# SRPInsight

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# Eusipa calls for 'sufficient time' to implement Priips RTS, align Ucits

The European trade body has responded to the European Commission's open consultation on the proposal for a regulation on Priips.

The European Structured Investment Products Association (Eusipa) has requested a 'sufficient timeline' to implement the Regulatory Technical Standards on the EU Priips Regulation recently endorsed by the Commission, in a response filed yesterday (9 September) with the Commission together with other major financial sector associations.

In contrast to earlier plans, the adoption of the draft Regulatory Technical Standards (RTS) amending the rules had been postponed to 7 September. The unexpected delay to the adoption of the revised Priips RTS cuts the implementation period for the industry by more than two months as both Level 1 and Level 2 proposed amendments are now subject to the scrutiny of the European Parliament and Council.

'This leaves Priips manufacturers and distributors with a too short period instead of the original timeframe of 12 months to implement the new rules,' state the associations. 'The currently proposed implementation period is too short, especially for new rules that relate to communication with investors and potential investors. It will be important, if we are to achieve the desired outcomes of better trust and understanding among investors and potential investors, to ensure that manufacturers have adequate time to adapt to these changes.'

"We have to analyse it and see where the industry can agree on the joint application of the clauses that still invite interpretation, while also reckoning with Q&As issued by Esma on the topic," Thomas Wulf (pictured), general secretary, Eusipa, told SRP

The EU Parliament and the Commission have three months to object the RTS in their entirety. Otherwise, they are timetabled to come into force on 1 July 2022.

Wulf said objection is unlikely, though the industry is still pressuring the institutions to consider ways of prolonging implementation beyond next July.

According to Eusipa, as the new rules will apply to both insurers and Ucits providers, multi-option products (MOPs) providers will need sufficient time to collect the data from Ucits providers — once available based on the new rules —and to update all their existing pre-contractual information for MOPs, update and store all KIDs on their websites, etc.

'This requires a long structural dialogue between insurers and asset managers in order to agree on the practicalities of data exchanges,' stated Eusipa. 'An implementation period that is too short could lead to poor implementation of the rules or even force some operators to suspend the distribution of certain retail investment products, which would be detrimental to consumers' participation in the capital markets and trust in the information they receive.'

The industry associations are urging to maintain a 12-month implementation period from the adoption of the RTS proposals as the minimum time needed to ensure an 'orderly and smooth implementation and application of the revised RTS'.

This includes a synchronised application date for all products (Ucits, MOPs, etc.) and providers (insurers, asset managers, etc.) for both the Level 1 and Level 2 amendments.

'We therefore reiterate the importance to align the expiry date of Article 18 of the Priips RTS with the new end date of the Ucits exemption,' stated the letter.

**ON THE AGENDA**

At an association level, ESG continues to be a core issue followed by the structured products industry, and one that will have a substantial impact from the end of 2022 when the Mifid 2 Delegated Acts launched in August come into effect. Providers will have to include ESG details in the product literature, which essentially boil down to explaining how "green" the different parts of the structured products – funding and the derivative's underlying asset – actually are, and what, taken together, the ESG value of the product is.

"As an industry we need to work out a methodology for doing that. We need to be specific at the product taxonomy level, and we see already that once we get seriously into that we have to look at the green credentials of the issuing financial institution, something known to the experts as GAR, short for Green Asset Ratio," said Wulf.

Eusipa welcomed the German DDV's move to front-run ESG concerns with the recent launch of its ESG structured products code of conduct. This introduces new industry standards for structured products, which are, on a product reporting level, currently not covered by the EU Sustainable Finance Disclosure Regulation (SFDR).

"It makes sense to have sustainability standards in place until the new Mifid rules kick in," Wulf said. "Essentially we need to have a solid methodology for figuring out the precise product taxonomy quota that can be applied across the various pay-offs and wrappers used for our products in the European markets."

Ultimately, he said, it is expected ESG details will become part of product-related information material like security prospectuses, Priips KIDs and the SFDR information sheets, "all of which should, in an ideal world, deliver consistent information on sustainability".

**MARKET STABLE**

The association also reported that turnover in investment and leverage products on reporting European exchanges totalled €35 billion in the second quarter of 2021. Turnover decreased by 18% quarter-on-quarter and by five percent year on year.

Second-quarter turnover in investment products on European trading venues amounted to €16 billion, 45% of total traded volume. Investment product turnover decreased by 11% on a quarter-by-quarter basis, but increased by 76% compared with Q2 2020.

Turnover in leverage products including warrants, knock-out warrants, and constant leverage certificates, reached €19 billion in the period from April to June, representing 55% of total turnover. Turnover in leverage products decreased by 31 %year on year and by 22% from Q1 2021.

"It's fair to say that despite the low zero interest rate environment we have seen interesting and apparently stable growth in several markets, and moderate pickup in terms of open interest," Wulf said. "This is good news. We'll see whether the macroeconomic environment changes and whether inflation pressure has a medium- to long-term impact on interest rates, which could benefit the market.

"There are country specific factors behind some of the growth – Sweden, for example, has seen increasing volumes on the back of trading activity around cryptoassets, which are flourishing across Scandinavia as an underlying," said Wulf.

At the end of June, the number of listed products across markets increased by three percent on a quarterly basis and eight percent on the previous year, while the outstanding volume of leverage products totalled €12 billion which represents a 28% decrease on a year-on-year basis.

## Otkritie debuts first tradable structured bond in Russia

Otkritie Broker, part of Otkritie Financial Group, has issued its first capital at risk exchange-traded autocallable structured bond in the Russian market. The first ever non-capital protected Russian ruble-denominated structured bond is available for trading on the domestic stock exchange Micex since 26 July. This tradable issue of structured bond is a symbolic step for the development of local securitised structured product market where Otkritie is already one of the major players, according to Anton Plyasunov, head of structured products factory.

"The company has accumulated vast experience in OTC derivatives and the evolution in the direction of securitised structures traded on stock exchanges responds well to the world trends and local regulatory requirements," he said.

The bond (ISIN RU000A103DB0) has a three-year tenor and offers a conditional coupon of 16% per annum. The coupon payment is linked to the performance of five Russian power companies traded on Micex including Rosseti, FGC UES, RusHydro, Inter RAO UES and Unipro. The bond includes conditional protection at 75% that kicks in at maturity. The choice of the underlying has a domestic bias as the performance of the power generating companies included in the basket depends on internal market and is less subject to the world economy fluctuations, according to Plyasunov. The product can only be offered to qualified investors due to higher than average risk characteristics.

The Russian structured product market is adopting the changes introduced by the Russian regulator at the end of last year which restricted the sale of derivative and structured products to non-qualified investors. The Russian retail structured product market, traditionally dominated by structured products issued by international issuers and structured products in insurance wrapper, is slowly evolving. The structured bond, the local equivalent of structured note, allows for capital loss but provides a good wrapper for exotic options, and is gradually taking its niche in the product offering of big retail investment houses.

The firm has delivered on average coupons on autocall structures of between 12% and 15% pa in rubble, and continues to focus on Russian local stocks as the preferred underlying for its products. However, it sometimes also uses market-wide Russian indices such as Russian RTS or the Micex index.

NEWS | EUROPE

# Leonteq deploys crypto AMCs 2.0

The Swiss firm has added to its digital assets offering new tracker structures linked to actively managed certificates (AMCs).

Swiss structured products provider Leonteq has launched two delta one certificates tracking the performance of the Swissquote Blockchain Index and the Swissquote Multi Crypto Active 2.0 index, two second generation gauges delivered via actively managed strategies developed by the Swiss banking group.

The products participate fully in the movement of the AMCs, with deduction of an annual fee of 1.10% which comprise an index calculation fee of 0.85% p.a. plus a management fee of 0.25% p.a. and a rebalancing fee of 0.10%.

The new Swissquote Blockchain Index contains companies from all sectors earning revenues from digital chains which are picked by Swissquote, 'using sophisticated filters'.

The starting line-up features 24 companies including familiar names such as Intel, MicroStrategy and Coinbase as well as less well-known stocks such as the Japanese blockchain investor Digital Garage and Marathon Digital Holdings, which operates data centres.

Swissquote will rebalance the composition by reviewing its 'actively managed barometer' to keep the index composition up to date.

"Both AMC is about fine-tuning the original offering for a significantly better product," Peter Rosenstreich (pictured), head of market strategy at Swissquote, told SRP. "We have been running a Blockchain AMC since 2018 with significant outperformance. However, due to internal changes, we had less access to essential blockchain plays."

The decision to launch Blockchain Index 2.0 was explicitly aimed at building a portfolio with greater access to companies likely to drive Blockchain adoption, whereas the Multi Crypto 2.0 was about building an AMC that could expand the crypto components of the underlying as coins become relevant.

The Multi-Crypto Active Index was the first actively managed multi-cryptocurrency certificate targeted at retail investors offering exposure to a diversified portfolio of four different cryptocurrencies (Bitcoin, Bitcoin Cash, Ethereum, and Litecoin) through a vehicle publicly traded on the Six Swiss Exchange.

The new version of the index includes the "most investable coins" including Ethereum, Bitcoin, Litecoin, Stellar, Polkadot, and Cardano. Leonteq is also offering a mini version of this tracker certificate.

According to Rosenstreich, as the market evolves new opportunities are coming up to offer investors new ideas and ways to gain exposure to the crypto and digital assets market.

"There is complexity in the market such as trading, storage, and regulations that are still barriers to entry for investors. Structured products provide an easy package for investors," he said, adding that the unpredictable volatility and perpetual trading protocols reduce the effectiveness of simple long strategies.

"Building a trading strategy with clear automatic rules will be a must-have for serious investors. Using structured products to manage the unique characteristics of crypto is a 'no-brainer'. We will continue to evolve products that support trading activities. In broader, terms the adoption of structured products will grind forward, but the catalyst for explosive grow, has yet to be recognised."

"

**Structured products provide an easy package for investors**

# Marex deploys another first in the crypto space

The UK-based issuer is targeting investors seeking to get exposure to the digital ecosystem in a traditional securitised format.

Marex Financial Products has rolled out the Marex FP DeFi tracker, a new tracker certificate that aims to replicate the top 10 smart-contract enabled blockchains that power Decentralized Finance (DeFi) and the top 10 DeFi projects built using blockchain technology.

The launch is a response to demand from institutional and professional investors.

"Many of the firm's clients have expressed their interest in the DeFi space, and they want to get exposure to that new ecosystem, without necessarily having to hold the coins, create a digital wallet or face digital exchanges," Harry Benchimol (pictured), co-head of derivatives engine at Marex Financial Products, told SRP.

The advantages of DeFi includes the removal of intermediaries and central control by creating self-executing contracts (smart contracts) on which the terms are written into the lines of code. Properly executed smart contracts act as a virtual intermediary executing between two parties limiting human error during the day-to-day process.

According to Benchimol, on top of this, the DeFi sector is showing strong signs of growth with the value of assets currently being staked in DeFi apps increasing from US$3 billion in July 2020 to more than US$100 billion in July 2021 and the number of unique users has tripled since December 2020 and is currently around three million.

"We have access to the main cryptocurrencies (100+) and can buy, sell and store them. We have the trading capability of creating and/or replicating many crypto-indices," he said.

As it continues to expand its digital offering, Marex is also in touch with many index providers who are looking for swap counterparties, able to deliver the performance of their index.

"We are very pleased to see S&P launching cryptocurrencies indices," said Benchimol. "It will definitely make it easier for investors to access this tech-driven asset class. We are definitely happy to consider referencing those indices into our structured products."

## BEYOND CRYPTOS

The overall health of the DeFi market is measured using total value locked (TVL) metric representing the value of the assets currently being staked in a specific protocol. DeFi applications aim to recreate traditional financial systems, such as banks and exchanges, with cryptocurrency - it refers to an ecosystem of financial applications that are built on top of blockchain networks.

"The DeFi ecosystem aims to recreate traditional finance systems," said Benchimol. "There are many use cases for DeFi, including, but not limited to, borrowing & lending, monetary banking services (stablecoins, mortgages, insurance), and decentralised marketplaces including exchanges. So yes, [the digital assets space] is definitely not just cryptocurrencies."

Through structured products, Marex is allowing its clients to access new markets and underlyings, in a transparent and traditional way in the form of a note or certificate.

"We believe that the blockchain technology will change the way products are being transacted and are actively considering what solutions we could propose our clients," he said. "Blockchain has the potential to revolutionise the lifecycle of a classic structured product.

"We can see several use cases for blockchain technology in the structured products market, as it can address many topics in the value chain. The technology is there, it now needs to be deployed by both the buy and sell side."

## THE BASKET

The Marex FP DeFi tracker will track a basket of crypto assets that fulfil the following criteria:

DeFi Classification – The selection universe contains all potential constituents that aspire to disrupt the legacy financial system through smart contract enabled blockchains and decentralized finance projects built upon such blockchains.

In Circulation Market Capitalisation - minimum market capitalisation for a member universe must be greater than US$400 million.Members must have a minimum average daily trading value of US$50 million.

A selection list of top 40 names is compiled based on market capitalisation, average daily trading value and DeFi classification. Each component will be assigned a value depending on the rank for market cap and average daily trading value. The sum of the 2 ranks per name will determine the overall rank with the highest rank per category being 1 and decremented by .025. The top 40 selection list will be updated every month.

NEWS | EUROPE

# Natixis is back, deploys 'low risk' autocalls

The French bank is seeking to add at least €500m in investment banking income by 2024.

Natixis Corporate and Investment Banking (CIB) is selling autocallables again as it continues to rebuild its equity derivatives business with a catalogue of less risky products, tightened risk controls on its trading book and a selected number of strategic clients.

The French bank is seeking to boost its equity derivatives activities with low risk autocall structures linked to baskets of shares with calling dates changing frequently known as multi step-downs and fixed dividend autocallables linked to decrement (synthetic dividend) underlyings, SRP has learned.

Nicolas Namias (pictured), who replaced Francois Riahi as the bank's chief executive in 2020, is seeking to boost revenues following the takeover of Natixis by majority shareholder Groupe BPCE last month. The autocallable structures being considered by the bank could play a pivotal role as the group aims at adding €500m investment banking income across eight strategic sectors by 2024.

The move is in line with the bank's announcement of November 2020 in relation to the repositioning of its equity derivatives under a lower risk appetite which included halting the issuance of complex products and tightening exposure limits on low/medium risk products, a spokesperson told SRP.

"These low/medium risk products are offered to Groupe BPCE retail networks and Natixis' selected strategic clients," they said.

The bank stopped issuing long-term worst-of autocall structures and introduced restrictions on other products by volume and client type in November 2020. Since then, the retail networks have been served by Groupe BPCE with Natixis' taking responsibility for selected strategic clients – a pool of 400 clients that was reduced to approximately 50 clients.

"Any new products launched will be in line with that approach," a Natixis source told SRP. "We still have the capacity to serve the market and want to develop products we feel comfortable with."

As part of the new strategic plan, Natixis exited the US market and closed its UK equity derivatives desk with the team serving the European time zone centralised in Paris.

## DOWN BUT NOT OUT

This is not the first time Natixis makes changes to its equity derivatives business because of trading losses. The Paris-based lender reorganised its structured products business in 2019 following €160 million in hedging losses in relation to autocallables sold in Asia, mostly in South Korea, in the fourth quarter of 2018.

