Professional adviser use only
- not for use with clients

WHITE PAPER

Structured Products: USPs; Evidence; Need; & Cognitive biases!

- **Understanding the significant and important USPs of structured products:**
  – and the risks and limitations
- **Recognising the long term, granular, comprehensive and incontrovertible facts regarding the performance of matured UK retail structured products, which:**
  – 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
- **Consideration of the challenging (and potentially long term, low returns) investment environment for portfolio construction and diversification:**
  – what might a low returns environment mean and feel like?
  – what might the potential implications for *'alpha'* by active fund management and / or *'beta'* by passive fund management be?
  – the merits of *'alpha by contract'* offered by structured products
  – intervening in the active / passive debate
  – *'diversification is the only free lunch'*
- **Why independent professional advisers (including advisers / planners who describe themselves as *'evidence based'*) may do their clients a disservice if they do not:**
  – understand the significant and important USPs of structured products;
  – acknowledge the advances made by the UK retail structured products sector over the past 10+ years;
  – recognise the facts which evidence the efficacy of structured products and the potential merits of including structured products in diversified portfolios; and
  – objectively consider and use structured products, when it is appropriate and suitable to do so
- **The need for professional advisers who are not using structured products with their clients to reflect on why they are not:**
  – including objectively considering if any cognitive biases may need to be addressed

TEMPO
STRUCTURED
PRODUCTS

"Time to* rethink *what you think you know about structured products"

Focusing on: the portfolio construction ***'need'*** to consider structured products; the ***'evidence'*** that structured products work; the important general ***'USPs'*** of structured products and the specific ***'USPs'*** of Tempo and what we are doing differently.

Live dates: 28 September 2022; 30 November 2022; 22 February 2023; and 26 April 2023
Register now at: www.tempo-sp.com/newsroom/live-video-webinars

Redefining structured products

for professional advisers and their clients

Tempo Structured Products (*'Tempo'*) was established over the course of 2016-2018, by a highly experienced team, with substantial investment of time, resources and capital by the Alpha Real Capital family of companies (*'Alpha'*).

Our aim is to ***'redefine structured products'*** for professional advisers and their clients. Our approach to this is straightforward, focusing on ***'doing the right things - and doing simple well'***.

This includes: a client-centric, best practice approach to governance and compliance; putting investors first; a bar-raising level and calibre of collateral materials, input and support for professional advisers; and a commitment to ***'deliberately defensive'*** products.

Our aim is to present a high calibre structured product provider, a carefully considered approach to structured products and a level of support and service which professional advisers and their clients can be genuinely confident in.

Our entire emphasis is on working closely with professional advisers to advance and enhance the value that can be gained from client-centric, best practice use of structured products.

It's time to* rethink *what you think you know about structured products.

TEMPO
STRUCTURED PRODUCTS

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
Visit our website: www.tempo-sp.com

Learning objectives. This white paper aims to:

- Highlight the significant and important USPs of structured products – including their risks and limitations.
- Consider how the views of professional advisers who are not using structured products may have developed over the years, including drawing attention to potential gaps in working knowledge and / or outdated views, as well as some reverberating misconceptions and myths.
- Explain how the UK retail structured products industry has developed, materially changed and positively advanced over the last 10+ years, including important regulatory changes.
- Present long term, granular, comprehensive and incontrovertible facts about the performance of UK retail structured products, which evidence their efficacy and the potential merits of including them in diversified portfolios: also noting the different – and arguably better – risk / return profiles that structured products offer.
- Highlight the importance of professional advisers thinking about the challenging investment environment that we are in, including the possibility / risk that we may be in a long term, low returns environment, and the challenges that this may present for portfolio construction, particularly if portfolio diversification thinking is limited to consideration of just active and passive funds, asset class and geography.
- Draw attention to what may reasonably be expected in terms of *'alpha'* by active fund management and / or *'beta'* by passive fund management – and highlight the merits of structured products, which offer the potential for *'alpha by contract'*, in ways and with risk / return profiles that neither active nor passive funds offer, that could add material value within diversified portfolios, particularly in low return environments.
- Suggest that professional advisers who are not using structured products objectively consider if any long-standing and potentially outdated views, including any cognitive biases, may need to be addressed.

Learning outcomes. Having read this white paper, you should recognise and understand:

- The significant and important USPs of structured products, as well as their risks and limitations.
- The need for professional advisers to ensure that they have the appropriate level of working knowledge regarding structured products, including addressing any misconceptions or myths.
- How the UK retail structured products industry has developed, materially changed and positively advanced over the last 10+ years, including important regulatory changes.
- The facts which evidence the efficacy of UK retail structured products and the potential merits of including structured products in diversified portfolios.
- The importance of thinking about the challenging investment environment that we are in, including the possibility / risk that we may be in a long term, low return investment environment, and the challenges that this may present for portfolio construction, particularly if portfolio diversification thinking is limited to consideration of just active and passive funds, asset class and geography.
- What may reasonably be expected in terms of *'alpha'* by active fund management and / or *'beta'* by passive fund management – and recognise the merits of structured products, which offer the potential for *'alpha by contract'*, in ways and with risk / return profiles that neither active nor passive funds offer.
- The reasons and the need to objectively consider whether any long-standing and potentially outdated views, including any cognitive biases, may need to be addressed.

Online test (required for CPD certificate):

For professional advisers who wish to validate what they've learnt from this white paper, and as a requirement for a structured cpd certificate to be provided, an online test is available:

https://tempo-sp.com/time-to-rethink-structured-products/white-paper_online-test

This white paper is a financial promotion issued by Tempo Structured Products and approved by TIME Investments. It is intended for FCA authorised persons, including financial advisory firms and wealth managers *('professional advisers')*. It is not suitable for and should not be distributed to clients or potential clients of any recipient.

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1. Introduction

This white paper aims to cogently articulate why independent professional advisers who are not using structured products should take a fresh and objective look at them.

We have sought to summarise some of the background to the UK retail structured products sector, including how the views of professional advisers developed over the years and how the sector has changed in recent years.

Most importantly, this paper focuses on:

- The significant and important USPs of structured products;
- The long term, granular, comprehensive and incontrovertible facts regarding the performance of matured UK retail structured products, which: 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;
- Portfolio construction and diversification considerations for a challenging (and potentially long-term, low returns) investment environment.

Importantly, the case for structured products does not hinge only on a long term, low returns investment environment: however, if this is the environment we're now in (which many economists, investment managers and commentators suggest is at least a possibility, i.e. a risk), the USPs of structured products may be particularly pertinent:

- We suggest – and we think this paper explains why and helps evidence – that it may be difficult to identify investment options which can reasonably be considered more likely to generate viable levels of positive returns for investors in low return, no return and moderately falling market environments, than structured products.

Notably, a key assertion of this paper is that structured products can intervene in the active / passive debate:

- Structured products offer the potential for – and evidently can deliver – *'alpha by contract'*, in ways and with risk / return profiles that neither active nor passive funds offer, that could add material value in diversifying client portfolios;

  This may present an inconvenient truth for those professional advisers who limit this debate to a convenient binary consideration of just *'alpha'* by active fund management and *'beta'* by passive fund management: however, as this paper explains and evidences, the debate and considerations are not and should not be binary.

