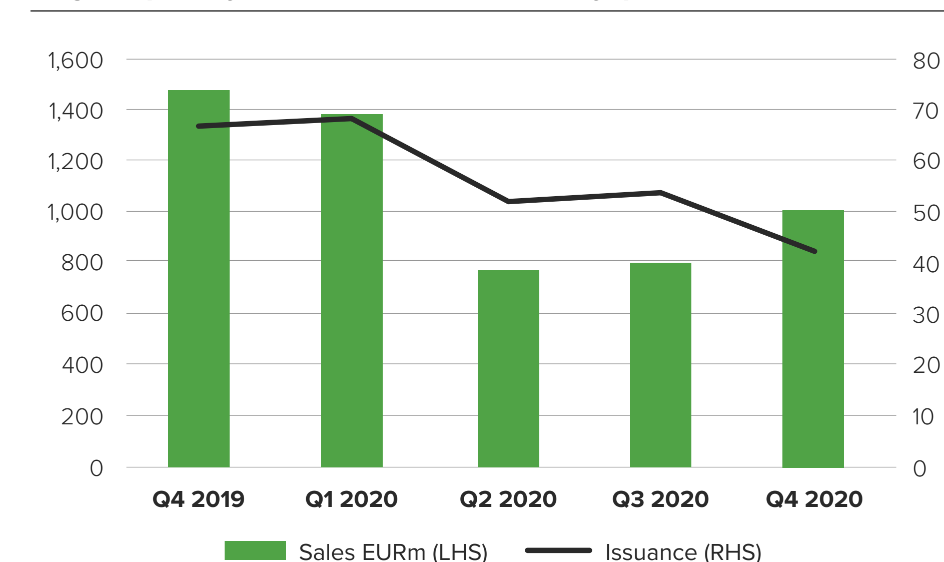
Sales volumes of structured products on the primary market amounted to €1 billion (excluding leverage products) in the fourth quarter of 2020, according to the latest figures released by the Belgian Structured Investment Products Association (Belsipa).

Compared to the previous quarter, sales volumes increased by 31% but year-on-year (YoY) turnover was down by 24% (Q4 2019: €1.3m).

The volumes in equity-linked products decreased by 29% to €413m while turnover of products with fixed income-underlyings, at €539m, tripled when compared to Q3 2020.

The share of capital-protected products as part of the primary market turnover rose by 38% on an annual basis, while it even doubled on a quarterly basis.

Belgium: primary market sales and issuance by quarter*



**Excl. flow and leverage products*
Source: StructuredRetailProducts.com

The turnover of structured investment products sold on the secondary market in Belgium amounted to €450m, an increase of 16% compared to Q3 2020 but a decrease of 25% YoY.

Structured products made a reasonable contribution to the general recovery of the financial markets at the end of last year, according to Belsipa chair Florence Devleeschauwer.

'[Structured products] are seen as a resilient part of the investment universe and many retail clients have them back in their portfolio,' she said.

SRP's own data saw 43 structured products (excluding flow and leverage) striking between 1 October and 31 December 2020. Of these, 16 pay a minimum capital return of 100% or more; 20 provide at least 90% capital protection; and one product each protects 85% and 50% of the nominal invested, respectively.

Thirty products were linked to a single index, of which the Stoxx Global Infrastructure Select 30 EUR – seen in four products (€27m) – was the most frequently used. There were also structures linked to Stoxx Europe 600 Healthcare (€47m from three products); Solactive Digital Economy (€35m from two products); and Thomson Reuters Europe Equal Opportunities Select Index (€22m from three products), issued during the quarter.

The best-selling product in Q3 where ING Bank's three-year Participation Notes 11/23, which sold €25m during its subscription period. The securities participate 100% in the positive performance of a basket comprising the shares of 20 global companies, capped at a maximum rise of 15%. The minimum capital return is 90%.

One hundred and one products matured during the fourth quarter. Of these Belfius' Tactical Autoswitchable 5 provided the highest annualised return. The product, which was linked to the Eurostoxx Select Dividend 30 and sold €1.2m at inception, returned 130% of the initial invested after five-years, or 5.38% pa.

According to Belsipa, more than half of all newly issued structured products were capital-protected.

The importance of capital protection, within the spectrum of structured products, be it bonds, funds or insurance products, applies to all segments, said Filip Gils, vice-chair, Belsipa.

BBVA adds to QIS range with a focus on governance

The Spanish bank has developed two new sustainable-centered indices with Solactive as it continues to build its Quantitative Investment Strategies (QIS) offering.

The two new custom indices, the Solactive BBVA ixS Global Inclusive Growth Index and the Solactive BBVA ixG Global Governance & Board Diversity Index, track the performance of high-growth global companies that comply with the United Nations Sustainable Development Goals and are also leading corporate governance efforts.

The Spanish bank will offer a complete range of products from delta 1 to options on risk control versions to its clients wrapped in the most efficient way for their interests, Pablo Suarez, head of quantitative investment strategies at BBVA (pictured), told SRP.

The Solactive BBVA ixS Global Inclusive Growth Index incorporates leading growing companies that are in line with the 17 Sustainable Development Goals within the UN's 2030 Agenda for Sustainable Development including, for example, zero hunger, quality education, and gender equality.

"Inclusive Growth is the capstone of global economic development, an output that is fairly distributed across society encourages entrepreneurship and boosts opportunities for everyone," said Suarez. "Investors are more and more willing to recognize this factor in companies' behaviour as customers around the world are already doing for many years."

The Solactive BBVA ixG Global Governance & Board Diversity Index focuses on companies' corporate governance, the G part of ESG. The index ranks companies by their overall corporate governance score, bestowing companies with a better score for diversity on their board with greater weight in the final index.

The Solactive BBVA ixG Global Governance & Board Diversity Index completes the sustainable angle by rewarding companies that implement best practices in the ruling and process that drive the company management.

"Diversity in Board outstands as one of the key pillars we identify as fostering this good governance," said Suarez.

The bank's objective is to bring "responsible and transparent investment opportunities to everyone through investable indices, hence all of our indices are wrapped into the industries´ standard investment vehicles allowing our clients to invest in the most convenient way", according to Juan Ramón Domínguez, head of structured equity product sales at BBVA.

> **Inclusive Growth is the capstone of global economic development**

"BBVA institutional clients have already at their disposal our QIS Indices through vehicles such as warrants, structured notes or mutual funds and OTC derivatives or Total Return Swaps," he said. " In addition, for each of our QIS indices we are offering at least one risk control and decrement version that optimizes the way to structure an investment product.

"Risk Control indices are designed to keep volatility and dividend parameters at predetermined levels and become the perfect underlying for investment products at mid and long term with some capital protection given the current market scenario of ultra low interest rates. This way, investors with risk aversion can still find very attractive investment opportunities on Growth and MaxNav kind of payoffs."

Timo Pfeiffer, chief markets officer at Solactive said the latest release marks the completion of "a very meaningful index range that gives investors the full spectrum of ESG investing".

BBVA established its QIS business in late 2020 in a move to offer investors broad access to ESG investing solutions. In total, the bank has developed five indices with Solactive besides the two new governance-tilted indices, global ESG leaders, including the Solactive BBVA Climate Action PAB Europe index, Solactive BBVA Climate Action CTB Europe index, and BBVA ixESG Global Leaders EUR Risk Control 6% Index.

Irish structured products fund aims at €200m with new sterling share class

Ballybunion Insignia Defined Returns Fund has celebrated its first anniversary by adding a GBP share class as it is looking to compete in the UK market.

Ballybunion Insignia Defined Returns Fund, the Irish domiciled structured products fund that primarily invests in autocalls, has launched a sterling share class after demand from UK investors.

"We have got a lot of contacts in Ireland, and we are developing these all the time, but outside of Ireland there are an awful lot of opportunities," said Peter Murphy (pictured), managing director, Insignia Financial. "Structured products funds have been popular in the UK, with a couple of high profile funds attracting a lot of assets, so for us having a sterling share class allows us to start knocking on the door of discretionary fund managers."

The GBP share class was added to allow a UK client to be invested in sterling, as opposed to euro, the fund's base currency. It is a hedged share class, the money is taken in sterling after which is decided whether to keep it in sterling to invest in sterling, or translate it into euros to invest in euros.

"That is what we have done in this case," said Murphy, adding that the client should receive a very similar return to the euro share class, net of the hedging costs.

The qualifying investor alternative investment fund (AIF), authorised by the Central Bank of Ireland, wrapped up its first year in business with a track record of 9.7%, ahead of its target return of 7-9% per annum.

"Now that we have a one-year track record, which is very strong relative to other funds, a lot institutions are very interested in the fund and are perhaps looking to take up an allocation," said Murphy.

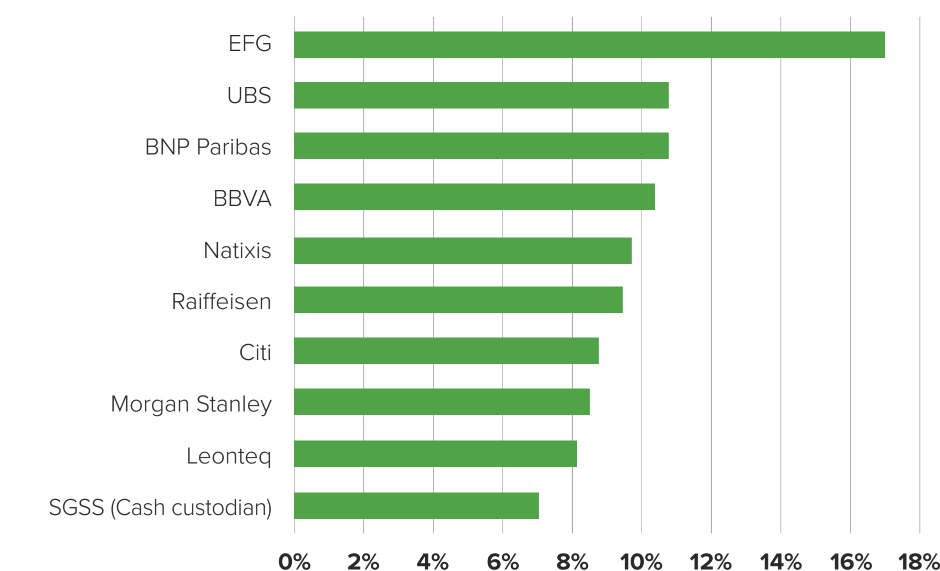
The fund was launched one year ago and currently has a value of €12.5m, but Murphy is hoping to get to €20m as quickly as he can to make it more attractive for institutional investors.

"We think we can get there comfortably. We are targeting what some of our competitors in the UK have done. A couple of them manage assets north of €200m and I see no reason why our fund can't do the same," said Murphy.

As of the end of February, the fund was equally invested in defensive autocalls and step-down autocalls (45% each), with the remaining 10% invested in twin-wins. It has exposure to nine different counterparties, of which EFG, at 17%, takes up the biggest allocation, followed by UBS, BNP Paribas (10.70% each), and BBVA (10.40%). Ninety-five percent of the products in the fund are denominated in euros, with five percent denominated in sterling.

In February, there were no autocalls or maturities and no new additions to the fund, but March is promising to be a busy month with several autocalls/maturities expected.

Ballybunion: Insignia Defined Returns Fund: counterparty exposure*



** As of 28 February 2021*
Source: Insigniafinancial.ie

EFG International goes with 'Investment Navigator'

EFG International has selected Investment Navigator to 'further enhance' its compliance framework, and automate suitability assessments of its services and products.

Swiss fintech Investment Navigator platform offers reg-tech solution to automate suitability assessment of services and products including distribution eligibility checks on ISIN level for mutual funds, ETFs and structured products as well as digital compliance guidance on cross-border business activities.

The Investment Navigator solution capabilities will be integrated into Swiss bank's existing platforms for advisory, discretionary and execution only businesses worldwide, with the first Investment Navigator web-application having been rolled-out in Switzerland earlier in January.

'Reliable information on service and investment restrictions, especially in the context of cross-border banking, has become essential for wealth managers to comply with international legislation,' said Julian Köhler, co-founder and chairman of Investment Navigator.

Eusipa: volume largely stable on Europe's structured products markets

Turnover in investment and leverage products listed on reporting European financial markets totalled €35 billion in the fourth quarter of 2020, an increase of five percent quarter-on-quarter and 27% year-on-year, according to the European Structured Investment Products Association (Eusipa).

Fourth quarter turnover in investment products on European trading venues amounted to €13 billion, 37 % of the total. Investment product turnover increased 40 % over the quarter but remained largely stable compared with the last quarter of 2019. Turnover in leverage products including warrants, knock-out warrants, and constant leverage certificates, reached €22 billion in Q4 20, representing 63 % of the total. Turnover in leverage products increased 47 % year on year, but fell eight percent from the previous quarter.

At the end of December, trading venues located in reporting Eusipa markets were offering 448,035 investment products and 1,237,343 leverage products - the number of listed products was stable on a quarterly basis, though contracted seven percent from the previous year.

Banks issued 1,332,686 new investment and leverage products in the fourth quarter of 2020, an increase of two percent on the previous quarter and 19 % year-on-year. In total, 147,704 new investment products were launched, accounting for 11 % of new issues; the 1,184,982 new leverage products represent 89 % of the total. Investment product issuance was up 16 % on the previous quarter; leverage product issuance was unchanged from Q3 2020, though up 22% year-on-year.

For Austria, Belgium, Germany, and Switzerland, the market volume of investment and leverage products issued as securities stood at €281 billion at the end of the fourth quarter, a two percent quarter-on-quarter increase.

The market volume of investment products was a stable €271 billion – up just two percent quarter on quarter and two percent year on year. The outstanding volume of leverage products totalled €10 billion, a 30% year-on-year decrease that can be attributed largely to the Swiss market.

> **Turnover in leverage products increased 47% year on year**

Luma Swiss expansion set in motion

The Swiss Structured Products Association (SSPA) has added Luma Financial Technologies as partner member.

The association's membership base includes now 43 members across the entire structured products value creation chain. Luma Financial Technologies most recently opened an office in Zurich to offer more asset managers and private banks access to its platform. The membership of the SSPA is a further step towards the full establishment of Luma Financial Technologies in the largest market for structured products in the world, according to David Wood, managing director of Luma Financial Technologies.

> **It is our ambition to help support the Swiss industry**

'It is our ambition to help support the Swiss industry of structured products with our platform and international expertise and to promote the industry as a whole as part of our expansion into Europe,' said Wood, who joined the US platform earlier this year to spearhead the firm's European expansion.

Wood is seeking to replicate the work Luma has been done in the US with private banks and wealth management clients to build out new services and operational capabilities - distribution processes, compliance functions, and integrate them into the infrastructures of those banks. Luma will follow the same strategy it has developed in the US and Latam by offering the platform's capabilities to private banks and wealth managers in Europe.

Santander joins SSPA

Santander has joined the SSPA as a new member and issuer. With this addition, the SSPA expands its network to 42 members across the entire value creation chain, from issuers to trading platforms and buy-side to brokers and partners.

Santander is seeking to expand further its position in the world's largest market for structured products. The bank is present in 10 markets in Europe and the Americas, offers structured products via its equity derivatives business.

'Our decision to join SSPA underscores our ambition to further expand Santander's activities of offering structured products in Switzerland,' said Alfredo Madrigal, head of equity derivatives & exchange traded derivatives at Santander. 'We look forward to actively participating in the association and to making a contribution to the further development of the Swiss market for structured products.'

According to SRP data, the Spanish bank was the main manufacturer in Spain in 2020 with over 270 products launched worth an estimated US$3.3 billion, and fifth most active issuer in Europe in terms of volume sold.

