

RETAIL STRUCTURED PRODUCT SECTOR REVIEW OF THE DECADE 2010-2019



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LOWES

FOREWORD

By Zak de Mariveles, Chairman UK Structured Products Association

I am delighted to introduce yet another piece of engaging research from Lowes Financial Management, this time looking at the performance of UK IFA distributed structured products over the past decade.

Structured products have clearly proven themselves to be an extremely worthwhile investment choice during this period, with those reviewed generating an impressive average annualised return of 6.98% (3.64% for capital protected structured deposits).

It is not just the performance statistics that are hugely encouraging, as we've seen many other significant positive steps for the UK structured products industry over the past decade. Arguably the focus of everyone engaged with investment products, from manufacturers to distributors, has been the many regulatory changes the investment world has seen, and the structured product industry has not only adapted to meet these new regulations, but arguably led the field, especially in areas such as product governance. As the UK Structured Products Association reached its milestone 10-year anniversary, we are proud of everything that our members and the wider industry have achieved and the recognition we have gained as an important mainstream asset class.

Despite this, some advisors continue to disregard the true facts about structured products, meaning their clients are potentially missing out. The children's tale, 'The Emperor's New Clothes' reminds us an important lesson: that we shouldn't let pride keep us from speaking up when we know the truth. Research such as this should set as a reminder to us all, to be wary of those who mislead about structured products, instead recognising the many benefits that structured products have offered retail investors as part of a broader portfolio.

Of course, the current outlook is full of unknowns and uncertainty, and investors may be feeling nervous about what lies ahead. But I hope that you agree this research provides a better appreciation of why structured products deserve consideration as part of their portfolios, given their ability to generate such returns even in challenging market conditions, whilst at the same time protecting from extreme market falls.

Zak de Mariveles

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Lowes provided input into the concept, development, promotion and distribution of the 10:10 Plans. The provider's charges/fees are built into the terms of the investment - Lowes has a commercial interest in the Plan as a result of its involvement in its development and promotion. All Plan returns are stated after allowing for these charges/fees. Where Lowes is involved in advice on or the intermediation of this investment to retail clients, it will not be paid any fee from Mariana for its input.

PREFACE

“There are in fact two things, science and opinion; the former begets knowledge, the latter ignorance. Hippocrates.”

In 2010, one of the most prominent, financial services commentators of their time, said “structured products never benefit the client”. A tsunami of contradicting evidence was offered by those who knew better but this was a time when dismissing the sector out of hand was commonplace. It was however acknowledged that there was a greater need for published empirical evidence and I am very proud to say, that through the efforts of my colleagues at Lowes Financial Management and our dedicated structured products websites, that has now changed.

Whilst the first decade of the current century was witnessing the further evolution of a new sector as a potential contender to traditional investment methodologies, like any evolving sector, it came with its challenges and a number of isolated but high-profile incidents that understandably impacted adviser confidence. It is of course, appropriate for advisers to be sceptical but equally we all need to be open to new, regulated solutions. In 2012 the Financial Services Authority made it clear that they expected any adviser that held out to be independent, to consider the whole range of investment opportunities and in doing so, specifically referenced structured products. As this report will show, those that utilised structured products over the last decade have, with few exceptions, achieved favourable outcomes, very well aligned with investor expectations.

As you might expect, not every investment matured with a positive outcome but given that less 2% of the 3,895 products that matured in the decade gave rise to a loss, its fair to say that the sector has performed consistently well and rarely disappointed.

Over the decade, thanks to a couple of regulatory nudges, the sector is very respectable, having evolved to offer a much-improved proposition that served investors well and has more lately, come to the fore with the Covid correction. The publishing of this review was delayed, by all things, Covid19 – something unexpected that significantly impacted investment markets. With the benefit of 2020 hindsight, its fair to say that a decision to invest at the beginning of the year would have been better delayed a few months but I am exceptionally pleased that the capital at risk auto-call sector evolved to account for the unknown. Of course, positive outcomes are not guaranteed and only time will tell but take ten minutes to consider one of the now common, longer potential duration, FTSE 100 linked, autocall retail structured products the sector offers and ask yourself, what returns it might yield compared to another investment of your choice.

I would like to express my gratitude to everyone who have supported us in creating this review, from current and past colleagues to sector providers and more. I would like to particularly thank IDAD, Tempo, Investec, Walker Crips and MB Structured Investments for their generous contribution to our fundraising efforts in aid of the MS Society, provided in return for advertising within this document. The charity is to receive 100% of the money raised.

The MS society is the UK's largest multiple sclerosis charity with an ultimate goal of finding a cure for the disease and in the meantime working to ensure that no one has to face MS alone. If you find this review of value please also make a contribution via mssociety.org.uk/donate



Ian Lowes



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INTRODUCTION

Lowes Financial Management had been researching investment products and advising clients for a quarter of a century before the first structured investments appeared in the retail market. In their earliest form, these Stock market bonds as they became known, were typically issued by insurance companies, under life assurance bond wrappers but were few and far between.

The turn of the century saw the market grow significantly, both in terms of product type, issuance and take-up but whilst many decent propositions began to evolve, the sector consisted of too many high risk, high charged contracts dressed up with enticing marketing, most notably around headline figures. Whilst Lowes steered its clients away from these high-risk propositions, its efforts to warn other advisers, the regulator, the media and the general public did not prevent what ultimately became dubbed the Precipice Bond Scandal. This rightly led to regulatory intervention and an outlawing of some of the more dangerous product profiles, such as those with geared downsides.

Over the following five years the retail sector evolved, with some significant participants and then Bear Sterns, a large US bank collapse, followed by Lehman Brothers. The credit crunch had arrived with a bang. Whilst the collapse of Lehman Brothers impacted only one per cent of the UK retail sector's live structured products, it served to highlight counterparty risk and more importantly, a lack of understanding of this particular risk attribute in many quarters.

Most structured products issued during the first decade of the current century performed exactly in line with their stated terms but the above episodes, coupled with some spurious product designs, left the sector generally quite bruised and subject to some justified criticism and further regulatory scrutiny.

This review covers the following decade.

METHODOLOGY

Structured product data has been retrieved from Lowes Financial Management's extensive database of products issued from 2000 onwards. The information in the database originates from the original product literature.

Performance data has been calculated by Lowes Financial Management by reference to the individual, defined investment terms and the movement in the respective underlyings over the term of the investment.

When a product has been issued with more than one option, each option has been treated as a separate investment product with its own distinct terms.

We are not privy to information on the volumes sold by product providers; for review purposes each product is considered discretely and with no reference to whether or not the investment product was successful in terms of sales volumes.



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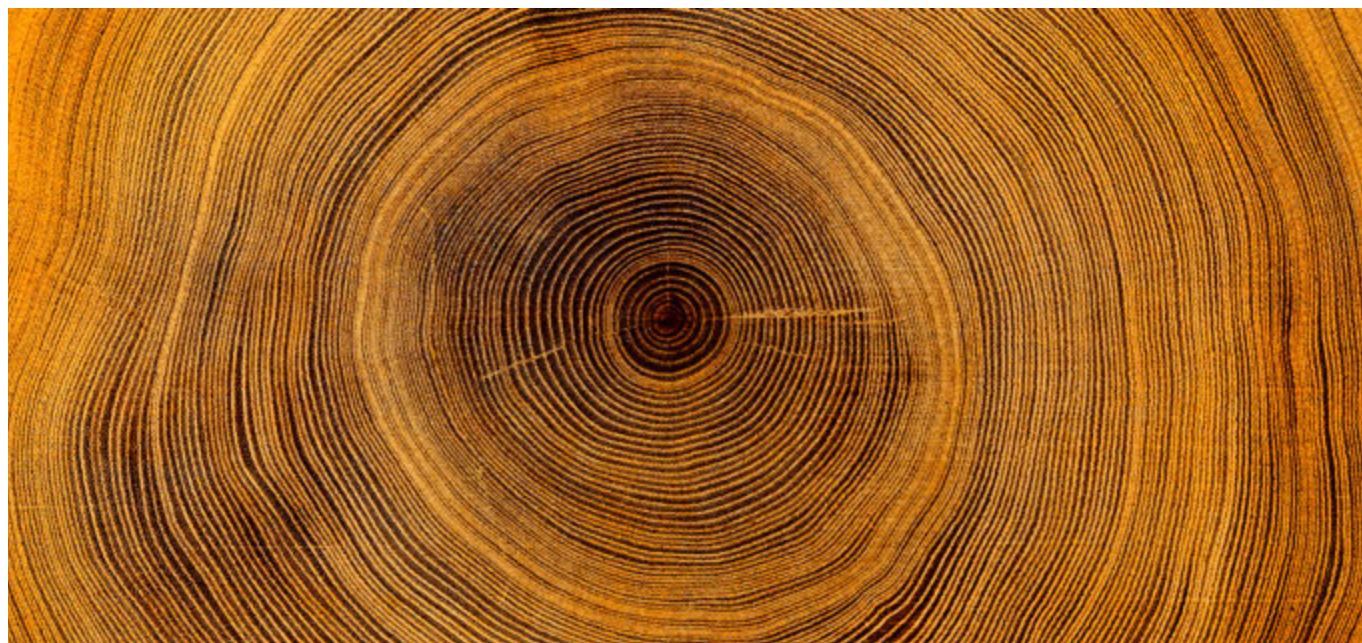
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¹'Preferred' plans are those that Lowes identify at time of launch as best available.

²Winner of MoneyMarketing 2018 Best Investment Adviser.

³Fee Cap for the avoidance of doubt, the total fees payable by Fund per annum will not exceed 1% of the Net Asset Value of the Fund

A DECADE OF REGULATED EVOLUTION...



The demise of Lehman Brothers in 2008 served as the catalyst for the then FSA to intervene in the way the structured product market operated. With various major papers and guidance issued in 2009, 2012 and most recently 2015, it was clear that the sector would need to change and to improve its practices. Perhaps at the time, sector participants questioned 'Why us?', but now such interventions occur regularly and are welcomed. Recent interventions and commentary have focused in areas such as bank account provision, DB transfers, peer-to-peer lending, mini-bonds, etc; all of which will of course continue.

In the case of structured products - encompassing both investment and deposit based delivery mechanisms - almost all aspects of the product journey have been reviewed starting with its origination, the testing and suitability, through to the way it was marketed and distributed to end investors in terms of understanding and appropriateness. In fact, one aspect that came out early was that 'Structured-capital-at-risk-products' (SCARPS) should ideally come with advice so that investors understood the nuances around the potential for capital loss. Another aspect that seemed to become quite hard baked early on, was the so-called 'concentration rules' whereby an investor should be limited in their overall exposure to structured investments (25%), limited to 10% in respect of any one counterparty.

Post issuance of the FSA review in October 2009, 'Quality of advice on structured investment products' and their 'Structured investment products suitability assessment template', the FSA did stress that these were in fact 'trigger points' and not statutory limits and that they should act as prompts for advisers to reflect on any potential concentration exposures and on-going suitability. Such guidance is of course sensible and fair to be considered 'good practice', but it is also consistent with say how counterparty exposures with a UCITS fund operate; in essence a levelling out between competing investment propositions. The impact on the market was quite pronounced, resulting in the dominant provider ceding market position over the following three years. Further, off the back of the review, choice became quite restricted as counterparties - the banks - reviewed their appetite for exposure to the UK retail market, with many concluding that it wasn't core to their wider investment banking activities.

The FSA obviously felt the need to keep a watching brief on the sector to see how it responded to the 2009 guidance and further consultation was then undertaken in 2011. This culminated in finalised guidance being issued in March 2012 (Retail Product Development and Governance – Structured Product Review). At its heart this guidance was about the product governance process, focusing on systems and controls in relation to understanding the target market, product design, product management and distribution strategies, effectively the components in bringing a product to market.