The bank's overhaul of its equity derivatives activities included the promotion of Mohamed Kallala and Anne-Christine Champion to co-heads of corporate & investment banking (CIB) and members of the senior management committee, reporting to Namias.

The bank's activity in the retail market in 2021 is already at the same level of 2020. Year to date, Natixis has issued 107 structured products worth an estimated €1.8 billion in its home market France, almost on par with FY2020, when 124 products collected a combined volume of €1.9 billion, according to SRP data.

All but three products have an autocall feature, and they are linked to equities, including 62 that are tied to a single index (€1.4 billion). The proprietary Cac Large 60 Ewer Index (21 products) is the most frequently used, followed by iEdge France 50 EW NTR Decrement Index (10), and Eurostoxx Banks (seven).

Natixis has also been active in other European markets such as Italy, Sweden (three public offers each), and the UK (two public offers). In Taiwan it was the manufacturer behind 15 private placements that were available via local banks and securities houses.

> **"We still have the capacity to serve the market**

# Swiss tech provider builds Netflix for investors

New tool allows investors access to customised indices via their phone.

Allindex, the Swiss fintech that provides technology and services to the indexing industry, has built a mobile application were investors can use their phone to invest in customised indices.

The launch of the app is scheduled for September and comes two years after the company introduced Workspace, the first white label index creation platform that allows index users to design, test and launch custom indices.

"We have created a user interface where we categorise investment opportunities based on themes such as top performers, ESG, or on countries or sectors," said Christian Kronseder (pictured), CEO, Allindex.

The tool, which is aimed at retail clients, but also at high-net worth individuals, provides investors with a back-test and statistics. However, there is also the option to diversify or even change the ESG score.

"It gives people very simple straightforward access to investing. If you use the buy button, you wrap it into an AMC and off you go," said Kronseder.

Clients can invest with three taps on the screen. Either with fractional shares, for investors who have a very low disposable income; in AMCs, for those with a bit more money; or directly via physical replication for HNWI or even institutional investors that have considerable funds.

"This is our Netflix for investors. It looks and feels like one of these multi-media apps like Apple TV or Spotify," he said.

According to Kronseder, the democratisation of investing can be achieved with the app.

"The idea we try to push with partners is: 'imagine if you have a disposable income of $100 per month, that makes it very hard to invest in Google or Amazon or Facebook, because even one Google share costs already around US$2,500, so there is absolutely no way for anyone who wants to participate to do so'.

"With fractional shares you can make shares smaller, and there is no limit to how small you can make them. Suddenly, I have the opportunity to create a portfolio for $100 and I am included in financial investing, in wealth management, which up to now was not possible.

"If you combine this with the app – we have low threshold ideas in what you can invest in on a low portfolio basis – then this is a really cool proposition for people who have so far been excluded from investing," said Kronseder.

Right now, the company has a version of the app that is 90% production ready, which is going to be tested with friends and family during the holiday season over August.

"We have a list of around 200 selected people who will be given access to the app and we will try to work-in their feedback as quickly as we can. The date is not fixed but we are hoping to have it ready by September," said Kronseder.

The mobile application will be Allindex' second offering next to its Workspace tool, which is purely B2B, and was first demonstrated to the public during the SRP France Conference 2019 in Paris. Workspace allows index users to design, create, test, compare and optimise indices using the data and methodologies of an index provider.

"The Netflix for investors is a B2B2C proposition," said Kronseder, adding that the company also plans to offer a white label version.

"We already have discussions with brokers who would want to adopt it, but we are making a big splash so that even more people are seeing this," he concluded.

"

**We also plan to offer a white label version of the service**

**NEWS** | EUROPE

# Strukturinvest, BNP Paribas bank on tourism

The Swedish structured products provider is using the pricing potential of a decrement index to profit from high volatility in the tourism sector.

Strukturinvest has teamed up with BNP Paribas for the launch of 2490 Indexbevis Resor & Turism Platå in Sweden.

The five-year medium-term note (MTN) participates 400% in the rise of the Solactive Tourism 2021 AR 5% Index, subject to 12 months backend averaging. It is issued on the paper of BNP Paribas Issuance BV and has a soft capital protection barrier of 75%. If the final index level is below that, the product participates 100% in the fall.

The index provides exposure to an equally weighted static basket of 18 shares of companies operating in the tourism sector. Its components include Easyjet, Expedia, Marriott, Ryanair, Tripadviser and United Airlines. It has a decrement fee of five percent with dividends reinvested back into the index.

"The Covid-19 pandemic brought the global tourism industry to a screeching halt in 2020 and we have seen an increased demand for exposure to the tourism sector now this industry is rebounding," said Gustav Hallqvist (pictured), trader and structurer, Strukturinvest. "Since volatility is high for most companies in this sector, we used the pricing potential of an index with a fixed synthetic dividend."

The note is issued at par and the maximum yield is capped at 20%.

"Our experience is that this type of index has limited upside potential due to the relatively high level of synthetic dividend. On the other hand, it has very good pricing properties," said Hallqvist, adding that in a plateau booster, Strukturinvest can therefore offer its clients very high gearing on the first 20% performance in the index, along with downside protection down to minus 25%.

"We think it's a good way to use engineered indexes with synthetic dividend since you receive 80% return with only 20% return in the underlying index," he said.

Strukturinvest is one of the leading distributors in Sweden with a 30.3% share of the market in 2021 to date – second behind Garantum Fondkommission only (57.9%).

The company has launched 107 structured products worth an estimated SEK1.2 billion (US$138m) between 1 January and 20 August 2021, according to SRP data (Jan-Aug 2020: SEK1.4 billion from 120 products).

Equities are the preferred asset class, with 44 products linked to a basket of shares and 11 tied to a single index. There are also 29 structures linked to the hybrid asset class; 17 to a mutual fund; and one product each to credit and commodities.

So far this year, Strukturinvest has collaborated with 13 different issuers, of which Credit Suisse (20 products), Nordea (18), Deutsche Bank (13), BNP Paribas and Danske Bank (12 products each) were the most frequently used.

## Spectrum Markets adds equity stocks to turbo range

Spectrum Markets has expanded its range of turbo certificates linked to indices, foreign exchange and commodities with a selected number of equities from Europe and the US. The new turbo certificates are now tradable at the pan-European trading venue for securitised derivatives. 'In addition to indices, which account for around 40-45% of general trading volume on the main market places in Europe, equity turbos are traded by a good third of market participants via leveraged products,' said Eren Eraslan (right), head of product innovation at Spectrum Markets.

At launch, the platform offers turbo products linked to 70 of the most popular stocks in the US and Europe, which currently see high trading volume through securitised derivatives. Currently the best represented sectors are IT (19 stocks), bank/finance (11 stocks) and commerce/e-commerce (eight stocks). The selected stocks include well-known tech firms such as Alphabet, Amazon, and Tesla, alongside shares of other companies like LVMH Group, The Coca-Cola-Company, Astra Zeneca and Deutsche Bank. Investors will also be able to access niche innovators like plant-based meat substitute maker Beyond Meat, Dutch payments group Adyen, and Chinese electric vehicle company NIO.

# RCB: dividend companies allow for innovative payout

The Austrian structured products house is targeting high dividend-yielding companies via a partially protected certificate.

Raiffeisen Centrobank (RCB) has launched the Dividend Stocks Bond 90% XVII. The eight-year structure is available in 11 different countries including Austria, Germany and Italy.

The certificate is 90% capital-protected and offers a coupon of 24% if the Stoxx Global Select Dividend 100 Index closes at or above 108% of its starting level at the end of the investment term.

The central bank's ongoing zero interest rate policy and the already high stock price valuations continue to pose challenges for savers, according to Philipp Arnold (pictured), head of structured products sales, RCB.

"A traditional investment in money market instruments can no longer protect from the loss in real value of assets caused by inflation, while a direct investment in stocks often proves to be a too risky alternative for many conservative investors," said Arnold.

The minimum capital return of the certificate is set at 90%. However, due to its step-up redemption feature, the investor is guaranteed a return of 100% of the nominal invested, even if the index has fallen by up to 10%. In case the final index level is between 100% and 108%, the certificate redeems at 108% and if the index closes at or above 108%, redemption takes place at 124%. Investors do not participate in price increases of the index beyond the cap of 124%.

"This is where capital protection certificates come into play," said Arnold. "Investors who do not want to invest in individual stocks can still achieve a sound return with the Dividend Stocks Bond 90% XVII even if the price of the index slightly declines."

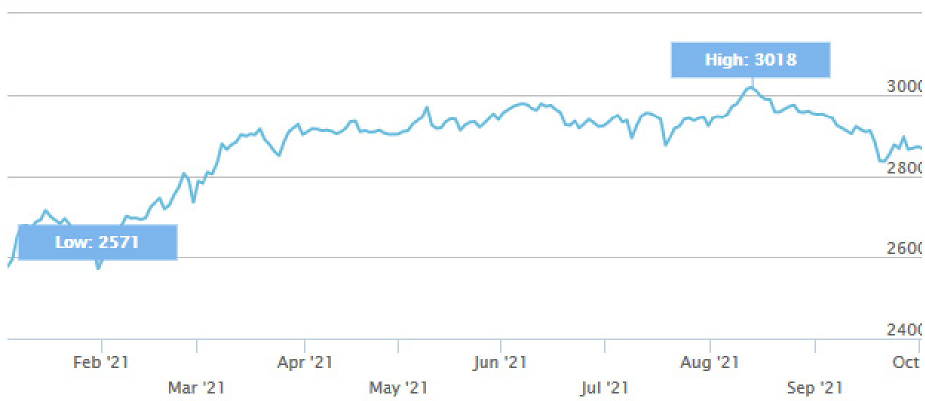
The Stoxx Global Select Dividend 100 Index is derived from the Stoxx Global 1800, its parent index, and tracks 100 high dividend-yielding companies from the Americas (40), Europe and Asia Pacific (30 each). So far this year, the index has been used as the underlying in 53 structured products across nine different jurisdictions, including 12 structures that are issued on the paper of RCB, according to SRP data.

As of 17 August 2021, the one-year performance of the index stood at 33.37%, better than the performance of the S&P 500 (31.22%), Eurostoxx 50 (27.56%), or Dax Index (23.6%) in the same period.

"The focus on dividend companies allows us to provide the customer with a certificate that has an innovative payout profile with attractive yield opportunities, while at the same time the need for safety is catered for too," said Arnold.

RCB has issued 69 structured products in 2021 to date, including 16 structures that provide a capital return of at least 90%, according to SRP data. The bank's offering is predominately linked to equities, with 26 products tied to a single index; 16 to an index basket; 13 to a single share; and six to a basket of shares. The remaining eight products are linked to the hybrid asset class.

**Stoxx® Global Select Dividend 100 Index - YTD**




*Source: Qontigo*

NEWS: AMERICAS

# Structured ETFs vs structured notes: a tussle or a tango?

As the explosion in popularity of structured (buffered) exchange-traded funds (ETFs) has swept through the US market, structured product investors now have the advantage of opting for ultimate customisation and protection within their portfolios.

Once introduced as a saving grace investment concept during the financial crash of 2008, ETFs soon became the new adversary of structured notes, which had spiraled in value and demand at the time.

According to Karan Sood (pictured), chief executive officer at Cboe Vest, several investors bought and held what they initially assumed to be principally-protected notes but after the Lehman's collapse, these instruments traded for substantially lower than their initial values.

Sood attributes the Lehman Brothers collapse as the motivation behind Cboe Vest creating the first buffer funds offering investment outcomes similar to structured notes, but with more favourable credit risk profiles. The firm's range of buffer ETFs launched in 2016 after the initial filing was submitted in 2013. The products have now completed their five-year anniversary.

Vest has seen a high adoption of these funds and estimates that the buffered ETF range accounts for more than 90% of activity on its platform. Sood notes that education is paramount to the appropriate use of the types of strategies to which such funds provide access.

"We primarily interact with financial professionals at Cboe Vest. So, our educational support around these investments is geared towards financial advisors and the education includes sharing how these investments are built and how they can be used, as well as providing tools to manage them," says Sood.

Currently, more than a decade after the initial market devastation, another economic collapse brought on by Covid-19 has paved the way for a new wave of investing trends, begging the question of whether a reliable synergy can be established to streamline defined outcome and structured notes demographics.

## WIDER ACCESS

In the past, buffered ETFs and structured notes targeted average and high-net worth investors, respectively. This is no longer appears to be the case with the recent uprising in fintech platforms such as Halo Investing which provide market access to wider investor base.

Halo was initially founded as a structured notes platform but has since branched out into defined outcome and indexed annuities as a means of growing their footprint in the structured products industry.

"Clients can customise what they want based on their specific risk objectives and goals without having to buy off the shelf. Buffered ETFs are a great starter product for people who are new to defined outcome investing, since they present low minimum investment sizes," says co-founder of Halo Jason Barsema (right).

Barsema notes that reason for choosing a defined outcome ETF over a structured note is that they are vanilla products with a buffer and a cap, making them relatively easy to understand while also giving an investor exposure to a basic index.

Another benefit is that buffered ETFs are liquid and do not have bank counterparty risk. Clients would still take the counterparty risk of the options-clearing, but by removing that counterparty risk, they can add enhanced liquidity.

"Defined outcome investing is the future. I see all three products—buffered ETFs, structured notes, and indexed annuities—as providing defined outcomes which present benefits for this asset class, both in the short- and long-term," he says.

He adds that for some investors, structured notes can be better option as one buys a structure because they are both a bond and an option. This does not exist with buffered ETFs meaning that clients can yield a better performance out of their structured notes with higher caps.

"Another upside is that a big bank would manage that risk for you. With a buffered ETF, even though it's an exchange-traded option, you would still have to manage that product on the back end from a hedging perspective," says Barsema.

Halo records an increased demand for different types of protective investments, including buffered ETFs.

"We are experiencing 550% year-over-year growth as advisors increase their allocations toward protective investments. While we are still in the early stages of a growing buffered ETF market, we are seeing financial advisors use both buffered ETFs and structured notes to build model portfolios for their clients on the Halo platform."

However, Barsema says that the notional is still heavily weighted towards structured notes due to them having been around for a longer period.

"The market for these products totals roughly US$3 trillion globally, while buffered ETFs account for only US$5-6 billion. This means that, although we have seen tremendous growth in the buffered ETF space, the industry has a long way to go and grow in the coming years," he says.

### TAX ISSUES

The evolution of structured ETFs has also involved variety in terms of its nomenclature with terms such as defined outcome, structured outcome and buffered funds emerging in recent years. For instance, key industry player Innovator is a pioneer of defined outcome strategies and has consistently pushed the boundaries of technological innovation.

Over the past year, the firm introduced first accelerated ETFs offering investors a multiple (2x or 3x) of the upside return of a selected underlying up to a cap as well as downside protection. According to co-founder and CIO of Innovator, John Southard (right) the appeal of these ETFs lies in their tax efficient capabilities.

"You could hold an ETF for several years and never expect to pay a capital gain distribution, compared to a structured note where it matures each year and if there's a gain in the portfolio, you would expect to pay taxes, which could potentially be double what they have in the past," says Southard.

He adds that the way in which an ETF is created and redeemed is done in kind and is therefore, not a taxable event. The Securities and Exchange Commission (SEC) were aware that there would be significant trading in them and wanted creation redemption activity in the ETF to not impact ongoing shareholders.