SRP data also shows that Santander sold an estimated US$366m in structured products in Latin America in 2020.

BNPP doubles down on Exane

After a 17-year partnership, BNP Paribas is looking to acquire up to 100% of Exane, raising its stake from the 50% currently held.

The French bank is seeking to 'further strengthen and widen the range of cash equity and derivatives services' it offers to institutional investors and corporates globally, and leverage the acquisition of Deutsche Bank's Global Prime Finance and Electronic Equities business in 2019 to position the bank as a leading provider in global equities.

Exane is a small player in the public offering space and has just over 275 live products worth an estimated US$364m across markets including Italy (254 products/US$292m) and Ireland (16 products/US$53m). There are also four live products issued by Exane on SRP's institutional database.

BNP Paribas has not disclosed the terms of the acquisition or if Exane will be integrated into the bank's equities division as there is an overlapping of functions and management across prime services, global electronic trading, equity derivatives and equity capital markets.

Alessandro Ricci, Exane Derivative's former head of structured products and co-head of derivatives alongside Mathieu Bernard, who is also head of equity derivatives flow business since 2017, joined Leonteq in mid-2020.

Société Générale deploys prop index plays amid expanding annuity market

The French bank is seeking to capitalise on its index capabilities to respond to demand for custom indices in the indexed annuities market.

SG's recently launched Global Sentiment Index was one of three indices chosen by US annuity provider American Equity to underlie its Asset Shield fixed indexed annuity (FIA).

The other two are the exclusive BofA Destinations Index, developed by Bank of America in collaboration with American Equity, and the Credit Suisse Tech Edge Index which combines biotech ETF asset classes with fixed income components.

The product line features varying terms of five, seven and 10 years, and offers new equity as well as multi-asset index options. Clients would have the choice to purchase a higher rate on crediting strategies for enhanced growth potential.

According to Natasha Dadlani, managing director, equity derivatives investor solutions at SG, the Global Sentiment Index leveraged the bank's long-standing SG Sentiment Indicator as a way of assessing market sentiment and conviction.

The index aims to diversify across global asset classes to give its portfolio resilience.

"It was not created with a specific product in mind as none of our indices are created with a specific product in mind, but we are glad to see American Equity found the index complimentary to its own product features," said Dadlani.

The bank's latest addition to its proprietary index suite is the SG Macro Compass Index which is the first multi-asset index designed to identify changes in the economic cycle and rotate asset class allocations to perform in varying market environments. It uses fundamental indicators to assess the current market environment (especially GDP and inflation expectations) to rotate among three conviction-based, outlook-specific portfolios.

"This index is particularly special for us at SG as it leverages the work of Dr. Solomon Tadesse, our head of equity research in the US. He brought our own in-house research and intellectual property to create a fully rules-based systematic index," said Dadlani.

The range of SG's QIS provides innovative transparent solutions in areas of portfolio allocation, hedging and alpha generation rely on rigorous investment research from the SG research team.

"Our FIA indices reflect the body of our research in designing innovative asset allocation solutions for robust long-term performance," said Tadesse.

INCREASED DEMAND

The use of proprietary and custom indices linked to indexed annuities has increased in popularity due to their ability to provide diversification within an investor's portfolio.

There are many strategies available in the market today, with different goals and different expected performances in various market scenarios.

"A portfolio allocations approach to many indices can provide an investor with a diversified and resilient portfolio that can navigate many market regimes, so no one particular strategy is going to perform every market environment, but a portfolio of them can really help navigate most market environments," said Dadlani.

Registered index-linked annuity (Rilas) are a market that have been of particular interest for the bank, as the segment is fast-growing and is projected to grow in the coming years.

The products address a gap in the retirement market today, offering more value to an investor that desires more upside than traditional FIAs, and more downside protection than traditional variable annuities (VAs).

"We continue to see innovation in both spaces, and we do think that customised indices play a very important role in the interest in that space and will continue to do so," added Dadlani.

ANNUITY SALES

According to the Secure Retirement Institute, total annuity sales dropped nine percent in 2020 from the previous year, totalling US$219 billion.

Rilas and fixed-rate deferred annuity sales contributed towards the growth for protection-focused annuity sales. In 2020, Rila sales soared by 38% and fixed-rate deferred annuity sales also increased by 10%.

By contrast, income-focused annuity sales plunged 28%, due to persistent, low interest rates. Immediate income annuity sales and deferred income annuity sales fell more than 30% each for the year.

"At the start of the pandemic, the 10-year treasury plummeted to 56 basis points and the equities market contracted 32%," said Todd Giesing, senior annuity research director, SRI. "Worried investors turned to registered index-linked annuities and fixed-rate deferred annuities for the balance of downside protection and investment growth."

HSBC, Barclays introduce new custom indices in the US

US annuities provider Athene USA has launched the Athene AccuMax, a fixed indexed annuity (FIA) offering three different options to get exposure to the market.

The new FIA has been designed for long-term savers 'seeking index-driven growth potential as an alternative to traditional fixed income alternatives,' according to Grant Kvalheim (pictured), CEO and president of Athene USA.

'It blends the spirit of opportunity with the security of guarantees in unique and powerful ways,' he said, adding that because the indices use a volatility control mechanism, 'the range of both the positive and negative performance of the index is limited'.

The new Athene AccuMax FIA features the new AI Powered Multi-Asset Index (AiMAX1) and the Shiller Barclays CAPE Allocator 6 Index (BXIISC6E1), as well as a new annual interval sum crediting strategy linked to the S&P 500 index. It is the first time the AI Powered Multi-Asset Index and Shiller Barclays CAPE Allocator 6 Index appear on SRP's database.

The AI Powered Multi-Asset Index which is exclusively licensed by HSBC and sponsored by San Francisco-based EquBot, uses the AI capabilities of EquBot to generate long-term stock returns. The index was developed by EquBot and is administered, calculated and published by Solactive.

The Shiller Barclays CAPE Allocator 6 Index is part of the Barclays range developed by Professor Robert Shiller which utilises the Cyclically Adjusted Price Earnings (CAPE) ratio as a key driver for the valuation of regional sectors. The Shiller Barclays CAPE Allocator 6 Index include a six percent volatility control mechanism.

There are 13 structured products featuring Barclays Shiller underlyings including 10 products sold by Barclays Bank Delaware linked to the Barclays Shiller CAPE US Sector Risk Controlled 7% USD ER Index, and seven indexed annuities sold by Annexus linked to the Barclays Shiller CAPE US Sector Risk Control 10% in the US market.

Athene has 270 live indexed annuities in the US market under the Athene Annuity and Life brand, worth an estimated US$1.9 billion, according to SRP data.

The most featured underlying index on Athene's annuities is the S&P 500 (77 products/US$1.1 billion) followed by the BNP Paribas Multi Asset Diversified 5 Index and the Morningstar Dividend Yield Focus Target Volatility 5 Index (42 products/US$190m, each), and the Janus SG Market Consensus Index (22 products/US$146.2m).

First ESG indexed annuity hits the US market

Midland National Life Insurance, a subsidiary of Sammons Financial is the first to launch a fixed index annuity (FIA) aligned with sustainable investing via the newly deployed BlackRock ESG US 5% Index.

The firm made the ESG index available on two of its established FIAs including the MNL IncomeVantage Pro and MNL RetireVantage, as well as its new MNL Accelerate 5 fixed index annuity which launched on 30 March 2021. MNL Accelerate 5 is only available through Midland National and features a short-term offering five-year guaranteed participation rates.

BlackRock Index Services developed the index to widen access to sustainable investing by enhancing the league of sustainable indices that can be used in FIA products.

The ESG index targets firms with the relevant risk management tools and are focused on reducing environmental risks. Examples include companies seeking to support a more diverse workforce, reduce carbon emissions, and strengthen data privacy. The proprietary index is one of multiple that have revamped the way in which investors approach annuity products, as seen it their increased popularity.

While the FIA market has taken a recent tumble amid the low interest rate environment, the demand for RILAs shot up in terms of sales by 38% in 2020, compared with the previous year.

UBS bolsters QIS with put-write strategy, introduces decrement in US

UBS's quantitative investment strategies (QIS) team has developed a fully funded put-write strategy for qualified wealth management clients, offered as a unique alternative with features that adjust market exposure for various market stress scenarios.

The Swiss bank's global QIS team, which is housed within the firm's investment bank, is dedicated to developing innovative solutions for its largest and most sophisticated investors.

In the US, the strategy was driven by a client need for return stability and optimised risk-adjusted returns. It targets qualified UBS wealth management clients and is being offered as a private placement.

Challenging market conditions amid have proved to be obstacles for leading players such as UBS in its development of structured products, and its ability to offer conservative clients compelling products that provide full downside market risk protection.

"We don't see that changing in the foreseeable future, and as such, the industry has focused on developing alternative defined return strategies," said Eric Glicksman, UBS head of structured solutions for IB Global Markets, Americas, and GWM Markets, Americas.

However, the low interest rate environment seems to have paved the way for certain thematics that include decrement index plays.

DECREMENT ARRIVES

Decrement indices have gained more prominence in Europe as underlyings for structured investments but follow a more sporadic pattern in the US.

The bank recently adopted the synthetic dividend feature as part of its offering since it can impact the cost of options on those indices to either allow for a higher contingent coupon for phoenix autocallables or a higher participation rate for a growth product, as compensation for the decrement reducing the index return.

"UBS has recently utilised decrement indices in yield or defined return products when components of the decrement index are well known companies with established high cash flow business models and that have an expectation for double-digit return growth. Here the decrement feature improves the risk-return aspects of the product," said Glicksman.

In terms of additional themes that are steadily gaining traction across the North American market, ESG, 5G and vaccine development are among the top themes for structured products at UBS.

Glicksman notes other themes including more economically sensitive markets and sectors that are positioned to catch up in 2021, after underperforming in 2020. These range from cyclically exposed eurozone and UK markets, small- and midcaps to select financial, energy, industrial, and consumer discretionary stocks.

"[We] see opportunities in the Chinese economy given their progress toward economic recovery. Finally, there are opportunities in the travel and leisure sectors given that the concept of 'experiences over things' will likely become popular," he said.

CUSTOM INDICES

Proprietary indices have also emerged as popular strategies for market linked CDs and indices, where clients are willing to take exposure but not without downside protection.

"Linking structured products to custom indices or baskets that are developed based on research-driven themes has grown over the past couple of years as clients have sought outperformance (alpha) and speed to market."

Much of the bank's growth stems from expanding its structured product development and origination capabilities while improving distribution capabilities into both external and internal channels.

In addition, UBS intends to further partner with third party issuers and leverage new technology and platforms to achieve its growth ambitions.

The bank notes that a growing demand for yield and the desire to take advantage of tactical opportunities made 2020 conducive to structured products activity and a record year for the bank.

In late 2019, the firm established its Unified Capital Markets organisation which in part combined structured products and derivatives resources within UBS investment banking and the wealth management divisions.

This enabled the bank to leverage its cross divisional capabilities, effectively collaborate, and grow market share as well as service new distribution channels.

UBS recorded a significant pickup in client demand for products linked to stocks in the airlines and transportation sectors during 2020, as well as retail and restaurant sectors as a consumer reopening plays.

"Looking ahead, the trend of this sector will depend on several factors including investor sentiment and short to medium term views on when there will be comparable demand for stocks in the sector pre- vs. post pandemic," he said.

US regulator orders JPM Securities to pay settlement fee

An arbitration panel of the US watchdog Financial Industry Regulatory Authority (Finra) has ordered J.P. Morgan Securities (JPMS) and two of its ex-brokers to pay US$19m in damages to an elderly investor of structured products.

Beverley Schottenstein, a Florida-based senior investor, was initially seeking US$10m in compensatory damages as well as punitive damages in her arbitration claim, within her capacity as an individual and trustee of her revocable trust.

Schottenstein belongs to the family that owns holding company Schottenstein Stores Corp. Avi and Evan Schottenstein, the two former JPMS registered brokers named in the suit, are also the claimant's grandsons.

The claim alleges that Schottenstein' grandsons acted without authorisation in buying and selling securities (for which their employer was a market maker), new issue offerings in preferred securities and debt, auto-callable structured notes, among other instruments.

JPMS, along with the ex-brokers were held liable for abuse of fiduciary duty, constructive fraud, fraudulent misrepresentations and omission.

The US$19m includes a US$4.7m amount which will be paid by JPMS in compensatory damages, US$4.3m to rescind a Coatue Private Equity Fund investment along with return capital calls already paid to Coatue, and US$9m is to be paid by Evan Schottenstein to his grandmother in compensatory damages, apart from US$172.6k in costs.

Avi Schottenstein is also required to pay US$602k to his grandmother in compensatory damages. He spent nine years in the industry which includes a stint as a Morgan Stanley broker prior to JPMS.

Evan began investing his grandmother's money in 2006 while he was a broker with Citigroup Global Markets and continued the activity across his moves to Morgan Stanley and then finally JPMS.

Under Florida law, JPMS, along with the ex-brokers were held liable for abuse of fiduciary duty, constructive fraud, fraudulent misrepresentations and omission, as well as elder financial abuse.

The Commodity Futures Trading Commission (CFTC) has previously ordered J.P. Morgan Chase Bank to pay a US$65m civil monetary penalty for attempted manipulation of the US Dollar International Swaps and Derivatives Association Fix (USD Isdafix) benchmark. According to the CFTC, the bank doctored false reports and attempted to manipulate the leading global benchmark over a five-year period, dating back to January 2007 through January 2012.

"These advisors are no longer with the firm, and their actions do not represent our values as a company," said a JPM spokesperson.

J.P. Morgan debuts 'insight' notes linked to crypto basket

J.P. Morgan has issued a new range of structured notes linked to the J.P Morgan basket of companies which provide exposure to the cryptocurrency market via a basket of stocks.

The Insight Notes were registered on 10 March by J.P. Morgan Chase Financial Company on the US Securities regulator (SEC). The two-year capital at risk structure will pay 100% participation on the performance of the underlying basket minus 1.5% basket deduction. The note, which strikes on 6 April will be available to investors from 31 March from a minimum US$1,000.

The J.P. Morgan basket of companies includes the stocks of 11 US-listed companies that operate businesses that the bank believes 'to be, directly or indirectly, related to cryptocurrencies or other digital assets, including as a result of bitcoin holdings, cryptocurrency technology products, cryptocurrency mining products, digital payments or bitcoin trading'.

The unequally weighted underlying basket includes MicroStrategy (20%), a company holding more than 90,000 bitcoin; Square (18%), a payments company which derives its revenues from bitcoin trading with 3,318 bitcoin in its balance sheet; graphics card maker Nvidia, whose products are used to mine Ethereum and other cryptocurrencies; and Riot Blockchain (15%); and PayPal (10%). The weights of the reference stocks were determined based in part on exposure to bitcoin, correlation to bitcoin and liquidity.

Cboe Vest Gold target income tracker hits the market

First Trust has added to its suite of target outcome ETFs, with over U$1.6 billion in total net assets, with the FT Cboe Vest Gold Strategy Target Income ETF.

Cboe Vest's flagship target income strategy will be used in conjunction with the FT Cboe Vest Gold Strategy Target Income exchange-traded fund (ETF). The product with the ticker 'IGLD' seeks to deliver participation in the price returns of the SPDR Gold Trust (GLD) and produce a consistent level of income that exceeds the income generated by an investment in one-month US Treasury securities by approximately 3.85% on an annual basis.

Cboe Vest, the asset manager partner of Cboe Global Markets, will manage and sub-advise the fund.

