SRPInsight

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ROTATION IN FOCUS

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Euromoney Institutional Investor PLC

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Crelan, Goldman in AI decrement play

The Belgian bank offers access to the artificial intelligence sector via a note that provides a guaranteed minimum return.

Crelan has partnered with Goldman Sachs for the launch of Callable Global AI Minimum Redemption USD 2029 in Belgium. The 7.8-year capital protected note is denominated in US dollars and participates 100% in the iStoxx AI Global Artificial Intelligence 100 NR Decrement 5% Index, subject to an overall minimum capital return of 107%.

From the second to the sixth year, the product can be called by Goldman Sachs International in which case, investors will receive the initial investment alongside a coupon of five percent for each year elapsed.

The iStoxx AI Global Artificial Intelligence 100 NR Decrement 5% Index, which was launched in August 2020, tracks the performance of 100 global companies that invest heavily in the development of new artificial intelligence (AI) technologies. Its investment universe is the Stoxx Developed and Emerging Markets Total Market Index and the index constituents are selected by Yewno, an independent provider of AI solutions for the financial-, education- and publishing sectors.

"The artificial intelligence sector has been around for years, but when we look back in 10- or 15-years' time, we will undoubtedly see that today the sector is still completely in its infancy," said Koen Theys (pictured), product, market and marketing specialist at Crelan.

The AI sector has gained momentum over the past year due to Covid-19 and it is expected this trend will continue in the coming years. "By linking this theme to a structured note, we also offer our more defensive investors the opportunity to invest in the sector, without putting their capital at risk," said Theys.

The index replicates the performance of the net return version of the iStoxx AI Global Artificial Intelligence 100 Index assuming a constant five percent performance deduction per annum, accrued constantly on a daily basis.

"A decrement index has the advantage that the options that are purchased to create the payoff formula are cheaper. When these options are cheaper, this provides a better formula, and therefore a potential higher return compared to a classic index," said Theys.

The product offers uncapped participation in the rise of the index, subject to quarterly backend averaging during the final 11 quarters. However, even if the average performance of the index is negative, investors are still guaranteed a minimum return of seven percent, paid out in US dollars.

"This is an additional asset for the product," said Theys. "With such a guaranteed minimum return, the customer is sure to have added value at the end of the journey. This capital gain can then offset the entry charge or the exchange rate risk."

Crelan has distributed nine structured products to Belgian retail investors in 2021 to date. Of these, four provide an overall minimum capital return of between 105% and 112%.

Morningstar acquires Moorgate Benchmarks to fuel self-indexing

Morningstar has completed the acquisition of Moorgate Benchmarks, a London-based provider of index design, calculation, and administration. ETFS Capital provided seed funding to Moorgate Benchmarks in 2019 and had been its sole external investor. With this transaction, Moorgate Benchmarks becomes a wholly owned subsidiary of Morningstar. Financial terms were not disclosed. Morningstar is seeking to leverage Moorgate Benchmarks' advanced index design, calculation and administration technology alongside its data and research to deliver 'more customised and personalised indices, delivered faster'.

In addition to his role as Moorgate Benchmarks CEO, Tobias Sproehnle will become head of Morningstar Indexes in Europe, reporting to Ron Bundy, president of Morningstar Indexes. The additional members of the Moorgate Benchmarks executive team – Gareth Parker and Mark Pralle, will join the Morningstar Indexes leadership team and report to Sproehnle.

Hedios delivers best-ever performance in France

The French structured product specialist remains bullish on the direction of the European market.

Hedios' H Performance 31 has redeemed early, returning the nominal invested plus a coupon of 44%. The 12-year life insurance, which collected €8.8m during its subscription period, knocked out at the first time of asking after the underlying Euronext Eurozone 40 EW Decrement 5% Index increased by more than 10% on 3 August 2021. It was part of Hedios' Gammes H offering and issued on the paper of Société Générale.

"It was our best-ever performance," said Julien Vautel (pictured), CEO, Hedios. "Forty-four percent in one year is fantastic for a structured product. If you invest in a single stock at the right time, it is possible to achieve a similar return, but when you achieve this by investing in a structured product with a principal protection barrier of 40%, it is an excellent performance."

The H Performance series features a bonus coupon – in this case 41% – a gain which Hedios attempts to achieve in the first few years of investment. Additionally, a coupon of three percent for each year elapsed is paid.

Since the introduction of H Performance 31, Hedios has launched nine more products in the series, including H Performance 40, which opened its subscription period on 20 August. This time, the company collaborated with BNP Paribas as the issuer while it opted for S&P Euro 50 Equal Weight Synthetic 5% Price Index as the underlying index. The principal protection barrier is set at 30%, however, knockout trigger, at plus 10%, remained the same.

"We are still bullish on the European market," said Vautel, adding that the maximum term for each product is 12 years. "We think that within those 12 years the market is going to increase by 10%."

When designing its products, Hedios is looking for equally weighted indices with a decrement in percentages.

"We want an index that has the biggest European companies, an equi-weight, say two percent per stock for an index with 50 constituents, and a decrement of around five percent," said Vautel.

As a next step, the company starts talking to the issuers it works with – Société Générale, BNP Paribas, Natixis, Credit Agricole and Citigroup.

"Each of those banks will come back to us and say what indices they have available. Société Générale recommended the Euronext Eurozone 40 EW Decrement 5% and for BNP Paribas it was the S&P Euro 50 Equal Weight Synthetic 5% Price Index. They are very similar indices with a similar performance," said Vautel.

Hedios wants to further develop its Gammes H offer in continental Europe from its London office while it also plans to open an office in Italy next year.

"The Gammes H offering are European products. We never design any products on the French market, we have nothing on the Cac 40. We always work around the Eurostoxx 50, or similar indices with a decrement in percentage," said Vautel.

Unlike most of its competitors, which design tailor-made products, Hedios' offering is conviction based.

"We have our view on the market. We still think the market will be bullish. Not everybody thinks that way, but we think the market will continue to grow.

"We follow our own conviction, we build the product, and after that we propose our product based on our own conviction to our customers via the internet. Our model is quite different from the rest of the structured products industry in France," Vautel concluded.

H Performance 40 is open for subscription until 1 November 2021.

> "Forty-four percent in one year is fantastic for a structured product

UK advisers: most of Priips disclosure material is ignored

The country's association of advisers and investment managers is calling for a fundamental review of the Priips regime rather than a 'sticking plaster' approach.

The Personal Investment Management & Financial Advice Association (Pimfa), the UK trade association for wealth management, investment services and the investment and financial advice industry, has called for the Financial Conduct Authority (FCA) and the UK Treasury to conduct a fundamental review of the entire Packaged Retail and Insurance-based Investment Products (Priips) regime.

In response to the FCA's 'Priips - Proposed scope rules and amendments to Regulatory Technical Standards consultation' released in July, the UK association is urging the regulator to take a more radical approach regarding the Priips regime, which has applied since January 2018.

According to Pimfa, members of the association have continually raised concerns about the all-encompassing nature of the Priips Key Information Documents (KID) as it 'fails to reflect the way that most consumers approach investment, and that the vast bulk of Priips disclosure material is ignored'.

'We know the FCA does not currently have the ability to institute a root and branch reform of the Priips regime, however necessary this may be, and we welcome the Regulators' recognition of the flaws of the regime, as well as indications of future action to address them,' said Liz Field (pictured), the association's chief executive.

"But that still leaves our members, and the industry at large, to operate a set of requirements that have failed to provide investors with clear, comprehensible and worthwhile disclosures since their introduction.'

The association believes that following Brexit, it is now the right time for the UK Treasury and the FCA to commit to a timeframe for a review that considers whether a Priips-style approach to product disclosure - covering everything from the most vanilla of funds to the most complex derivative products - is the right one, or whether information could be provided to investors in more concise and effective ways.

PIECEMEAL

In its response to the FCA, Pimfa argues that piecemeal amendments that 'only tackle the very worst aspects of the regime as they become apparent, do not constitute an approach that is in the best interests of either consumers or the industry'.

The FCA's recent proposals have addressed some of the association's concerns, following amendments made to the on-shored Priips Regulations by the Financial Services Act 2021, which included a five-year extension of the current exemption for Undertakings for the Collective Investment in Transferable Securities (Ucits) funds in relation to the requirements of the Priips Regulation.

However, Pimfa believes the industry at present 'is still left to operate a set of requirements that are largely unworkable and fail to provide consumers with clear information'.

The 'dubious quality' of KID disclosures and the fact that KIDs have 'failed to meet their transparency and comparability objectives, makes the question of whether the regime should continue to operate one that should be addressed with some degree of urgency'.

'Although many of the amendments proposed in the current consultation are not necessarily objectionable of themselves, they are very clearly "sticking plasters", aimed at providing short-term relief from the most problematic elements of the regime without addressing its overall lack of cogency and effectiveness,' said Field.

> "Priips KID requirements are largely unworkable and flawed

Erste offers capital protection via fair invest prop index

The Austrian financial services provider designs tailormade index for distribution in its branch network.

Erste Group Bank has issued two structured products linked to its proprietary Solactive Erste Fair Invest Index VC in Austria.

Erste Fair Invest Garant 21-32 offers 100% capital protection and has a maturity of 11-years while Erste Fair Invest Garant 90% (II) 21-26 provides 90% protection combined with a tenor of five-years. Both structures participate 100% in the performance of the index.

The index, which was launched on 21 August, is specifically used by Erste for its capital guaranteed products. It is based on a database called ESGenius that is used by the bank and its asset management company.

"Our asset management company has a Fair Invest fund, an equity fund with the story of 'fair investing'," said Uwe Kolar (pictured), head of retail and sparkassen sales at Erste Group Bank in Vienna.

Erste decided to use the same database to design an equity index were 50 companies from Europe, the US and Asia, with the best social and governance ratings out of an ESG universe are selected.

"We created this tailormade solution to have it for distribution in our branches," said Kolar.

Out of 50 index constituents, 35 companies are selected with the best scores in 'S', while the remaining 15 companies have the best rating in 'G'. The index is equally weighted and quarterly rebalancing takes place.

"The VC version is the volatility control index, which you need for pricing the options for the capital guaranteed products," said Kolar adding that the index has a volatility target of 10%.

> "ESG is an important theme for our clients

"ESG is an important theme for the bank and for our clients. In this case, for the Fair Invest, we decided to focus on the 'S' and 'G', but of course if the companies are not good on the 'E', they would not appear in the database of our asset management company," said Kolar.

The Solactive Erste Fair Invest Index VC is built in collaboration with Solactive, which calculates, administers and publishes the index.

It is not the first time Erste has worked with the German index provider. Previous collaborations include the Solactive Erste Green Invest Index, which is based on a portfolio of ESG ETFs from Blackrock – 60% equity ETFs and 40% ETFs with bond exposure. It has been used as the underlying of 20 structured products on the SRP database, dating back to September 2020. The bank's Solactive Erste Future Invest Index VC is also based on an ETF portfolio idea. This index has been utilised in 21 products since October 2019.

"Our branch network is already familiar with Solactive, as we have been doing indices with them for several years," said Kolar.

"The idea is to have one investment story for public distribution, for the asset management company, and also for our banking product.

"If you try to promote a story in the branch network, you can say if you want to invest in ESG ideas, we have the capital guaranteed products with 90%, the capital guaranteed products with 100% and you can also choose the equity fund for savings plans for long term investment from the asset management company where you have the same story combined with active management, via a fund manager," Kolar concluded.

Erste Fair Invest Garant 21-32 and Erste Fair Invest Garant 90% (II) 21-26 are open for subscription in Austria until 1 November 2021. Both products are also available to retail investors in Germany, Hungary, and Romania under different Isin codes.

CACIB expands ESG range with new MSCI decrement strategy

The French bank has rolled out the first Paris Agreement aligned climate index in collaboration with MSCI

Crédit Agricole CIB (CACIB) has partnered with MSCI to launch a benchmark aligned with the Paris Agreement which will serve as the basis for new financial solutions targeted at the structured products market.

The new range of products, fully eligible for the European "Paris-Aligned Benchmark" label, will track the performance of the MSCI Euro Climate Select 50 Paris Aligned 5% Decrement Index, which is 99% correlated with the Eurostoxx 50 index. The new products are aimed at investors seeking to make an effective contribution to decarbonising their investments.

"We have been working on this index for nearly a year," Mahdi Bouayad (pictured), CACIB's head of QIS & ESG solutions structuring, equity solutions, told SRP.

"We wanted to develop an index based on the standard to create indices aligned with the Paris Agreement under the new rules, and MSCI was an obvious choice because of their ESG capabilities."

The index has been designed with the financial objectives set up by the European Union in the Paris Agreement of 2015 in mind, which are aimed at re-orientating capital towards sustainable investments.

One of the items on the action plan developed by the European Union on green taxonomy is defining what is 'green' or ESG compliant. A second item is the benchmark regulation (BMR) which has been amended and has created two standards, a European standard based on the Paris-aligned benchmarks (PAB) and the climate transition benchmarks (CTB).

> "It is the first index aligned with the Paris Agreement

CARBON FOCUS

The index targets an immediate 50% reduction in weighted average carbon intensity followed by further decarbonisation at a rate of seven percent per year and seeks to achieve a series of secondary targets such as maximising exposure to sustainable energy suppliers, increasing the weighting of companies with clear carbon emissions reduction targets and minimising exposure to fossil fuels.

"From an equity screening point of view, it is similar to the way the other thematic indices are built, but in the methodology of weighting the components there are real differences from what we see currently in the market," said Bouayad.

"The weighting methodology is really focused on how to reduce the carbon footprint in the investment."

This new Paris-aligned index is a new pillar in the bank's green offering that we have already developed alongside another more generic ESG pillar. It allows us to meet our ESG strategy with some additional features showing our approach to deliver innovative and added value solutions to our clients, according to Matthieu Monlun, head of domestic markets & CA group sales, equity solutions, CACIB.

"ESG is fully integrated with our equity solution strategies as part of the group's ESG Medium Term Plan and aligned with the Group's mission statement 'working every day in the interest of our customers and society'. We want to make a difference with our competitors by acting and innovating before other players when it comes to developing ESG solutions."

According to Monlun, the bank's product development team has "a real ESG focus" and each product development must fit within its strategy.