"Tell the truth for long enough and eventually people will find you out"

This paper clearly evidences that structured products work. However, challenging and hopefully changing potentially long-held views amongst professional advisers who are not using structured products is not an overnight process.

We hope this white paper will be a catalyst, starting a process that contributes to more professional advisers:

- Understanding the significant and important USPs of structured products;
- Acknowledging the advances that the UK retail structured products sector has made;
- Recognising the incontrovertible facts regarding the performance of matured UK retail structured products, which: 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;

  We draw attention to the maxim that when the facts change, professional advisers should change their minds: the facts regarding UK retail structured products have changed;
- Objectively considering and using structured products, when it is appropriate and suitable to do so.

In addition, to this paper, we would also highlight accompanying inputs, which are available to professional advisers as part of our ongoing *'Time to rethink what you think you know about structured products'* campaign, including: *'Tempo: Ticking the boxes'*; *'Tempo: Product governance overview'*; *'TICS'* (the Tempo Issuer and Counterparty Scorecards); and our series of cpd-accredited, live and recorded, video webinars for professional advisers.

Thank you for your interest in this paper. We hope that you will find it interesting, illuminating and thought-provoking – and that it may ultimately prove to be beneficial for your firm and your clients.

2. Professional advisers need to understand the significant and important USPs of structured products: – while also understanding the risks and limitations

Structured products offer significant and important USPs for investors:

- Structured products can generate positive returns without requiring the stock market to rise, or even if it falls;
- Structured products can include defined and significant levels of protection from stock market risk at maturity;
- Structured products are based on legally binding contracts, offering the potential for – and evidently able to deliver – *'alpha by contract'*, in ways and with risk / return profiles that neither active nor passive funds offer.

In other words, structured products can increase the likelihood of positive returns being generated and decrease the likelihood of losses being experienced in client portfolios.

Unlike actively managed mutual funds, structured products are not dependent on a fund management process and the skill (or lack of skill) of a fund manager. With a structured product, if the counterparty bank is solvent at maturity they are legally obligated to deliver the terms of the bonds that they issued, which the structured product is based upon.

Of course, in addition to understanding the USPs of structured products, professional advisers also need to understand their risks and limitations:

- Structured products present counterparty risk, which needs to be understood and accepted: both the potential returns of a structured product and the repayment of money invested usually depend on the financial stability of the issuer and counterparty bank throughout the investment term;
- The level of return a structured product generates may be capped and / or less than the level of return generated by direct investment in the stock market or via active or passive funds;
- The terms of structured products can predefine what can be expected at maturity and at certain other dates, such as potential *'kick-out'* and early maturity dates: but these terms do not apply during the investment term;
- The value of structured products during the investment term may be affected by various factors: while accessing an investment is usually possible, during normal market conditions, this is not guaranteed.

With an understanding of the USPs and the risks and limitations, structured products surely sound appealing:

- **What professional adviser wouldn't want to increase the likelihood of positive returns being generated and decrease the likelihood of losses being experienced in client portfolios?**

  Surely we can all agree that this is the basic purpose of a good investment proposition?

- **What professional adviser wouldn't want to access *'alpha by contract'*, if they could?**

  Surely all professional advisers would, including those advisers / planners who describe themselves as *'evidence based'*, educating their clients to accept the beta of the market, via passive funds, because of the various recognised challenges of accessing alpha by active fund management which academia identifies.

  Notably, as this paper explains, structured products can intervene in the active / passive debate.

Importantly, in addition to structured products being conceptually appealing, long term, granular, comprehensive and incontrovertible facts regarding the performance of matured UK retail structured product 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.

- It should also be remembered that it is a regulatory requirement for independent professional advisers to consider structured products, as part of the universe of investment options available to their clients.

So, why aren't structured products more widely embraced by independent professional advisers – including *'evidence based'* advisers / planners?

There are a number of factors involved, some of which the structured products sector needs to accept responsibility for; and some of which we suggest independent professional advisers who are not using structured products need to reflect on, including objectively considering if any cognitive biases may need to be addressed.

3. Past industry events, including failings, which the structured products sector is responsible for, and other factors: – which helped shape long-standing professional adviser views

Obviously, the UK retail structured products sector is responsible for past industry events, including failings, and current practices. Well-publicised and aired past events include:

- 1999 – 2002. Various structured product providers launched apparently low risk income products which, in fact, were not low risk, which were marketed widely by execution-only brokers, with neither the providers nor the brokers highlighting the risks clearly enough, with many investors subsequently caught out by the bursting of the *'TMT'* bubble. These products became known as precipice bonds.
- 2008. At the heart of the global financial crisis, the collapse of US investment bank Lehman Brothers directly impacted structured product investors. While not a significant issuer of structured products in the UK (with less than 1% of the market), and while the recovery rate for investors has been very high (c.79-97%), the failure of Lehman Brothers obviously highlighted the counterparty risk of structured products.

These two past events highlight two key risks of structured products which need to be carefully considered and understood by professional advisers and investors, i.e. market risk (like most investments, both the level of potential returns and the repayment of money invested in a structured product usually depend on the level of the stock market) and counterparty risk (both the returns of a structured product and the repayment of money invested in a structured product usually depend on the ongoing solvency of the issuer / counterparty bank).

A third risk of structured products is one that is sometimes less well considered by professional advisers, despite the regulatory requirement to do so: this is the risk that the plan manager presents, in terms of their financial and operational strength, product governance and processes.

- 2009. This third risk was highlighted through another industry event (albeit not actually a structured products industry event), the demise of Keydata, a well-known structured product provider. It's important to understand that Keydata's failure was nothing to do with structured products (all of Keydata's structured products went on to mature successfully after Keydata went into administration – highlighting a strength of structured products). Keydata went into administration due to issues in its life settlement product area.

  Other plan manager failures over the years, including Merchant Capital and Reyker Securities, further highlight this point.

It is also worth remembering some other factors that have played a role in influencing professional adviser views of structured products over the years.

For example, the Investment Association (the *'IA'*, the trade association that represents the active and passive mutual funds industry), in its former guise as the Investment Management Association, occasionally took aim at the structured products sector – often using their own analysis of NS&I guaranteed equity bonds and drawing comparisons between guaranteed bonds and tracker funds in ways which were critical of structured products generally, while highlighting the apparent benefits of active and passive funds.

There have also been other examples of commentators, including respected industry figures, making sweeping generalisations about structured products over the years (in the national consumer and / or professional trade press), but also often without differentiation between different types of products and different plan managers – and often demonstrating a lack of detailed working knowledge and understanding of structured products, their USPs, how they work, and / or making outdated points.

Bad news and outspoken critics made for good press – but, notably, the good news emerging from the UK retail structured products sector over recent years hasn't been so well publicised or aired.

These industry events, dynamics and other factors – we also look at gaps in working knowledge and some long-standing misconceptions and reverberating myths about structured products in Section 4 – undoubtedly and understandably helped shape long-standing professional adviser views and opinions of structured products, including those of professional advisers who are not using structured products with their clients today.

4. Gaps in working knowledge amongst some professional advisers: – including long-standing misconceptions and reverberating myths

In addition to the issue of past industry events, it's clear that there have been some gaps in the level of working knowledge and outdated views of structured products amongst some professional advisers, over the years.