According to the chief operational officer at Cboe Vest, Jeffery Chang, investing in gold as an asset class offers great diversification benefits as the large equity pullbacks have actually outperformed products such as investment grade bonds when it concerns hedging against downturns.

"We've seen record amounts of monetary and fiscal stimulus and this really spoke to a fear of inflation. Historically, when you look at gold, it has been a good inflation hedge so you would be able to retain its benefits," he said.

IGLD will invest its assets in short-term US Treasury securities, cash and cash equivalents and in the shares of a wholly owned subsidiary that holds FLexible EXchange Options (FLEX Options), referencing the price performance of GLD.

Through these investments, the fund will aim to provide returns linked to the performance of GLD. The fund will also seek to generate income through a sale of call options on GLD.

Via this call selling strategy, a portion of the upside price return of GLD can be converted into current premium income.

Karan Sood, chief executive officer of Cboe Vest said: "For some investors, the biggest criticism to gold has been the lack of yield. IGLD seeks to change that. Investors are now able to potentially derive income from gold while still retaining participation in its growth potential."

According to Chang, there has been a significant amount of interest in its target buffer last year, but noted a stark distinction from the first quarter of 2021 compared with that of 2020.

"In 2020, the reason for such growth was to hedge against a potential COVID-19 crisis," said Chang. "What we're seeing now is more of a tactical move from our clients who getting into our strategies more from a calculated standpoint due to interest rates, as opposed to a macro factor."

Cboe Vest's target income strategies have been on demand in the first quarter of 2021 driven by the need for yield among investors, according to Chang.

"The idea that more advisors or clients are either nearing retirement or actually going into retirement means that this need for income is actually increasing in a landscape where the actual supply of income products is decreasing."

Simon adds structured ETFs to platform

Simon Markets has expanded the suite of ETF offerings available on its structured products platform with the addition of First Trust's Target Outcome ETFs, the second largest provider of actively managed funds in the US. The firm reported recently that its target outcome ETFs have grown to over US$1.6 billion, as of the end of last year. The company is also an active distributor of structured products in the US market with more than 5,420 live products worth US$7.9 billion.

First Trust is initially offering on Simon's ETF Marketplace buffered ETFs tied to the SPDR S&P 500 ETF Trust as well as the FT Cboe Vest Growth-100 Buffer ETF, based on the Invesco QQQ Trust, Series 1 (QQQ), and FT Cboe Vest International Equity Buffer ETF, based on the iShares MSCI EAFE ETF which were launched in September, 'with additional offerings in the pipeline'.

The US platform has been actively expanding its reach in the US annuities markets over the last 18 months most recently with the addition of Global Atlantic Financial Group, as well as Great American Life National, Raymond James Financial, and multi-carrier sales offering, Insurance Technologies FireLight

Finra: former Merrill Lynch brokers not responsible over structured notes sales

The Financial Industry Regulatory Authority (Finra) ruled that the broker-dealers now at Raymond James were not responsible for the failure to properly disclose the costs of notes that saw some investors incur significant losses.

Finra agreed to the requests of two former Merrill Lynch brokers to expunge a customer complaint over unsuitable sales of structured products in a case detailing the degree to which they should bear responsibility for the transgressions of their firm.

The Vermont, US-based brokers joined Raymond James & Associates in 2016 after leaving the Bank of America owned investment firm, and both preside as senior vice presidents, investments. Both were found to not be responsible for the firm's failure to properly disclose fixed costs related to its strategic return notes product which in turn, led to grave losses for some investors.

Merrill Lynch reached a US$10m settlement with the Securities and Exchange Commission in 2016 for its responsibility for misleading statements in offering materials provided to retail investors for structured notes linked to the Investable Volatility Index, a proprietary volatility index created by the bank and calculated by the Chicago Board Options Exchange (CBOE), which had a two percent commission, a 0.75% trail and were billed as low-cost investments in firm marketing that was deemed "materially misleading."

Finra also fined the firm US$5m over the same disclosure issues, while the brokers sold approximately US$150m worth of the notes to around 4,000 customers. The arbitrator said that the brokers 'testified credibly that they performed necessary due diligence before they recommended the Strategic Return Notes for the customers'.

'Neither (...) was responsible for the failure of Merrill Lynch and BOA to make the requisite disclosures concerning the fixed costs associated with the Strategic Return Notes,' the arbitrator said.

US provider rolls out world's first accelerated ETFs with protection

Innovator ETFs has launched its new line of Accelerated ETFs, the first of its kind to offer investors a multiple (2x or 3x) of the upside return of a selected underlying up to a cap as well as downside protection.

A total of six accelerated ETF products will be listed, four of which will seek exposure to the SPDR S&P500 ETF Trust (SPY), while the other two will be tied to the Invesco QQQ Trust (QQQ).

The Accelerated ETFs launched 1 April 2021 and enable advisers to accelerate a portfolio's equity performance to a cap. They feature a potential for outperformance in the event that the underlying returns less than the initial cap.

New developments such as the SEC's [Securities and Exchange Commission] derivatives rule has allowed us to now introduce these types of products.

According to Bruce Bond, co-founder and chief executive officer at Innovator, these ETFs can prove to be a useful tool for investors in a low-to-moderate growth equity market environment whereby advisers are preparing for the lowest equity returns recognised in the past decade.

"Clients that are putting together portfolios that have a target and they have a certain amount of assets that they want to accumulate by a certain time," said Bond.

"These clients need assurance that their portfolio returns a certain amount for them to achieve the lifestyle that they want in retirement."

The new range of ETFs can help assure investors that they are going to reach the minimum thresholds necessary in order for them to meet their goals, according to Bond. "We think that they're going to be very powerful, as a planning tool going forward."

The idea for the new ETFs came to fruition when the firm was planning on entering the defined outcome market. However, regulatory issues prevented filings for these products to be officially rolled out.

Exclusive: HKEX to launch DLC segment

The Hong Kong Stock Exchange (HKEX) is working on the framework to enable the listing of daily leverage certificates (DLCs) involving liquidity provisions and underlyings, having received a number of proposals from potential issuers.

The bourse is in the process of implementing the project after spending 'quite a bit of time' in settling the delisting of hundreds of structured products, which were triggered by US sanctions in January, according to three senior market sources.

"The product development is expected to take another six months or more. No clear timeline is available yet," said one of the sources, adding that the launch of DLCs is likely to take place next year as it 'takes time for a series of steps to be achieved, including the establishment of listing rules and trading platform as well as marketing'.

HKEX was reported to mull the launch of the DLC segment in mid-2020. The delay is partly due to other events in 2020 which shifted the structured product team's focus, including the shortening of the structured product trading life cycle and the 'structured product connect' scheme initiated by the Financial Services Development Council (FSDC).

DLCs, known as constant leverage products or factor certificates in Europe, give investors a fixed leveraged return based on the daily performance of an underlying stock or index. Singapore Exchange was the first to list the products in Asia in July 2017, offering a leverage return of 3x, 5x or 7x through a 'long' or 'short'.

"HKEX is committed to maintaining its leading position as the world's largest structured products market," said a HKEX spokesperson in an email statement. "We are always looking at new product ideas, working with the market and issuers to understand demand, and we commit to keeping the market informed on new developments in a timely fashion."

"The SFC didn't think the Hong Kong market was ready for DLCs [in 2009]," the source recalled. "It was worried that some investors wouldn't fully understand the product structures and end up holding them for weeks because DLCs posted certain path dependency issues."

Despite the trading dynamics of leverage products in Hong Kong SAR, potential restrictions on DLCs may kill the products' attractiveness. Inline warrants were cited as an example where the underlyings are limited to Hang Seng Index and the five most traded stocks on HKEX, and where the minimum duration is set six months, which hampers the warrants' price sensitivity, according to the source.

MARKET VIEWS

As the DLC launch is underway, current issuers of leverage products in Hong Kong SAR are looking forward to the new opportunities these products will bring to the market.

"DLCs will complete the leverage product offerings in Hong Kong SAR because the warrant and callable bull/bear contract [CBBC] market here has fully matured, which is manifested by the trading activity," Keith Chan, head of cross asset listed distributions for APAC at Société Générale, told SRP.

The fact that DLCs are less complex than derivative warrants (DWs) and CBBCs from a product term perspective will be a plus, especially for investors who prefer simpler products, according to Chan.

The French bank is the sole issuer of DLCs in Singapore after rolling out the first DLC in Asia in July 2017. It has 201 DLCs on shelf as of Friday.

The DLCs cater to leverage product investors who don't want to take knockout risk or be exposed to changes in the implied volatility and time decay. Some of the main risks derived from DLCs include a compounding effect and airbag mechanism. Gains and losses are compounded over periods of more than one trading day for DLCs. As a result, investors may suffer in substantial losses in a volatile market with a sideways trend if a DLC is held for longer than a day.

At the same time, the airbag feature will be triggered if the underlying moves against the product direction to a certain degree, between -20% and 20% depending on the underlying type, as regulated by the Singapore Exchange – in such events a trading suspension of 30 minutes also comes into effect.

"Given the increasing number of Chinese tech IPOs in HK in recent years, there's more interest in those names for warrants and CBBCs," said Chan. "It is good timing to expand the types of products investors can choose from."

More issuers are considering their choices including new players in the DLC space in Asia like Vontobel which has a decent presence in the leverage products market in Hong Kong SAR.

"Hong Kong SAR is ready for the launch where the leverage products are applied with one of the highest standards when it comes to liquidity provision requirement," said Simon Yung (right), head of financial products public distribution for Hong Kong SAR at Vontobel.

In addition to a two-decade long experience of trading leverage products, Yung noted that retail investors in Hong Kong SAR have become less turnover-orientated and begin to value market making quality and product terms more upon selecting products.

Thailand SCB climbs in distributor ranking

Siam Commercial Bank (SCB) has doubled its structured note offerings to 693 in 2020 with an increase in sales of 35.2% year-on-year (YoY) amid an overall scale-down in Thailand.

The Thai bank's outstanding balance of structured notes dropped by 57.3% to THB434m (US$14.1m) as at the end of 2020 from its highest level in the year - THB1.02 billion recorded a quarter ago, which was close to the level posted in Q1 20, but 72.8% lower YoY, according to SCB's financial statements.

Phatra Securities and CGS-CIMB Securities retained their leading positions in the distribution ranking despite the slow-down in market activity, while SCB took over Thanachart Securities as the third most active distributor on the back of its market growth in 2020.

Thailand saw its overall structured note issuance in the market shrink by 43.1% to 4,791 in 2020 YoY, which led to a 29.4% decrease of sales volume at THB50.4 billion, SRP data shows.

All structured notes offered by SCB are issued either in-house or by its sister company - SCB Securities. The securities house slightly increased its issuance of structured notes to 216 from 197 in 2020, with a sales volume of THB2.5 billion and a market share of 5%, SRP data shows.

Majority of the notes are sold as short-term 'structured debentures' with a tenor of less than 270 days and are only available to institutional clients as well as high-net-worth individuals (HNWIs), as required by Thai regulations.

The commercial bank kicked off the year of 2020 with a strong momentum with 149 products filed in the first quarter, 84% higher quarter-on-quarter (QoQ), according to SRP data. Following the March crash, it offered 218 notes in the second quarter - a record high in the last two years.

Along with the growth in issuance, the number of underlyings featured also rose to 70 in 2020 from 41 in 2019. Oil & gas remained the most favoured sector followed by travel & leisure and technology at the expense of basic resources and G10 currencies.

The shares of Minor International were featured in 35 out of the 52 non-principal protected notes (NPPNs), which generated THB242m in 2020. In the meantime, there were 44 products linked to equity baskets covering Microsoft and Alibaba ADR.

Meanwhile, the USD/THB currency pair, which was the most used underlying asset in 2019, only appeared in 22 products in 2020. The most popular underlying was the shares of PTT, a Thai state-owned oil and gas company, which was linked to 126 products in 2020 – up from 26 in 2019.

NEW UNDERLYINGS

Besides the traditional underlying assets, SCB introduced the shares of Gulf Energy Development, an electric power generation company, amid growing demand for renewable energy assets. The shares were linked to 36 NPPNs sold at THB258m, all of which except one were marketed after the March 2020 sell-off.

Also, in October, the bank as the first in Thailand introduced the Thai Overnight Repurchase Rate (THOR)-linked structured notes as an alternative with 'reliable yields' for every client segment. Investors subscribing the notes included PTT Global Chemical and SCB Asset Management.

'Particularly amid the high volatility of yields from international financial markets, Thor-linked structured notes reflect Thai baht liquidity and offer an interesting choice for investors amid the current financial situation,' said Wasin Saiyawan (pictured), chief wholesale banking officer at SCB.

The bank reported a consolidated net profit of THB27.2 billion in 2020, 33% lower YoY, mainly due to higher provisions. The Q4 20 contributed THB5 billion of the net profit, a 9.8% decrease YoY or a 7% increase QoQ driven by higher net fee income.

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Thailand saw its overall structured note issuance in the market shrink by 43.1%

SFC slows down activities at year-end, HS Tech Index scores

The Hong Kong SAR regulator has released its quarterly report on equity-linked investments and structured deposits in the retail market.

> Equity-linked investments and structured deposits for public offering decreased

The Securities and Futures Commission (SFC) authorised 18 unlisted equity-linked investments and structured deposits for public offering from October to December, a decrease from 72 quarter-on-quarter (QoQ), which led to a stable number of 145 as at the end of 2020 year-on-year (YoY).

There were additionally 145 CNY-denominated unlisted structured products and the number of investment-linked assurance schemes (ILAS) remained unchanged at 300 as at the year-end compared with a quarter ago, according to the SFC's Q3 FY20/21 report ended in 2020.

The independent statutory body, headed by CEO Ashley Alder, also gave the green light to 51 unit trusts and mutual funds including 23 Hong Kong SAR-domiciled funds from October to December, a climb from 40 QoQ and 50 YoY.

In January, the regulator entered into an mutual recognition of funds (MRF) arrangement with the Securities and Exchange Commission of Thailand, which 'allows eligible Hong Kong SAR and Thai public funds to be distributed in the other market through a streamlined process'.

As at the year-end, there was no 'other specialised' non-Hong Kong SAR-domiciled authorised fund, which included futures and options funds, structured funds and funds that invest in financial derivative instruments. The type of fund was last seen on SFC's quarterly report ended in 2019 when one delivered a net asset value of US$145m.

In the meantime, the number of licensees and registrants was stable at 47,217 as at the end of 2020 YoY, of which 3,122 were licensed corporations.

During the quarter, the regulator disciplined three corporates including Goldman Sachs (Asia), which was fined HK$2.7 billion for its lapses in 1Malaysia Development Berhad's bond offerings, as well as Fulbright Securities and Credit Suisse Securities (Hong Kong SAR), which were fined HK$3.6m and HK$2.1m for internal control failures and regulatory breaches in its electronic trading systems, respectively.

As at 31 January 2021, the net notional amount outstanding of unlisted equity-linked investments and structured deposits for public offering reached HK$20.28 billion and HK$1.59 billion, respectively, the SFC latest data shows.

DERIVATIVES

In November 2020, the Hang Seng Tech Index futures were introduced to the market after the SFC gave its approval. They were launched by Hong Kong Stock Exchange to meet 'meet the market's need for an exposure management tool covering the technology sector'. The options subsequently went live in January.

Since then, 225 structured products have been marketed linked to the Hang Seng Tech Index in the form of single index, SRP data shows. The majority were distributed by a total of 11 banks in Hong Kong SAR as well as nine from China, nine from South Korea (excluding seven equity-linked securities that were withdrawn during subscription) and six from Singapore.

The SFC also approved the launch of futures and options contracts for four stocks - Semiconductor Manufacturing International Corporation, Alibaba Health Information Technology Ltd, Kingdee International Software Group Co and Ping An Healthcare and Technology Co.