"If an investor who bought an ETF chose to sell it, they would pay the tax at that time but if they opted to hold it for 10 years, then no taxes would be shelled out until they sold the ETF," he says.

### UNDERLYING LIMITS

Many industry players remain optimistic about the scope of structured ETFs in the US market as well as on an international scale, though this presents the prospect of options markets maturing to such a scale.

Structured ETFs have also just been introduced to the European market by investment platform HANetf which aims to deliver defined outcome strategies and cater to the growing local demand – a poll found that just over two thirds of European professional investors expect to have future need for income enhancement and one third preferred downside protection.

According to Mike Loukas (above-right), chief executive officer at ETF provider TrueMark, there will be a robust global market for structured ETFs, as the options markets ramp up on different global indices.

"Provided options markets are deep enough with ample liquidity, you'll start to see these approaches, not just on the US indices, but also on global indices and I think that will create another leg up in the international space as well," he says.

He highlights the differing investor appetites as a factor to keep in mind when opening the markets in Europe and in Asia, though what has not changed on a global scale is that investors are looking for exposure to US equities in locally denominated currencies.

"In Europe, there's a strong demand for exposure to the S&P 500 but they want this in Euro, so it takes a little bit of time for these products to roll out in those marketplaces," says Loukas.

As the pie grows and continues to become more sophisticated, market players remain positive about the outlook of structured ETFs and their ability to co-exist with structured notes in an investor's portfolio.

The inevitable integration of thematics into such funds is also heavily anticipated though dependent of the evolution of futures markets. However, the extent to which structured ETFs can take the industry by storm remains to be seen.

> **"Many industry players remain optimistic about the scope of structured ETFs in the US market and beyond**

# Buyside view: callable yield notes stir up attention

The US firm has appointed a head of structured products to respond to increasing demand from investors seeking solutions that can balance equity market growth potential with some downside protection.

US wholesale broker dealer Barnabas Capital has detected an uptick in investor interest of callable yield note wrappers amid a wave of uncertainty surrounding the trajectory of global markets recovering from the Covid-19 crash.

According to Josh Lewis (pictured), the recently appointed head of structured products at Barnabas, the attraction towards such structures, as well as five-year growth notes stems from a fear that stable markets are once again headed towards an inevitable crash.

The broker-dealers and RIAs set the rules and they give us the parameters - Josh Lewis

"From my talks with people, products that I'm often discussing with representatives are barrier notes and structures that offer protection, in case of a market blow up," he said, adding that single stock structures are playing a more significant role in investor portfolios as well as stock or worst of assets.

"The demand for this is driven by people wanting to buy the stocks and gain downside protection as well."

Barnabas is owned by Financial Independence Group (FIG) and provides access to other securities-based products such as structured annuities - also referred to as registered index-linked annuities. The firm recognises this offering as a core strength of its business while its in-house salesforce works with advisers to bolster activity.

The firm recently appointed Lewis to assume the head of structured products role. Prior to joining Barnabas, Lewis worked as a senior trader and head of trading technology with a focus on structured products on the fixed income trading desk at LPL Financial.

Barnabas has established partnerships with RIA networks and broker-dealers as part of its efforts to cater to investor needs, according to Lewis. The firm has also partnered with US multi-dealer platform Simon Markets in a bid to enable customisation among clients.

"The broker-dealers and RIAs set the rules and they give us the parameters," said Lewis. "Then by using Simon, we can show them the products that they want to see. If an RIA only wants to see two-year callable yield notes or if a broker dealer says that it does not want anything longer than five years, we can set those parameters within Simon."

The firm also provides guidance and the technical know-how to navigate the actual offering in the marketplace, allowing investors to choose from all major banks.

"It's hard to get access to certain products and people with knowledge that don't necessarily have a connection to the major banks," he said. "So, we're able to provide technology that gives them the access to those products and a clear understanding of how they work, all in one place."

Lewis notes that Barnabas strengthens its competitive edge in several ways, which includes leveraging its partners as they possess a variety of networks that the firm can use to bolster its presence.

"There's so much demand for structured products and Rilas in this market and so many reasons to buy structured products, leaving advisers at a competitive disadvantage as they may not be aware of all of them. We're spending all our time teaching right now, building up a critical mass and getting people access to our platform," said Lewis. "I'm maintaining the assumption that the bull market will continue, but at the same time, I would want as much downside protection as possible."

**"Barnabas has established partnerships with RIA networks and broker-dealers**

# North America: Eurostoxx 50 recovers from Covid shockwave

The SRP database shows a significant boost in structured products tied to Eurostoxx 50 in the North American market with 2021 sales to-date totalling US$1.4 billion, swiftly gaining on 2020's overall value of US$1.7 billion.

Eurostoxx 50 currently ranks as one of the top 10 underlyings in the North American structured products market as a single index asset class, compared to 2020 where the index also reigned as part of an index basket with Russell 2000, S&P500, Nikkei 225, and FTSE 100.

The underlying has consistently appeared in the league tables over the past five years, though sales volumes have gradually decreased. Sales of structured products tied to Eurostoxx as a single index in 2017 totalled a whopping US$7.8 billion. This number dropped to US$7 billion in 2018 and US$2.7 billion in 2019 before plummeting to US$1.8 billion in 2020, during the height of the Covid-19 pandemic.

According to Manish Vij principal, sales, Americas at Qontigo, the decrease can be attributed to the sheer strength of the US markets in recent years.

"The S&P 500 is doing consistently well, and this upward trend has shifted the focus of US investors more on the domestic market. The same goes for the Canadian market, both in terms of the broader market as well as some popular underlying sectors, especially Canadian banks," he said.

He highlights market cyclicality as one contributor to the Eurostoxx 50's relative decline in sales volume.

"The Eurostoxx 50's pricing versus that of the S&P 500 or S&P TSX 60 showcases a downward cycle, and structures on Eurostoxx 50 are not pricing as attractively," he said.

US indices have outperformed [Eurostoxx 50] and may have a more limited upside - Shilpa Akella, Barclays

Index baskets containing Eurostoxx 50 have accounted for dwindling single index popularity, totalling US$6.6 billion in 2018, US$5.6 billion in 2019, and US$2.9 billion during 2020.

Throughout 2021, the Eurostoxx 50 underlying yielded US$2.5 billion in structured product sales as part of index basket assets, while US$287m stems from hybrid structures.

The best-selling index basket product for the period was the Capped Enhanced Participation Equity Notes - Eurostoxx 50 (48132TG26). The growth note was issued by J.P. Morgan Chase Financial and has a one-year maturity.

The most dominant issuers for structured products linked to Eurostoxx 50 in 2021 are GS Finance with US$1 billion (208 products), JPMorgan Chase Financial with US$557m (161 products), Morgan Stanley Finance with US$648m (112 products), and Barclays Bank with US$405m (59 products).

According to Shilpa Akella (right), head of cross asset structuring, Americas at Barclays, the demand for the Eurostoxx 50 underlying is largely driven by private banks who believe that the index has underperformed US benchmarks due to Covid restrictions and see it as a good growth potential.

"US indices have outperformed [Eurostoxx 50] and may have a more limited upside. Additionally, there has been a desire to diversify away from worst-of S&P500, Russell 2000, and Nasdaq 100 pairings while pricing this year has come in to support the demand," she said.

Akella notes that worst of combinations of S&P500, Russell 2000, and Eurostoxx 50 are pricing more in line with S&P500, Russell 2000 and Nasdaq 100. With demand and pricing aligned, Barclays is issuing more notes with Eurostoxx 50 as one of the underlyings.

In terms of the shift towards index baskets over single indices, Akella says that notes linked to Eurostoxx alone as a single index will not work for callables from a target income perspective.

"Callables continue to be linked to baskets of indices. Growth structures wise, terms look attractive for Eurostoxx in comparison to US names, but not attractive enough compared to historical levels. It is not generating size," said Akella.

She notes that given the capacity that issuers have and the focus on pricing, there is a premium compared to other pairings and this trend is likely to continue.

NEWS: AMERICAS

# Invesco QQQ-linked sales soar by 40% in US

The US asset manager has seen a significant increase in the assets linked to one of its strategies sold to retail investors via indexed annuities.

SRP data records that the volume of US structured product sales tied to Invesco QQQ Trust Series 1 ETF has increased by 40% in 2021-to date with 140 products being issued in total, valuing US$700m, surpassing the 2020 record of around US$500m, across 135 products.

The sales volumes of structured products tied to Invesco QQQ have steadily increased throughout the last five years - in 2017, issuance stood at 26 products worth just over US$44m.

This figure skyrocketed during the following year to 81 products valued at US$114m, representing a 155% soar. However, sales plummeted in 2019 to total US$73m while issuance was cut by half at 41 products.

Invesco QQQ exchange-traded funds (ETFs) have carried the bulk of structured product volumes in recent years with 135 products valued at US$681m accounting for all relevant issuances since the beginning of 2021.

According to Clint Harris (pictured), Invesco's head of wealth management platforms, the increase in investor interest of Invesco QQQ lies in allowing a degree of customisation for investors so that they can find the right risk reward profile that really meets their unique situations.

"The Invesco QQQ ETF enhances the level of transparency and cost efficiency that we can offer to investors. If it is easy for investors to understand, hopefully that can help achieve better outcomes for them over time," he said.

However, the SRP database notes a spiraling decrease in interest in hybrid asset structures which account for just US$18m (five products) of Invesco QQQ sales to-date in 2021. The figure has remained steady from the previous year, although issuance stood at 14 products.

Hybrid Invesco QQQ structures hit a high note during 2018 where sales reached US$72m (50 products), although this would later crash in 2019 to just US$5.2m across three products.

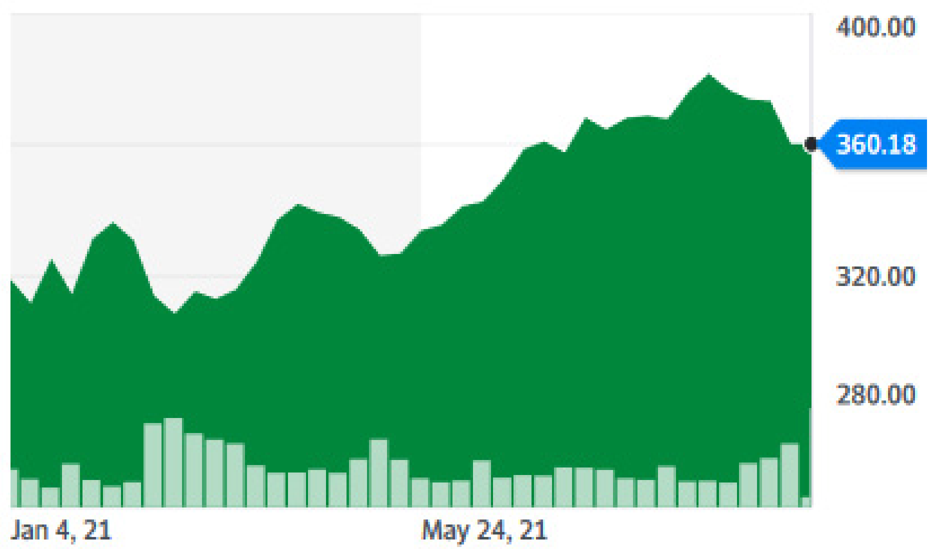
The best-selling hybrid product in 2021 to-date is the Autocallable Barrier Notes with Step-up Premium - Worst of Option (40439JBQ7). Tracking both the S&P 500 and Invesco QQQ, the growth security sold for US$10m.

Dominant issuer groups of Invesco tied structured products in 2021 are Citigroup Global Markets with 53 products (US$322m), Barclays Bank with 21 products (US$153m), UBS with five products (US$63m), and TD Securities with 23 products (US$58m).

Moving forward the asset manager expects investment themes to continue to be centred around innovation.

"One theme we are seeing among our clients is their interest in ESG and how to find opportunities while navigating the intersection between helping money grow through innovative investments and making the world a better place."

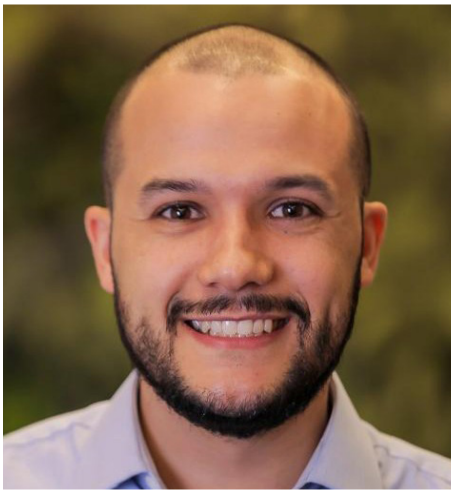
**Invesco QQQ Trust Series 1 ETF**




*Source: Yahoo Finance*

# Brazil's XP rolls out fund-linked note, eyes semiconductors

The Brazilian bank has launched a certificate of structured operations (COE) tied to an international and systematic fund managed by quantitative investment manager MAN AHL.



The Man AHL Target Risk Fund Class D EUR (GMATDEA ID Equity) note also tracks variations in Brazil's Extended National Consumer Price Index (IPCA) and features a five-year maturity.

The COE enables investors to benefit from unlimited asset increases without facing the currency exchange dilemma.

Rafael Miranda (pictured), head of structured sales at XP says that in terms of distribution, Brazil often uses structured notes as a way of accessing the international markets. The product is a vital tool for Brazilian investors as there are many restrictions preventing them from investing abroad.

"Retail clients are worried about inflation right now and are trying to get exposure to international markets while at the same time, having some protection against inflation. So, I think that's the main concern of the average retail Brazilian client right now," said Miranda.

The bank has been diversifying its offering throughout the first half of the year and has recently set its sights on an ETF which tracks the performance of companies involved in the sector of semiconductors.

"This is something that everyone is talking about because there's a shortage of semiconductor production around the world. So, everyone is expecting that the companies that produce semiconductors, might have some good performances over the next few years," he said.

The firm isn't shying away from exploring alternative thematics and previously tapped into bobbing trends that emerged during the Covid pandemic to deliver 'stay-at-home' COEs tied to tech giant entities.

"For our future plans, we will launch more thematic exposures. For example, we are discussing exposure to the cybersecurity sector, as well as electric vehicles," said Miranda.

However, that it is not easy to find a structure that guarantees the capital protection while simultaneously providing full exposure on the upside of the ETF. XP's outlook for the second half of the year remains positive and forecasts that the market is going to grow significantly over the next six months, due to investors generally being more educated about structured products.

"We are really focusing on educating investors in relation to structured products and I think that in terms of education, the markets have really been evolving," Miranda said.

## BMO, Rex Shares partner in leverage ETN FANG push

REX Shares has launched two new MicroSectors Exchange Traded Notes (ETNs) issued by Bank of Montreal (BMO) linked to the Solactive FANG Innovation Index.

The new MicroSectors Solactive FANG & Innovation 3x Leveraged ETN (BULZ) and MicroSectors Solactive FANG & Innovation -3x Inverse Leveraged ETN (BERZ) are available for trading on NYSE Arca.

Launched in June 2021, the Solactive FANG Innovation Index tracks large US-listed tech and internet/media companies and is designed to represent stocks building tomorrow's technology today.