Mixed in with the gaps in and / or outdated knowledge, are some long-standing misconceptions and reverberating myths, that some professional advisers repeat often enough for them to attain folklore status, as if they were facts, regardless of explanations being provided by the structured products sector.

And, of course, there have always been – and there always will be – some strong, but subjective, opinions and beliefs amongst independent professional advisers.

The misconceptions, myths and resulting views have often included references to: complexity; dividends not being accounted for; lack of liquidity / access; high and hidden fees; poor performance; terms that sound too good to be true; and the fundamental question as to whether there is any need for structured products.

While we are drawing attention to these points in relation to the working knowledge of professional advisers, we concede that the structured products sector needs to accept a fair share of the responsibility for the level of working knowledge and understanding of structured products amongst professional advisers.

We also acknowledge that there will always be professional advisers with strong and subjective opinions: in fact, many may feel that it's incumbent upon them to have such views, on behalf of their clients.

To our minds, the structured products sector could have and should have done a better job of providing the level and calibre of input and education needed amongst professional advisers over the years – to highlight the USPs of structured products, evidence their efficacy and merits and to dispel any misconceptions and myths. A reasonably basic level of working knowledge and understanding of structured products, including the building blocks of how they are arranged, and industry data and facts, can sensibly address each of these points, and others.

Touching just briefly on each point:

- **Complexity:** There is plenty of industry education available for professional advisers to explain how structured products are constructed, running through *'under the bonnet'* points such as counterparty credit risk, interest rates, zero coupon bonds, derivatives, capital protection barriers, how dividends are utilised, market volatility, etc. However, the main point to understand about structured products is that they are based on bonds issued by investment banks that create legally binding contracts that define their risks and potential returns. Regardless of the what counterparty banks may (or may not) do during the investment term, if they are solvent at maturity, they are legally obligated to deliver the terms of the bonds that they issued.

  To test this simple explanation, imagine that everybody in a counterparty bank goes on holiday on the start date of a structured product… for the entire term of the product, e.g. 10 years. The counterparty bank therefore does absolutely nothing during the investment term: the treasury team doesn't set up a zero coupon bond; the equity derivatives team doesn't do anything clever with derivatives; and there's no risk management team in sight for the entire 10 years. They are all on holiday, from the start date to the end date of the product, when they're supposed to deliver the stated returns and repay the capital invested.

  Question: What can investors in the structured product expect to receive at maturity?

  Answer: Everything that the plan documents detailed, if the counterparty bank is solvent.

  Alternatively, imagine that nobody in the counterparty bank ever went on holiday during the entire 10-year investment term. Everybody in the bank was at their desks every day and they all did all they could to manage the product through its investment term… but they were all terrible at their jobs and they messed everything up.

  Same question: What can investors in the structured product expect to receive at maturity?

  Same answer: Everything that the plan documents detailed, if the counterparty bank is solvent.

  The salient point is that investors in structured products are not investing in *'the clever stuff'* that the investment banks may (or may not) do under the bonnet: investors in structured products are effectively investing in the bonds / securities which the counterparty bank issues, which create legal, contractual obligations on the issuing bank to deliver what they stated, regardless of what they do or don't do.

In fact, a structured product can be looked at as a way of allowing investors to delegate the risk of active fund management processes to an investment bank / counterparty. This contrasts with mutual funds, such as targeted absolute return funds, where the risks of what the fund manager does or doesn't do, and what they get right or get wrong, is not borne by the fund manager: the risks of what active fund managers do, and whether they achieve the stated aims and objectives of their funds or not, sits squarely with investors.

This significant USP of structured products is one of the important points for professional advisers to understand.

- **Dividends:** The idea that all structured products short-change investors by excluding dividends is misguided. It's true that structured products typically link to price return indexes, but it's important to understand that issuing banks use the value of the dividends paid by companies in price return indexes in the economics of arranging the features of products. It's also necessary to differentiate between different types of structured product – and changes in the types of products launched over the years.

  In the mid 1990s, many structured products were simple *'participation products'*, offering a certain participation rate in the rise of an index, typically the FTSE 100. If the participation rate wasn't more than 100% (let's say, for example, at least 125%), it might reasonably be considered that investors would be losing the value of the dividends. However, many participation products offer materially higher *'super tracker'* participation rates (for example, 500% of any rise in the index) – while some products also offer defensive starting levels, that can generate positive returns even if the index has fallen over the investment term.

  But perhaps more importantly, the most popular types of structured product issued today are known as *'kick-out'* products – which are materially different to participation products. There is more information about kick-out products in Sections 7 and 8. As a simple explanation, kick-out products are designed to generate fixed levels of return if the index is simply at or above a certain level, at certain points during the investment term.

  Consider this, to highlight these points: the level of FTSE 100 in 2021 is virtually the same as it was in 1999, in price-return terms. Include the dividends and the total return is about 115% over the same period… which sounds better, but it's actually just c.3.65% p.a., annualised.

  Meanwhile, as this paper shows, the average returns of maturing capital at risk structured products over this period have been in the range of 6-8% p.a., or 8-12% for top quartile products, with many products not requiring the index to rise in order to generate this level of return, with a defined and significant level of protection from stock market risk at maturity… all of which was delivered while *'not accounting for dividends'*.

  Again, this is an important point about structured products for professional advisers to understand.

- **Lack of liquidity / access:** This reverberating myth is simply wrong. The fact is that most UK retail structured products provide investors with access to their investment throughout the investment term.

  Tempo plans, for example, provide daily liquidity during the investment term, subject to the risk which is highlighted and explained (that access is usually possible, but is not guaranteed), with no *'back door'* charges for access.

- **High and hidden fees:** This assertion also fails to stand up to scrutiny. Structured product charges are actually low, fair and transparently detailed. Indeed, this is a requirement under Packaged Retail Investment and Insurance *('PRIIPS')* regulations and in respect of Key Information Documents *('KIDs')*.

  Tempo, for example, typically charges c.2.5 – 3.75% for the entire maximum term of our plans, which may be 10 years, which we explain, in plain english in our plan brochures. It also needs to be understood that structured product charges are usually implicit, not explicit, i.e. they don't directly impact on an investor's capital or the returns generated. Our maturity performance and comparison overviews (examples can be found in Section 8), highlight this important point and USP of structured products.

- **Poor performance:** With regard to any views or suggestions that the performance of structured products is *'poor'*, firstly it's sensible to note that industry-wide data for matured UK retail structured products wasn't readily available in the past, so forming views about the performance of the sector as a whole was actually hard to do objectively – albeit that this didn't stop some critics from commenting on the sector as a whole, usually based on a poor example, i.e., the lowest common denominator.

  However, long term, granular, comprehensive and incontrovertible facts regarding the performance of matured UK retail structured products, covering more than a decade of maturities, are now readily available to professional advisers and commentators – as this paper helps highlight.

And the facts evidence impressive returns – and compelling risk / return profiles – from matured UK retail structured products. In fact, we would suggest that it would be difficult for even the most sceptical professional advisers to find many examples of poor performing structured products in the UK today.

Actually, this point highlights an interesting dynamic about the structured products sector.

