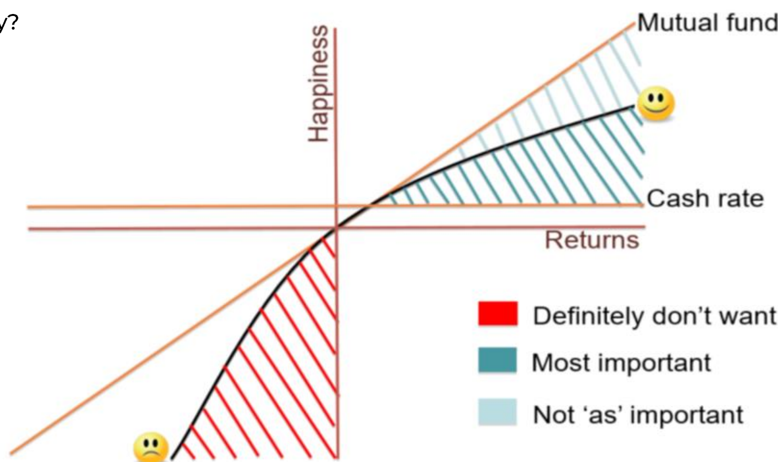
IFAs are having to navigate inclement weather in the present Investment landscape. With cash/gilts delivering about 4.00% p.a., bonds not as reliable and equities stuttering, traditional model portfolios aren't always delivering the outcomes that clients are looking for.

Let's examine the case in favour of structured products performing a more significant role for your clients and why they should be happy to hear what sort of returns can be delivered.

Firstly, what are clients most focused on? Surely it is about avoiding capital loss and/or sharp downward movements in their portfolio values. Behavioural finance is a subject matter, worthy of an article itself, when looking deeper at the decision making on investing and the thought processes that clients demonstrate. Without hindsight, clients will tend to place most value on securing capital and are far more likely to focus on the anxieties on falling markets/values than the happiness gained on the reverse! That has led to many clients losing the composure required for successful investing and panicking by selling investments too early and missing out on future recoveries and gains.

What makes a client happy?



Source: Société Générale Corporate and Investment Banking.

Secondly, why is an industry so underused, when it has a 96% success rate in delivering positive outcomes for clients, exactly what the FCA seems to be after. The evidence in favour of a more mainstream use of structured products is perhaps highlighted best in the 5 year maturity statistics below:

Headline Data

Structured Products Maturities	2023	2022	2021	2020	2019	Average
Number of product maturities	629	634	529	235	334	472
Number of products producing positive returns	608	624	483	163	315	439
Number of products returning capital only	15	10	40	56	15	27
Number of products which lost capital	6	0	6	16	4	6
Average duration / term (years)	3.14	3.24	3.39	4.78	3.81	3.48
Average Annualised Returns						
All products	6.51%	6.45%	6.20%	3.52%	5.73%	6.02%
Upper quartile	9.91%	8.97%	9.34%	8.59%	8.95%	9.26%
Lower quartile	2.84%	3.99%	2.56%	-3.09%	1.81%	2.35%

Key Takeaways

- UK retail structured products maturing in 2023 delivered an average return of 6.51% over an average term of 3.14 years. This was the best performing of the last five years which saw an average return of 6.02% per annum.
- Every maturing structured product delivered results exactly in line with the contracted, defined outcomes specified at outset.
- FTSE* linked capital-at-risk autocalls over the last five years delivered an average return at maturity of 7.18% per annum, over an average duration of 2.45 years. The upper quartile of this subsector has consistently delivered over 9% per annum and the lower quartile more than 5% per annum.
- FTSE* linked structured deposits over the last five years matured with an average annualised return of 3.51% earned over an average term of 4.96 years.
- Once again, no maturing FTSE* only linked, capital at risk autocall plan produced a loss for investors.
- With the exception of 2022 which saw no plans realising a capital loss, 2023 was a successful year in comparison to each of the preceding four years and the five-year average:
  - 96.66% of maturing plans generating positive returns, compared to five-year average of 93%.
  - Only 0.95% of maturities realised a capital loss, compared to 1.36% for the five-year average.
- Returns are shown net of all provider, custody and administration charges but gross of intermediary fees.

If you are not yet registered on StructuredProductReview.com, please do so – it is a free to use service for financial services professionals, maintained with support from the leading sector participants.

Notes
Lowes' database is maintained with details of all structured products launched in the UK that are promoted through Independent Financial Advisers and other wealth managers. It does not include private placement trades or, products distributed solely through closed or restricted channels. 5 year averages are calculated from all products over a 5 year period. Please note that 5 year averages for 'Number of' have been rounded to the nearest whole number and therefore the constituent parts may not equal the sum of maturities. Where 5 year average figures are quoted for duration and annualised returns, they are calculated using weighted average values. When referring to quartiles, we mean the average of the best/worst 25% of all respective maturities. ***Past performance is not a guide to future performance. Investments of this nature carry risks to capital.*** Errors and omissions accepted.

*FTSE 100 or FTSE CSDI which measures the performance of the same 100 shares in the same weightings as the FTSE 100 but accounts for dividends differently. The two are over 99% correlated, so we have therefore grouped the two underlyings for the purpose of this review and refer to them collectively as FTSE.

Source: StructuredProductReview.com

With a move from some investors to cash alternatives in the bank and building society, away from asset classes like bonds and equities, why wouldn't clients be grateful for being made aware of the strong arguments in favour of using structured deposits for example? Even taking the one headline that 'on average structured products delivered

6.51% p.a. last year' it feels like a perfect investment solution is being missed. With an experienced IFA, used to this market, adding value by selecting the most appropriate plans, an upper quartile average of 9.91% p.a. is very achievable.

If we assume that a typical balanced portfolio delivers around 5% p.a. after charges, the statistics around structured products look very compelling with a very high likelihood of returns averaging 6.5% p.a. after charges.

It's fair to say that after the Lehman Bros default, structured products were under the spotlight, however even a rare collapse of a small investment bank, didn't necessarily lead to large losses as client monies were recovered eventually and only a very low number of products were backed by Lehman's at the time. It is also worth highlighting that credit risk is an integral part of bond investment generally. Don't forget structured deposits have FSCS protection of up to £85K per investor per institution.

When using structured products, the decision making process can be simplified by remembering that they are effectively legally binding contracts with a bank. Therefore as long as the bank remains solvent, the terms and conditions laid out in the brochure hold true, unlike when an investment firm blames market conditions for poor performance.

So firstly, clients need to be comfortable with the bank's creditworthiness. Secondly they need to consider the return profile and chances of that being delivered. Finally, the level and nature of the capital protection, for example whether that is full protection or whether it is conditional, for example on the underlying index being no worse than 35% below its starting position at the maturity date.

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Paul Stadden
IDAD UK Sales Manager

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