As a result, the theme of understanding the target market has now become very much ingrained in provider thinking, supported it has to be said by the counterparties in allowing access to their debt issuance programmes. An unintended consequence of the guidance is that this additional filter has probably proven useful in that overall, a more robust process is in place to ensure that suitable products are distributed into the wider market and that they are accessed only through appropriate channels.

But the outlook for the sector was not yet set fair. News came in June 2014, that the FCA had fined both Yorkshire Building Society and Credit Suisse International a combined sum of over £3.8m for failing to ensure that financial promotions in relation to a specific cohort of products was clear, fair and not misleading.



The product in question was called a 'cliquet', which essentially divided up a fixed term investment period of say six years, into discrete yearly or six-monthly performance periods. The return at the end of the investment period was the resultant sum of the discrete periods. In some cases, the final return was subject to a minimum; in some cases, the absolute value of the performance for a discrete period was set to a maximum. You can quickly see that even through this short explanation, there were already a lot of moving parts to think about in determining whether such a product had merit. One only has to think about how the stock market typically performs to realise that gains made in one period could easily have been wiped out through poor performance in another. To cap it all we then come to the advertised maximum return that held some prominence in the promotional materials, which according to the FCA Final Notice, the providers were aware of a near-zero chance of it being achieved.

Being considered suitable for a non-advised distribution channel, other building societies also distributed the product but in most cases their role was one of facilitating a Credit Suisse International product through their channels and not their own; this perhaps explains why the scope of the FCA's action was limited only to two market participants. This type of product is no longer seen and to their credit, was rarely seen within the independent adviser market.

The fallout led to another review, this time TR15/2 - Structured Products: Thematic Review of Product Development and Governance. Clearly events were moving in parallel with the above regulatory action as part of the output showcased consumer research the FCA had carried out on the ability of investors to understand the value in structured product and whether they can meet a need; tellingly SCARPS did not feature (only capital protected or deposit products were in scope), perhaps tacitly conceding that such products were the preserve of the adviser. It was disappointing that many commentators failed to pick up this difference. Nonetheless, lessons and much the same messages were again rammed home by the regulator.

Returning to an earlier theme – share price linked investments. A number of products were launched in the early part of the decade with returns linked to a number of FTSE 100 constituent equities, but by 2016 they were all but gone; undoubtedly regulatory influence played its part in their demise, particularly in highlighting issues round complexity and the factors driving potential returns.

Since TR15/2, the sector has operated without any further intervention and as alluded to elsewhere in this report, outcomes have been excellent.

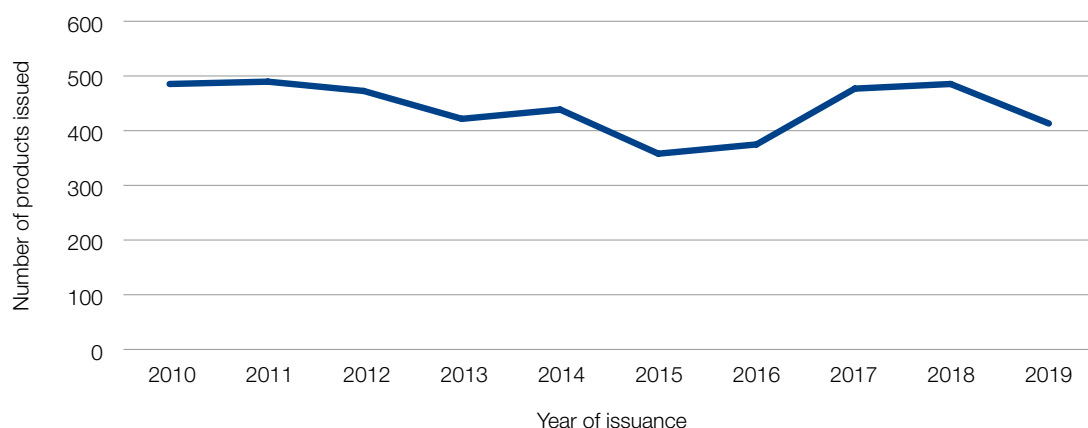
As with any sector, a number of providers have come and gone during the decade. Of these, the main one of note was Merchant Capital in 2013. Reyker Securities took over the administration of the former, sensationally and falsely claiming that "thousands of pensioners would have lost everything" had they not stepped in. The extent of the charges that Reyker subsequently imposed on Merchant clients were the subject of much protest and whilst an unpleasant cloud over the sector's evolution, the episode did ultimately serve to establish that costs, or losses arising from a provider's failure to meet its contractual obligations to retail clients, should be reclaimable from the Financial Services Compensation Scheme. The Scheme eventually invited claims to recover Reyker's fees in late 2015. Reyker then deplorably took advantage of this result to the extent that they were left unchecked to ramp up their fees and, in some cases, deducted over 20% of some maturity proceeds. The net outcome however meant that no investors should have ultimately suffered any shortfall. Poetically, Reyker themselves subsequently failed in 2019 but again, all client assets seem to be accounted for and beyond some inconvenience, there will ultimately be no shortfall for investors.

To come full circle, at the beginning of 2020, the final proceeds of the Lehman bankruptcy (affecting investors in Lehman backed UK distributed structured products), received their final pay-out. Whilst the spread of returns was wide, the average amount returned was 71.21% of the original invested amount. We think this is quite good news, albeit over ten years too late and clearly further diminished in real terms.

SECTOR ANALYSIS AT MACRO LEVEL

- A total of 4,444 structured products were issued between January 2010 and December 2019.
- 1,628 of these plans remained in force at 31 December 2019.
- Over the decade a total of 3,895 structured products matured. Based on those that matured within the entire UK retail sector, structured investments produced an average annualised return of 6.98% whereas structured deposits returned 3.64%.
- Just 60 of 3,895 (1.54%) of maturing structured products returned a loss.
- 70.06% of maturing structured products were linked solely to the FTSE 100 Index.

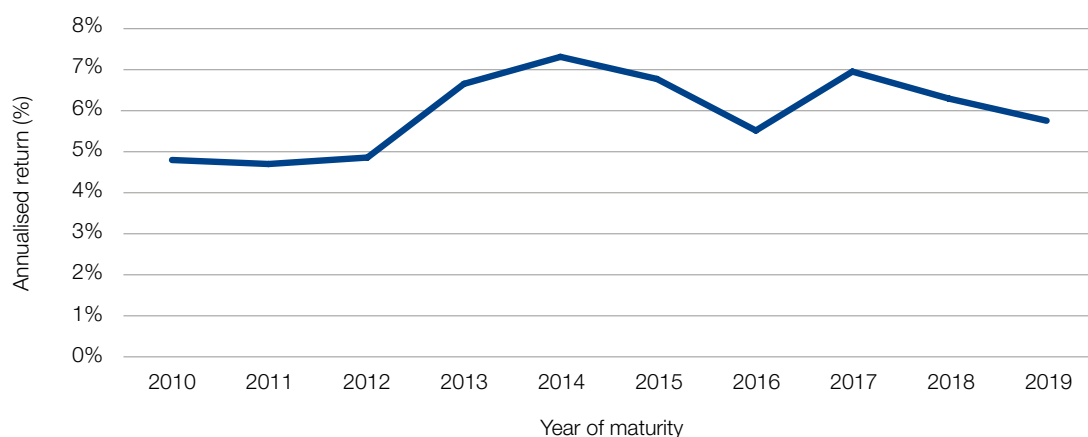
NUMBER OF PRODUCTS ISSUED BY YEAR



In total there were 4,444 products issued over the decade, with the lowest level of issuance being in 2015 when 355 products were issued and the highest was in 2011 with 495. With the average issuance rate being well into the 400's, this suggests that there has been a good choice of potential solutions on offer to advisers but clearly such a number comes with a research and knowledge overhead.

Capital 'protected' investment-based plans (as distinct from deposit-based plans) fully protect investors' capital from systematic risk, yet still expose the investor to the default of the issuing counterparty bank. For reasons around the technical construct, these plans have been phased out throughout the decade, to the extent that since 2015 only one capital 'protected' plan has been issued in the retail space. It is unlikely that this construct will reappear any time soon.

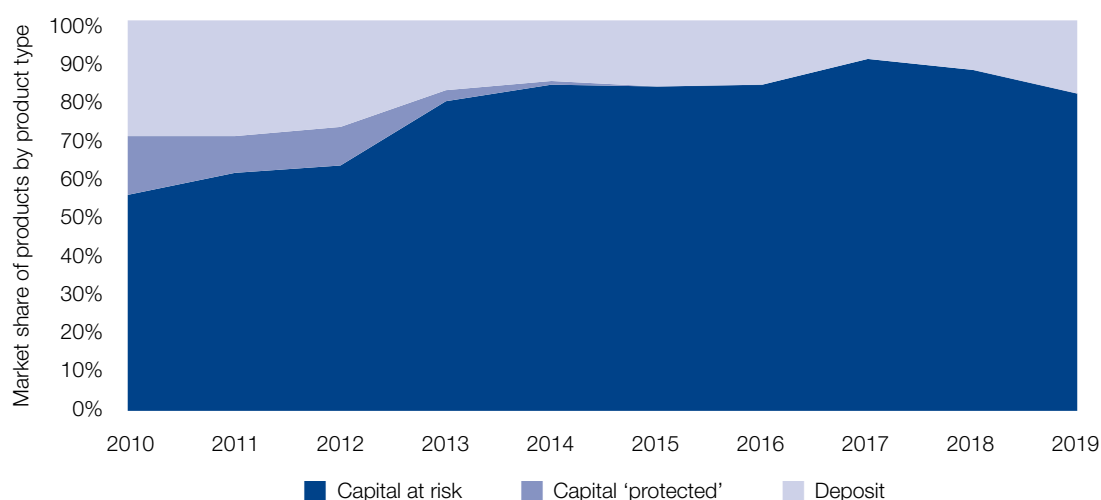
AVERAGE ANNUALISED RETURNS OF ALL STRUCTURED PRODUCTS BY YEAR OF MATURITY



Across the entire sector - encompassing all the various profiles and styles in the market, including deposits - maturing structured products returned an average annualised return of 6.27% over the ten years. The average investment duration was 3 years and 9 months. It's worth noting that at the point of committing to an investment, investors would have to have been prepared to hold the structured product for typically up to six years, though the majority of products that had an early maturity feature did not go full term.