"We have a good track record in the green bond space as we were among the first to issue equity linked green bonds in some European countries such as Italy and Sweden and we have also expanded our ESG offering with a wide number of indices targeted mainly at Europe," he said. "We think this new index complements and adds value to our existing range."

Cryptos: reinventing Swiss banking

As an early pioneer Switzerland has emerged as a leading jurisdiction in the development of the digital assets market as traditional private banking runs out of road.

Structured products are emerging as one of the key vehicles to provide access and exposure to cryptocurrencies and other digital assets, but some markets are ahead of others.

Despite the increasing demand from investors the availability of products and the number of players involved across jurisdictions some markets are well ahead of others - Switzerland leading the pack with the most comprehensive regulatory framework and a growing marketplace for banking and trading digital assets.

"The Swiss regulator's approach to the crypto and digital assets world has been quite open," says Dr. Martin Liebi, attorney-at-law, legal FS regulatory and compliance services and head of capital markets legal, PwC. "The government also sees this space as a strategic new field for the country's Financial Services industry on the back of traditional private banking having a bit of a downward trend."

This openness to new projects has also been accompanied with law making which has put in place a regulatory framework that is quite advanced compared to other markets.

"The ecosystem is here and is working. It's not perfect yet but at least you have everything you need to launch a structured product or set up a business," says Liebi (pictured). "Everything is fully regulated."

This is also attracting a lot of new business into Switzerland whereas in other markets such as the UK and China in particular it seems that the trend is going in a different direction following recent moves from regulatory authorities to clamp down on crypto activity.

PITFALLS

Some countries like China, Hong Kong or the UK have opted for closing-down these activities for domestic players. Other countries like Dubai, Abu Dhabi and others are being more proactive but there are issues as the ecosystem is not there to sustain these activities.

"This is a complex area with many risks (reputational, operational…)," says Liebi, adding, "you need a strong backbone and an active marketplace to support this kind of industry.

"Things are moving quickly but it was not possible to clear or take custody digital assets only a few months back. There is room for improvement, but you need to build the foundations to create a sustainable environment and build the product and platform offering from there."

Following the recent approval (21 September) of the Six Digital Exchange as the first regulated central securities depository (CSD) for digital assets by the Swiss Financial Market Supervisory Authority (FINMA), and the associated company, SDX Trading, to act as a stock exchange, the Swiss group can also act as a hub for exchanges and multilateral trade facilities (MTFs).

"Once you have a strong framework the ecosystem will develop – we see it in Switzerland with the multiple forms of digital assets reaching the market," says Liebi.

AMCS

Actively managed certificates (AMC) and exchange-traded products (ETP) are

> "The crypto market is a strategic field for the Swiss financial industry

the preferred way to provide access to digital assets in the country, although investors can also access non-listed products and traditional structures such as reverse convertibles and autocalls.

AMCs are listed on one of the Swiss stock exchanges and can have up to 50 payment tokens as underlyings and can be passive or actively managed products. They do not need authorisation from FINMA, but the trading entity must be authorised as an investment firm.

AMCs also provide a bridge between traditional and new finance as they offer access to new assets via a traditional vehicle.

"AMCs are a good example of combining a traditional type of structure to bring new assets to the market," says Liebi. "You can offer a digital asset through a fully regulated securitised products that is listed on an exchange and has an ISIN code. This kind of structure allows you to manage actively a portfolio of assets (cryptos) and can be sold in the secondary market."

According to Liebi, this kind of product that can help to build trust among retail investors before there is a fully developed derivatives market that enables more OTC based transactions.

"We think the product offering will also evolve as the infrastructure improves and more institutional investors get involved. Digital exchanges, listing and direct trading will also help bringing down costs of transacting these new assets," says Liebi.

TRADITIONAL PLAYERS

Although several smaller banks and asset managers are already active in the digital space, the majority of the institutional investors are approaching this market with caution.

"They don't feel comfortable enough yet to get into this product category. However, the feedback I get is that sooner or later these products will be offered by banks and financial advisers. Investor demand is not going anywhere. If anything, it will be even bigger," says Liebi.

If we look at the market two to three years ago, it was a completely different landscape but now there is better infrastructure, better quality products, bigger institutions getting involved, and "even traditional players like private banks actually going into the space and offering services and products".

"There's a shift from traditional players and also increasing activity from new players that are building up new businesses from a green field, but they need to establish trust, consolidate their operations and so forth," says Liebi.

SWISS MARKET

At a domestic level, a number of Swiss firms such as Gentwo which provides a platform to launch products including AMCs via securitised special purpose vehicles (SPVs) or Vestr - an independent white-label B2B software provider that facilitates the creation and lifecycle management of AMCs -are capitalising on this shift and playing a leading role in supporting the development of new products.

"At the moment there is a lot marketing out there and you don't really know what is happening but there is definitely a lot of upside potential for new products as the market is already saturated with ETFs and other products," says Liebi.

The recent acquisition of Crypto Finance by Deutsche Borse is also good example of traditional players entering the digital assets space by acquisition which suggests there are also new M&A opportunities in the digital assets market.

"We expect further consolidation of the market as many of these businesses have been created to be sold to bigger firms – they are making a use case in terms of flexibility, time to market, etc., and that is appealing for big players seeking to enter the market as it can be costly for a traditional financial firm to build this kind of offering in-house," concludes Liebi.

Crypto AMCs can help to build trust among retail investors

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NEWS: AMERICAS

BBVA sets product factory in the US

The Spanish bank makes foray in the fastest growing structured products market in the world as it continues the expansion of its equity derivatives business.

Following the launch of its new trading and sales hubs in US and Apac, SRP caught up with Sancho Narvaez Vega de Seoane, the Spanish bank's head of Latam institutional investor sales in New York.

Narvaez (pictured) has also a mandate to cover structured products sales in the US market and sees the new phase of development as a natural evolution of the bank's traditional footprint in the region – BBVA has a strong presence across the region as a shareholder in some of the biggest local financial institutions.

The bank's flagship in the region is BBVA Mexico - the country's largest financial group, but it is also present in Peru, Colombia, Argentina, Venezuela and Uruguay.

"We want to leverage our positioning in Latin America to expand BBVA's presence in the US market," says Narvaez.

"Our relevant knowledge of the region, our risk appetite and our ambition to serve all Latam markets, is a differentiator in the Americas. The strategy in the region has been to leverage on our brand that is well known and recognised in the region, build strong relationships with institutional investors regionally, and export our local capacity in those countries to the rest of our global client base – Latam products for our clients in the US and Europe."

That strategy has worked so far and has helped the bank to establish itself as a "relevant player in the region and become the house of choice in Latam".

The second stage has been focused on combining its regional and global capabilities to bring global products to domestic investors in the region.

"This has enabled us to build more integral relationships with our clients in Latam as we can now offer a fully-fledged solutions business – financing, hedging, investing, and access to global markets," says Narvaez.

"Our coverage now ranges from plain vanilla to complex structures. Our structured products business has followed a similar trajectory to the equities business. Over the last few years, we became a top product provider for our clients in the region with a very strong underlying and payoff offering."

CHANGE OF GUARD

With the arrival of Roberto Vila (right) in 2019 the bank has transitioned towards a "factory of investment products" set up which is also leveraged to serve its clients in the Americas.

In addition to its main hubs in Madrid, London and Mexico, BBVA has now sales and trading desks for equity products in New York and Hong Kong.

"We have also developed a 3a2 MTN programme to provide investment solutions to onshore clients in the US and of course, several investments in innovation and digitalisation, to provide a better service for our clients," says Narvaez, adding that the changes introduced by Vila have had a positive impact on the business prospects "because it has brought focus on investment products and accelerated our cross-asset set-up thanks to a clear strategy and investment to grow our business".

"It is fair to say that Roberto's vision of implementing a 'factory approach' on our investment solutions business has put our equity derivatives business at a different level."

> "Our coverage now ranges from plain vanilla to complex structures

NEWS: AMERICAS

US watchdog to tighten rules on leverage products

The US SEC is contemplating new guidelines on leverage and inverse exchange-traded products to address risk and complexity.

US Securities and Exchange Commission (SEC) chairman Gary Gensler has announced that the regulator will consider tougher rules for 'complex' exchange-traded products (ETPs) including leveraged and inverse funds that might pose risks to retail investors and the wider financial market.

Gensler has directed staff to study the potential risks of these complex financial products that are listed and traded on exchanges. They have also been asked to present recommendations for the Commission's consideration on potential rulemaking proposals to address any risks, as part of a broader analysis of ETPs.

'Some ETPs use strategies and structures that are more complex than typical stocks and bonds. For example, there are products such as leveraged and inverse ETFs. For more than a decade, SEC staff and a number of Commissioners have been warning the public that these products, often called complex ETPs, can pose risks to individual investors,' he said in a statement.

According to Gensler, the 2009 alert issued by the SEC's office of investor education details risks that one type of exchange-traded fund may pose to investors who buy and hold them for longer than a day.

The Commission sought public comment on a broad range of issues relating to ETPs in 2015, which included listing standards and broker-dealer sales practices. The regulator also recently settled charges against financial professionals who recommended that retail customers buy and hold ETPs designed for very short-term trading strategies.

'Last year, then-SEC Chairman Jay Clayton and several SEC Division directors expressed their concern that certain ETPs may present investor protection issues, particularly for retail investors who may not fully appreciate the particular characteristics or risks of such investments,' said Gensler.

The regulator believes such ETPs have the potential to pose risks to sophisticated investors as well and operate in unpredictable ways when markets experience volatility or stressful conditions.

On 1 October, the SEC voted to approve proposed rule changes by Cboe BZX Exchange to list and trade shares of new ETPs including the 2x Long VIX Futures ETF and the -1x Short VIX Futures ETF.

Although the watchdog has expressed its support for these rule changes, it stresses the significance of taking steps to update the regulatory framework for these types of instruments.

These steps entail ensuring a strong and consistent regulatory oversight of all complex ETPs, a holistic approach to the review of ETPs, and providing enhanced protections relating to investors' trading of these products.

Despite the SEC's approval of listing and trading of the two ETPs that are consistent with the Exchange Act last Friday, the products are not appropriate for every investor, according to Gensler.

'I encourage all investors to consider these risks carefully before investing in these products. I believe that potential rulemaking could strengthen the investor protections around these products,' he said.

FTSE Russell launches new US ESG series

FTSE Russell has launched the Russell US ESG Indexes, designed to integrate ESG into institutional-grade US equity indexes. The six new indexes are constructed using ESG screening criteria and use a target exposure approach to exercise 'complete and precise control over both investability and ESG objectives'.

Based on FTSE Russell's US equity benchmarks, the Russell 1000, Russell 2000 and Russell 3000 indexes, the new index series contains two sub-groups: the Russell ESG Screened Target Exposure Indexes and the Russell ESG Enhanced Target Exposure Indexes. The ESG Enhanced versions are designed for investors seeking ESG score enhancement alongside the risk and return characteristics of the underlying benchmark.

J.P. Morgan increases focus on indices, invests in MerQube

The US bank has led a US$5m series A funding round to drive the index provider's international expansion and accelerate platform development.

MerQube has completed its Series A round led by J.P. Morgan alongside venture investing firm, ThirdStream Partners, veteran hedge fund managers Benjamin Smith and Sheehan Maduraperuma, co-founders of Laurion Capital Management, and several other financial market professionals.

"As we build our platform, we have started to get traction with clients that believe in our vision," Vinit Srivastava (pictured), CEO at MerQube, told SRP. "It is very important for a new business to have the support of the market. Getting the support of J.P. Morgan as a minority investor in this equity round is a validation of the fact that we are on the right track, and that some of the trends that we thought would play out, are playing out."

The backing from one of the biggest banks in the world and a key player in the structured products market will help us execute the firm's mission.

"The investment is needed to grow this business both in terms of size and scale. We have now the support from very prominent investors from the investment banking space, but also from the asset management space including ETF and hedge fund providers, and fintech.

"It is a broad spectrum of investors and we want to bring others as we grow and become a utility for the industry."

Jason Sippel, head of global equities at J.P. Morgan, said the investment underscores J.P. Morgan's continued focus on investable indices and structured products.

"Globally, our clients are looking for exposure to ever more agile index strategies. J.P. Morgan's collaboration with the MerQube team will further enhance our work to deliver market-leading, next generation index solutions," he said.

MerQube has previously raised US$2m in its seed rounds in August 2019 and October 2020, with historical investors.

The index firm is seeking to capitalise on the evolving US$15 trillion index-linked investing market shift from simple market-capitalization based equity indices 20 years ago to multi-asset strategies.

According to Srivastava, recent demand is driving increased customisation with the rise of more complex strategies, such as defined outcome ETFs.

"There are certain gaps that index providers traditionally have not addressed some relate to technology, but also to product development. There is prospect for growth in the indexing space as it transitions from the market cap one-size-fits-all set up to a more customised approach.," he said.

MerQube will use the funding round to accelerate its momentum through expansion into key markets such as Europe, platform development and scaling up its workforce, in particular with further key hires from the technology and financial industries.

The SRP database has recorded a recent inflow of US structured products issued by J. P. Morgan tied to the MerQube US Tech+ Vol Advantage Index with a combined sales volume of US$96m.

> "It is very important for a new business to have the support of the market

US fintech platform to acquire structured notes distributor

iCapital, which delivers access to alternative investing to asset and wealth managers, has announced plans to acquire third-party distributor for structured notes Axio.

The firm is seeking to expand its suite of investment strategies and bolster its distribution capabilities to support fund managers and build on the platform's educational efforts, technology offering, and support system for financial advisers. The transaction is expected close during the final quarter of 2021. Axio's chief executive officer Marc Paley (pictured) is expected to take the role of managing director and head of distribution reporting to chairman and chief executive officer of iCapital Lawrence Calcano.

Paley will be responsible for supporting advisers in their consideration of structured notes as well as iCapital's full suite of alternative investments. He is also expected to maintain his role in spearheading the Axio team.

'iCapital is committed to being the single, comprehensive source for financial advisors seeking alternative investment opportunities to optimize portfolio performance. Axio's position as a leader in this market makes them an ideal enhancement to our already robust platform and product offerings,' said Calcano.