The index includes eight core components (Apple, Amazon, Facebook, Alphabet, Microsoft Corporation, Netflix, NVIDIA Corporation, and Tesla) and the seven stocks with the largest market capitalisation and 12-month average daily value traded taken from the technology sector, including Advanced Micro Devices (AMD), Intel Corporation (INTC), Micron Technology (MU), PayPal Holdings (PYPL), salesforce.com (CRM), Square (SQ), and Zoom Video Communications (ZM). The index is equally weighted across all stocks, rebalances monthly and reconstitutes quarterly.

BMO and REX have collaborated on the development and issuance of ETNs since 2017, and currently provide over 14 ETN offerings.

Bank of Montreal (BMO) has slid from the top spot of the rankings as the most dominant issuer group in the Canadian structured products market during the third quarter (May to July) of 2021.

NEWS: AMERICAS

# MerQube builds 'strong pipeline' as demand for risk control and define outcome remains

The US index specialist firm has seen the popularity of its index offering catapulting in the first half of 2021.

SRP caught up with Vinit Srivastava (pictured), founder and chief executive officer at MerQube, to discuss recent market activity and firm-level milestones as demand for targeted market exposure increases.

From an overall market perspective, MerQube's clients have been quite active concerning its products, especially within the risk control and defined outcome spaces, according to Srivastava.

The firm recently launched the MerQube US Tech+ Vol Advantage Index which provides exposure to E-Mini Nasdaq 100 Futures contracts with a Volatility Target of 35%. The new entrant comes amid a collective shift by investors to innovative investing with the goal of yield in mind.

MerQube has also expanded on its current defined outcome index suite by adding buffer indices such as the MerQube Emerging Market Buffer Index (iShares MSCI Emerging Markets ETF) and MerQube Developed Ex. US Buffer Index (iShares MSCI EAFE ETF). Other arrivals consist of additions to the firm's accelerated and stacker alternatives.

"There has been a high product issuance to our indices directly or indirectly linked to benchmarks. So, it's been a good start to the year, and we see a very strong pipeline going into the second half," Srivastava said, adding that issuers and clients are obtaining vastly different overlays to manage risk and provide a better outcome to known underlying themes.

The firm has seen amplified creativity around how issuers are providing better payout structures on more traditional underlyings.

"Innovations and vol control are hot topics and this is true both in the CDs and market-linked CDs as well as the traditional investment bank products, along with insurance," he said.

According to Srivastava, the MerQube platform is designed to handle complexity and currently deals with futures, options, and traditional equity strategy.

"Clients are looking to add overlay and the structure beneath the surface is getting more complex, despite the idea being simple. Indexing is about simplicity so want to keep that high level message that this is a strategy that people can understand," he said.

The firm has also intensified its activity in the structured annuity space as the specialist index firm seeks to leverage the platform's "long-standing history of designing indices linked to FIAs".

"The design of indices has gotten more complex as there are multi-asset indices for control and the volatility control mechanism itself is getting more sophisticated," he said.

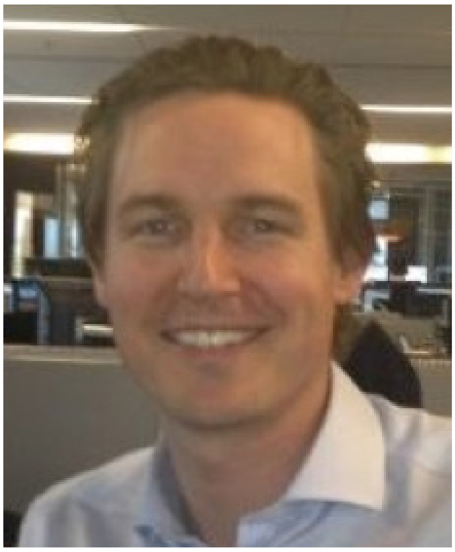
Srivastava believes that equity expectations of returns are projected to be lower while there is a lot of uncertainty around fixed income given inflation expectations over the next six months to a year.

"People are looking to generate income with products that have inflation hedges which is where products like defined outcome funds come into play," he said.

> **Innovations and vol control are hot topics in the market**

# InspereX reports record market-linked product sales

Tech and transport underlyings have seen increased activity in the first half of 2021.



InspereX, the US distributor formerly known as Incapital, has recorded historic activity with market-linked product sales reaching roughly US$3.5 billion during the first half of 2021, according to the firm.

"The overall market has fared well in the first half of 2021 while clients are still on the hunt for yield," Deryk Rhodes (pictured), managing director and head of market-linked product trading and origination at InspereX, told SRP. "Equities have run up a bit and show signs of stalling, so investors are also looking for some protection. Fortunately, our products typically offer both."

With rates side-lining a lot of the firm's principal protected structures and market-linked CDs, the firm has been focused on stock baskets and worst of structures linked to equity index baskets instead of algorithmic indices, as well as several newer exchange-traded funds (ETFs).

During the first half of 2021, the SRP database recorded an uptick in the volume of InspereX's structured products linked to technology and transport underlyings. These include Amazon (US$100m/40 products), Apple (US$130m/39 products), Netflix (US$58m/22 products), and Alphabet (US$49m/15 products).

Tesla as a single-share equity stock has also emerged as a popular option for structured product investors with a total of 14 being issued in H1 21, valued at US$40m.

The best-selling product tied to Tesla for the period was the Fixed Coupon Barrier Notes - Tesla (78016E2B2). Issued by RBC and selling for US$12m, the income product features a reverse convertible payoff and will reach maturity in two years.

The product offers a coupon of 12% pa, paid monthly throughout the investment period. At maturity, if the closing level of the underlying does not fall by 50% or more from its initial level, the capital return is 100% plus any owed coupon.

> **"Investors are more educated than ever**

"Year-over-year, we have also seen a pickup of structures linked to Eurostoxx 50 both as a sole underlying and in a basket with one or two other indices. However, it still makes up only 5-6% of our total notional," said Rhodes.

**EUROSTOXX 50 RETURNS**

SRP data shows that a total of 33 structured products distributed by InspereX were tied to Eurostoxx 50 during H1 21, valued at US$40.6m. However, this represents a drop in distributions from H1 20 where 166 related products are noted with a sales volume of US$130m.

According to Rhodes, some investors tend to seek full exposure to US-based indices but are comfortable with European blue-chip stocks, many of which are household names.

"Additionally, the correlation between SX5E and SPX is only ~50% which the client can benefit from in the form of additional yield or deeper downside protection."

Rhodes noted that interest rates will continue influencing what trades are actively being carried out, while the number of autocalls continues to grow.

"If the market does undergo a correction, trades that were expected to get called may even remain on the books for a longer period," he said. "Investors are more educated than ever, and many have now gone through several product lifecycles, from products getting called or maturing to statement pricing going down and later recovering. So as the market moves, I think many clients know how to take advantage of these movements."

Moving forward, InspereX aims to continue pushing deeper into the accounts it serves, increase product adoption, and keep up with educating its clients.

"We find a better educated client not only understands the product better but also will be a more active purchaser. We are also focused on continuing to grow the RIA channel as well as our institutional accounts," said Rhodes.

# HSBC China launches first MSCI ESG index-linked deposit

The UK bank has today closed a structured deposit tracking the MSCI World ESG Screened Risk Control 5% Index (USD), marking its first use of MSCI indices for structured deposits in China.

The two-year product, which deploys a shark fin structure based on the underlying's average quarterly performance, guarantees a minimum annualised return of 0.5% with an uncapped maximum based on a participation rate of 120%.

It's observed on an annual basis with the trigger-out level at 112%, fitting for a mildly bullish view. If knocked out, the product will deliver a coupon of four percent pa.

"[The underlying's] parent index is the MSCI World ESG Screened Index, which has an effective ESG screening strategy to improve the overall index performance. Its year-to-date performance is quite strong," Jenny Wang (pictured), head of customer value management and marketing, wealth and personal banking at HSBC China, told SRP.

"By adding the five percent risk control mechanism, it can well control the market drawdown as well as benefit structured product pricing with attractive product terms. We expect to have more collaboration with MSCI in the future."

As an early mover in the ESG structured product market in China, HSBC has been offering structured deposits tracking ESG indices since September 2018. It first selected Stoxx Europe ESG Leaders Select 30 EUR Index before expanding to Stoxx Global ESG Leaders Select 50 EUR Index, Stoxx Global ESG Leaders Diversification Select 50 Index and Stoxx USA Low Carbon Select 50 Index in 2019, SRP data shows.

Subsequently, the UK bank made a foray into customised ESG indices through HSBC Low Beta Factor ESG Europe Price Return Index with Solactive being the calculator. The index is linked to 13 structured deposits including two denominated in US dollars in 2020.

Its partnership with the German index provider this year extended to a new underlying - Solactive China Future Consumers ESG Screened PR Index, which is tracked by seven deposits.

Majority of these ESG index-linked deposits are structured in a similar way as the MSCI product with a tenor of two years and a minimum investment amount of CNY200,000 (US$25,676).

As HSBC is pitching structured notes that track securities baskets with scores in the top 50% by Sustainalytics ESG Risk Ratings in Singapore and Hong Kong SAR, indices remain the key approach to access ESG underlyings at HSBC China, according to Wang. The selection is based on the 'main market' covered by the index as well as the 'ESG screened strategy' added on top of it.

Earlier in the summer, the UK bank launched a structured deposit linked to the Solactive China Future Consumers ESG Screened PR Index to capitalise on China's carbon neutrality initiative.

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**By adding the five percent risk control mechanism, it can well control the market drawdown**

# HKEX: new listings of structured products reach record high in 1H 21

The Hong Kong Stock Exchange (HKEX)'s equity and financial derivatives segment delivered a three percent increase of revenue at HK$1.73 billion (US$222.3m) year-on-year (YoY) led by new listings of structured products.

The segment, which refers to derivatives products traded on the Stock Exchange and Futures Exchange, posted a stable pre-tax profit at HK$1.3 billion in 1H 21, according the interim results 2021 presented by new CEO Nicolas Aguzin.

The revenue performance was primarily attributed to a 32% increase in listing fees at HK$612m YoY as 'the number of newly listed derivative warrants (DWs) and callable bull/bear certificates (CBBCs) reached half-yearly record highs of 8,247 and 21,017 in 1H21, respectively,' said the bourse.

Trading fees and tariffs of listed structured products - the third largest revenue source at the segment - increased by 25% to HK$412m YoY 'primarily due to lower percentage increase in trading fees from new issues of CBBCs'.

Operating expenses rose 19% due to higher allocated costs, 'reflecting the relative higher increase in listing fees from DWs and CBBCs and incentives relating to the MSCI index futures contracts which commenced in 2H 20,' according to the interim report.

The structured products market 'remained robust and resilient in 1H 21, with both listing and trading activities experiencing strong growth', stated HKEX.

Specifically, the number of newly listed structured products climbed 18% to 29,347 comprising 8,247 DWs, 21,017 CBBCs and 83 inline warrants (IWs) in 1H 21, while the average daily turnover (ADT) was up 28% to HK$22.4 billion YoY.

## DERIVATIVES

In the meantime, derivatives contracts average daily volume (ADV) rose three percent to 1,203,625 YoY, mainly attributable to a 37% hike in stock options, partly offset by the 23% drop in derivatives contracts traded on the Futures Exchange.

'The Hang Seng Tech Index derivative products continue to gain traction with investors,' said HKEX.

Since the launch of Hang Seng Tech Index Futures last November, both trading volume and open interest for them grew during 1H 21. ADV reached 8,672 contracts in Q2 21, an increase of 33% quarter-on-quarter, and daily trading volume reached a record high of 30,561 contracts on 25 May. Open interest for the futures climbed from 4,721 contracts as of 2020-end to 18,944 contracts as of 30 June.

Hang Seng Tech Index Options, which went live in January, hit a daily record high of 2,032 contracts on 11 May, and open interest reached 8,143 contracts on 30 June.

In a move to broaden Hang Seng product suite, the bourse said it is going to launch physically settled options contracts on Hang Seng Index Futures and Hang Seng China Enterprises Index Futures on 23 August.

During 1H 21, HKEX completed a minority stake investment in the newly established Guangzhou Futures Exchange (GFE) for a total consideration of CNY210 million, the first investment in a domestic futures exchange by a non-Mainland Chinese investor.

'This investment supports our China Anchored strategy, providing HKEX with the opportunity to help build and promote the development of China's derivatives market,' said the bourse.

## CASH SEGMENT

'During 1H 21, despite market volatility and challenges posed by Covid-19 on work arrangements, all of HKEX's major trading, clearing, settlement and market data dissemination systems for the Cash, Derivatives and Commodities Markets continued to perform robustly,' said HKEX.

In the cash division, new underlyings for leverage & inverse products emerged in 1H 21, including the TFSE China A50 Index and the first Taiwan underlying, FTSE Taiwan RIC Capped Index.

The bourse noted the significant contribution of top 10 IPOs since 2018: Baba-SW, China Tower-H, Kuaishou-W, Bud Apac, Xiaomi-W, JD-SW, Meituan-W, JD Health, JD logistics and Ntes-S. Their cash market ADT and related structured products ADT reached HK$32.9 billion in 1H 21, up 29% compared with 2020, or nearly threefold from 2019.

Exchange-wide, the top 10 IPOs contributed to 18% of cash ADT and 20% of single stock option ADV in the first six months.

The HKEX posted a record half-yearly revenue of HK$10.1 billion in the 1H21 ended in June, up 26.6% YoY, driven by high headline ATD, which led to a 25.9% rise of net profit at HK$6.6 billion YoY.

On a quarterly basis, revenue and other income was HK$5 billion in Q2 21, reflecting 'more moderate Q2 trading' and resulting in lower headline ADT and derivative market ADV.

# Hong Kong regulator fines UBS for structured notes mis-selling

The Securities and Futures Commission (SFC) has fined UBS AG and UBS Securities Asia HK$9.8m (US$1.3m) and HK$1.75m, respectively, over various regulatory breaches including the mis-selling of 12 structured notes to 15 clients.

In May 2020, UBS AG reported to the SFC and the Hong Kong Monetary Authority (HKMA) that it had failed to disclose to its clients the 'stop-loss event' feature of a structured note issued by another bank before the execution of the trade.

The failure affected 15 client accounts involving the sale of 12 structured notes between October 2017 and February 2020 for a total notional amount of approximately US$12m.

The disclosure failure resulted from an omission of the stop-loss event feature in the additional term sheet prepared by UBS' structured product sales team in Singapore. The member in charge of the documentation was not aware of the feature. Another member noted the issue when reviewing the draft of the term sheet, but did not flag it as he considered the mechanism to be 'insignificant' compared with the issuer default risk.

The Swiss bank didn't discover the failure until a client complaint was filed in April 2020, according to an SFC statement released today (3 August).

In addition, UBS was found in breach of its financial interests in some Hong Kong-listed companies covered in its research reports from May 2004 to May 2018.

'The failure was caused by multiple data feed logic errors in a legacy data source used by UBS for tracking its shareholding positions,' stated the SFC.

The fines were also related to three other regulatory breaches following self-reports, including the offering of securities pooled lending service to 91 non-professional investors, and the failure to record 35 telephone calls involving 2,000 transactions for over 400 clients and to properly assess clients' derivatives knowledge.

"A very small number of clients were financially impacted in 'issue V' [the structured note sales] and these cases have already been resolved," a UBS spokesperson told SRP. "Other than this, the other issues have not caused financial impact to any client."