SECTOR ANALYSIS AT MACRO LEVEL CONTINUED

PROPORTION OF STRUCTURED PRODUCTS ISSUED, BY PRODUCT TYPE (%)

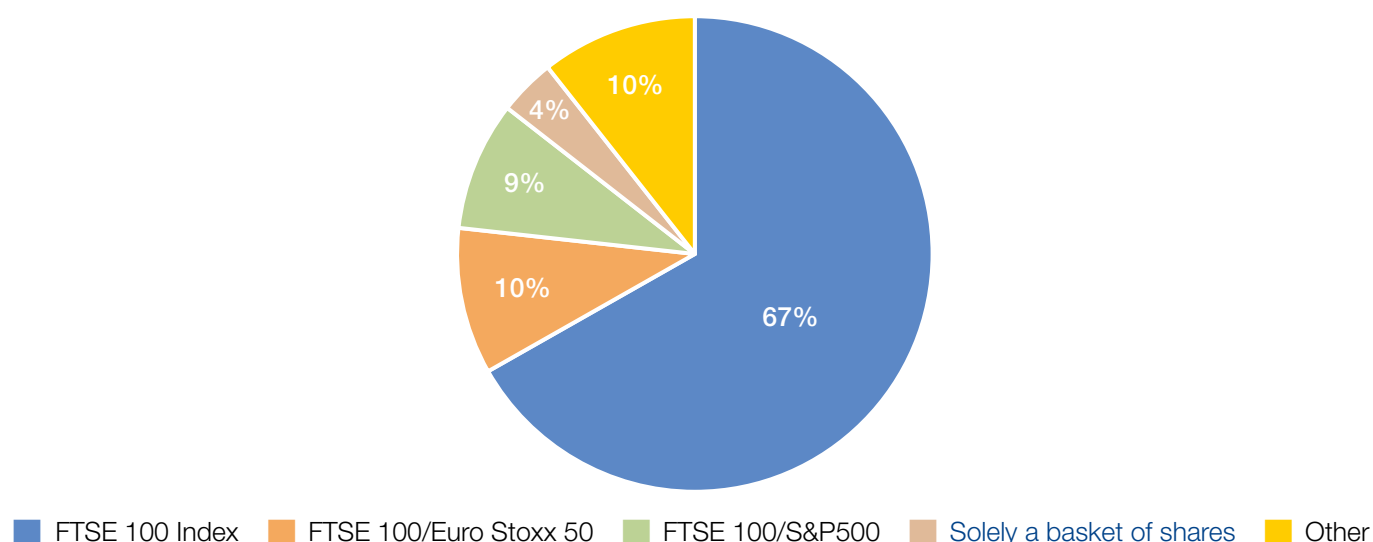


STRUCTURED PRODUCTS ISSUED BY YEAR

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	Total
Capital at Risk	272	302	300	337	370	296	313	437	426	338	3391
Capital 'protected'	74	47	47	11	6	0	0	0	0	1	186
Deposit	145	146	129	75	67	59	61	46	62	77	867
Total	491	495	476	423	443	355	374	483	488	416	4444

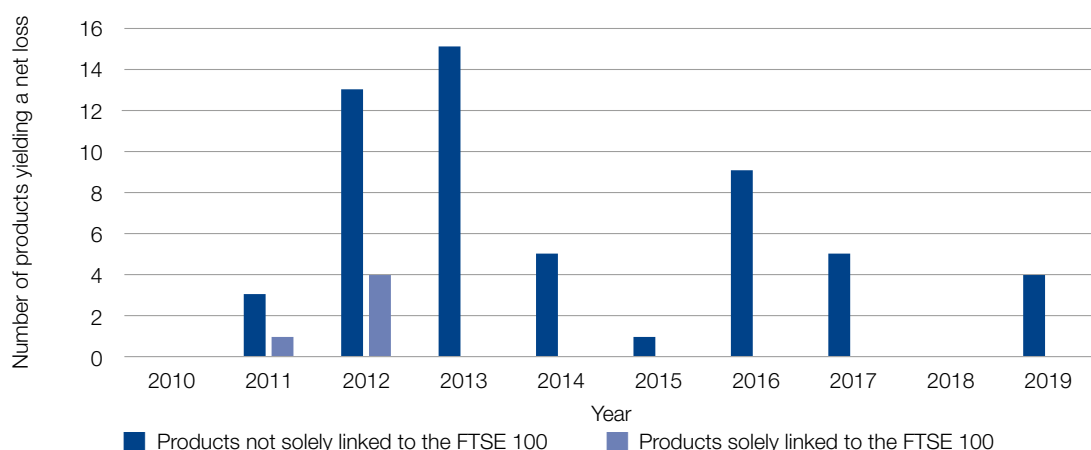
The rise in the dominance of capital-at-risk structures in the past ten years is evident, with capital-at-risk plans accounting for 81% of the plans issued in the decade's ultimate year – 26% more than in the opening year.

UNDERLYING ASSET LINK OF PRODUCTS ISSUED FROM 2010 - 2019



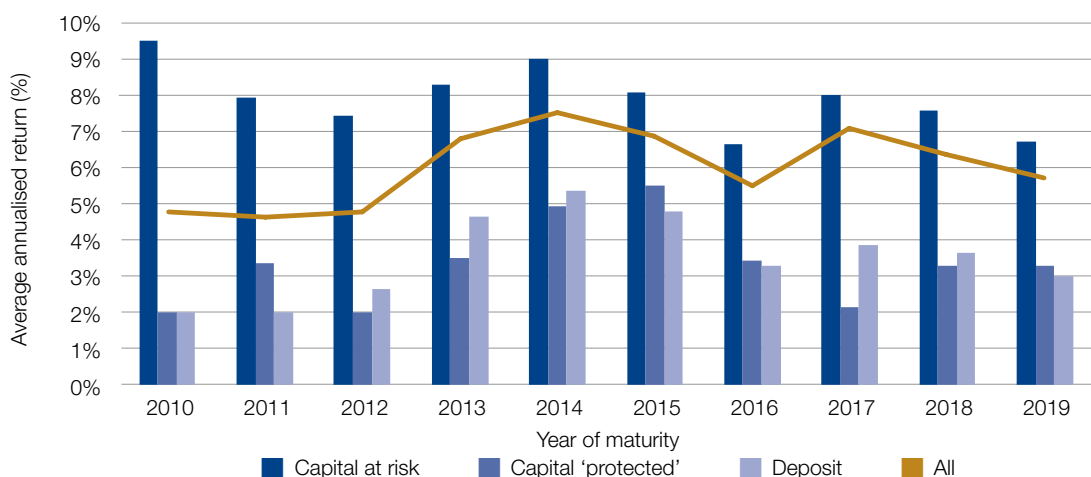
Throughout the decade the FTSE 100 Index has been the most commonly utilised underlying. The FTSE 100 Index was frequently used discretely, or in tandem with another major market indices as part of 'dual index' plans, or within plans with more than one underlying. Share price-linked plans made up 4% of plans issued. Though 81.29% of these plans were issued in the first five years in the decade – just three share linked plans were issued after 2015. Further detail on share price-linked plans can be found later in this chapter.

NUMBER OF PRODUCTS MATURING AT A NET LOSS FROM 2010 - 2019



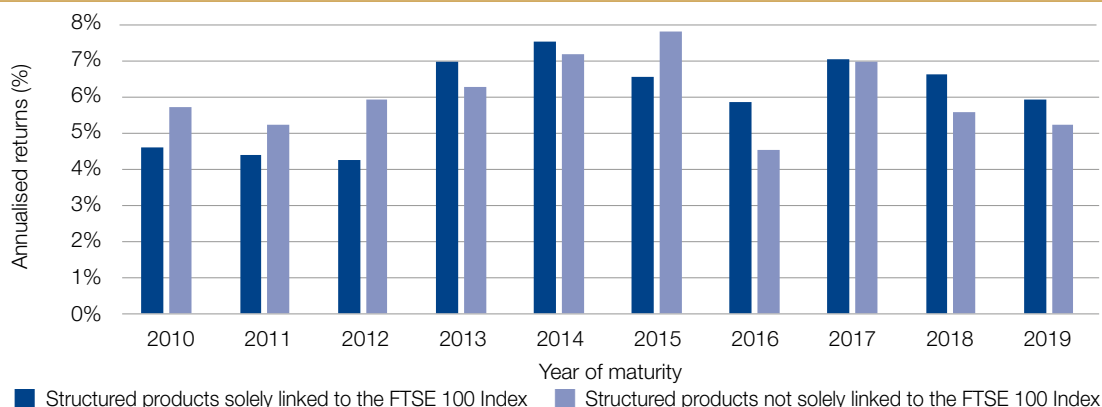
A total of 60 products matured returning a loss to investors with the majority of these occurring in 2012 and 2013, perhaps as a function of these contracts being issued prior to the financial crisis and the subsequent market correction. No maturing plans linked solely to the FTSE 100 Index have returned a net loss since 2012.

AVERAGE ANNUALISED RETURNS OF MATURING FTSE 100 STRUCTURED PRODUCTS BY PRODUCT TYPE



Certain investments linked to baskets of commodities, together with some linked to the Nikkei 225 and Eurostoxx 50 indices, that commenced prior to the financial crisis reached their final maturity dates returning a loss. The 60 products that delivered a loss also included four FTSE 100 linked, capital 'protected' products from Legal & General that returned losses of between 2.63% & 3.77%. These products were structured with multiple counterparties to reduce the risk of catastrophic loss arising from a bank failure. Whilst one of them suffered a loss due to being 20% exposed to Lehman Brothers, the losses on the others arose following Legal & General's decision to restructure the plans, mid-term to remove exposure to Irish banks. It is therefore important to appreciate that no structured products linked solely to the FTSE 100 Index resulted in a loss as the result of market movements.

ANNUALISED RETURNS OF STRUCTURED PRODUCTS SOLELY LINKED TO THE FTSE 100, AGAINST ALL OTHER STRUCTURED PRODUCTS ISSUED IN THE UNITED KINGDOM



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hard to know
which way to
turn for clear
and useful
information on
Structured
Products.



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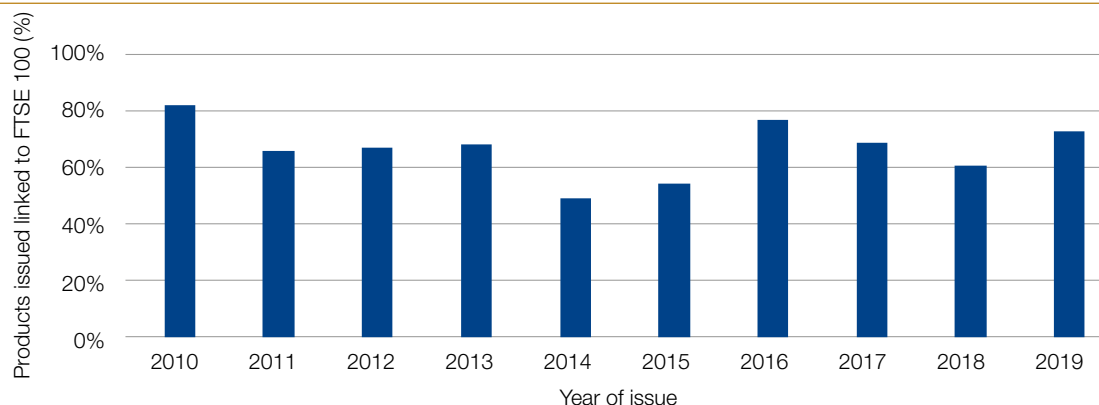
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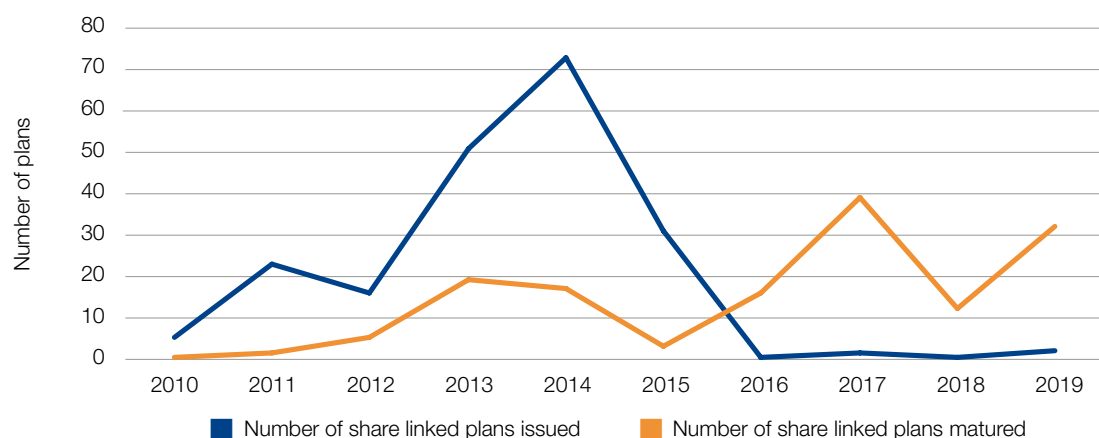
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PERCENTAGE OF PRODUCTS ISSUED LINKED SOLELY TO THE PERFORMANCE OF THE FTSE 100

