SRPInsight

Issue 16 | June/July 2022

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NEWS I EUROPE

Finanzlab takes advantage of peaks in volatility

Finanzlab Multi Index Fund, a Swiss open-ended fund which invests in structured products, celebrated its first six months of existence on 20 April.

The objective of the fund is to provide an efficient investment in a diversified portfolio of barrier reverse convertible products linked exclusively to equity indices of the major developed countries (so-called multi-index products). The strategy implements a systematic sale of exotic options, thus capturing overvalued risk premiums. It aims for absolute capital growth.

After its launch in October 2021, the initial investments were spread over a few weeks and since the end of January 2022, the fund is about 94% invested.

These initial investments were made in very defensive products using 50% barriers providing conditional capital protection, according to Vincent Bonnard (pictured), founding partner, Finanzlab.

"By taking advantage of peaks in volatility and thanks to a very active search for the best price from numerous issuers, very attractive coupons of on average 7.32% per year were obtained," said Bonnard.

With the markets facing inflation, rising interest rates and the invasion of Ukraine, the fund was created in a very turbulent period, but its defensive nature has worked as expected.

"Despite sharply declining equity indices and high volatility, the cumulative advantage of very low barriers and the daily collection of coupons allowed the fund to post an impressive relative performance, and at the end of April the net asset value was down by only 1.99% year-to-date," said Bonnard.

In April, although most indices ended up being in the red, the fund proved its resilience with a NAV of CHF 97.87 on 29 April, down only 1.06% from the previous month.

Some 95.23% of the fund's assets are invested in a portfolio of six structured products, including an Express Certificate on a basket comprising Eurostoxx 50, S&P 500, and SMI that is issued via Raiffeisen Switzerland. It offers an annual coupon of 6.5% and has an American barrier of 50%.

It is also invested in a callable certificate from Banque Internationale à Luxembourg (BIL), which is linked to the Cac 40, Ibex 35, and Nasdaq-100.

This product pays a monthly coupon of 0.633% providing all indices close at or above 50% of their starting price on the validation date. The product matures in November 2023 and is listed on the Six Swiss Exchange.

Other issuers include Aargauische Kantonalbank (AKB), EFG, Postfinance, and Vontobel. The maximum exposure per issuer is 20%.

The subscriptions and part of the coupons collected were invested during the month. The cash portion therefore slightly decreased to 4.77%.

As of 30 April 2022, Finanzlab Multi Index Fund has CHF7.7m (€7.5m) assets under management (AuM). The fund was launched on 20 October 2021. There is no minimum subscription.

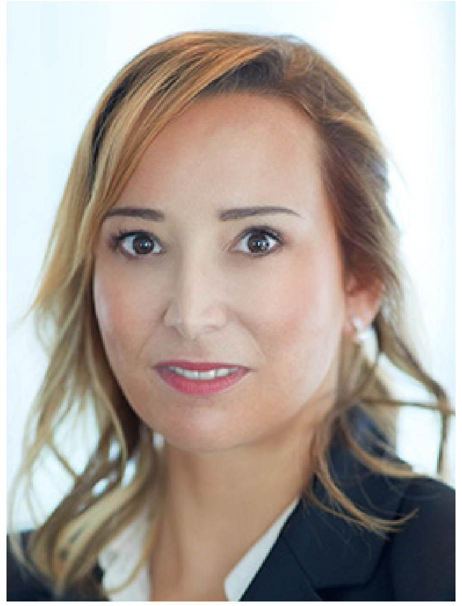
"

The cumulative advantage of very low barriers and the daily collection of coupons allowed the fund to post an impressive relative performance

NEWS I EUROPE

Euronext adds futures to Cac 40 ESG

Euronext has launched a futures contract on the Cac 40 ESG index.



The new contract, which is based on the ESG version of Cac 40, the French national benchmark index, provides institutional investors with an additional tool to contribute to the accelerating development of sustainable investment.

Supported by BNP Paribas, DRW and Société Générale as market makers, the contract will enable market participants to manage and hedge ESG portfolios efficiently and in compliance with ESG principles, and to lower the cost of trading through the use of a futures contract.

"It is the first future we released on an ESG version of an index that is our leading benchmark [...] it's a major step forward for our derivatives franchise," said Charlotte Alliot (pictured), head of institutional derivatives, Euronext.

The futures contract will facilitate the ongoing reallocation of assets from the Cac 40 index to the Cac 40 ESG index, which was launched in March 2021.

"Since the launch there's been a significant reallocation of assets, particularly from ETF issuers who switched from the Cac standard index to the ESG version," said Alliot.

Apart from natural use from the market makers of ETFs who will use the futures as a hedging tool, investors are highly committed into the development of responsible finance, especially those in Scandinavia, according to Alliot.

"In Scandinavia they really are at the forefront of trading ESG derivatives.

"Normally they are attracted by liquidity, but they have mandates to switch their activity from the standard Cac 40 contract to the ESG version, as they are strongly engaged in the reallocation of assets towards sustainable investments.

"On the index side, as well as on the structured products side, there is also appetite from investors to hedge or to take direct exposure in the ESG version of the Cac 40," said Alliot.

Fabrice Rahmouni, head of Euronext Index Business added: "The Cac 40 ESG index is an important underlying for our structured product issuers clients.

"Around 80% of the indices that we create today for issuers of structured products include ESG considerations. ESG is no longer a trend for us. It is being used on a continuous basis," he said.

Since the launch of the Cac 40 ESG index last year, Euronext has successfully launched further ESG versions of national benchmark indices including the MIB ESG index in Milan, OBX ESG index in Oslo and AEX ESG index in Amsterdam.

"For the issuers of structured products, it was a natural move," said Rahmouni.

"The arrival of the futures linked to this index will also help facilitating the management of our exposures to implied volatility – metrics that are used commonly in this world."

The Cac 40 ESG index combines measurement of economic performance with environmental, social and governance impacts, in line with the French SRI label and the UN Global Compact principles. The index excludes companies involved in coal, controversial weapons and tobacco activities.

Vigeo Eiris provides the ESG assessment of companies for the underlying universe and engages in dialogue with them on their ESG performance.

"

It is the first future we released on an ESG version of an index that is our leading benchmark

NEWS | EUROPE

VLK, SG offer first euro fully protected Eurostoxx 50 ESG play

Van Lanschot Kempen (VLK) has launched the Positive Impact Finance Capped Index Guarantee Note (IGN) ESG Eurozone 22-29 in the Netherlands.

The seven-year note participates 100% in the Eurostoxx 50 ESG Index, capped at 40%. It is issued on the paper of Société Générale, which will use the proceeds to finance projects that are funded, in a controlled manner, to have a positive impact on the economy, the society or the environment.

It is the independent wealth manager's first euro denominated product with 100% minimum redemption since October 2018 when the Société Générale Variabele Lange Rente Note 18-28 was issued.

Since then, it was no longer possible to structure 100% capital-protected products in euro due to the sharp decline in long term interest rates, according to Marcel Pronk (pictured), director securities marketing structured products, at VLK.

"However, the demand for these types of products has always been there, so we continued to keep a close look at the interest rate markets," Pronk said.

As soon as rates started to increase at the beginning of 2022, VLK proactively reached out to its private bankers and investment advisors in both the Netherlands and Belgium to show them product proposals.

This resulted first in some private placements products mainly for clients in Belgium, but soon thereafter demand from Dutch clients followed as well.

"During the last couple of weeks, we saw an acceleration in the increase in rates and therefore decided that is was a good timing now to launch the first euro-denominated product with 100% minimum redemption in the Netherlands as public offer.

"As long as rates will stay at this level, we expect that demand for 100% capital-protected structures will continue, especially in times of geopolitical uncertainty as we see right now with the war in Ukraine," said Pronk.

The underlying Eurostoxx 50 ESG index was carefully selected from many ESG indices available in the structured products market.

However, according to Pronk, a lot of these indices include low volatility filters and/or relatively high synthetic dividend levels, which make them less suitable for the products VLK would like to offer to its clients.

The Eurostoxx 50 ESG index offers exposure to blue chip companies from the Eurozone, just like the traditional Eurostoxx 50, but with a screening based on ESG criteria.

"The sector exposure of the ESG version of the index is similar to the sector exposure of the traditional index and, also the historical performances of both indices are quite comparable.

"In addition, the Eurostoxx 50 ESG is not exclusively licensed to one investment bank, which is important from a best execution perspective. Based on these arguments we have selected this index for this product offering," said Pronk.

The product is VLK's second positive impact finance note launched in collaboration with Société Générale. The first product was issued in 2019 and offered access to the Eurostoxx Sustainability 40 index. It is currently trading at around 103%, while the index is trading approximately 10% above its initial level.

"Sustainability is a very important element in the overall product offering of Van Lanschot Kempen and therefore also in the offering of structured products whenever possible," concluded Pronk.

"As long as rates stay at this level, we expect that demand for 100% capital-protected structures will continue

NEWS | EUROPE

Solactive opts for smart beta, sector-based approach

Solactive has won the award for 'Best Smart Beta Index Provider' at this year's SRP Europe Awards.

2021 was a good year for Solactive. Not only did it win the award for 'Best Smart Beta Index Provider' at the SRP Europe Awards, but the index provider also experienced strong growth, driven and fuelled by client activity, despite various lockdown restrictions caused by the global Covid-19 pandemic.

"Yes, we did miss the personal interaction and connections, but the virtual show must go on, and it did go on," said Timo Pfeiffer (pictured), chief markets officer, Solactive.

One of the main themes for structured products, ETFs and probably for the whole financial market, is ESG, according to Pfeiffer.

"Within ESG one of the driving themes is climate – climate transition, climate efficiency, and carbon reduction strategies in an index format working towards a net zero environment," he said.

A particular highlight for Pfeiffer was the Solactive Climate Change Europe BTI Index, which was used by Barclays as the underlying for a number of deposit plans distributed by Causeway Securities in the UK.

"It is a climate transition, climate efficiency index based on an innovative data point, which is effectively translating the climate or carbon impact of a company into a degree Celsius figure," he said.

Under climate transition objectives, one of the goals is not to warm the planet by more than 1.5-degrees Celsius. This can translate the climate impact of a subsidiary of a company of business activities and translate these into specific Celsius impact based on the target.

"We are using this as an ingredient weighting factor to effectively get to this 1.5-degree Celsius pass and over or underweight companies accordingly," said Pfeiffer. "It was innovative, and it had a standard smart beta overlay with a low volatility/high dividend approach."

For the remainder of 2022 and beyond, Pfeiffer expects a more cautious approach as a rise in interest rates by the central banks is on everybody's books.

"We have high inflation prints which we haven't seen in a long time. All of that accelerated and all of that started a drop in equity markets. Then in February there was Russia's invasion of Ukraine, a human catastrophe that also had a negative impact on the market," he said.

The business did not stop, or slow down, but thinking of structured products Pfeiffer has seen a shift to more conservative structures.

"There has been more interest in fixed income than equity and we started to see some first potential outflows in the ETF market," he said. "I don't expect another buoyant year nor a gloomy year, but it's certainly a year of increased uncertainty, and for the rest of the year I would say one of continued volatility," said Pfeiffer.

Structured products have had five years without any rise in interest rates, and it has been difficult for manufacturers to structure principal protected products.

"Now suddenly rates are rising in record time, and it will be possible again to provide protected products. The volatility that has kicked in allows for more attractive, conservative autocallable pricing.

"Instead of the strong thematic next cybersecurity, Web3 or Metaverse trend and theme, maybe a smart beta, sector-based approach is a better, more cautious way to diversify [exposures]," Pfeiffer concluded.

"We have high inflation prints which we haven't seen in a long time

Spotlight on... top issuers in Sweden (Q1 2022)

Some SEK1.8 billion (US$187m) was collected from 115 publicly offered structured products during Q1 2022 in Sweden – down 25% by sales volume year-on-year (Q1 2021: SEK2.4 billion from 141 products).

Average volumes, at SEK15.9m per product, were fairly stable compared to Q1 2021 when products sold on average SEK17.3m.

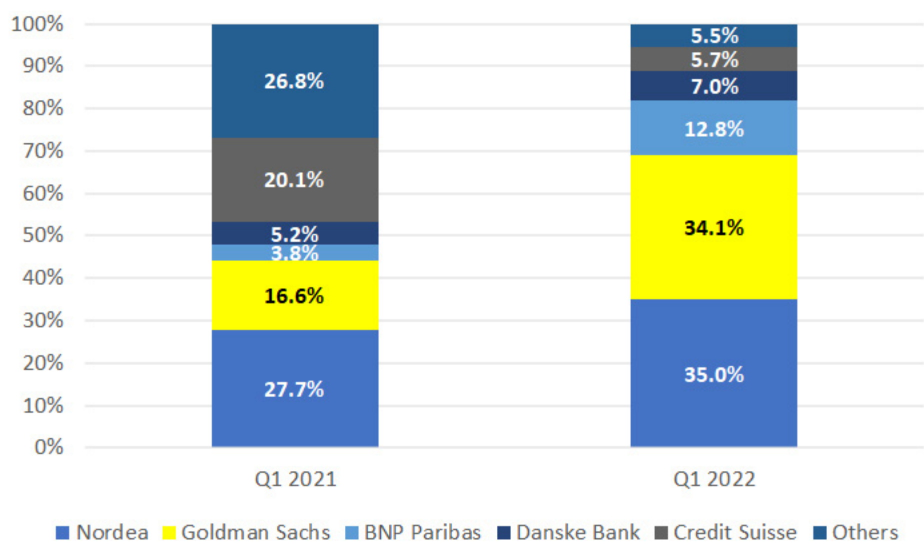
Ten different issuer groups, a mixture of Nordic financial institutions and European/US investment banks, were active in Q1 2022 compared to 16 in the prior year quarter.

Nordea retained its position as the number one issuer, with a 35% share of the market – an increase of more than seven percent YoY. The bank collected SEK643m from 34 products that were predominately autocalls linked to a basket of shares. It also sold six credit-linked notes.

In second, Goldman Sachs increased its market share to 34.1%, up 17.5% from Q1 2021. The US investment bank achieved combined sales of SEK625m from 41 products (Q1 2021: SEK405m from 24 products). Like Nordea, almost all its products were linked to a share basket.

BNP Paribas was another issuer that saw a significant growth in its market share – from 3.8% in Q1 2021 to 12.8% in Q1 2022. All of its products were distributed via Strivo (formerly know as Strukturinvest) with the exception of Kreditcertifikat Investment Grade Europa Kvartalsvis nr 4423, which was available via Garantum. This

Sweden: top 5 issuers - market share by sales volume (%)*



**Excl. flow- and leverage products*

Source: StructuredRetailProducts.com

5.8-year credit-linked note was the best-selling Swedish product of the quarter, collecting SEK70m during its subscription period.

Danske Bank claimed seven percent of the market (Q1 2021: 5.2%) while Credit Suisse, which had captured 20.1% in the first quarter of 2021, had to make do with a mere 5.7% this year.

Société Générale (1.7%), UBS (1.5%), Deutsche Bank (1.21%), Morgan Stanley and Leonteq (0.6% each) completed the top 10.

Natixis, Investec, Crédit Agricole, EFG Group, Citi, and Barclays, which had a combined market share of 7.1% in Q1 2021, were all absent this year.

> **Nordea, Goldman and BNP all significantly increased their market share in the first quarter of 2022**

BNP joins UK SPA

BNP Paribas has joined the UK Structured Products Association (UK SPA) as a new member, bringing the total membership of the association to 19 firms.

The French bank is an established issuer of structured products for retail distributors, banks and institutional investors in the UK market. SRP data shows a slight dip in activity in 2021 which resulted in the bank falling out of the top 10 issuer ranking.

Year to date, BNP Paribas has issued 11 products worth an estimated GBP20m in the UK, which add to 71 live products mostly distributed by Meteor AM (56/GBP110m), Idad (six/GBP9m) and Investec (three/GBP14.5m).

Zak De Mariveles, Chairman of the UK SPA, said the addition of BNP Paribas as a new member will help meet one of the association's key objectives: provide a communal voice for structured products in the UK, to lead the way in driving best practice and to support and educate the wider investment community.

Mike Bayley (pictured), BNP Paribas' head of equity derivatives & solutions, institutions & distribution for the UK, said that joining the association reflects 'the redoubling of our commitment to and focus on the UK market'.

'BNP Paribas has a long history of serving clients in the UK and recognises that collaboration across providers to maintain a transparent and accessible structured products market can contribute to delivering the best investment journey for investors,' he said.

Swiss bank partners with Vestr to launch digital solution for AMCs

Luzerner Kantonalbank (LUKB) has partnered with AMC specialist fintech Vestr to expand its structured products business with AMCs.

Under the partnership Vestr's cloud-based platform will enable LUKB to launch and issue AMCs as it seeks to capitalise on the 'great potential in active management'.

'The AMC business is a volume business. This means that you need a large number of AMCs to reach your business goals. This is only possible through integrated automation. A software specifically built for AMCs further reduces operational risks,' said Claudio Topatigh, head competence centre structured products at Luzerner Kantonalbank.

LUKB's B2B clients will have a full overview of their investment portfolios via the platform and will be able to 'adjust their portfolios in a few clicks, anywhere and anytime'.

In December 2021, Nasdaq announced a partnership with a number of local organizations across its European markets to enhance financial literacy among community groups where knowledge of investments traditionally is low. In 2019, Nasdaq launched OptionsPlay to educate Nordic investors on options trading.

Nasdaq rolls out EQD digital education program

Nasdaq has launched the Nasdaq Derivatives Academy in the Nordics. The set of training modules responds to the growing interest among both investment professionals and retail investors to use equity derivatives and aims to increase knowledge about the opportunities and risks associated with trading these instruments.

'Equity derivatives bring with them opportunities to manage risks and the possibility to generate returns in all market conditions,' said Niclas Egmar (pictured), head of equities trading and derivatives at SEB.

'We welcome [this] initiative to spread more insights on how to trade these assets in a way that's customised to both professional and less experienced investors.'

Nasdaq Derivatives Academy has been developed in partnership with educational partners as well as Nordic market participants and offers three separate educational programs aimed at professional and private investors as well as risk, post-trade and compliance professionals. The private investor program is offered free of charge. The launch of Nasdaq Derivatives Academy is the most recent development in exchange's roadmap to 'advance inclusive growth and prosperity by providing resources to underserved communities, making markets more accessible to all'.

Allianz hit by US$6bn SEC fine, Structured Alpha managers charged

A recent string of cases in which derivatives and complex products harmed investors across market sectors have seen fines handed out.

The US Securities and Exchange Commission (SEC) has charged Allianz Global Investors US (AGI US) and three former senior portfolio managers with 'a massive fraudulent scheme that concealed the immense downside risks' of its options trading strategy Structured Alpha.

According to the regulators, after the Covid 19 market crash of March 2020 exposed the fraudulent scheme, the strategy lost billions of dollars.

The Allianz subsidiary which marketed and sold the strategy to approximately 114 institutional investors, including pension funds, has agreed to pay more than US$1 billion to settle SEC charges and together with its parent, Allianz SE, over US$5 billion in restitution to victims.

'Allianz Global Investors admitted to defrauding investors over multiple years, concealing losses and downside risks of a complex strategy, and failing to implement key risk controls,' said SEC chair Gary Gensler (right-below). 'This case once again demonstrates that even the most sophisticated institutional investors, like pension funds, can become victims of wrongdoing.'

Gensler also noted that 'a recent string of cases in which derivatives and complex products have harmed investors across market sectors'.

The SEC's complaint, filed in the federal district court in Manhattan, alleges that Structured Alpha's lead portfolio manager, Gregoire P. Tournant (right), orchestrated the multi-year scheme to mislead investors who invested approximately $11 billion in Structured Alpha, and paid the defendants over $550 million in fees.

Tournant is a portfolio manager, a managing director and CIO US Structured Products with Allianz Global Investors, which he joined in 2002. He was also head of the structured products team, which he created in 2005, and was the lead portfolio manager for all strategies managed by this team.

LIES EXPOSED

According to the court documents, Tournant 'manipulated numerous financial reports and other information provided to investors to conceal the magnitude of Structured Alpha's true risk and the funds' actual performance' with assistance from co-lead portfolio manager, Trevor L. Taylor, and portfolio manager, Stephen G. Bond-Nelson. The three individuals left Allianz in mid-December after the allegations of misconduct.

Cour documents also show that the 'defendants reduced losses under a market crash scenario in one risk report sent to investors from negative 42.1505489755747% to negative 4.1505489755747% -- by simply dropping the single digit 2.'

In another example, the portfolio managers 'smoothed' performance data sent to investors by reducing losses on one day from negative 18.2607085709004% to negative 9.2607085709004% -- this time by cutting the number 18 in half.

'When the 2020 Covid-related market volatility revealed that AGI US and the defendants had misled investors about the fund's level of risk, the fund suffered catastrophic losses and investors lost billions; the defendants all the while profited from their deception,' stated the SEC complaint.

Tournant (right), Taylor and Bond-Nelson then made multiple, ultimately unsuccessful, efforts to conceal their misconduct from the regulator, 'including false testimony and meetings in vacant construction sites to discuss sending their assets overseas'.

'While they were able to solicit over US$11 billion in investments by the end of 2019 and earn over US$550 million in fees as a result of their lies, they lost over US$5 billion in investor funds when the market volatility of March 2020 exposed the true risk of their products,' said Gurbir S. Grewal (pictured), director of the SEC's Division of Enforcement.

The subsidiary of the German insurer admitted the charges and agreed to a cease-and-desist order, a censure and payment of US$315.2 million in disgorgement to the US Department of Justice as part of an integrated, global resolution; US$34 million in prejudgment interest; and a US$675 million civil penalty, a portion of which will be distributed to certain investors.

In a parallel criminal proceeding, the US Attorney's Office for the Southern District of New York has announced criminal charges for similar conduct against the firm, and the three executives.

As a consequence of the guilty plea, Allianz Global Investors US has been disqualified from providing advisory services to US registered investment funds for the next ten years, and will exit the business of conducting these fund services after a brief transition period allowed by the SEC.

ALLIANZ PROVISIONS

The German parent company, Allianz ES, booked last week an additional provision of €1.9 billion in Q1 2022 before tax 'as a fair estimate of its remaining financial exposure in relation to compensation payments to investors and to payments under any resolution of the governmental proceedings' relating to its Structured Alpha Funds.

Earlier in February the German insurer set aside another €3.7 billion (US$4.2 billion) to cover expected settlements with US investors and government officials over the collapse of the strategy.

The provision will negatively impact the Q1 group net income by €1.6 billion after tax, resulting in a net income attributable to shareholders of €0.6 billion. Group operating profit in the first quarter 2022 amounts to €3.2 billion, while the Solvency II capitalisation ratio stands at 199%. Net income attributable to shareholders will be adjusted for the Structured Alpha provision for the calculation of the dividend payout.

The ban to provide some fund services for a decade in the US has triggered the sale of the Allianz Global Investors business to Voya Financial.

The firm announced yesterday the transfer of 'selected investment teams and assets comprising most of its US business to Voya IM in return for an up to 24% equity stake in the enlarged asset manager

The investment teams, which include income & growth, fundamental equities and private placements, manage approximately US$120bn. Voya IM's AUM would increase to approximately US$370 billion on a pro forma basis after the transfer.

AGI US closed down its Structured Alpha 1000 and Structured Alpha 1000 Plus in early April 2020 after they took heavy losses on stock-options trades after the market sell-off in March 2020.

The two hedge funds had been net buyers of put options were designed to hedge against losses the funds might endure from other positions should the market decline, but the pace of the sell-off had a 'particularly large impact on the options positions held by Structured Alpha funds'.