The bank reported these matters to the Hong Kong regulators as soon as it identified the issues, and has taken measures to strengthen its internal controls and systems in order to prevent the issues from happening again, according to the spokesperson.

## DBS rolls out derivative warrants in HK SAR

DBS Bank Limited (DBS) has announced the launch of the first two series of derivative warrants listed on the Hong Kong Exchanges & Clearing Limited (HKEX) following the approval of DBS as a listed structured products issuer by the Hong Kong exchange.

The Singapore bank has launched one series of call warrants and one series of put warrants linked to Tencent Holdings Limited stock, and plans to continue adding its product offerings this year, with additional derivative warrants that cover over 60 major underlying stocks listed in Hong Kong SAR, to respond to 'rising market demand'.

DBS will also enter the callable bull bear contracts (CBBCs) segment to further expand its product offering for Hong Kong investors. The launch is part of the bank's plan to expand its wealth structured products franchise and derivative warrants business, according to Wei San Soong, head of equity derivatives, treasury & markets at DBS.

'The synergy will allow us to ensure that we provide competitive prices to all our customers,' he said, adding that the bank will continue 'to dedicate significant effort in exploring a wide spectrum of financial products from local and global markets, and opening investment opportunities for investors' broader market exposures'.

Warrants are the fourth most popular product wrap in the Hong Kong SAR market, according to SRP data. The most active providers in Hong Kong include HSBC, Bank of China, UBS, Société Générale and Credit Suisse.

# Exclusive: StanChart China capitalises on new structured deposit platform

The UK bank has issued over CNY1 billion (US$153.9m) notional of equity-linked deposits in China in the first half of 2021 on its electronic trading platform, which went live in December 2020.

The platform is equipped with real-time pricing through an open architecture set up which Standard Chartered Bank (SCB) China developed over a 10-month period with an approximate cost of US$3m.

The bank's clients can access underlying price charts and market news in addition to their daily portfolio mark-to-market on the platform, which is accessible through the bank's mobile banking application and online banking site.

Primary for on-shelf products, the platform supports customisation enabling users to select from four payoff types - daily range accrual, snowball, average autocall and worst-of autocall - and a range of underlyings comprising over 1,000 stocks and 700 ETFs (including index ETFs) from Asian, US and European markets.

"We have seen significant growth in our structured deposits in the H1 21 and expect the demand to remain high for the rest of the year," David Kua (pictured), head of capital markets products & solutions at SCB China, told SRP. "From a view of underlying sector, new energy vehicles, healthcare and technology have been very popular."

The bank has also recorded an increasing number of sophisticated investors, who tend to have more directional views on equities and demand wider variety of underlyings, using structured deposit in China.

"Our booking building platform features fully automated pre-trade checks and streamlined book building subscription process," said Kua, adding that the service is active 24/7 with a minimum ticket of CNY50,000 (US$7,500) for on-shelf products and from 9am to 7pm Mondays to Fridays for bespoke products with an investment of no less than CNY1m.

> **We have seen significant growth in H1 21**

According to Kua, it takes an investor between five and 10 minutes on average to place a trade. The products available on the platform have a tenor of between one month and two years with one-year structures being the most favoured by Chinese investors.

During the past year, approximately 30% of the structured deposit notional has either matured or been knocked-out with the highest coupon paid between five and eight percent pa, he said.

SCB China's structured deposit range offers full capital protection, although the UK bank is planning to add partially principal-protected structures in 2022.

## EXPANDED OFFERING

The digital rollout signifies SCB's strategic shift in the Chinese structured deposit market despite tightened regulations and low-yield environment after the bank in August 2020 halted its issuance of dual currency deposits, which offered no capital protection.

As required by the Chinese regulations which came into effect on 18 October 2020, a minimum cooling-off period of 24 hours must be observed for structured deposit after subscription, which takes a toll on dual currency deposit business due to the ineffective access to FX markets.

In terms of principal-protected structured deposits, SCB China only offered exposure to FX structures featuring USD/JPY and EUR/USD pairs before the equity-linked deposit platform was launched on 9 December.

The UK bank has been globally campaigning in offering clients a self-serve experience as almost the entire CNY1 billion notional was traded electronically in China – approximately 90% through mobile banking and 10% through the online portal. Only a minimal notional of FX-linked deposits were executed at SCB China high-street branches.

"We went digital first because we were looking for a platform that makes our structured deposits easily accessible to our mobile savvy clients and also enables our bank to launch products at scale," said Kua.

# SocGen responds to ESG demand in SK with new fund-linked, FX structures

Both trades mark the bank's foray into the burgeoning market of ESG alternative investments in South Korea.

Société Générale has issued an ESG fund-linked swap for a local securities house as well as FX forwards integrated with a sustainability-related KPI for a corporate client.

With a notional of KRW20 billion (US$17.8m), the swap tracks the performance of an ESG fixed income mutual fund - the Allianz Euro Credit SRI, which allows the counterparty's client (a pension fund) to gain upside participation when the underlying appreciates while retaining full principal through a derivative-linked bond (DLB).

The five-year swap was traded in February. All transactions were settled in US dollars converted from Korean won payments at a pre-agreed USD/KRW fixing.

"ESG fund-linked products are very new in Korea, but it's a global trend and we aim to broaden the types of ESG offerings here," Eric Kang (pictured), CEO and head of global markets sales at SG Securities Korea, told SRP. "The Allianz Euro Credit SRI is the best matched as its effective ESG guidelines in place enables the client to gain ESG exposure easily and the sectors involved look good to the securities house."

The subsidiary of Société Générale CIB receives the 91-day Korean Certificate of Deposit rate plus a spread pa. on a quarterly basis from the counterparty after paying a one-time upfront fee at a transaction cost of 0.5% on the effective date (TD + 4 days). At maturity, it will make a one-time payment based on the performance of the volatility target fund.

The French bank started to explore ESG fixed income mutual funds in late 2020 and selected the Allianz Euro Credit SRI fund as it enables the manufacturer to provide the highest participation rate with a floor of zero percent. The underlying fund aims for long-term capital growth by investing in investment grade rated debt securities of OECD or EU bond markets denominated in EUR in accordance with the bank's sustainable and responsible investment strategy (SRI Strategy).

In the scope of Asia, Société Générale has also traded principal-protected notes and warrants on ESG fixed income mutual funds including the Pimco GIS Global Bond ESG fund and RobecoSAM SDG Credit Income fund since 2020.

## FORWARDS WITH KPI

In addition, the investment bank sold its first sustainability-linked derivatives (SLD) to a corporate in Korea in 2020, which are forwards of EUR/PLN (Polish zloty) with a total €40m notional. They comprised of eight transactions with a maturity between 1.5 and 2.5 years.

The derivatives incorporated an ESG-related key performance indicator (KPI), under which the client - a Korea-listed engineering and construction multinational - commits to achieving a greater percentage of assets that pursue the ESG certifications evaluated by a group of ten bodies based on Korea's G-seed (Green Standard for Energy and Environmental Design) system. The FX rate is adjusted accordingly based on the KPI.

"[The FX forwards] are for hedging a EUR-denominated loan, whose proceeds are used to build a factory in Poland," said Tae-Shin Park, head of global markets Korea at Société Générale Seoul Branch.

The project meets ESG criteria under certain European and Polish guidelines because the components and parts are imported from European firms that are viewed ESG-friendly, according to Park who didn't disclose more details.

SRP learnt that the same client has also bought forwards of EUR/PLN with a shorter tenor from Standard Chartered Bank Korea, which was embedded with another ESG KPI, so its FX exposure is hedged throughout the entire loan period with different counterparties.

> **"We aim to broaden the types of ESG offerings here**

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FEATURE

# **UBS:** investors understand there are better returns beyond standard benchmark

In this series of articles, we look at how investors are reacting to volatility and inflation, and what trades are being developed by QIS teams to capitalise on market trends.

> **There have been sharp sector rotations over the last few months**

The Eurostoxx 50 ended 2020 in negative territory (-1.58%), but several sub-sectors such as the services and technology sectors recorded a positive performance (+ 19% and + 18%, respectively). Others such as energy or construction performed negatively (-22% and -11%, respectively). This phenomenon known as dispersion measures the propensity of the individual behaviour of several securities making up an index (or a basket) to deviate from the average of the index (or basket). It is similar to the concept of standard deviation: the greater the deviation of each individual performance from the average of the index (or basket), the greater the dispersion.

This shows that not all sectors have been affected equally in the face of the Covid crisis and can impact the construction of market-neutral strategies fuelled by the increase of the market volatility.

"With potentially rising inflation, investors want to protect their portfolios. Commodities are actually a place you can look for inflation protection, even via standard benchmark commodity investments, especially in the energy space and potentially in the precious metal space," says Spyros Mesomeris (pictured), global head QIS structuring at UBS.

Investors now understand they can get better returns by going beyond standard benchmark commodity indices because if inflation picks up further, it will have an impact on the the term structure of the futures curve in commodities.

"Investors are looking at the effect of roll yields as they seek to obtain exposure to the commodity asset class through enhanced indices," says Mesomeris.

The UBS CMCI index is a good example of this type of strategy. The UBS ETF linked to this index is now the largest broad-based commodity ETF in Europe with over US$2 billion in assets.

SRP data shows there are over 70 indices of the CMCI range featured across a similar amount of live products sold in the USA (22 products/US$165.4m), Germany (53 products/US$51.1m) and Austria (44 products/US$21.1m)

"We have a high conviction in the commodities space - carry strategies can be an efficient way to deploy this kind of play as curves are steep in backwardation," says Mesomeris, noting that in addition to potentially facing some congestion effects at the front of the curve, it is expected the futures curve to mean revert.

"This means carry strategies are poised to perform going forward."

Higher inflation should potentially be coupled with also higher real interest rates which would mean that strategies that are more sensitive to the longer end of the rates curve going up, could also do well.

**There have been sharp sector rotations over the last few months. What other strategies are investors using to extract value of this market moves?**

**Spyros Mesomeris:** This would support the 'value versus growth' trade in the equity space which has been quite a strong performer between November 2020 and April 2021, though since then there was a rotation, again, out of value and into growth.

With real rates in the US expected to go up soon, our economists believe that value should be supported going forward, and cross sectional carry and curve strategies in rates should do well.

Volatility carries strategies across asset classes, but particularly in equities, and commodity strategies have done very well over the last six to nine months. We have a commodity risk premium portfolio that we've launched back in February 2019 and has over 18 months of live performance – this strategy is up 25% since its launch.

Our FX mean reversion strategies has also performed well and in the rates space some of our carry strategies delivered good returns.

Investors are looking for income replication, yield enhancement solutions and systematic rate strategies as an overlay into a long only fixed income portfolio to generate some additional carry, some additional yield. Our multifactor systematic equity long short and sector rotation strategies have also received attention from clients as of late.

**How does the sector rotation impact market neutral strategies?**

**Spyros Mesomeris:** When we build equity factor strategies, we tend to build them in a sector neutral way, because we don't want top-down market themes like country or sector rotation to be driving factor performance.

But of course, not all sectors are equal in the in the face of a crisis - we have seen significant rotations from cyclical to defensive sectors during Covid, and as the pandemic started to ease, cyclical sectors started to perform better again. In particular, small-cap, deeply discounted stocks in cyclical sectors performed particularly well between November of last year to the end of February. Over the last four to six weeks, the more defensive sectors have taken over again.

What is interesting is that the rotations have been faster and sharper – from value to growth and back, or between defensive and cyclical sectors. Those sharp rotations have created opportunities within the QIS space for investors.

We have entered a partnership with a US asset manager to launch a product which utilises natural language processing to allocate to US sectors – it uses a proprietary systematic approach to determine the attractiveness of each sector by analysing market narratives from several perspectives like Attention and Cohesion, going far beyond standard measures of sentiment. This systematic sector rotation product, which we launched last year, is also performing very strongly with the market-neutral version realizing a live annualised return of higher than six percent and volatility of just three percent.

**Volatility/risk control and synthetic dividend strategies have established themselves among retail investors who deploy them via structured products. Is this a growing area for UBS?**

**Spyros Mesomeris:** This kind of strategies have gained visibility, especially in the US index annuity market, as well as in some European markets.

We're very active in the fixed indexed annuity [FIA] market, and in the RILA space where we have built risk-controlled products. The US retail market is growing again and there is scope to bring innovation and new strategies as we have proven with our intraday risk control products in the FIA space on major indices like the S&P 500. The underlying value proposition must be strong given the competition that exists in the US retail market.

We have won a recent mandate with one of the country's major carriers to develop a product for the Rila space on our UBS Climate Aware index. The index was developed in collaboration with our asset management unit to create an ESG product based on the philosophy of how the UBS Climate Aware fund is managed.

The new index reflects the ESG theme by assigning additional weight to climate aware stocks as well as underweighting or entirely removing stocks which don't meet certain criteria. The risk control comes on top so that you're able to sell an option on it in the market.

On the decrement side of things, this is more of a trend in the French retail market, although we see demand in other markets too. This is an area that we're looking to be more active on in the future. There is scope to bring new underlyings to the German and French insurance markets, and we want to capitalise on our QIS capabilities to respond to that demand.

FEATURE

# **Deutsche Bank:** investors are looking for long-only structures with defensive tilts

Deutsche Bank (DB) has shared its recent QIS research, which describes current market conditions and the performance of individual strategies developed by the bank, as well as a paper on equity value.

> **Quality has performed well because of the market uncertainty**

In part 1 of this interview, SRP spoke to Caio Natividade (pictured), global head of quantitative investment solutions research, Sorin Ionescu, head of QIS structuring, and Andreas Farmakas, quantitative equity strategist, associate, at Deutsche Bank, about their findings.

In the case of equities, defensiveness has resurfaced as one of the biggest themes, after losing some momentum earlier this year when the reflation trade took the spotlight. In the context of structured products, defensive investing is being done through long only smart beta type of products – starting at a macro level and then translating into individual strategies that have a defensive tilt.

“From a macro level, the prevailing perception going in and out of investors’ minds in the first half and continuing is macroeconomic uncertainty,” says Natividade. “The focus on reflation since November of last year morphed into the inflation scare in February, and then we went back into a reflation discussion back in April and May.

“Since then, especially accelerated with the recent Fed meeting, the attention has shifted towards stagnation and the fear that while we might contain inflation, we could also end up containing growth too much.”

## CHANGE OF TUNE

While risk remains high, equity markets have continued to rally largely supported by central bank and government stimulus. At the same time, fixed income has been more volatile, and there have also been changes in equity factors - initially was about value then it went to growth, then back to value and now value is starting to fall out of favour again.

“When there is macroeconomic uncertainty, and it is difficult for investors to take a view on market direction, strategies with a defensive tilt can deliver returns,” says Natividade. “In the equity space, we have developed quality investing strategies that invest in companies that have greater competitiveness and also greater competency of management.”

This kind of strategy has been performing quite well over the course of this year.

“While most of the attention has been on the blockbuster returns of equity value, quality has been on the side, constantly performing well because of this flare of uncertainty that markets have at the moment," says Natividade. "Irrespective of the formulation of the quality strategy, there are sectors which are seen as higher quality and others as lower quality. We have seen a lot of variation on sectors too."