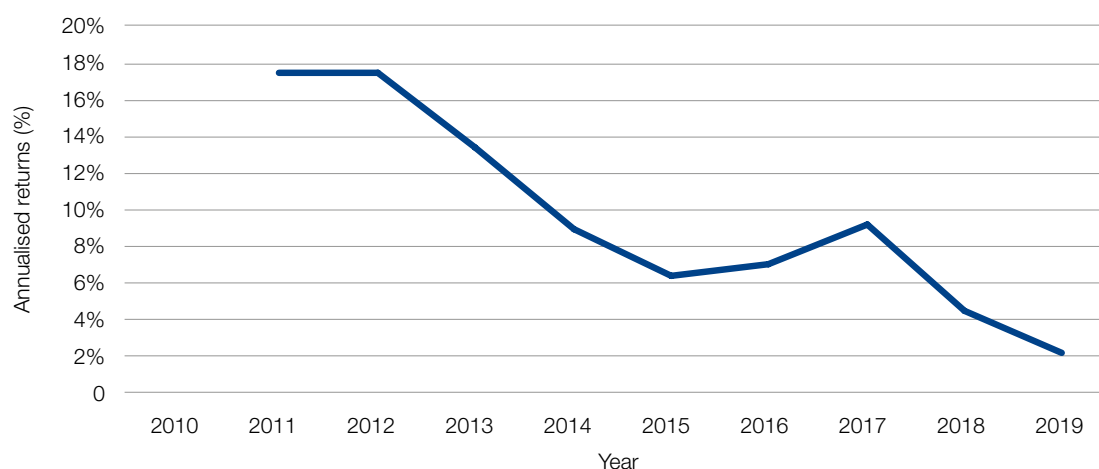


There have been many different underlyings being linked to structured products over the course of the last decade, ranging from commodities to housing market indices. The number of products linked to a basket of shares did spike around 2014 but then sharply declined, perhaps being symptomatic of the changing regulatory guidance being issued by the FCA, more on which is covered later.

NUMBER OF SHARE-LINKED PLANS ISSUED AND MATURED BY YEAR



AVERAGE ANNUALISED RETURNS OF SHARE-LINKED PLANS MATURITIES BY YEAR



The performance of share-linked plans has been somewhat mixed. Some of the early plans produced high annualised returns, however as of late the average sub-sector returns have been dragged down by a number of autocall plans reaching their final maturity date and returning original capital only or even a capital loss.

The four plans that returned a loss since the beginning of 2018 were all share price-linked plans. During the decade 202 share linked plans were issued; Lowes' view of this market sub sector is best illustrated by the fact that of these issued plans, we 'preferred' just 13 of them.



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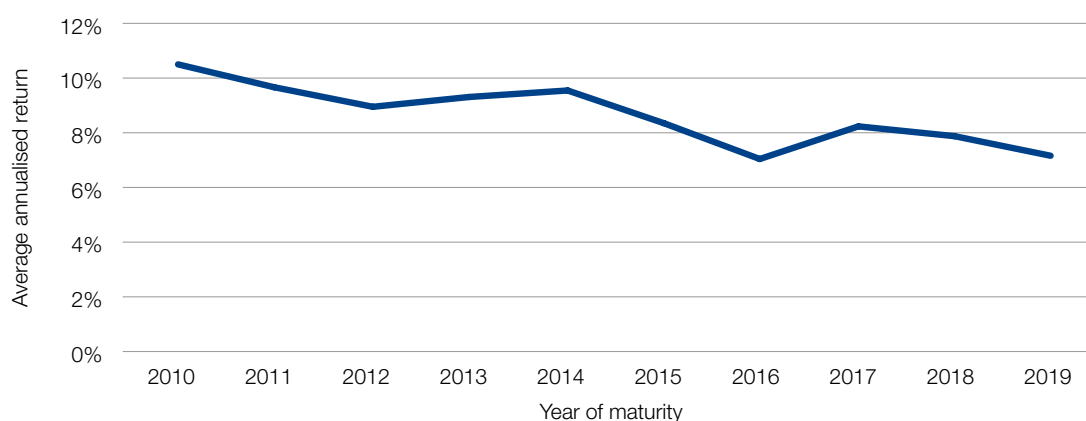
AUTOCALL (KICK-OUT) ANALYSIS

- Of the 3,895 products that matured in the decade, 43.39% were a standard autocall or kick-out in payoff profile, where an investment may mature early if certain performance conditions are met.
- Autocalls returned an average annualised return of 8.13%.
- Whilst capital-at-risk autocalls returned an average annualised return of 8.41%, capital 'protected', and deposit based autocall plans returned an average of 4.67%.
- Autocall structured products had an average duration of 2.16 years.

The autocall can mature with a gain on pre-determined early maturity dates if the requisite performance conditions are met. Early maturity opportunities are typically referenced annually, semi-annually or quarterly; the last few years of the decade even saw the introduction of the daily autocall feature. They require the index level of the underlying to be at a certain reference level (a percentage of the initial level) defined at outset.

Over the review period, 'autocall' or 'kick-out' plans have come to make up a sizeable proportion of the sector, accounting for 55.36% of plans issued, providing average annualised returns of 8.13%.

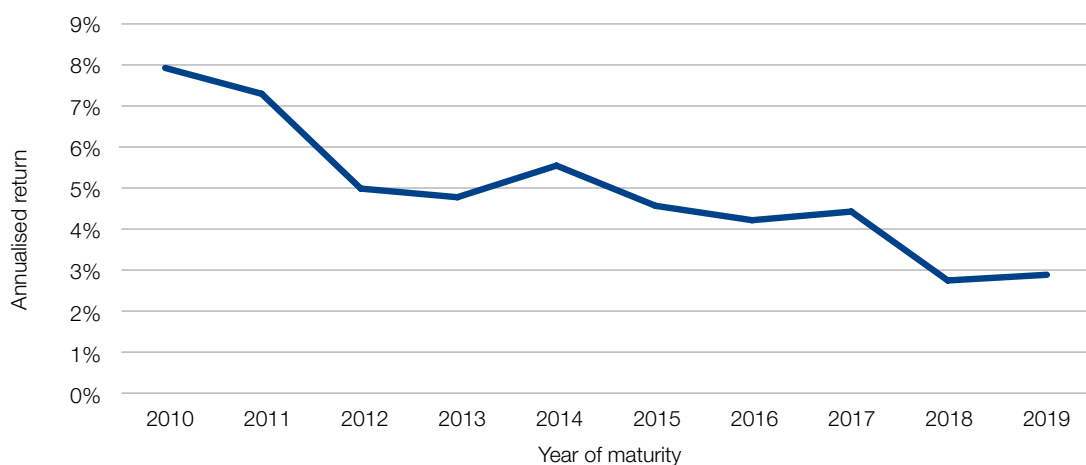
AVERAGE ANNUALISED RETURNS OF CAPITAL AT RISK AUTOCALL STRUCTURED PRODUCTS BY YEAR OF MATURITY



Capital-at-risk autocall products returned an average annualised return of 8.41%, with an average duration of 2.11 years, whilst capital 'protected' and deposit based autocall plans returned an average annualised return of 4.67% over an average of 2.8 years.

The average annualised return of capital-at-risk plans has steadily decreased from 10.51% in 2010 to 7.16% in 2019. This is, in part a function of the low interest rate environment throughout the decade and the increased prevalence of autocall plans.

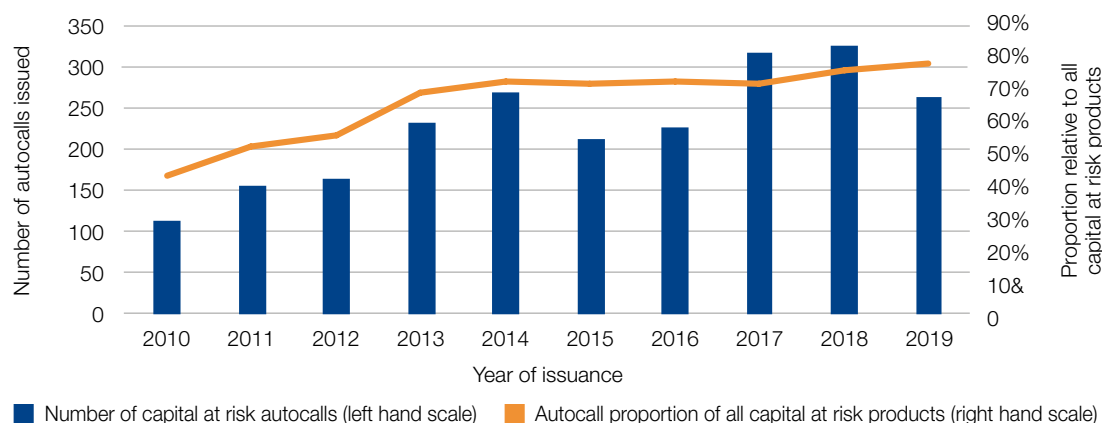
AVERAGE ANNUALISED RETURNS OF AUTOCALL STRUCTURED DEPOSITS BY YEAR OF MATURITY



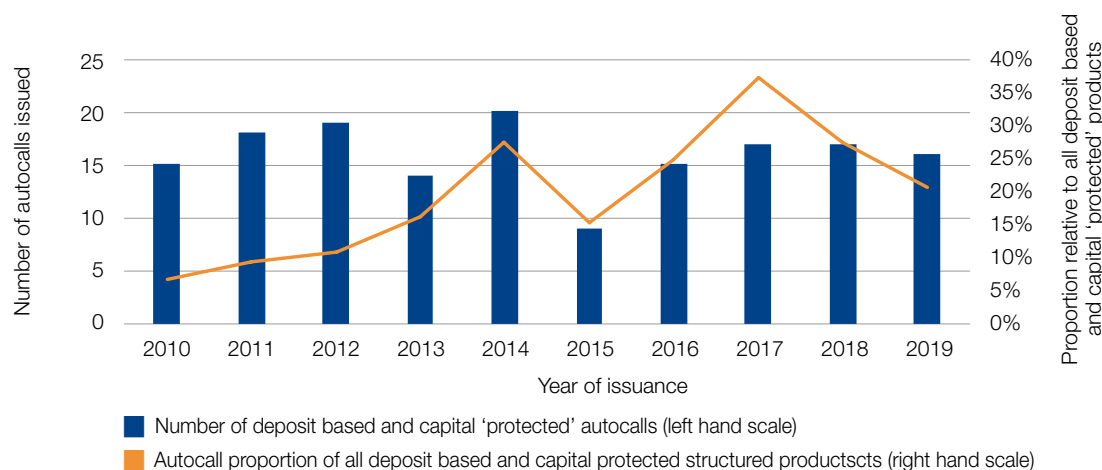
The graph above illustrates an increase in both the amount of capital-at-risk autocall plans issued and their respective proportion of capital-at-risk market by year, throughout the decade – reflecting a rise in the popularity and subsequent demand for such plans in the retail space.

The number of capital-at-risk autocalls issued peaked in 2018 at 328 plans, though the proportion of such plans relative to total capital-at-risk plans reached its highest in 2019 at 78.7%.

NUMBER OF CAPITAL AT RISK AUTOCALL PRODUCTS ISSUED AND THEIR RESPECTIVE MARKET SHARE, RELATIVE TO OTHERS IN THE MARKET



NUMBER OF CAPITAL 'PROTECTED' AND DEPOSIT BASED AUTOCALL PRODUCTS ISSUED AND THEIR RESPECTIVE MARKET SHARE, RELATIVE TO OTHERS IN THE MARKET



This graph represents a more inconsistent pattern in the number of capital 'protected' and deposit based products issued and in their respective proportion of the capital 'protected' and deposit based market by year. In 2014 the number of such products issued peaked at 20 plans and the following year there were just nine. The number of plans issued from 2016 onwards were more consistent however, with between 15 and 17 products issued by year in the final four years of the decade.