Structured Alpha 1000 was a large hedge fund with approximately US$8.8 billion in assets; while Structured Alpha 1000 Plus has approximately US$693m in assets. Allianz Global Investors has 27 other structured alpha funds.

...more troubles for Allianz as class actions pile up, fingers point everywhere

The scandal surrounding Allianz Global Investors US is far from over as new class actions pile up and blame is being placed across different quarters. A Blue Cross and Blue Shield Association benefits committee says adviser firm Aon Investments USA that was supposed to help investors vet their risks fell down on his responsibilities while the advisor firm claims a number of executives at Blue Cross failed to do their jobs.

Blue Cross - a federation with more than 100 million customers - had invested US$3 billion into the Allianz funds, which represents 62% of its entire pension portfolio, and has become by far the biggest loser, among the 114 institutions that collectively invested US$11 billion in Structured Alpha funds. Despite reaching a settlement with Allianz there are hundreds of millions of dollars potentially on the line in upcoming legal fights - the deal does not cover all the losses at Blue Cross which has sued Aon which in turn has responded by suing five Blue Cross executives. The key question is how and why the Blue Cross pension office ended up investing so much of its portfolio into Structured Alpha funds.

In a lawsuit filed May 17 in New York federal court (Blue Cross and Blue Shield Association v. Allianz Global Investors U.S. LLC), Aon alleges the Blue Cross chief investment executive, Jamey Sharpe, who is now retired, encouraged the committee that oversees pension investments to repeatedly commit more to Structured Alpha. It also claims he fired a senior employee who disagreed with his strategy.

The executive denies Aon's allegations and says the lawsuit is baseless.

In the meantime, litigation firms such as Silver Golub & Teitell and Selendy Gay Elsberg have filed Securities Cblass Action Lawsuits against Allianz Global Investors US in the Southern District of California on behalf of its client and all those 'who purchased, sold, or liquidated mutual funds shares managed by AllianzGI's Structured Products Group from January 1, 2015 through December 31, 2020'

Bronstein, Gewitz & Grossman law firm has also notified investors that a class action lawsuit has been filed against Allianz Global Investors U.S. and certain of its officers. The law firms are encouraging investors to inquire about the lead plaintiff position before 25 July.

iCapital snaps up Simon Markets

Asset and wealth management fintech iCapital will acquire Simon Markets, the US multi-issuer platform for an undisclosed amount.

Under the agreement, Jason Broder, chief executive officer of Simon, will join iCapital as managing director, head of iCapital solutions and member of the operating committee. In this new role, he will oversee the combined platform's integration, market development, and sales of iCapital's full suite of technology offerings. Additionally, iCapital will extend offers of employment to the nearly 200 Simon team members.

"We have long-admired iCapital and everything it has accomplished in the alternative investing space. After a highly collaborative exploratory process over recent months, it became abundantly clear that together we can create an unrivaled experience for our clients," said Broder.

'Together we're delivering something the wealth management industry has wanted for a very long time – access to all alternative solutions under one, centralized platform.'

According to the announcement, Simon transacted more than US$48 billion in issuances of structured investments and annuity products in 2021 across 50 plus product manufacturers and 50 plus wealth managers through its platform – including IBDs, bank/regional broker-dealers and private banks, and it serves more than 100 registered investment advisors (RIAs), and more than 100,000 advisors.

The deal will significantly expand iCapital's investment menu, and augment its technical capabilities, education offerings and support services for wealth managers the iCapital platform services more than US$125 billion in platform assets and employs more than 800 people globally.

The deal includes the acquisition of Simon Spectrum, the platform's allocation analysis and portfolio construction tool designed to evaluate how structured investments and/or annuities may fit into a portfolio.

'Today's wealth management professionals seek a premium technology platform and access to a broader range of alternative investment strategies that provide thoughtful ways to diversify and potentially enhance long-term returns in client portfolios,' said Lawrence Calcano (pictured), chairman and chief executive officer of iCapital.

This is the second high profile acquisition by iCapital in the structured products market following its purchase of US third-party distributor for structured notes Axio to expand its suite of investment strategies and bolster its distribution capabilities. The deal saw Axio chief executive officer Marc Paley move to iCapital as head of distribution, reporting to Calcano.

Earlier this year, iCapital acquired Bank of Singapore's in-house private market feeder fund platform.

According to SRP data, there are 7,321 products listed on the Simon Platform with a value of US$22.5 billion. Goldman Sachs with US$10 billion is the most active issuer on Simon followed by J.P. Morgan, TD Securities and Morgan Stanley.

Simon Markets, formerly owned by Goldman Sachs, became an independent financial technology company in December 2018 after adding a group of investors and issuers including Barclays, Credit Suisse's Next Investors, HSBC, J.P. Morgan, Prudential and Wells Fargo, to its ownership structure.

BNY Mellon's Pershing to offer structured notes, market-linked CDs via Halo

Clearing and custody services BNY Mellon's Pershing will include Halo's independent structured notes platform in its Pershing's NetX360 offering access to registered independent advisors (RIA) and broker-dealer (BD) firms via the multi-issuer platform's technology, analytics, controls, and tools to trade and manage structured notes. Halo grew by 113% in 2021 as more advisors recognized the benefits of protective investments to navigate market uncertainty and address retirement savings shortfalls, according to Jason Barsema, co-founder & president of Halo. 'Financial advisors are constrained by investment choices and fragmented trading systems, hurting their ability to build their businesses,' he said. 'Financial advisors on Pershing's platform now have more choices and opportunities to deliver a differentiated client experience to fuel their growth.' Halo has achieved a significant number of milestones over the past 24 months, including closing a US$100+ million Series C round of funding, as well as onboarding more than 40 global banks and carriers, said Barsema.

JPM, BofA debut new underlyings, indexed annuities up 21% YOY

US life and annuity provider Independent Life Insurance Company has launched iStructure, the first uncapped index-linked structured settlement annuity offering exposure to the Franklin BofA World Index.

The new gauge powered by quantitative insights from Franklin Templeton and Bank of America aims at capturing long-term growth by systematically investing in a volatility-controlled equity index of companies around the world with the potential for high profitability. The index combines a factor-based screen with a proprietary intraday risk management strategy and a US Treasury allocation to achieve consistent returns.

Independent Life has secured almost US$50m in committed sales for the product from both settlement recoveries and instalment sales of real estate and businesses.

'One Fortune 50 company is already utilizing iStructure to resolve claims and their representative says this is the product they have been waiting 15 years for,' said Christopher Bua, senior vice president of sales for Independent Life.

The iStructure annuitiy can be used for different situations including personal injury cases, structured attorney fees, structured installment sales and taxable settlements.

This is the first time the Franklin BofA World Index is used in the US annuities market and adds to the existing range of underlyings used in structured notes and annuity products offered by the bank and the asset manager.

Some of Franklin Templeton's underlyings include the Franklin Resources Fund; Franklin US Index; Franklin LibertyQ Global Equity SRI UCITS ETF; and Franklin Liberty Euro Green Bond UCITS ETF , among others.

Bank of America has also two custom proprietary indices used as underlyings in live structures in the US market including the BofA Destinations Index; and Bank of America Merrill Lynch GPA Index.

The second market debut comes via Nationwide which has added new index options to one of its indexed universal life insurance products, Nationwide IUL Accumulator II 2020. The new indices are pitched as having 'growth potential even in choppy markets' and they both seek to limit the impact of market volatility.

The latest addition to the pool of U.S. underlyings is the J.P. Morgan Mercury Index, a global multi-asset index with an equity allocation based on the current stage of the business cycle, along with diversified fixed income and volatility-based commodities allocations which is rebalanced dynamically based on market conditions.

The BNP Paribas Global H-Factor Index which was already deployed on Nationwide's Peak 10 fixed indexed annuity (FIA) last week, has also been incorporated to the Accumulator II FIA.

'The three major stock market indices have been taking huge hits and how to find growth potential is a big client concern right now, especially with fears about the long-term impact of inflation,' said Holly Snyder, president of Nationwide Life.

POSITIVE MOMENTUM

Despite the challenging market backdrop the new additions come on the back of increased momentum in indexed-annuity sales which have boosted overall annuity sales in the US market up by 4% to US$63.3 billion year on year.

'Fixed-indexed annuities (FIA) benefited from rising interest rates and increased market volatility, as investors sought protected growth options,' said Todd Giesing, assistant vice president, Limra Annuity Research. The organisation expects indexed-annuities 'to thrive under current market conditions, growing 5%-10% by year end'.

Overall, fixed annuity sales rose 14% in the first quarter to $35.2 billion. According to Limra, all fixed products except income annuities recorded positive growth with FIA sales 21% higher than first quarter 2021 results at US$16.3 billion.

Registered index-linked annuity (Rila) sales grew 5% to US$9.6 billion in the first quarter. Limra expects Rila sales to increase as high as 30% by year-end 2022.

> **"The index aims at capturing long-term growth by systematically investing in a volatility-controlled equity index of companies**

BNP Paribas, Fidelity roll out new custom strategies

BNP Paribas (BNPP) has licensed its Global H-Factor Index to US annuity provider Nationwide to serve as underlying of the Nationwide Peak 10 fixed indexed annuity (FIA).

The index offers a probability-based approach to investing 'by identifying and removing potentially overpriced stocks likely to lose value due to human behaviour, resulting in a portfolio made up of equities more likely to deliver growth'.

Using a methodology developed by asset management company New Age Alpha, the BNPP Global H-Factor Index identifies overpriced stocks due to the H-Factor, or Human Factor - the risk that comes from investors interpreting vague or ambiguous information about a company in an incorrect way, which can lead to overpricing and may make it difficult for a company to deliver the growth implied by the current stock price.

To counter this, the BNPP Global H-Factor Index evaluates more than 4,000 equities once a quarter using the last 12 quarters of financial data and the current stock price to determine how likely it is that the implied growth rate can be achieved.

Companies with high H-Factors - increased probability of failing to deliver implied growth are removed, leaving the best 225 from the original list of 4,000. The remaining 225 equities are then weighted so that the best potential performing stocks have greater impact.

FIDELITY, ISHARES

In another development, annuities provider Transamerica has launched the Transamerica Structured Index Advantage Annuity, a new registered index-linked annuity (Rila) designed to 'create more certainty for investors in uncertain markets'. The new Rila offers four different index options including the S&P 500 index and iShares Russell 2000 ETF as well as two new entrants to the market - the Fidelity World Factor Leaders Index and iShares US Technology ETF, along with different levels of protection from market losses.

The Fidelity World Factor Leaders Index (FIDWFLEN) which features for the first time in the US annuities database, is an equity index offering exposure to a combination of 60% domestic equity securities and 40% international securities that reflect the performance of companies with certain characteristics including high-quality profiles, lower volatility than the broader market, and positive momentum signals.

Luma expands ecosystem with Nasdaq, Yieldstreet deals

The US platform is seeking to increase transparency and accessibility as well as putting structured products on a level playing field with other investment vehicles. US multi-issuer structured products and annuities platform Luma Financial Technologies has partnered with the Nasdaq Fund Network to assign standardised identifiers to structured products.

By assigning identifiers to structured products for the first time, Luma and the Nasdaq Fund Network are putting structured products into the same category as stocks, ETFs and mutual funds. The new identifiers, which will resemble the mutual fund symbology will assign structured products seven characters.

Under the partnership, over 100 million investors across the Nasdaq Fund Networks' 400+ market data platforms will now be able to identify a holding as a structured product, search for, and have instant access to Luma's product data and information.

In addition, the platform has reached an agreement with Yieldstreet on 8 June to enable investors access to structured notes portfolios 'more effectively and strategically'.

Yieldstreet's structured notes products are distributed as a portfolio of notes, with at least three notes included for diversification benefits. The firm has seen more than US$100 million invested in its income notes since launching the family of products one year ago.

Spotlight on... top issuers in Mexico (Q1 2022)

Structured product sales got off to a slow start in 2022 with BBVA the only issuer that increased its market share.

The 1,074 structured products issued in the first quarter achieved combined sales of MXN64.3 billion (US$3.1 billion) – the lowest volume in an opening quarter since Q1 2018 and a decrease of 21.3% compared to the prior year period (Q1 2021: MXN81.7 billion from 1,484 products).

Despite a drop in sales, average volumes, at MXN59.8m, were 8.5% higher than those in Q1 2021 when products sold on average MXN55.1m.

Once again, Monex dominated the market. The Mexican financial group sold 851 products worth MXN43.9 billion between 1 January and 31 March 2022 – the equivalent of a 68.3% share of the market and almost on par with last year (Q1 2021: 69% market share).

The company's products were exclusively linked to the USD/MXN currency pair and featured accrual, range, digital and dual currency payoffs.

BBVA Mexico, in second, saw its market share increase to 27.8%, up almost seven percent year-on-year (YoY). It collected sales of MXN17.9 billion from 165 issued products.

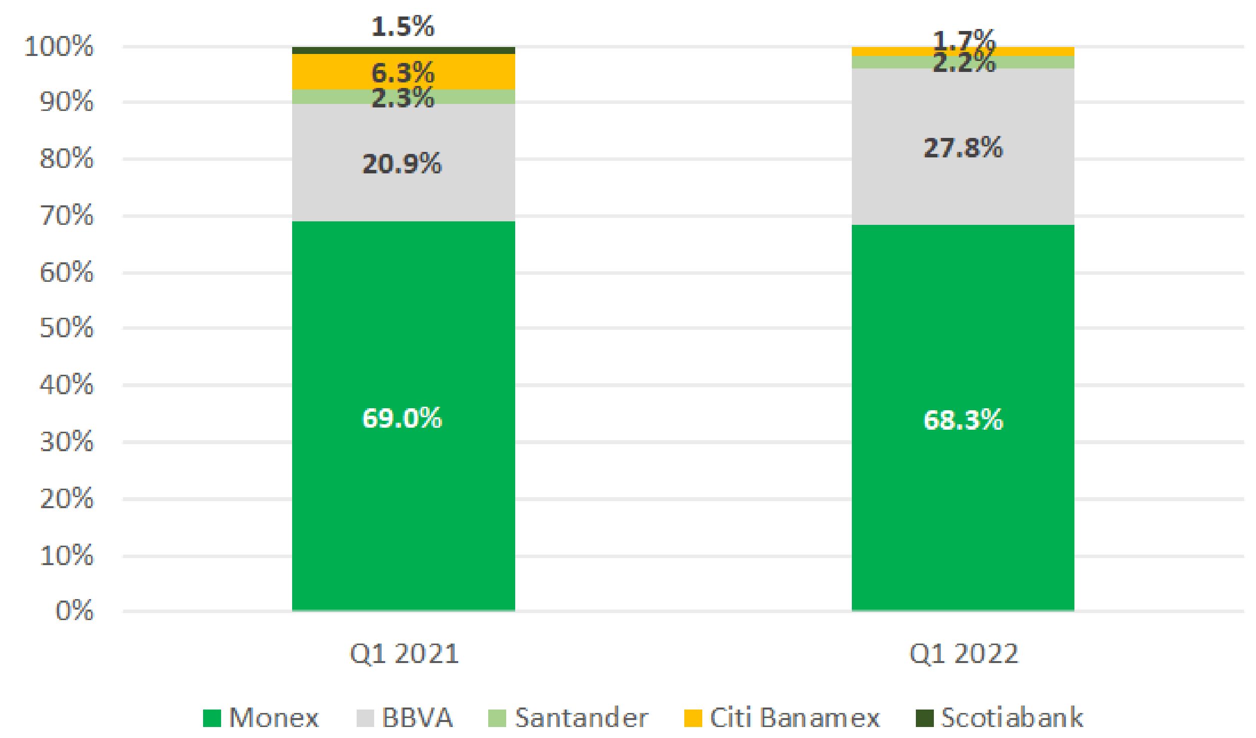
The bank, which between 2000-2019 was known as BBVA Bancomer, was also responsible for the best-selling product of the quarter, which came in the shape of a dual currency note linked to the appreciation of the US dollar relative to the Mexican peso that sold MXN1 billion.

Apart from the USD/MXN, which it used in 142 products, BBVA implemented 11 other underlyings, including the interbank equilibrium interest rate (TIIE 28), S&P/TSX 60 Index, the proprietary Solactive BBVA ixESG Lideres Globales MXN Risk Control 10% Index, and eight different exchange-traded funds (ETFs).

Santander claimed 2.2% of the market, level on last year. It accumulated sales of MXN1.4 billion from 29 products that were either dual currency notes or range/accruals on the USD/MXN.

The only other issuer active in the quarter was Banamex, a 100% subsidiary of Citi, which sold 29 products worth MXN1.1 billion (1.7% market share, a decrease of 4.6% YoY). Once again, the bulk of the issuance was tied to the USD/MXN (28 products), with the remaining product linked to iShares Silver Trust ETF.

Mexico: top issuer groups by market share (%) Q1 2021 vs Q1 2022



Source: StructuredRetailProducts.com

StanChart cashes in on ESG as change of direction pays off

The UK bank for the first time has offered interest rates-linked structured notes with net proceeds allocated to finance green and social projects.

Available for subscription from the end of February to April, these structured notes raised a total traded notional or assets under management (AuM) of US$350m, according to Nicolas Rigois (pictured), global head of capital markets products and solutions, wealth management at Standard Chartered Bank (SCB).

"Issued and structured by SCB, the notes offered a range of payoffs such as capped-floored floater, step-up and range accrual with tenor ranging between two and five years," Rigois told SRP. "[They] allowed us to reach a broad set of clients in private banking and priority banking across our key markets in Asia and the Middle East."

In an environment of rising rates and market volatility, the notes were designed with simple payoffs and offer full capital protection. SCB sustainability programme represents a strategy shift towards sustainable investing through structured products as the UK bank historically focused efforts on equity-linked ESG products with limited success.

Under SCB's sustainability programme, the proceeds of equity-linked product shall be invested into sustainable projects by third-party derivative manufacturers while the reference assets must be qualified as ESG investment, according to SCB's internal guidelines.

"All structured notes have two components, a funding component and a derivative component that provides the structured exposure to an underlying," said Rigois. "At the start of 2022, we decided to change our approach and really focus our message on the funding component of the note which is the key ESG component."

The change of popular underlying asset classes has reflected the evolving market conditions triggered at the beginning of 2022 on the back of heightened geopolitical tensions and an inflationary backdrop, which are "less conducive to equity-linked products".

In contrast, the first three months of 2021 translated to a record quarter for SCB's structured product business fuelled by a very strong demand for flow equity derivatives in a relatively benign market context, according to Rigois.

"However, we were fast to pivot towards other asset classes such as interest rate and FX derivatives which has reshaped the business," he said.

In April, the bank, which focuses on flow strategies, delivered a stable traded notional of structured products in Singapore year-on-year.

"Where the flows last year were almost exclusively equity-linked we now see a healthy balance between asset classes," said Rigois. "Looking forward, with the rise in interest rates we expect to see sustained interest in principal-protected structures and plan to keep innovating in that space."

As the capacity of these ESG-linked structured notes was exhausted in the first round, Rigois noted that SCB will consider re-opening the programme once available.

> **At the start of 2022, we decided to change our approach and really focus our message on the funding component of the note**

Bank of Singapore leverages fixed income underliers

The private bank has capitalised on increased demand for fixed income structures from investors in Singapore.

Bank of Singapore, OCBC Bank's private banking arm, has seen a six-fold increase in the traded notional of fixed income-linked structured notes and minimum redemption notes on equity from January to April compared with 2021.

"There was recognition early in the year that certain types of structured products such as fixed income structured notes and minimum redemption notes would make sense for a lot of investors," Vivienne Chia (pictured), global head of investment advisory solutions at Bank of Singapore, told SRP, adding that the structures have enabled investors to take advantage of the rising interest rates.

Conservative offerings such as capped floored floaters which will be redeemed with full principal protection at maturity and allow investor to receive a minimum coupon and potentially higher coupons subject to the prevailing interest rates have seen increased momentum.

"Moving a notch higher on the spectrum, investors may achieve higher coupons with the callable daily range accrual notes," said Chia. "The potential coupon is enhanced by adding a range accrual condition."

The appeal is simple - if the spread between the 30-year USD constant maturity swap (CMS) and two-year USD CMS, which refer to the secured overnight financing rate (SOFR) - is above a pre-determined level on an observation date, the enhanced coupon for that day becomes payable.

"Going higher on the risk return spectrum, range accrual credit-linked notes allow investors, who would like to receive even higher coupons and are willing to take on more risks, to overlay a credit element," said Chia without disclosing the volume.

This product also offers full principal protection if there's no credit event associated with the issuer or the reference credit. Meanwhile, re-risking has been seen in the broader equities space.

"There were also pockets of opportunities in the form of hedging solutions and switches into more defensive plays," said Chia, citing minimum redemption notes. "Having a minimum redemption at maturity provides some comfort for investors who would like to participate in the market but are concerned with further downside risk.

The private bank is aware of the power dynamics at play on the world stage and the geopolitical and inflation risks that come along with it, Chia added.

"The fixed income structured products along with the minimum redemption notes linked to equity have been immensely popular this year," she said.

ASSET DIRECTION

Since the beginning of the year many distributors have shifted their focus towards fixed income or multi-asset underlying assets in the structured product market driven by the risk-off environment. From February-end to April, Standard Charted Bank collected US$350m traded notional from interest rates-linked structured notes featuring capped floored floaters, step-up and range accrual payoffs in Asia and the Middle East, as SRP reported. SRP data shows that the Taiwan market has seen a noticeable growth of interest rates-linked structured notes year-to-date compared with the same period in 2021.

A group of 19 distributors in the market have launched 139 structured notes tracking the performance of unspecified interest rates, five-year USD CMS, 30-year USD CMS, 2-year USD CMS or 10-year USD CMS, year-to-date. The figure represents an increase from four marketed between January and April.

> **The fixed income structured products and equity-linked minimum redemption notes have been immensely popular**

SRP Apac 2022: market trends triggered shift in investor demand

A panel comprising senior wealth management, private banking and investment banking executives at the SRP Apac 2022 Conference held on 11 May, shed light on the current challenges and opportunities in the Apac market amid increased market volatility.

"The last 24 months has led to investor trends evolving at a much faster pace than before," said Aditya Sehgal (first on the left), head of capital market solutions at International Wealth Management Nomura, noting that May 2020 saw one of the fastest growing markets in traditional asset classes, particularly equities, on the back of the liquidity provided by central banks.

However, activity stumbled in 2021 when inflation talks surfaced and the Chinese government began its crackdown on technology giants and real estate companies. However, US equities continued to reach new highs and led to a bounceback until November.

"As central banks tighten monetary policies, you're now seeing investors look at alternatives, or other ways of expressing risk adjusted strategies and portfolios," said Sehgal. "We've seen an increase in alternative investments within the fund space, be it outright investing into some of these funds into REITs or real estate space, including some of the diversified macro funds."

According to Shegal, there is a pickup in investments featuring value-based or volatility-based strategies, and investors are keeping a decent portion of their assets in cash. In addition, with rising interest rates, a wide range of capital-protected products linked to a wider variety of underlying assets across equity, commodity, credit and rates has been developed.

"It's good to also have your in-house CIO. The asset allocation framework is something more conservative and has helped us push the message across," said Sehgal, adding that the increase of cash allocation is part of the CIO view at Nomura, which complies with some of those more risk-adjusted strategies, and the business cycles are getting shorter along with the investments.

"It's really important that we are providing the solutions as quickly as possible," he said.

From a family office perspective, there's growing demand for automation from structured products investors as they want to know what they can get out of their investments quickly, according to Eva Law, founder and chairman at Association of Family Offices in Asia and Association of Private Bankers in Greater China.

"I see both institutional and the private investors searching for structured products that deliver their view while providing features such as capital protection, leverage, reduction of portfolio risk exposure and access to new markets," said Law. "Multi-issuer platforms enable investors to have more pricing choices."