During the quarter, the SFC posted a profit of HK$269m, up 30.6% QoQ and a recovery from negative HK$39m year-on-year (YoY). That led to a profit of HK$580m for the period from April to December, a bounce from a loss of HK$203m YoY.

HSBC debuts prop luxury index in Asia

HSBC has launched the Solactive Luxury Dynamic Factors 10% Daily Risk Control TR Index-linked private placement notes (PPN) in Hong Kong SAR and structured deposits in Malaysia, to capitalise on the growing luxury consumption in Asia after Covid-19.

Several versions of the products are being rolled out with partial or full capital protection and a tenor of one to two years.

"The payoffs being offered are growth payoffs with caps in the total payoff existing for certain variants," a spokesperson told SRP.

First introduced on 2 March in Malaysia, the MYR-denominated deposits are Shariah-compliant and available for HSBC Amanah clients. The PPN launched in Hong Kong SAR opened for subscription on 8 March for HSBC Jade clients, and is denominated in Renminbi.

The EUR-denominated index also marks the first proprietary luxury-themed index in Asia offered by HSBC, which owns the exclusive licence. The bank will 'shortly' offer such exposure through structured deposits in China where luxury-themed stocks are not commonly used as underlying assets.

GROWING SECTOR

Luxury spending in Asia, particularly in China, accounts for a significant portion of global luxury consumption. Luxury as an investment theme is poised to benefit from a strong economic recovery led by Asian economies in the post Covid-19 world, says HSBC.

"The index sits within our theme of stocks benefiting from Asian discretionary spending. HSBC Global Research estimates that the luxury goods market in mainland China will likely achieve 48% growth in 2020, doubling its overall share of the global luxury market in 2020, with further growth expected through to 2025," said Justin Chan (pictured), head of Greater China, global markets, Asia Pacific at HSBC.

"We are also bullish on the sector due to the likely consolidation seen in the industry and the use of more affordable online sales channels," he said.

The product was rolled out as the UK bank moves its structured products business from Europe to Asia, as part of its structural shift to the region. The UK bank has significantly raised its non-flow structured product issuance in Hong Kong SAR and Taiwan, as SRP reported.

HSBC has committed US$3.5 billion for its wealth and personal banking (WPB) business as well as US$0.8 billion in global banking and markets in Asia. The bank is expanding its distribution capabilities to target high net worth and ultra-high net worth investors mainly in China, Hong Kong SAR and Singapore.

"The growth of the wealth management market is unparalleled in Asia, underpinned by the expansion in high net worth population and the increase in their sophistication," said Maggie Ng, head of WPB for Hong Kong at HSBC. "Therefore, we are working closely with our global markets colleagues to bring innovative structured products to our customers."

UNDERLYING

Launched in October 2020, the Solactive Luxury Dynamic Factors 10% Daily Risk Control TR Index reflects the weighted performance of the Solactive Luxury Dynamic Factors Index NTR ('the base index') and a cash position accrued daily by hypothetical investing at 3M Euribor fixing.

As of 12 March, the base index accounted for 67.6% of the structured product underlying and comprised 20 stocks led by Hermes International, L'Oréal and Ferrari, which weighted 13%, 12.3% and 8.8%, respectively. By currency exposure, it had EUR (60.6%), USD (14.9%), CHF (6.4%), GBP (6.2%) and others (11.8%).

Since inception, the Solactive Luxury Dynamic Factors 10% Daily Risk Control TR Index has delivered a return of 8.4% pa., a volatility of 9.9% pa., Sharpe Ratio of 0.9, maximum drawdown of -22.47%, Value at risk 95/99 of -15.5%/-28% and Conditional Value at risk 95/99 of -23.3% and -36.4%.

Other Solactive luxury indices in the market include the Vontobel Luxury Performance-Index, Solactive Luxury & Lifestyle Index and Solactive Jing Daily KraneShares China Global Luxury Index.

There are eight structured products linked to luxury-themed indices and funds – ML Luxury and Lifestyle Index, SGAM Luxury and Lifestyle Fund, World Luxury Index, according to SRP data.

They were issued in Europe except one in China - 溢利宝-系列1-中外品牌主题投资/ Yi Li Bao S1. Offered by The Bank of East Asia in 2007, the uncapped growth product was linked to the baskets of ML Luxury and Lifestyle Index and BofA Merrill Lynch China Consumer Brand Index.

Citi Australia expands to meet rising structured products demand

The US bank has opened its second Australian wealth hub in Sydney targeting wholesale investors. The move comes as its sales volumes of structured products for February reached a four-year high.

Following the launch of its first wealth hub in Melbourne in April 2019, Citi saw investment asset under management (AUM) increase by 12%.

"Structured products make up a significant part of our offering to clients, as one of our most popular products," Nandita D'Souza (pictured), head of investment specialists at Citi Australia told SRP.

These products accounted for 'a significant portion' of the AUM growth while fixed income and term deposits were also key asset classes. In addition, the number of average transactions at Citi Australia has doubled in Melbourne since the wealth hub was opened.

To qualify as a wholesale client, investors must earn net assets exceeding AU$2.5m or gross income at least AU$250,000 pa. or over the last two financial years, as regulated by the Corporations Act 2001.

Alternatives include an investment of AU$530,000 (including fees) in one transaction subject to certain criteria and being classified as a professional investor who hold an Australian Financial Services License or control gross assets of at least AU$10m.

REFLATION TRADE

"2021 has already seen impressive demand for structured products, with clients wanting to get equity exposure given the more positive global economic backdrop," said D'Souza. "Our sales figures for February were our highest in four years."

Structured products offered by Citi Australia has a minimum investment of AU$50,000. The wholesale clients predominantly favour equity underlyings across both local and international markets, according to D'Souza.

"Fixed coupon memory autocallables with worst of options have been consistently popular with our clients," she said. In the meantime, the demand of other payoffs, such as growth type and conditional coupon type, continues to evolve depending on clients' views on markets.

"During the height of the pandemic clients preferred deeper kick-in barriers and exposure to defensive sectors that would not be as impacted by or even benefit from the pandemic, such as healthcare," she said.

> **Structured products make up a significant part of our offering to clients**

Customers at the bank are currently looking to access sectors that may benefit from reflation trade and an economic recovery, such as cyclical sectors including finance. With volatility likely to remain a concern for investors until the Covid-19 pandemic completely ends, customers will continue to look for ways to invest in equities with a hedge and are likely to turn to structured products.

DIGITALISATION

The expansion comes as Citi aims to double the revenue of its wealth management business over the next three years in Australia. It also follows the closure of the investment bank's last physical branch in February 2020 in the country as it's in the process of digitalizing majority of its banking activities.

"While 95% of Citi's banking interactions have been happening outside of branches for a number of years, our high-net-worth customers still value face to face interactions," said Gofran Chowdhury, head of banking and wealth management distribution at Citi Australia.

"As a result, we've built a tailor-made space where we can deliver a strong level of personal engagement for these clients as we work together to provide investment guidance and manage their wealth," he said.

Citi reported a net income of US$4.6 billion for Q4 2020, down seven percent year-on-year, while its revenues decreased 10.3% to US$16.5 billion mainly due to lower revenues in global consumer banking, institutional clients group and corporate or other.

Industry has shown resilience, now it is at an inflection point

Luma Financial Technologies' European head **David Wood** talks the evolution of automation in the structured products market, and the opportunities ahead.

> **The flipside of fully manual processes is full automation**

Over the last few years, the structured product industry has responded admirably to regulatory and transformational change. It has risen to meet, in certain cases, extreme challenges. Now, however, it faces an inflection point. Divergent approaches to technological adoption have created a patchwork system able to function year-to-year, but in a fashion that risks stifling long-term innovation and perpetuating processes which produce uneven service levels and lifecycle management inefficiencies.

The root cause of many of the issues lies in the bifurcation between the automated and manual processes the industry has adopted over the years. By and large, the banks have embraced one or the other, creating a twin-track system that has inadvertently embedded inefficiencies and variable service levels across business workflows.

Traditionally, of course, processes have been entirely manual. These are resource intensive and relatively inefficient, something that is evident from the product development stage all the way through to product maturity. Structured product desks at private banks still cultivate product ideas individually with multiple issuers because they lack a single venue to test and price concepts across the market. Relationship managers must present ideas back to the client with all the suitability controls, procedures and documentary evidence required, with no single hub to store them. It can be a laborious for all parties. On any given day, an issuer may receive numerous requests from buyside clients to price a similar product, all in different formats, requiring them to respond differently to each one.

Of course, this multiplication of inefficiency does not end there; it runs through the entire manufacturing and distribution process, rendering onerous and time consuming everything from evidencing best execution to decision reviews. It does not help that some of the tools utilised are fragmented and, in certain cases, not necessarily fit for purpose.

Crucially, all these inefficiencies create expense. For the banks, the base level of costs associated with an entirely manual process mean there is a high hurdle rate to clear before a new product would make economic sense. As a result, there tends to be a narrow concentration around products with mass appeal – i.e. autocalls – and those which, while attracting a smaller client base, generate much larger trades. Consequently, innovation is frequently challenged by the minimum costs of product development and distribution.

The flipside of fully manual processes is full automation. Many issuers now have single dealer platforms which price and trade standard products such as autocalls and reverse convertibles. These can make the initial process of price discovery,

documentation generation and distribution relatively fast and efficient as it is based on one product, one investor. But while these platforms allow for certain enhancements – the addition of more underlyings, for instance, providing flexibility on the inclusion of new stocks – they do not facilitate the creation of new products. The challenge here is that new products require, as with the existing products on the platform, fully automated pricing, documentation and regulatory processes, as well as trading. For an investment bank, adding new products would represent a huge investment of time – perhaps six to 12 months – and capital. Given the nature and size of the investment required, a bank is likely to expect P&L-moving volume within a few months of going live. The risk of that not happening is, understandably, one few are willing to take.

So how does the industry move forward? The answer lies in the middle ground between manual and full front-to-back automation. That, in effect, means streamlining core elements of the process to allow companies to innovate and provide scale on a lower cost basis.

Part of this would involve reducing or removing some of the costs for both the buyside and the sellside through tools that allow them to operate more efficiently without significant upfront investment. Standardising price requests for non-standard products, for example, would allow unautomated banks to respond to buyside clients in a more consistent and scalable way. If both sides use common platforms, there will be more predictability, giving issuers the comfort that clients will request information in a very similar way, not in numerous different ways.

Documentation, a critical component of workflows, is another key consideration. Product ideas must be accompanied by, among other things, a term sheet, a KIID and the appropriate regulatory documents, and many issuers use third-party service providers to help them to deliver and build on those. But issuers still must have multiple connections to multiple clients to send all those documents and manage that flow. By using platforms that can retrieve that documentation on their behalf wherever required, document generation can become a one-time piece of work for them, eliminating the need to pay multiple times to provide the same information.

Efficiencies can also be made once the product has been created. Often, the processes around managing the subscription, the orders, the book building and finalising the settlement are performed manually by issuers. It can involve operations teams managing the breaks and inefficiencies that may appear through the process. Having a workflow that normalises that but is not tied to straight-through-processing will help this process become much cleaner. Ultimately, volumes should grow on a particular product, giving issuers the incentive to invest in automating rather than semi-automating that product. That would help break the current impasse, where investment is lacking because the volume does not justify it, but the volume is lacking because the service level does not make it worthwhile.

Solving the problems during the manufacturing and distribution stages is critical to managing the lifecycle of a product. Whether it is a bespoke deal for an individual investor, which might be highly standardised, or a customised deal for 500 investors, the client service expectations of lifecycle management remain the same. What is its value, what is its performance, should I still hold it, and how does it fit within my portfolio? All these are common questions that must be answered irrespective of trade size. While there are many variations in the manufacturing and distribution elements of the process, as soon as a product is placed with an investor it is crucial it is serviced in a highly efficient, highly standardised way. These are living, breathing assets which need to be actively managed in a client's portfolio.

The industry has undoubtedly proven its resilience in recent years in the face of daunting challenges, partly through the deployment of technology. Now we must ensure that automated platforms and processes do not oblige banks and wealth managers to duplicate tasks in perpetuity, while also tackling the lack of automation in other areas which preserves costs in the system and discourages innovation. Ultimately, we all want to see less fragmented service levels and better lifecycle management, but these outcomes will be hard to achieve without solving the problems in the manufacturing and distribution stages. Doing so will be an ongoing and active journey, but it is one on which the industry must embark.

> **“Solving the problems during the manufacturing and distribution stages is critical to managing the lifecycle of a product**

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Profile: FNZ Q-Hub - servicing QIS and AMCs with a customised touch

FNZ was founded as a start-up business in 2004 in New Zealand.

Originally created as a business unit within the New Zealand branch of Credit Suisse investment bank, the firm is backed by Caisse de Dépôt et Placement du Québec, Singapore's Temasek, Generation Funds - the venture capital fund of former US vice president Al Gore, as well as its employees.

SRP spoke to Walter Cegarra (pictured), the former managing director - global head of QIS structuring at Credit Suisse who joined in early 2020 as chief executive of FNZ's Q-Hub, the firm's structured investments platform, about the increasing use of technology for investment administration and asset servicing.

FNZ is not the usual software-as-a-service (SaaS) provider but a platform as a service (PaaS) company offering technology solutions together with the supporting infrastructure and operations as a single managed service.

"This approach is very powerful because the company can have a more strategic impact on financial institutions, including in terms of cost savings: the business model is based on bps on AUM as opposed to large fixed software licensing fees," says Cegarra. "It is important for the company to be aligned on the success, and risks, of its partners and clients.

"This allows us to customise the platform to meet the needs of each client across technology (software) but also in terms of investment administration and asset servicing."

The company has now more than US$800 billion of assets under administration from over 100 clients globally including Standard Aberdeen, Barclays, Generali, Zurich, Vanguard, and Singapore's UOB.

ICPPIS AND ITIPPS

FNZ also houses iProtect, a module which was initially launched as a solution platform to support individualised protection transactions from a technology and operational perspective - aimed at iCPPIs and iTIPPs.

"Although FNZ may have kept a relatively low profile, it is servicing some of the largest tier 1 institutions in the market," says Cegarra. "The first time I came across the iProtect team was at Credit Suisse - we were developing an iCPPI for an Italian insurance company and they had selected iProtect technology and operational platform."

The firm has been around for over 15 years as a financial technology and operations provider offering services to the wealth management space by delivering the full platform value chain including front-end, on-boarding, account management, trading, and back-office capabilities.

According to Cegarra, when FNZ approached him, the opportunity was "very aligned with what I had tried to build over the last 22 years on the sell-side and a very good fit overall - same solutions, same clients on the buy-side in addition to my previous colleagues on the sell-side, and a great team with a strong track record and even stronger values and principles".

He joined them on February 2020 to head Q-Hub, the firm's broader structured investment platform, which includes iProtect, with a mandate to develop and move the platform to the next level with his team.

"Our mandate is to accelerate and expand our role as facilitator of structured investments: beyond individualised protection to cover the full long term savings spectrum (accumulation and decumulation, protected or not), as well as QIS, including actively managed certificates, and leverage finance," Cegarra says.

Q-HUB

FNZ's Q-Hub provides technology and operational services to support long term savings, QIS and leverage finance.

Long terms savings is the firm's traditional area of expertise, in particular in the individualised protection space.

"This is the origin of the iProtect platform. But certainly, over the last year we have seen increasing interest for different types of solutions, in particular around decumulation, and different types of pay-offs, including option-based MaxNAV protection which we also support," says Cegarra.