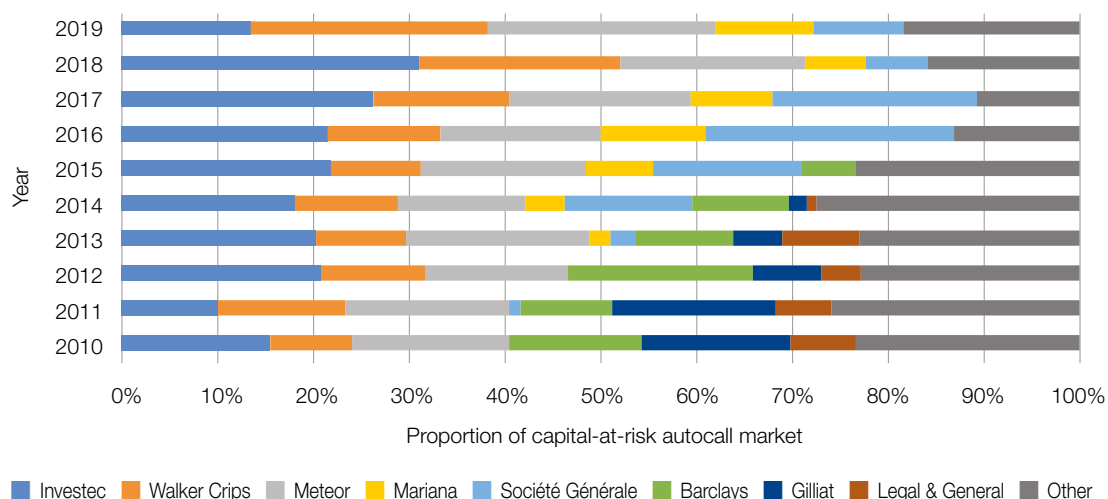
The proportional issuance of autocall capital 'protected' and deposit based plans relative to all capital 'protected' and deposit based plans was significantly greater by 2019 (20.51%) than in 2010 (6.85%). Although, the percentage peaked in 2017 when autocalls accounted for 36.96% of issued capital 'protected' and deposit based plans.

AUTOCALL (KICK-OUT) ANALYSIS *CONTINUED*

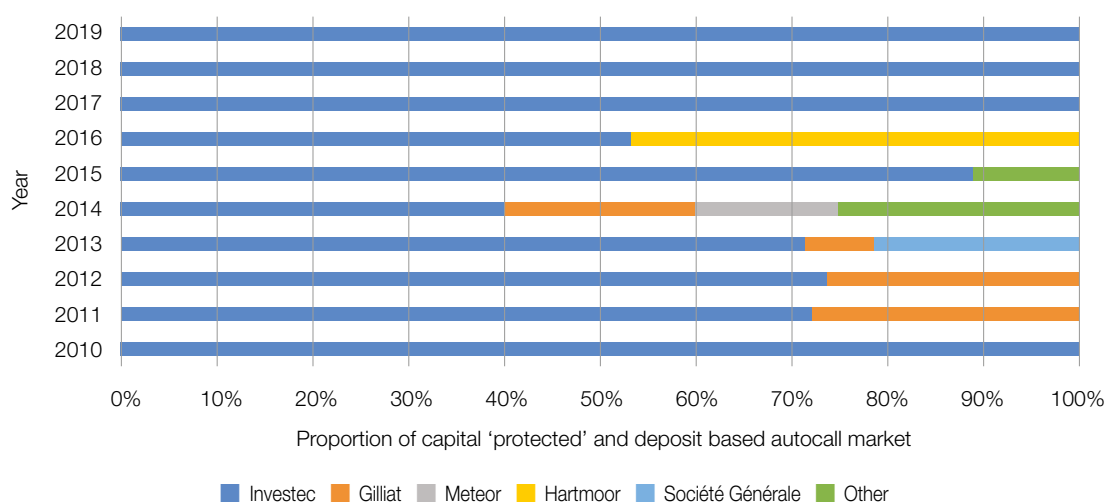
Below is a representation of issued autocall plans by product provider. 'Other' providers include Dura, FOCUS Structured Solutions and Reyker Securities – to name a few.

Investec were the dominant product provider throughout the autocall sector, accounting for almost a quarter of all autocall plans issued (24.8%). Across the decade Investec released more capital-at-risk autocall plans (484) than capital 'protected' and deposit based autocalls (126), though they were more dominant in the latter area (78.75%) than the former (21.04%).

ISSUED CAPITAL-AT-RISK AUTOCALL BASED PLANS BY PROVIDER



ISSUED CAPITAL 'PROTECTED' AND DEPOSIT BASED PLANS BY PROVIDER

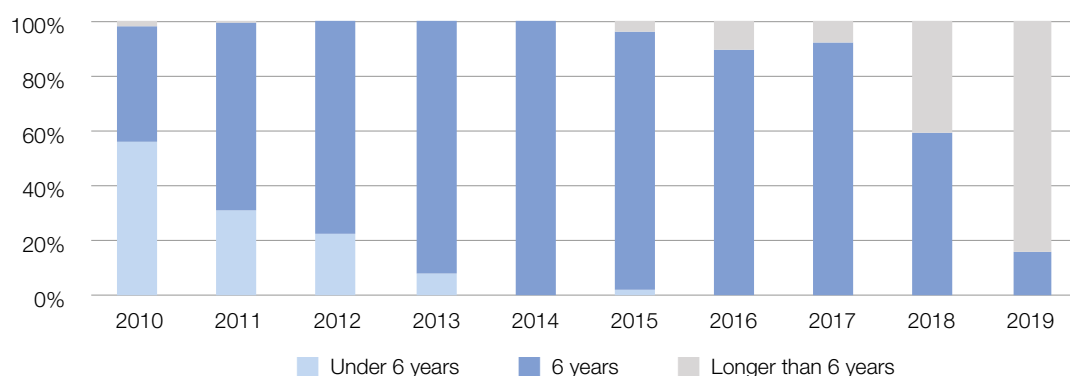


One of the main attractions of autocalls is that there are multiple opportunities for the investment to trigger and the longer it takes to do so, the greater that potential gain. As such they can be very attractive propositions in non-directional markets. If, however, the market performance is such that no gain is triggered by the final maturity date, the investor will face a return of the initially invested capital only, or even a loss if the capital protection barrier has been breached.

AUTOCALL (KICK-OUT) ANALYSIS *CONTINUED*

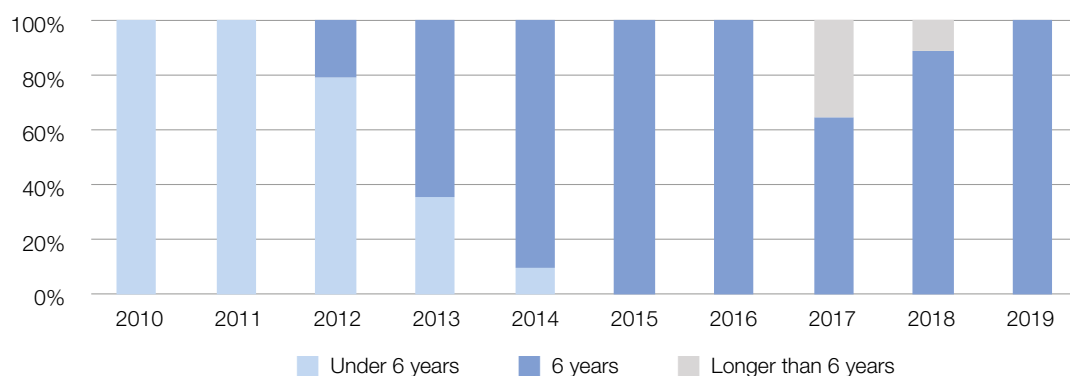
One of the most fundamental changes to the sector over the decade other than the rise and fall of share linked plans discussed on page 12, was the extension to the maximum possible terms from six years. This was led by the introduction of the first ten-year term plan in the form of the 10:10 Plan in 2015 which was a cooperation between ourselves and Mariana Capital. This tweak to the standard autocall provided a greater number of opportunities for a gain and gave a longer time frame for the underlying / index to recover in the event of a downturn in the early years of an investment.

MAXIMUM LENGTHS OF CAPITAL-AT-RISK AUTOCALL STRUCTURED PRODUCTS



The chart above clearly illustrates the increase of the maximum term length used in capital-at-risk autocalls, with terms longer than 6 years representing 83.83% of all relevant plans in 2019, as opposed to just 1.72% of plans in 2010. Until recently the added protection of the extended term had not proven necessary on most plans issued with that benefit, but the events of 2020 could change that.

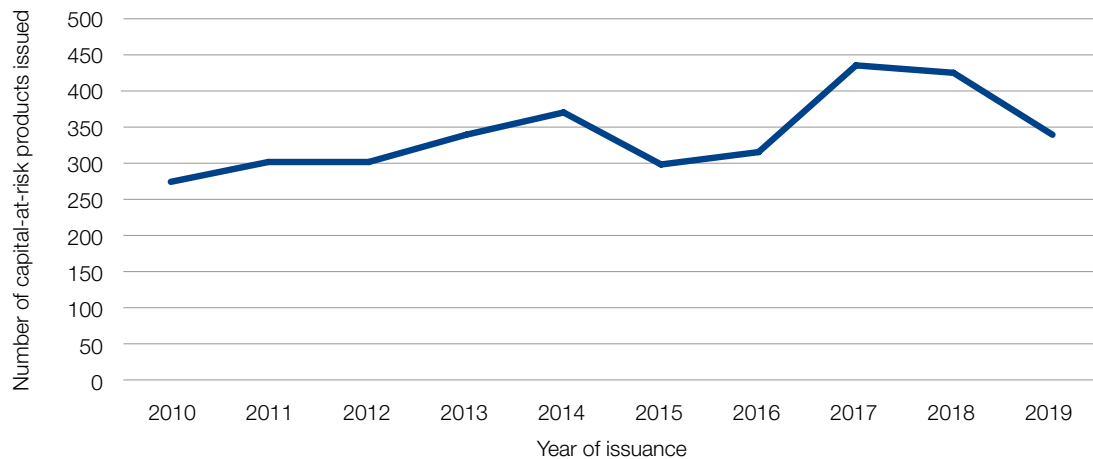
MAXIMUM LENGTHS OF CAPITAL PROTECTED AND DEPOSIT BASED AUTOCALL STRUCTURED PRODUCTS



CAPITAL-AT-RISK ANALYSIS

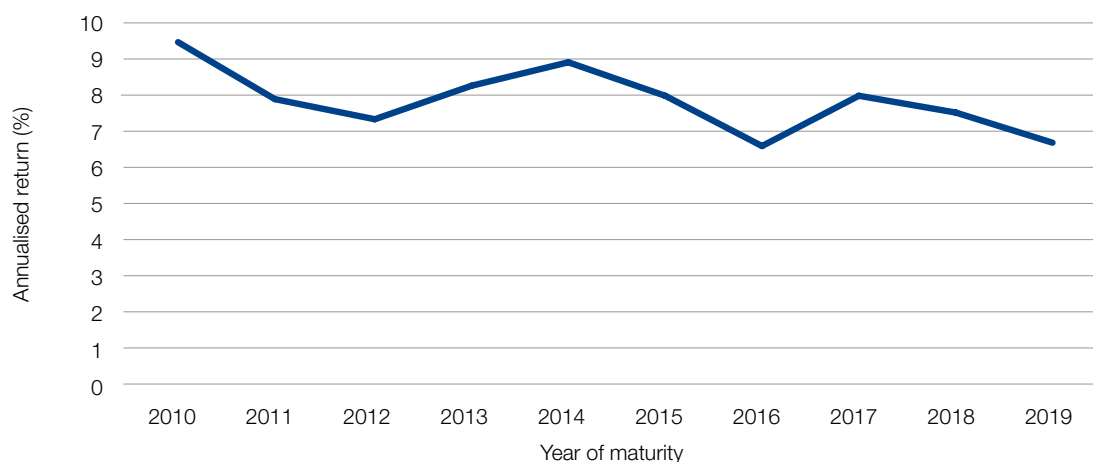
- A total of 2,467 capital-at-risk structured products matured during the decade.
- 56 (2.27%) of capital-at-risk structured products returned a loss at maturity.
- Capital-at-risk structured products returned an average annualised return of 7.84%.
- 66.64% of capital-at-risk structured products were solely linked to the performance of the FTSE 100 Index.