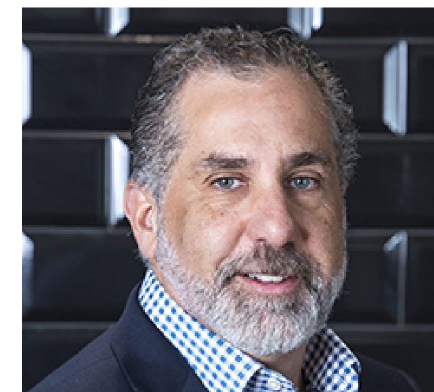
Axio was founded in 2010 and its full-service solution is integrated with the industry's leading domestic and international bank issuers of structured notes and ecosystem providers.

Axio distributed a total of US$5.1 billion across all its sales channels in 2020 with Paley forecasting a figure of US$9 billion in distributions by the end of 2021.

The firm recently entered the defined-outcome space in May of this year after it acquired structured UIT provider m+funds. The platform now offers structured notes, market-linked CDs, as well as m+ defined outcome funds (structured UITs), and interval funds.

According to Paley, yield products have emerged as a popular trend among clients and is of top priority to them due to them having various degrees of equity risk. He projects a continued increase in these investments, given a prolonged upward market trajectory, despite foreseeing some volatility, going forward.

Luma adds API Pricing feature to platform



The US structured products and annuities platform has introduced an enhancement that employs API technology to automate the pricing of customised products.

The new API pricing feature enables a consistent and transparent price discovery process for financial professionals on a global scale that uses Luma's Creation Hub module to tailor products that meet the risk profile of individual clients.

The firm's Creation Hub was developed as a tool for advisers to create their own competitive advantage and increase their value to their respective clients.

With the addition of API technology for automated pricing now included within the hub, Luma aims to deliver efficiency to its clients amid a disorganized, multi-system process.

'Multi-issuer API pricing capabilities for the customisation of structured products has long been offered to financial professionals in Europe and Asia,' said Tim Bonacci (pictured), chief executive officer of Luma Financial Technologies. 'As a global firm, we viewed it as a vital step to offer these capabilities to our clients in all geographies.'

The addition of the automated pricing feature follows the recent release of Luma Compare, a new tool that allows advisors to instantly compare various annuities and now structured products.

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South Korea: ESG ELS failing to deliver

Market players in South Korea reflect on the stagnating issuance of equity-linked securities (ELS) linked to ESG indices since their debut in April.

As the most active issuer of ESG index-linked ELS, Shinhan Investment halted its weekly offerings in August having collected KRW11.2 billion (US$9.4m), according to the securities house. Nearly half of the sales amount came from equity-linked funds distributed by Korean banks to retail investors.

"As the volatility of other underlying indices increases, the competitiveness of ESG index-linked ELS has decreased," a spokesman at Shinhan Investment told SRP.

The issuer has rolled out nearly 900 ELS since April with the S&P 500, Eurostoxx 50 and Hang Seng China Enterprises Index as the most used underlying assets, SRP data shows.

In South Korea, there are 63 live ESG-linked ELS tracking the performance of the S&P 500 ESG, Kospi 200, Eurostoxx 50, Eurostoxx 50 ESG or Nikkei 225 in the form of a single or basket structures, according to SRP data. Five additional ELS were withdrawn during their subscription period, including a structure linked to the Eurostoxx 50 Low Carbon EUR Price index.

All live products have a tenor of three years and offer no capital protection - the only offering with 80% capital protection was withdrawn by Shinhan Investment in April. At least 11 of the 63 live ELS are step-down autocallables with a worst-of option, SRP data shows.

Despite the efforts to promoting ESG-linked ELS through weekly launches, Shinhan Investment has seen little interest in the ESG theme from investors who are yield-orientated.

"So far, investors do not feel a big difference between an ESG index and a regular index due to the lack of outperformance between them," said the spokesman. "Retail clients still look at ESG as the point of consumption but not as an investment."

To raise interest, issuers and distributors may consider incentives for investors such as a preferential interest rate for loans for customers who invest in ESG index-linked ELS, according to the spokesman.

Gyun Jun (pictured), senior analyst and director of derivatives strategy at Samsung Securities, noted that ESG-linked ELS usually have a longer investment period, which is required for ESG indices to deliver outperformance of its non-ESG index counterparts.

"Most ELS in Korea have a short-term duration catering to the appetite of retail investors," Jun told SRP, adding that institutional investors currently account for a larger volume of the ESG-linked ELS than retail.

Korean investors prefer direct investment for the environmental theme among the ESG components, which has stood out in the post-pandemic era, such as renewable energy, said Jun.

ESG-linked exchange-traded funds (ETFs) or mutual funds have delivered better yields than structured products. The ESG-linked ELS market is still expected to grow in the long term."

Looking at the entire ELS market, new issuance has been slashed in Q2 21 as the global stock market began to correct, according to Jun. "Investors are increasingly worried about the inflation and more correction of stock markets," he said.

This has led to an increasing popularity of 'hi-five' or 'shooting-up' ELS structures, which offer partial capital guarantee with a digital or leveraged call options, especially on single stocks, according to Jun.

S&P 500 Index (USD) performance year-to-date

Source: S&P Dow Jones Indices

Survey: Structured products almost half of HK's OTC market in 2020

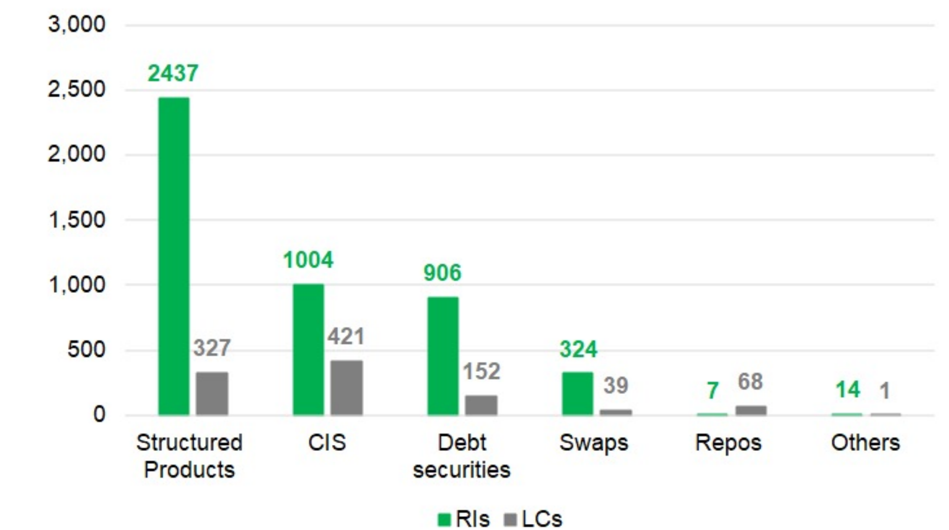
A survey conducted by two Hong Kong SAR financial watchdogs has found that structured products accounted for nearly half of the OTC investment transactions in 2020, led by equity underlyings.

The survey results were released today (7 October) by the Securities and Futures Commission (SFC) and the Hong Kong Monetary Authority (HKMA).

They are based on responses from 308 licensed corporations (LCs) and 64 registered institutions (RIs), which sold non-exchange traded investment products with an aggregate transaction amount of HK$5.7 trillion (US$732 billion) to over 700,000 investors during 2020.

The sell-side included retail, private and corporate banks, investment advisors, securities brokers and international financial conglomerates, while the buy-side comprised non-professional investors (PIs), individual PIs and certain corporate PIs for whom intermediaries cannot be exempted from a waiver of the suitability obligation.

Transaction amount by product type (HK$billion)



Source: SFC/HKMA

This SFC-HKMA's first joint survey provides an overview of what is described as an 'active investment products market,' according to the regulators.

By product type, structured products were the most popular making up 48%, or HK$2.77 trillion, of the total transactions followed by collective investment schemes (CIS) at 25%, debt securities at 19%, swaps at 6% as well as repurchase agreements (repos) at 2% in 2020, the survey shows.

Specifically, 57.8% of the structured products, or HK$1.6 trillion, came from equity-linked investments, including equity-linked accumulators and decumulators. The underlying assets concentrated on internet and technology stocks, which were 'in high demand'.

"

Structured products made up 48% of the OTC market

'Globally, economic activities during the reporting period were greatly affected by the Covid-19 pandemic, with a few remarkable exceptions such as businesses in the internet and technology sectors which facilitated non-face-to-face interactions and online activities,' stated the survey report. 'Firms generally responded that their clients sought greater exposure to these two sectors during the reporting period.'

According to the survey, a number of leading distributors of equity-linked products recorded an increase in client interest and activity in equity derivatives, as equity prices rose due to monetary easing and stimulus packages introduced by global central banks.

'To capture these opportunities, some clients preferred to invest in equity-

linked products which offered higher yields (arising from the premium of writing options) than investing directly in stocks,' stated the report.

Foreign exchange rates were the second most favoured underlying asset, leading to a transaction amount of HK$545 billion, or 20% of all structured products sold.

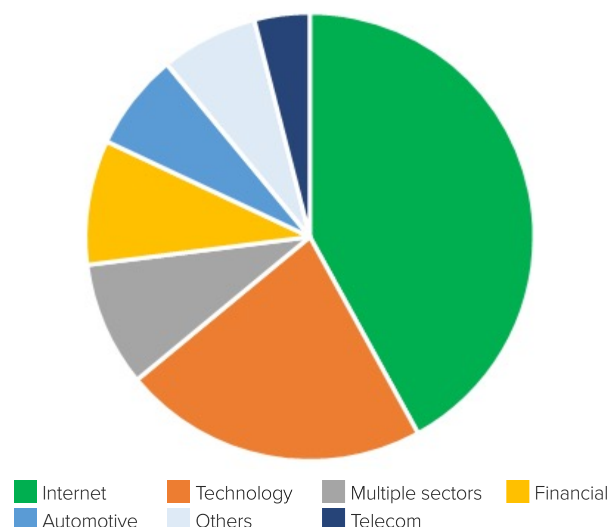
'Some top sellers noted an increasing trend of clients investing in dual currency notes under the current low interest rate environment for yield enhancement or short-term liquidity management purposes,' it said.

The most common currencies were the British pound, Japanese yen and Euro, with the US dollar used mainly as the base or quote currency, according to the individual top five offerings at 81 large firms.

Commodity-linked products contributed to HK$470 billion, representing 17% of all structured products sold. Out of the top five offerings reported by the large firms, 98% tracked the performance of gold.

'Some top sellers commented that gold was generally considered a safer asset in a volatile market and some clients invested in gold-related products for portfolio diversification purposes.'

Industry sector of underlying equities of top five equity-linked products at 81 large firms



Source: SFC/HKMA

Type of structured product	LCs		RIs		Total	
	Transaction amount ($ billion)	% of total	Transaction amount ($ billion)	% of total	Transaction amount ($ billion)	% of total
Equity-linked						
- accumulators/decumulators	130	40%	664	27%	794	29%
- others	90	27%	713	29%	803	29%
Sub-total	**220**	**67%**	**1,377**	**56%**	**1,597**	**58%**
Currency-linked						
- accumulators/decumulators	19	6%	124	5%	143	5%
- others	44	13%	358	15%	402	15%
Sub-total	**63**	**19%**	**482**	**20%**	**545**	**20%**
Commodity-linked	**5**	**2%**	**465**	**19%**	**470**	**17%**
Interest rate-linked	**2**	**1%**	**43**	**2%**	**45**	**2%**
Index-linked	**5**	**2%**	**29**	**1%**	**34**	**1%**
Credit-linked	**11**	**3%**	**21**	**1%**	**32**	**1%**
Others (including hybrid-linked)	**21**	**6%**	**20**	**1%**	**41**	**1%**
Total	**327**	**100%**	**2,437**	**100%**	**2,764**	**100%**

Source: SFC/HKMA

TDX Strategies taps into crypto market with accumulator

The Hong Kong-based cryptocurrency trading firm is seeking to capitalise on increasing demand for structured products to access digital assets.

TDX Strategies has soft launched a two-month accumulator with no leverage tracking the performance of Bitcoin (BTC/USD). The underlying is observed on a daily basis during an investment period of 56 days.

With a daily number of 0.025 Bitcoins, the product has a spot and strike price of US$42,776, US$37,000, respectively, and a knockout level of US$47,000. The notional of US$51,800 was transacted on 21 September, one day ahead of the first accumulation date.

The new offering, namely OTC token accumulation strategy (TAS), represents an innovation in the cryptocurrency market, according to co-founder & CEO Dick Lo (pictured) at TDX Strategies (TDX).

"One of our most popular products is the dual-currency linked product, traded under the name of bitcoin linked contract [BLC]," Lo told SRP. "While our clients have generated exceptional returns trading the BLCs, the main drawback of this product is that if the price of BTC never falls below the strike price, the client is unable to acquire any Bitcoin spot which is likely to be the client's ultimate objective."

As a result, the new launch aims to enable investors to achieve their goal of accumulating physical Bitcoin at a discounted price.

"The main objectives of the test trade are to ensure model stability and seamless product life cycle management, which includes the daily monitoring of the knock-out barrier and the regular settlement of accumulated coins," said Lo, adding that the firm has received "very positive feedback" from existing clients and the full launch is likely to take place early next month.

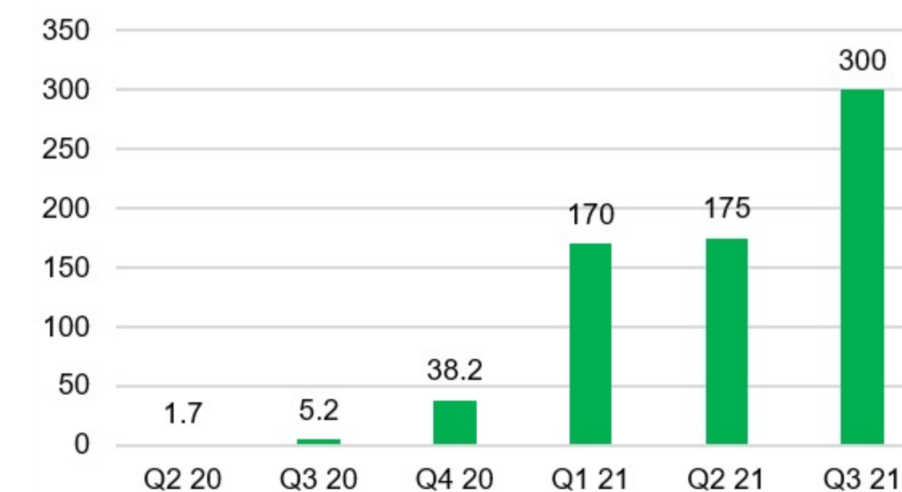
As the calculation agent, TDX undertakes hedging activities across major spot and derivatives exchanges while the coins accrued and delivered to clients will be kept in a third-party custodian account.