> "We've seen an increase in alternative investments within the fund space
>
> **Aditya Sehgal, Nomura**

Structured products are traditionally sold through private banks to the ultra-wealthy investors, and activity is expected to remain high as there is now huge demand for portfolio protection with defined outcome, according to Law.

Wai Meng Goh, executive director, head of solutions & sales, structured products in Singapore at Julius Baer, noted that tailor-made solutions remain critical for structured product investors, including family offices.

At the Swiss bank, the strategies cover yield enhancement products, interest rate swaps, inflation-linked strategies, cash extraction and share financing depending on the client's need, according to Goh.

"Bespoke is the key," she said. "We have to make use of the flexibility provided by automation and data to analyse and hence we can come up with a more individualised solutions to our clients."

CHINA & SOUTH KOREA

Chinese investors are starting to look at global assets and multi-asset strategies, which represented significant development in the structured product as derivatives only began to gain traction in the country in 2014, according to Na Cheung, executive director, head of equity derivatives for Singapore at CLSA, a subsidiary of CITIC Securities.

In 2021, the onshore market delivered an over-the-counter (OTC) option issuance amount of US$571 billion – the outstanding notional was US$156 billion at the year-end, which was at a similar level of total return swaps, data from China Securities Regulatory Commission shows.

"Quantitative investment strategies [QIS] became popular from 2019 for their volatility control feature and full capital protection," said Cheung.

For offshore investors, Asian equities began to gain traction from 2018 with more research on China equity available in the structured products market. To capitalise on the growth, CLSA has manufactured worst-of autocallable notes tracking Asia index and single stocks.

"Some investors started to look at our QIS offerings and Asia thematic baskets such as ESG," she said. "This shows that the interest in China equity has increased. In the meantime, a challenge for us securities houses is to provide more value-added products, instead of just flow products."

In April, Yves Bonzon, group CIO of Julius Baer published the report - Why China is no longer a core asset class - and cut China allocation to zero.

"Our relationship managers are actively engaging clients to diversify out of China," said Goh. "Of course, you can have positions in especially Chinese tech and American depositary receipts [ADRs]. We're trying to do some recovery strategies [as well]. If not, we just switch them to other outside of China in this aspect."

In South Korea, macro conditions haven't been conducive to the equity-linked securities (ELS) market due to regulatory restrictions and a lack of velocity, according to Gidon J. Kessel, former head of wealth management at Citibank Korea, who has relocated to London as UK head of investment and product.

"Q1 22 has come down significantly. That's impacted new sales given that client sentiment is more reversed or defensive," said Kessel, adding that a slew of new regulations was implemented over the past 18 months including consumer protection act requirements triggered by the 2019 mis-selling crisis.

"As a consequence, it's made the sales process extremely convoluted, albeit in the interest of the client," he said. "However, by adding additional paperwork, cooling off periods, post sales call-backs, it has put off some clients."

Some clients have switched to more execution or flow-driven solutions, rather than going through the arduous process of trading structured products. And there's more flexibility for the security house channel compared with banks, according to Kessel.

"From an optics perspective or a risk-averse sentiment perspective, you've seen that shift in flow multi asset solutions and derivative-linked funds (ELF) as opposed to being equity-centric," he said. "A lot more flow will go back into back into ELS sooner or later as stock baskets constitute 50% of the float, which is primarily denominated by US equity and defensive blue chip names.

"ELS is still the bread and butter of the Korean market, and I don't see that changing, particularly the three-year ELS autocall payoff. Every distributor, both bank and security house continue to build up the volume," he said.

HSBC rolls out mobile trading for structured products in Asia

Private banking investors in Asia first to trade fixed coupon structured products via mobile.

HSBC Global Private Banking has launched online trading for structured products in Asia via mobile.

Initially, the new feature will allow private banking clients with assets booked in Asia to trade fixed coupon notes (FCN) on their mobile phones, alongside cash equities, exchange-traded funds (ETFs) and foreign exchange (FX) which are already available on the bank's trading platform.

'Currently, over 30% of execution-only trades in Asia are completed online, around two-thirds of our clients are digitally engaged, and the numbers continue to grow,' Siew Meng Tan (pictured), regional head of HSBC Global Private Banking, Asia-Pacific, said. 'This shows that the digital tools and journeys we are developing are really resonating with our clients across the region.'

The UK bank said that support for equity linked notes will be added later in 2022 to 'enable clients to structure their own investment ideas under our open architecture framework in real-time'.

'Our clients want convenience, flexibility, simplicity and personalisation in the way they interact and bank with us,' said Tan. 'We are committed to investing in our digital transformation to complement our investments in people, thereby bringing together the best of both worlds in a truly hybrid model.'

HSBC clients using the trading app will be able to trade structured products on their mobile phones with coverage for underlying stocks across eight markets including USA, Hong Kong, Singapore, UK, France, Germany, Japan and Australia.

The FCN available online will be created and priced (via open architecture) daily by the structured products desk. The bank has also launched a dedicated digital client services team to provide 20h/5d support across each market's opening hours.

The addition of structured products to the private bank's trading platform is part of HSBC's roadmap toward digitalisation. The UK bank launched its e-trading platform in mid-2021.

HSBC Global Private Banking will invest US$100m over a two-year period to build and upgrade its core banking and digital platforms in response to 'the fast-changing wealth needs of its clients'.

The private bank's internet banking application, launched three years ago, incorporates direct client communication via instant messenger GPB Chat, and other functionalities such as GPB eSignature which allows clients to sign and exchange documents electronically, and the investment knowledge and research platform Insights & Research Portal, which offers personalised alerts and notifications.

Earlier this month, HSBC reported a 25% decline of net profit in its wealth business in the first quarter of 2022, compared with a year ago while the issuance of equity-linked investments in Hong Kong SAR, where HSBC has its structured products hub, was almost halved compared with Q1 21.

> **Over 30% of execution-only trades in Asia are completed online, around two-thirds of our clients are digitally engaged**

SRP Apac Awards 2022: Personality of the Year - Lavanya Chari

Congratulations to 2022's SRP Apac Personality of the Year Lavanya Chari, global head of Investments & Wealth Solutions (IWS) at HSBC.

Chari (pictured) joined HSBC Private Bank as global head of products, investments and collaboration in 2020. Based in Singapore, she leads the UK bank's private banking and wealth product strategy and the global investment products team.

Chari has a track record on wealth products and structured investment solutions, as well as working with a broad range of clients including retail distributors, private banks and sovereign wealth funds. She joined HSBC from Deutsche Bank where she was global head of products and solutions for private banking.

Growing up in Chennai, India, she studied aerospace engineering for her undergraduate degree before pursing an MBA. Following an internship with Lehman Brothers in Tokyo, Chari got an offer to join Deutsche Bank in London.

"I went through a rotation programme as a graduate trainee and found that I really enjoyed the structuring desk," she says. "I could put my mathematical and engineering background to use and also focus on the people element, as I enjoyed working with people and building relationships."

She started her career in rates structuring in London in 2002 and went on to run that business on the asset side for Europe, across private banking and institutional clients. In 2009, Chari began to run the commodities asset structuring business globally for Deutsche out of London, across institutional and private banking clients.

In 2012, she decided to move to Singapore where her responsibilities expanded to include structuring and structured sales. "I ran the two segments for the same client groups across FX rates, credit and commodities," she says.

In 2016, Chari moved to the private bank within Deutsche to capitalise on the wealth management opportunity in Asia.

"I ran products for Apac for the wealth business before taking on that responsibility globally within Deutsche. Finally, two years ago I decided to join HSBC for an exciting opportunity to enhance the global wealth proposition for the bank," she says.

How was the environment for structuring back in early 2000s?

Lavanya Chari: It was an aggressive environment on the trading floor in London. It was also a period of significant growth for the structured products industry and I enjoyed the product innovation aspect and the opportunity to drive business and work with different parts of the bank. A combination of those factors made me choose and enjoy working in structuring for the first few years of my career.

What made you want to move to Asia in early 2012?

Lavanya Chari: A couple of reasons. Despite being from India, I had never worked in the region prior to that. I was keen for an opportunity to work in Asia and learn more about the region. Secondly, at that point, Europe had just gone through the sovereign crisis while Asian economies were in a growth phase. I wanted to understand, contribute to and be a part of this growth story.

On a more personal note, I was keen to experience the different cultures in Asia and travel more around the region. While it is one big continent, each country is extremely diverse with its unique culture and heritage.

What challenges did you encounter during the shift from the sell-side to the buy-side?

Lavanya Chari: When I moved to the buy-side, I wasn't too familiar with that side of the business in my early days so it was a steep learning curve. I obviously knew about the private banking and wealth management industry from the other side, but this was my first time working in it. I found it exciting as it felt like I had moved to a different industry for a new experience.

How has the Apac structured product market shifted since your relocation in 2012?

Lavanya Chari: Compared to ten years ago, I'd say that structured products has now emerged as a core asset class. The behaviour of wealth management and private banking clients has shifted from being just equity-markets driven and primarily speculative in nature, to now being more receptive to using structured products for different purposes like cash alternatives, yield enhancement, portfolio hedging and diversification. The clients' level of sophistication and knowledge has also increased significantly over the years while the variety of payoffs and underlying assets has expanded a lot.

At HSBC, we continue to invest in infrastructure, information technology and training of our relationship managers to ensure that we can cater to the growing needs of our clients. We have now automated a big part of our pricing and execution capabilities so that our staff can devote more time to offer customised structured solutions. This year, we rolled out structured products tracking a hedge fund basket in the form of a call option and equity dispersion strategies, which served as portfolio diversification instruments. They have worked well in the current market backdrop. We also offered the assets in option format, so that clients can limit their cash outlay. Moreover, we're in the process of offering far more digitally enabled execution platforms.

How big is your team? How has your experience helped in the HSBC role?

Lavanya Chari: The Investments & Wealth solutions [IWS] team which I manage has around 1,200 employees globally. My past experience in products has helped considerably as it has allowed me to drive the business, ensure that the team is innovative and comes up with relevant solutions for our clients, which matches what clients are looking for, rather than imposing ideas that are irrelevant.

How are structured products covered at IWS?

Lavanya Chari: Structured products are covered within the capital markets team by around 50 specialists, spread across Singapore, Hong Kong SAR, London, Geneva and US. We have an investment-led approach where we tend to come up with solutions for our clients based on the chief investment office (CIO) view.

What structured product focus would you highlight under your leadership at IWS?

Lavanya Chari: At HSBC, my team and I have been focused on two key areas within structured products. First, we have worked on the diversification of the business so that the underlying assets have not been just equities. We have also focused on interest rates and credit linked products.

Technology is the second big piece of work, one that I'm very passionate about. We have initiated many IT projects with the aim of improving client experience, shortening the time to market of our product ideas and freeing up our resources to focus more on customer service. I'm pleased to share that we recently launched online trading for structured products in Asia on our private banking mobile app. We are the first in Asia to offer private banking clients the option to trade fixed coupon notes via mobile. There will be a self-directed journey where clients can price their own terms and trade on screen. This is supported by an infrastructure that's connected to all our structured products trade counterparties so the clients will get the best tradable price from all of HSBC Private Banking's counterparties on the mobile app.

How much structured products did WPB trade in 2021? By market, flow type and asset class.

Lavanya Chari: While the main asset class in 2021 for structured notes was equity, we managed to diversify our offering into FX, fixed income, credit as well as repackage solutions and quantitative investment strategies [QIS]. Moreover, within the equity space, we saw more interest in non-standard, non-flow products.

How has the structured product business fared year-to-date?

Lavanya Chari: The business has been resilient. The equity part was obviously challenging in Q1 22, but we did make up for that in different forms. For instance, the rates and FX business picked up. The non-flow business was also healthy. The current market environment is clearly challenging. There are many headwinds, such as inflation, Covid-19 and geopolitics.

Nevertheless, our view is that we do not expect recession or stagflation in the global economy at this point and therefore, our advice to our clients has been to build resilient portfolios, focusing on quality, income and diversification. We are also aware that our clients need more frequent updates during these volatile periods and so we constantly communicate with them on significant market moves.

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We rolled out structured products tracking a hedge fund basket in the form of a call option and equity dispersion strategies

CIMB debuts exclusive Citi play in Thailand

The Thai bank has licensed a custom index developed by Citi on an exclusive basis

CIMB Thai Bank has expanded its product range with the launch of the Maxi Flexi ESG structured notes which are targeted at Thai high net worth investors seeking to 'increase their wealth regardless of market conditions under good governance practices'.

The new Maxi Flexi ESG structured notes offer 100% protection and provide a return on investment (ROI) at 0.25% to 0.75% annually depending on the investment format regardless of market conditions.

The three-year notes are linked to the Citi FlexiBeta ESG USD VT5 Index, a gauge focused on equities and government bonds related to ESG which automatically adjusts investment ratio and offer a potential 3-6% pa. The notes can be Thai Baht and US dollar denominated.

'[We are] promoting investment in the fields related to ESG to ensure investors that their money will be used for the benefits of environment and society under good governance practices,' said Paul Wong Chee Kin, president & chief executive officer of CIMB Thai Bank.

The bank is also looking at products that 'can protect the full amount of investors' principle amid the market's fluctuation to give the investors a total 'peace of mind' when investing with the bank,' according to Tan Keat Jin (pictured), head of consumer banking.

'The notes target high net worth and ultra-high net worth investors, as they are on top of the social pyramid and have high potential to share their wealth to strengthen the society and guide others toward the sustainable development of the country,' said Keat Jin.

Phudinan Setthanan, the bank's assistant managing director and head of financial product development, noted that in the past year there has been a high fluctuation in the investment market.

'This has made products that protect investors' principle become more popular as they can guarantee a return on investment regardless of market conditions,' he said. 'The weakening of Baht will also create an opportunity to invest in foreign assets in US$ currency and earn extra profits from future currency exchange rate.'

The Citi FlexiBeta ESG USD VT5 index automatically adjusts the ratio based on investment principle and uses a rule-based framework management strategy to access global assets both bonds and shares. Equity instruments comprising the index investment universe include ASML Holding (Arabesque's ESG score 69/100), Visa (63/100), and Walt Disney (55/100).

CIMB Thai is a top five player in the Thai market and has more than 450 live products worth an estimated US$1.3 billion.

Citigroup has more than 30 proprietary indices used as underlyings in 650 live structured products across the world worth an estimated US$1.14 billion.

HSBC boosts wealth solutions for mass affluent & PB clients in China

The UK bank has announced the expansion of Global Private Banking in China, and the enhancement of services and offerings for its HSBC Premier clients, as part of its strategy to serve the evolving needs of mass affluent and private banking clients in the second largest economy in the world. Household wealth in China is set to grow by around 8.5% annually from 2021 to 2025 with household investable asset topping RMB300 trillion in 2025, driven by the rising number of HNW individuals and families, and the expansion of the middle income segment to over 500 million.

Global Private Banking plans to hire almost 100 staff, including relationship managers and investment counsellors, by end of this year, and further expand its team size three-fold in the next five years. The HSBC business has also announced that it will continue to enrich its offering, including structured deposits and overseas mutual funds, as well as introduce succession planning and philanthropy services. HSBC China is the first foreign bank to enable private banking clients to manage their wealth and investments including structured products, local funds, qualified domestic institutional investor (QDII) fund products and recognised Hong Kong funds via the bank's mobile banking app.

'These investments will further scale up our wealth management capabilities to meet stronger demand for tailored investment solutions, professional advisory services on asset allocation and diversification, as well as international banking amongst mass affluent and private banking clients in mainland China,' said Nuno Matos CEO of HSBC Wealth and Personal Banking.

Libor transition – a sterling success?

Should the structured products industry congratulate itself on successfully transitioning its sterling Libor obligations, or bite its nails in fear of unintended consequences? Perhaps both.

While sterling Libor is for most banks much smaller than US dollar Libor trade flow, it is still a huge book. So it has taken an equally huge, industry-wide effort for front office and back to grapple with its complex matrix of tasks – ensuring economic equivalence and seeking legal routes to transitioning legacy products, standardising reference rate treatment throughout the layers of a product, and drafting in the new floating rate terms from Isda's 2021 definitions.

Ashurst UK/US global markets head Michael Logie (below) says industry endeavours have been "impressive," especially since structured products effectively fall somewhere between derivatives and debt capital markets in terms of product documentation and have additional complexity. The remediation kicked off a bit later and was more involved. "Despite tight timelines and messy processes – whether via consent solicitation, or reliance on fallbacks, or starting with one mechanism and shifting to the other – it does feel as though the industry got there," he says.

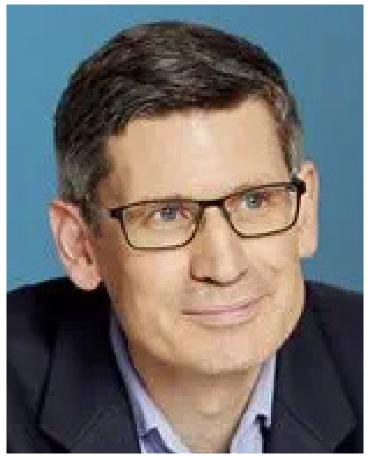
This is thanks in part to broad industry coordination, including the work done by Isda, the Risk-Free Working Group, and input from the Structured Products Association and individual market participants. "From an issuer's perspective it's helpful there has been fairly wide industry coordination around the risk-free rate solution," says Allen & Overy partner Andrew Sulston. "More recent vintages are more likely to have robust fallbacks, because there's very clear provision for how they should be determined." Isda created a new set of fallbacks that aim to preserve economic equivalence, and Bloomberg has been calculating and publishing adjusted risk-free rates as fallbacks since 2020.

New products now largely reference compounded Sonia in arrears, the regulator's preferred rate, as do the substantial majority of legacy products able to switch through fallbacks or consent solicitation. It became obvious as last December approached, however, that a significant minority of products – almost exclusively widely placed with no ongoing relationship between bank and investor – would have to be transitioned to synthetic Libor as a last resort. With no promises that synthetic sterling Libor will be published beyond this December, this is a holding position rather than a solution for securities that mature after that date. "Institutions have to continue to find a better answer," says Sulston.

But nowhere have I heard mentioned the 'nuclear' option of unilateral early redemption. "You really don't want to redeem someone and leave them with cash in a low interest-rate environment when you might be able to give them a slightly adjusted product that works better for them economically," says a senior market source, who prefers to remain anonymous.

"Despite tight timelines and messy processes [...] it does feel as though the industry got there

Michael Logie, Ashurst



"Platforms give asset managers easier access to product pricing in an efficient manner

Andrew Sulston, Allen & Overy

EARLY DAYS

Nonetheless, a degree of dislocation is inevitable when moving from a single forward-looking fixing to a backwards-looking rate based on real transaction data like Sonia. It may therefore be too early for a standing ovation.

"If I hesitate to call it a 'success' it's only because it's still early days in terms of consequences," says Logie. "Given that there is nothing more fundamental than the interest rate, at least to a vanilla bond, it would be a little surprising if we were done and dusted." He adds the possibility, particularly in volatile markets, that when compounded Sonia in arrear is compared with synthetic Libor, "One may look with envy at the other, and lo and behold, an investor on the alternate rate has a lesser return than they would have liked and contemplates legal redress." There are too many variables to quantify that risk. It is still easier to join a class action in the US than in Europe, for example. Longer-dated securities are more likely to give rise to a credible claim of greater return if not for 'inappropriate' adjustment.

There is also greater risk inherent in particular product types, specifically those with non-linear payoffs like steepeners and range accruals for which the new Isda fallbacks can create not simply differing returns but a different product. SRP has outlined in some detail the problems created for legacy range accruals, for example, where multiple fixings can be reduced to a single rate on transition, extinguishing optionality to the possible detriment of return.

Swap rates have been the last set of rates to be absorbed by the sterling structured products market despite being one of the most important, and have had to overcome difficulties arising from the lack of proper fallbacks for the old Libor swap rates and adjustment to the new ones.

Nonetheless, as Sulston says, "the administrator for the GBP swap rate has been able to transition fairly effectively to a Sonia-based rate and the market has developed to the extent where the new Sonia-based swap rates are in place." Sonia trades have significantly outnumbered GBP Libor trades for over a year now, following a dramatic falloff in all types of sterling Libor derivatives trades in March 2021.

FROM LEGACY PRODUCTS TO LASTING LEGACY

Bank of England governor Andrew Bailey (right) recently described the transition away from Libor as possibly the most far-reaching market shift in recent history.

One of its major impacts has been the evolution of contractual fallback language from "pretty much nothing" as one observer puts it, to a rigorously defined and robust set of definitions as Libor has become discontinued.

"Great strides have been made in the terms of contracts now, compared to 2018, which was better than 2016, and so on. People have learned to ensure what they put in their products will give them a contractual route to resolution, so they don't have to end up negotiating a lot of this or dealing with it without a framework for doing so in the future," says one legal source.

That lesson has reached beyond rates to the wider financial industry. "There's a point more generally about product governance arrangements," says Sulston. "This may be an extreme, but it is a product lifecycle event. So therefore, the manufacturers and distributors need to cooperate. And communications with investors need to be as clear as possible."

"The lessons of Libor have been truly absorbed, there's no doubt about it," Logie says. "The EU Benchmarks Regulation is a good example," in its insistence on contingencies for reference cessation.

"And then if you look at the Isda definitions, the levels of fallbacks are very rigorous, considered and robust, as they need to be."

FEATURE

That's the way to do it – Sofr saves the day

Regulatory measures have largely resolved headline issues for USD Libor transition as Sofr becomes cheaper borrowing choice

The SRP database still lists 217 USD Libor products across 16 national databases maturing before the USD Libor cessation date of 30 June 2023, including 24 US jurisdiction products worth US$235m. The major payouts across all databases are some form of floater (US$2.3bn), range (US$958m), or accrual (US$900m).

Bigger by far is the volume that matures after the Libor cessation date: 829 products across 16 different SRP databases, including 520 products worth US$3.6 billion in the US. Again, the much-debated range accrual payoff is prominent.

It's not clear how much of this has a discretionary route to transition, and how much might be classified 'tough legacy' volume. Relieved by recent regulatory and legal developments, lawyers and bankers helping transition the huge USD structured products books away from Libor have stopped quoting how much of the estimated US$15 trillion outstanding in 'tough legacy' contracts rests on their shoulders.

"It's still a big number, but we now have legislative solutions for a US dollar US- or New York law-governed US dollar Libor note… so I think people aren't really so much worried about the upcoming USD Libor cessation," says Bradley Berman (below left), who represents structured product issuers as counsel in Mayer Brown's New York-based Corporate & Securities practice.

"There's really not much left to do," he says. "These outstanding USD Libor notes are going to change over to Sofr as a matter of law, and I would imagine issuers as a courtesy would tell their holders that coming in the next quarterly payment, your interest will be calculated in a different manner."

The market has Division U of Biden's Economic Continuity & Stability Act to thank. This, the Adjustable Interest Rate (Libor) Act (Airla), was enacted on 15 March as a federal solution for 'tough legacy' and other difficult to resolve contracts. The USD market had already gained breathing space in March last year when the Bank of England extended USD Libor cessation to end-June 2023, allowing a huge swathe of products to roll off before deadline.

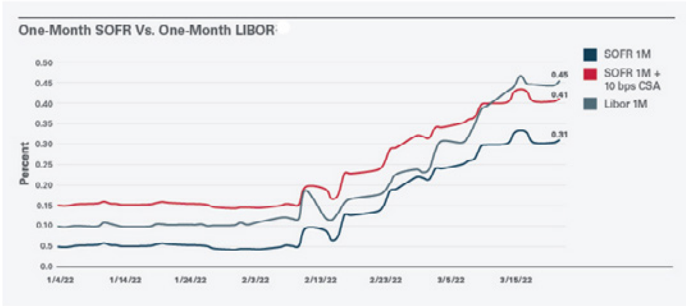
Tim Bowler, president of Libor administrator ICE Benchmark Administration, sums up the market's relief.