The structured products sector has often suffered from being judged based on the lowest common denominator, i.e., the worst-case outcome examples. This contrasts with active fund management, which often benefits from being judged on the highest common denominator, i.e., the *'star'* fund managers.

In other words, the structured products sector has suffered from the *'shadow effect'* of the worst examples, while the actively managed funds sector benefits from the *'halo effect'* of the best examples.

Clearly, this doesn't make sense.

'Star' fund managers are a tiny percentage of the universe of active fund's – literally a handful of fund managers and funds out of an IA universe of 4,100+ funds, in the UK, at any point in time: and, of course, not many remain stars forever.

Conversely, not all structured product plan managers and / or products are the same – even when the features and terms of products may look similar: operational strength, product governance and product development processes, investment research and investment integrity, etc., can be material differentiators.

Differentiation is always a key word. Professional advisers should be identifying the *'best of breed'* structured products plan managers, just as they do with active funds, and even passive funds, not avoiding all structured products because of the worst case examples. Professional advisers don't avoid all index funds because some providers and funds have high charges and poor tracking error, etc: they differentiate and select the best.

On this point, *'Tempo Ticking the boxes'* provides a good introduction to and overview of everything we are doing to *'redefine structured products'*, focusing on *'doing the right things – and doing simple well'*.

- **Terms that sound too good to be true:** Yes, the structured products sector often has to deal with criticisms that move around a little! For example, if performance isn't being described as *'poor'*, it may instead be suggested that product terms *'sound too good to be true'*!

  This is one of those non-specific points of criticism that can sound like a pearl of wisdom, borne out of many years of experience from a professional adviser – *'if it sounds too good to be true, it probably is'* – but actually it can often simply demonstrate a lack of working knowledge and understanding of structured products.

  Yes, structured products can generate positive returns even if the stock market does not rise, or even if it falls.

  And yes, certain types of structured products (including structured deposits – which may also come with FSCS protection) can provide the potential for the upside from the stock market with none of the downside.

  However, when the USPs, building blocks and mathematics / economics of structured products are understood, it's clear that there is no *'alchemy'* or need for professional advisers to question whether structured product terms may sound *'too good to be true'*.

  In fact, rather than avoid and / or ignore structured products and the benefits of the significant and important USPs on offer, becaue terms *'sound too good to be true'*, surely it's incumbent upon independent professional advisers to ensure they have the working knowledge needed to understand how structured products work?

- **Need:** Lastly, the *'catch all'* suggestion that investors simply don't need structured products because professional advisers can achieve what they offer through other approaches to portfolio construction. This needs unpacking and challenging, because it's clearly not the case.

  Structured products offer significant and important USPs, and risk / return profiles that neither active nor passive funds offer, that cannot be easily achieved through any other approach to portfolio construction.

  Of course, professional advisers want to achieve what structured products offer, i.e., increasing the likelihood of positive returns being generated and decreasing the likelihood of losses being experienced. But, in practice, this is not as straightforward as it sounds. Actually, this point can be turned around:

  Why do professional advisers need to try to replicate what structured products offer through other approaches to portfolio construction – when they can simply embrace what structured products offer within portfolios?

5. Professional advisers need to acknowledge that the UK retail structured products sector has materially changed over the years

While looking back at the history of the UK retail structured products sector and being aware of past events and issues is important – and there are lessons that can be learned – the fact is that the UK retail structured products sector has materially changed and positively advanced, over the years.

Following the collapse of Lehman Brothers, the UK regulator immediately conducted a root and branch thematic review of the UK retail structured products sector, over the course of 2009 – 2012, including:

- The way that issuers / counterparty banks and plan managers operate, develop and distribute their products; and
- The way that professional advisers research, select and advise on structured products with their clients.

This culminated in clear and prescriptive rules, guidance and expectations around structured products, in relation to everything from plan manager product governance / product development processes, stress testing and target market / distribution, through to professional adviser product research, selection and advice.

- Notably, in 2009, the sector established the UK Structured Products Association ('UKSPA'), which engages with regulators, helps advance best practice and provides education and information.

The thematic review and new regulations brought in much needed (and also wanted) change, including, for example, plan managers not just being able to name the counterparty but being expected to do so and to provide information about the institution – an important improvement in the way the sector operates today.

The banking sector has also been transformed since – and as a result of – the financial crisis:

- Governments, central banks and regulators have focused intently on regulations and material changes to strengthen the banking sector over the years. More information is provided in Section 6.

In addition, the implementation of EU-wide MiFID II and PRIIPS regulations, in 2018, fundamentally changed the way that all investment products, including structured products, are developed, distributed, managed and monitored.

PRIIPs and KIDs aim to create a standardised, level playing field approach across different investment products, requiring all products to present what are intended to be comparable risk-ratings, transparency on charges and costs, details of stress testing / forward modelling and scenario analysis, etc.

- The regulations that came into force for the UK retail structured products sector, including aspects of product governance, target market and value for money assessments, etc., are recognisable in the regulations that have come into force for the wider investment industry: in fact, the regulations for the structured products sector are acknowledged as having helped create the blue print for the wider investment industry.

In highlighting changing regulations, it would be remiss not to mention FCA plans to introduce a new Consumer Duty, focusing on behaviour expected from firms, including firms acting in the best interests of retail clients / acting to deliver good outcomes for retail clients. While still at a consultation phase, some interesting implications are anticipated, including the need for advisory firms to evidence their processes and decision making:

- We anticipate that the Consumer Duty might reinforce the existing regulatory requirement for independent professional advisers to consider the full universe of investment options, including structured products, requiring them to evidence that they do … or why they don't: and we would suggest that evidencing why structured products are not being considered or used might prove to be difficult, when the facts that highlight their USPs and evidence their efficacy and ability to contribute to positive outcomes for investors are so clear.

The regulatory scrutiny, new regulations and improved practices for issuers / counterparty banks, plan managers and professional advisers, should be seen as a positive, of course, not a negative. For more than 10 years now, it has been clear what is expected in terms of regulations, governance and compliance.

That it was and is positive is clearly borne out in the way that the structured products sector operates today, in the risk / return profiles of structured products that are launched and also, ultimately, in the performance of products, which Section 7 focuses on: which, arguably, provides the ultimate litmus test and validation of the advances and improvements in the way that the UK retail structured products sector now operates.

6. Issuer / counterparty risk:
– material advances in UK structured products sector practices and professional adviser understanding and research / due diligence
– material changes in the regulations and strength of the banking sector

Let's be clear, counterparty risk is the most fundamental risk of a structured product: both the potential returns of a structured product and the repayment of money invested usually depend upon the financial stability of the issuer / counterparty bank throughout the investment term.

It's common sense to highlight that professional advisers should seek to identify structured products which are backed by strong issuers / counterparties – not least as this is a regulatory requirement / expectation.

The regulatory rules and expectations were explicitly detailed nearly 10 years ago, in the FCA *'Retail Product Development and Governance: Structured Product Review, 2012 Thematic Review'*:

"Firms should carry out sufficient due diligence into the counterparty and not rely solely on credit rating agencies…"

"We expect firms to look more broadly than just the credit rating, such as the rating, outlook, credit default swap ('CDS') spreads and other market information, as well as 'fundamentals' on the issuer's balance sheet."

