



Structured products



The Adviser

This month's questions come from Anthony Willis, Managing Director of First Wealth

Anthony is Managing Director of First Wealth, Chartered Financial Planning Firm of the year 2021/22. First Wealth is a certified B Corp, committed to being a business for good. First Wealth advises business owners and entrepreneurs on financial planning, wealth management and financial coaching. Anthony is also CEO of Open Advice, a fintech whose mission is to deliver financial education and planning to a wider audience. Anthony is a keen triathlete, and lives in Dorset with his partner, Petra and Daughter, Lux.



The Provider

This month's answers come from Chris Taylor, Global Head at Tempo Structured Products

Chris is responsible for founding and establishing Tempo, in 2016, within the Alpha Real Capital family of companies. He has been involved in the asset management industry for more than 25 years, with senior executive roles spanning active and passive funds and structured products at HSBC Asset Management, Blue Sky Asset Management and Incapital Europe. Chris and his team's aim at Tempo is to redefine structured products for professional advisers and their clients, focusing on doing the right things and doing simple well.

Q How would you describe the white paper, who is it aimed at and what would you say to financial planners / advisers to encourage them to read it?

A The paper does what it says in its title. It highlights the USPs of structured products. It provides the facts that evidence that structured products work. It draws attention to the need for professional advisers to think carefully about portfolio construction and diversification and client interests and needs. And it raises some important questions that some planners / advisers who are not using structured products may need to think about, with regard to whether any cognitive biases need to be addressed.

While it's particularly aimed at professional advisers who are not currently using structured products or not using them widely, explaining why they should take a fresh and objective look at them today, I think it's also got a lot to offer all advisers / planners, including firms like First Wealth, who are using structured products with their clients.

Even if I say so myself, I'd suggest it's a good read - even a must read - that may help change views and opinions about structured products, hopefully even some of the more deeply entrenched views that some advisers / planners appear to have and hold.

I'd certainly encourage advisers / planners to take the time to read it and to have a good think about everything that it details and explains, which I hope many will do.

Q What do you think advisers will like about the paper? Why do you think it may be thought-provoking?

A The paper sets out the background to the UK retail structured products sector, providing a lot of interesting information, covering a lot of important points objectively, using robust data and facts, with some thought-provoking assertions that are well explained, in a readable format.

It's detailed, comprehensive and persuasive, without being product driven

or salesy. Of course it details and explains the USPs, features and benefits of structured products, but it also highlights the risks and limitations of structured products just as clearly throughout the paper, which is important. It strikes a good balance and tone and is a credible paper - that we hope may be a precursor to further papers, including academic studies into structured products.

Even for firms like First Wealth, that are using structured products and have been doing so for a long time, there's lots to take away and think about.

The paper focuses on portfolio construction and diversification considerations, including the challenges of a potentially long-term, low returns environment. The case for including structured products in portfolios doesn't hinge on only a low returns environment - but if this is the environment we're now in, which many commentators suggest could be the case, structured products could be especially pertinent. We don't have a crystal ball, but we'd certainly suggest that such an environment is at

least a possibility - i.e. a risk – that professional advisers should at least be considering: noting that it's a risk that structured products can clearly help mitigate for clients.

The simple suggestion that it may be hard to identify investment options that can reasonably be considered more likely to deliver the levels of return that structured products can generate, which they do by legally binding contract, arguably with a better risk / return profile than many active and passive funds, especially in a potentially long term, low returns environment, is hard to argue with - but also really important to consider.

The paper also introduces the concept of 'alpha by contract' that structured products offer, which it explains well. The active / passive debate is probably the single, biggest ongoing conversation in the investment / wealth management industry and financial planning profession these days – but the structured products sector isn't generally considered to be part of the conversation, perhaps because the structured products sector and providers haven't been speaking the right language.

As the paper says, who wouldn't want the potential for alpha, if the problems of accessing it reliably through active fund management could be overcome, which is where the potential to achieve 'alpha by contract' through structured products is definitely thought provoking.

