



Making Structured Products Work for the IFA

Protean Capital LLP

Retail Structured Products

Structured Products: A Popular Alternative

Structured products continue to be a popular and important investment choice for retail investors. Their ability to deliver both income and positive performance in a range of market environments, where traditional assets often fail to perform, highlight the benefits they bring to client portfolios.

In contrast to many alternative and absolute return investments based on often complex and opaque strategies, advisors are broadly familiar with how these products are constructed - exchanging potential excess gains for enhanced defensive qualities. This allows a more fundamental understanding of the risk/return profile, and greater comfort in the role these products perform in client portfolios.

Squaring the Circle

Despite the popularity of structured products, they have always been slightly awkward and have sat outside “Business as Usual” (BAU) for many advisors. Each product is effectively its own IPO, with its own application process and comes with additional administrative burdens and costs (e.g. research, PI insurance). Product providers have had to constantly innovate to continue issuance of new retail products in an ever-changing regulated advisory environment. The vehicles used to deliver them have evolved from life insurance policies, to deposits, to closed-ended investment companies, to today’s investment plans.

Until now, they have been a classic example of trying to fit a square peg into a round hole. However, the adoption of the UCITS III directive in 2001 introduced the possibility of structured products finally being delivered in a format at the very heart of advisers’ operations - a fund.

Highlights:

- Structured products remain a valuable allocation tool for IFAs
- Historically, IFAs have encountered hurdles when accessing products which have not aligned with established business processes
- IFAs can now gain exposure to institutional expertise without compromising on costs, diversification or liquidity

Delivering for the IFA

	Investment Plan	Fund	
Investment	Investment Exposure	Concentrated	Diversified
	Credit Exposure	Concentrated	Diversified
	Expert Risk Management	✘	✔ - Generation 3 only (page 4)
	Costs & Charges	Investors pay 100% of the plan manager's and product issuer's costs and profits regardless of the holding period	Daily accrual - investors only pay for what they use
	Launch Risk	Yes - paid for by investor	None
	Liquidity	Restricted and at plan manager's discretion	Daily at NAV
	Cost of Liquidity	High	Zero - purchases and sales at single priced NAV
	Independence	Fettered - the plan manager is often the promoter and the single issuer is chosen weeks in advance of launch	Full open architecture - the manager can choose any institutional asset from any provider on an ongoing basis
Administration	Universal Admissibility	No - cannot be held in life bonds	BAU - Yes
	Dealing	Via ad hoc request to plan manager	BAU - Via platform
	Additional monies	Find, research and apply for new plan. Additional line in portfolio	BAU - Simple fund order
	Withdrawals	Special request to plan manager	BAU - Simple fund order
	Realisation	No advisor/investor discretion - as and when plan matures	BAU - At advisor's/investor's discretion
	PI insurance	Often excluded or additional	BAU - Within normal business
	Reporting	Often off platform and separate from rest of portfolio	BAU - As per other funds on platforms
	Covered by FSCS	✘	✔ - if UK fund

Structured Product Fund Evolution

As with all innovations, structured product funds have been honed and improved over time. The evolution broadly falls into three distinct generations:



Generation 1: a single structured product profile in a fund vehicle.

The first generation was largely driven by admissibility or to avoid credit concentration. For example - Lloyds of London, investment by other funds and tactical allocations within wealth portfolios.

Generation 2: a portfolio of individual structured products in a fund vehicle.

The second generation was created mainly for the retail space to address some of the administrative issues associated with plan- and bond-based structured products. These are generally simple collections of the same product type and largely driven by marketing optics.

Generation 3: a portfolio of the building blocks of structured products in a fund vehicle.

The latest generation benefits from expert investment and risk management and addresses the performance shortfalls of previous generations (and with multi holding portfolios of structured products in general). By investing in, and actively managing, the underlying building blocks, these funds remove many of the costs and mitigate the risk drift associated with structured products. This improves both the risk-adjusted return and provides greater confidence in the contribution to risk-assessed client portfolios.

Specialist vs. Generalist

A key difference of a fund, when compared to historical delivery vehicles, is that investors are exposed to the underlying assets of the fund rather than an “Issuer” in the classic sense. For example – when investing in a structured life policy, structured deposit or structured investment plan or note, the holders are exposed to the life company, the deposit taker or the bond issuer.