### What are the most efficient strategies to capture growth with protection?

**Andreas Farmakas:** Tech stocks and mega caps were very well-positioned to benefit from the whole lockdown, the online economy shift playing out, and stay-at-home period. They did outperform for the majority of 2020 and momentum type strategies were in good position to capitalise on these trends.

Energy, financials and travel stocks have also benefitted as the economy rebounded very strongly after vaccination programmes were rolled out. These shifts have provided a lot of opportunities for investors, especially to those who were able to time it right. The value factor can provide a good strategy to capture performance during reflationary periods, and it managed to do very well during the cyclical rally that we've seen at the start of 2021.

However, we think the most efficient strategy to address the defensive needs of investors is quality - it makes sense, because it's becoming increasingly difficult to know in which macro regime we will find ourselves in the following months. The timeframes of these regimes also seem to be becoming increasingly smaller.

Investors are looking for long-only structures with defensive tilts and we have proprietary methods of screening for quality which take into account profitability, efficiency, safety and other aspects of a company such as the value of IP, investments in R&D, and does not rely just on standard accounting metrics.

### How are you delivering these strategies to the different investor types?

**Sorin Ionescu:** Especially with the retail audience in mind, and equities hitting new all-time highs, investors are concerned about the next market correction and fixed income not being able to deliver the protection that it provided in the past – a potential breakdown of the equity-bond correlation we have observed over the last 20 years.

The natural answer to that is to add some equity protection. There is a difference between the strategies used by institutional investors compared to those used by retail or private banking investors. Some of the strategies deployed by institutional investors can be complex and are obviously not appropriate for a retail audience.

In our conversations with retail and private banking distributors, protection is a question that arises, and rightly so. But at the same time, we can't advise to just unwind equities or propose complex defensive strategies to a retail audience where this may not be appropriate. Our bet is to continue to be long equities. It's very difficult to take money off the table while markets continue to rally but apply a defensive tilt to the long equity exposure. Our equity quality strategies can help to achieve that objective.

### Can you describe the DB's Non-Linear Adaptive Style Rotation model (N-LASR) strategy?

This model is based on a machine learning algorithm, Ada Boost, designed to adaptively learn which factors to use. It forecasts the cross-section of stock returns using a selection of stock features as inputs.

This performance momentum is something that you can capture through multiple types of algorithms. But the advantage of utilising machine learning for this is minimises the amount of noise that you have associated to the financial market data of thousands of alphas which is quite high.

With a model like this, investors are outsourcing a quant equity and equity market neutral operation in many ways. It is more than just the application of a machine learning tool to an equity investment.

The model looks at 115 different features of a stock - 115 individual alphas, all of which have some predictive power. The algorithm looks at this data and identifies what the bank calls the 'stylised facts of that data' - the patterns shown on the data.

The main pattern that equity sectors have over time is in performance momentum. So, an equity factor if it has been doing well, has a tendency to continue doing well. And if it has been doing badly, it will continue doing badly.

You do need to apply techniques that help distil away that noise. Machine learning algorithms are also better at capturing non-linear relationships, which equity markets are full of. We have been tracking this approach for a number of years and performance has been in line with expectations.

"

**Investors are looking for long-only structures with defensive tilts**

# **Halo:** structured products can be an elegant solution to get yield in a portfolio

The US multi-issuer structured products platform entered the annuities space earlier this year as a natural evolution following the initial launch of its structured notes platform and expansion into buffered ETFs.

> **We take a risk-based approach to investing**

SRP caught up with Jason Barsema (pictured), co-founder and president at Halo Investing, to discuss the evolution of the firm's offering, structured notes activity during the first half of 2021, regulatory concerns, as well as the evolution of the fintech's educational tools.

### What kind of payoff structures are on demand by US investors?

**Jason Barsema:** The lion's share of structures that are being priced here in the US are income related structures and I think it supports the trend of people wanting yield and to protect against the sideways market. The other popular structure which I think is a function of the uncertainty in the market are the absolute return structures.

Also, index related structures are always popular such as Russell, Nasdaq, and the S&P 500 while we are seeing a lot more interest in single stock baskets, including baskets of tech names or stocks that benefit from the inflation trade.

### What are the main priorities and concerns for investors in structured products?

**Jason Barsema:** From an overall investment perspective yield is very important for advisers to be able to add in some protection, as the markets continue to skyrocket.

A lot of the advisers are worried that equity markets are going to chop back and forth from where they are today, and bond yields really aren't going anywhere, so the question is how you derive not only yield in the portfolio but ultimately drive returns.

What our advisers really like about Halo is we take a risk-based approach to investing. This means that when you look at other solutions and avenues to buy structured notes, it just can't simply be a white paper on what structured products are and access to a calendar. You need to have a full suite of analytics and what we've really focused on is at what I call education through analytics.

Visually conceptualising the benefit of a certain product within their portfolio and being able to communicate it to their customers is really what our bread and butter is.

**How important is to put the right tools in the hands of investors?**

**Jason Barsema:** Halo has got a big emphasis on education, and we focus on an embedded education so advisers learn, as if they were playing a video game. As you're playing around with the auto prices and other functionalities in the platform, we're educating you as you're playing and that's been beneficial for our clients. I think that's where advisers see a lot of interest in the platform and the interactive education that we have is something that has proved to be particularly interesting.

**From a regulation standpoint, what do investors need to look out for?**

**Jason Barsema:** Advisers in all asset classes need to continue to be focused on independence and fiduciary responsibility. In my opinion, even if you're a broker, you still have a fiduciary duty with new reg BI rules coming into place.

**The US market is the fastest growing marketplace for structured products globally. Do you expect this trend to continue?**

**Jason Barsema:** In the future, the market is set up nicely from an environmental perspective for structured products because it is a bridge between that risk gap with stocks and bonds. So, I think that that will certainly be a tailwind in the end of the year because clients don't want to just rip open statements and see their advisor sitting on a ton of cash.

> **"Structured products bridge the risk gap with stocks and bonds**

I think this is a good way to get in between taking all the risk of volatility in the markets while earning more yield than fixed income. I think that that cash position should bode very well for the second half of this year, and I do expect to see more volatility in the markets which will help pricing of structured notes even more.

We're all getting older, and we need to get yield in our portfolio as well as return without all the risk and that's where structured products can be a very elegant solution.


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FEATURE | Q&A

# **Qontigo:** decrement plays pique client interest

SRP caught up with Qontigo's Manish Vij (pictured), principal, Americas, and Chris Costello, managing director and head of asset sales to discuss the index provider's reach across the US structured products market.

> **Stoxx is now a well-known brand name in North America**
>
> **Manish Vij**

### How do you see Qontigo's role in the structured products market?

**Manish Vij:** We are predominantly known for our European indices and people are aware of the Eurostoxx 50, which is our flagship index, and one of the most widely used indices for insurance products on the indexed annuities and life side.

On the structured note side with issuers, if we go back 10 years or so, we did have some structured products issuers in North America doing a handful of issuances tied to the Eurostoxx 50. Over the years, we have grown our relationships with many of these clients, and now we are very active with the six major banks in Canada along with the US banks.

Now we hope to see more products on risk control and even ESG indices going forward. A good thing that has happened over the years is that Stoxx has established itself as a well-known brand name in North America, and clients are willing to try us for different underliers outside of the Eurostoxx 50.

### What added value can your indices bring to a client's portfolio?

**Manish Vij:** With most of the structured product issuers in North America, they're targeting retail clients, and historically, there has been a significant home bias in both US and Canadian markets. For example, with Canada, if you go back 10 to 15 years, 80% to 90% of the investments on the retail side were tied to domestic underlyings.

But over the years, people have started looking at increasing the international exposures and that's where we have come into the picture. The Eurostoxx 50 is an example of a way by which we can help these retail clients get international exposure.

When choosing an underlying, structured product issuers typically look for long history, and the ability to easily hedge their exposures. Our indices such as the Eurostoxx 50 and Eurostoxx Banks check both boxes and tend to price pretty well within the targeted structures of the issuing banks, thereby making them quite popular.

**In terms of thematics, what are clients gravitating towards? Does this vary by region?**

**Manish Vij:** We have a very strong line up of thematic indices which have proved to be very popular such as automation & robotics, ai, global infrastructure, and ESG indices. However, the bread and butter of the business in North America does come from the traditional benchmark indices.

Nevertheless, one of the things that we are seeing is clients asking us more about our ESG/ESG-X family of indices, and the overall sustainability space in general. During our conversations, we see that clients are being much more receptive and in terms of looking beyond the typical S&P benchmarks. I think that ESG is certainly a space where we should be able to make some good market penetration.

**Can you elaborate on your strategies in terms of your product offering by market segments or even investor type?**

**Chris Costello:** One of the things that our clients are increasingly asking us about is our risk control indices. Obviously, the markets are a little bit more volatile than they were a few years ago and people are looking at five percent or 10% risk control, because that helps them reduce the cost of the options for hedging purposes and so forth.

Besides, clients are also asking us about our decrement index offerings, because the dividend yields of a lot of European companies have trended downwards recently. So, clients are looking at decrement as one of the ways to control that volatility in the dividend yields as they design their structures. When we think of the investor, we want to ask ourselves what we can design that resonates and what solutions can we fulfil whether it's a certain market segmentation, liquidity, or trade ability. We take all these things into consideration when we create our indices.

**How are you factoring in concerns or issues that your structured product clients might be bringing up? How is that translating into your offering at Stoxx?**

**Chris Costello:** Hedging as well as liquidity are main concerns, and many times, we discuss what the ideal liquidity filter should be. For instance, sometimes the clients want to have a specific threshold for a custom index or a particular structure that they have in mind. In addition, our clients have other constraints for certain kind of indices.

For certain indices, they want to make sure that there's no subjectivity in terms of how the stock selection is being made. So, one of the things that we must do is to make sure that our methodology is 100% transparent.

**What is on the agenda for Qontigo in the short-term?**

**Chris Costello:** Qontigo, Stoxx and Axioma are working extremely close together, so the fact that we are now under one roof with an analytics powerhouse means that we can do other things for our clients.

This includes optimising indices and using our factor approach to create better factor indices. We can also run indexes and portfolios through our analytics toolsets, and also look at climate factors and climate stress testing.

> **Our clients have other constraints for certain kind of indices**
>
> Chris Costello

FEATURE | Q&A

# UBS: providing opportunities through thematic strategies

The Swiss bank's US structured products sales increased by 27% YoY according to SRP data.

> Our third-party distribution business continues to improve

SRP caught up with Eric Glicksman (pictured) managing director, head of structured solutions, Americas at UBS, to discuss the bank's headway in the US structured products market during the first half of 2021.

Glicksman discusses popular asset classes and underlyings that piqued investor interest, emerging trends in the structured products market, client queries, as well as what industry players should be looking out for in the coming months.

### How has structured product activity been at UBS during the first half of 2021?

**Eric Glicksman:** We saw a record level of client activity in the first half of the year and achieved several milestones in our Global Wealth Management, Americas business in terms of sales volumes ($11.4 billion in H1 21), new issue transaction flow, client orders and revenues generated.

Our third-party distribution business continued to improve its market share in the private bank, independent broker dealers and RIA channels. We added several new clients and initiatives including leveraging wholesaler partnerships along with internal and third-party platforms, while working to make several technology and operational infrastructure enhancements.

### What are some popular asset classes/underlyings that have made an appearance?

**Eric Glicksman:** We see an increased interest in equity asset class underlyings, where all-cap US equities represented almost 40% of underlyings. This was followed by global equities, large cap US equities, international developed countries equities and finally emerging markets.

Single stocks represented approximately 20% of client notional flows, while rates, commodities, credit, and FX saw lower interest overall, but we noted a pick-up in interest from our middle markets and family office clients.

We have also seen an increased interest from clients to obtain exposure to the firm's thematic views relating to vaccine, large cap, technology, next big thing (5G and Fintech), reflation, reopening America, and commodity/ inflation sensitive sectors.

### What have been the main priorities/concerns of clients during this time?

**Eric Glicksman:** During the past quarter, the group focused on addressing client concerns by developing yield generation structured investment strategies for clients seeking to hedge against low fixed income yields from traditional cash investments.

We have been providing opportunities for structural growth in the small, mid-cap, and technology sectors as well as thematic strategies including reopening America, 5G, and fintech. UBS is also focused on prioritizing sustainable investments with the roll-out of our first set of ESG focused offerings.

The firm prioritized implementing downside equity market protection using Market-Linked notes and CDs, as well as risk mitigation though structured notes with deep buffers or contingent protection features.

Additionally, the bank added tactical investments using single stocks and equity baskets that seek to position portfolios for reflation.

### There's been increased popularity in structured products tied to Eurostoxx 50 in 2021 to-date. Do you see this reflecting at UBS?

**Eric Glicksman:** Although Eurostoxx 50 has been less popular than US Large cap underlyings given its underperformance in the past few years, UBS's view is that the momentum of European equities has improved and there is more upside to go, moving from valuation-driven to an earnings-driven phase.

Given that, we now note a renewed interest and an opportunity for clients to increase exposure to Europe using defined return/yield, step-return and leverage upside features with downside risk mitigation strategies linked to direct exposure/correlation/basket underlyings.

### What about interest in structured products linked to the ARK Innovations ETF?

**Eric Glicksman:** The ARK Innovations ETF (ARKK) was recently approved for general solicitation at our firm for retail investors. In terms of structured notes, we have started to see a pick-up in interest in ARKK as an underlying. This is due to its recent approval, growing popularity and that its realized volatility has come in, although notes linked to ARKK are currently not broadly distributed.

### What should investors lookout for in the second half of the year?

**Eric Glicksman:** Our view is that the current economic and earnings backdrop remains supportive for stocks, but investors should be on the look-out for several key risks in the second half of the year. These include contractual monetary policy related to inflation concerns, the resurgence in the virus, as well as another escalating tension between the US and China, which would be another significant development. These potential negative growth surprises could cause a pull-back in global equities.

With these risks in mind, UBS will provide its clients with growth-oriented structured notes with downside risk mitigation features linked to shorter term opportunities in energy or financials, thematic views as well as US small- and mid-cap equities.

In addition, investors can seek to boost portfolio income, mitigate downside risk or prepare for higher inflation by implementing volatility-selling strategies via structured notes with downside risk mitigation features.

UBS has issued 3,525 structured products in the US market during the first six months of 2021, according to SRP data. The structures were worth a combined $4.2 billion, up 27% compared to the $3.2 billion that was collected from 1,889 products in H1 20.

“

## There is a renewed interest to increase exposure to Europe

EXPERT VIEW

# **Call overwriting:** chronicle of a death, but not quite

Call overwriting strategies have always occupied an interesting niche position straddling the worlds of structured products and funds with the concept originating from equity fund managers decades ago. ***by Tim Mortimer***


*Image: Nicolas Cappello/Unsplash*

The basic idea is to have a primary position invested in a group of stocks or tracking an index, and on top of this a series of call options are written, either on individual stocks or the entire index or basket. This strategy is also known as selling covered calls or buy-write.

This terminology comes from the fact that the calls are covered (protected) by the stock holding, or that the stock is bought and then the option written.

This definition of the strategy also defines its characteristics.

In its simplest case, consider a fund with a single holding such as an ETF, which sells three-month call options at a fixed relative strike of the prevailing fund level. This sale of call options will generate premium for the fund when the options are sold, and if the ETF goes up, any further gain from the holding beyond the strike level will be used to pay the option proceeds that the fund is liable for.