Material advances in UK structured products sector practices – and professional adviser understanding and research / due diligence

As previously highlighted, regulations brought in much needed (and also wanted) change, after the lessons learned in the financial crisis, including plan managers not just being able to name the counterparty but being expected to do so and to provide information about the financial strength and credit risk of the institution.

The UK retail structured products sector has materially improved its practices around issuer and counterparty disclosure and explanation, since the financial crisis, for both investors and professional advisers.

There are a number of metrics which are considered relevant in assessing the financial strength / credit risk of a counterparty – and there is good industry education and research services available for professional advisers, leading to good working knowledge and understanding of counterparty risk and the research and due diligence that is required and expected. Attention is certainly paid to credit ratings, credit default swap levels and fundamentals (e.g., tier 1 capital ratios, total assets, loan to deposit ratios, etc.) by professional advisers.

As part of the support which Tempo provides for professional advisers, Module 4 of our Academy explains counterparty research, including credit ratings, credit default swaps and balance sheet fundamentals.

Tempo also provides professional advisers with access to the Tempo Issue and Counterparty Scorecards *('TICS'),* which provides a bar-raising resource supporting issuer / counterparty research.

We developed TICS for internal purposes, to help us analyse, consider, understand – and compare – issuers / counterparties, in order to objectively identify strong issuers / counterparties in our role as an independent plan manager able to select and deal with issuers / counterparties without bias.

TICS provides professional advisers with access to widely recognised indicators of financial strength / credit risk, across multiple *'factors'* and *'categories'*, including a scoring system, designed to provoke and support more detailed and objective analysis, consideration and understanding – including comparison – of issuer / counterparty financial strength / credit risk, supporting best practice issuer / counterparty research.

Material changes in the regulations and strength of the banking sector

For professional advisers seeking to identify structured products backed by strong counterparties, a good starting point is to be aware that every year the regulators identify a list of banking groups which are categorised as Global Systemically Important Banks *('G-SIBs')*. As the name suggests, G-SIBs are fundamentally the more important banks in a country / region / globally. As a result, they are subject to more stringent regulatory requirements, including, for example, higher Tier 1 capital ratios and total loss absorbing capacity *('TLAC')*.

It's instructive to know more about the regulatory changes which have materially changed and strengthened the banking sector since the financial crisis, including developments to identify and regulate G-SIBs.

The Basel Committee on Banking Supervision *('BCBS')* is the primary global standard setter for the prudential regulation of banks and a forum for cooperation on banking supervisory matters. The BCBS's mandate is to strengthen the regulation, supervision and practices of banks worldwide, with the purpose of enhancing financial stability. Its guidelines and standards include the international standards on capital adequacy.

The Basel III Accord *('Basel III')* is a set of measures developed by the BCSB, in 2010-11, to strengthen the regulation, supervision and risk management of the banking sector, in response to the global financial crisis of 2008.

Basel III aimed to: improve the banking sector's ability to absorb shocks arising from financial and economic stress; improve risk management and governance; and strengthen banks' transparency and disclosures.

The Basel III reforms focused on: capital adequacy; stress testing and market liquidity risk; strengthening bank capital requirements by increasing bank liquidity and decreasing bank leverage.

The Financial Stability Board *('FSB')* is an international body, established in 2009, as the successor to the Financial Stability Forum *('FSF')*, to monitor and make recommendations about the global financial system, with a broadened mandate to promote financial stability. The evolution of the FSF into the FSB followed the financial crisis, with the G20 countries calling for a larger membership of the FSF to strengthen its ability to address vulnerabilities and develop and implement strong regulatory, supervisory and other policies for financial stability

The FSB brings together policy makers from government, central banks, supervisory and regulatory authorities, for the G20 countries, plus Hong Kong, Singapore, Spain and Switzerland. In addition, it includes international bodies, including standard-setters and regional bodies such as the European Central Bank and European Commission. There are also six regional consultative groups *('RCGs')*, which reach out to authorities in 70 other countries and jurisdictions, including emerging market and developing economies *('EMDEs')*. The FSB includes central banks, supervisors, securities regulators and ministries of finance as members. The FSB's reach extends globally, incorporating all parties who set financial stability policies across the financial system.

As part of the regulatory response to the financial crisis, including the *'too big to fail'* risks identified in the crisis, in 2009 the FSB identified a list of Global Systemically Important Banks, for whom stricter regulatory capital adequacy requirements apply. The G-SIB list of 30 banks was agreed in November 2011 and is updated in November each year. In addition, national lists of Domestic Systemically Important Banks *('D-SIBs')* exist.

Basel III requires G-SIBs to operate with *'Minimum Tier 1'* capital ratios. Further requirements relating to *'Additional Tier 1'* and *'Tier 2'* capital ratios, are also imposed on the G-SIBs. In the EU, European G-SIBs face even higher capital adequacy ratio requirements than those required by the FSB.

In addition to the Basel III requirements, in 2014 the FSB started a process to define requirements for Total Loss Absorbency Capacity *('TLAC')*, to be applied to G-SIBs, which are now being implemented.

The Tempo Issuer and Counterparty Scorecards *('TICS')*

TICS covers all 30 G-SIBs, plus a small number of D-SIBs and other counterparties to UK retail structured products.

The resources provided as part of TICS include the annual FSB updates regarding G-SIBs, in addition to details of the *'buckets'* (which determine the level of additional Tier 1 capital ratio required) which each bank sits in.

One of the monthly outputs of TICS is the *'TICS: Side-by-Side View'*, which provides the data for the main UK retail structured product counterparties, displaying the data so that it can be looked at and assessed *'side-by-side'*.

We update and publish TICS each month, producing 9 outputs, freely available for professional adviser use.

For more information about TICS: https://tempo-sp.com/tics

7. Professional advisers – and commentators – need to recognise the long term, granular, comprehensive and incontrovertible facts regarding the performance of matured UK retail structured products: – which evidence the efficacy of structured products and the potential merits of including structured products in diversified portfolios

As highlighted previously, industry-wide data regarding the performance of matured UK retail structured products was difficult to find in the past. However, long term, granular, comprehensive and incontrovertible data and facts are now readily and freely available to professional advisers.

The data in tables 1, 2 and 3 is provided by StructuredProductReview.com. The full performance reviews and analysis (including various recent annual, 5 year and 10 year reviews) are available to professional advisers.

In addition, other performance studies have also been undertaken and produced, which are also available to professional advisers – including analysis by independent research provider Future Value Consultants *('FVC')*.

Table 1 provides the headline facts regarding UK retail structured products which were distributed through independent professional advisers over 10 years, which matured between January 2010 – December 2019.