"The decumulation space has been particularly active over the last few months and we have developed some very interesting capabilities."

According to Cegarra, the increasing interest in decumulation comes from both investors and providers.

From an individual investor's perspective, traditional general account solutions have become less appealing given the reduction of the guarantees and rates offered.

"Even more so given that they do not provide any potential upside to the markets," says Cegarra, adding that for example, in France, the guaranteed yield for the fonds en euros has about halved over the last six years.

From a provider's perspective, the same general account solutions are increasingly challenged from a regulatory capital perspective, and the lower yields guaranteed on the liability side and government bond yields available on the asset side.

"Given such evolution, we have seen insurance companies, banks and asset managers work on innovative decumulation solutions for investors with the aim to combine protected income with some upside exposure to the markets," Cegarra says. "While working with distributors, manufacturers, investment banks and other hedge providers on such solutions, in addition to facilitating the operational management and hedging of the underlying product, our services have been in particular requested around individualisation and digital engagement."

THE FULL LIFECYCLE

Cegarra notes that for solutions which are very long term by construction and combine accumulation and decumulation, known in the UK as "to and through" retirement, clients want to be able to provide their advisors and end clients with the ability to customise the solution, "not only at the time of the initial subscription, but even more importantly, through the whole life of the investment".

> **"Operational risk can be very punitive for providers**

With personal needs, goals and life expectancy, individuals are no longer comfortable with static one-size-fits-all solutions, which creates technology and operational challenges.

The other aspect is around client engagement and the presentation of relatively sophisticated investment solutions and the choices provided to end clients - typically with the help of an advisor, in a way which can be properly understood.

"To that end, we have done a lot of work on digital tooling, which is made available to our clients on a customised and white-labelled basis, aimed at striking the right balance between providing a comprehensive picture of the benefits and risks of the solutions, of the trade-offs related to the choices, and in a way which is intuitive, engaging and never misleading," says Cegarra. "The reception of such type of tool has been really strong".

Q-Hub offers specific capabilities and tools to support decumulation solutions under a module called "RetireProtect+".

QIS AND AMCS

On the QIS side, FNZ Q-Hub focuses on the support of actively managed certificates (AMCs) and actively managed indices (AMIs) with services designed to facilitate the technology and operational resources to manufacture, hedge and distribute these products.

"We already power some of the leading retail brokerage platforms in the UK which are even more operationally intensive – our proposition around AMCs is based on a lighter version of those, purpose built for AMCs," says Cegarra, adding that the related key challenge that needs to be addressed by product providers is operational risk.

"Operational risk can be very punitive for providers if they miscalculate/mis-aggregate thousands of AMCs on their balance sheet both in terms of potential losses and in terms of capital charge. As part of our standard service, we underwrite such operational risk on behalf of our clients and provide the operational risk cover directly from the balance sheet of a robust financial institution."

The third aspect of the Q-Hub offering is the digital interface to deliver the product to the audience, the input from the manager or advisor going into the AMC, the distributor and all the way to the end client for pre- and post-sale engagement.

"People don't want spreadsheets or exchange of emails," concludes Cegarra. "In the world of Uber, Deliveroo and other mobile apps, clients expect their financial interactions as automated and user friendly as the ones they have for their private life.

"We have a lot of requests from clients asking to design the digital interface between them and their distributors, and the distributors and their clients, in addition to our services around the manufacturing, rebalancing and hedging of the products themselves."

BBVA shifts gear as equities chief plan gains momentum

The Spanish bank hit several milestones throughout 2020 in its strategy to build up its offering and reach to become a global market player.

Last year was a difficult and challenging year for many manufacturers as the market volatility triggered by the Covid pandemic resulted in heavy losses for those exposed to long-term risk on their books. Some issuers, however, were able to capitalise on the turmoil and reposition their offering.

SRP spoke to Juan Ramón Domínguez, (pictured), European head of equity structured products sales at BBVA about the progress made by the Spanish bank as it moves from an "opportunistic" approach to a "factory set-up".

The Spanish bank remains a small player compared to the main tier 1 manufacturers of structured products globally, but is working on an ambitious plan to expand its reach and compete with the main structured products houses in the short-term. Our year-end results showed continued growth on our structured products business.

"From a business perspective [2020] was a good year," says Domínguez. "We focused on providing liquidity to those products clients wanted to unwind. However, with the market rebound client activity was reignited – this lasted until the end of the year. Our year-end results showed continued growth on our structured products business."

The distribution business (both private banking and retail) remained invested with very few requests to unwind positions and went back to normal levels of activity relatively quickly, according to Domínguez.

"On the other hand, there were a higher number of requests from institutional investors seeking liquidity as they moved to cash. Overall, the institutional market was somehow subdued and remained cautious over a longer period," he says.

"It is fair to say that the recovery was spearheaded by the US market after the historical falls on some of their market cap flagship indices. Investors across the board saw an opportunity as soon as some of the US stocks began to recover and even European-centric institutional networks shifted their attention to US underlyings, especially during Q4 20."

STRATEGIC PLAN

The pandemic hit just as we were starting to implement our new global equities strategic plan. We had to slow down a little at the beginning but over the year we achieved a wide range of mobilisation across a range of work streams – e-connectivity and digital transformation, the addition and coverage of new underlyings and payoffs, new business lines such our QIS and ESG initiatives, new wrappers, risk management etc.

Our new 'factory' approach aimed at our distribution and institutional businesses across different geographies was set in motion and remained on track throughout the year.

The progress we are making on our strategy can be seen on several milestones we achieved in 2020. More recently we introduced new 3a2 notes targeted at US onshore clients, increased our public offering across Europe with a specific focus on the French market, and we continue to develop our range of investment products to reach all the markets in which we have a presence.

Our QIS business line is a good example of the work we are doing. We are not only developing new indices such as our Solactive BBVA ixESG Global Leaders EUR Index which we launched in 2020 or the recent Climate Transition Benchmark ones that we have just presented but also developing a variety of ways to make them investable for our clients – we have a new mutual fund in the pipeline linked to our first index as it is the preferred wrapper by institutional investors.

NEW PHASE

It is fair to say that the arrival of Roberto Vila has resulted in the equity business moving into a new phase of development and perhaps was the missing link to move BBVA into a different level. In the past, we were more opportunistic whereas now we have a focus and a roadmap with clear objectives to become a market reference when it comes to investment products.

We wanted to have a diversified underlying coverage and reduce the risk on our books with more short-term products and we have adapted the business and teams to move in the right direction.

Our risk appetite is mid- to low, and that is also reflected in the types of products we are doing. Before we were concentrated on a small catalogue of very popular underlyings and long-term products. With the new set up we have a winning strategy because we have more capacity and are well positioned to capitalise on new opportunities and manage our books more efficiently.

We have also seen how some business models across the market had to be reviewed and restructured which has also opened opportunities for us and other players.

There is a clear shift in the market towards indices that embed risk management capabilities such as volatility control, synthetic dividends. Obviously, there is a trade off as the investor will not be paying for estimations on volatility, and the payoff structure will be based on participation (ie European call option with a put spread). As a consequence, for every new QIS index that we launch there is a risk control and synthetic dividend version so we can offer more efficient investment products to our clients.

WINNERS AND LOSERS

The winners after the crash and the main drivers of the rebound were US tech stocks which were able to capitalise on the lockdown/work-from-home environment.

The FAANG (Facebook, Amazon, Apple, Netflix, and Google) companies took the lion's share during the second half of 2020. However, we also received many requests for products linked to other tech firms involved in payment methods (PayPal, Mastercard, American Express), and non-tech firms such as mining companies as well as pharma and healthcare companies. Towards the end of the year we saw an increasing interest in European stocks as part of either global baskets or European baskets and semiconductor stocks as a theme which has continued into 2021.

From an underlying stand-point the losers of 2020 were the most traditional sectors which suffered to gain traction although we think they are well positioned to drive activity this year as they provide a good entry point and prospect for growth as the economy begins to recover.

> **"Our new 'factory' approach remained on track throughout the year.**

INNOVATION

Innovation on payoffs continues to be limited. The investor understands the narrative of the autocall and the Phoenix autocall, and providers can deliver returns with this type of product. It is very difficult to move away from something that is working for product providers and investors but there has been an effort from the industry to innovate on the underlying side and there are many examples around indices but also around baskets, on providing appealing entry points, on the use of downside and coupon barriers.

Thematic investments are also proof of how the market is moving from the traditional market cap approach. The reason why these underlyings are gaining traction among retail investors is to do with the fact that you have a story behind to tell and that it is easily understood.

We have added several features to our Phoenix offering with boosters, twin-wins which have been very successful and come hand in hand with the increase of our digital capabilities. We have also worked on ways to deactivate the risk via daily range autocalls which have been well-received by investors and they make sense in the current market environment.

GOING FORWARD

We want to grow our market share in markets where we have a presence such as France, the UK, Germany, Switzerland, and Portugal. In addition to that, we want to increase our presence and return to other markets such as Italy and the Nordics.

In France which was very focused on long-term products aimed at retail distribution networks, we want to be more involved on the public distribution side - we are working with domestic distributors to increase our footprint, and also target insurance providers across Europe with a full derivatives catalogue including equities but also credit, rates, FX as we think our offering can be competitive.

As we expand our reach, we want to target other markets such as Austria and The Netherlands where we are already working with domestic financial firms.

We are also changing our approach on our more traditional markets such as Spain and Portugal where the retail activity has been significantly low over the last few years but demand for products from private banking is increasing.

Beyond the European markets, the growth in US and Latam is being impressive and there are also specific plans regarding wrappers and products to capture a higher market share. Mexico is being very successful in the distribution of warrants linked to our QIS indices and there is room to replicate the model in the rest of Latin American markets by leveraging the bank's high-street presence. We have also resumed our activities in Asia and we are now setting up the capabilities to move one step forward in terms of volumes and payoffs and of course, there are plans to increase our equity derivatives activities in Turkey.

FEATURE

SRP 2021 Awards - SocGen racks up €15bn on decrement, and counting

SocGen received several SRP accolades in this year's SRP Europe Awards including Best House, Europe, Best House, Equity, Best House, Autocall, Best House, Interest Rates, Deal of the Year - Positive Impact Note on Solys Euro Evolution Fund Awards.

> **Private banks have been asking for alternatives to autocalls**

Despite the challenges faced in 2020 SG once again edged on its structuring, trading and sales capabilities as well as its solid distribution footprint across the old continent to retain its leading position in the market in terms of issuance and sales.

"2020 was challenging, and yet, one of our best year ever in terms of client activity. Many new businesses have been created. New products, new client relationships, new significant innovations. A very intense, and creative year overall." said Frédéric Despagne (pictured), European head of investment solutions, equity & fixed income at Société Générale.

The French investment bank remains a leading force in the European structured products landscape and has secured the first place in several top manufacturer categories based on analysis of annualised sales-weighted performance as well as editorial submissions.

SRP considered publicly offered structured products from the bank with strike dates between 1 October 2019 and 30 September 2020 including more than 55,000 structures – 832 non-flow, 6,864 leverage and 47,720 flow products.

ESG & DECREMENT

In the public space, the French bank has had a significant focus on ESG and decrement underlyings with the Euronext Euro 50 ESG EW Decrement 50 Points Index, and iStoxx Transatlatic ESG 100, Euro iStoxx EWC 50 driving significant sales at USS$585.9m/87 products and US$402.3m/nine products, respectively.

"With more than €15 billion collected over the last couple of years, our decrement indices and funds still are a game changer in the autocall space," said Despagne. "These solutions have been developed to reduce market inefficiencies on dividends and volatility. With standard indices, investors were starting to take too much risk to get the same returns."

The bank has developed a wide range of ESG indices eligible for all types of pay-offs from autocalls, to warrants, to standard capital guaranteed products, said Despagne, adding that more than €6 billion euros have already been raised.

"ESG wrappers also are a key investment theme in which we will continue to invest and grow. Positive Impact notes, Charity notes or Reforestation notes have proven very successful this year."

POSITIVE IMPACT

The bank has also allocated more than €1.5 billion to "Positive Impact" notes, including the "SRP Deal of the year 2021" – the Solys Euro Evolution I Fund, the first structured Positive Impact notes dedicated to support projects in Africa.

"SG committed to match each note amount with an equivalent amount of loans to finance hospitals and water treatment facilities," said Despagne.

"More than 1 billion of charity notes have been issued, enabling donations to charities involved in various areas of general interest such cancer research, child welfare, support for people with disabilities, the fight against housing problems".

The Solys Euro Evolution I Fund appears in 176 live products sold in France with an estimated outstanding volume of US$719.61m.

BEYOND RETAIL

The bank was also able to leverage its structuring capabilities to respond to demand for alternative structures to navigate last year's events across distribution channels.

"Private banks have been asking for alternatives to autocalls on worst of. Because of their risk on the worst, but also because of correlation levels. We have developed successfully new pay-offs such as 'New Put Down and In' or 'Daily Accrued Put' to get the same level of coupons, while offering a different risk profile at maturity."

Despagne notes that 2020 was also about QIS, and delta one strategies. "Investors were looking for hedging, or decorrelation which we successfully provided through our best trading strategies and investment thematics," he said.

"Investors have been looking for an alternative to cash. Our Carbone arbitrages notes raised more than 2 billion euros."

Some of the strategies in focus included a Long/Short Strong vs Weak Balance sheet play, a Green deal baskets structure as well as hedging strategies such as Tetris.

The bank's Green Deal Indices have been designed in partnership with SG Research - the European Green deal Index which outperformed its benchmark (Stoxx 600) by +52% last year.

"We also created two other indices- one on the US Plan for a Clean Energy Revolution and Environmental Justice and one on China stocks," said Despagne.

The Tetris Index was designed to hedge the tail risk on the US equity markets at a reasonable cost (low carry) – it outperformed the SP500 by 37%).

"It offers a long volatility exposure when the market falls, with liquid and transparent plain listed vanilla options," said Despagne.

Despagne has a positive market outlook and remains confident SG's capabilities and technology infrastructure will help the bank to increase its reach and market share - the SG Market is already used by most of the bank's clients, and "soon they will even have access to a complete lifecycle management tool".

"Because the worldwide lockdown, technology has been key to maintain a very high level of service," he said. "Fortunately, over the last years, we massively invested in automation. Another strong technological development we have been offering our clients is our API.

"In the past, structured products were mainly used by private banks and retail banks. Now we also see very significant flows coming from discretionary portfolio managers, mutual fund managers, and institutional clients. Structured products are more than ever a must have in a diversified portfolio."

> **Decrement indices and funds still are a game changer in the autocall space**

Barclays: commodities are an interesting space to watch

The UK bank has seen a boost in growth structures as it leverages its multi-asset strategies.

> It's still very much a yield seeking marketplace

SRP caught up with Ian Merrill (pictured), the bank's managing director and global head of equities structuring, to discuss the bank's positioning within the US structured products market, activity trends over the past year and upcoming market trends as well as perspectives on the rise of customised indices.

In terms of growth, where do you see it coming from in terms of your structured products business? Which products are clients going for specifically?

Ian Merrill: It's still very much a yield seeking marketplace where you have clients looking for both index and single stock exposure in autocall or callable format as examples. Some clients prefer longer dated maturities extending across five years, but some prefer shorter dated. I think the piece that we do also see demand for is in growth structures, the multi-asset strategies, like our Trailblazer Sectors 5 index, in note and annuity insurance format. However, it really has been still very much an income generated story.

How is the structured products business performing on the back of last year's events?

Ian Merrill: Obviously, no one foresaw the Covid crisis escalating so quickly. Clients knew that they had to have access and exposure to a very volatile marketplace, but with the backdrop of low interest rates to deal with as well. It was the busiest year I can recall.