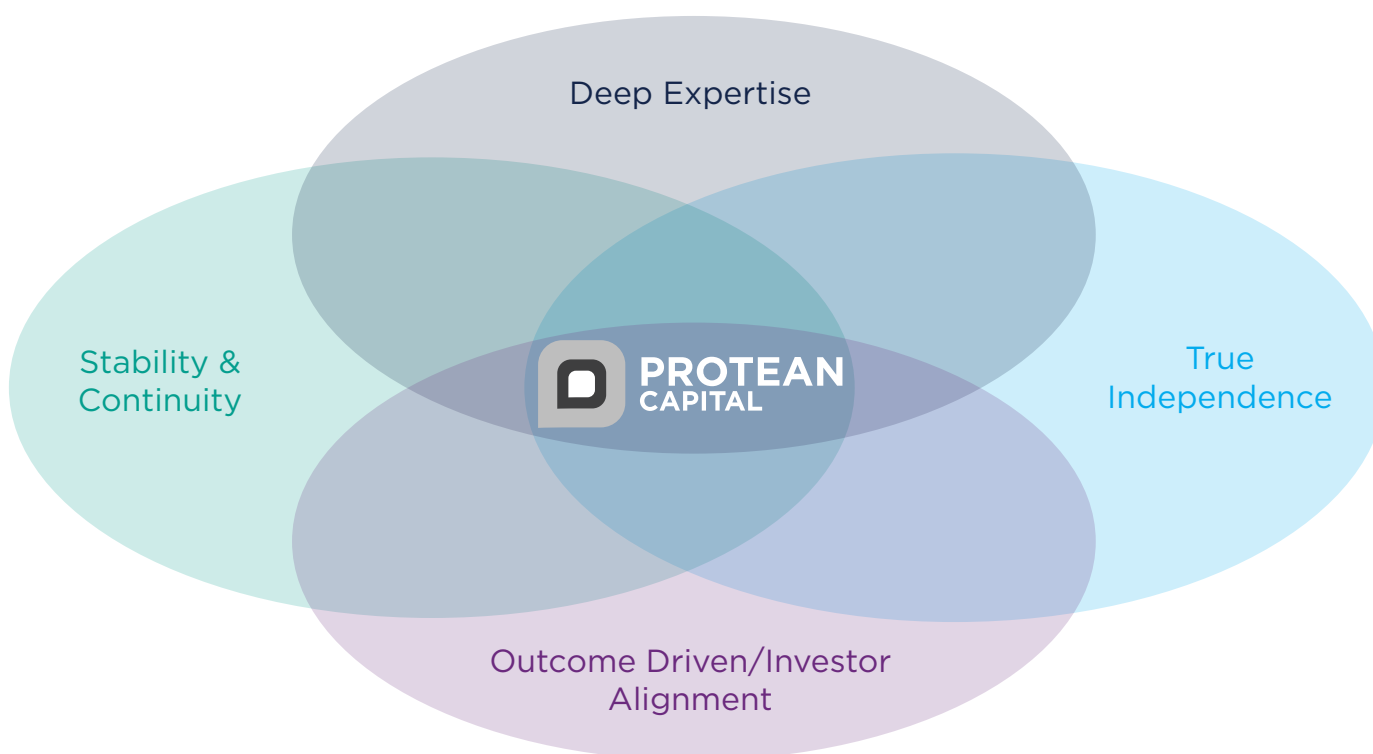
In a fund, the investor has no exposure to the manager. This fundamentally changes the

relationship and the nature of the provider best placed to successfully deliver for investors.

The derivative expertise, experience and skills essential to the successful management of a structured product fund are those usually found on investment bank trading desks and not at traditional asset managers. Investment banks are, however, highly conflicted, fettered (one treasury, one trading desk) and do not have the independence critical to serving the investor’s best interests.

	Investment Bank	Generalist Manager	Specialist Manager
Independence	✗	✓	✓
Open Architecture	✗	✓	✓
Derivative Expertise	✓	✗	✓
Fund Management Expertise	✗	✓	✓
Low Cost Base	✗	✓	✓

The key requirements of deep expertise, true independence and complete alignment with investor interests all point towards a specialist manager as the optimal provider.



Protean Capital LLP

Protean Capital is a specialist investment manager combining the skills and expertise of investment banking with the independence and accessibility offered by the fund format.

Although formed in 2012, its partners have known and worked with each other for decades. Each partner brings deep expertise, covering all aspects of structured products, gained from senior roles at global blue-chip investment banks. Together, this experience places Protean Capital at the forefront of independent structured solution providers and investment managers.

With an unrelenting focus on risk, we have formed deep, trusted relationships in the wealth and family office space where we 'manage' and advise on a broad range of mandates. These have been implemented in a number of formats with the UCITS fund being ideal for retail investors.

Our history is one of independence and innovation. By exploring all options and focusing on every detail, we push through the status quo to create true choice and better outcomes for our investors.

Core Business Lines:

- Specialist investment manager
- Structured product advisory and development for portfolio managers and family offices
- Quantitative Investment Strategies (QIS)

Highlights*:

- Truly independent with institutional pricing from more than 20 investment banks
- Over £2bn in structured investments for clients
- Over £800m in assets under 'management'
- Investment manager on two UCITS funds

*As at 23 October 2020

Partners' Skills and Experience

Bob Champney – working relationship with the other partners for 23 years*

Roles & Expertise:	Head of European Structuring Global head of Exotic Derivative Trading
Institutions:	Paribas Merrill Lynch
Highlights:	Ranked No. 1 globally for derivative research by Extel three years in a row Key member of the team behind Merrill Lynch's ELDeRS closed-ended platform Special advisor to Treasury Select Committee

Mike Egerton – working relationship with the other partners for 23 years*

Roles & Expertise:	Risk Manager Bond & Derivative trading Head of UK & Ireland Institutional Structured Products
Institutions:	Merrill Lynch Deutsche Bank Dresdner Kleinwort Wasserstein
Highlights:	Key member of the team behind Merrill Lynch's ELDeRS closed-ended platform Launched the UK's first structured product UCITS fund Launched nine structured UCITS funds to date Award for structured fund innovation

Eduardo Montero – working relationship with the other partners for 19 years*

Roles & Expertise:	Co-Head of European Structured Products Head of Iberian Derivatives
Institutions:	Deutsche Bank UBS CIBC
Highlights:	Built a European derivative and quantitative investment business Key member of the team that created and distributed several UCITS funds

*As at 23 October 2020

Copyright 2012-2020 Protean Capital LLP. All rights reserved. Any unauthorised use or disclosure is prohibited. This document has been prepared by Protean Capital LLP (“Protean”) and/or one of its affiliates. Protean is authorised and regulated by the Financial Conduct Authority, with FRN: 593439. The services described within this document are not available to private individuals. The information contained herein was obtained from various sources; we do not guarantee its accuracy or completeness. Neither the information nor any opinion expressed herein constitutes an offer, or an invitation to make an offer, to buy or sell any securities or any options, futures or other derivatives related to such securities. This information is being provided for your sole use and is not for distribution to a third party without the express prior permission of Protean. The information contained herein forms no part of any order or contract with Protean.