Q The paper is clearly very substantive and comprehensive, but are there any points that you think it could have included that aren't - or that you think could be covered differently?

A On the whole, I think we have covered the bases, however there are a couple of aspects that aren't covered.

The paper doesn't include anything about behavioural economics, which can present some interesting considerations with regard to the value – not just the terms – of structured products. For example, the way that structured products can decrease the likelihood of capital losses being experienced by investors, in addition to providing the potential to generate positive returns without the stock market rising, or even if it falls, presents investment options that can reconcile investor's hearts with their minds, particularly in respect of helping investors make decisions to invest at times when they may feel most uncomfortable and least inclined to do so, such as when stock markets are volatile – which, of course, history shows

“Tempo white paper - 'Structured products: USPs; Evidence; Need; & Cognitive biases'.”

are often the most important times for investors to invest.

Another interesting point that the paper doesn't cover is how well suited and useful structured products can be in connection with cash flow modelling, which is an increasingly integrated aspect of holistic financial planning. For example, where cash flow modelling identifies that a client wants or needs to achieve a certain level of return, and a given level of risk to achieve that level of return can then be agreed by the adviser / planner with the client, the way that structured products contractually define both the levels of return that can be generated and the conditions / risk for that level of return to be generated, with scope to reduce the level of market risk that needs to be taken, is really interesting - and perhaps an under-appreciated USP of structured products.

In terms of covering any aspects differently, the paper includes a lot of comparison of structured products to benchmark indexes and active and passive funds, which is useful. But I also think that it's important to recognise and understand that investors in structured products are not necessarily benchmarking the returns of any product that they invest in to any other product, or the returns of the underlying index to any other index or fund. They may generally just want and be perfectly content with their structured product doing what it says on the tin and performing as expected - which, of course, structured products can be expected to do, as they are based on contracts.

Overall, the reason that these points didn't make it into the paper is because we focused most specifically on the hard and fast facts of structured products, rather than touching on some of the potentially more subjective points – albeit that these are also interesting.

Q The paper includes a lot of data regarding the performance of matured structured products? Why do you think this is important – and do you think it ties in with the experience of advisers / planners using structured products with their clients?

A The data is really important. Many professional advisers / financial planners are fervently evidence-based, and the well-known quote about data is certainly pertinent, 'Without data, you're just another person with an opinion'.

The data that the paper provides covers

the performance of c.5,000 structured products that have been launched and matured in the UK, through the adviser channel, over the last 20 years or so. It's long term, it's granular and it's comprehensive. It's also incontrovertible.

Another pertinent quote about data is, 'If you torture the data for long enough, it will confess to anything'. The data presented by the paper hasn't been tortured. The paper simply provides the industry-wide data and facts for UK retail structured products, without manipulating it in any way: and the simple, irrefutable take-away from looking at the data objectively is that it clearly evidences that the vast majority of structured products work very well.

In terms of whether the data reflects the experience of firm such as your own, who have been using structured products with clients over many years, the answer is very much so, completely. It aggregates the experience of all firms who have used structured products.

Q I do agree with the general thrust of the paper and the points it makes, and it does tie in with my firm's experience and that of many other firms, who are successfully using structured products – and I hope that advisers and planners will engage with it. But lastly, why do you think structured products aren't more readily embraced by more independent professional adviser firms - and what do you think the sector can do to engage with more firms?

A That's a good question to end with. The paper includes a section that looks at how the views of professional advisers have developed over the years, which I think makes some good points. Another section also highlights some of the myths and misconceptions about structured products, some of which are just so patently wrong that I have to say it's hard to understand how some advisers / planners might still think some of these things - which the paper also does a good job of tackling and dispelling.