So far this year, we've seen a pickup in all markets we're active in, including Japan, the rest of Asia, Switzerland, the US and Latin America. The second half of last year I would characterise as slower overall for the Latam wealth client base, but that has changed materially this year. I think in all regions there was a concern at the end of last year, but the first quarter could see a material drop in client flows after the US election and vaccine progress. So far flows remain very robust.

What trends do you see short-term in the market? How do you expect this to translate in terms of your activity?

Ian Merrill: I think a really interesting space to watch is commodities. We've seen our ETN business get more inbound commodity orders than we have in years. I recall that as an asset class, commodities have generally been on the sidelines for a number of years now. I think that's something to watch, but I also think we're just a bit cautious about a slowdown in client activity over the summer if things really do truly turn positive with further opening of economies. ESG is also an area to watch closely, along with crypto products. I think cryptocurrency as an asset class will create some efficiencies in payments and product lifecycles, but I think as a product and asset class, we are early in the cycle. If you link to an index for example, how volatile could that product be and do clients understand the risks.

In 2021, I think the big question is around whether rates are rising and is inflation on the horizon, but I think those are beside the fact that there are very few asset classes still to go into other than equities that are paying the returns that clients are seeking. In particular, certain equity-linked notes once again showed that they can play a role for certain investors in very volatile market conditions.

What are the challenges individual players and the industry face at the moment?

Ian Merrill: Our challenges lie primarily in responding to market conditions, while also being nimble with the backdrop of low rates and a potential spectre of inflation. There remains the question of how to balance those things, so it's really about being as dynamic as we can and having products that our client need depending market conditions – whether in extremely volatile conditions like in 2020, or in the first quarter of 2018. It is also possible we have more tepid conditions more in keeping with 2019, for instance.

Investors are showing more of a preference for customised/proprietary underlyings. Have you made strides to expand your offering, especially in the past year?

Ian Merrill: In the quantitative strategies area or systematic indices area, there's been a proliferation of products and indices, as well as ways to evaluate those indices. You also have more firms calculating the indices.

I would say the challenge overall is that we have to ask ourselves if we have too many indices on offer for clients. Are we making it difficult for clients to choose one over the other? I would say that is something that we should keep an eye on as an industry.

I think for us in particular, we prefer to take our time and develop indices that we think are either validated by a partner, whether that's an academic partner or an asset management partner, who's long had an active strategy with robust performance history that we then turn into a rules-based index.

What about the bank's footprint in the annuity space?

Ian Merrill: Barclays is one of the leaders in the annuity space and the annuities industry is a very important area, both in the fixed index annuity space and in the growing registered index space.

I think there was a fair amount of concern about insurance products losing policy buyer interest last year, with insurance agents and advisors not being able to see clients in person.

We saw a drop-off in some product demand, but certainly not on the level that most would have anticipated. I think the year has started off again quite busy in that regard as well, and registered index annuities are now a focus for many policy buyers and carriers.

> We prefer to take our time and develop indices that we think are validated by a partner.

View from the top: investors want a more active approach to saving, investing

Following the expansion of its pool of underlyings and the addition of new leverage factors to its flagship Tesla ETP, SRP spoke to UK-based sponsor of physically backed exchange-traded products (ETPs) Leverage Shares about the firm's progress since its launch in the summer of 2020.

> **There's significant interest in the market for pure beta ETFs**

Leverage Shares reported a turnover of £42.3m and £35.2m across all ETPs for January and February, respectively. The most popular ETP, in terms of turnover, were the 2X Tesla ETP (£12.1m in Jan 2020), 3X NVIDIA ETP (£6.2m in Jan. 2020) while the best performers of 2020 were the 2X Tesla ETP (2240%), listed in April 2020 and the 3X Apple ETP (246%) listed in June 2020.

Oktay Kavrak (pictured), CFA, institutional sales, notes that despite the bull run of the Tesla stock, the GBP monthly turnover of the inverse version, the -1x Tesla ETP, increased by 2800% since August 2020, which suggests there are still many people with significant bearish sentiment on the stock.

In terms of AUM, the firm's ETP range is around the US$50m mark but the goal is "to be far above US$100m+ by year end - especially with the release of the new products".

"In terms of trading volume, it has increased sevenfold since our listing of the additional 28 ETPs in June 2020," said Kavrak.

Leverage Shares added last week new stocks to its pool of underlyings with fintech shares such as Square and PayPal, UK blue chips that include Barclays and BP, and additional leverage factors to its flagship Tesla ETPs.

Leverage Shares launched its range of leveraged ETPs as the market was bouncing back from the initial panic sell-off seen in March and April. How was the run up to the initial launch?

Oktay Kavrak: 2020 was particularly interesting for us because we moved into a new phase of our development. Leverage Shares had been existing for a few years, but we had been lagging on a few fronts, particularly in making the market aware of our products and educating investors on the ins and out of single stock ETPs.

The first half of 2020 for us was dedicated to getting in contact with people in the media, with brokers, and making the business case for our products. A lot of time was spent on education, on collateral like presentations, doing pitches, hosting webinars – all to introduce these novel tools for investors that are already accustomed to trading different types of instruments.

We know there's significant interest in the market for pure beta ETFs with investors parking huge portions of their investments in buy-and-hold vehicles. That said, there are also a lot of people looking to take a more active approach in trading individual equities. The hype around recent development on Reddit and stocks like Gamestop/AMC proved just that.

The focus in 2020 was on making sure we have a sound foundation in place and a clear strategy on how to move forward. We are going to keep listening to what our investors want to trade and bring to market products that will hopefully help them achieve their financial goals.

Is the Leverage Share range of products resonating with investors?

Oktay Kavrak: We are getting a lot of feedback from investors in our products - a lot of them are with these legacy brokers in Europe where you pay higher fees and are still limited in terms of what you can trade. Often you can't get access to margin or really trade more sophisticated products.

The truth of the matter is that a lot of people are comfortable with more risk. They appreciate products that are as powerful as those they have traded in the past yet probably simpler to understand. This is where we are bringing value. Everybody values simplicity and convenience, and our products bring cohesion to a fragmented structured products market.

How has the product range grown over the last few months?

Oktay Kavrak: We initially started out with 12 products and grew that to 40 in 2020. By the end of Q1, we expect that number up to around 70 and be pushing for almost 100 by end of Q2-Q3. Making ETPs on individual stocks comes with its fair share of challenges.

Not only do you have to pick a stock that is popular now, but also ones that won't fade after a short period of hype. We have all the FANMAGs covered, but the reality is that if the underlying stock does not move, the leveraged or inverse ETP probably won't get much traction. Netflix is a good example of one that prospered initially following the market meltdown, but sort of teetered without direction ever since. On the flipside, we continue to see a lot interest in our Tesla, Apple, Amazon, and NVIDIA ETPs.

How would you rate the performance of Leverage Shares since its launch?

Oktay Kavrak: Our main achievement internally was understanding our target market. This is an issue that all ETP and ETF issuers have because the products trade on exchanges rather than being bought directly from the issuer.

It is a challenge to understand from where the demand is coming. Based on feedback that we have been getting and speaking with counterparties, we see that it is mostly the sophisticated investor who understands what these products have to offer. They enjoy the hassle-free process of trading with conviction.

People value convenience more than ever before. The modern investor does not want to waste an hour to make a brokerage account, they want it to be done in minutes. They don't want to have to buy full shares, sometimes they prefer fractions. They don't want the complexities of managing margin accounts, they want convenient leverage. Also, more people are becoming more involved in what is called active saving. You use one platform where you hold your savings, but you can also trade and invest through that same platform. Increased popularity of growing companies like Revolut, which is big in Europe, and a lot of neobanks prove just that.

What opportunities are you looking for?

Oktay Kavrak: 2021 is a big year for us. Apart from expanding our single stock range, we are looking into other asset classes as well. We started out with single stocks to bring something refreshingly new to the market and showcase what we can do. Over time we will look at more complicated strategies. We have one in the pipeline in discussion which is something not yet seen on a regulated exchange. The end goal for us remains the same - to become the leading provider of alternative investment vehicles in Europe.

Are there any trends where Leverage Shares can capitalise on to grow its market share?

Oktay Kavrak: You see what is happening with Ark Invest in the US. Everything they put out is crucial information for the individual investor and people are increasingly interested in the disruptive companies of tomorrow. One thing they've done well is send a message that really resonates with the modern investor. People want to be part of the shift to the disruptive tech of tomorrow that seemed all but impossible just a few years ago. Following that same mentality, wherever investor sentiment goes, that's where we go.

Some trends that we'll see play out this year is the maturing of new industries: EVs, digital wallets, cannabis etc. As we saw with Tesla and Bitcoin, investors have a tendency to legitimise trends/investments once the bigger institutions get involved. The interesting part is that this time around, the individual investors are spotting these sleeping giants before the bigger players – and this is a radical shift.

Thematic investing is bigger than ever.

The role of derivatives in the evolution of structured products

Derivatives and structured products are very closely related and have overlapping uses and purposes within the world of financial instruments. ***By Tim Mortimer – FVC.***

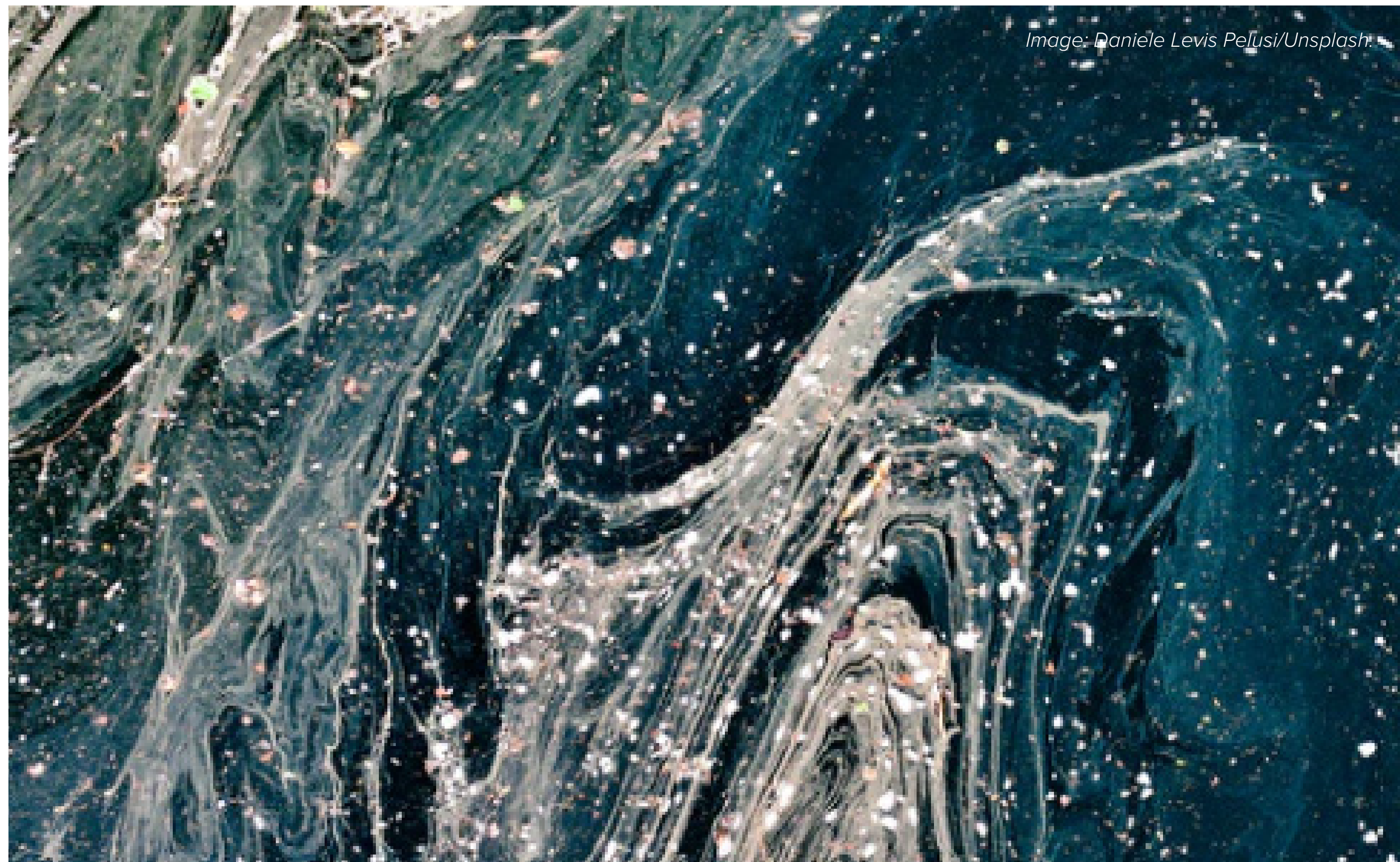

Image: Daniele Levis Pelusi/Unsplash

Derivatives markets have been around for many decades, beginning with exchange-traded call and put options in equities, and then onto fixed income swaps and beyond. This development came out of traders wanting to either hedge away risk or to gain and leverage exposure.

In finance it is the coming together of agents with different views and objectives that makes for a liquid and active market. Because equity options are traded directly, they only need enough liquidity and the presence of market makers to make them viable. Options then quickly provided a popular and reliable way for traders and investors to gain access to risk management and targeted exposure.

However while an exchange is a great basis for a market such as derivatives to grow it tends to be limited in scope because the emphasis is to make sure that the instruments it carries are liquid and traded enough. This principle remains true despite advances in technology in the last twenty years.

Demand for instruments that went beyond what exchanges could offer rapidly increased. This has been addressed by the over-the-counter (OTC) markets from the 1990s onwards, and the idea of an informal but active broker driven interbank and bank to asset manager market.

This development allowed for options with longer maturities, different underlyings (and combinations of them) as well as more complex product payoffs. Many different variations started to become popular as institutional business picked up. Different investment ideas were then explored - the concept of options added to initial capital to provide investments with equity upside or providing yield generation by selling covered calls on top of a portfolio. This naturally expanded into the structured product markets that we recognise today.

Structured products markets are now a significant investment class in their own right and while they grew out of the first use of derivatives, they now depend on them to make them function.

Investment banks are the main manufacturers of such products and will use various risk management techniques to run their businesses prudently. The most common strategy is that even for more complex structured products the issuing bank will use simpler derivatives to risk manage the resulting exposure. This includes trading baskets and futures to hedge the underlying asset itself for the delta risk. In addition, buying or selling options to manage volatility and hedging dividend exposure through futures is very common.

While index linked structured products remain popular, the explosive growth of the ETF market means that in some cases ETFs that track a certain index can be more useful than the index itself and as a result the ETF finds itself as the underlying asset for a structured product.

The EEM iShares ETF which tracks the MSCI Emerging Markets index is a good example and has many billions of dollars under management. In turn, because the ETF is such a convenient, cheap and liquid way to access exposure (particularly in less liquid or more expensive cases such as emerging markets) options also have become liquid driven by demand and the existence of the ETF to facilitate hedging.

Other uses of ETFs include defined risk strategies which combine an underlying with a call and put strategy to generate yield and reduce risk. These seek to combine the efficiency of the ETF and their options to provide lower risk investment solutions and have been successfully developed by exchanges such as the CBOE.

Meanwhile, development in quantitative indices continues as banks and other index sponsors seek to test and market new strategies including volatility control, asset switching, and dividend plays.

Such indices can either be launched by index providers working with investment banks or used to create an ETF. Often these more sophisticated indices use various risk management techniques such as options to define their characteristics which are typically to seek performance at lower volatility. Such indices are generally then developed as delta one investments to allow exposure and liquidity in an open-ended fashion.