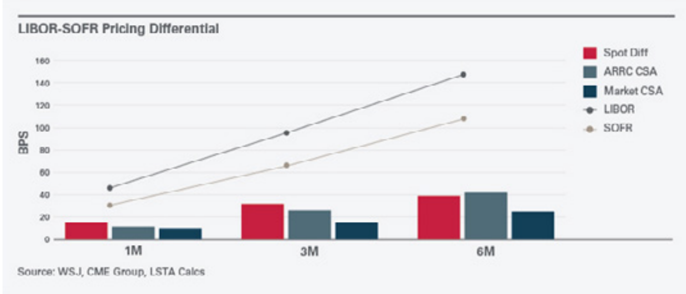
"We were pleased that the US dollar panel banks agreed to continue providing Libor submissions for the main US dollar Libor settings until end June 2023," he says, "giving the market a long run-in and some breathing room to manage the larger and more complicated US dollar market transition, particularly coming out of the pandemic."

The new law is also a game changer. Like the New York solution it followed, Airla is tilted towards Sofr as Libor replacement. It nullifies polling provisions for live tough legacy notes and difficult to resolve contracts, switching them to Sofr by operation of law on 30 June next year, and protecting contractual rights and obligations in transitioned contracts.

> "I can't see a need for synthetic US dollar Libor, no, not here in the US
>
> **Bradley Berman, Mayer Brown**

FEATURE





For contracts where discretion is possible, 'determining persons' who switch to Sofr and make necessary benchmark-confirming changes will have safe harbour from dispute. The new law can't be used to legally challenge a product transitioned by discretionary route to a non-Sofr rate, but its protections do not apply if that alternative rate is chosen.

Thanks to such hearty-carrot / soft-stick Sofr first measures by US regulatory agencies, Sofr has overcome early resistance to become the dominant index for new trading and lending transactions, including structured products.

"Structured products have been using Sofr now for a good two years," says Berman. "You're not really seeing people using the other typical US rates like Fed Funds in the structured notes context."

This should in turn inform the approach taken by USD Libor-linked note issuers in the rest of the world, who have been waiting for US issuers to lead the way.

LIQUIDITY SWELL

Liquidity has been building in the Sofr derivatives markets. More than 90% of flow OTC instruments now reference Sofr. On the exchange-traded front, CME Group reported Sofr futures open interest had surpassed five million contracts on 22 April. Although traded Sofr options lag, a record was set on 3 May with an open interest of over two million contracts. Early May also saw the CME Group announce a Sofr-first for options programme for the summer months, with fee waiver and other market-making initiatives.

In early March the notional traded volume of Sofr swaps overtook Libor swaps for the first time. Early this month, in the latest instalment in its trade-switching initiatives, the CFTC proposed rule changes to align swap clearing requirements with the new overnight rates.

Does all this progress mean there is no need for synthetic USD Libor? "I can't see a need for synthetic US dollar Libor, no, not here in the US," Berman says. "Everybody was concerned about being sued, and now I think that's pretty much resolved."

There are, however, some open questions. "A lot of plaintiffs' lawyers are clever: will they find something to cry about? Probably. Will they be successful?" Berman shrugs.

Airla has closed one door left ajar by the New York Law it built upon. By providing that replacing USD Libor with Sofr does not amend or modify a contract, or affect the rights or obligations it confers, the statute pre-empts legal challenge arising from a contradiction between Airla's Sofr-First provisions and note-holders' right – encapsulated in the 1939 Trust Indemnity Act – to unanimous agreement on modified terms.

Without this legally mandated approach to transitioning, investors could have challenged issuers if spread-adjusted Sofr were to diverge to disadvantage from Libor.

This is not merely theoretical. The 5 March 2021 spread adjustments were set two years before USD Libor's cessation. And Libor's credit sensitivity may combine with Sofr's transactional basis to mean a single adjustment cannot account for fluctuations between the two rates. Stress and irregularity in the repo market can create volatility for Sofr that would not impact on Libor.

An oft-quoted event occurred on 17 September 2019, for example, when Sofr soared from 2.43% to 5.25%, before falling back to 2.55% the following day. The spread between Libor and Sofr also widened dramatically after the Federal Reserve cut US rates in March 2020 as a reaction to Covid-derived economic difficulty.

However, IBA's Bowler says the long lead time to transition has given markets the chance to adjust. "The Isda fixed-spread adjustments for US dollar Libor were fixed in March 2021, so this has been known and priced into the markets now for almost a year and a quarter," he says.

Potential for rate envy may, however, lurk offshore, within large, multi-jurisdictional note programmes. Ashurst head of global markets Michael Logie asks, "What if you're relying on fallbacks, or your consent solicitation takes you different place, or US law leads you in a slightly different way? You may end up having different rates for similar products. And that just will exacerbate potential legal issues, because whenever you've got benchmarks to compare your product with you may be asking for trouble."

FEATURE

Libor part 3 - Backwards and forwards

Sofr has overcome early resistance to become the dominant index for new trading and lending transactions, including structured products.

However, replacing USD Libor with Sofr does not amend or modify a contract while concerns remain on 'diverging protocols'. In the last of a three-part article, we look at potential upcoming liquidity issues to hedge derivatives, issues with the transition for some payoff types and legacy notes.

Because the 'official sector' discourages term Sofr except where Sofr in arrears has proven difficult, new US jurisdiction structured notes reference Sofr in arrears.

However, market players fear the hedging implications of an emerging rate bifurcation between European or London loan markets and their US counterparts.

While London-based Loan Market Association (LMA) documentation has so far transitioned on the basis of compounded rates in arrears the US loan market seems to be settling at term Sofra. CME Group's Term Sofr, which prices off Sofr futures markets, has been officially endorsed since an Alternative Reference Rates Committee (ARRC) announcement on 29 July 2021 last year.

A lawyer who prefers not to be named asks what that might mean for hedging with derivatives. "Will the liquidity pool be as great if split between Sofra compounded in arrears and term Sofra? This absolutely touches structured products as well, since they sit somewhere between derivatives and bonds."

Ling Chih Chang, senior fixed income product manager at DBS Private Bank in Singapore is also concerned about diverging protocols for more exotic rates-linked structured notes such as Libor range accruals and steepeners. These payoff types have been marked as problematic throughout the transition process, since the economics of the payoff changes when upfront fixing becomes fixing in-arrears.

The SRP databases list 539 USD Libor-linked range products still to remediate, with a sales volume of over US$4 billion, and a smaller cache of 35 steepener products worth US$310m.

The Libor portion of such US jurisdiction products is covered by AIRLA. Take the latest scheduled maturity, for example, an advised Harris Bank income product sold in the US and linked to the USD three-month Libor and the S&P 500.

This Callable Dual Range Accrual CD - S&P 500, USD 3M Libor (05600XAF7) is capital protected and pays a 3% pa monthly coupon for the first four years of investment, then a monthly coupon at 3% pa pro rata for the number of days three-month US dollar Libor is 0.10% or higher, and the equity index is 75% or more of its initial level. The issuer can terminate the product monthly after the first year of investment. Otherwise, it repays capital and any final coupon on maturity in 2040.

Ten years behind in maturity terms is a callable Korean capital-protected income range accrual product distributed by Shinhan Investment. Shinhan DLB 249 pays a variable coupon of 4% pa pro rata for the number of days the 10-year USD CMS

> **"Investors should continue to emphasize liquidity over ease-of-use in their choice of benchmarks**
>
> **Ling Chih Chang, DBS Private Bank**

FEATURE

> **"Sofr liquidity is improving. Transition in the lending markets has started**
>
> **Tim Bowler, ICE Benchmark Administration**

rate minus the two-year USD CMS rate is at least 0% and USD 3M Libor is at or below 5.5%.

The Korean product is not covered by AIRLA. "The industry has yet to develop models for these changes, and market players are already seeing some bifurcation and variations developing in the replacement for USD Libor, for example, Sofr in arrears, Term Sofr, BSBY," says Chang. He too fears this division may dilute liquidity, and suggests, "Investors should continue to emphasize liquidity over ease-of-use in their choice of benchmarks – else they may be subject to the risk of market illiquidity or basis risks in the future."

STICKING POINT

Finally, a by no means minor matter lies in the transfer of what Bradley Berman, counsel in Mayer Brown's New York-based Corporate & Securities practice, calls the "whole theoretical question" of conducting consent solicitation, tender and exchange offers for contracts under US jurisdiction from USD Libor floating rate notes to USD Libor CMS, which includes a three-month Libor component.

Berman, who has worked on Sofr CMS notes, says the resolution of legacy notes remains unclear.

"It's pretty hard to do a consent solicitation here in the US. So, I think what we will probably see is tender offers or exchange offers. Some issuers may discreetly approach people and maybe buy back their notes," says Berman. "We just don't know yet."

The SRP database also contains 1,105 CMS-linked products, many combined, as in the Korean example above, with other underlyings. The latest to mature, in May 2042, is DLB 1047, another Korean product, issued and sold in the private banking space by Hana Daetoo Securities and based on the 10-year USD CMS and certificate of deposit rate 91d.

Although operation of law does not follow on US home turf (AIRLA does not class USD Libor CMS as a Libor instrument) the authorities and ARRC have again tilted towards Sofr.

Tim Bowler, president of Libor administrator ICE Benchmark Administration says the firm expects to consult on the potential cessation of USD Libor ICE Swap Rate "in due course". "We want to support transition from US dollar Libor ICE Swap Rate in the same way we supported the transition from Sterling ICE Swap Rate," he says, "by providing a robust ICE Swap Rate based on the recommended RFR - Sofr - and a fallback solution in-line with working group recommendations." ARRC recommends the Sofr-based ICE Swap Rate and relevant ISDA fixed spread adjustment.

Bowler appears sanguine about the USD Libor transition in general as "Federal Libor legislation is now in place in the US and we've had legislation in the UK for a while".

"Sofr liquidity is improving. Transition in the lending markets has started. We still have over a year to go before cessation. These are all positive factors which should help facilitate a smooth transition," he concluded.

US Market: single index structures back on track, worst of baskets lose traction

In part one of a two-part article, we look at the size of the market, the latest investment themes, and the most popular underlyings and payoffs over the last five years.

//

Issuance and sales of structured products continue to increase in the US market. As of 30 April 2022, a total of US$209 billion from 63,179 live structured products was outstanding in the US market.

Between 2018 and 2021, issuance increased by 60% (the monthly average in 2021 was just over 2,600 products) while sales volumes were up by almost 65% (from an average of US$5 billion per month in 2018 to US$8.4 billion per month in 2021).

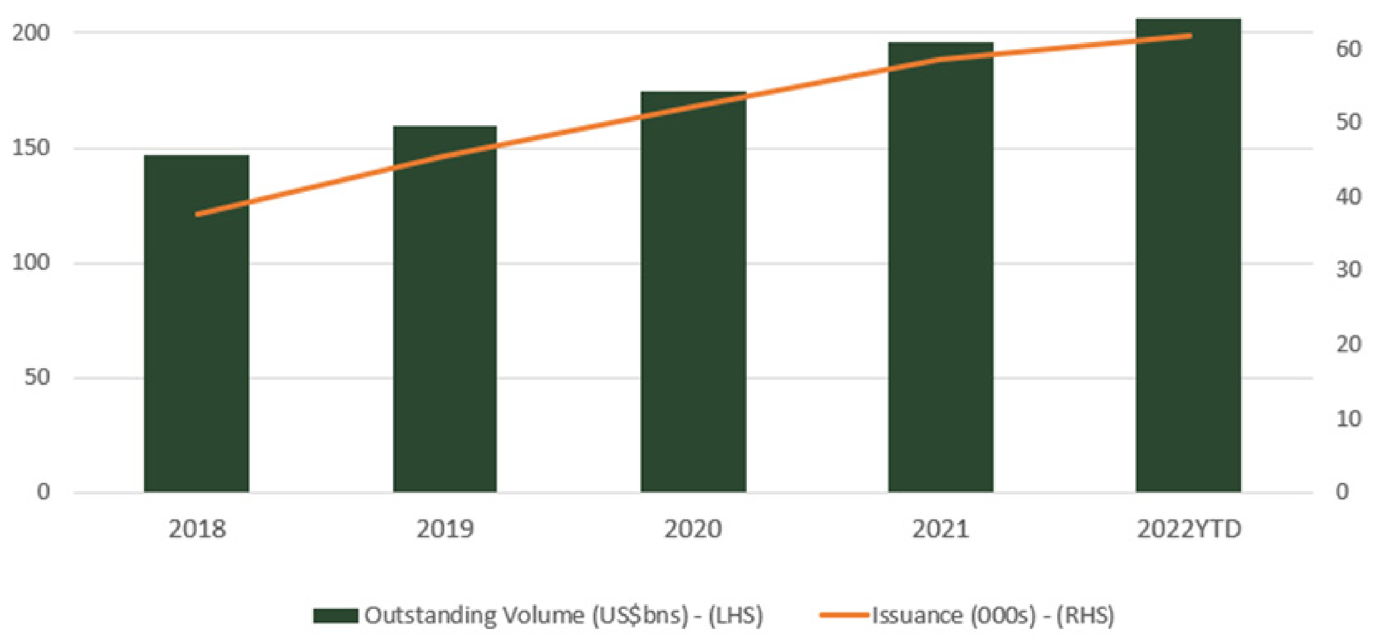
Some US$33.3 billion was collected from 10,776 products with strike dates between 1 January and 30 April 2022 – down 5.2% in sales volume and up one percent in issuance compared to the same period in 2021 (Jan-Apr 2021: US$35.1 billion from 10,664 products).

Having first emerged in December 2020, the year 2021 saw the advent of ARK ETFs with US$940m collected from 500 products issued during the year.

The ARK Innovation ETF was used as underlying in 489 products – either on its own, or as part of a basket – that sold US$900m. There were also structures tied to ARK Genomic Revolution ETF and ARK Fintech Innovation ETF. Seventy percent of the products featuring ARK ETFs had a knockout feature and more than halve of the volumes came from structures issued on the paper of J.P. Morgan.

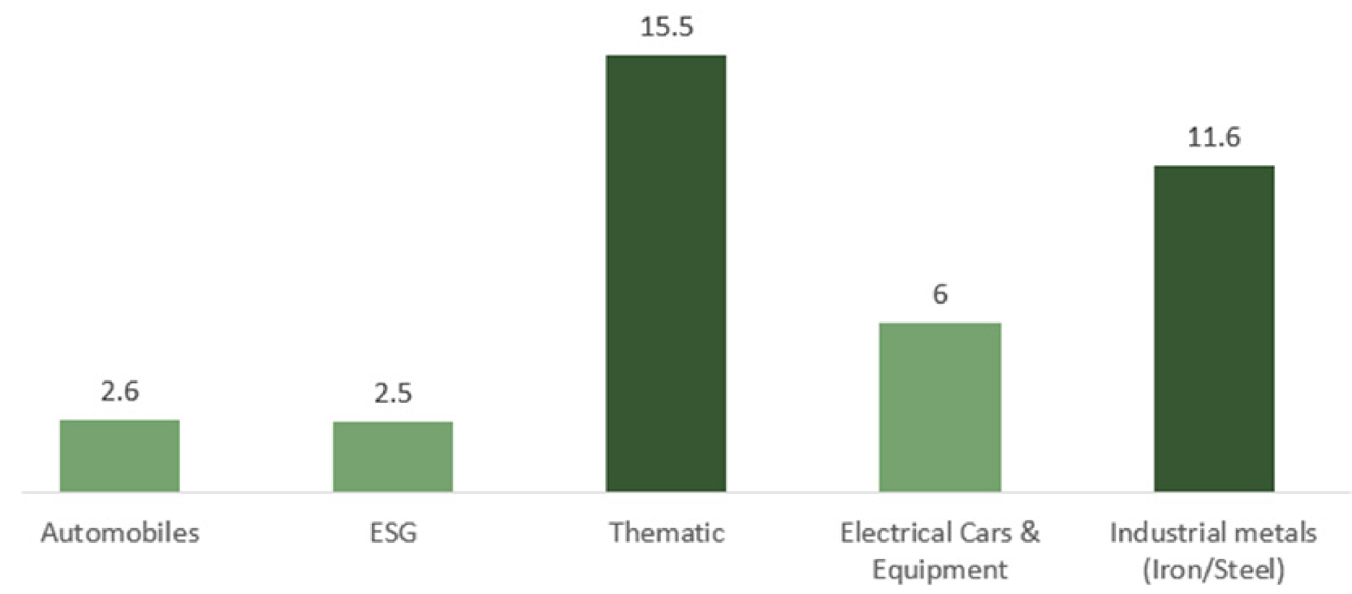
In 2021, there was a strong trend towards products linked to iron and steel-manufacturers such as Nucor, Cleveland-Cliffs, Steel Dynamics, and US Steel. While only 11 products (US$10.5m) featured these companies in 2020, that number rose to 129

US: outstanding volume and issuance



Source: StructuredRetailProducts.com

US: prominent investment themes in 2021*



**fold increase compared with 2020*
Source: StructuredRetailProducts.com

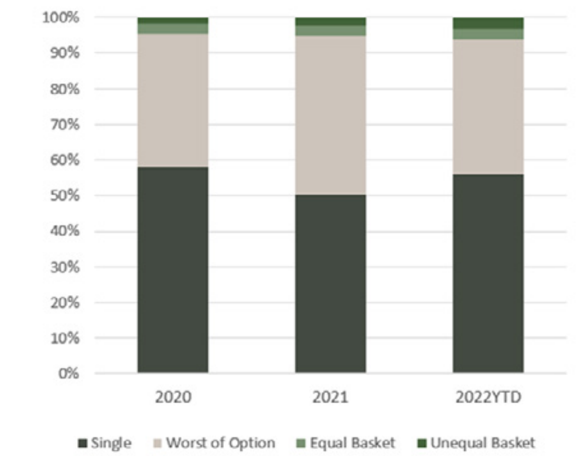
products (US$260m) last year. Most of these were offered as autocalls and UBS, with 75 products, was the main issuer.

Electrical equipment and car manufacturer equities represented by the likes of Lucid, Generac Holdings, ChargePoint, Ford, General Motors and Tesla were also in demand. Some US$3.4 billion was collected from 1,400 products linked to these underlyings in 2021 (FY2020: US$907m from 305 products). Once again, they were mostly autocalls while UBS was again responsible for the majority of issuance (719 products).

Interest in ESG underlyings in 2021 was much stronger compared to 2020, with iShares Global Clean Energy ETF, Invesco Solar ETF and S&P 500 ESG attracting sales of US$438m from 173 products (FY2020: US$16m from 35 products). So far in 2022, however, the ESG trend, as seen as part of the overall underlying breakdown, is much less pronounced.

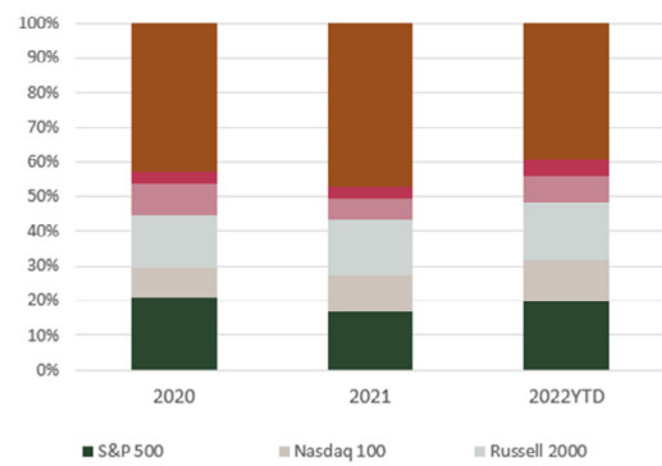
Royal Bank of Canada (RBC), despite being a small issuer, was responsible for a large percentage of the baskets in 2021. UBS, J.P. Morgan and Goldman Sachs were also active in this segment.

US: underlying types by market share



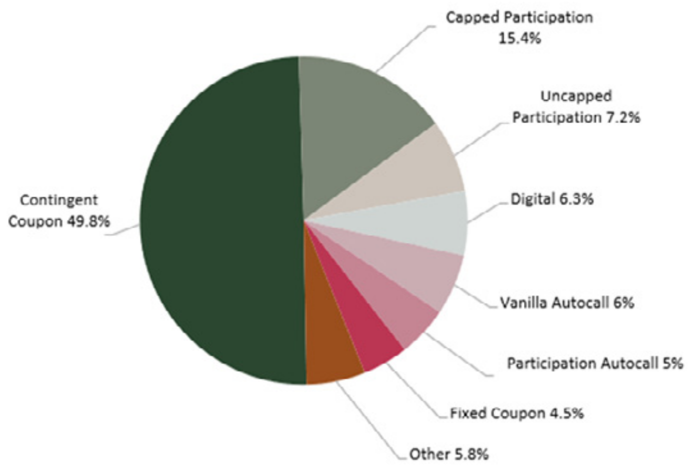
Source: StructuredRetailProducts.com

US: top 5 underlying components as % of total



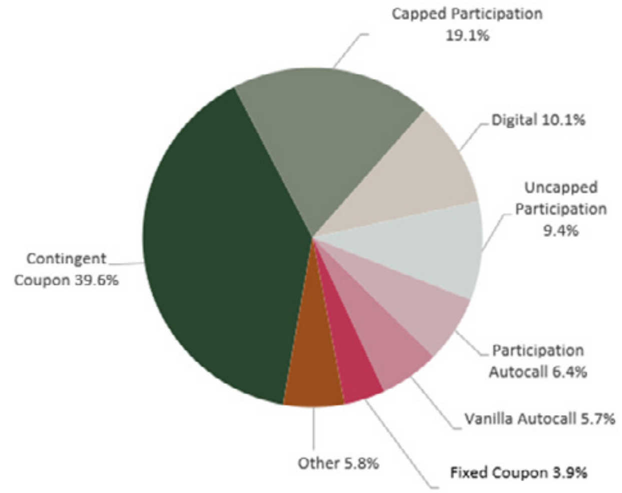
Source: StructuredRetailProducts.com

US: payoff market share 2022



Source: StructuredRetailProducts.com

US: payoff market share YTD2022



Source: StructuredRetailProducts.com

So far in 2022, Morgan Stanley has issued the highest number of products featuring equally weighted baskets (24), while Goldman has been responsible for the highest number of weighted baskets (30).

Staple indices still rule supreme in the US making up more than half of all underlying components across the market.

Equities account for a large percentage of the remainder, fluctuating at around a quarter of the overall underlying universe.

In 2021, some 30% of all underlying components were equities, compared to about 22% in 2022.

The share of Apple was the most prolific equity underlying in 2021, both by issuance and sales volume. It appeared in 1,004 products worth US$3.5 billion, ahead of Amazon (US$2.7 billion from 850 products) and Tesla (US$2.2 billion from 848 products).

Tesla is the most opted for equity underlying in 2022, featuring in 283 products to date, followed by Apple (243), Amazon (176), and Nvidia (168).

More than US$9.2 billion was invested in 2,445 products linked to ETFs with the SPDR S&P 500 ETF Trust, iShares Russell 2000 Value ETF, iShares MSCI EAFE ETF and Financial Select Sector SPDR ETF among the most popular.

The same funds dominate the market in 2022, with the addition of Energy Select Sector SPDR Fund.In 2021, US$32.6 billion was invested in products linked to an index basket, compared to US$24.9m that was gathered from products tied to a single index.