According to Lo, the firm is also considering a token decumulation strategy (TDS) at a later stage, which "may be particularly interesting for certain clients, such as miners who may have the need to regularly convert some of their mined Bitcoins to pay their electricity bills and other costs".

"However, I would say that the demand for decumulation is significantly less than accumulation given the broad bullish long-term sentiment," the former exotic trader said.

Backed by family office Hong Kong Integrated Capital, TDX has been given exemption to offer digital payment token services by the Monetary Authority of Singapore (MAS) while its license application is under review in Singapore.

TDX Strategies: notional amount traded of structured products (US$m)



Source: TDX Strategies

The company has an international client base with a concentration in Hong Kong SAR, 70% of which are HNWIs and the remaining are corporates. The platform currently does not onboard investors from US and China due to regulatory restrictions.

Individual clients must meet the 'accredited investors' criteria as defined by the MAS, which requires an income of not less than SG$300,000 (US$220,000) in the past one year, or net personal assets of more than SG$2m, or net financial assets of more than SG$1m.

Since going live in Q2 20, the cryptocurrency platform has recorded a surge in the notional value of structured products where the minimum investment amount ranges from US$10,000 to US$100,000 which have contributed to 65% of the total traded amount, followed by OTC derivatives at 35% and spot trading at 5%.

"While there was a brief dip in the rate of growth following the selloff in Q2 this year, trading volumes have rebounded strongly in Q3 to yet another record high," said Lo.

"We expect to see strong growth in trading volumes to year-end as well as in 2022 as we continue to see rapid growth in client assets on the platform in the face of accelerating institutional adoption of digital assets as an investable asset class."

> "
> **Demand for accumulation is higher than for decumulation**

Krungthai Bank capitalises on first ESG-linked note in Thailand

The state-owned bank has closed a five-year structured note tracking an ESG decrement index with full principal protection, amassing THB1.83 billion (US$55.5m) during the four-day subscription.

The THB-denominated note is linked to the performance of the iStoxx Global Transformation Select 30 NR Decrement 4.5% (EUR) Index, available to high-net-worth individuals. Besides ESG, the thematic index invests in four megatrends - connected world, industry 4.0, sustainable growth and better healthcare.

With a linear payoff, the note offers uncapped return and enables investors to receive periodic principal repayment during the five years with the yield to be paid at maturity.

"The solution has been well received by our customers due to both the investment theme and the principal protection feature," Rawin Boonyanusasna, head of global markets group at Krungthai Bank (KTB), told SRP.

This year, one of the key focus areas for the commercial bank has been to strengthen the service for its retail and ultra-high-net worth clients by expanding thematic-based investment solutions, including ESG theme, according to Boonyanusasna.

"Both corporate and retail clients have become increasingly aware of the ESG concept as first demonstrated by ESG-linked derivatives hedging transaction, which KTB was also the first to introduce to the Thai market," he said, adding that the consistent demand led to the latest offering, the first structured note launched in Thailand with ESG theme.

Last September, KTB traded bespoke ESG-linked foreign exchange (FX) derivative contracts with PTT, a Thai state-owned oil and gas company, and its subsidiary PTT Exploration and Production.

The contracts aim to provide hedging for the corporates' USD/THB exposure and support their social responsibilities goals.

"The hedge is renewed every year, and provided that the clients continue to maintain the predetermined sustainability criteria," said Boonyanusasna. "The payoff of their ESG-linked FX derivatives will continue to improve every year that the client continues to hedge this exposure with KTB."

Boonyanusasna noted the need to take a holistic view of customers' total investment portfolio while the response for ESG investment has been "positively overwhelming".

"In order to limit concentration risk and to ensure good investment portfolio diversification for our customers, we are currently in preparation to launch a couple of new investment solutions with different investment focus before year end," he said.

As the fourth largest Thai bank by assets, KTB has surfaced as a dark horse in Thailand's structured note market this year. It took the crown as the largest issuer through a 46.4% market share, or THB24.6 billion sales volume in 1H 21, as SRP reported.

OCBC debuts ESG-linked structured deposit

The second largest Singaporean bank by assets is offering a six-year callable deposit with fixed interest rate, whose proceeds will be invested in securities issued by companies that meet the OCBC's ESG criteria.

Launched on 24 September, the tranche for the first three years will pay an annualised interest rate of 1.2% and 1.25% for the next three years. The offering marks the first ESG-linked structured deposit in Singapore, available for subscription until 8 November.

The payout is easier for customers to understand compared with structured deposits whose return are variable contingent on the performance of underlying assets, according to New Say Ping (pictured), regional head of investment & structured products at OCBC Bank.

"[We] have plans to launch structured deposits linked to an ESG index within the next few months, subject to customer demand," he told SRP.

The main difference of the new offering compared to traditional structured deposits is the use of the product's proceeds which will be invested in notes, bonds or other fixed income securities issued by companies that meet the OCBC Group's ESG criteria.

"These companies use the funds from these ESG-related securities to support sustainability-related projects in areas such as low-carbon transportation, energy efficiency, sustainable water or waste management and green buildings, according to the bank's Green Financing Framework," said New.

The framework is aligned with the Green Bond Principles 2021 published by the International Capital Markets Association (Icma) and the Green Loans Principles 2021 by the Loan Market Association.

For the new tranche, OCBC Bank will pay the interest on a semi-annual basis. However, the product includes a callable option which allows the bank to terminate the product early at any interest payment date after the first year, and return the principal and interest earned. The callable feature generally brings a higher return than vanilla time deposits to partly offset its re-investment risk. OCBC Bank is also pitching a 12-month time deposit, which delivers a promotional annualised return of 0.4% with a SG$20,000 minimum placement ticket.

Structured deposits issued in Singapore are principal-guaranteed if held to maturity, as required by local regulations but they're not insured under the Deposit Insurance and Policy Owners' Protection Schemes Act of Singapore. At OCBC Bank, the minimum investment amount is set at SG$5,000 for structured deposits, which is the same for regular time deposits.

In addition, the issuer is offering a six-year stepped-up callable deposit with a semi-annual fixed payout, which can generate a return as much as 7.35% over its six-year tenor.

SG builds up structuring unit in China

Société Générale (SG) Global Markets is setting up a local structuring team in Shanghai in a move to capitalise on the growth potential of the Chinese market.

At least three Hong Kong SAR-based cross asset sales bankers covering China are set to relocate to Shanghai in November, including Zhenzuo Ye, director, head of cross-asset sales, China, SRP has learned.

Ye will continue to report to Xin He, head of global markets for China, who is also based in Shanghai, and assume the responsibilities of Charles Gu, ex-deputy head of global market & head of sales at SG China, who parted ways with the French bank in July to join Standard Chartered Bank in charge of corporate sales based in Shanghai.

"[We] are in process of moving some sales staff in Hong Kong SAR to China," an SG spokesperson told SRP without elaborating.

The travel restrictions triggered by the Covid-19 pandemic have accelerated the bank's restructuring plan, which indicates a positive outlook for SG in China's derivatives market, according to a source.

In addition to the relocation, the investment bank is currently hiring two structurers in Shanghai, including a senior role to 'lead SG's structuring efforts for the Greater China area'.

Back in October 2019, He, the head of China's global markets, said at a financial forum in Shanghai that 'as China further opens its markets, we will make further investments in China', referring to the removal of limits to foreign stakes in futures, mutual fund and securities companies, effective from 2020.

SG QIS: alternatives for yield and protection remain in focus

After a tough 2020 dispersion and market neutral strategies are driving significant activity again.

> **Dispersion trades are interesting when you have polarised opinions in the market**

As part of a series of articles covering the most recent activity around quantitative investment strategies (QIS), Andrew Lapthorne (pictured), head of quantitative equity research at Société Générale, talks about the comeback of dispersion trades, the market's concerns around inflation and the increased demand for bond replacement strategies with a defensive tilt.

"Dispersion trades are interesting when you have polarised opinions in the market," says Lapthorne.

A couple of months back, the main concern in the market was inflation, as well as monetary policy and fiscal policy combining to push up commodity prices.

"People were starting to be concerned about interest rate rises coming forward as the bond yield was going up," he says. "In this environment, small caps and value stocks were doing well, the Nasdaq came back a bit, non-US equity markets were also doing very well while the US market was a bit of a laggard, and you had a big debate about the rotation into value away from growth."

The bank saw quite severe cross-sectional rotation as investors moved away from a growth based on a discount rate view of a world - driven by falling bond yields, and moved to capitalise on a booming economy and bouncing back commodity prices.

This has all changed in the last month and a half as investors started to get worried about the Delta variant and the fact that Covid simply seems to be stubbornly refusing to go away.

"We have this constant battle between the monetary and fiscal policies in place which look quite inflationary, but you've got a lot of investors seating on cash with the potential to unleash quite a big economic growth story," says Lapthorne. "At the same time, pushing back on that idea is the pandemic."

The result was "quite a vicious rotation out of bonds and back into bonds" as the movement of the bond yield, and the volatility in the bond market, created significant cross-sectional volatility in the equity market. This is because there are very expensive growth and defensive stocks, and also very cheap cyclical stocks – and one is trading twice as expensive as the other.

"That polarisation in valuations reflects the polarisation and opinions in the market which lends itself to dispersion," says Lapthorne, adding that there have been "several big topics since the beginning of the year" including the inflation story.

"The urge from people looking at ways to hedge inflation has died down in recent weeks because of inflation expectations have come back down. That kind of right-hand tail story of what happens if Covid did go away is driving a lot of conversations with clients - how to get exposure to inflation, the upside in inflation, but also protecting the downside if interest rate expectations shift."

One strategy developed by SG for those seeking to hedge inflation is an inflation proxy index – the SG Inflation Proxy Index which tracks the upside of inflation using equities.

"As we were developing the strategy we noticed that it suffered quite a lot of volatility, so we put a short term trend following strategy around the underlying to make sure the investor had upside exposure to inflation while minimising or reducing the downside risk if the inflation story goes away," says Lapthorne.

As bond yields continued to come down in a negative real yields scenario the French bank has also been developing bond replacement strategies that offer a defensive tilt and can act as a counterbalance to the riskier assets in the portfolio and don't cost as much as holding bonds.

"We are also looking at 60/40 with clients, what things can be done to address the correlation between bonds and equities which has turned from negative to positive this year," Lapthorne says. "That story is ongoing because we are living in a world of very high government and corporate debt levels which needs to be eroded away. From a policy point of view, negative real yields make sense, but from a savers point of view, it's a bit of a disaster."

From a portfolio construction standpoint, finding alternatives for yield and protection have also been on SG's agenda for some time.

Bond volatility has been a big driver of risk across the whole multi-asset spectrum and we continue to harvest premia from different asset markets – products based on long rates volatility remain popular," says Lapthorne. "Those strategies have acted as counterbalance - if rates volatility is creating problems in the rest of the portfolio, and it has exposure to higher rates, volatility then can also benefit the portfolio."

SG QIS (Part 2): Rotation more efficient than 'swinging the bat' across trades

The French bank has developed new underlyings to respond to demand from clients seeking exposure to sustainable assets, multi-factor and rotation strategies.

> **There are ESG stocks and indices that are not very good investments**

SRP data shows that Société Générale has continued to respond to demand for risk control strategies as well as synthetic dividend decrement indices as the dividend volatility last year resulted in an increase in the use of underlyings that are less reliant on individual dividend payments and are more efficient from both a risk and a pricing point of view. However, the bank's focus on ESG continues to grow in terms of product activity.

In the second part of the interview, Andrew Lapthorne (pictured), the bank's head of quantitative equity research, talks about integrating ESG in multi-factor models and QIS, and the use of artificial intelligence with long/short factor indices to beat market uncertainty.

Has demand for QIS and ESG strategies increased in 2021? How is ESG being integrated with QIS?

Andrew Lapthorne: ESG and particularly the low carbon orientation has been the big theme in the market, and just got bigger over the last two years. This shift has pushed us to leverage our existing knowledge on how to build multi factor models and combine that with new data sets such as ESG, and carbon datasets.

We think there are ESG stocks and indices that are not very good investments - they might be too expensive, not be very profitable, have a bad balance sheet, etc. To refine the underlying universe we are combining our multifactor models with ESG data sets - we call them pure factor ESG indices. The idea is to retain an orientation towards ESG, but without giving up on the basic principles of investment.

Investors can get positive exposure to value momentum, profitability, etc as well as have exposure to ESG or assets with strong ESG characteristics. Many of the plain vanilla ESG indices available, which tend to be underweight on commodity prices, have had some really good performance, but they had a fairly difficult run last year, meaning that what's driving the performance isn't necessarily the ESG characteristic, but effectively the sector exposure that investors were getting from the ESG filters.

Our Pure Factory SG index, which is measured against 600 stock has been performing in a nice smooth line despite all the factor volatility.

What other trades are being favoured by your clients?

Andrew Lapthorne: The multifactor space in general remains a focus for us. Value momentum type funds, particularly in the US, have had a very difficult few years. They were recovering very strongly at the beginning of this year, but more recently, they have had some bad months. In fact, they have had some of their worst days ever, for value momentum losses. As a result, investors have pulled back.

Our AI long/short factor indices continue to appeal investors. These AI long/short factor indices are fully investable, and they are doing amazingly well - the global version is up eight percent year-to-date, an all-time high. This index is based on a machine learning system we built in 2017 to effectively select the factors you want to be exposed to.

Although ESG has become louder there is still demand for machine learning and AI. In our experience, this AI live model and the resulting index which has been running since the beginning of 2019 - a period of extreme factor volatility, have done very well. It has managed to navigate its way through the market turmoil. Machine learning models are also being used by our QIS team at the top-down an asset allocation level as opposed to a stock selection level to develop multi-asset strategies.