In the fixed income market structured products that link to Constant Maturity Swaps (CMS) have been popular in many market conditions and in the world of commodities it is routinely necessary to use futures to obtain exposure in an efficient manner.

The use of derivatives in structured products and all the related and competing disciplines goes to make up a rich marketplace of risk-controlled investment solutions. Innovation is happening all the time as product providers seek to provide new answers to age old problems such as protecting capital and providing yield in low rate environments.

Disclaimer: the views, information or opinions expressed herein are those of FVC, and do not necessarily reflect the views of SRP.

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> **Development in quantitative indices continues as banks and other index sponsors seek to test and market new strategies**

EXPERT VIEW

Product analysis: Downside accrual barrier with a twist

Structured product plan manager Idad have started 2021 by bringing an innovative variation on the standard kickout product to the UK market. ***By Tim Mortimer - FVC***

Image: chart chris-liverani—unsplash

This product is issued by Société Générale and the concept was created and developed by the bank who are well known for their innovation capabilities and track record.

The upside generating element of the FTSE 100 Kick Out Plan - Issue 1 follows a familiar autocall structure and has a typical schedule of payments which will be paid if the underlying, (the FTSE 100 Index) is above its initial level on any observation date.

The twist in the product relates to the downside risk and the calculation of the amount of capital returned in the case of a barrier breach. If the index is below 65% of its initial level at maturity, the investor will lose some of their capital investment. The amount of capital lost will depend on the number of days during the product term that the index has been below this barrier level. For each trading day that the closing level of the index is below the barrier, 0.1% of capital will be lost. If for example the barrier was breached at maturity and during the product term the index had been below the trigger level for six months, or approximately 126 trading days, then 12.6% of capital would be lost.

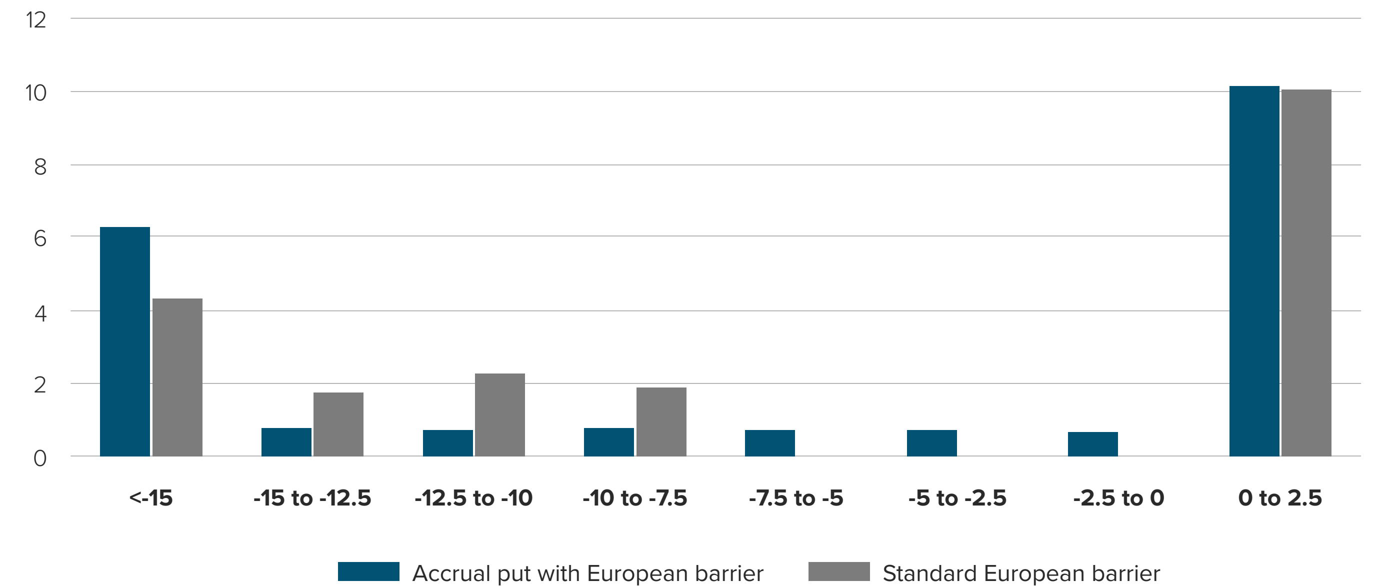
The barrier level of 65% is typical of a European barrier level currently seen in the UK although it is higher than has been seen historically due to the relatively unfavorable pricing conditions. It is these same conditions that have driven the need for this new payoff. Persistent low interest rates and reduced dividend levels make it hard to generate attractive headline rates for popular structures like autocall and phoenix autocall products. Investors are used to seeing returns offered at a certain level and when pricing parameters move against structuring these products it is difficult to market the same products with lower returns because there will not be sufficient demand. Generally, this is when we see products moving somewhat up the risk scale in order to keep the level of returns consistent. The key is to do this in a managed and transparent way.

Once it has been decided that more risk should be introduced in order to offer higher returns providers have a few options to consider. A common choice is the introduction of one or more additional underlying assets on a "worst-of" basis which will increase the probability of capital loss. It also introduces complexity and correlation risk into the product. Another mechanism available to providers is to swap out the popular FTSE 100 index with a different underlying. The current trend is to keep a UK focus but use an asset with a dividend mechanism which makes pricing more favorable and therefore a higher return can be achieved.

> **"The new accrual barrier has higher chances of larger losses.**

EXPERT VIEW

Downside accrual barrier v standard European barrier



Source: FVC Structured Edge

The product here has avoided both of these variations and been developed as another way to generate higher returns whilst keeping much of the same product structure.

The graph shows the simulated probabilities of the Idad downside accrual barrier and an otherwise identical product with a standard European barrier of 65%.

Firstly, this shows that the probability of not breaching the barrier is the same as would be expected. In both cases the final level of the index needs to be below 65% for the downside to knock in. The total probability of loss is also the same in both cases, 10.15%. The difference between the outcomes of the two barriers can be seen in the more granular breakdown where it becomes clear that the new accrual barrier has higher chances of larger losses.

According to the same simulation results the accrual barrier has a 1.24% chance of returning zero capital at maturity. This would happen if the index was below the required level for four years out of the five-year product term and finished below 65% of its initial level. For a typical European barrier, the probability of a zero return is negligible as it would require the index itself to fall to zero.

This accrual feature has been developed as a way of generating higher returns by introducing more risk. Since the chance of loss is the same it should come as no surprise that the magnitude of losses is expected to be higher. However, the 10 year back-testing results for both downside variations show no cases where the investor had lost capital showing that this strategy has performed well historically.

The rationale for offering this kind of structure is that although this product would perform poorly in a bear market it would only perform worse than a standard European barrier if the bear market remained for a sustained period which is historically has not been seen very often.

Comparing this product with a standard barrier product it would only perform worse than if the index was below the 65% barrier (4,310 index points at todays level of the FTSE 100) for at least 1.6 years out of the 5 year product term. Any less than this then the product would outperform the standard structure. If the index recovered to over 65% at maturity, then both types would pay full capital.

This product is a good example of how structured products are able to adapt to market conditions and develop features that align with investors risk appetite. The product has the same trigger level for capital loss as many FTSE linked products available on the market, so the investor has to determine whether the potential for greater losses if this occurs are worth the additional upside potential.

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Product wrap: J.P. Morgan tracks new momentum index in the US

In this week's wrap, we look at a selection of structured products with strike dates between 21 March and 17 April 2021.

EUROPE

BNP Paribas Fortis collected €3.8m with the Eurozone Exporters Note 2031/2 in Belgium. The 10-year, capital protected product participates 100% in the rise of the Solactive Eurozone Exporters Efficient-index, subject to 24-months backend averaging. BNP Paribas Fortis Funding is the issuer. A one-off structuring cost of 1.49% is included in the issue price of 100%. Returns are subject to a 30% withholding tax. Priips summary risk indicator (SRI): two out of seven.

BCP Asset Management collaborated with Goldman Sachs for the launch of issue two of its Global Artificial Intelligence (AI) Daily Kick-out Bond in Ireland. The 10-year product is linked to the iStoxx AI Global Artificial Intelligence 100 NR Decrement 5% Index. There is a monthly early-redemption feature (starting from the end of the first year onwards) that will be triggered if the index closes at or above its initial level on the valuation date. The potential return will accrue at a rate of 8.5%/12 for each month that has elapsed. There is a total fee of 4.20% built into the terms of the bond of which the European Depositary Bank will receive 0.3% for custody and execution services. Priips summary risk indicator (SRI): four out of seven.

Intesa Sanpaolo achieved sales of €51.2m with its US dollar denominated Standard Long Barrier Protected Digital Certificates on the S&P 500 in Italy. If, during any annual digital valuation period, the average index performance is at or above its initial level, a coupon of 2.31% is paid. The minimum capital return at maturity is 95%. The offer price includes distribution commissions equal to three percent; costs for the maintenance of the conditions equal to 1.389%; and other structuring costs equal to 0.245%. The product is listed in Luxembourg. Priips SRI: three out of seven.

Strukturinvest is distributing 2398 Marknadswarrant Global in Sweden. The five-year warrant is linked to the Deutsche Bank Global Opportunity 17% Index, a strategy that in turn provides exposure to Morgan Stanley INVF Global Opportunity – an actively managed fund that typically invests in companies it believes have sustainable competitive advantages that can be monetized through growth. At maturity, if the strategy performance is positive, the product offers 100% of the rise in the strategy. Otherwise the product expires worthless. The product is issued via Deutsche Bank and listed at the Nordic Derivatives Exchange. It is issued at 17.5% (SEK17 500) and a commission fee of three percent is added to the issue price. Priips SRI: seven out of seven.

In Finland, **SIP Nordic Fondkommission** teamed up with BNP Paribas for the launch of Huippujohtajat Autocall II. The certificate has a maturity of maximum six-years and offers a return based on the performance of the Solactive Eurozone TOP CEO 2020 AR 5% Index, which replicates an investment into the index components (net dividends reinvested) with a constant dividend markdown of five percent per year, subtracted on an accrued basis. Expenses included in the issue price add up to 8.66% of the notional amount per certificate. The product is listed on the Nordic Derivatives Exchange and issued via BNP Paribas Issuance BV. Priips SRI: five out of seven.

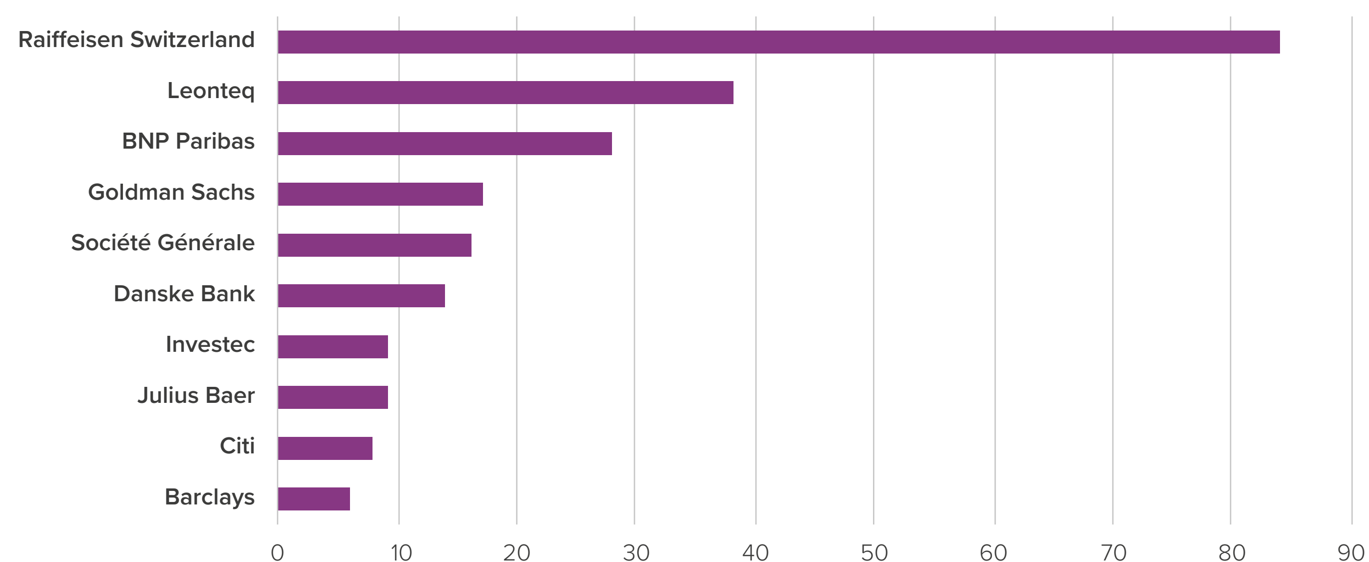
Mariana's FTSE CSDI Defensive Income Kick Out Plan is a public offer in the United Kingdom. The product, which has a 10-year tenor and is based on the performance of the FTSE Custom 100 Synthetic 3.5% Fixed Dividend Index, is constructed to offer a potential coupon of 1.125% per quarter providing the closing price of the index is at or above 65% of the start level on a quarterly observation date. It is listed in Luxembourg and available as a direct investment; Isa; pension; and for companies, trusts and charities. The product issuer is Morgan Stanley BV. James Brearley acts as the plan administrator and custodian. Priips SRI: four out of seven.

NORTH AMERICA

J.P. Morgan Chase issued Return Notes on the J.P. Morgan Kronos+ Index in the US. The index attempts to provide a dynamic rules-based exposure to the S&P 500, which is determined on strategies that reference the following historical tendencies: historical outperformance around the turn of the month; historical price momentum ahead of monthly index options' expiry; and historical mean reversion into month-end. The three-year registered note offers a capital return based on the positive or negative performance of the index over the investment period, multiplied by an adjustment factor of 101.5%. The estimated value of the notes are approximately US$939.30 per US$1,000 principal amount.

Also in the US, **HSBC** sold US$613,000 worth of Barrier Enhanced Participation Notes on a basket of two exchange-traded funds: Technology Select Sector SPDR ETF and iShares MSCI Emerging Markets ETF. The product has a five-year maturity and offers 198% uncapped exposure to any positive return of the least performing fund. The product has a soft capital protection barrier of 80%. HSBC may pay varying underwriting discounts of up to 0.75% per US$1,000 principal amount in connection with the distribution to other registered broker-dealers. The estimated initial value on the pricing date is US$968.30 per security, which is less than the price to public.