Table 1. Facts regarding all UK retail structured products maturing over 10 years: 2010 – 2019
3,895 UK retail structured products matured between January 2010 and December 2019
3,835 (98.46%) generated positive returns or repaid capital
The average return of all maturing investment products (excluding deposits) was: **6.98% p.a.**
The average return of the 2,465 capital-at-risk products was: **7.84% p.a.** The average return of the top quartile capital-at-risk products was: **11.84% p.a.**
1,566 (65.53%) of the maturing capital-at-risk products included a kick-out feature: The average return of the capital-at-risk kick-out products was: **8.40% p.a.** The average return of the top quartile capital-at-risk kick-out products was: **12.09% p.a.**
ONLY 60 (1.54%) maturing structured products created a loss **ONLY one product linked solely to the FTSE 100 created a loss** **NO products linked solely to the FTSE 100 created a loss since 2012**
The average duration of all maturing structured products was: **3.75 years** The average duration of maturing capital-at-risk kick-out products was: **2.11 years**
Data provided by StructuredProductReview.com

Past performance is not a reliable indicator of or guide to future performance and should not be relied upon, particularly in isolation.

Table 2 provides the headline facts regarding UK retail structured products which were distributed through independent professional advisers over 5 years, which matured between January 2017 – December 2021.

Table 2. Facts regarding all UK retail structured products maturing over 5 years: 2017 – 2021
2,145 UK retail structured products matured between January 2017 and December 2021
2,114 (98.55%) generated positive returns or repaid capital
The average return of all maturing investment products (excluding deposits) was: **6.82% p.a.**
The average return of the 1,677 capital-at-risk products was: **7.03% p.a.** The average return of the top quartile capital-at-risk products was: **10.07% p.a.**
1,192 (71.08%) of the maturing capital-at-risk products included a kick-out feature: The average return of the capital-at-risk kick-out products was: **7.37% p.a.** The average return of the top quartile capital-at-risk kick-out products was: **10.31% p.a.**
ONLY 31 (1.45%) maturing structured products created a loss **No products linked solely to the FTSE 100 created a loss**
The average duration of all maturing structured products was: **3.76 years** The average duration of maturing capital-at-risk kick-out products was: **2.62 years**
Data provided by StructuredProductReview.com

Past performance is not a reliable indicator of or guide to future performance and should not be relied upon, particularly in isolation.

Table 3 provides the headline facts regarding the first 1,000 UK retail *'kick-out'* structured products which were distributed through independent professional advisers, which have matured.

Table 3. Facts regarding the first 1,000 capital-at-risk FTSE 100 linked UK retail kick-out structured products to mature
The first capital-at-risk kick-out structured product appeared in the UK retail market in May 2003
The 1,000th capital-at-risk FTSE 100 linked kick-out product matured in February 2021
NONE of the 1,000 matured* capital-at-risk FTSE 100 linked kick-out products created a loss for investors (*4 FTSE 100 linked kick-out products issued by Lehman Brothers (between April – August 2008) did not reach maturity: Lehman Brothers highlights the counterparty risk: notably, the recovery rate for investors has been c.79% - 97%)
992 (99.9%)* out of the 1,000 matured capital-at-risk FTSE 100 linked kick-out products generated a positive return (The 8 products which matured without generating positive returns all had 5 or 6-year investment terms: if these products had used longer maximum terms of, say, 10 years, all but one would have generated a positive return on or before the 7th anniversary)
The average annualised return of the 1,000 capital-at-risk FTSE 100 linked kick-out products was: **8.06% p.a.** The average annualised return of the top quartile capital at risk FTSE 100 linked kick-out products was: **10.72% p.a.**
The average duration of the 1,000 capital-at-risk FTSE 100 linked kick-out products was: **1.99 years**
Data provided by StructuredProductReview.com

Past performance is not a reliable indicator of or guide to future performance and should not be relied upon, particularly in isolation.

Of course, we must all remember the important points about past performance: **past performance is not a reliable indicator of or guide to future performance and should not be relied upon, particularly in isolation:**

And, as we've already highlighted, the risks and limitations of structured products also need to be considered:

- The counterparty risk which structured products present must be understood and accepted: both the potential returns of a structured product and the repayment of money invested usually depend on the financial stability of the issuer and counterparty bank throughout the investment term;
- The level of return a structured product generates may be capped and / or less than the level of return generated through direct investment in the stock market or via active or passive funds;
- The terms of structured products can predefine what can be expected at maturity and at certain other dates, such as potential *'kick-out'* and early maturity dates: but these terms do not apply during the investment term;
- The value of structured products during the investment term may be affected by various factors: while accessing an investment is usually possible, during normal market conditions, this is not guaranteed.

However, it should be clear – and irrefutable – that objective analysis of the long term, granular, comprehensive and incontrovertible facts regarding the performance of matured UK retail structured product highlights the USPs of structured products, evidences the efficacy of structured products and shines a light on the potential merits of including structured products in diversified portfolios.

Professional advisers – and commentators – should also recognise and remember the significant and important USPs of structured products. The majority of the structured products that matured that make up this data for the UK retail structured products sector were designed so that they:

- Generated the level of returns that they delivered without requiring the stock market to rise, or even if it fell;
- Included a defined and significant level of protection from stock market risk at maturity; and
- Were based on by legally binding contracts, offering the potential for – and evidently able to deliver – *'alpha by contract'*, in ways and with risk return profiles that neither active nor passive funds offer, without being dependent on a fund management process and the skill (or lack of skill) of a fund manager.

In summary, while recognising the importance of understanding the risks and limitations of structured products, particularly including the counterparty risk that structured products present, it should be clear that structured products increased the likelihood of these levels of return being generated and decreased the likelihood of losses being experienced, offering materially different – and arguably better – risk / return profiles compared to active and / or passive funds.

The USPs of structured products are highlighted and explained in more detail in Section 8, including looking at what we mean by *'alpha by contract'*.

8. Tempo plan maturities and intra-term plan performance:
– adding to the sector's evidence that structured products work
– highlighting the merits of Tempo's plan design and approach
– shining a light on what we mean by *'alpha by contract'*

Tempo Structured Products was established over the course of 2016-2018, patiently laying the foundations of what we are doing to *'redefine structured products'*, focusing on *'doing the right things – and doing simple well'*.

This includes: a client-centric, best practice approach to governance and compliance, putting investors first; a bar-raising level and calibre of collateral materials, input and support for professional advisers; and a commitment to *'deliberately defensive'* products.

While lots of structured product providers do lots of defensive structured products, Tempo is the only structured product plan manager to position ourselves as only doing defensive structured products: we describe our product suite as *'deliberately defensive'*, which is based on three specific areas of focus:

- **Issuer / counterparty risk:** As an independent plan manager, able to deal with any issuer / counterparty, we seek to identify and deal with strong issuers / counterparties.

  We deal predominantly with banking groups which are regulatorily identified as Global Systemically Important Banks *('G-SIBs')* or, as a minimum, Domestic Systemically Important Banks *('D-SIBs')*.

  G-SIBs are fundamentally more important (usually bigger and stronger) banks globally: as a result, they are subject to more stringent regulatory requirements, including higher Tier 1 capital ratios.

- **Market risk:** Our products are designed to address both *'upside'* and *'downside'* market risk.

  Our products are designed so that they are able to generate some or all of their potential returns without requiring the stock market to rise (mitigating the *'upside risk'* that stock markets don't rise or don't rise by the level wanted or needed by investors), while including a defined and significant level of protection from stock market risk at maturity (mitigating the *'downside risk'*, that stock markets fall).

  Our products have deep end-of-term (only observed at the end date) barrier levels, which reduces market downside risk, as well (as being easier for investors to understand). Our products are single index only.