The S&P 500 remains the most popular asset in the US market and was used as the underlying index in 8,845 products that sold a combined US$36 billion during 2021. Volumes can be split into US$14.3 billion that was achieved from 2,425 products linked to the US benchmark on its own with the remaining US$21.7 billion coming from products where it was part of a (worst of) basket.

The Russell 2000 was used as a single index in just 500 products worth US$3.5 billion while the 530 products that utilised the Eurostoxx 50 as a single index collected US$3 billion in 2021.

However, so far in 2022, products linked to a single index have outsold products linked to an index basket (US$13 billion vs US$11.2 billion). The S&P 500 was once again the dominant index, collecting US$8.8 billion (as a single index) from 1,452 products, followed by Eurostoxx 50 (US$1.3 billion/256 products) and Russell 2000 (US$940m/179 products).

The Stoxx Europe 600, MerQube US Tech+ Vol Advantage Index and S&P MidCap 400 Index are all used more frequently than in previous years.

Products paying a contingent coupon claimed 49.8% of the US market in 2021. Structures offering capped and uncapped participation captured 15.4% and 7.2% of the market, respectively, while products with a digital coupon had a 6.3% market share.

In 2022, the market share for contingent coupon products has fallen to 39.6%, at the expense of products offering capped participation (19.1%), digital coupons (10.1%), and uncapped participation (9.4%).

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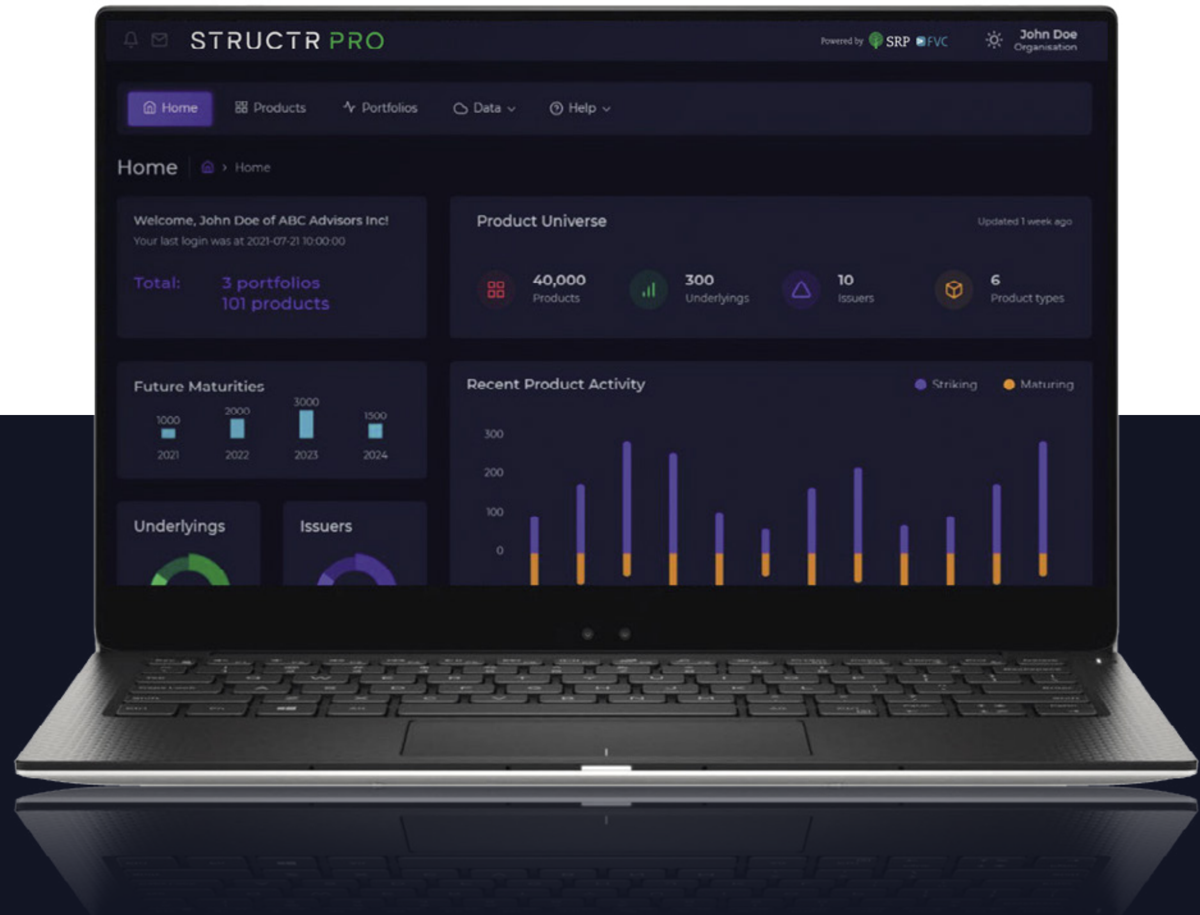

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US market (part 2): autocalls continue to rule, buffers increase

In the second of a two-part article about the US market, we look at autocalls, performances and capital protection over the last three years.

Autocalls have historically accounted for half of all products issued in the US. In 2021, some 17,464 products with a knockout feature were launched – the equivalent of 56% of the total issuance for that year. Of these, 7,631 products are no longer live, having either matured or autocalled in the period.

UBS was by far the most active issuer by issuance with 6,107 products worth US$7 billion – an average of US$1.1m per product. However, sales accumulated by J.P. Morgan, at US$6.9 billion, were almost as high, despite issuing far fewer products (2,757) while Barclays, which collected US$6.4 billion from 1,158 autocalls, achieved the highest average sales (US$5.5m per product).

Issuance of autocalls in 2022 to date is slightly below the average. So far, 5,521 autocalls have been introduced to the market, which is 47% of the total issuance. As of 30 April 2022, J.P. Morgan is the main issuer with sales of US$2.4 billion from 1,368 products (US$1.8m per product), followed by Goldman Sachs (US$2.2 billion from 517 products) and Citi (US$2.1 billion from 611 products).

Between 2018 and the end of April 2022, close to 20,000 autocall events have taken place in the US market, according to SRP data.

While in 2020, 85% of all autocalls with a validation date during the year had their knockout feature triggered at the first time of asking, this figure slightly decreased the following years (2021: 79%; 2022: 77%). On the other hand, the percentage for products that knocked out on the second observation date increased from 11% in 2020 to 12% in 2021, and 14% in 2022.

Most of the trigger events have consistently occurred on one of the first three observation dates. When that has not been the case, early maturity has normally happened on or before the sixth observation date.

Although modified autocall barriers have never been central to the US market, interest in step-up barriers and barriers set below the initial strike has decreased noticeably since 2020.

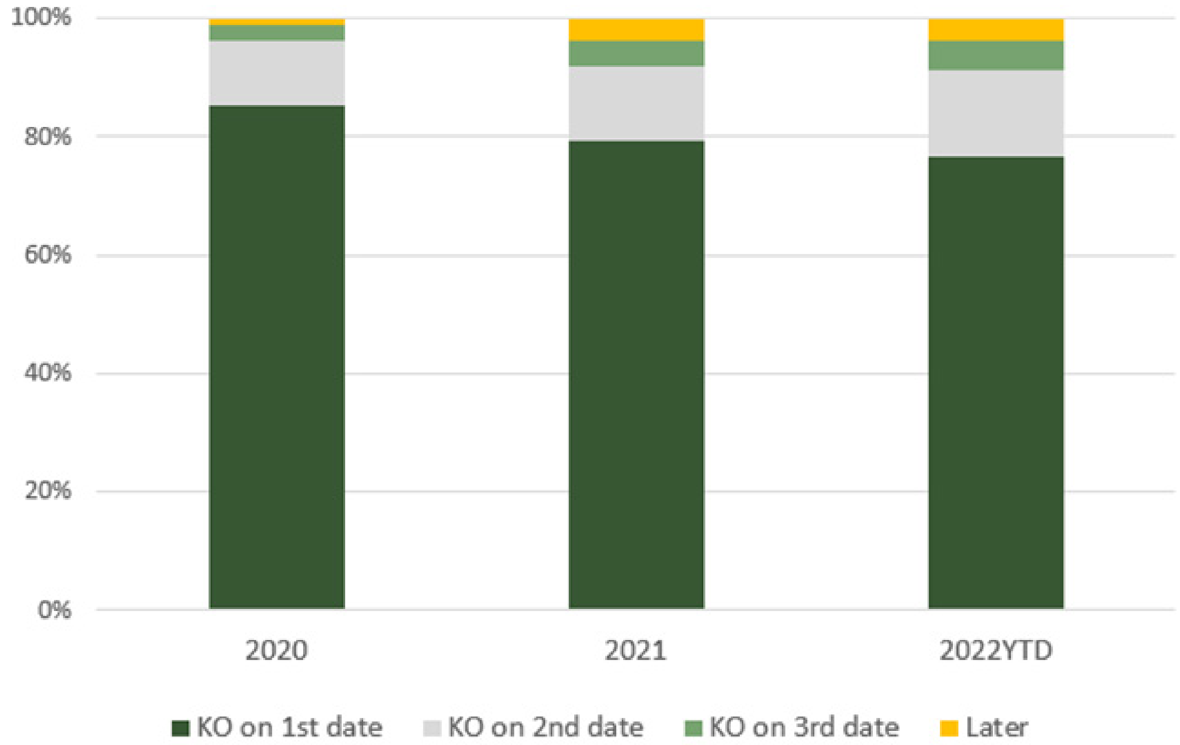
There is still some variety in terms of the autocall barrier levels, and whether these remain fixed or not, but the market has shown a strong preference for barriers set at 100% of the initial level.

Morgan Stanley, J.P. Morgan, Goldman Sachs, and Citi have been the banks driving these trends.

There has been a consistent trend towards lowering the fixed autocall barriers when those are set above 100% of the initial strike. The average for such barriers was 106.2% in 2020. Since then, it has decreased to 103.7% in 2021 and to 102.3% in 2022.

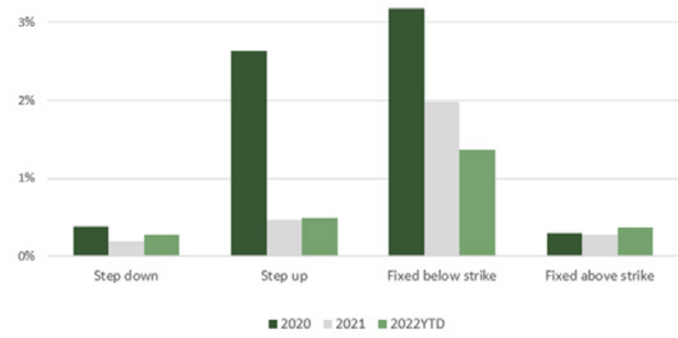
Knockout barriers, when they have been fixed below the strike, have been stable at an average of around 88-90%.

US: early redemption trigger as % of total



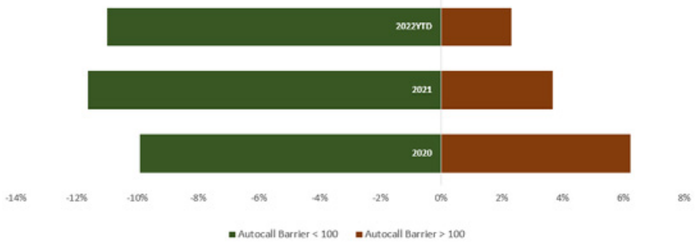
Source: StructuredRetailProducts.com

US: autocall barrier types as & of total



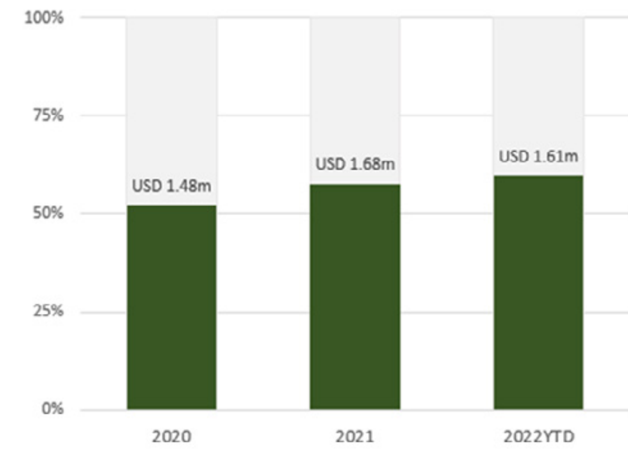
Source: StructuredRetailProducts.com

US: average autocall barrier shift from initial strike



Source: StructuredRetailProducts.com

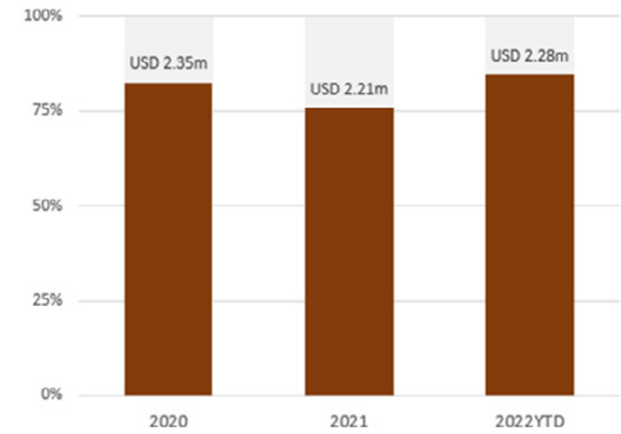
US: sales volume of autocalls with barrier below initial strike vs overall group*



**Autocalls with early redemption barrier lower than initial strike sell roughly half the yearly average*

Source: StructuredRetailProducts.com

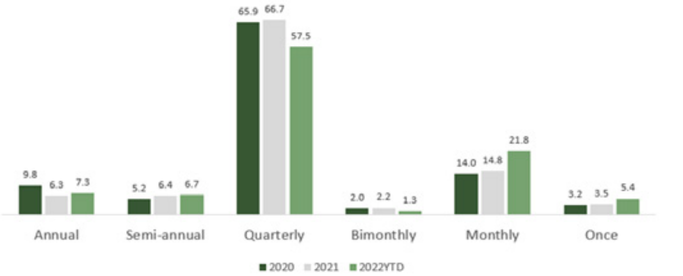
US: sales volume of autocalls with barrier above initial strike vs overall group*



**These sell better than low barrier counterparts but still fail to reach the average for autocall products.*

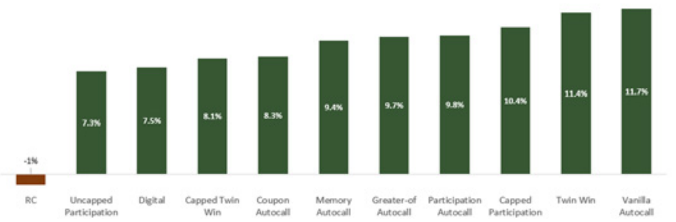
Source: StructuredRetailProducts.com

US: frequency of autocall observations as % of total



Source: StructuredRetailProducts.com

US: annualised capital return for expiring and maturing product in 2021



Source: StructuredRetailProducts.com

Attractive coupons, types and levels of protection, choice of underlying and other positive scenarios at maturity seem to matter more to investors than any modifications in the type of autocall barrier.

Each product in the top 10 bestselling autocalls offers a return equal to the greater of a fixed percentage, or a participation in the underlying at maturity. They all have their autocall barrier set at 100%.

For 2022, the bestselling autocall is Goldman Sachs' Buffered Note on the S&P 500. The five-year registered note, which is subject to early redemption after one-year of investment, sold US$110m at inception. At maturity, if the index closes at or above 65% of its initial level, the product offers a capital return of 100% plus the greater of 0% and 200% of the rise over the investment period.

An overall increase is seen in the longer frequencies (semi-annual & annual) between 2021 and 2022.

Although quarterly observations still dominate, there were more autocalls featuring monthly and one-time observations in 2022 compared to the previous year.

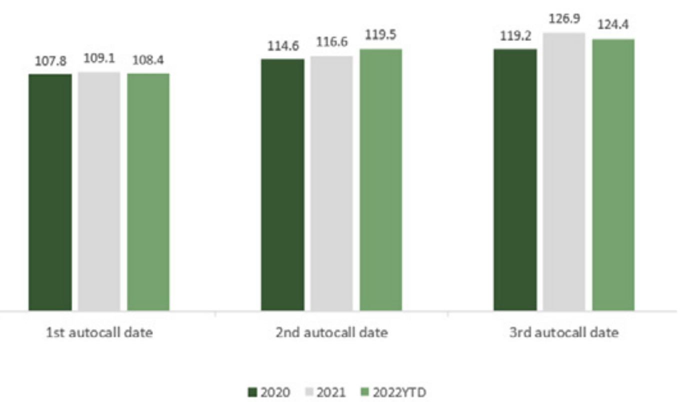
Similar to the overall market trend, close to 100% of all early redemption events for vanilla autocalls have happened on one of the first three observation dates.

While returns have remained stable, the time necessary to reach the third observation date has increased by close to one year since 2020.

This is based on a sample of some 3,000 autocall events. In 2021 and 2022, the trend has been for the first three knockout dates to follow in one-year intervals starting from around 12 months after the pricing date.

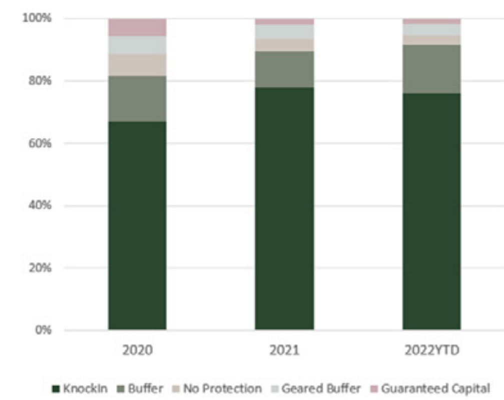
This was not the case in 2020 when the second observation date happened four months faster on average, while the third observation was a full year earlier.

US: average of vanilla autocall returns



Source: StructuredRetailProducts.com

US: capital protection



Source: StructuredRetailProducts.com

It is not uncommon for these autocall products to have another positive outcome for investors apart from the call premium (i.e. a greater of a fixed percentage and participation in the underlying or just some raw upside participation at final valuation), so that is something to keep in mind when considering the longer waiting period until a successful knockout.

Based on around 13,000 performance numbers for products expiring and maturing in 2021, the average annualised performance ranges from 7.3% pa for products offering uncapped participation, to 11.7% pa for vanilla autocalls.

The best-performing product in 2021 was UBS Financial Services' Return Optimization Securities on the common stock of MetLife, which achieved its maximum gain of 66.98% in just one year of investment.

While fully protected products have remained marginal, structures with buffers are on the rise in 2022, even compared with 2020 when they accounted for close to 15% of issuance. However, the share of geared buffers continues to dwindle.

Knock-in products are stable at around 75-77% of the overall issuance for the past two years.

Products that feature no protection against a fall below the initial level have decreased from 5.6% of the overall issuance in 2020, to 3.9% in 2021 and approximately three percent in 2022 to date.

Products offering 100% capital protection are also showing a downward trend. In 2020, more than 1,300 products (5.6% of the total issuance) worth US$2.8 billion were fully protected. Issuance of these structures was down 46% in 2021, when 705 products (2.2%) sold US$1.8m. So far in 2022 there has been a slight recovery, with 343 capital protected products (2.9% of the total issuance) worth US$920m introduced to the market.

Based on some 10,000 buffer products issued in the period 2020 - YTD2022, buffer protection has been stable in the past years. It is fairly equally split between one that hovers around 10-15% and one that works in the 15-25% range.

As percentage of the overall issuance, products with buffers accounted for about 14.6% in 2020, 11.8% in 2021, and 15.4% in 2022.a

Higher buffer amounts are very rare, though 45% and 50% buffers (very high by market standards) have appeared in autocalls issued by Goldman Sachs in 2022

Geared buffers are largely found in the 10-15% and 15-25% category.

The final graph shows an index that measures the performance of structured products in the US market over the last three years.

The index is based on weekly independent valuations provided by FVC.

US: structured products index: market performance at a glance

Source: StructuredRetailProducts.com

Euronext: almost impossible to meet all EU, national requirements

Euronext made the headlines on this year's SRP Europe Awards after a structure sold in France by Hedios and issued by Société Générale linked to the Euronext Eurozone 40 EW Decrement 5% Index delivered 144% in its first observation date.

The French company also saw its Euronext France Social Decrement 3.75% Index being the recipient of the SRP Best Structured Products Funds Award – as the underlying of the LCL Impact Social 2021 a fund that directly invests in the components of the index sold by LCL and issued by Amundi.

Fabrice Rahmouni (pictured), head of Euronext Index Business at Euronext, talks about the company's ESG and thematic focus, index complexity, regulation and standards.

"ESG indices are at the core of our strategy," says Rahmouni, pointing that sustainability has been part of its strategy since 2008 after the launch of the first low carbon Index in 2008.

"Last year, we moved forward on our plans with the decision to provide ESG alternatives of all our blue-chip Indices, responding here to the growing demand for sustainable investment tools from investors and the wider market," he said.

In March 2021, Euronext launched the CAC 40 ESG index which was the first ESG play developed by the index arm of the European exchange.

The launch was successful as Amundi and BNP Paribas - two of the main ETF providers in France - decided to switch their entire exposures on the CAC 40 to the ESG version.

In October 2021, the exchange expanded its ESG offering to other blue-chip indices with the launch of the MIB ESG index – this index and the CAC 40 ESG version were developed in partnership with Moody's after a consultation with the market.

In January 2022, Euronext partnered with Sustainalytics to launch the AEX ESG and OBX ESG indices in the Netherlands and Norway, but the company is looking to leverage its offering further with climate alternatives.

"We plan to deploy climate alternatives of all our blue-chip indices, starting with the CAC 40 by providing a CAC 40 Climate index in the coming months and then expand the offering to other indices," said Rahmouni.

"This is the visible part but on a day-to-day basis ESG is coming up on every conversation – almost 80% of the requests we get are for customised indices include ESG considerations. Among them, we have developed a wide range of indices which are aligned with EU Climate Benchmark regulation, providing EU Paris-Aligned Benchmarks [PAB]."

According to Rahmouni, this increasing demand is being driven by the different EU and local regulations and labels framing the ESG space which is line with Euronext's "ambition is to proactively contribute to the construction of a sustainable financial ecosystem".

GREEN FOCUS

Despite the evolution of ESG as an investment theme over the last few years most of the demand continues to be on the environment/climate side although new underlyings and programmes are being developed to support social goals causes as well.

As a concrete example, Rahmouni points at the LCL Impact Social 2021 product which received the SRP Best Structured Products Funds Award this year - the fund directly invests in the components of the Euronext France Social Decrement 3.75% Index.

"This is a leading benchmark with a focus on social risks in France," he said. "This is an example of underlyings with a social component are entering the market."

On the environmental side, new underlyings are being developed as clients are focusing on specific themes such as biodiversity.

"We have developed biodiversity indices for a couple of clients which are working quite well," said Rahmouni. "On top of that, we also see increasing demand for indices aligned with EU Climate benchmarks (such as PAB, CTB indices).

"Currently, we are working on a Biodiversity PAB index. These concrete examples suggest that as the E part gets improved, it becomes more valuable, and we think it will happen with new indices with a social component too."

On the governance side, there is no concrete pure index play today despite being one of the drivers of the shift towards ESG.

"Six years ago, when we decided to accelerate our strategy in terms of ESG index development, our first conviction was that governance would be the top priority to work on because it's a topic that asset managers know well," said Rahmouni. "However, developments on the G of ESG remain limited."

"We plan to deploy climate alternatives of all our blue-chip indices, starting with the CAC 40

Fabrice Rahmouni, Euronext

Like other index providers, another area where Euronext sees scope for growth is on the development of thematic indices where the exchange has "important projects and partnerships in the pipelines".