Covid has demonstrated that not all sectors are the same. Are rotation strategies a focus for investors?

Andrew Lapthorne: Risk management systems and timing systems are also becoming increasingly popular. We have launched a whole set of indices based on rotation strategies.

The SG Sentiment Indicator index, which we developed many years ago, remains a popular choice and we have a large out of sample performance. We have also developed multi asset tilting models that allow to upsize and reduce the risk exposure based on a combination of sentiment factors as opposed to 'swinging the bat' across trades.

Strategies with some kind of systematic overlay to avoid risk have also delivered value because they navigated the crisis very well, and did not lose money during the March-April crash last year. That's obviously attracted investors to the idea that it does seem possible to have a systematic overlay on a strategy to avoid risk. It's an evolution of the risk parity concept - instead of just using volatility as your main input, what you're using is sentiment indicators to scale your volatility.

What is your short-term market outlook?

Andrew Lapthorne: There's been an awful lot of policy measures, which have been put in place to get us through this crisis, but there is a risk if Covid hangs around for too long, and the economic recovery is less strong than people expect. If we can manage Covid and we go back to what we were doing you will still have supply demand imbalances, so investors need to hedge both risks.

At the same time, as some of the support mechanisms change, you might see companies having to reorganize the debt that they've accrued over many years which will make credit markets less accommodative. Credit markets are extremely tight so there is also a need to hedge the potential for a downside shock as ever.

When financial conditions are fantastically loose, that's the time to think about hedging.

> **Strategies with some kind of systematic overlay to avoid risk have also delivered value**

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

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

> **Defined outcome investing is the future.**

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

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

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

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

"We primarily interact with financial professionals at Cboe Vest. So, our educational support around these investments is geared towards financial advisors and the education includes sharing how these investments are built and how they can be used, as well as providing tools to manage them," says Sood. Currently, more than a decade after the initial market devastation, another economic collapse brought on by Covid-19 has paved the way for a new wave of investing trends, begging the question of whether a reliable synergy can be established to streamline defined outcome and structured notes demographics.

WIDER ACCESS

In the past, buffered ETFs and structured notes targeted average and high-net worth investors, respectively. This is no longer appears to be the case with the recent uprising in fintech platforms such as Halo Investing which provide market access to wider investor base. Halo was initially founded as a structured notes platform but has since branched out into defined outcome and indexed annuities as a means of growing their footprint in the structured products industry.

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

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

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

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

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

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

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

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

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

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

TAX ISSUES

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

Over the past year, the firm introduced first accelerated ETFs offering investors a multiple (2x or 3x) of the upside return of a selected underlying up to a cap as well as downside protection.

According to co-founder and CIO of Innovator, John Southard the appeal of these ETFs lies in their tax efficient capabilities.

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

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

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

UNDERLYING LIMITS

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

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

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

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

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

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

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

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

US regulation: 10 years on after the GFC

The US structured products market has undergone several impactful changes over the past decade since the devastating financial crash of 2008.

> **The regulatory environment in the US has been further complicated**

As a larger volume of products are currently being issued across varying channels, a larger task at hand involves the constant evolution of regulatory requirements that need to occur to keep up with the rapid expansion.

SRP data shows that a total of US$67.8 billion in US structured product sales has been issued in 2021 to-date. This figure represents a 47% increase compared to the market volume during 2011, which stood at US$46 billion and is swiftly gaining on 2020's sales volume of US$77 billion.

Propelled forward by the Covid-19 pandemic, structured products are now basking in the limelight with investors gravitating towards the added layer of protection that these structures provide.

According to Chris Schell (pictured), partner at Davis, Polk, and Wardwell, the distribution model for selling structured products in the US has undergone significant change with multiple existing large wealth management or financial advisory firms moving away from the traditional sales approach and embracing the concept of 'open architecture'.

"In the past, firms would restrict their sales to products that were issued by their affiliates, now they encourage non-affiliated structured product issuers to use their distribution platforms," he said.

A pressing concern for US regulators, such as the Securities & Exchange Commission (SEC), is grappling with this changing landscape and juggling warring perspectives that the market is benefiting from democratisation versus the view that it is subject to inappropriate 'retail-isation'.

"The SEC says that it will not determine the merits of any given structured product or otherwise proscribe products in light of the view that the continued depth of the US capital markets benefits from new product introductions," said Schell, adding that this approach stems from the belief that individual investors can in fact benefit from products that were only available to large institutional investors in the past and thereby democratises the investment landscape.

"People want some protection on the downside to the idea that it is hard to find investments out there that yield a decent level of return in the form of interest. Rates are so low that there are clear benefits to having the structured products out there and having that democratization occur."

BEYOND COMPLEXITY

However, matters become tricky when the types of investments that are being offered are often too complex for the investor to comprehend. The suitability framework of Finra is also taken into account when determining if a certain product is appropriate for an investor.

"Here, we see more SEC enforcement, frameworks, and interest to decipher whether an investor should take a step back and just stick to average stocks and bonds," said Schell.

Here, the concept of retail-isation gets in focus as regulators are concerned that not all retail investors will benefit from these products and whether unscrupulous distributors may recommend unsuitable investments to them.

While any new rules imposed by the SEC/FINRA have not always exclusively targeted structured products, they calm concerns that retail investors need careful protection when facing investment decisions relating to the retail-isation of complex financial instruments.

According to Schell, the regulatory environment in the US has been further complicated by the fact that structured products are primarily issued by heavily regulated bank holding firms, that are subject to a variety of bank capital, resolution planning, and other regimes that would directly impact capital markets transactions, including structured products.

There are two primary themes that underlie the current regulatory regime for structured products in the US market. The first being the direct message from the regulators that providing clear, accurate product disclosure to investors is not always sufficient. The second is that the US regulators have retained the post-financial crisis activism in enforcement of frameworks.

The first point focuses on the appropriate governance of the product creation process and the sufficient oversight of the sales process, where the product issuer must, in some circumstances, take certain actions to oversee and assess the sales process by independent third-party distributors of the issuer's products.

"This would quell regulators' concerns, who have taken the view that the creators and issuers of these products should act as gatekeepers since they are so well-positioned to understand risks and benefits of the structures," said Schell.

The second theme entails that enforcement taskforces remain active to this day after several landmark enforcement actions were implemented in the aftermath of the crisis as the regulators took a more aggressive approach to enforcement.

"As we are now under a different administration, it is fair to say that it likely reflects a bipartisan approach to the enforcement of the laws and regulations governing complex products sold to individual investors, which include structured products," he said.

US REGULATION: LIBOR HICCUPS, PRODUCT COMPLEXITY, AND POST-COVID TENSIONS

In the second part to the feature with Chris Schell, partner at law firm Davis, Polk, and Wardwell, Schell discusses current and pressing trends along with key issues around which the US regulatory environment is constantly evolving.

A major ongoing event is the transition from Libor to alternative reference rates, which will have a significant impact on the US structured product market, as many currently reference the interest rate index.

"Libor has also effectively been used as an underlying reference asset for structured products in addition to structured products that pay an interest rate based on Libor," said Schell.

In addition, several proprietary indices that are used as underlying reference assets for structured products also have returns based on Libor or contain embedded costs or fees calculated by reference to Libor.

In terms of legacy structured products, any contractual fallback language was initially intended to address a temporary unavailability of Libor and not its permanent suspension.

"In the case of interest-bearing products where Libor is not available, the rate would be determined by reference to quotations by reference banks and, if the reference banks were not quoting, Libor for the relevant interest determination date would then remain Libor for the preceding interest reset period," said Schell.

The effect of such fallback language is that such products that were intended to be floating rate instruments will subsequently become fixed rate instruments, with the interest rate being fixed at Libor prior to its discontinuation, and no longer fluctuating based on interest rate variations.

For new structured products, the choice of the Secured Overnight Financing Rate (SOFR) as an alternative interest rate to Libor at issuance was met with mixed reactions. This rate could prove to be useful for investment banks but may not be as appropriate from a consumer and corporate transactions perspective for smaller banks looking for alternatives, according to Schell.

While US Libor rates will cease to be published by June 2023, there are already occurrences of more SOFR deals and points to a divergence in the structured products market between US Libor and non-US Libor rates.

"With initial resistance to the term SOFR which is very important to the market as a benchmark extending across longer time periods, we are now seeing more progress in the run up to the start of the transition," said Schell.

PRODUCT COMPLEXITY

According to Schell, another issue that regulatory institutions are growing concerned about is the increase in complexity of structured products in the market. This would encompass both complex structures as well as complex underlying reference assets.

The US Financial and Regulatory Agency (Finra) predecessor – the National Association of Securities Dealers (NASD) - had posed concerns about the number of increasingly complex products being introduced to the market.

"These were described as having unique features that might not be well-understood by investors while other concerns about suitability and potential conflicts of interest were also put forward."

The watchdog indicated that every firm should ponder the complexity of the product in terms of its structure.

View from the top: investors want to see their portfolio all in one place

HANetf's move to bring defined outcome ETFs to the European market proofs the increasing demand to access yield and protection via different wrappers remains.

> **There is an interest in using the ETF wrapper in a defensive way**

Following the announcement by Exchange-traded funds (ETF) investment platform HANetf to introduce 'defined outcome' strategies in the ETF wrapper in Europe, SRP spoke to Hector McNeil (pictured), co-CEO of HANetf, about 'leading the charge' when introducing new products to the market, the reasons behind the European ETF market lag compared to the US market, and why structured ETFs can coexist with other structured products. The plan to bring structured ETFs to Europe had its genesis in white label discussions with clients both from Europe and the US, says McNeil.

"We were getting approached and had quite a lot of inquiries from investment banks, QIS desks and various other counterparties active in the structured products market asking for this kind of structure."

McNeil notes that there is an interest in using the ETF wrapper in a defensive way, but nobody has really done that yet in Europe.

"With us coming along, we can reduce the barriers to entry and increase the chances of success," he says. "You don't need your own ETF team under the HANetf structure because our aggregated scale model can deliver the full package from product structuring, management to distribution."

McNeil has "this big theory that eventually all forms of daily liquidity payout type structures will end up in an ETF wrapper.

"I just think it's more consumer friendly than the alternatives," he says. "The ETF wrapper lends itself well to a growing investor base."

Defined outcome products have been available in the US for over five years. Why has it taken so long for them to be available in Europe?

If you look at the European ETF market, we are currently three to five years behind the US but catching up fast. So, I think we're almost on an identical trajectory when you track the AuM growth histories. Data from ETFGI says the ETF AuM in Europe is US$1.6 trillion now which is a small market when you look at the US$10 trillion AuM globally. When we first announced HANetf over three years ago global AUM was US$4 trillion.

The major difference is that in the US they have 300 issuers, a lot of very small players, entrepreneurial players, whereas in Europe the market is still very dominated by banks and asset managers. Barriers to entry are much lower in the US, now with HANetf that's changed in Europe.

We estimate it probably takes two to three years to get to the start line with an ETF business, if you start from scratch, and then probably another five years to figure out what you should have got right in the first place, but got wrong. And we see it all the time, the likes of BMO, Fidelity and Templeton, which have been in the ETF market in Europe for 10-15 years and got less than a billion of assets.

What does HANetf bring to the table? What are the chances this product will resonate with investors?

We've been doing it for less than three years, and we're at US$2.5 billion, the fastest growing ETF firm in Europe. We have a much higher management fee because we offer a more specialised products and services and the marginal cost of getting in the market is lower through the aggregated scale model.

We have always looked at products that have succeeded in the US, but aren't here yet. We were the first to bring short/leveraged products to Europe, and were able to replicate that model and make it a success. I think it will be the same way with structured outcomes and we want to lead the charge.

Do investors prefer ETFs over structured products?

The appeal of these is that they are open ended and perpetual whereas structure products are sort of date driven and that puts them at a disadvantage for some investors. The ETF keeps trading and it makes sense as a continuous traded and investing vehicle. Amazon prime gratification. Structured products have suffered from the buy and hold approach, and you still see products with investment terms of up to 10 years. That might be appealing for a particular type of investor, but for the millennial type of investors, the liquidity, the transparency, the listing, being able to come in, get out all of that and hold all your ETFs in a single portfolio at your broker. It's a more flexible vehicle to invest.

On top of that you have the counterparty risk which is, to me, one of the major plus points. One of the biggest problems with financial services is these sort of distribution channels that are not open and allows investment banks to force down products. ETFs are much more open architecture model. But structured notes and certificates issued by banks continue to be on demand and growing their AuM too.

Do you see Defined Outcome structures as a complement/competitor to structured products?

ETFs need enough common ground to generate hundreds of millions of dollars of assets to make sense but for a structured product to make sense US$10m would do the job.

The largest market is like a series of overlapping concentric circles where you get the middle ground, and that's the bit that ETFs can take. There is also demand for more bespoke and complex payouts so you're probably always going to have the sort of financial engineering structured products offer. At the end of the day is about finding the best way to deliver a payout to your client.

For us this is not about reinventing the wheel but about providing a better version. Investors want to see their portfolio all in one place. They don't want to deal with multiple websites and liquidity points, and they want the full choice (active, structure products). The reality is that all sort of stuff is washed through investors.

What are the needs from an investor perspective in terms of education and choice? Do they understand how defined outcome products work, and how they fit in their portfolios alongside other products?

That is one of the biggest challenges to be honest for all financial products. As a product provider just because you've told the same story 200 times, don't assume the person you've got to talk to will understand it. The focus should not be on trying to just sell the asset class, but equally on the structure, what it is trying to achieve, and put that in the context of the client's portfolio.

Every time you talk to a client it is like real time market research. They're telling you what they want, and what they need. When you bring a new product to the market is like putting the flag in the ground in the first place. We think defined outcome ETFs will make up a good part of people's portfolios and will add value and protection to them.

> **We want to lead the charge in Europe**

SG eyes automation as key driver in the US

The French bank has matched its 2020 equity-linked note issuance and sales volumes in the US as it continues to build up its offering and footprint.

> **We expect to see continued growth in volumes and a strong finish to the year**

SRP spoke with Alexandre Ecot (pictured), head of structured investments distribution, North America, at Société Générale to discuss developments in the bank's US market structured products offering, identify key asset trends, and main client priorities in the fastest growing structured products market.