I think some adviser firms may simply need to take a step back and think about when, why and how their views of structured products have developed over the years - including objectively considering whether their current views and stance were coloured by past events, as opposed to how the sector and plan managers such as Tempo

Structured products

operate today. It's important to recognise and acknowledge that the structured product sector has changed in so many ways.

It operates with far better governance and compliance in place these days, which is borne out in the processes of providers and the way that they develop and distribute their products – which professional adviser firms who use structured products can see. The types of products that are most common today have also materially changed – which, by the way, actually means that some advisers / planners who aren't using structured products today aren't doing so based on opinions of yesterday's products.

I'd also add that the level of working knowledge and understanding of structured products amongst advisers today is so much more advanced than it was 10 years ago, which has been supported by the sector and plan managers, which is another positive factor to note.

However, one of the points that the paper makes is that good news about structured products doesn't seem to make for good press. So, the way that the structured products sector has advanced and operates today, including the level of working knowledge of advisers and the calibre of advice, the USPs of structured products, and the impressive performance of maturing products, is not well publicised or aired.

Further, it does seem that some professional advisers who aren't using structured products seem determined not to, regardless of the way that the sector has changed and the data.

To highlight one last quote, that the paper uses, 'When the facts change, I change my mind'. The paper clearly provides robust data and explains what it evidences. Advisers / planners who consider themselves to be evidence based, who are not using structured products currently, may need to ask themselves why they're not persuaded by the data and explanations, including objectively considering whether any cognitive biases are at play and may need to be addressed ... because objective analysis of the data, and the widespread experience of many firms like yours, clearly supports consideration and use of structured products in portfolios, when and where suitable and appropriate for client circumstances.

It would be good to see more professional advisers who are using structured products successfully with their clients be more vocal about the merits of doing so, to help encourage

colleagues and other advisers to engage positively with the sector.

I think that the sector needs to do more to highlight how it has changed and advanced, and engage with advisers who are not using structured products today in the right way, providing the information and input needed - which the white paper is obviously seeking to do.

“Time to rethink what you think you know about structured products ...”





Video webinar for professional advisers

“Time to **rethink** what you think you know about structured products”

2022 Dates: 29 June; 27 July; 28 September; 30 November

This informative and thought-provoking video webinar will focus on:

› **The portfolio construction ‘need’ to consider structured products:**

Is there a need for professional advisers and investors to consider including structured products in portfolios?

This video webinar will start by thinking about the economic backdrop, investment outlook and portfolio construction and diversification considerations for a more challenging and potentially long-term, low returns environment.

What might a low returns environment mean? What might professional advisers expect in terms of ‘alpha’ by active fund management or ‘beta’ by passive fund management? What are the merits of including structured products, which offer ‘alpha by contract’, in ways and with risk/return profiles that neither active nor passive funds offer or deliver, in diversified portfolios?

› **The ‘evidence’ that structured products work:**

Long term, granular, comprehensive and incontrovertible facts regarding the performance of matured UK retail structured products highlight the USPs of structured products, evidence the efficacy of structured products and shine a light on the potential merits of including structured products in diversified portfolios.

› **The significant important general ‘USPs’ of structured products – and the specific ‘USPs’ of Tempo and what we are doing differently:**

Structured products offer significant and important USPs, including: the ability to generate positive returns without requiring the stock market to rise, or even if it falls; a defined and significant level of protection from stock market risk at maturity; and legally binding contracts (in contrast with other investment options).

Learning objectives / outcomes

This cpd-accredited video webinar aims to:

1. Discuss the portfolio construction **need** to consider structured products
2. Detail the **evidence** that structured products work
3. Highlight the significant and important general **USPs** of structured products
4. Introduce Tempo and highlight the specific **USPs** of what we are doing differently.

Register now at:

www.tempo-sp.com/newsroom/live-video-webinars

To find out more about Tempo, our product suite, the support that we provide for professional advisers using structured products, or to discuss any aspect of structured products:

Adviser support line: +44 (0)20 7391 4551

Email us: info@tempo-sp.com

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