"[Thematic indices] allow you to extract value of market trends such as cybersecurity and others, he said. "This is an interesting area where data becomes critical. It is difficult to capture those trends using the traditional historical sectorial classification, and you need new and more advanced data."

This is also an example that everything in indexing starts with high quality data, according to Rahmouni.

Decrement will also be on the agenda going forward as it has become "a way for issuers to manage their dividend exposures and provide better pricing". Risk control and inflation will also be areas of focus at Euronext, said Rahmouni.

COMPLEXITY, STANDARDS

As complexity increases in the indexing space, the focus is on education because "there is no perfect answer to this question" - something simple can be risky and complexity does not equate to risk.

"The addition of new features and filters to an index is not aimed at tricking investors," said Rahmouni. "Quite the opposite. These are basically aimed at protecting the end investor. The goal is to improve the risk profile or limit the volatility of investors' exposures.

"The key here is to have a clear and transparent methodology respecting the regulatory framework. Regulators have done their job and keep a close eye on anything that does not meet the regulatory requirements."

Despite the increased complexity in some of the underlyings used in the structured products market, Euronext tries to stay way away from too complex strategies and tend to focus on straight and rule-based kind of methodologies even for customised solutions.

"Transparency and education are key when you put index strategies in the hands of investors, and it is the responsibility of financial advisors as well as the index provider to clearly explain the risk profiles of those products embedding custom indices.," said Rahmouni.

Regulation has played a positive role in providing a stricter framework to create and manage indices.

"We think it is better to engage with regulators constructively and beforehand to make sure all requirements are satisfied," he said. "You must be able to demonstrate why a particular innovation would be beneficial for the end investors regardless of their complexity. For instance, a risk management type of feature introduced to improve the ESG footprint of the underlying index would be beneficial for the final investors."

The EU Paris Aligned Benchmarks regulation (PAB), for instance, requires advanced optimisation and as such it has been perceived as too complex by national regulators which has led to a paradoxical situation where PAB indices were not eligible as underlyings of structured products.

"But the national doctrine has evolved, and any mechanisms added on a product that provide a ESG benefit or ESG value to investors will no longer be systematically considered as a blocking point," said Rahmouni. The regulatory requirements to build a low carbon index under label are very complex, and under the AMF rules PAB indices would not have been eligible for structured products because the number of mechanisms.

However, by engaging with the regulator in these discussions a solution has been found to deliver suitable solutions under the current regulatory framework.

"We will also align our offering with other regulations not directly impacting us, but impacting our clients such as SFDR, EU Taxonomy, AMF "ESG" Doctrine etc," said Rahmouni. "The market needs ESG standards because otherwise there is the risk of people talking about ESG but referring to different things."

Rahmouni's outlook on the development of European-wide ESG standards is positive as the different regulations have helped to bring some uniformity across markets. "The next challenge will be to also harmonise local specificities, which could be slightly different from one country to another."

S&P DJI: decrement is evolving, we see demand in the US

S&P Dow Jones Indices (S&P DJI) was awarded the Best Index Provider accolade at this year's SRP Europe Awards in London for its continued expansion in the European market and market support with new underlying strategies.

The index provider launched 34 decrement indices in the 12 months to 30 September 2021, which were featured in a substantial number of products with sales volumes in excess of US$950m. Goldman Sachs launched 55 products, BNP Paribas issued 50+ products, with additional product issuance from Credit Suisse and Barclays.

The S&P Euro 50 Equal Weight 50 Point Decrement Index was the most utilised underlying appearing in 36 products worth an estimated US$235m in notional (as at end September 2021). There are currently 90 products linked to the series one and two of this index worth an estimated US$775m, according to SRP.

Looking back at last year, Aye Soe (pictured), global head of core and multi-asset product management, S&P Dow Jones Indices, says 2021 was a great year in terms of performance of capital markets with the S&P 500, which remains the most utilised index in the global structured products market as a single underlying, returning 21.57%.

"At a business level, we also did well," she says. "Our most recent earnings show that we grew over 16% yoy - from US$989 million in revenue in 2020 to US$1.5 billion in 2021.

"Issuance of structured products tied to our indices remained incredibly robust with strong demand for our indices seen across all the regions. The US remains our biggest market for structured products, but we also grew in Europe as our relationships with all the issuers in the continent remain as strong as ever."

Competition for new underlyings in the structured products market is increasing. Is this good for the market or a risk to flood it with too many strategies?

Aye Soe: In our opinion, the index industry is a competitive market because there are low barriers to entry and room for innovation. Competition is good because we are all in the spirit of providing solutions to our clients. The key is to keep pace with the competition and the new solutions coming to the market.

Competition keeps big players like us on our toes - we also must innovate constantly and address areas where we may be slower because of our size. We have a pulse on the market, and strong relations with clients which enables us to deliver solutions that fit our client's needs.

What trends are driving activity and growth for S&P DJI?

Aye Soe: ESG, digital assets and thematics are driving significant activity and development but our broad market indices continue to lead, especially in Europe. We're very pleased that our international equity indices are making inroads in different markets and with established players.

Decrement is interesting because it addresses specific issues related to structured products. These indices are evolving and incorporating newer features such as rolling futures with financing embedded. We are starting to see some demand for decrement indices in the US, and we are working with a few banks on those. It will be interesting to see if the US market follows Europe in terms of usage of decrement indices.

"Issuance of structured products tied to our indices remained incredibly robust

What are the main concerns in the current environment and how can investors remain in the market?

Aye Soe: So far, 2022 has been a challenging environment with the threat of high inflation, investors de-risking and broad market selloffs. Given the environment, our clients are rotating away from growth into value, resulting in increased demand for our value indices. In addition, the demand for risk control, managed risk type of indices as well as dividend and income generating strategies, are rising. It's not a surprise that we are seeing this shift in demand as investors look to position themselves for 2022.

It's worth nothing that we've been around for a long time and lived through many market cycles, so we are well prepared when it comes to offering a range of solutions to our clients. There's a lot of volatility in the market which has resulted in new innovative volatility features embedded in indices.

How important are structured products within the overall S&P DJI offering?

Aye Soe: This is a very important market for us both from a growth and product development perspective – demand from the US market and Europe continues to grow and this activity is also allowing us to engage and work with clients to develop new solutions. We have collaborated with a number of investment banks to develop custom indices and deliver new exposures to investors.

Even as we continue to develop our IP indices we also act as a calculation agent and benchmark administrator for clients with which we have had partnerships for a long time. We remain the first port of call for many product providers because of our established position in the market. Our partners trust us. They know our deep level of client centricity and the extensive product, marketing and education support we provide.

Some smaller players are entering the index space and making inroads into the structured products market. Is this a threat for the bigger index providers?

Aye Soe: We welcome new entrants as this is positive for the market. However, there are major differences between established players and newcomers. Product providers know that you cannot cut corners in indexing. We have a strict control framework, and we spend a good amount of capital and resources to develop our methodology and governance frameworks to ensure there is no conflict of interest.

The speed to market of the big index providers may not be as fast as some of the new entrants because we have internal risk and review committees that apply a number of checks and controls. It's great that the industry is thriving, and bringing innovation, but governance and control must be a centrepiece of the business model as you can lose trust from investors very quickly.

This also applies to complexity. All methodologies try to address a particular need or a particular outcome. Index providers must provide a rules-based approach and full transparency so the methodology documents are made available to the public – everybody can look at the methodology. What's important is that complexity is broken into transparent pieces that we can stand behind and explain if a client comes to us and asks about the methodology of a particular index.

What are your plans for the remainder of the year?

Aye Soe: We are very focused on growing our footprint globally. We want to increase our presence in regions and markets such as Europe and APAC. We are reinvesting into our teams in order to grow our presence in those markets. We're increasing our research, marketing, as well as sales and business development capabilities in those regions.

Our goal is to grow our international footprint and leverage our strengths to meet the needs of product manufacturers and investors.

Qontigo: customisation and technology are at the core of our strategy

Qontigo won the Index of the Year award in this year's SRP Europe conference with a joint submission with French financial intermediary firm Silex on the Euro iStoxx Ocean Care 40 index.

The index selects 40 European large capitalisation stocks using 12 criteria regarding oceans preservation and allows investors to reduce their impact on oceans with an index that has Green House Gas intensity four times lower than the Eurostoxx 50 - the Euro iStoxx Ocean Care 40 index has been deployed in its decrement version across 29 products sold in the French market worth an estimated US$400 million.

"The true beauty of this index is achieving ocean friendly and low carbon selection while maintaining a behaviour extremely close to that of the Eurostoxx 50 (correlation above 99%)," stated the Qontigo submission. "We believe that this solution which brings better pricing for structured product without performance trade-off, an extremely close behaviour to the Eurostoxx 50, and reduction of the carbon footprint, in a highly competitive environment, has significantly improved the value proposition for structured products investors in Europe."

SRP spoke to Axel Lomholt (pictured), Qontigo's chief product officer indices about investment themes, opportunities for growth, structured products and the threat of new entrants in the indexing space.

MAJOR THEMES

According to Lomholt, there are five major themes that are playing out in the market currently - some are old themes that are gathering a lot of momentum now, and others are new themes.

"ETFs continue to dominate distribution and it is a theme that has established itself over time," says Lomholt. "We have a tendency to think about ETFs as a product, but actually ETFs have become so successful because they disrupted legacy distribution practices that had been controlled by banks and other financial services companies for a long time."

ETFs continue to wedge into these distribution channels and have become a threat to high-cost active management.

"This trend has been around over the past decade, but now it is really cementing itself, and any new investment ideas are first deployed via ETFs as a mainstream and wide-reaching channel," said Lomholt.

The second trend is index co-creation by clients that want to use their own data.

"This is a fascinating new theme which is in line with the market shift towards customisation at a level we have never seen before," said Lomholt. "We have all grown up with indices that were broad-based, and then we saw factor-based indices and other strategies coming to the market. But now, we are getting to a completely new level with very specific requests for targeted exposures."

This shift has had a significant impact on the industry which has seen a myriad of data providers developing new ways of getting data, including artificial intelligence.

"As an index provider this is very interesting because it has opened new opportunities to work with data providers and go beyond our own research," said Lomholt.

The third trend is also based on an old theme which is portfolio construction with passive investments. The low-cost replication of standard indices has given way to intraday liquidity - index investors are not just buying the market passively anymore.

"Technology has enabled much deeper liquidity and the sophistication of trading is being used to build portfolios using these low-cost ETFs and other listed products which enables portfolio managers to slice and dice investment portfolios," said Lomholt. "That means that demand for thematic exposures can be addressed in different ways."

Next in line is sustainable investing which has become one of the guiding principles for investors and is now an integral part of the capital markets offering.

"A few years ago, sustainability was about ESG benchmarks and indices, and creating new products. But the way we see it now is that sustainability is going to change the entire capital market system," said Lomholt.

"Thematic, factor indices and sustainability are in focus in the structured products market as drivers of investment and activity

"The global ESG reporting ecosystem is developing very rapidly and is being embedded in corporate governance frameworks. Listing requirements for ESG products, ESG benchmarks, and standardisation are examples that ESG is no longer about using a benchmark but about how the entire capital markets will transition towards a sustainable economy."

Lastly, Lomholt points at technology as one of the main themes driving investment and growth, and a catalyst for change in wealth management since the global financial crisis.

"Robo advisors are a challenger to active management as they give investors the tools and understanding to build their own portfolios. That is putting pressure on the whole wealth management business model," said Lomholt.

Where is the growth coming for Qontigo in an increasingly competitive market environment?

Axel Lomholt: Qontigo's growth is at the heart of the shift towards customisation. We can engage deeply with clients and deliver very bespoke and tailor-made exposures.

Technology has also allowed us to offer optimisation and risk management tools that allow us to respond to clients' requests for efficiencies and new exposures for investment products. This fusion of customisation with technology is at the core of our strategy.

Qontigo launched in late 2019 a self-indexing platform. Do you see self-indexing as threat and as a way for new entrants to take market share from existing providers?

Axel Lomholt: Self-indexing can be an interesting alternative to ETFs and mutual funds. Whether they will be a threat remains to be seen.

If an investor has a certain level of wealth, it makes sense to have your own segregated portfolio, your own index. But when we look at the data, it is still a small portion of the overall market. Most investors still buy mutual funds and ETFs linked to well-known tradeable indices.

I think investors are aware that it is not easy and trivial to run indices. This is a complex world with enhanced oversight which is difficult to replicate by an asset manager.

The ETF market has become a focal point at Qontigo since you joined the company. Does this mean less focus on structured products?

Axel Lomholt: Structured products are part of the history and heritage of Stoxx indices. Our indices have been very successful in the structured products market, and I know that because I was a client of Stoxx for many years [Lomholt joined Qontigo in Nov 2021 from Vanguard, and he also worked at BlackRock and HSBC as head of global indexing.]

Stoxx has been able to support the structured products market and respond to investor and market needs with highly liquid, rules-based transparent indices. Structured products will continue to be an important segment for us, and we will look to maintain and even grow our strong position in this market.

We have also recently expanded our focus beyond structured products to the ETF and asset owner segments. One key element of my mandate is to ensure we increase our profile in the ETF market and leverage our capabilities to help asset owners with the co-creation and customisation on indices.

The structured products business is a very transactional based business and is about how quickly you can deliver. They are two different businesses, but complementary - we want to compete in both markets.

How do you see the rest of the year panning out?

Axel Lomholt: Demand from the structured products market is in line with what we see across other segments. Thematic, factor indices and sustainability are in focus in the structured products market as drivers of investment and activity.

Going forward, inflation will be at the top of the agenda for market players and investors. This is the first time in a generation that people are thinking about inflation, and how to hedge their portfolios against that inflation. As a market risk some investors will look to capitalise on it, and others will try to hedge their exposures against a prolonged period of inflation.

CRYPTO NEWS

Goldman plans synthetic long/short bitcoin-linked securities and ETNs in Europe

The US investment bank is building up its offering to provide clients access to the crypto space.

Goldman Sachs Group will offer prime brokerage clients seeking exposure to the crypto market the ability to go synthetically long/short bitcoin-linked securities and exchange-traded notes (ETNs) in Europe, according to Matthew McDermott (pictured), head of digital assets at the US investment bank.

'We're also looking into offering lending structures in and around the crypto space to corporate clients as well as structured notes,' he said in the latest iteration of the bank's research report Crypto: A New Asset Class.

'From a wealth management perspective, we are gearing up to offer access to cryptocurrencies, specifically bitcoin, via fund or structured note-like products.'

He acknowledged that it is early days in the bank's engagement in the crypto market and it is only just starting to offer its clients access to the crypto space as 'the regulatory landscape remains in flux'.

'We're currently transacting non-deliverable forwards, which we cash settle, and CME futures on bitcoin and ether, the latter on an agency basis for now,' he said. 'To help facilitate client transactions, we expect to trade the bitcoin CME future and certain pre-agreed upon bitcoin-linked securities on a principal basis in the near future.'

According to McDermott, liquidity has increased dramatically over the past year. Between April 2020 and April 2021, daily bitcoin dollar spot volume increased from ~US$300m to ~US$1.5bn, and daily CME bitcoin futures volume grew from ~$US200mn to close to ~US$2bn.

'That's a very clear indication of the inflow of institutional demand into this market, which has only just begun,' he said. 'But even though liquidity has increased, it's still difficult for institutions to gain access to the market, which remains quite fragmented.'

Adoption constraints remain mostly around mandate limitations as for corporates increased involvement often depends on whether their board feels such involvement makes sense given the nature of the company and its objectives.

'Some investment funds and asset managers don't have the authority to invest a portion of their portfolios in crypto,' said McDermott.

LIMITATIONS

The second constraint is the ease of access - how easily can clients gain exposure to the market, if the liquidity sufficient to meet their needs, and if are they comfortable enough with the custody and security aspects of managing these assets.

The third constraint, according to McDermott, is whether having crypto exposure is the right thing to do and makes sense for their portfolios, balance sheets etc.

However, as 'evidenced by the increased inflows, more and more entities are becoming comfortable with having some exposure to the crypto space,' said McDermott.

A recent survey by Goldman of 328 chief investment officers and chief financial officers, representing nearly half the US$26 trillion global insurance industry, indicated that six percent of respondents were invested in crypto or considering doing so.

CRYPTO NEWS

Goldman, Marex execute first ether-linked OTC trade

The non-banking issuer was the counterparty for the first Ethereum OTC derivative transaction executed by the US bank in the crypto space.

Goldman Sachs (GS) has executed its first crypto derivative transaction tied to ether (ETH) via an over-the-counter (OTC) non deliverable forward (NDF) trade with Marex Solutions acting as counterparty.

The ether-linked NDF pay out will be based on the price of ether and offers institutional investors indirect exposure without holding the digital currency - on settlement the option holders will receive the cash value rather than ether.

"The trade with Goldman Sachs highlights the gap we can bridge between traditional finance and the digital asset community," Nilesh Jethwa, CEO at Marex Solutions. "This leverages off our existing capabilities to manufacture customised derivatives."

Harry Benchimol (pictured), co-head of derivatives engine at Marex Solutions, said the ability to manufacture derivatives to be traded as an OTC or as a security has enabled the first transaction on Goldman's "crypto exposure offering" which is one of Marex's "main counterparties, particularly on equities and FX".

Marex added crypto as a new asset class to its offering in January 2021 and has built a proprietary platform to offer customised OTC and structured note crypto products to institutional clients.

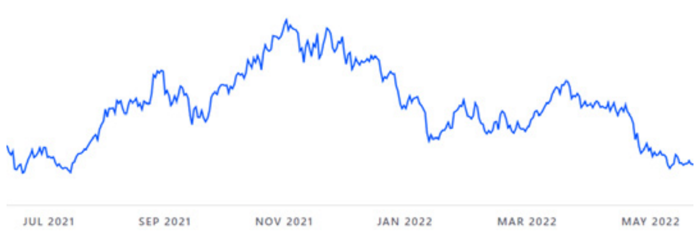
Since then, the firm has manufactured several derivatives in a structured note form – Marex issued the world's first autocallable linked to bitcoin and then extended its range throughout the year to include other coins such as ethereum, as well as decentralized protocols, correlation products between crypto assets and cash and carry trades.

"We are active as well in the OTC space, providing investment or hedging solutions to clients holding crypto or will want to get exposure on that new asset class," said Benchimol. "For example, miners who need to hedge their bitcoin production."

Marex has also built relationships with some of the main crypto players and partnered recently with Coinbase, which acts as the main custodian and liquidity provider for crypto.

"Crypto assets are the most popular with our Agile platform," said Benchimol. "We have access and can trade more than 100 different cryptocurrencies and can trade their spot price. We are also working on reverse repo trades on crypto and are active on the lending market."

Evolution Ethereum price (ETH/GBP)



Source: Coinbase, as of 14 June 2022

The Goldman trade indicates an increasing appetite for cryptocurrencies by institutional investors despite the headwinds resulting from the fall of stablecoin terra USD (UST), concerns of a market collapse as major crypto assets plunge and a poor macroeconomic outlook.

The overall market cap for cryptos nose-dived to below US$1 trillion for the first time in nearly 18 months on 13 June, with ether dropping nearly 33% of its value in the past seven days.

"With the big moves in the wider crypto market, we note that investors are more cautious, however we are seeing interest from clients looking to benefit from lower entry levels as well as the higher volatility levels combined with an attractive downside protection," said Joost Burgerhout, head of Marex Financial Products. "Products that allow investors to invest with a downside protection and monetise the high volatility levels show attractive conditions at the moment, especially for investors that expected the market not to fall any further and move sideways, this can generate high returns."

The US bank unveiled in a recent report its plans to provide prime brokerage clients access to the crypto space via synthetically long/short bitcoin-linked securities and exchange-traded notes (ETNs) in Europe.

EXPERT VIEW

Analysis: Vol KO Puts v the temptation of the 95% strike put

The new service allows users to create portfolios and filtered views of the US database. *by Eric Barthe*

How to make cheaper hedges without lowering the strike.

Investors are always reluctant to buy puts to protect their portfolio. Indeed, the market "usually goes up" and spending premium to buy protection is seen as a waste of money and a source of performance impairment. Worth noting that they usually buy and hold the hedge until maturity.

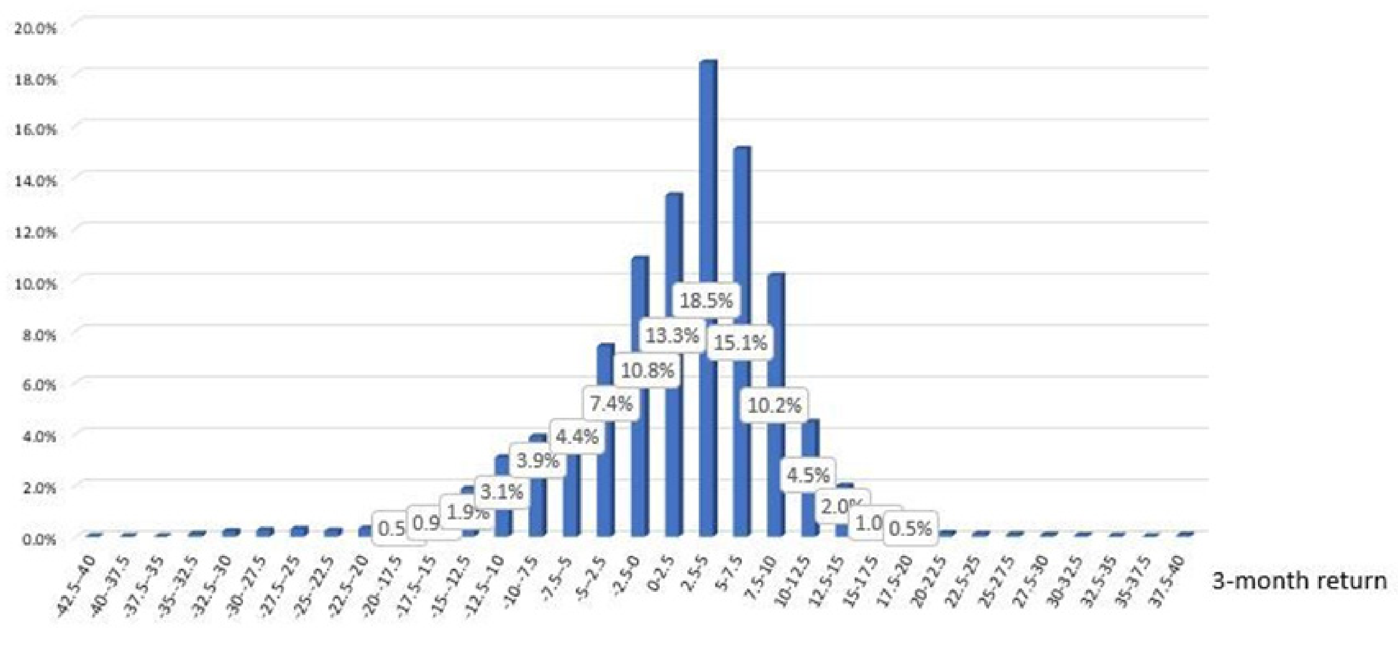
They go for cheap hedges. Considering vanilla solutions, for three-month maturity, the 95% strike is very often a favourite. A 95% put is cheaper than the ATM put (by around 1.70%) but at the same time 95% does not seem too far out: in other words if the market goes down it will go there, so it looks like an efficient hedge.

In practice the scenarios where the SPX is down between -5% and 0% make up for 18% of the occurrences, it is a lot. Scenarios where the SPX is down more than -5% make only 16.20% of occurrences, and to breakeven you need a move down of around -8%.