How would you compare SG's structured product issuance in the US market in 2021 to-date with 2020?

Alexandre Ecot: Structured product demand has been much higher during this year, whereas in 2020, we had record level volatility and issuances in Q1. For 2021, activity has been strong and steady from the start of the year, and because of this we've managed to catch up with 2020 volumes year-to-date, which is remarkable.

We see that equities remain the lion's share of the business with indices or stocks - Alexandre Ecot

What kind of exposure are investors seeking in terms of underlyings and asset classes?

Alexandre Ecot: We see that equities remain the lion's share of the business with indices or stocks. We are known to be a leader in equity derivatives and have continued to issue significant volumes of equity-linked note products around the globe.

That being said, to diversify our offer as well as our risk profile, we've made great innovations and progress in other asset classes, whether it's rates or with hybrids.

There is a shift in investor preference towards index baskets over single index assets. Do you see this at SG? What are the reasons for this shift?

Alexandre Ecot: Yes, we do detect a shift. If you offer a product linked to a single index when volatility decreases, the yield on the new issue will be lower than it used to be. But investors are still interested in finding a way to generate the higher yield they were targeting.

One way to maintain a higher yield is to add more underlyings to the basket, as the investor is being compensated for the de-correlation on the basket. Another way involves looking for more volatile underlyings, such as stocks, rather than indices.

At SG, we are being asked for more products with several underlyings. I think it's really a question of cycles and when we're in a changing environment, we tend to see that. In 2021, volatility levels have gone down so it makes sense that investors are shifting to different product features to maintain equivalent levels of yield.

What are some of the main concerns/ priorities of your clients? How has this changed from last year?

Alexandre Ecot: As there has been significant increase in volumes across the market, our clients (which essentially are our distributors) need us to be more responsive and offer the best possible service. To accommodate those interests, I think there exists a big need for automation and improvement in the speed of pricing.

So, what has changed and what continues to change is the level of service that's expected of us and the tremendous need for an issuer like ourselves to automate pricing and issuing processes to meet the higher demand and the high level of service expected by distributors.

What are the challenges for a foreign provider in a market dominated by domestic outfits?

Alexandre Ecot: SG takes quite a different approach than our competitors in the US. We're one of the only issuers that doesn't have captive distribution in this country. Our only way to access the US retail market is by developing partnerships with third party distributors. So, keeping this in mind results in our building strong relationships with our distributors.

Therefore, we are always willing to go the extra mile to service our distribution partners. This is also good for them because we are the one issuer that never appears as a competitor.

And, although from a footprint standpoint we might be seen as the underdog in the US, we nevertheless are a global leader with state-of-the-art trading and product expertise. Our strength comes from being able to leverage all the resources we have across the European and Asian markets as well.

What do you anticipate for the rest of 2021?

Alexandre Ecot: We expect to see continued growth in volumes and a strong finish to the year. I don't think there was ever a dull moment in the market throughout the past year. Even the summer period, which typically displays slower flows, has remained strong.

So, we're very optimistic about the end of the year and won't be surprised if 2021 ends up being a record year for the industry, which I find very exciting.

The French bank is also leveraging its ESG profile in the structured products and the appeal of its 'positive impact' programme to expand its US market share. "We have had tremendous success with positive impact notes, whereby SG commits to hold in its books loans dedicated to positive impact finance projects equivalent to 100% of the value invested in the note," said Ecot.

> **Investors are shifting to different product features to maintain equivalent levels of yield**

CAIS Q&A: equity bucket growth notes, defined outcome strategies will dominate the fintech space

SRP caught up with Marc Premselaar (pictured), senior managing director at fintech platform CAIS to discuss structured notes activity at the firm.

> **Structured solutions ultimately provide clients with better outcomes**

Premselaar is speaking about key concerns among clients, as well as current trends to watch out for, and the platforms educational outlet CAIS IQ, which strives to consolidate investor knowledge surrounding alternative investments.

Has structured note activity increased at CAIS? What underlying assets are favoured by the platform's users?

Marc Premselaar: In terms of CAIS activity, demand and notional for structured notes have been very strong and I believe that the industry is on pace to be up by around 30% for the year. We're very pleased with our position and growth in the business, relative to the industry.

Structured notes have grown in demand like many alternatives have over the past few years, especially over the last six months, as interest rates continued to be low and as uncertainty in the equity markets continued to persist. Notes are defined outcomes which provides investors with an added layer of confidence as they offer downside protection while setting target returns

Within the US space, you're always going to see the broad-based US indices, such as the S&P 500, Russell 2000, NASDAQ etc. However, we do see more of a euro-rotation from domestic equities as well as more interest international underlyings such as EAFE, Emerging Markets and Eurostoxx.

How would you describe your strategy in the structured notes market?

Marc Premselaar: Our product offering includes alternatives and structured solutions on one platform. Many clients view structured solutions as another leg to the alternatives business.

Some can put it in their yield-oriented allocation while others use it as a complement to equities. We are a solutions-based business, and always want to be providing our clients with the best and latest investment solutions for them.

Are there concerns/issues among your clients when it comes to structured note adoption?

Marc Premselaar: The greatest concern our clients have is providing great service and outcomes for their own clients. During the market cycles that we've seen over the past two years, it's important to have all the tools that they need to deliver the best service. For instance, if it's alternatives or structured solutions, some of these may be new products and maybe a new allocation to their portfolio.

It is more important than ever to be a trusted consultant and advocate for your clients. Focusing on education leads to more wholistic investing, and having industry-leading solutions at your disposal, both in structured solutions and alternative investments ultimately provides clients with better outcomes.

What is the most valued element of structured notes among your clients?

Marc Premselaar: Yield will always be at the center of what structured solutions can offer clients because as rates stay low, and other fixed income securities remain unattractive, structured notes can offer a great risk-reward and can provide you with an absolute return with some continued downside protection.

As the space continues to mature, I think things on the growth-oriented side will continue to grow. For example, as notes become more popular (as they're demystified), and as the education increases around notes, people will start to use these more as a complement to their equity portfolios. We're seeing it now, but I think that's probably the biggest space for notes to grow.

In the past three to five years, yield has really dominated, but as the space continues to mature, defined outcomes, and growth notes within equity buckets will really take off and become a leader in the space.

There's been a lot of product innovation in the industry right now and this points to creativity from the issuer side to try and diversify away from doing a lot of these worst-of index structures, which have seen increased levels of issuance recently.

How important is to provide educational support to serve your clients?

Marc Premselaar: We've got a broad array of educational tools at CAIS IQ including a comprehensive learning set for structured notes that we're going to continue to build out. I think when it comes to education and learning, advisers and others enjoy learning from their peers and industry experts.

In the future, we would be looking to increase the original content from advisers, banks, industry participants, and other ecosystem players, as we've seen a lot of success there. I think that's where you can look for the biggest growth part on the education side.

What can we anticipate at the market level as near the end of the year?

Marc Premselaar: Moving into the fourth quarter of 2021, the run-up should prove to be interesting. Even though markets have generally trended upwards since the initial crash in 2020, we're going to see how Covid plays out in the winter and keep an eye on key environmental factors such as interest rates. In the case of structured notes buyers, (especially those that have money on the sidelines), this could be a golden opportunity to find entry points as this could be a choppy fourth quarter.

> **Defined outcomes, and growth notes within equity buckets will become a leader in the space**

Yewno: AI and big data in structured products

The US data provider is seeking to expand the adoption of its inference engine which incorporates machine learning, cognitive science, neural networks, and computational linguistics into the investment world.

Following his appointment as CEO of Yewno earlier this month, succeeding founder Ruggero Gramatica, SRP spoke to the former global head of sales at Qontigo, Roberto Lazzarotto, about how the Palo Alto-based firm is seeking to help 'uncover the undiscovered' through its new inference engine, and its application in the structured products market.

Yewno is a growing company, a start-up with six years in the market offering its inference engine to enhance human understanding by correlating concepts across vast volumes of sources. With Lazzarotto's appointment the firm is entering a new phase of development.

"The growth prospects for the company are enormous," says Lazzarotto (pictured).

The company operates in various verticals (education, financials, publishing) - the technology and the products it offers have been validated by users, and institutions such as Stanford University or Universita Cattolica in Italy, but also in the financial segment as the company is serving a number of blue chip clients ranging from Citigroup to Moody's or Bank of America.

Artificial intelligence is perceived as something that is directed against the retail consumer, because it is commercially used to say that it creates a better experience for them, but in reality, it locks them into a framework that a company is pushing to capture them, according to Lazzarotto.

"We are changing fundamentally the way that artificial intelligence is perceived and used in investments. We believe AI will change the course of the investment proposal going forward."

In the investment world, Yewno positions artificial intelligence as a way to creating an experience where the client discovers new opportunities and horizons to open up for investors.

"It's a completely different philosophy and approach," says Lazzarotto. "In the past, there was this perception of a black box as explaining why a certain result was obtained was complicated. But that has changed and there are ways to assess and understand the benefits of AI."

DATA FRAMEWORK

Yewno uses the 'Knowledge Graph' data framework which offers a representation of the various concepts with their ramifications and connections, so the roots of the reason to explain why something exists as part of an output can traced back.

This framework "offers total transparency and everything is explainable".

One of the difficulties index providers have is that they have to navigate through many databases, which are not necessarily clean and have inconsistencies that create a lot of issues, according to Lazzarotto.

"When you consider big data, you have the same problem as the web and other sources are full of uncleaned data, he says. "We want to change that perception too. The data inputs into the Knowledge Framework are unbiased, which makes the outcome reliable, and doesn't need to be re-crunched and reprocessed to separate the good from the bad. All those elements will change the way that investments will be done going forward and use of AI will move from niche to the mainstream fairly quickly."

STRUCTURED PRODUCTS

Yewno has a number of partnerships to deliver content that is used to create new investment strategies and indices with index providers supplying underlyings to the structured products market such as Nasdaq, Stoxx and Solactive.

"Index providers offer a regulated framework and the kind of stability that is relevant for investors, but what matters in an investment is content and that's the added value we offer," says Lazzarotto.

Indices such as the iStoxx AI global index and Nasdaq Yewno Global Innovative Technologies Ex EUR ER 5% Index are based on universes created by Yewno, and have been deployed by structured products providers in different markets.

There are 52 live products linked to underlyings powered by Yewno's framework worth more than US$200m including the Nasdaq Yewno Global Innovative Technologies Ex Disputable Index (seven products/US$10.30m), Nasdaq Yewno Global Innovative Technologies ER Index (eight products/ US$18.88m), Nasdaq Yewno Global Innovative Tech Ex Idx EUR ER 5% Index (18 products US$104.68m), and Nasdaq Yewno Global Innovative Tech Ex DA EUR ER Index (four products/ US$23.71m).

"We create the investable portfolio and the index provider performs the calculation," says Lazzarotto, adding that some the most successful next generation thematic ETFs based on some form of artificial intelligence, are tracking baskets engineered by Yewno including the Amundi Stoxx Global Artificial Intelligence UCITS ETF (GOAI FP) on Euronext Paris and Xtrackers Future Mobility UCITS ETF (XMOV GY) which track the Nasdaq Global Yewno Future Mobility Index.

Altogether Yewno has US$1.2 billion in assets gathered in structured products and ETFs.

"In terms of performance, one of the other great things with artificial intelligence is that it will always deliver a substantial over performance compared to a traditional approach, says Lazzarotto. "Indexing continues to be a driver of innovation and we already see artificial intelligence and machine learning being used to develop strategies that can navigate market turmoil and deliver yield."

Yewno's core offering is data. The second element is the inference engine which powers the overall 'Knowledge Graph' and allows the creation of inferences across millions of concepts – the engine does not make searches based on text words, but on concepts.

"We offer an absolutely unbiassed and reliable dataset," says Lazzarotto. "That makes a huge difference because you offer the granularity needed to build a picture. The reliability of the data feed, the concept-based approach and the transparency we offer is a differentiator for us."

BEYOND INFORMATION

Lazzarotto notes that Yewno's 'Knowledge Graph' brings knowledge and not just information, which is the direction to take, where the industry will necessarily have to go.

"That's a key part of our offering - we don't have just algorithms that eventually help you to detect a specific signal based on some stock energy, on volatility, etc.," he says. "On top of that, we offer a discovery across unstructured data that it can be used and applied directly – it provides knowledge on specific concepts and themes which is what drives investments beyond quant and fundamental research."

Lazarotto also believes that new areas of growth - new industries and segments, new businesses, megatrends, will be detected and classified through the firm's 'Knowledge Graph' framework.

"These themes will be identified and enhanced by our framework. We think we will move into a new sector classification based on the knowledge graph, and that's another very powerful use of artificial intelligence in the investment world."

Yewno is also seeking to strengthen and develop partnerships with index providers to bring to market new investment ideas via structured products.

"We can provide very powerful content and the calculation around can be performed by anyone," says Lazzarotto. "We see scope to expand our existing partnerships and we believe the increase in usage of artificial intelligence will influence the entire ecosystem.

"We're product agnostic but there are a number of instruments and wrappers that come to mind whether it is a structured product or an ETF."

Trading desks will be able to benefit from Yewno's data because they have to hedge their products but they will also be interested in the signalling of anomalies and the detection element that the Knowledge Graph will be able to provide - the dividend crisis we faced last year would have been navigated much better if we had the signals flagging the issues in the dividend side at the time.

"The Knowledge Graph technology will enable trading desks to leverage artificial intelligence for risk management purposes, and to hedge their exposures thanks to concept-based models," says Lazzarotto. "We think that research and advisory departments will be large beneficiaries as well."

GOING FORWARD

Yewno is a US-based firm but it has a global footprint. The firm's goal is to continue expanding its client base and international footprint.

"There is much more that we can do and we might do in terms of playing our role in bettering the market, obviously for the sake of having a commercial impact for the company but also with the purpose of making AI mainstream - we want to play a pioneering role to promote artificial intelligence and take it out of the shadow. That is the ambition and will be the main strategic focus," says Lazzarotto.

"We will continue our reach outs in the financial segment to help foster innovation as well as the non-financial segments, where Yewno is also present and has proven its worth."