NUMBER OF CAPITAL-AT-RISK PRODUCTS ISSUED BY YEAR

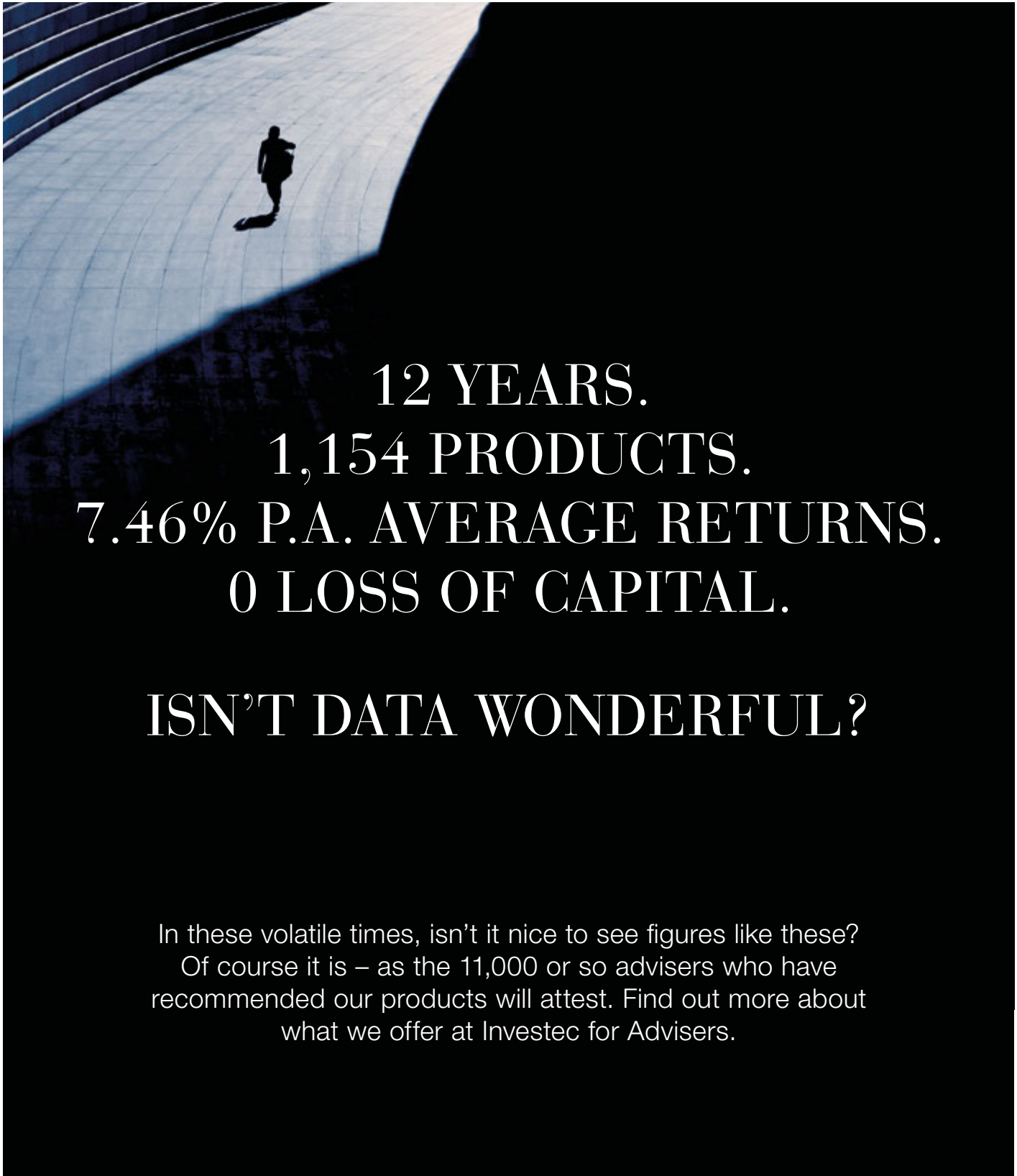


Capital-at-risk products constituted 76.31% of all products released since the start of 2010.

AVERAGE ANNUALISED RETURN OF MATURING CAPITAL-AT-RISK PRODUCTS (%)



Capital-at-risk plans aim to return investors' capital in all but the bleakest of market conditions. They incorporate a capital protection barrier, whereby if the underlying remains above this barrier no investment losses will arise from market movements. This barrier is typically set between 50-70% of the index level, determined on the referenced start date of the plan.



12 YEARS.
1,154 PRODUCTS.
7.46% P.A. AVERAGE RETURNS.
0 LOSS OF CAPITAL.

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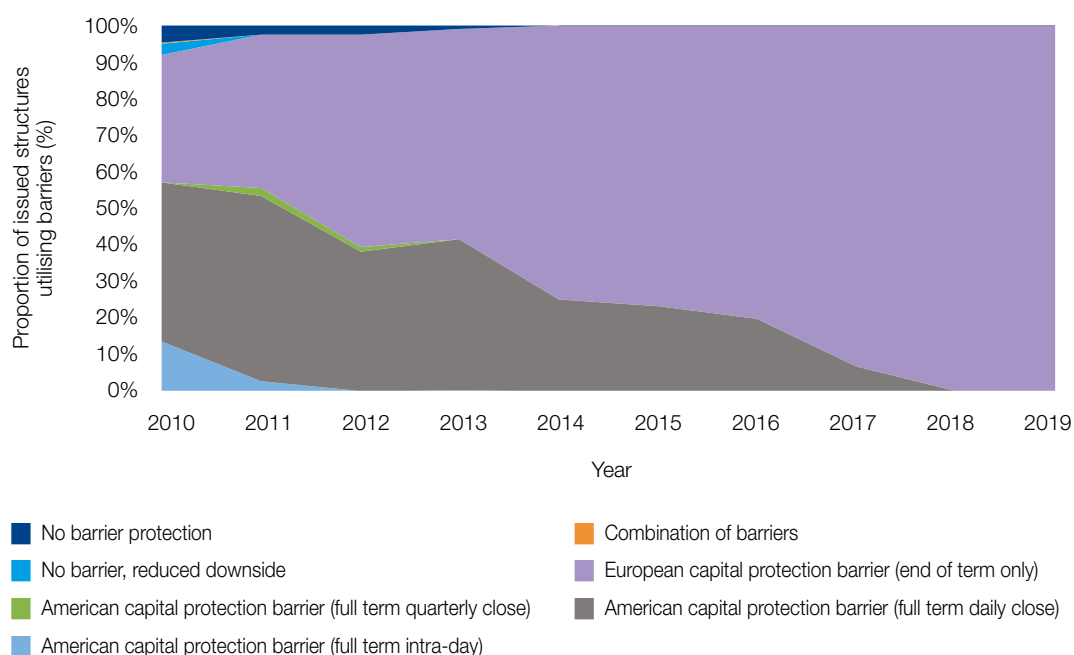
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Capital protection barriers come in two forms (European and American), determined by the underlying option contracts within the counterparty security utilised in the structured product. European style barriers can only be breached at the end of the product term (one single observation). American style barriers are typically assessed daily throughout the term of a structured product, meaning that in the event of a breach the product will mature with a loss to the initial capital if the index is still below the maturity trigger level.

European barriers became the overwhelming favoured option for the preservation of capital protection in the decade and is now very much the standard default design option; indeed in 2019, 100% of issued structured products deployed a European barrier, whereas in 2010 just 34.93% of investments deployed this type of capital defensive measure.

FORMS OF CAPITAL PROTECTION BARRIER OFFERED BY ISSUED STRUCTURES



Since 2010 just one capital-at-risk structured product from a universe of 1,644, linked solely to the performance of the FTSE 100 Index returned a loss, whilst 55 other capital-at-risk structures linked to other combinations of indices or asset classes returned losses (based on a universe of 823).

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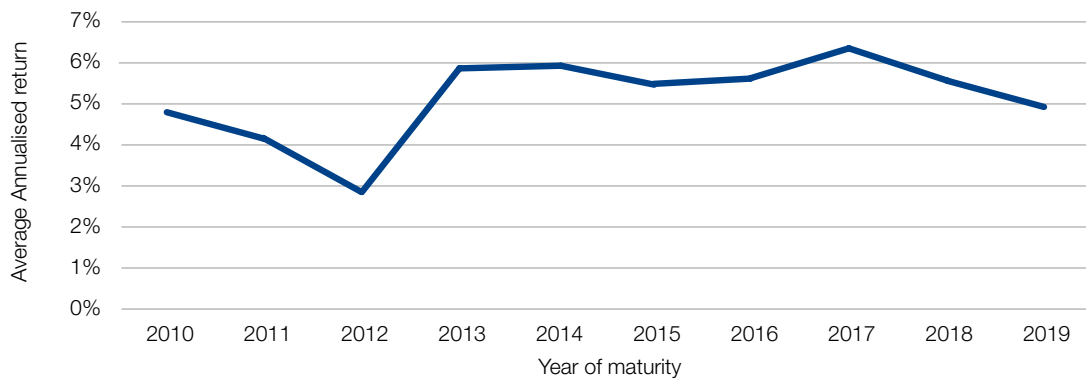
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INCOME ANALYSIS

- Since 2010, income products have accounted for under 16.09% of all products launched.
- Overall, income plans produced an annualised return of 5.56%.
- Non-contingent income plans returned an average annualised return of 5.44%.
- Contingent income plans returned an average annualised return of 5.71%.

AVERAGE ANNUALISED RETURN OF ALL INCOME PLANS

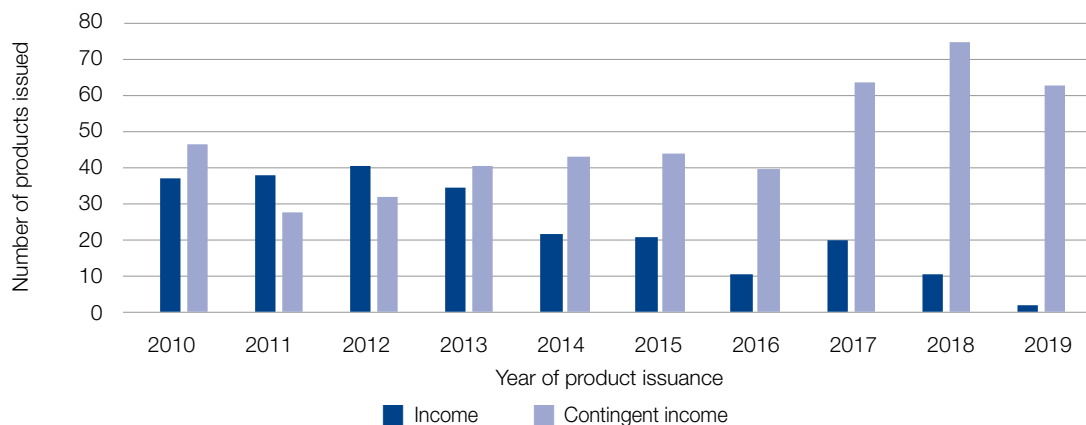


The 2012 maturity performance suffered thanks to nine plans that commenced in 2007, which were exposed to either the Nikkei 225 or Euros Stoxx 50 indices. These plans all utilised American style protection barriers that were breached during the subsequent market correction and as the indices were still significantly lower at the end of their five year terms they suffered a loss at maturity.