The wise investor (in terms of timing) who bought a 95% Put on SPX three months ago would have paid more than 3.00% for it and got only 3.50% back... a very poor reward for a very good view.

There are much better ways of cheapening hedges and history shows that lowering the strike is not the right way.

S&P500 3-month returns since 2000



Source: Eric Barthe

EXPERT VIEW

Volatility Knockout Puts - Only pay for the way the market is (not) moving

Investors choose the three-month 95% put on SPX, that rarely pays out, because it is cheaper than the ATM put but it rarely pays out unless you manage it actively. Another way of cheapening the put has been developed recently and makes the most of the elevated skew of SPX.

It consists in a regular put option that knocks out if the realised volatility observed across the life of the option is above a certain level. Ex: ATM Put on the SPX with 30 volatility knockout will have the same payout of an ATM if the realised vol of SPX observed at maturity is below 30.

Setting the volatility knockout at 30% cheapens the option by circa 40%. That is an extreme cheapening thanks to the steepness of the skew!

Indeed, current SPX three-month skew suggests that the SPX should realise 30 if it goes down 10% and 35% if it goes down 20%. History shows that those levels are rarely reached. Since 2000, the three-month realised volatility is below 30 in 92% of cases. Exceptions being the financial crisis and Covid. (see graph below).

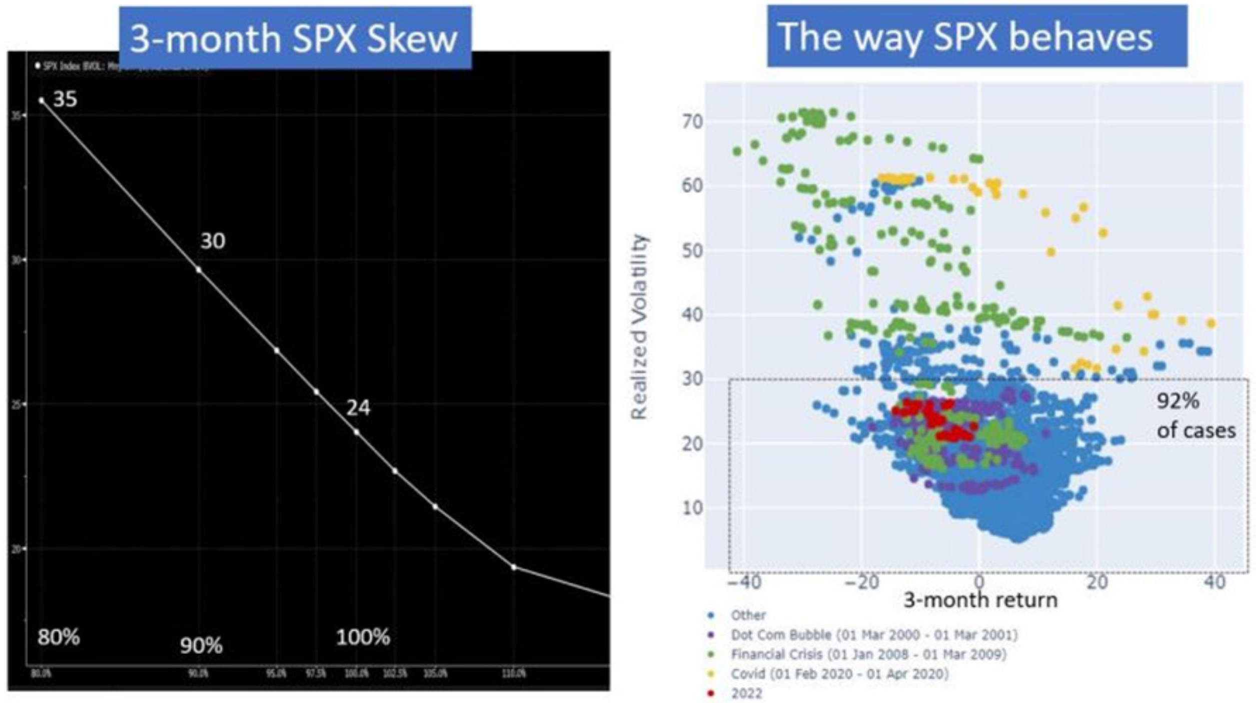
2022 is depicted as a volatile year but looking at figures for the SPX, we are in the 92% bulk (see red points below) with max vol of only 26.40. In other words, the ATM put with volatility knockout is a very efficient way of buying a cheap hedge that performs well historically for "buy and hold hedgers"

That product is highly (and beautifully!) exotic and we will dive into it soon.

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

Eric Barthe, Partner, Head of Financial Engineering, Anova Partners - www.structuredproducts.net

Eric is partner at Anova Partners, where he heads the structuring team and drives the firm's financial engineering efforts. He started his career as an exotic trader at Goldman Sachs in London. He was there for eight years, trading on the index and single stocks exotic book. After a short interval with the Boston Consulting Group, Eric joined Leonteq as global head of structuring and head of financial engineering. He was also previously a professor of financial engineering for the MSc International Finance at HEC Paris. He is a graduate of the Ecole Centrale Paris, HEC and the London School of Economics.



Source: Eric Barthe

Analysis: uncertainty on single stock dividend payments is higher than on indices

Single stock decrement indices make sense when dividend levels are unpredictable and variable. *by Suzi Hampson*

An equity decrement index is a version of an index or stock where the dividend stream is replaced with a fixed dividend amount which is subtracted from the total return version of the asset at a constant predefined rate.

Decrement versions of major indices have been popular underlyings for structured products for some time and their rise is well documented.

In this piece, we will instead focus on the new trend for linking structured products to decrement versions of a single stock. The term Single Stock Decrement Index may itself cause confusion as many would expect an index to be comprised of multiple underlyings.

The underlying in this case is the single stock with a change in dividend calculation. Because this must be calculated accurately and transparently under Benchmark Regulation (BMR) it is defined as an index.

A table of products live on the SRP database linked to single decrement indices by country breakdown is shown below. France is the clear market leader for products linked to these underlyings.

Decrement indices are very popular in France. Of the top 15 underlyings by sales volume, over half of them are decrement versions of traditional indices or funds, and not single equities

The most frequently used decrement single stock underlying in France is the iStoxx ORA GR Decrement 0.7 EUR Index although it has no products striking in the last two months. Of the products striking in May, two are linked to iEdge Credit Agricole SA Decrement 0.8 EUR GTR Series 1 Index and the other two to decrement versions of ENGI and FP. These two indices rank at 21 and 110 respectively. It can also be seen that Credit Agricole stock itself is at number 12 on the list.

The products linked to single decrement indices in France are similar in choice of product type to conventional equity linked products in that market. All of the live products in this category listed on SRP have autocall features and either pay a snowball style coupon or income with or without memory. In addition, they are all at risk products and linked to either one or a basket of decrement stock indices with the payoff depending on the worst performing of the basket.

The iEdge Credit Agricole SA Decrement 0.8 EUR GTR Series 1 Index is calculated daily using the total return performance of Credit Agricole SA and deducting a daily accrual of the synthetic dividend set at 0.8 Euros.

As at 17 May 2022, the closing level of the stock was 10.53 which means the fixed dividend represents 7.59% of the current stock price. The average actual dividend yield for this stock over the past five years is approximately five percent. However, this includes the year 2020 where a much smaller dividend was announced in common with many other companies. The decrement amount is set at a comparable level to what might be expected given the historic dividend yield of the stock. Rather than significantly changing the return expectations of an underlying it is designed to reduce hedging risks that the investment bank faces.

Over the past two years dividend levels have been extremely unpredictable and variable because of the pandemic and the resulting economic uncertainty. Therefore, using decrement indices as underlyings in structured products has become much more popular because it removes the dividend uncertainty.

Without the use of a fixed dividend, issuers are likely to try to mitigate dividend risk by assuming a lower implied divided level when pricing products and therefore offering lower headline rates. The advantage for investors therefore should mean better terms on structured products linked to these underlyings. The recent increase in decrement indices for single stocks is also logical because the uncertainty around dividend payments for a single company is necessarily higher than for a diversified index with companies from different sectors.

Linking a structured product to a decrement index rather than the stock itself undoubtedly adds complexity. However, in the French market at least, decrement indices are now so popular that the introduction of the same concept applied to stocks can be judged a useful innovation.

Products linked to single stock decrement indices as at 17 May 2022

Market	Issuance	Sales (US$m)
France	62	555.53
Italy	9	10.16
Finland	2	7.96
UK	2	4.94

Source: StructuredRetailProducts.com

France: top 15 underlyings in 2022 by sales volume*

Underlying	Issuance	Sales (EURm)	Market share (%)
Eurostoxx 50	80	1,719	11
Solys Quadrant Europe Fund	40	1,115	7
SBF Top 50 ESG EW Decrement 50 Points	51	1,056	7
Eurostoxx Banks	52	563	4
iEdge ESG Transatlantic Water EW 50 Decrement 5% NTR Index	3	344	2
Euro iStoxx Banks GR Decrement 50 Series 2 Index	33	324	2
iStoxx Europe 600 Energy ex Coal GR Decrement 50 EUR Index	29	274	2
Stellantis	21	274	2
Orange	23	270	2
S&P Euro 50 Equal Weight 50 Point Decrement Index (Series 2)	27	266	2
Solys Euro Evolution I Fund	14	265	2
Credit Agricole	22	263	2
S&P Eurozone Equal Sector Weight 50 50 - Point Decrement Index	25	261	2
Ethique Independance et Gouvernance Responsable France 30 Decr. 5%	3	240	2
Others	742	8,374	54
Total	**1,165**	**15,607**	**100**

Source: StructuredRetailProducts.com

Dividend payments for Credit Agricole

Announcement date	Ex-dividend date	Gross dividend (EUR)	CA stock price (EUR)	Dividend yield
10-Feb-22	30-May-22	0.85	14.154	6.01%
11-Feb-21	18-May-21	0.8	10.725	7.46%
14-Feb-20	31-May-22	0.2	13.49	1.48%
14-Feb-19	24-May-19	0.69	9.8	7.04%
14-Feb-18	22-May-18	0.63	13.57	4.64%

Source: Refenitiv

Payoff Analysis: looking back

The lookback construction is one of the longest standing concepts in structured products. It has a rich history and is still in use in today's markets many decades after it first appeared. *by Tim Mortimer*

Derivatives and structured products first gained real traction in the 1980s and 1990s with the investment landscape was fundamentally different to what it is today. High interest rates and moderate volatility meant that it was possible to create growth products with full capital protection and high participation in the performance of an underlying asset. In many cases it was possible to provide participation rates well in excess of 100% because of the value generated by interest rates and dividend yields.

Supported by academic theory and trading appetite the "lookback" option was created. This gave a payoff of the growth of an underlying but calculated on the maximum price observed during the product lifetime and not simply its final value as is used in European option-based payoffs.

Linking a product to the maximum underlying value will give an outcome at least as good as the final value and will protect the investor against market falls from any peak level reached. Accordingly, the embedded option is much more expensive and therefore the participation level that can be offered is reduced.

Investors understand the importance of market timing and there can be few fund managers that have not claimed to have chosen optimal times to buy or sell at various times in their careers. The lookback option provides an automatic way to achieve this. However, this obvious ploy inevitably makes the option much more expensive and so the lookback was rarely popular even when product terms could reasonably support them. Investors can be a demanding group and those same people that want to achieve market timing usually expect markets to increase more or less in a straight line. To those investors a lookback makes little sense, and most would prefer the higher participation.

Therefore, for several reasons the lookback as it was originally devised has not been seen for a long time. However, the structured products market is a rich toolbox of techniques and solutions, with every mechanism waiting for an opportune moment to be employed. In the place of the original lookback an alternative concept has been seen regularly in recent years.

The term lookback is now more commonly used to describe setting the Initial strike price at an advantageous level for the investor. The typical construction involves taking underlying levels regularly (perhaps weekly) over an initial period (for example three months). The strike is set at the lowest level of this set of readings. It is called a lookback or "best-entry" because at the end of the initial period the best level has been fixed for the investor from the set of dates, equating to timing purchase of the underlying at the lowest level. As with any other product feature that provides a benefit it will necessarily result in a reduction of yield or participation or benefit elsewhere. However, in this case the effect is not as significant as that of a full lookback. This is because the lookback period is generally quite short and if the index falls steadily during the initial period this mechanism effectively equates to a delayed start. The most favourable outcome for the investor is actually a sharp underlying fall and then recovery all within the initial period which is relatively unlikely.

Since this feature does not cost too much it is seen fairly frequently with over 800 such products on the www structuredretailproducts.com database. The countries where it is most popular are Taiwan (with 250 products), Canada (102), Belgium (99) and France (63).

Some examples are BNP Paribas Autocall Advanced Privalto in France (daily lookback for first two months), Morgan Stanley Lookback Entry Participation Securities in USA (weekly lookback for first three months) and Goldman Sachs Callable lookback in Belgium (monthly lookback for the first four months).

It is interesting that product manufacturers choose to employ this product feature quite frequently. One of the main reasons is surely due to behavioural finance reasons. Investors feel they should be placing their money somewhere with good return prospects; however, they are often also fearful of a bad outcome or setback particularly if this occurs early in in the investment period. The same sentiment holds for advisers acting on behalf of investors and wishing to avoid awkward questions if markets fall. The best entry mechanism helps allay such fears because if the underlying asset falls in the first few weeks then the strike level will be set at a lower level and the product would not post an immediate mark to market or intrinsic loss. In this regard it seems like an ideal solution, but while protection and risk reduction are important for an investment so is having clarity of goals and a well-defined market view. For an investor overly fearful of an imminent market decline the obvious question is why not wait until this period has passed and then invest.

All types of lookback features offer a certain improvement or optionality over the simple equivalent but necessarily costs something because of that same advantage. The key question is therefore does any investor believe there is sufficient uncertainty that it is worth paying for the privilege.

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TOTAL DERIVATIVES

Product Wrap: French insurer offers access to S&P Transatlantic ESG decrement index

In this month's wrap, we look at a selection of structured products with strike dates between 15 May and 18 June 2022.

EUROPE

Insurance broker **Asac-Fapes** distributed Objectif Transatlantique 2022 in France. The 10-year product is eligible via a life-insurance or capitalisation contract only. It offers access to the S&P Transatlantic 100 ESG Select Equal Weight 50 Point Decrement Index (EUR) TR. The product is subject to quarterly early redemption if the index closes at or above its initial level on the validation date. In that case, it offers 100% capital return, plus a coupon of 1.75% for each quarter that has passed. At maturity, if the index closes at or above 75%, the product returns 170% of the nominal invested. Capital is preserved, providing the index does not fall below 50% of its starting price on the final validation date. Otherwise, the investor participates 1:1 in the fall. BNP Paribas Issuance BV is the issuer while BNP Paribas SA is the guarantor. The product is listed in Luxembourg. Priips Summary Risk Indicator (SRI): seven out of seven.

Idad marketed issue 16 of its Callable Deposit Plan in the UK. The product has a tenor of seven years and two weeks and is linked to the FTSE 100. A coupon of six percent per annum (1.50% per quarter) is paid if Goldman Sachs International (the deposit taker) calls the product on any quarterly observation date. At maturity, the plan offers 200% participation in the rise of the index. Idad will receive a fee of up to one percent for arranging the plan. James Brearley & Sons acts as plan administrator and custodian. The minimum deposit is £10,000. Priips SRI: two out of seven.

Belfius Financing Company collected €48m (US$50.3m) with Callable Interest 09/06/2028 in Belgium. The first three years of investment it pays a fixed annual coupon of 1.30%. The following years, the annual coupon is equal to the spread between the 30-year EUR constant maturity swap (CMS) rate and the 2-year EUR CMS rate. Belfius has the right to call the product after three years. At maturity, the product returns 100% of the nominal invested. Total costs are maximum 2.20% if the product is kept for six years. Priips SRI: one out of seven.

Garantum Fondkommission achieved sales of SEK7.2m (US$0.71m) with Aktieobligation Grön energi Select Fixed Best 90% kapitalskydd nr 4482 in Sweden. The product has a tenor of five-years and is linked to an equally weighted basket composed of eight shares: Orsted, Clearway Energy, Enel, Centrica, Vestas Wind Systems, First Solar, NextEra Energy, and Acciona. It features the fixed upside payoff with the three best performing shares given a fixed performance of 30%. At maturity, if the basket is at or above its initial level, the product offers a capital return of 100% plus 150% of the rise. Otherwise, the investor participates 1:1 with its fall, floored at a minimum capital return of 90%. The final basket level is subject to 12-month backend averaging. Goldman Sachs International is the issuer. The issue price of 100% includes a selling commission of up to six percent. The product is listed at Nasdaq OMX Stockholm. Priips SRI: two out of seven.

Pohjola Pankki targeted OP Pankit Autocall 18/2022 at private banking investors in Finland. The seven-year MTN is linked to the Bloomberg Transatlantic Top Banks Decrement 50 Point EUR Index and pays a potential annual coupon of 12%. The product has a lookback feature with the lowest level (daily closing) between 27 April and 1 June 2022 chosen as the strike level. At maturity, if the index has not fallen below 50% of its initial level, the nominal capital will be repaid in full. A one-off entrance fee of 1.87% applies. The product sold €2.4m (US$2.5m). Priips SRI: five out of seven.

Unicredit Bank targeted is HVB Step Invest Certificate 12/2025 at retail investors in Austria, Germany and Luxembourg. The 3.5-year product tracks the Global Hydrogen Index II (Net Return) (EUR), which is sponsored by ICF Bank. It pays a fixed annual coupon of one percent. During the first six months, it gradually invests in the underlying index to optimise the entry level via averaging. At maturity, the investor is paid either by physical delivery via a HVB Open End Index Certificate on the index (DE000HVB5H27) or in cash. There is a one-off entrance fee of 0.13%. Priips SRI: six out of seven.

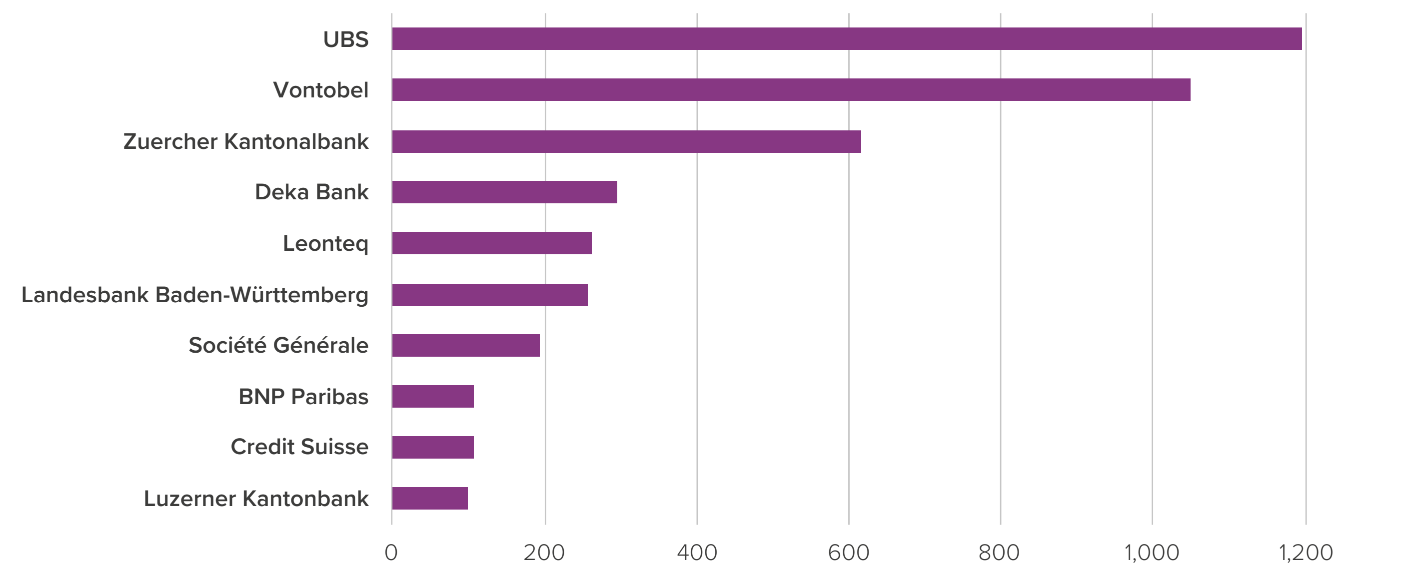
Wilgenhaege launched Double Dutch 21% in the Netherlands. The five-year Athena autocall is linked to the shares of ASML Holding and NN Group. If, on the annual validation date, both shares close at or above their initial level, the product terminates, returning 100% of the nominal invested, plus a coupon of 21% for each year that has passed. The barrier for capital preservation is 60%. SG Issuer is the issuer while Société Générale acts as guarantor. A one-off brokerage fee of four percent applies. Priips SRI: six out of seven.

NORTH AMERICA

National Bank of Canada issued NBC Autocallable Contingent Income Note, Class F in Canada. The five-year product offers access to the Van Eck Vectors Gold Miners ETF. It pays a digital coupon of 0.615% if the fund closes above 50% of its initial level at any monthly observation date. Otherwise, no coupon is paid. The product autocalls (monthly) if the ETF closes at or above 110% of its initial level. Desjardins Securities will receive a fee of up to 0.15% per note sold for acting as an independent dealer. The estimated initial value is C$94.31 per C$100 principal amount.