Market neutral: playing vol and correlation

Within the funds world there are many interesting strategies that are used by managers to provide diversification or outperformance over the mainstream funds in the traditional asset classes.

Image: Maxim Hopman/Unsplash

One such concept of is that of market neutral funds. These aim to deliver returns without taking a significant long position in equities, bonds or any other asset class. This strategy has a lot of appeal since it does not generate excessive volatility and is largely uncorrelated with more conventional market funds.

A related strategy to market neutral is known as absolute return, which seeks to earn a constant target return that is significantly in excess of the risk-free rate but independent of market performance. These two definitions are very closely connected, since if an absolute return fund is aiming for a return that does not depend on the market then it cannot be taking a significant fixed position in it. We can also deduce that both these strategies are likely to place a strong emphasis on risk control. This is because the principal source of fund volatility comes from the market holding that it has, so if this has been largely eliminated and the manager is looking for outperformance or arbitrage opportunities between different assets we would expect lower volatility and a more targeted approach.

Market neutral funds have been around for decades but tend to recede in interest and popularity during bull markets. Despite the brief sharp market falls in 2020 in the medium term this is an environment we find ourselves in, particularly in US equities which have more than tripled in the last ten years, therefore market neutral funds have struggled to maintain popularity except in very niche situations. In August 2021 Aviva announced the closure of its flagship absolute return fund after further significant investor outflows.

With the rich variety that structured products have there are several product types that can achieve outcomes close in spirit to market neutral strategies. Additionally, most structured products put a high emphasis on capital protection and risk reduction placing them in a similar bracket.

The three common structured product types that have the highest market neutral flavour are the dispersion, range accrual and twin win.

Dispersion products measure the average difference between stocks in a basket or index and the same basket return over a given period. This can either be done with reference to price levels at the end of the product term or to volatility measures. In both cases the strategy is market neutral and is explicitly betting on the correlation between the stocks being lower than expected which would drive these dispersion effects since the product would benefit from overall market neutrality with the basket unchanged but half the stocks going up and half going down. From an investor's perspective the product type allows a direct view on correlation and the rationale of the product type for the investment bank is to reduce correlation exposure typically built up through worst-of and basket products.

Range accrual products generally pay income if the underlying asset stays within a predefined range during each coupon period. This range is often symmetric around the initial level of the underlying and therefore the product payoff is maximised if the underlying does not move significantly which is also indicative of market neutral properties.

The twin win (or dual direction) concept pays if the index is significantly up or down, at least within a given range.

All three of these product types are essentially market neutral but can be thought of precisely in terms of properties such as volatility and correlation, much in the same way as smart beta relies on 'advanced factors'.

Other popular structured product types have some properties in common although they are not purely market neutral. These include the defensive auto-call and bonus products.

A defensive or step down autocall features autocall levels that reduce over time to a level such as 80% of the initial underlying level. This means that they can pay a positive return in the case of rising and flat markets and those that fall but not beyond the defensive level. By covering so many market direction outcomes the correlation of the payoff to a long market position is much reduced and gives it strong market neutral credentials. It also has the advantage that it is achieved in a way that is arguably a lot simpler than the dispersion and range accrual constructions in particular.

The bonus certificate is very similar and is popular in continental Europe and other markets. Typically, this is a product with a fixed term and the bonus amount is paid if the underlying is above the barrier level which is set deep like the defensive auto-call.

Market neutral and absolute return funds continue to be a consideration for more sophisticated investors as part of their portfolios and strategies. In addition, these concepts have wider application and these techniques have been adopted in structured products as discussed above. They include some interesting product ideas which offer alternative way to generate returns that are less dependent on continued strong market growth.

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

> **Market neutral and absolute return funds continue to be a consideration for sophisticated investors**

Product wrap: German bank's embrace MSCI SRI indices

In this month's wrap, we look at a selection of structured products with strike dates between 12 September and 16 October 2021.

EUROPE

DZ Bank launched Rendite Express 96 ST 9 21/28 in Germany. The 6.5-year investment certificate has a knockout feature, which is triggered (annually, from March 2023 onwards) once the underlying MSCI World SRI Sustainable Select 3.5% Decrement Index closes at or above 96% of its starting level. The product can be traded at the exchanges of Frankfurt and Stuttgart. Capital is preserved providing the index closes at or above 60% on 15 March 2028. Priips summary risk indicator (SRI): four out of seven.

Also in Germany, **Landesbank Baden-Württemberg (LBBW)** offered access to the MSCI EMU SRI Select 30 Decrement 3.5% Index, via a 6.2-year memory express certificate. Every year, the product offers a two percent memory coupon providing the index closes at or above 70% of its strike level. It has a step-down autocall feature, which starts at 100% for the first year and subsequently decreases by five percent per year. This product too is listed in Frankfurt and Stuttgart. There is a one-off entrance fee of 3.23%. Priips SRI: three out of seven.

Crelan collected US$10.1m (€8.7m) with the Callable Global AI Minimum Redemption USD 2029 in Belgium. The 7.8-year medium-term note (MTN) participates 100% in the rise of the iStoxx AI Global Artificial Intelligence 100 NR Decrement 5% Index, subject to an overall minimum capital return of 107%, paid out in US dollars. Goldman Sachs International (the issuer) has the option to call the product – annually – from year two to year six. In that case, it offers 100% capital return, plus a coupon of five percent for each year elapsed. Priips SRI: two out of seven.

Société Générale issued Horizon Responsable Décembre 2025 VII in France. The 4.3-year MTN is linked to the Solactive Just Transition Select AR 5% Index and La Mondiale Europartner Euro Fund. The invested capital is distributed between a capital guaranteed wrapper (68.16%) replicating and reinvesting the yield of the euro fund, and a capital-at-risk wrapper (29.21%) which, at maturity offers 100% participation in the performance of the index (positive or negative), subject to a minimum return of 90%. The product is listed in Luxembourg. Priips SRI: one out of seven.

Strukturinvest marketed 2510 Fondobligation Idea in Sweden. The capital protected note has a maturity of six-years and its return is based on the performance of a mutual fund (PriorNilsson Idea Fund), which in turn is linked to the Credit Suisse Nordic Alternative Fund 13% ER Index. It is issued at 110% and listed in Stockholm. Credit Suisse International is the issuer and a one-off entrance fee of 1.25% applies. Priips SRI: two out of seven.

NORTH AMERICA

Desjardins introduced series 8 of its global equity principal protected notes in Canada. The five-year securities are linked to an equally weighted basket of 20 global companies from various sectors. The maximum total return is equal to 15%, or a coupon of three percent pa. The notes are not listed but Desjardins intends to maintain a daily secondary market. There is a selling commission of C$1.25 for each note sold.

Goldman Sachs achieved sales of US$1.8m with its leveraged buffered notes on a weighted basket comprising the Invesco S&P 500 High Beta ETF (35%), Russell 2000 (20%), Nasdaq-100 (15%), Eurostoxx 50 (15%) and iShares MSCI Emerging Markets ETF (15%). The buffer is 10%. At maturity, the product offers 100% capital return plus 200% of the rise in the basket over the investment period, subject to a maximum overall return of 117.5%. However, if the basket has fallen by more than 10%, the capital return equals 100% minus 1% for every 1% fall in excess of the initial 10% fall. Simon Markets, a broker dealer affiliated with Goldman, will receive a fee in connection with the distribution of the notes. The estimated value of the notes is set at US$975 per US$1,000 face amount.

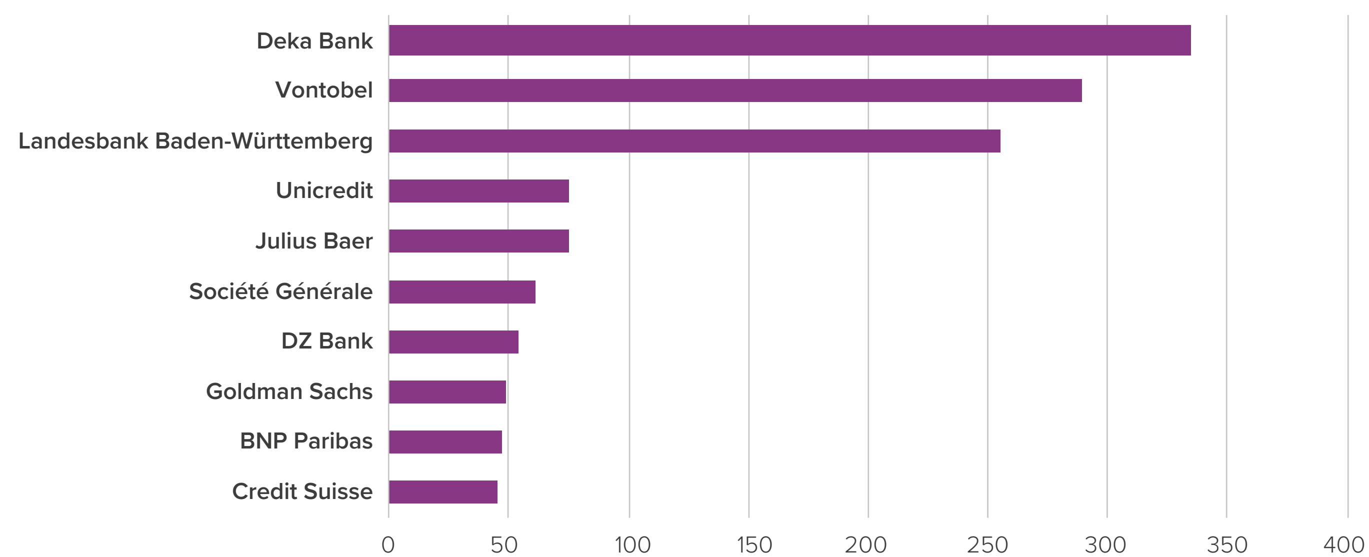
LATIN AMERICA

BBVA Bancomer accumulated sales of MXN239.93 (US$11.8m) with a range accrual note linked to the Mexican Interbank Equilibrium Interest Rate (TIIE). At maturity, the product offers a capital return of 100%, plus 5.25% pa prorated for the number of business days in the investment period when the interest rate is equal to or greater than 4.6, and equal to or lower than 5.35. Otherwise, the product offers a capital return of 100%.

MIDDLE EAST & AFRICA

Standard Bank launched Capped Protected Index RESI 10 in South Africa. The 2.2-year MTN participates 100% in the performance of the FTSE/JSE Resources 10 Index capped at 67%. The overall minimum capital return is set at 90%.

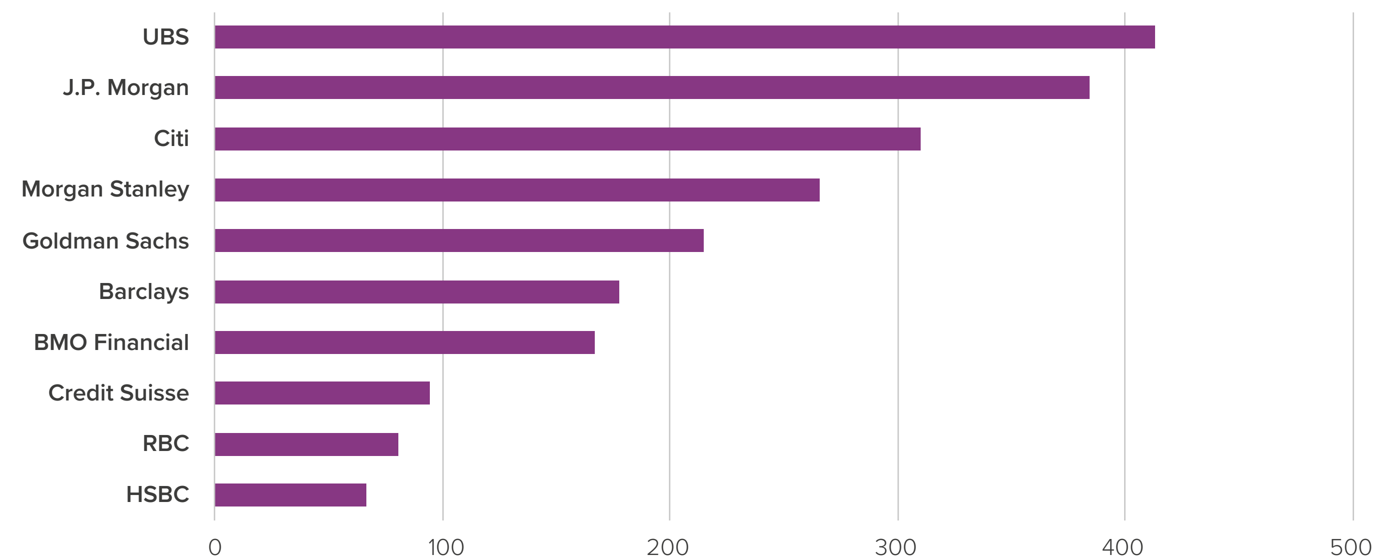
Europe: top 10 issuer group by issuance - 12 Septembr to 16 October 2021*



*Excluding flow- and leverage products

Source: StructuredRetailProducts.com

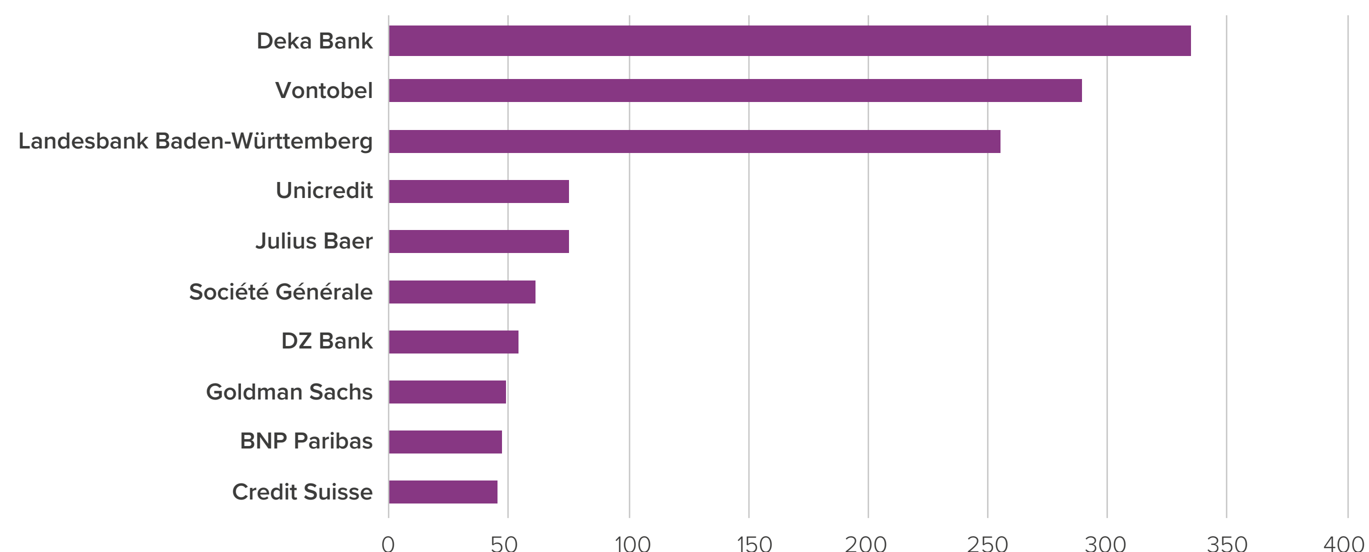
Americas: top 10 issuer group by issuance - 12 Septembr to 16 October 2021*



*Excluding flow- and leverage products

Source: StructuredRetailProducts.com

Asia Pacific: top 10 issuer group by issuance - 12 Septembr to 16 October 2021*



*Excluding flow- and leverage products

Source: StructuredRetailProducts.com

ASIA-PACIFIC

HSBC Bank issued the two-year CNY Note S4 in China. The product features the shark fin payout and offers access to the MSCI World ESG Screened 5% Risk Control Index. If the price of the index closes at or above 112% of its initial level at any time during the two-year tenor, the product offers 100% capital return plus a coupon of four percent pa. Otherwise, at maturity, it offers a capital return of 100% plus 100% of the average performance of the index over the investment period.