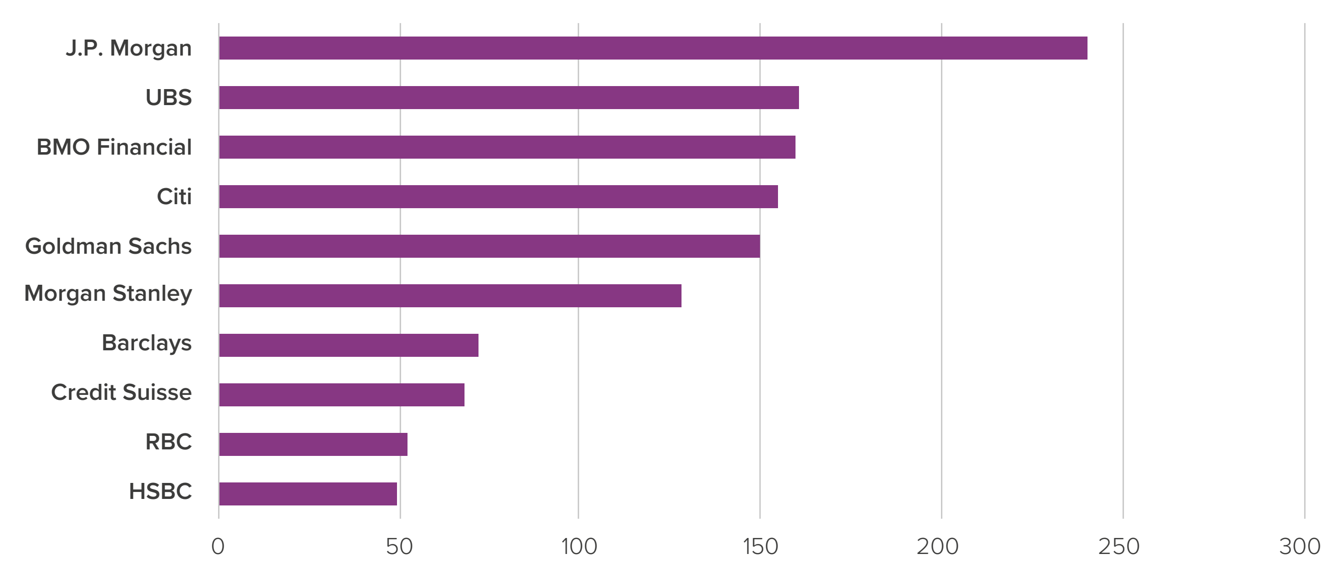
Europe: top 10 issuer group by issuance - 21 March to 17 April 2021*



*Excluding flow- and leverage products

Source: StructuredRetailProducts.com

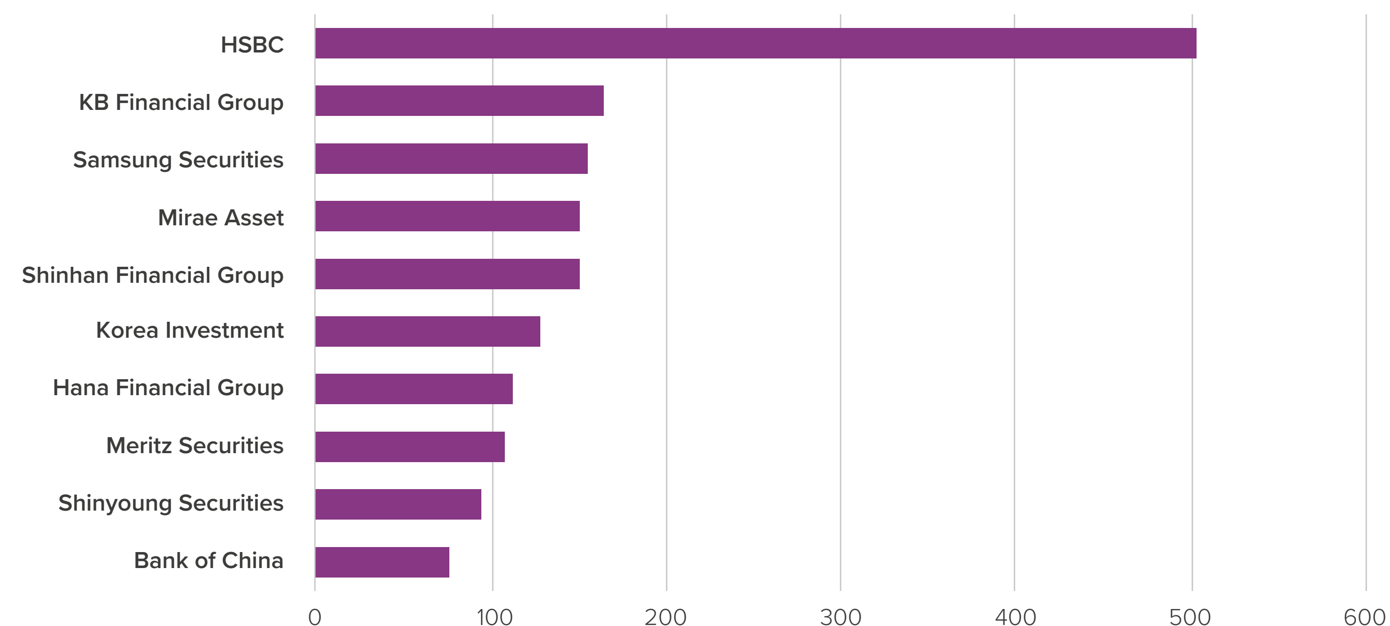
Americas: top 10 issuer group by issuance - 21 March to 17 April 2021*



*Excluding flow- and leverage products

Source: StructuredRetailProducts.com

Asia Pacific: top 10 issuer group by issuance - 21 March to 17 April 2021*



*Excluding flow- and leverage products

Source: StructuredRetailProducts.com

LATIN AMERICA

BTG Pactual is marketing COE viés de Alta in Brazil. The five-year deposit participates 100% in the positive performance of the KraneShares CSI China Internet ETF subject to an overall maximum capital return of 190%. The underlying fund tracks Chinese internet companies that provide similar services as Google, Facebook, Twitter, eBay, Amazon, etc.

ASIA PACIFIC

Mitsubishi UFJ Morgan Stanley Securities collected JPY9.58 billion (US$87.1m) with KI M20260310 in Japan. The product offers a fixed coupon of 3.4% pa for the first quarter. Every quarter thereafter, a coupon of seven percent pa is paid providing the Nikkei 225 and S&P 500 both close at or above 105% of their initial levels on the valuation date. If both indices close above 80% and below 105% of their initial levels, a coupon of 3.4% pa is paid. Otherwise, the coupon is set at 0.1% pa. The 4.95-year structure is issued via Morgan Stanley and also available via third party distributors 105 Securities and 77 Bank. Bank of New York Mellon acts as the derivatives counterparty.

KB Investment & Securities is targeting KB able ELS 1703 at retail investors in South Korea. The three-year product is tied to a basket composed of three indices: Kospi 200, S&P 500 ESG, and Eurostoxx 50 ESG. Every six months the product has the potential to autocall. However, if it continues until maturity, it offers 100% of capital return plus a fixed payout of 116.5% if the level of the worst performing index is at or above 70% of its initial level.

Bank of East Asia launched ELI IXP-00061049 in Hong Kong SAR. The two-month deposit pays a coupon of eight percent per annum if the shares of Mengniu Dairy and Anta Sports Products close above 96.2% of their respective strike levels on the monthly valuation date. At maturity, if both shares close above 88% of their initial level, the product returns full capital.

MIDDLE EAST & AFRICA

SIP Nordic is distributing a five-year split deposit linked to the Solactive Sustainable Development Goals World RC 8 EUR Index in South Africa. Fifty percent of the investment is placed in an income account that pays a fixed return of 12% after one year. The remaining 50% participates 75% in the positive performance of the index. The product is listed in Johannesburg and issued via BNP Paribas Issuance BV. BNP Paribas is the guarantor.

People Moves

Goldman global strats head departs

Stacy Selig, co-head of global structuring and sales strats and head of Americas structured sales at Goldman Sachs is set to leave the investment bank.

According to a memo seen by SRP, Ashok Varadhan and Marc Nachmann, global co-heads of the global markets division, announced Selig's departure after nearly 17 years at the bank.

Selig was appointed to her current role in early 2019 after Goldman reshuffled its systematic trading strategies team which saw the former co-head of global sales systematic trading strategies (Strats) Stefan Bollinger, shifting to the bank's private wealth franchise.

Since then she was responsible for the bank's Strategies (strats) unit globally across equities and FICC alongside Thalia Chryssikou, co-head of global sales strats and structuring across fixed income currencies and commodities (FICC).

Prior to that, she was head of the equity structuring group for the Americas and head of global synthetic products structuring and co-head of global origination, with a focus on equities products. Selig joined Goldman in 2004 after an early career as a tax attorney. She began in the tax planning and advisory group before becoming part of the macro equity desk, head of the equity structuring group for the Americas and global head of synthetic products structuring and co-head of securitized product structuring.

Selig is also a member of the bank's sustainable finance steering group and is co-chair of the global markets division sustainable solutions council. In her role as co-chair of the council, she played a key role in driving coordination across global product offerings.

She joined Goldman Sachs as a vice president in 2004, and was named managing director in 2010 and partner in 2016. Her departure follows that of Tom Leake, head of equity structuring for Emea, in London, who left the US bank to join Capstone Investment Advisors as head of solutions.

Numerix

Risk technology provider Numerix has announced the promotions of **Diane Redvanly**, **Bill Humphrey** and **Pulak Rishi** (pictured) to new roles within the company. Redvanly, CFO since 2018, has been elevated to executive vice president, CFO of Numerix. In her role, she oversees Numerix's finance, accounting, reporting and investor relations functions globally, and is also responsible for budgeting and forecasting financial projections. Having joined Numerix in 2014, Redvanly has will focus on enhancing financial analysis for strategic decision making and work with the executive leadership team to align these initiatives with the future direction of the company.

Humphrey has been promoted to chief technology officer of Numerix. In his previous role, Humphrey worked as chief software architect and head of the platform group within the development organisation. With the company since 2003, Humphrey has worked on several initiatives including Numerix's enterprise distribution analytics server, the Numerix XVA enterprise application, and the structured notes platform Numerix Oneview. In his new role, Humphrey will be focused on future development goals including the evolution Numerix's cloud-native solutions and building out the company's SaaS and RaaS offerings. He will also be working to incorporate industry-focused tools such as Python scripting and APIs into Numerix's offerings.

Rishi has been promoted to chief software architect of Numerix. In his previous role as senior vice president, product development, Rishi worked on multiple projects in the areas of areas of trading, wealth management and risk management, as well as on Numerix's Oneview product suite. In his new role Rishi will oversee the design and architecture of Numerix's various modules, as well as the transition towards a cloud native product offering.

Rand Merchant Bank

Ryan Sydow has joined Rand Merchant Bank (RMB) as head of retail, RMB Invest at Rand Merchant Bank.

Sydow (pictured) has been head of retail distribution at Absa Capital, the investment banking arm of Absa Bank Limited, in South Africa, for the last eight years.

He was responsible for the bank's product proposition and distribution footprint for structured products including exchange-traded funds and exchange-traded notes (ETN) into retail distribution channels including Absa Wealth, Absa Private Bank, third-party broker networks and investment platforms.

Sydow joined Absa Capital from Barclays in 2012, having spent six years in the UK investor solution team as vice president of investor solutions. Prior to this, Sydow was an associate director at Barclays Wealth, where he was involved in the management and rollout of the firm's onshore and offshore funds proposition. He also spent part of his career with Alexander Forbes and Standard Bank in South Africa.

Barclays

Christian Treuer has joined Barclays as co-head of Emea derivative distribution - global equities group. Treuer rejoined Barclays in January as a managing director and co-head of equity derivatives sales, to work alongside Andreas Konomis, co-head of equity derivatives sales Emea, SRP has confirmed.

Both Treuer and Konomis report to Makram Fares, head of equities distribution, Emea. They will work closely with the structuring and trading teams and will be responsible for diversifying bank's business mix, 'providing bespoke solutions to institutional and wealth clients whilst accelerating the automation of our structured products flow with indirect retail'.

Treuer joins from Bank of America (BofA) where he was a managing director and head of equity derivatives sales and head of Emea equity derivative and continental European equity distribution since 2018.

He joined BofA as head of Emea equities clients solutions distribution alongside Martin Gupta, head of Emea equity structuring and financing origination and structuring, and was a driving force behind the rebuilt of BofA's Emea equity derivatives team over the summer of 2018, following a number of senior departures.

Treurer assumed the additional role of head of EU equities sales in late September 2019, reporting to Sanaz Zaimi (pictured), head of the European Union broker-dealer unit BofASE and Julien Bahurel, head of Europe, Middle East and Africa (Emea) equities.

Treuer played an important role alongside the US bank's head of Emea equities client solutions trading, Arnaud Lannic, in the establishment of BofA's broker dealer unit in Paris.

Treuer's departure from BofA comes after the bank's Emea equities and equity derivatives rebuilt throughout 2019 after a year focused on fuelling the turnaround of the business following a challenging 2018 which resulted in a pullback in investing banking activities in Europe.

Prior to joining BofA, Treuer spent 14 years at Barclays investment bank as a managing director. Barclays' equities FY 2020 revenues were up 31% (up 32% in USD) v 2019, outperforming nearly all of its US and EU peers and beating the US bank average by six percent.

Ethias

Alain Flas (pictured) has started a new job as investment manager responsible investments & fund selection at Ethias. Flas, a structured products veteran, joined the Belgian insurer after an extended career break. Prior to Ethias, his most recent role had been that of chief executive officer at Finvex, a position he held until September 2018. At Finvex, Flas oversaw the launch of the Finvex Quality Efficient Asia Index, which was reported by SRP. The Brussels based index provider filed for bankruptcy in November 2020.

Flas was chairman of the board and founding member of the Belgian Structured Investment Products Association (Belsipa) between January 2013 and February 2017. Flas joined Finvex from ING Bank, where he was head of sales for products for private investors & equity derivatives and before that global head of equity derivatives sales. Prior to ING he worked in equity derivatives sales at Dexia and also as an equity trader at CBC Banque & Assurance.

Linklaters

Linklaters has appointed **Hwang Hwa Sim** (pictured) as global practice head - capital markets for a four-year term. He will succeed Michael Voisin whose tenure in the role ends on 30 April this year.

Hong Kong SAR-based Hwang Hwa was promoted as a capital markets partner with Linklaters in 2010. He advises issuers, underwriters and investors on debt, equity and equity-linked products in China and Asia.

Hwang Hwa is an expert in convertible bonds and exchangeable bonds, cross-border bond issuances by major PRC companies (including structured bonds), panda bonds, green bonds and structured pre-IPO investments. He also worked on a number of proprietary investments by alternative capital providers, global investment banks, special situations groups, hedge funds and private equity funds.

Galaxy Digital

Galaxy Digital Holdings has appointed **Mark Toomey** as its head of institutional sales, effective 29 March.

Toomey joins the US investment management firm after spending over two decades in traditional capital markets at Goldman Sachs and J.P. Morgan Chase, where he managed equity derivatives sales teams that covered a range of asset management clients for a variety of derivative and structured products.

In his new role, he will report to Damien Vanderwilt, co-president and head of global markets at Galaxy Digital. Toomey joins Galaxy Digital at a time when the firm is building a suite of institutional-grade products and services to respond to the incoming wave of institutional demand for exposure to digital assets and cryptocurrencies.

'He will be a key contributor in expanding our institutional client base, building out our coverage team, and continuing to educate the institutional community about the cryptocurrency asset class and its role within a diversified portfolio,' said Vanderwilt.

DelphX Capital Markets

DelphX Capital Markets has appointed industry veteran **Keith Styrcula** to its recently-formed strategic advisory committee as part of its plan to assemble a team of fixed income and structured product experts to spearhead the launch of the DelphX covered put options (CPOs) and covered reference notes (CRNs) facility to offer collateralised default protection for credit securities.

The new offering is targeted at insurance, financial, pension and family office end-users as an alternative to the OTC swap market. Styrcula is the founder and chairman of the US Structured Products Association. Prior to launching the association in 2008, he was at J.P. Morgan where he was head of the structured solutions group in the equities division. At J.P. Morgan, Styrcula was also a driving force in the team that developed the CBOE S&P 500 PutWrite Index in 2006.

Styrcula has a two-decade track record in the structured products industry, and has worked in senior marketing and structuring positions at Credit Suisse, J.P. Morgan, UBS and Scotia Bank, where he worked with Raymond James on the development of the RJ Analysts' Current Favorites index-linked notes. At UBS Warburg, he launched the first structured note linked to the Dow Jones Industrial Index.

SRP