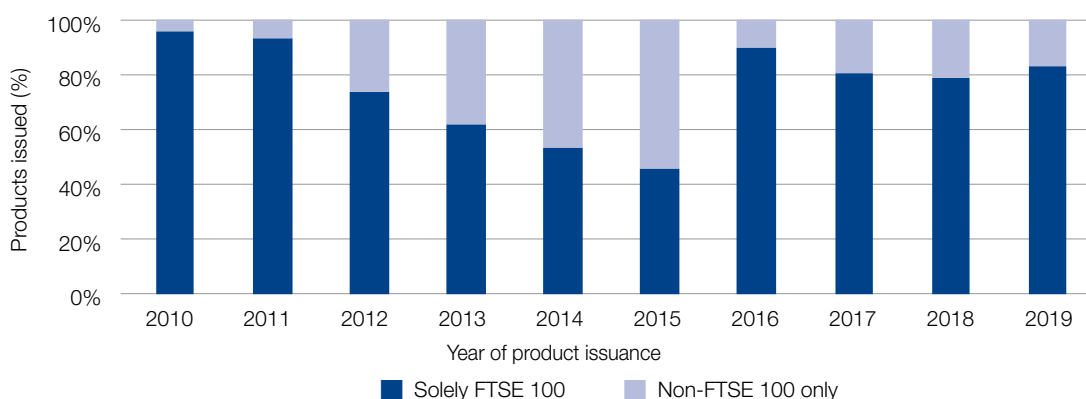
A new feature in the market has centred on contingent income contracts to the point that they now dominate the sector. The income payable on these contracts is typically contingent on the underlying measure being at, or above a certain level on the payment date. Also, if the underlying measure has risen above a specified level from the strike level, typically 5% on or after the second anniversary, then the plan would terminate early returning the final income payment together with original capital.

The risk of income not being paid and / or the plan terminating early allows these plans to offer a higher income than that which could be achieved from their non-contingent counterparts that pay a regular and fixed income throughout the term of the product, regardless of movements in the underlying measure.

INCOME PRODUCTS ISSUED BY YEAR



UNDERLYINGS USED IN INCOME PLANS ISSUED SINCE 2010



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solutions since 2002



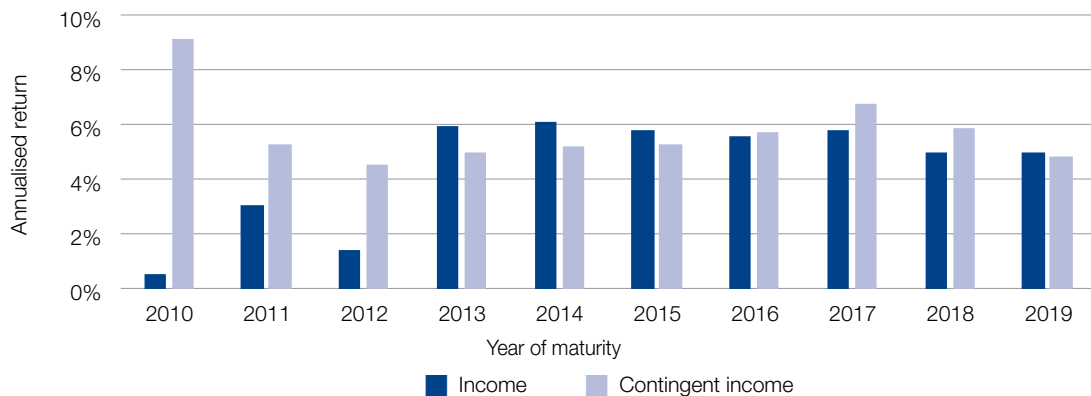
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AVERAGE ANNUALISED RETURNS OF INCOME PLANS BY YEAR

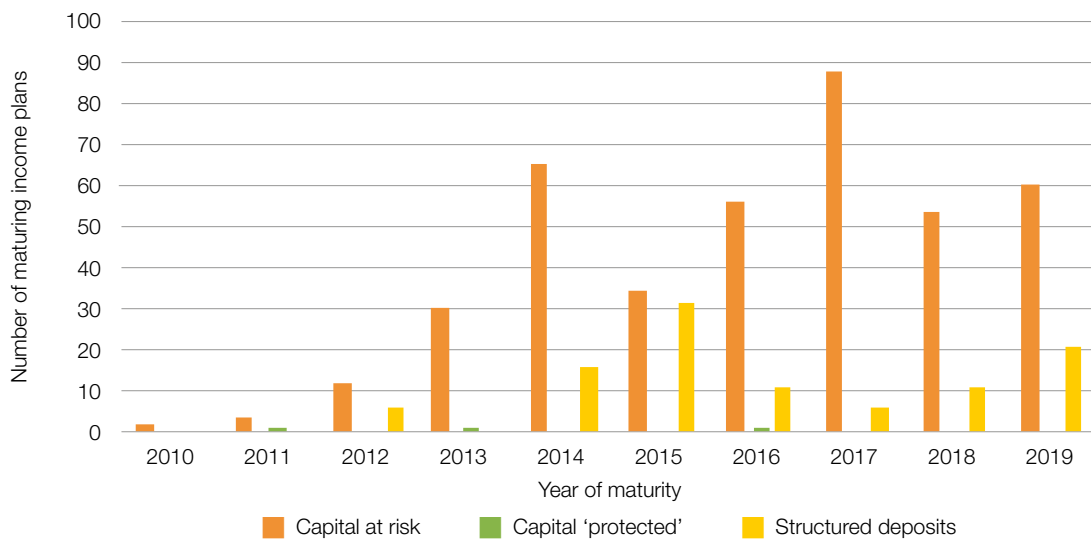


AVERAGE ANNUALISED RETURN OF INCOME PLANS BY PRODUCT TYPE

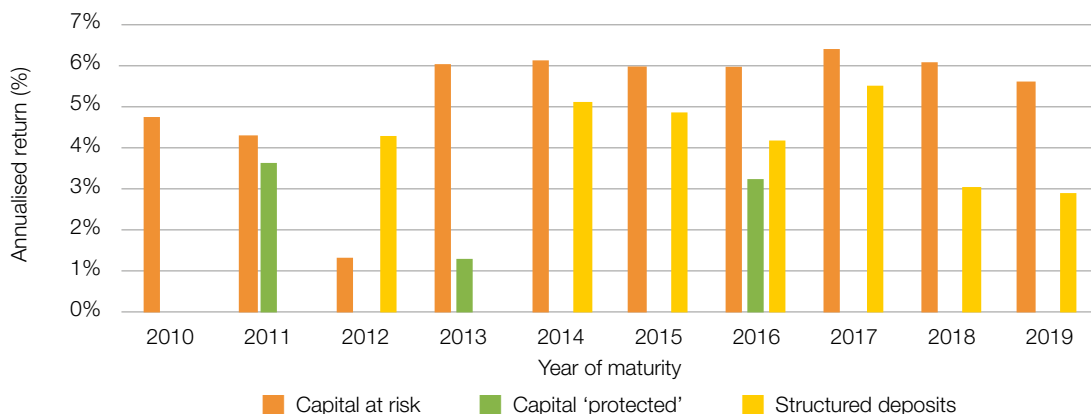
	All	Capital at risk	Capital 'Protected'	Structured Deposits
Total	508	402	3	103
Average Annualised Returns	5.56%	5.91%	2.72%	4.23%
Average term length (years)	4.82	4.69	5.99	5.27

Income products maturing over the period were predominantly capital-at-risk, with just shy of 80% being of this type. Unsurprisingly, on average the capital-at-risk income plans returned more than their deposit-based and capital 'protected' counterparts.

NUMBER OF INCOME PLAN MATURITIES BY PRODUCT TYPE PER YEAR



AVERAGE ANNUALISED RETURN OF INCOME PLANS BY PRODUCT TYPE PER YEAR

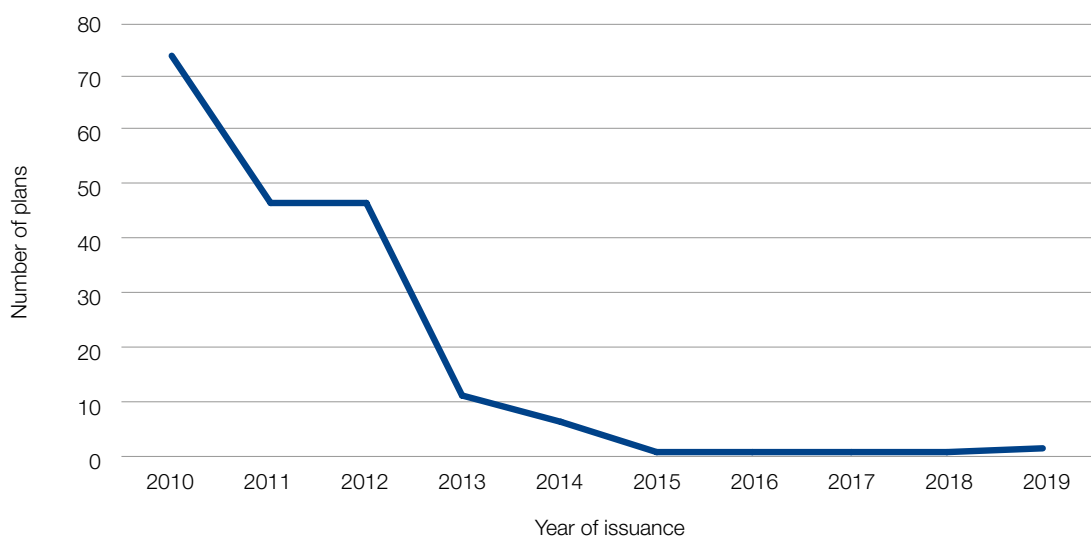


CAPITAL 'PROTECTED' & DEPOSIT ANALYSIS

There are two forms of structured product that offer protection at maturity from any downturn in the market; capital 'protected' and deposit-based structured products. 'Protected' plans fully protect investors' capital from market risk, but leave investors exposed to the potential default of the bank serving as counterparty to the investment. Deposit-based plans are a form of bank deposit, rather than an investment and offer an interest-based return dependent upon the performance of an underlying. UK Deposit-based structures benefit from potential redress under the Financial Services Compensation Scheme in the event of counterparty default (up to £85,000). An additional difference worth noting is that returns on a structured deposit are subject to income tax, rather than capital gains tax.

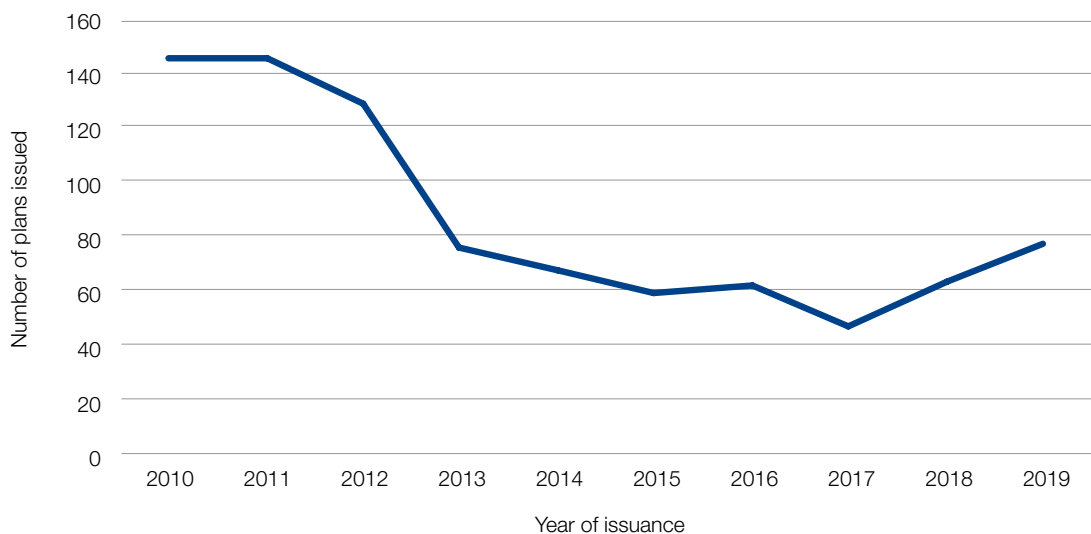
- Deposit based structured products returned an average annualised return of 3.64% over the decade; whilst capital 'protected' structured products returned an average annualised return of just 3.46%.
- A total of 826 deposit-based and 602 capital 'protected' structured products matured in the decade.