Therefore, it is impossible for the option to pay out without a compensating gain in the underlying holding. The effect of this strategy is to provide income which will help the fund outperform the equivalent direct holding in flat or falling markets. If the fund rises then returns will be capped at the premium earned plus the level that strike is set at (such as two percent in the case of the strike set slightly out of the money at 102%).

Fund managers like this approach because the options can be sold flexibly according to market view, timing, fund performance and attitude to risk. In practice if the call options sold do not exactly mirror the holdings then the mismatch risk is still very small.

The index world embraced this idea a long time ago and now there are many indices and ETFs that run this strategy on rules-based lines, such as fixed strike or fixed premium each roll period. The mostly widely known such index is the CBOE S&P-500 BuyWrite Index (ticker: BXM). This index sells one month slightly out of the money calls every month and takes the premium as compensation.

In rising markets, the covered call version of an index will underperform its regular version because months or quarters where the index is up will have the gains capped. The extent to which that has happened over the last ten years in the S&P 500 index (SPX) is very pronounced. It has posted stellar gains driven by tech stocks and other factors and has an average annual return of 14.7% whereas the buy-write version lags significantly with an average of only seven percent pa.

The volatility of the BXM is significantly less than the SPX (13.3% versus 17.7%) but this is not enough compensation on a risk adjusted basis and the Sharpe ratio of the BXM is therefore markedly worse than the S&P 500. It is also surprising that even on a one year view the regular S&P 500 has proven much better at delivering any positive return (success rate of 93% versus 83%) and even at avoiding losses of 10% or more (99.5% versus 97%).

## INEFFICIENCIES

There is an intuitive explanation from modern portfolio theory (MPT) why we might expect this to be the case. To achieve efficient risk adjusted returns the chosen level of exposure to the market should be determined and broadly maintained, whether this be at a full or a reduced level of risk. Each month when the call is sold, the fund delta to the market reduces to around 50% and will end the month at 0% or 100% depending on whether the option is in or out of the money, only to be reset back to 50% at the start of the next contract.

This introduces inefficiencies in risk profile, akin to a fund manager randomly adjusting holdings in the market that introduces volatility but does not improve returns. This feeds through to poorer risk adjusted returns as can be seen over the last ten years.

The call overwrite strategy is similar in spirit to the reverse convertible structured product, since the reverse convertible of income plus capital minus put payoff is economically equivalent to holding stocks and selling calls. However conventional structured products are a better design because they take a single option period (typically one to three years) and provide better transparency because they define capital return conditions much more precisely point to point from strike to maturity.

The call overwrite strategy was very popular in the UK, Switzerland and other markets ten years ago but has virtually disappeared, perhaps due to continued underperformance and an appreciation of its defects.

The one market that has embraced it in recent years is Japan, with 500 versions of the offering currently available (source www.structuredretailproducts.com). It is surprising that Japan has bucked the global trend to this degree, but a lower investor risk appetite combined with a healthy distrust of equity markets created by the long term underperformance of the Nikkei 225 index may be factors to explain this.

As a short-term vehicle to try to time periods of market volatility and decline such as was seen in 2020 the call overwrite mechanism has some merits but over the longer term it struggles to justify itself against more focussed alternatives.

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

> **“**
> **It is impossible for the option to pay out without a compensating gain in the underlying holding**

# **Product wrap:** Deutsche tracks Stoxx AI index in Belgium

In this month's wrap, we look at a selection of structured products with strike dates between 18 July and 10 September 2021.

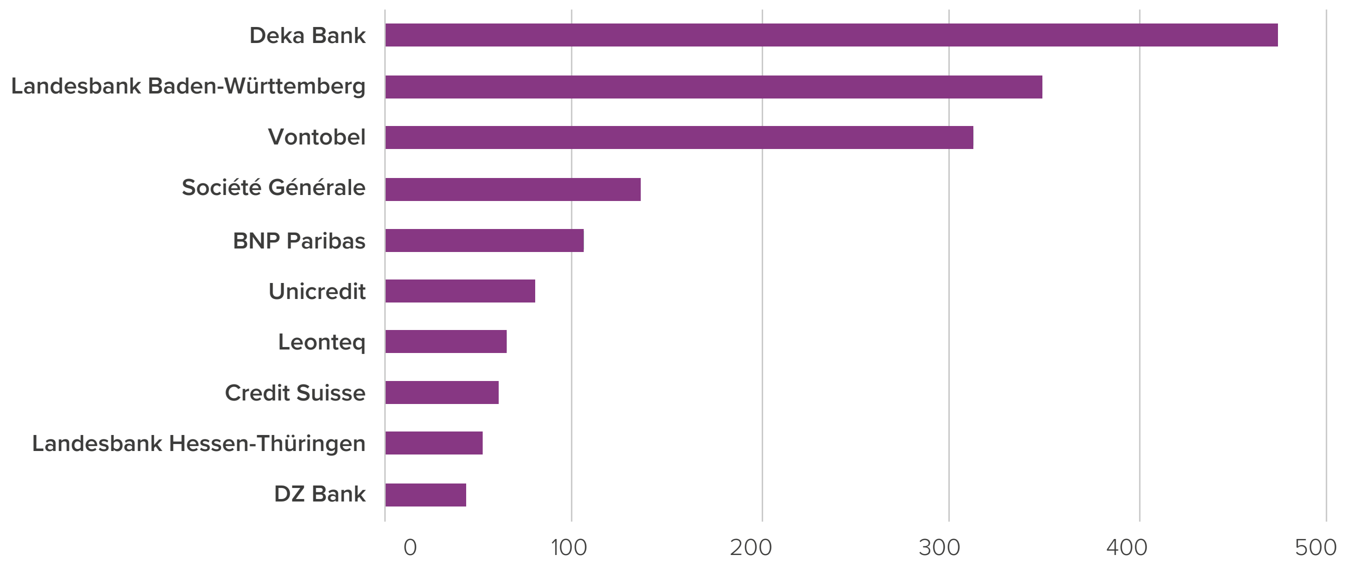
## EUROPE

**Deutsche Bank** collected €5.6m with the Artificial Intelligence Equities Note (90) 2029 in Belgium. The 8.25-year medium-term note (MTN) participates 100% in the iStoxx AI Global Artificial Intelligence 100 NR Decrement 5% Index, subject to an overall minimum capital return of 90%. The product is listed in Luxembourg. A distribution fee and structuring fee, each of maximum four percent, is included in the issue price of 102%. Priips summary risk indicator (SRI): two out of seven.

**Feefty**, a digital platform for structured products, is distributing Aliquis ESG Airbag 2021 in France. The 10-year MTN is subject to quarterly early redemption (after the first year of investment) if the iEdge ESG Transatlantic EW 50 Decrement 50 Points GTR Index closes at or above its initial level on the valuation date. In that case, it offers 100% capital return, plus a coupon of 1.75% for each quarter elapsed. If the product continues until maturity, and the index has not fallen by more than 50%, the investor receives 100% capital return. The product is issued via Natixis Structured Issuance and listed in Luxembourg. A commission of up to one percent per annum applies. Priips SRI: five out of seven.

**Intesa Sanpaolo** achieved sales of €32.8m with Switch Barrier Digital Certificates on the share of Repsol in Italy. The product has a four-year maturity and pays an annual digital coupon of four percent if the share closes at or above 65% of its strike price on the valuation date. Additionally, if the share closes at or above 100% of its initial level, a lock-in feature is activated and the product offers a fixed annual coupon of four percent for the remainder of the term, whilst guaranteeing 100% capital return. The product is listed on the Luxembourg Stock Exchange. The commission is two percent. Costs in relation to the maintenance of the offer and other structuring costs are set at 0.819% and 0.14%, respectively. Priips SRI: six out of seven.

**Europe: top 10 issuer group by issuance - 18 July to 10 September 2021***




*Excluding flow- and leverage products

*Source: StructuredRetailProducts.com*

**UB Omaisuudenhoito** teamed up with Danske Bank for the launch of Metsäosakekori I/2021 in Finland. The five-year credit-linked note (CLN) is tied to the iTraxx Crossover Europe Series 35 Index, which comprises of 125 equally weighted European names, and a basket of three shares: Metsä Board, UPM-Kymmene, and Stora Enso. At maturity, if at least 115 of the companies in the index have remained solvent, the product offers 100% capital returns, plus 160% of the rise in the basket. Otherwise, the capital return is eroded by 11.1% for each company that is subject to a credit event. The product is listed at Euronext Dublin. A structuring fee of up to 0.41% per annum is included in the issue price. Priips SRI: seven out of seven.

**BCP Asset Management** and Barclays collaborated for the launch of issue seven of the capital protected Credit Union Deposit Bond in Ireland. The product has a maturity of seven years. The first three years, it pays a fixed coupon of 0.20% pa. The following years, a memory coupon of the same amount is paid providing the Eurostoxx 50 Index trades at or above its initial price on the valuation date. The bond is available to credit unions, corporates and friendly societies. There is a minimum investment of €500,000 (credit unions) or €100,000 (other investors). BCP will receive an initial fee of 0.40% for the distribution, marketing and administration of the deposit. Priips SRI: one out of seven.

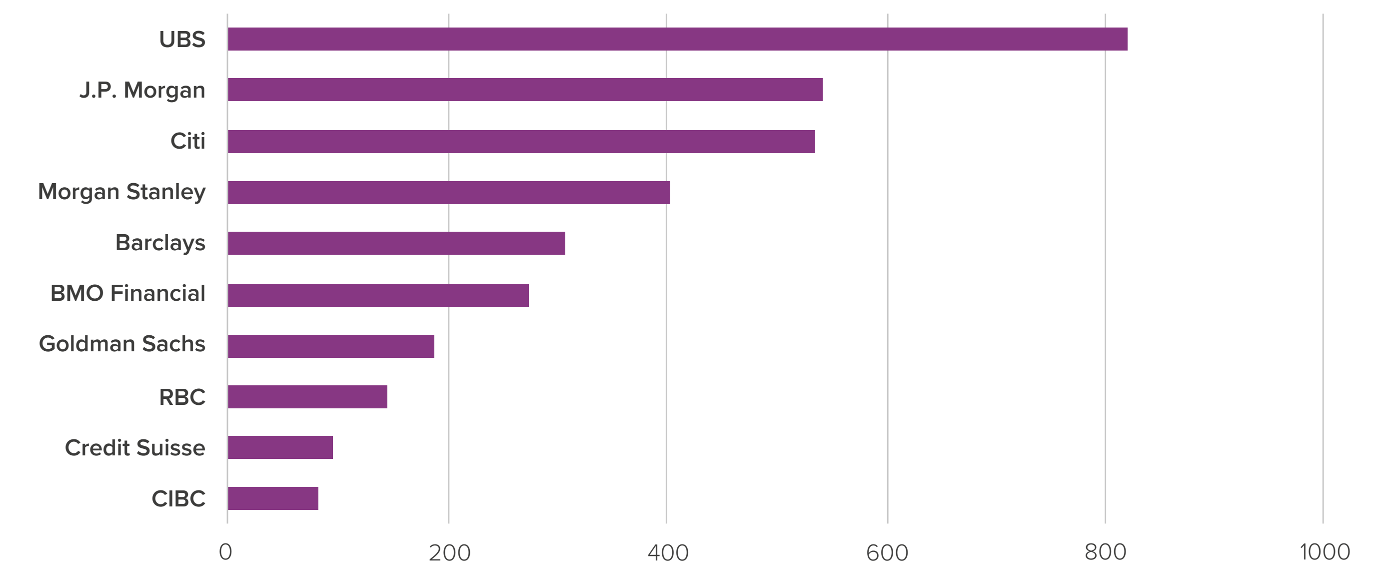
**Mariana** is marketing ESG Green Bond Kick Out Plan Europe in the UK. The eight-year investment is allocated to a green bond issued by Credit Agricole CIB. It is linked to the MSCI United Kingdom Sustainable Select 50 3.5% Decrement Index. If the plan has not autocalled, and the final index level is at or above the initial level, the product offers 156% capital return. Capital is protected up to a 35% fall in the index. The plan is available on an advised basis only and can be accessed via a direct investment, Isa/Isa transfer, or via pensions, charities, and trusts. The plan charge is not expected to exceed two percent. James Brearley acts as custodian and plan administrator. Priips SRI: five out of seven.

## NORTH AMERICA

**Citigroup Global Markets** sold US$3.4m with its seven-year market-linked notes on the Citi Dynamic Asset Selector 5 ER Index in the US. The index tracks the hypothetical performance of a rules-based investment methodology that seeks to identify current US equity market conditions as falling within one of four possible market regimes based on trend and volatility signals. At maturity, the product offers minimum 100% capital return plus 175% of the rise in the index. The underwriting fee is 4.10% and the estimated value of the notes on the pricing date was set at US$913.60.

**Bank of Montreal** is selling Series 2536 (CAD) of its callable equity income notes in Canada. The product has a maximum tenor of seven-years. Holders will be entitled to a monthly coupon payment equal to 0.525% (6.30% pa) if the underlying Solactive Canadian Large-Cap 60 AR Index closes at or above 80% of its initial level. The product autocalls if the

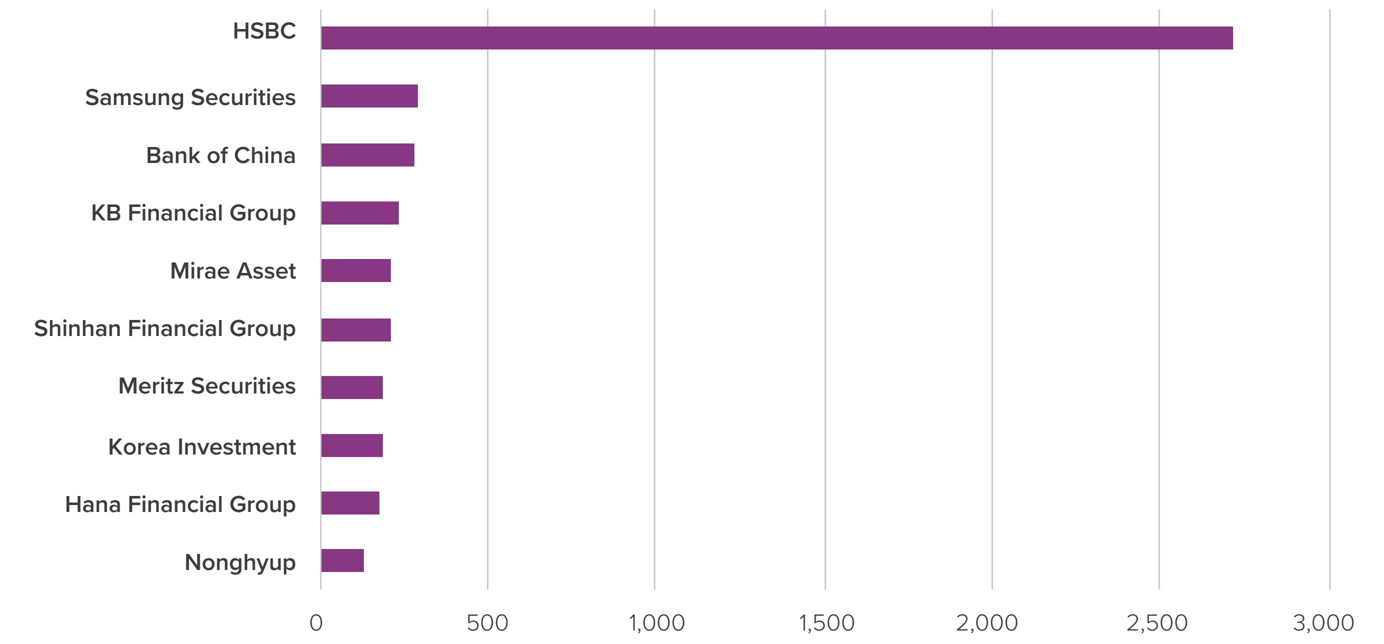
**Americas: top 10 issuer group by issuance - 18 July to 10 September 2021***




*Excluding flow- and leverage products

*Source: StructuredRetailProducts.com*

**Asia Pacific: top 10 issuer group by issuance - 18 July to 10 September 2021***




*Excluding flow- and leverage products

*Source: StructuredRetailProducts.com*

index closes at or above 105% of its initial level. A fee of C$2.50 is payable to dealers whose clients purchase the notes. An additional fee of up to C$0.20 per Note will be payable to Raymond James for acting as independent agent.