Eugene Investment & Securities collected KRW170m (US$143,607) with ELS 398 in South Korea. The three-year autocall is linked to the performance of Samsung Electronics, S&P 500, and Eurostoxx 50. At maturity, the product offers 100% capital return, plus a fixed payout of 14.1% if each underlying closes at or above 65% of its initial level. Otherwise, the investor participates 1:1 in the performance of the worst performing underlying.

Bank of China issued Target Rate Investment 8PJ in Hong Kong SAR. The six-month deposit is linked to the appreciation of the Hong Kong dollar relative to the US dollar. If the fixing rate of the currency pair is equal to or below the target rate (7.7200 – expressed in the amount of HKD per USD) on 21 March 2022, the investor receives a coupon of 0.35% pa. Otherwise, a coupon of 0.25% pa is paid.

Morgan Stanley MUFG Securities distributed Power Coupon USD/JPY M20411011 in Japan. The product has a 20-year tenor and is linked to the appreciation of the US dollar relative to the Japanese yen. It is subject to early redemption if the currency pair closes at or above its initial price on any semi-annual validation date. The product is issued via Morgan Stanley. Bank of New York Mellon acts as the derivatives counterparty.

People Moves

SG names German head of public distribution

Peter Bösenberg has been promoted to head of public distribution Germany & Austria after over five years as head of cross asset distribution Germany & Austria, at Société Générale Corporate and Investment Banking (SGCIB). Bösenberg (left) will continue to be based in Frankfurt and will report locally and functionally to Klaus Oppermann, head of public distribution Europe, at the French bank.

He has spent the last five years as head of cross-asset distribution Germany & Austria. Prior to that he was director - head of public distribution Germany & Austria, and a sales manager of cross-asset structured products solutions Germany, Austria and Luxembourg for retail distribution networks and financial institutions, since 2004.

Bösenberg has been a driving force in the build up and development of SG's German digital platform of structured products and cross asset solutions for Germany and Austria. He joined the French bank in 2002 as a trainee in sales trading - warrants & certificates.

In the wake of Mike Bayley's departure last week, the bank has reallocated his responsibilities, restructured the hedge fund flow and institutional/solutions teams and brought on additional staff.

Manvir Nijhar, the bank's co-head of equities and equity derivatives in the UK, has absorbed institutional cross-asset solutions sales, and Laila Mukhey has taken some of Bayley's responsibilities as the bank's new UK head of equity derivative flow sales for hedge funds and institutional sales. Mukhey reports to Nijhar.

BUILDS UP STRUCTURING UNIT IN CHINA

Société Générale (SG) Global Markets is setting up a local structuring team in Shanghai in a move to capitalise on the growth potential of the Chinese market.

At least three Hong Kong SAR-based cross asset sales bankers covering China are set to relocate to Shanghai in November, including Zhenzuo Ye, director, head of cross-asset sales, China, SRP has learned.

Ye will continue to report to Xin He, head of global markets for China, who is also based in Shanghai, and assume the responsibilities of Charles Gu, ex-deputy head of global market & head of sales at SG China, who parted ways with the French bank in July to join Standard Chartered Bank in charge of corporate sales based in Shanghai.

"[We] are in process of moving some sales staff in Hong Kong SAR to China," an SG spokesperson told SRP without elaborating.

The travel restrictions triggered by the Covid-19 pandemic have accelerated the bank's restructuring plan, which indicates a positive outlook for SG in China's derivatives market, according to a source.

In addition to the relocation, the investment bank is currently hiring two structurers in Shanghai, including a senior role to 'lead SG's structuring efforts for the Greater China area'.

Back in October 2019, He, the head of China's global markets, said at a financial forum in Shanghai that 'as China further opens its markets, we will make further investments in China', referring to the removal of limits to foreign stakes in futures, mutual fund and securities companies, effective from 2020.

China's regulators have loosened the requirements for foreign institutions investing in China over the last few years.

Following the removal of the investment quota for the qualified foreign institutional investors (QFII) and RMB qualified foreign institutional investors (RQFII), the Chinese regulators last November expanded the investment scope and included exchange-traded derivatives among the products allowed. The country's regulatory authorities also plan to apply consistent rules on over-the-counter (OTC) derivatives for FX risk hedging.

Former Goldman strats chief joins hedge fund

The hedge fund has bolstered its ranks with a number of senior hires over the summer season.

Stacy Selig (left) has joined US$53 billion hedge fund Millennium Management as deputy chief operating officer.

Based in New York, she will work directly with Millenium's chief operating officer, Ajay Nagpal, to advance key global strategic business activities and initiatives across the company.

Prior to joining Millennium in 2021, Selig was a partner at Goldman Sachs, where she served as the co-head of global structuring for the global markets division. Selig was appointed to this role in early 2019 after Goldman reshuffled its systematic trading strategies team. Since then she was responsible for the bank's strategies (strats) unit globally across equities and FICC alongside Thalia Chryssikou, co-head of global sales strats and structuring across fixed income currencies and commodities (FICC).

During her time at Goldman, Selig held a number of senior roles including head of the equity structuring group for the Americas and head of global synthetic products structuring, as well as co-head of global origination, with a focus on equities products, head of structured sales and co-head of asset manager sales in equities in the Americas.

She was also a member of the Goldman Sachs' sustainable finance steering group and the co-chair of the global markets division sustainable solutions council. Selig joined Goldman in 2004 after an early career as a tax attorney at Davis Polk & Wardwell, and was named managing director in 2010 and partner in 2016.

Selig began in the tax planning and advisory group before becoming part of the macro equity desk, head of the equity structuring group for the Americas and global head of synthetic products structuring and co-head of securitised product structuring.

Selig's appointment follows the departure of Benjamin Texier who has recently joined J.P. Morgan's equity derivatives division after a four-month stint at Millenium.

Teixer joins the US investment bank as a senior volatility trader within the bank's index flow options trading desk to focus on VIX and S&P 500 index trading, a J.P Morgan spokesperson told SRP.

Prior to joining Millenium, Texier was a director, index volatility trading, at Citi in New York for four years. He joined Citi from BNP Paribas where he held several positions during his seven-year tenor including director index trading, exotic derivatives trader and equity derivatives associate.

The hedge fund has boosted its ranks over the summer with the appointment of Romain Paternot, a former director in equities synthetics and securities lending for Bank of America (BofA) in Paris, who joined Millennium's Dubai office in August as a senior index trader. In July, Gregoire Thomas, formerly head of Emea equities synthetics and securities lending for BofA, joined Millennium Management in Paris.

Wells Fargo

Ranjani Ramachandra, a former managing director at Barclays Group in New York, has joined Wells Fargo Securities as managing director, head of equity-linked products trading.

Ramachandra joins Wells Fargo only nine months after being promoted to managing director, equity derivatives trading, in December 2020. She will continue to be based in New York and will report to Mark Kohn, managing director, co-head of derivatives trading & head of balance sheet and capital management. Ramachandra worked in the equity derivatives trading division at Barclays over the last decade. She joined the UK bank from UBS where she spent two years as an equity market risk control intern and equity derivatives trader covering US equity exotic derivatives trading.

CAT Financial Products

Ulrich Sauter has joined CAT Financial Products Ltd as a partner with responsibility for driving the expansion and organisation of the CAT Group within and outside of Switzerland.

With more than twenty years of international experience in the regulatory area of financial markets, Sauter (left) is the latest addition to the firm's partner structure as it moves towards internationalisation.

Sauter was the general counsel of Leonteq for more than 10 years and was instrumental in the development and expansion of the Swiss structured products specialist listed company. He then was general counsel of Tezos Foundation for three years and works as an independent lawyer within the digital assets space covering distributed ledger technology, blockchain, digital assets and DeFi solutions.

BNP Paribas

Mike Bayley has joined BNP Paribas as head of UK institutional, private bank and distributor sales for equity derivatives.

In this newly created position, Bailey (left) will be based in London and report to Walid Maaouni, global head equity derivatives hedge fund sales & head UK equity derivatives sales, BNP Paribas.

Bayley joins from Société Générale (SG) where he was head of equity derivatives & solutions, UK institutions for the last nine years, responsible for quantitative investment strategies (QIS), risk premia, Solvency II solutions, cross-asset structured products and equity derivatives for UK pension funds, insurers, asset managers and discretionary fund managers. He joined SG as a director in cross-asset solutions for UK institutions in 2012.

Prior to joining SG, Bailey was a director, equity derivative sales at the Royal Bank of Scotland covering hedge funds, proprietary desks and institutions for almost four years, after three years as an equity derivative sales associate at ABN AMRO Bank.

InspereX

The third-party distribution firm of market-linked products formerly known as Incapital has appointed **John Marone** as its new senior vice president of national accounts.

Based in Florida, US, Marone will report to Chris Mee (left), head of distribution of market-linked products. He has been with the firm since 2012 and joined from BBVA Compass where he worked as a platform manager.

He has also previously assumed the role financial advisor at First Union, Barnett Bank, and IDS/American Express Financial Advisors.

InspereX has also announced the promotion of five senior internal wholesalers to newly created roles of regional associate vice presidents. In this new position, the team will serve as business allies to the firm's external wholesalers and their top financial adviser clients.

The promoted team members are Rafael Lamo, Joey Cagno, Tom Cooney, John Hunter, and Jon Jimenez. They will report to Bob McDermott, managing director and national sales manager.

UBS poaches Morgan Stanley's Apac equity-linked head

Pierre-Alexis Renaudin, a complex equity product structuring veteran at Morgan Stanley, will relocate from London to Singapore as head of Apac strategic equity at UBS. Renaudin is currently on a six-month gardening leave after parting ways with the US bank in August, according to a senior source.

At Morgan Stanley, Renaudin was managing director, head of Emea equity-linked origination in the strategic equity solutions group. He joined the US bank from Deutsche Bank in 2011 where he had a similar role with a stint in Asia. Prior to that, he spent four years at Merrill Lynch based in London.

Renaudin will join UBS Global Wealth Management Capital Markets, which was created in 2020 as a unified global markets group across the Global Wealth Management and the Investment Bank at UBS.

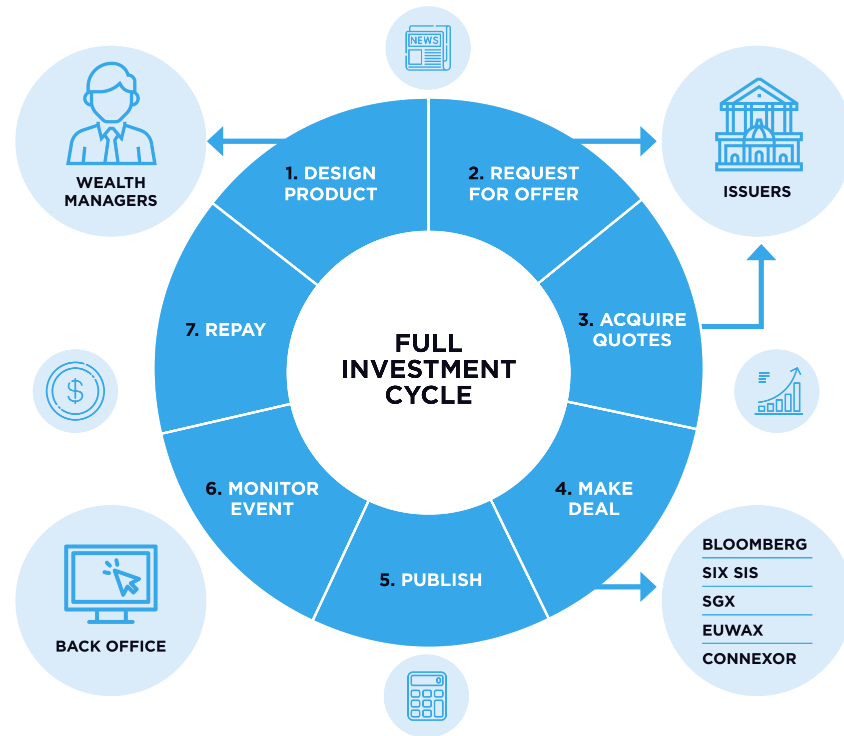
SRP NEW LIFECYCLE MANAGEMENT PORTAL

SRP | FVC

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

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

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



KEY BENEFITS OF THE LIFECYCLE MANAGEMENT PORTAL INCLUDE:

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

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