- **Operational risk (plan manager / administration and custody):** Our products benefit from our operational strength and our focus on and approach to client-centric, best practice governance – and we seek to mitigate the plan manager and administration / custody risk of our products throughout their term.

Tempo's first 10 plan maturities

We launched our product suite in June 2018. Our plans therefore started to reach their first kick-out anniversary dates and potential early maturity points at the 3rd anniversary, in June 2021.

The first 10 of our Long Kick-Out plan options, across Issues, 1, 2, 3 and 4 of our product suite, to kick-out and mature all delivered *'alpha by contract'* outcomes for investors, with compelling risk / return profiles.

We produce maturity performance and comparison overviews for each of our plan maturities. These include: a reminder of the terms of each plan / plan option; details of the maturity performance and analysis; and comparisons to pertinent benchmarks, including: the index that the product was linked to, e.g., the FTSE 100 EWFD; the FTSE 100; and a FTSE 100 tracker fund, with dividends re-invested.

Our plan maturities add to the sector's evidence that structured products work, helping highlight the significant and important general USPs of structured products and the specific merits of our plan design and approach.

Summary details of our first 10 plan maturities are set out over pages 16 - 19. The full maturity performance and comparison overviews for each matured plan can be found via our website:

https://tempo-sp.com/our-products/matured-products-performance-and-comparison

Tempo's first plan kick-out and maturity

Our first plan maturity was a kick-out product. Option 1 of Issue 1 of our Long Kick-Out Plan *('LKO1')*, which we launched in June 2018, reached its first kick-out trigger point at its 3rd year anniversary, in June 2021.

A kick-out plan is a type of structured product that is designed so that it can generate a fixed level of annual return and end early automatically (in other words, *'kick-out'*), if specific conditions are met – typically if the stock market index that the product is linked to is at or above a specified level, which is usually either the original start level or a reducing level, which allows the stock market index to fall.

The potential returns of a kick-out plan usually accumulate for each year that the plan runs, until either: i) the level of the stock market index that the plan is linked to causes a kick-out on one of the kick-out dates; or ii) the end of the investment term. If the level of the index is such that the condition for kick-out is met, the plan will mature and pay the accumulated return together with any money invested.

Protection from a defined level of stock market risk is also usually included at the end of the investment term, in case the level of the stock market means that there hasn't been a kick-out during the investment term.

The terms of Issue 1, LKO1, contractually defined that if the FTSE 100 EWFD (an equal weight, fixed dividend version of the FTSE 100, developed by FTSE Russell to improve the terms of structured products) closed at or above 90% of the start level on the 3rd year anniversary, the plan would kick-out, generating a return of 7.3% for each year that the plan ran and repaying the initial investment.

The FTSE 100 EWFD closed at 99.54% of the start level in June 2021. The plan therefore kicked-out / matured early, generating 21.90% for investors (equivalent to 7.3% p.a. simple / 6.82% compound). The plan also repaid investor's capital in full (notably, without any explicit charges impacting investors' initial capital or the stated level of return).

Table 4 summarises the terms of Issue 1, LKO1.

Table 4. Tempo Long Kick-Out Plan – June 2018 (Issue 1): Option 1 *('LKO1')*								
Start date	22 June 2018							
Index	FTSE 100 EWFD		Protection barrier (level and type)			60% / End of term		
Start level	1,061.62		Protection barrier level			636.97		
Kick-out date anniversary	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
Kick-out date	22.06.21	22.06.22	22.06.23	22.06.24	23.06.25	22.06.26	22.06.27	22.06.28
Kick-out level required %	90%	90%	90%	90%	90%	90%	90%	90%
Index level required	955.46	955.46	955.46	955.46	955.46	955.46	955.46	955.46
Kick-out potential return	21.90%	29.20%	36.50%	43.80%	51.10%	58.40%	65.70%	73.00%
FTSE 100 EWFD level	1,056.74	n/a	n/a	n/a	n/a	n/a	n/a	n/a

Table 5 highlights the maturity performance of Issue 1, LKO1, including comparisons to pertinent benchmarks, including the FTSE 100 EWFD, the FTSE 100 (price return) and a well-known FTSE 100 tracker (with gross dividends reinvested).

Table 5. Tempo Long Kick-Out Plan – June 2018 (Issue 1): Option 1 *('LKO1')*: Plan performance / benchmark comparison			
The terms of Issue 1, LKO1 defined: if the FTSE 100 EWFD closed at or above 90% of the start level on this kick-out anniversary date, the plan would kick-out, generating a return of 7.3% for each year that the plan ran and repaying the initial investment.			
	Start level (22.06.2018)	Year 3 level (22.06.2021)	3 year performance
Tempo Issue 1, LKO1	100	121.90	**21.90%**
FTSE 100 EWFD	1,061.62	1,056.74	**-0.46%**
FTSE 100 (price return)*	7,682.27	7,090.01	**-7.71%**
Vanguard FTSE 100 Index Acc**	120.56	123.94	**2.80%**
Tempo LKO1 delivered 21.90% over 3 years compared to 2.80% for the FTSE 100 tracker: this can be seen as *'alpha by contract'* of 19.10%, which is equivalent to 6.00% p.a. The materially different – and arguably better – risk / return profile should also be recognised: • Tempo LKO1 would have generated 21.90% at year 3 even if the FTSE 100 EWFD had closed c.10 percentage points lower. • Tempo LKO1 would have increased the return it generates at each subsequent kick-out anniversary date, without the index condition needed to trigger kick-out increasing. • Tempo LKO1 would have generated 73.00% at year 10 even if the FTSE 100 EWFD had fallen by 10% from its start level. • Tempo LKO1 included a defined and significant level of protection from stock market risk that would have allowed the FTSE 100 EWFD to fall by 40% at the end date.			

Source: Tempo Structured Products / Bloomberg. * Price return, excluding dividends. ** FT.com, NAV to NAV, gross dividends reinvested. Tempo LKO Plan counterparty: Société Générale.

Past performance is not a reliable indicator of or guide to future performance and should not be relied upon, particularly in isolation.

Comparison of Tempo Issue 1, LKO1, with the FTSE 100 EWFD and FTSE 100 highlights the strong performance of the FTSE 100 EWFD compared to the FTSE 100 and the significant outperformance of both by Tempo LKO1:

- Tempo LKO1 delivered 21.90% over 3 years compared to 2.80% for the FTSE 100 tracker: this can be seen as *'alpha by contract'* of 19.1%, equivalent to 6.0% p.a.

The materially different – and arguably better – risk / return profile should also be noted:

- Tempo LKO1 was designed to generate 21.9% at year 3 without requiring the FTSE 100 EWFD to rise: in fact, it would have generated 21.9% at year 3 even if the FTSE 100 EWFD had closed nearly 10 percentage points lower;
- Tempo LKO1 would have increased the return it generates at each subsequent kick-out anniversary date, without the index condition needed to trigger kick-out increasing: this contrasts with active and passive funds, which typically only generate increasing returns for investors based on / dependent on the level of the market / index increasing;
- Tempo LKO1 would have generated 73.00% at year 10 even if the FTSE 100 EWFD had fallen by 10%, by legally binding contract: whereas active or passive funds, while benefitting from dividends, would typically need the market / index to have risen materially over 10 years in order to generate a similar level of return for investors, with active funds also dependent on a fund management process and the skill of a fund manager;
- Tempo LKO1 included a defined and significant level of protection from stock market risk at maturity, that would have allowed the FTSE 100 EWFD to fall by 40% from the start level.