## LATIN AMERICA

**BTG Pactual** launched a five-year structured deposit on the Morgan Stanley Defensive Rotator Index in Brazil. At maturity, the product offers 100% capital return plus [290..300]% participation in the rise of the index.

## OFFSHORE

**Standard Bank Jersey** is selling Equity Linked Note Issue 7. The five-year product is denominated in US dollars. It is linked to the MSCI World Index whose 1,583 constituents represent large and mid-cap equity performance across 23 developed market countries. The product participates 75% in the rise of the index, subject to 18-monhts backend averaging. If the index has fallen, the investor participates 100% in the fall. The minimum capital return is 80%.

## ASIA-PACIFIC

**HS Securities** accumulated sales of JPY200m (US$1.8m) with M20220720 in Japan. The one-year reverse convertible pays a fixed coupon of 9.70%. It will redeem early if the shares of Nippon Paint Holdings and Dai-ichi Life Insurance close at or above 105% of their respective strike levels on the quarterly valuation date. At maturity, the product offers 100% capital return if neither share has fallen below 70% of its initial level (American barrier). Credit Suisse is the issuer while its subsidiary Credit Suisse International acts as the derivatives manufacturer.

**HSBC Bank** issued the two-year CNY Note S9 in China. If the underlying Solactive China Future Consumers ESG Screened PR Index closes above 120% at any time during the investment term, the product offers 100% capital return plus a coupon of three percent pa. Otherwise, it offers a capital return of 100% plus 100% of the average performance of the index over the investment period.

**Kiwoom Securities** targeted its New Global 100tr Club ELS 190 at retail investors in South Korea. The two-year product sold KRW250m (US$213,497) and offers a fixed coupon of 1.025% per month. It will be redeemed early (every six months) if either the share of Tesla or the Eurostoxx 50 Index close above a predetermined barrier. At maturity, a soft capital protection barrier of 50% applies. UBS is the derivatives manufacturer.

# People Moves

## Vontobel expands structured solutions role, elevates European head

The Swiss bank has rejigged its platforms and services unit for financial intermediaries. Vontobel is bundling its advisory capabilities for financial intermediaries and ultra-high-net-worth individuals (UHNWI) within wealth management. The move is aimed at aligning the needs of UHNWI private clients 'to a significant extent with the institutional investment needs' of financial intermediaries and family offices.

Going forward the platforms and services teams that manage the platforms for financial intermediaries and Vontobel's transaction banking solutions will be led by **Markus Pfister**, head of structured solutions & treasury, and Felix Lenhard, head of technology & services.

Pfister (pictured), formerly chief operating officer (COO) at Vontobel's structured products business, took over the management of the structured products division at the beginning of 2020, following the bank's decision to change its operating model by bundling the advisory teams within specialised client units.

In addition, Brian Fischer, currently head of the platforms & services client unit, will lead the advisory teams for financial intermediaries as well as for UHNWI clients within the wealth management client unit in the future. Fischer will also be appointed as deputy head of wealth management and will report to Georg Schubiger, head of wealth management.

The organisational changes took effect on 1 August 2021. They come on the heels of the appointment of Anton Hötzl, head of Vontobel's Frankfurt Branch, to the management board of Bank Vontobel Europe.

The bank's management board is seeking to capitalise on Hötzl's 'deep industry knowhow and the extensive knowledge of the company that he has gained over many years'.

### EUROPEAN FOOTPRINT

Hötzl, a German qualified lawyer, began his career at Rentenbank before joining Vontobel in 2008 as a member of the financial products team, where he played a significant role in the development of the issuing business in Germany. As head of business structuring and development Europe, he was key driver behind the European expansion of this area from 2013 onwards.

He then spent four years at Vontobel's head office in Zurich, overseeing all legal matters relating to the financial products business globally. He has been manager of the

Frankfurt Branch since the start of 2020, with responsibility for the structured products business in Europe and the digital investing and platforms & services divisions of Bank Vontobel Europe.

Hötzl, who is responsible for platforms & services, digital investing and structured solutions, joins Thomas Fischer, who has responsibility for asset management and wealth management, and Andreas Heinrichs, who oversees the Centers of Excellence.

In the financial year 2020, Bank Vontobel Europe expanded its 'strategic position' within the Group as a hub for the European market. At the end of the financial year 2020, Bank Vontobel Europe reported a 'very positive' annual result driven by 'successful' product placements in asset management and the sales of structured products via the platforms & services and digital investing divisions, as well as the marked increase in advised client assets in the wealth management division – primarily due to the acquisition of new clients across all locations.

The Swiss bank reached an agreement with Avaloq in June to expand the reach of its structured products platform and facilitate the integration of structured products into the advisory process of relationship managers.

Vontobel reported 'strong demand' for structured products and an outstanding volume for structured products of CHF8.6 billion (US$9.4 billion) in its half-year 2021 results report.

## UBS Apac GM structuring head walks out amid restructuring

**Felix Maratier** has parted ways with UBS where he was head of Apac global markets structuring based in Hong Kong SAR, SRP confirmed.

The departure is related to an on-going internal restructuring at the global markets division, and no successor has been placed. Maratier's SFC license for UBS Securities Asia became ineffective from 31 July. UBS has declined to comment.

Maratier was promoted to managing director in March 2020 after nine years as executive director, head of Apac equities structuring at the Swiss bank. Prior to that, he was in equity derivatives structuring at BNP Paribas based in Hong Kong SAR.

His move comes after Bilal Al-Ali, former head of Apac structured sales exited UBS for Morgan Stanley in April. Daniel Murphy (right) has taken over Al-Ali's responsibility in addition to his existing role as head of Apac equity distribution.

The past two years has seen a number of senior bankers depart from UBS Global Markets.

Murphy joined the global investment bank in early 2017, alongside Vikesh Kotecha from Barclays and Stéphane Petermann from Société Générale, who were named Apac heads of equity derivatives trading and equity volatility trading, respectively.

He is now the only one of the trio still at UBS as Petermann and Kotecha parted ways with the Swiss bank in October and December 2019, respectively, according to their SFC license record. In March 2020, Imene Moussa, who reported to Maratier, walked out after 17 months at UBS where she was tasked to develop quantitative investment strategies (QIS) and structure off-balance sheet solutions for Apac. Moussa shortly returned to Credit Suisse in London, where she was based before moving to Hong Kong SAR to join UBS.

It's unclear whether Petermann, Kotecha and Moussa's exits relate to the internal restructuring.

On the wealth management side, Stefan Lecher, former Apac head CIO global investment management at UBS, will be joining HSBC as Apac regional head of investments & wealth solutions (IWS) in October. The role is an extension from the Apac head of investment services and product solutions at HSBC Private Banking.

In April, Gabriel Aractingi (right) left for Goldman Sachs as head of private wealth management (PWM) for the Middle East and North Africa (Mena) region. During his three years at UBS, Aractingi was most recently the head of global family office for Emea.

UBS Global Markets revenue dropped 14% to US$1.57 billion in Q2 21 ended in June quarter-on-quarter, driven by in foreign exchange, rates and credit and a loss incurred from the default of Archegos in Q1 21. The decline 'was partly offset by higher revenues in equity derivatives and cash equities products', according to the UBS Q2 21 report.

## Delta Capita

UK managed services firm Delta Capita has appointed **James Baker** as chief business development officer for structured retail products at its London office. Baker (pictured) will be responsible for assisting Delta Capita in its growth plans through the firm's sales and client development functions, as well as the development of its platform services offering. He will report to Mark Aldous, managing director of structured retail products at Delta Capita.

Previously Baker worked at Barclays for four years, most recently as the global head of platforms and issuance development.

Prior to this, he spent 18 years at Credit Suisse, where he built and managed structured products sales teams with the Nordic market and UK structured retail deposits business as head of UK & Nordic retail sales, and latterly as head of the Emea equity derivatives retail platform.

## Credit Suisse

**Justin Chan** (pictured), a director, equity derivative sales at Credit Suisse has replaced Patricia Lau as head of Asia Pacific solutions sales for private banks and Hong Kong SAR retails, SRP confirmed. Chan joined Credit Suisse in 2011 from Singapore's DBS Bank where he was an analyst in equity capital markets for over 12 months.

Lau joined the Swiss bank from UBS in 2009 as director, head of Hong Kong SAR retail team before moving to managing director, head of Hong Kong SAR and Singapore derivatives sales for private banks. She has left the banking industry for Alpha, a Christian organization, where she is an executive director.

## MerQube

US index provider MerQube has appointed **Julien Chuard** (pictured) as head of products with responsibility for creating and distributing products, and commercialising 'large scale and highly available systems and next generation technology driven indices'. Chuard will also be responsible for building 'momentum and grow' for the firm as well as contributing to bring new ideas to market in the quantitative, volatility, asset allocation, and linear spaces.

Prior to joining MerQube, Chuard was head of institutional QIS structuring at J.P. Morgan in New York and Hong Kong focused on quantitative strategies in the volatility, asset allocation and linear space. He joined J.P. Morgan in 2007 from Société Générale where he was a financial engineer and exotic equity trading for almost four years in Hong Kong and Tokyo.

MerQube is a US-based index provider launched in 2019 to bring advanced technology and disrupt the indexing space. The firm covers multi-asset, equities, futures and options, offering design and calculation services for a wide range of complex indices, including thematic, ESG, factor and retirement.

## Privatam

Monaco-based Wealthtech firm Privatam has hired **Jose Carlos Reis** (pictured) as sales director for the Latin American market in a move to expand its investment solutions team.

Reis will be joining Privatam's Monaco office and report to Thomas Schmidlin, head of investment solutions. He has over eighteen years of experience advising institutional investors in Asia, Europe and Latin America, and will be responsible for consolidating the firm's presence in the South American region.

Prior to joining Privatam Reis worked at BB Securities Asia (Banco do Brasil group) in Singapore as executive director, head of institutional sales and held various positions at Banco BPI, Portugal, leading institutional sales teams, structuring investment solutions, trading derivatives, Latam fixed income and equities.

## CAT Financial Products

**Olivier Marquevielle** (pictured) has joined Swiss structured products boutique CAT Financial Products to drive the expansion of the firm in the French-speaking part of Switzerland.

Based in Zurich, he will report to Giuliano Glocker, partner and founder of CAT Financial Products. In addition to his sales and advisory activities at CAT Financial Products, Marquevielle will 'primarily take care of the acquisition of new customers, the sales of the multi-issuer platform and the lifecycle management platform Cuglos in the French-speaking part of Switzerland'.

Marquevielle joins from Leonteq where he was an executive director in charge of expanding Leonteq's sales activities in the French-speaking part of Switzerland since 2015. Prior to that, he was responsible for the sales of structured products in Switzerland, Hong Kong and New York for nine years at BGC Partners.

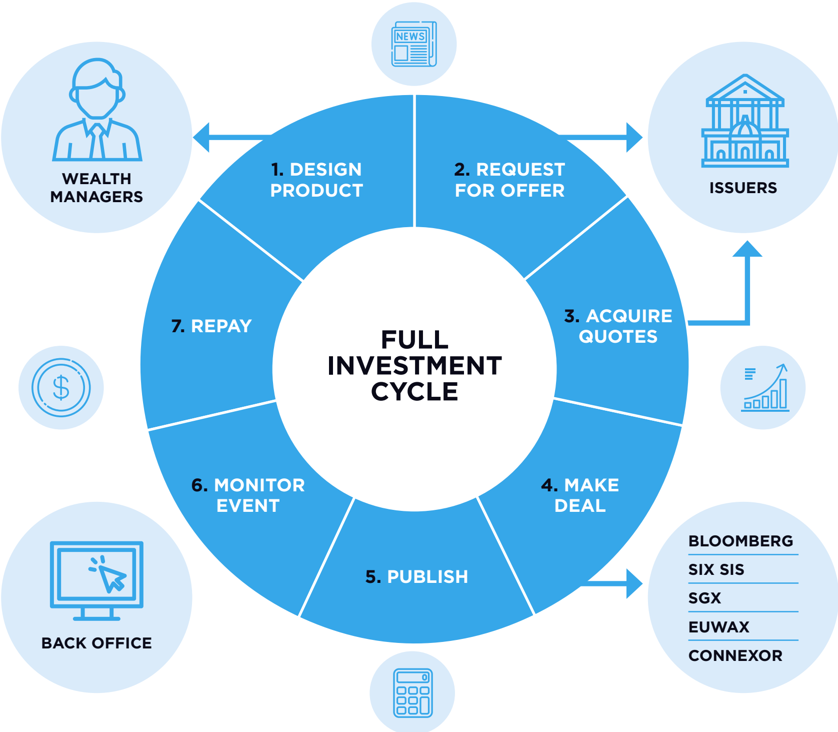
CAT Financial Products has been active in the French-speaking part of Switzerland since 2008. With Marquevielle's appointment and the opening of the Geneva branch, CAT Financial Products continues its expansion in Switzerland.

# SRP NEW LIFECYCLE MANAGEMENT PORTAL

**SRP has entered into a joint venture with FVC to design a lifecycle management portal with a single sign-on, to be powered by SRP database. Technical specifications allowing eligible SRP subscribers to access the portal with their existing SRP access credentials to be announced during the SRP Americas event in September.**

The purpose of the lifecycling portal is to provide a complete structured product selection, monitoring and analysis system. The portal will have different use cases depending on client and jurisdiction. Its primary function is as a fully featured structured product management tool for advisers, brokers and smaller buy-side firms such as discretionary fund managers and family offices.

Initially the valuation service will cover live products on the US database across the most popular payoff types such as Autocall, Reverse Convertible, Leveraged Upside, Participation, Digital and Twin Win across a large selection of underlyings, issuers and maturities covering thousands of live products. This new valuation service will then be rolled out to other markets globally in 2022.




**KEY BENEFITS OF THE LIFECYCLE MANAGEMENT PORTAL INCLUDE:**

- ✓ Direct structured product governance tool for financial advisers and brokers. Typically, there are three layers to usage for a medium to large company – firm wide compliance, by adviser and by individual end client.
- ✓ Dynamic product reports: Reports for each individual structured product in the universe will be updated and produced on a regular basis (at least weekly). These will be based on the successful adviser facing Structured Edge report concept that has been used by thousands of advisers in the UK for the last twenty years. **And more...**

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