Raymond James sold US$174,000 worth of Buffered Return Enhanced Notes on the Eurostoxx 50 in the US. The registered note has a tenor of four-years. If, at maturity, the index has not fallen below 80% of its starting price, the product offers minimum 100% capital return, plus 160% uncapped participation in the potential rise. Otherwise, the investor participates 1:1 in the fall of the index. The selling commission is 2.75% and J.P. Morgan

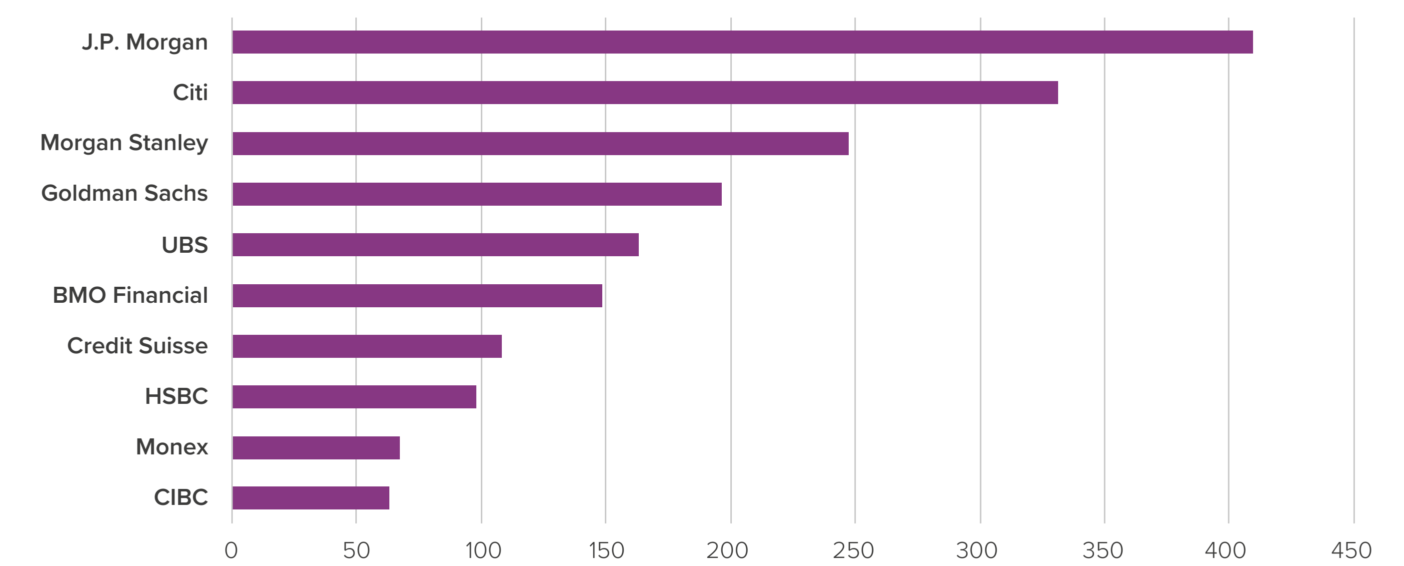
Europe: top 10 issuer group by issuance - 15 May 2022 to 18 Jun 2022*



*Excluding flow- and leverage products

Source: StructuredRetailProducts.com

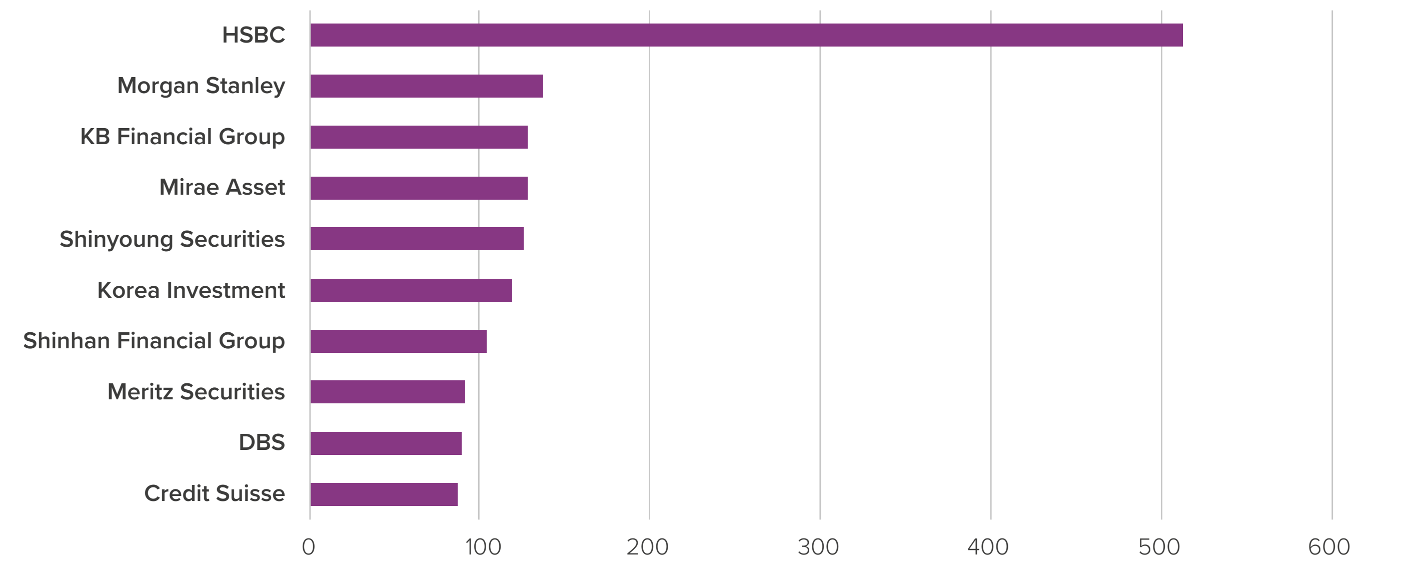
Americas: top 10 issuer group by issuance - 15 May 2022 to 18 Jun 2022*



*Excluding flow- and leverage products

Source: StructuredRetailProducts.com

Asia Pacific: top 10 issuer group by issuance - 15 May 2022 to 18 Jun 2022*



*Excluding flow- and leverage products

Source: StructuredRetailProducts.com

(the issuer) will pay a structuring fee of 0.65% to affiliated or unaffiliated dealers. The estimated value of the notes is US$961.60 per US$1,000 principal amount.

Also in the US, **Incapital** launched market-linked notes on the S&P 500. The five-year registered note offers minimum 100% capital return, plus 100% participation in the potential rise of the index, capped at 46%. Morgan Stanley is the issuer for this product which sold US$4.3m. The estimated value is US$970.30 per note. Agent's commissions and fees are set at 0.75%,

LATIN AMERICA

Monex collected MXN458m (US$22.4m) with a range accrual note in Mexico. The product has a tenor of five days and is linked to the appreciation of the US dollar relative to the Mexican peso. At maturity, the product offers a capital return of 100%, plus 0.8% pa prorated for the number of business days in the investment period when the currency pair is within the range of [19.665..20.085]. Otherwise, the product offers a capital return of 100%.

ASIA PACIFIC

Tokai Tokyo Securities'ノツクイン債/KI M20250603 sold JPY920m (US$7.2m) in Japan. The three-year note offers a fixed coupon of 8.7% pa for the first quarter of investment. Every subsequent quarter, it pays a coupon of the same amount if the share of Hitachi closes at or above 80% of its initial price on any quarterly valuation date, or 0.5% pa otherwise. The product terminates early if the share closes at or above the predetermined knockout barrier. At maturity, if the share has never fallen below 60% of its initial price throughout the tenor, the note returns 100% of the nominal invested. Otherwise, it will be redeemed by physical delivery of the underlying share instead. Svensk Exportkredit is the issuer and Bank of America is the derivatives manufacturer.

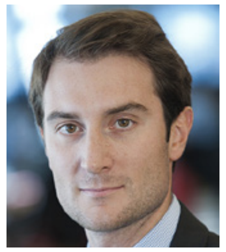
Shinyoung Securities accumulated sales of KRW11.1 billion (US$8.6m) with ELB 208 in South Korea. The bond has a tenor of three-years and is linked to a basket of two indices: Kospi 200 and Eurostoxx 50. Every six-months, the product is subject to early redemption if both indices close at or above their initial level. In that case, it offers 100% capital return, plus a coupon of two percent for each semester elapsed. At maturity, if offers minimum 101% capital return, plus a fixed coupon of 12% if both indices close at or above their initial price. Standard Chartered First Bank Korea is a third-party distributor for this product.

E.Sun Commercial Bank introduced callable note 086001100499 to private banking investors in Taiwan. The five-year product is denominated in US dollars and its return is linked to the difference between the 30-year USD constant maturity swap (CMS) rate and the five-year USD CMS rate. Crédit Agricole is the issuer.

HSBC issued 两年美元汇视环球产品022款第3期/2Y USD Note S3 in China. The two-year deposit is denominated in US dollars and features the shark fin payoff. Its return is tied to the Morningstar Exponential Technologies ESG Screened Target Volatility 7% Index. If at any time during the tenor, the price of the index is at or above 112% of its initial level, the product offers 100% capital return, plus a coupon of 2.75% pa. Otherwise, the product offers 100% capital return, plus 100% of the average performance of the index over the investment period.

People Moves

SG names Apac equity & EQD heads



Jean-Francois Mastrangelo and **Eric Jungers** have been named co-heads of equities & equity derivatives (EQD) for Apac at Société Générale.

The new co-heads replace Timothée Bousser who is exiting the French bank after 17 years in charge of the Apac business.

Effective from 1 July, the pair will report to Jérome Niddam, Apac head of global markets, with a functional reporting line to Alexandre Fleury, global co-head of global markets, alongside Sylvain Cartier.

Jungers (above) will continue to be based in Hong Kong SAR while Mastrangelo will be relocating to the Asian city from Paris. Mastrangelo was promoted to global head of structuring for products & solutions (SPS) in 2020 along with a group of senior appointments including Julien Lascar, global head of equities & equity derivative sales.

'This co-leadership structure reinforces the bank's commitment to offering a best-in-class service for its regional and global clients, who remain the center of the business,' said a spokesperson at the bank.

Mastrangelo joined the French bank in 2006 as a stock derivatives pricer within the global equities and derivatives solutions department. From 2009 to 2011, he was head of equity pricing for institutionals. After that, he became head of cross-assets pricing for institutional for Europe, Middle East and Africa (Emea) before taking the role of head of pricing and development for cross-asset solutions for Europe.

Jungers joined SG in Paris in 2001 before moving to Tokyo in 2004. He developed quantitative long-short equity models and high frequency automatons before 2008 and began to lead the desk of index replication between Tokyo and Hong Kong SAR as a managing director in 2015.

Following a stint of less than one year at Deutsche Bank, Jungers in 2017 rejoined the French bank as head of securities financing and delta one for Apac, where he was head of synthetic trading for the region. In 2019, he was appointed as Apac head of linear trading and prime services.

In addition, Bousser, ex-Apac head of equities and equity derivatives, has 'decided to pursue new interests outside of the bank'. He joined from BNP Paribas in 2005. His licence with SG has not yet been terminated, according to Hong Kong's Securities and Futures Commission (SFC).

SG didn't disclose the replacements for the positions left vacant by Mastrangelo and Jungers.

OCBC

Say Ping New, managing director, regional head of investment and structured products at OCBC Bank, has left following 12 years at the Singapore bank.

His license with OCBC Bank was terminated on 21 March 2022 and no current regulated activity is registered, according to the Monetary Authority of Singapore (MAS).

The commercial bank confirmed his departure. No successor has been appointed, SRP has learnt.

New was promoted to his most recent role in February 2021 where he led the multi-asset investment solutions in Singapore, Malaysia, Hong Kong SAR and Indonesia serving wealth customers at OCBC Bank.

Prior to that, he was head of investment and structured products from 2014, responsible for the development, structuring, advisory and execution of investment products across asset classes to retail, premier and premier private clients at the bank.

New had worked at OCBC Hong Kong branch as head of treasury advisory from 2012 to 2013 where he led a team of treasury advisors covering both corporate and premier banking clients, offering hedging and investment solutions across asset classes.

His career at OCBC Bank also included a three-year stint in Malaysia in 2009 when he joined the Singaporea bank heading a team of treasury advisors that provided structuring and advisory to corporates in Malaysia on hedging and investment solutions across different asset class including FX, interest rate and commodities.

During the past two years, New was involved in the development of the bank's ESG offering which includes at least two tranches of callable deposits with fixed rate, the proceeds of which were allocated for investment meeting the bank's ESG criteria.

New was looking to widen the range of its ESG-linked structured products, including an ESG index-linked note, New told SRP in an interview at the end of 2021. Infrastructure was under construction for the trading and pricing of both voluntary carbon credits and compliance carbon credits futures, which would be tracked by structured notes.

New's team also introduced new products throughout 2021 with the debut of the bank's fixed coupon notes (FCNs) with a one-star or all-star feature, which added downside protection when equity stocks.

HSBC

HSBC has onboarded several senior hires at its wealth and personal banking (WPB) business in Apac, including **Irene HY Chen** who joins from Citi where she was head of cross-asset solutions for Asia.

Effective 1 August, Chen will join the bank as global head of ultra-high net worth (UHNW) solutions at the investments and wealth solutions (IWS) division within the WPB business. She will continue to be based in Hong Kong SAR and report to Karl Faivre, head of IWS Emea (ex UK) and Switzerland at HSBC.

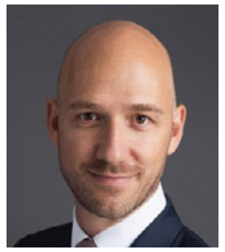
'Irene will led the partnership with global markets, investment banking & corporate banking divisions to offer institutional solutions in structured financing across liquid and illiquid assets, equity cycle solution, direct private investment, capital markets and strategic risk solutions to clients,' said an HSBC spokesperson.

Chen has a 17-year track record in derivatives and structured products in Hong Kong SAR. Prior to Citibank where she spent four years, Chen worked at Barclays from 2010 to 2017 most recently as head of structured products for emerging markets - Asia, Middle East and Africa.

Prior to joining Barclays, Chen was in charge for structured retail products in derivatives marketing from 2007 to 2009 at Credit Suisse following a short stint at Commerzbank managing derivatives structuring and sales in Hong Kong SAR.

Before 2005, Chen worked for CTBC Financial Holdings, a Taiwanese bank, for four years where she was promoted to head of treasury products and sales for Hong Kong SAR. Her financial career started in corporate banking sales at Citibank in Taiwan in 1995.

Citi declined to comment on Chen's successor.



ALTERNATIVES

HSBC has also appointed **Mathieu Forcioli** as global & Apac head of alternatives based in Hong Kong SAR also within the IWS division effective from 1 September. Forcioli joins from Antarctica Asset Management where he has held the role of head of Antarctica Private for the past year. He will report to Jan-Marc Fergg, global head of ESG & managed solutions at IWS and Stefan Lecher, Apac head of IWS.

Forcioli will be responsible for HSBC's alternatives proposition by partnering with HSBC Alternative Investments Limited and bringing proprietary as well as third-party solutions to wealth clients.

Previously, Forcioli set up and grew the Asia operations of Moonfare. Before that, he held various leadership roles at UBS, including senior roles within the wealth management private markets distribution team and the institutional investments group for Apac.

Earlier in his career, Forcioli held equity capital markets, structuring and derivatives positions in the investment banking divisions at UBS, Merrill Lynch and Calyon.

HSBC global private banking (GPB) concluded a record year in alternative investments by raising approximately US$3.25 billion in private client commitments in 2021 – 60% from Asia and 40% from Emea. The figure translated to a 41.3% increase from 2020.

SEA PROMOTIONS

The UK bank also announced seven internal appointments at IWS, Southeast Asia (SEA) with immediate effect. The new hires are all based in Singapore.

Ishan Sarkar is now the head of capital markets SEA responsible for capital markets products across personal, premier and global private banking covering equity, fixed income, structured product, FX, commodity and money market. Sarkar joined HSBC at the end of 2018 from Citi where he was senior director and head of structured products for SEA.

Jeffery Yap (right) has taken on the role of SEA head of investments and wealth solutions, reporting to Stefan Lecher, Apac head of investments and wealth solutions.

In his new role, Yap serves mass affluent and UHNW clients in Singapore and SEA. Yap joined HSBC in 2017 as regional head of fixed income before leading the regional team of fixed income, currency and commodities (FICC).

Other key hires include George Lam, SEA head of discretionary, funds and ETFs; Mahalakshmi Iyer, SEA head of wealth solutions & platforms; Fei Fei Goh, SEA head of product development; Catherine Ng, SEA head of investment sustainability and Louise Lim, SEA head of wealth product proposition and commercialisation.

Goldman Sachs

Fabiano Romeiro, managing director and global head of Private Investors Product Group (PIPG) engineering, has left the US investment bank, SRP has learned.

Romeiro was responsible for the distribution of securitised, OTC derivatives and structured products to retail clients across Emea, Americas and Asia, both directly via public distribution and indirectly via third parties since January 2016.

PIPG is a largely automated business at Goldman where interaction with clients mostly takes place digitally, with automated pricing, documentation, product issuance, execution and post-sales services. Prior to that, Romeiro was head of equities systematic trading strategies trading (Strats) with responsibility for systematic trading strategies including risk premia, volatility carry and momentum strategies for almost four years

Romeiro joined Goldman Sachs in 2010 as an executive director, derivatives analysis covering commodities, equities and fund derivatives, and was promoted to managing director in 2012. Goldman Sachs did not respond to requests for comment by press time.

Citi

Gidon Kessel, head of wealth management at Citibank Korea, has relocated to London to take a new position as head of investment and product at Citibank UK as the Korean arm winds down its retail business along with 12 other Asian markets for Citi.

In his new role, Kessel reports to Mark Mills, Emea regional investment head, wealth management and Susan Shakespeare, head of UK consumer and Emea international personal bank at Citi, SRP has learned.

During his three years at Citibank Korea, Kessel managed deposits, investments, advisory and insurance divisions in addition to structured products featuring equity-linked securities (ELS). He played a role in arrangement of issuing ESG-linked principal protected notes, which was set to take place by mid-2021 but was scratched due to the retail exit.

The wealth veteran re-joined Citi in April 2019 to lead the bank's the wealth management product division of Korea with responsibility for all areas of the wealth management product department which covers investment product, investment processes, portfolio advisers and research as well as FX services and the consumer liability product department.

He joined the US bank from United Overseas Bank (UOB) in Singapore where he spent three years as head of treasury & structured products and personal financial services.Prior to that, he was senior director of structured products, FX, private bank and wealth Asia at Australia & New Zealand Bank (ANZ), also in Singapore. Kessel left ANZ upon the sale of the Asian consumer franchise to DBS.

Previously, he worked at Citi for 16 years in several roles including management associate and financial analyst in Australia before moving to London as resident structured products manager at a vice president level.

He relocated to Sidney after being promoted to head of investment, treasury & insurance products in 2007 and moved to Greece in 2011 as head of wealth management for the Greek market. He left the US bank to join UOB in 2014 upon the sale of Citi's consumer business to Alpha Bank.

SCB Julius Baer

The joint venture between Siam Commercial Bank (SCB) and Julius Baer has set up a new wealth management team in Bangkok, led by **Varisa Labanukrom**.

With over 20 years of experience in the financial sector, Labanukrom joined from SCB's private wealth arm SCB private banking. Prior to that, she worked at SCB Asset Management, Kasikorn Bank and Kasikorn Asset Management.

The bank has also appointed four additional relationship managers - Narumon Samart, Panurat Nara-Arc, Pajaree Sakulsuraekapong and Sorawan Suwanwat. They were all SCB private bankers.

Samart previously served Phatra Asset Management and the Stock Exchange of Thailand. Nara-Arc joined SCB Private Banking after a two-year stint as a trainee at SCB wealth management. She previously worked at Kasikorn Securities. Sakulsuraekapong spent 10 years with SCB, most recently as a senior private banker. Prior to that, he was a relationship manager with SCB Asset Management. Suwanwat spent seven years at the private bank having joined from Kasikorn Bank.

At SCB Julius Baer, all structured products are offered by either SCB or Julius Baer for ultra-high net worth clients in Thailand.

MerQube

Tianyin Cheng has parted ways with S&P Dow Jones Indices (S&P DJI) to join US index provider MerQube as senior director in business development, based in Singapore, according to a MerQube spokesperson. In her new role, she will report to the chief commercial officer, which is yet to be finalised internally.

Cheng spent the last eight years as senior director at S&P DJI. She was promoted to Apac head of ESG indices in January 2022 after serving as a senior director, product manager for strategy & volatility indices.

Prior to that, she worked for Catalytic Investment Group, a Singaporean fund manager, as a quant analyst and risk manager after spending two years in quantitative equity research at Daiwa Capital Markets in Singapore.

BofA structured products head exits to join fintech

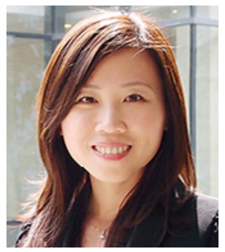
Multi-issuer structured products and annuities platform, Luma Financial Technologies, has appointed industry veteran **Rafael Salvatierra** as head of Americas. Based at the company's new Miami office, Salvatierra will report to Tim Bonacci, Luma's chief executive.

Salvatierra, who has been a board member of Luma since 2019, has over 20 years of experience in originating, structuring, marketing, and executing transactions for institutional and ultra-high-net-worth clients based across the Americas and Europe 'with product focus on solutions linked to all asset classes involving securitized and unfunded instruments with embedded optionality'.

In his previous role, he served as the head of product structuring, origination and ultra-high net-worth solutions at Bank of America Merrill Lynch. Before that, he was Citigroup's head of multi-asset structuring and cross-asset advisory within the global markets division and the private bank. Prior to joining Citi, he worked at the equity derivatives division of global markets at Merrill Lynch & Co.

Salvatierra's appointment follows last week's announcement of the firm's expansion into Canada after signing new funding deals with the Toronto-Dominion (TD) Bank and CIBC.

HSBC



Managing director, head of customer value management & marketing for China at HSBC wealth and personal banking (WPB), **Jenny (Haojing) Wang** has relocated from China to Hong Kong SAR to take up a newly-created role.

In her new position as global & Asia head of personal and premier wealth solutions, Wang will join the senior management of the bank's investments & wealth solutions (IWS) team reporting to Lavanya Chari, global head of IWS based in Singapore, according to an HSBC spokesperson. Chari was the winner of the Personality of the Year award at this year's SRP Asia Pacific Awards.

Wang has a background in retail banking and wealth management and joined HSBC China in 2010 as regional manager of East China before being promoted to head of customer of value management for China in 2013. She was later elevated to her most recent role at HSBC China in December 2015.

Under her direction, the UK bank introduced the first tailor-made mobile platform for structured deposit investors in China, which won the Best Tech Solution accolade at SRP China Awards 2019. She also played a leading role in the introduction of new underlying assets for structured deposits issued by HSBC China including the HSBC Vantage Z Index and the MSCI World ESG Screened Risk Control Index.

The appointment follows the recent hire of Jany (Ying) Wang to lead the investments & wealth solution within the WPB team at HSBC China - she joined from Standard Chartered Bank in March.

Wells Fargo

Wells Fargo has announced the formation of six distinct businesses within the corporate & investment bank's (CIB) markets group.

The heads of each business line report directly to **Mike Riley** and Dan Thomas, co-heads of markets at the US bank.

The 'organisational realignments' are designed to 'better support the advancement of our strategic goals ', said Riley. The new six business lines within Wells Fargo's CIB's markets group are aimed at developing a more diversified set of products and capabilities across asset classes.

The equities unit will be co-led by Judith Barry, head of equity products distribution, and D.J. Langis, head of equity products trading. Barry was previously head of asset manager coverage, senior relationship management team within the global institutional client group; whereas Langis' previous role was global head of equity trading and products.

Credit sales & trading will be led by Thad Sharrett; foreign exchange (FX) by Mark Jones; municipal products group by Chuck Peck; rates, commodities, & credit valuation adjustment (CVA) by Ben Bonner; and the asset-backed finance and securitisation structured products group (SPG) will be co-led by Jennifer Doyle and Chris Pink.

Barclays

Barclays has appointed **Hossein Zaimi** as head of markets for Asia Pacific. Based in Hong Kong, Zaimi will be responsible for Apac markets business and the products and service teams in the region. He will report functionally to Adeel Khan and Stephen Dainton, co-heads of global markets, and regionally to Jaideep Khanna, head of Barclays, Asia Pacific.

Hossein is an industry veteran with almost 30 years of extensive financial experience where he has taken on global and regional roles in HSBC, Crédit Lyonnais and Salmon Smith Barney. Prior to joining Barclays, he spent the last 17 years with HSBC in a variety of senior leadership appointments, most recently as global head of equities and global co-head of securities financing, and a member of the global markets executive committee.

Hossein has led a broad range of functions, including the management of all trading and structuring activities across all asset classes in Apac.

Barclays in Asia Pacific is headed by Jaideep Khanna; its regional investment banking, global markets and corporate banking business is respectively led by Vanessa Koo, Anthony Davies, and Pushkaraj Gumaste.

Bank of Singapore

The private banking arm of OCBC Bank has tapped **Robert Reid** as its global head of alternative investments and managed solutions effective from 30 May. Based in Hong Kong SAR, he reports to Lim Leong Guan, global head of products and Teresa Lee, head of greater China, Hong Kong Branch.

With 30 years of legal, consulting and financial services experience in Apac, Reid was most recently the country head of Hong Kong and Taiwan at BlackRock, having joined the firm eight years ago as the head of strategy and chief operating officer for the iShares business in Asia. He's also held senior roles in global asset management and sell-side firms, where he led large, cross-functional teams.

'Bank of Singapore has seen heightened interest in alternative investments, such as private markets, real estate, hedge funds and direct investments in recent years – particularly amongst family offices and ultra-high net worth individuals,' stated the bank. 'In 2021, it saw a 60% increase in flows towards alternative investments.'

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