CAPITAL 'PROTECTED' PLANS ISSUED BY YEAR



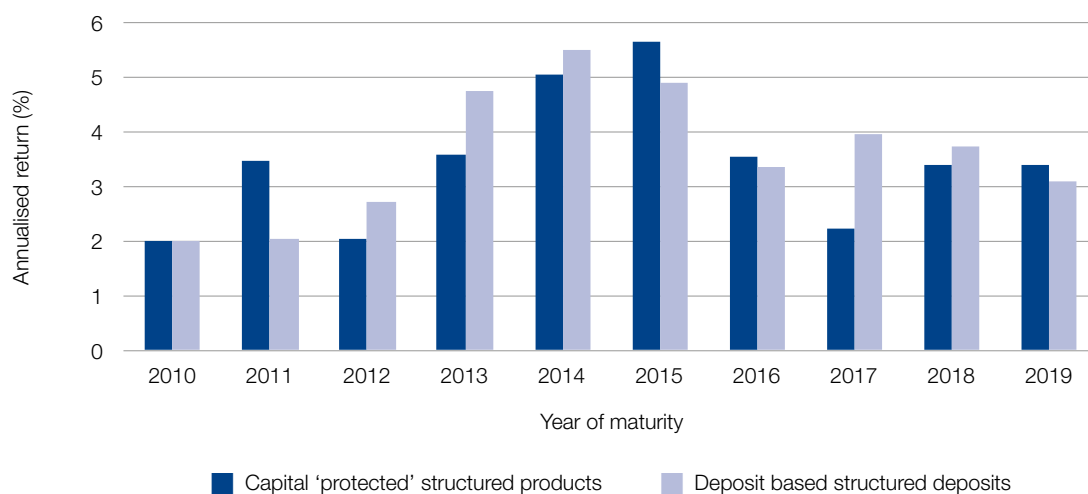
Capital 'protected' plans represented just 4.19% of all products released over the decade - 99.46% of which were released before 2015, with just one of this plan type being released since.

DEPOSIT BASED PLANS ISSUED BY YEAR



In terms of issuance, deposit-based plans peaked early in the decade when in 2011 they accounted for 29.49% of new products released. By 2019 this representation had fallen to 18.51%.

AVERAGE ANNUALISED RETURN PERFORMANCE



Whilst not particularly significant, deposit-based structures outperformed capital 'protected' structured products across a greater number of years and greater number of product maturities. Although, across the decade, capital 'protected' plans had an average annualised return of 3.46%, whilst structured deposits had an average annualised return of 3.64%. Clearly returns achieved by respective providers brings relatively greater focus to the funding levels offered by their counterparties.

UKDSF Highly Commended at Moneyfacts 2019 Awards

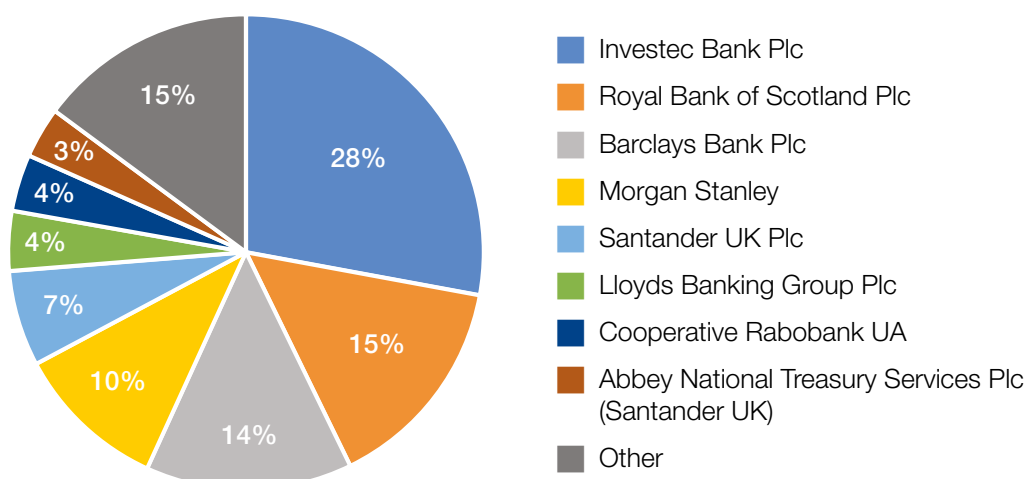
The Lowes UK Defined Strategy Fund was 'Highly Commended' in the 2019 Investment Life & Pensions Moneyfacts Awards.



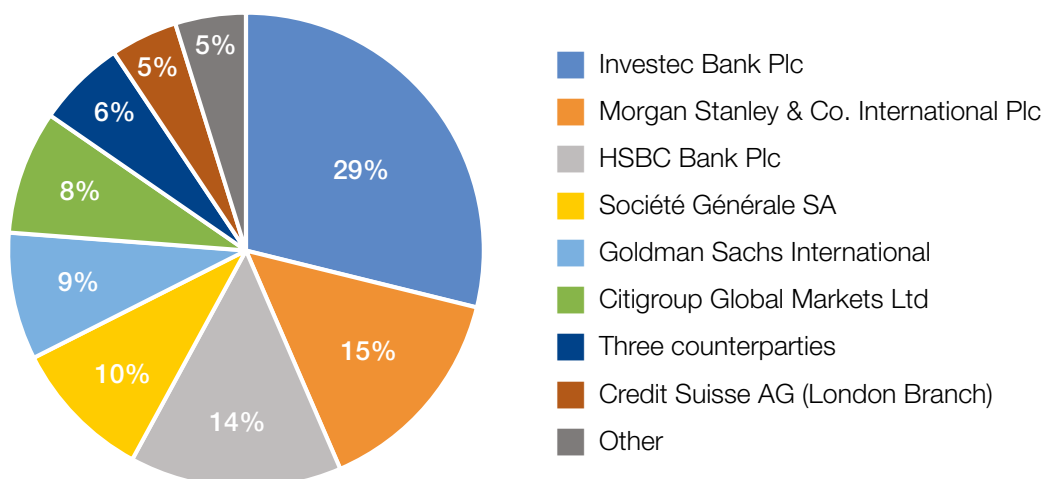
COUNTERPARTIES – HOW HAVE THEY CHANGED SINCE 2010?

- Barclays, once one of the most prevalent counterparties in the UK, was no longer a UK retail structured product market participant by the end of the decade.
- Investec dominated the retail structured product market in the UK over the ten years, issuing the greatest number of structured products compared to any other counterparty or provider.

2010 COUNTERPARTY BREAKDOWN BY PRODUCTS ISSUED



2019 COUNTERPARTY BREAKDOWN BY PRODUCTS ISSUED



491 products were issued in 2010; the two most active counterparties were Investec Bank Plc and RBS, accounting for a combined 43% of the market.

A total of 416 products were released across 2019. Investec remained the dominant counterparty in the sector in the final year of the decade, acting as counterparty for 120 issued products over the year. Investec represented 29% of the market - as much as the second and third most prevalent counterparties combined.

Morgan Stanley & Co. International Plc and HSBC Bank Plc represented 15% and 14% of the market respectively. Despite being one of the foremost counterparties in the retail sector at the beginning of the decade, Barclays Bank Plc did not act as the counterparty for any new issue retail structured product between July 2015 and the end of the decade.

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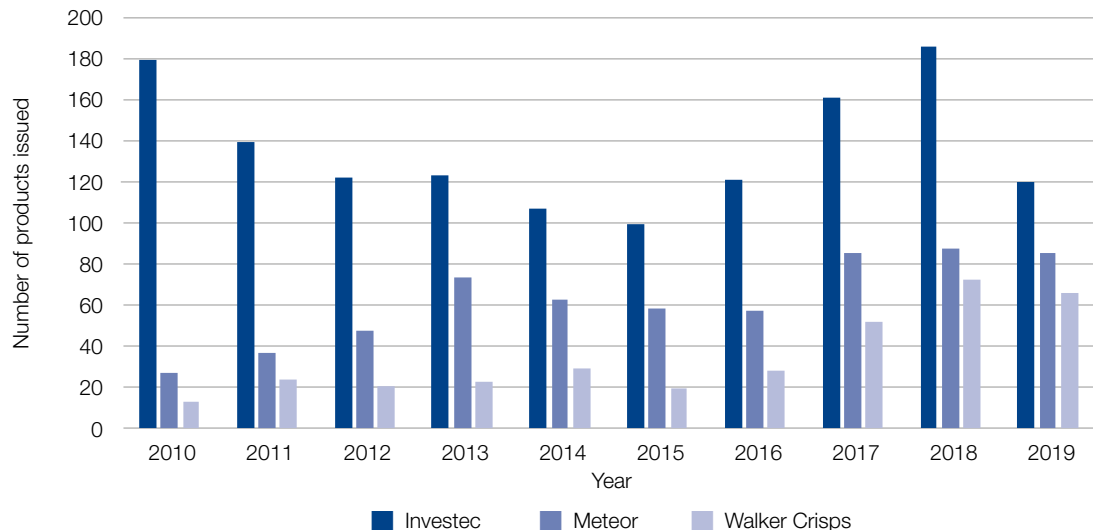
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PROVIDER LANDSCAPE

The provider landscape is subject to constant change and the decade saw 35 providers participate in the sector. Whilst some providers enter and leave the market with relative frequency, three providers have consistently issued a significant number of products throughout the period under review: Investec, Meteor and Walker Crisps.

PRODUCTS ISSUED BY INVESTEC, METEOR AND WALKER CRISPS



The three providers alone accounted for over half (52%) of products brought to market over the decade, and 65% of plans in 2019. Investec issued 1,357 of a total 4,444 products brought to market – representing just over 30% of all plans released.

CONCLUSIONS

Whilst structured products aren't commonplace in the UK adviser space, this report illustrates data that compellingly supports their use in the right circumstances. The returns of structured products are transparent from the outset and are one of few investments in the market that have set return profiles that can often match or exceed that of equity style investments.

Providers have continued to issue more capital-at-risk structured products over the past decade. In part, this is also due to the contribution of the autocall, producing a greater annualised return when maturing early, compared to that of a growth product with just one end of term observation for a maturity. This will have led to a greater demand for new products into which investors can reinvest following an early maturity.

American capital protection barriers have been shunned, whilst European barriers have become a dominant feature, providing a better level of protection to investors' capital. A secondary improvement upon reducing risks for investors has been the increase in observation points for potential early maturities. The introduction of bi-annual, quarterly and daily autocall points together with the extension to maximum terms, offer investors an improved likelihood of a positive outcome and show that providers and banks are moving more towards acting in the best interests of the consumer, following the sector's regulatory reform.

Deposits have continued to be used by investors with a lower risk appetite, following the near absolute demise of capital 'protected' structured products.

Given the changes and reforms in the past decade, moving towards the autocall, we believe that the sector can continue to deliver better outcomes than various other asset classes, throughout more turbulent market conditions than in the years which this review has covered. Clearly events in the early part of 2020 will put this into the spotlight and will feature in our annual review of 2020 when we issue that report in early 2021.



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