As per the points made about the sector-wide performance data in Section 7, and while once again highlighting the importance of understanding the risks and limitations of structured products, particularly including the counterparty risk that structured products present, clearly, Tempo LKO1 delivered a good outcome for investors, outperforming the typical tracker fund, effectively delivering *'alpha by contract'*, with a materially different – and arguably better – risk / return profile.

Tempo's next 9 plan kick-outs and maturities...

Table 6. Tempo Long Kick-Out Plan – August 2018 (Issue 2): Option 1 (*'LKO1'*); FTSE 100 EWFD; FTSE 100

The terms of Issue 2, LKO1 defined: if the FTSE 100 EWFD closed at or above 90% of the start level on this kick-out anniversary date, the plan would kick-out, generating a return of 7.3% for each year that the plan ran and repaying the initial investment.

	Start level (24.08.2018)	Year 3 level (24.08.2021)	3 year performance
Tempo Issue 2, LKO1	100	121.90	**21.90%**
FTSE 100 EWFD	1,042.10	1,073.75	**3.04%**
FTSE 100 (price return)*	7,577.49	7,125.78	**-5.96%**
Vanguard FTSE 100 Index Acc**	120.05	125.72	**4.72%**

Tempo LKO1 delivered 21.90% over 3 years compared to 4.72% for the FTSE 100 tracker: this can be seen as *'alpha by contract'* of 18.86%, which is equivalent to 5.93% p.a. The materially different – and arguably better – risk / return profile should also be recognised:
• Tempo LKO1 would have generated 21.90% at year 3 even if the FTSE 100 EWFD had closed c.13 percentage points lower. • Tempo LKO1 would have increased the return it generates at each subsequent kick-out anniversary date, without the index condition needed to trigger kick-out increasing. • Tempo LKO1 would have generated 73.00% at year 10 even if the FTSE 100 EWFD had fallen by 10% from its start level. • Tempo LKO1 included a defined and significant level of protection from stock market risk that would have allowed the FTSE 100 EWFD to fall by 40% at the end date.

Table 7. Tempo Long Kick-Out Plan – August 2018 (Issue 2): Option 2 (*'LKO2'*); FTSE 100 EWFD; FTSE 100

The terms of Issue 2, LKO2 defined: if the FTSE 100 EWFD closed at or above 100% of the start level on this kick-out anniversary date, the plan would kick-out, generating a return of 6.85% for each year that the plan ran and repaying the initial investment.

	Start level (24.08.2018)	Year 3 level (24.08.2021)	3 year performance
Tempo Issue 2, LKO2	100	120.55	**20.55%**
FTSE 100 EWFD	1,042.10	1,073.75	**3.04%**
FTSE 100 (price return)*	7,577.49	7,125.78	**-5.96%**
Vanguard FTSE 100 Index Acc**	120.05	125.72	**4.72%**

Tempo LKO2 delivered 20.55% over 3 years compared to 4.72% for the FTSE 100 tracker: this can be seen as *'alpha by contract'* of 15.83%, which is equivalent to 5.02% p.a. The materially different – and arguably better – risk / return profile should also be recognised:
• Tempo LKO2 would have generated 20.55 % at year 3 even if the FTSE 100 EWFD had closed c.3 percentage points lower. • Tempo LKO2 would have increased the return it generates at each subsequent kick-out anniversary date, without the index condition needed to trigger kick-out increasing. • Tempo LKO2 would have generated 68.50% at year 10 even if the FTSE 100 EWFD had fallen by 35% from its start level. • Tempo LKO2 included a defined and significant level of protection from stock market risk that would have allowed the FTSE 100 EWFD to fall by 40% at the end date.

Source: Tempo Structured Products / Bloomberg. * Price return, excluding dividends. ** FT.com, NAV to NAV, gross dividends reinvested. Tempo LKO Plan counterparty: Société Générale.

Past performance is not a reliable indicator of or guide to future performance and should not be relied upon, particularly in isolation.

Table 8. Tempo Long Kick-Out Plan – August 2018 (Issue 2): Option 3 (*'LKO3'*); FTSE 100 EWFD; FTSE 100			
The terms of Issue 2, LKO3 defined: if the FTSE 100 EWFD closed at or above 100% of the start level on any kick-out anniversary date, the plan would kick-out, generating a return of 10.75% for each year that the plan ran and repaying the initial investment.			
	Start level (24.08.2018)	Year 3 level (24.08.2021)	3 year performance
Tempo Issue 2, LKO3	100	132.25	**32.25%**
FTSE 100 EWFD	1,042.10	1,073.75	**3.04%**
FTSE 100 (price return)*	7,577.49	7,125.78	**-5.96%**
Vanguard FTSE 100 Index Acc**	120.05	125.72	**4.72%**

Tempo LKO3 delivered 32.25% over 3 years compared to 4.72% for the FTSE 100 tracker: this can be seen as *'alpha by contract'* of 27.53%, which is equivalent to 8.44% p.a. The materially different – and arguably better – risk / return profile should also be recognised:
• Tempo LKO3 would have generated 32.25% at year 3 even if the FTSE 100 EWFD had closed c.3 percentage points lower. • Tempo LKO3 would have increased the return it generates at each subsequent kick-out anniversary date, without the index condition needed to trigger kick-out increasing.
• Tempo LKO3 would have generated 107.50% at year 10 even if the FTSE 100 EWFD had not risen from its start level. • Tempo LKO3 included a defined and significant level of protection from stock market risk that would have allowed the FTSE 100 EWFD to fall by 40% at the end date.

Table 9. Tempo Long Kick-Out Plan – October 2018 (Issue 3): Option 1 (*'LKO1'*); FTSE 100 EWFD; FTSE 100			
The terms of Issue 3, LKO1 defined: if the FTSE 100 EWFD closed at or above 90% of the start level on this kick-out anniversary date, the plan would kick-out, generating a return of 7.4% for each year that the plan ran and repaying the initial investment.			
	Start level (24.08.2018)	Year 3 level (24.08.2021)	3 year performance
Tempo Issue 3, LKO1	100	122.20	**22.20%**
FTSE 100 EWFD	929.79	1,061.63	**14.18%**
FTSE 100 (price return)*	6939.56	7,277.62	**4.87%**
Vanguard FTSE 100 Index Acc**	110.36	129.57	**17.41%**

Tempo LKO1 delivered 22.20% over 3 years compared to 17.41% for the FTSE 100 tracker: this can be seen as *'alpha by contract'* of 4.79%, which is equivalent to 1.57% p.a. The materially different – and arguably better – risk / return profile should also be recognised:
• Tempo LKO1 would have generated 22.20% at year 3 even if the FTSE 100 EWFD had closed c.24 percentage points lower. • Tempo LKO1 would have increased the return it generates at each subsequent kick-out anniversary date, without the index condition needed to trigger kick-out increasing.
• Tempo LKO1 would have generated 74.00% at year 10 even if the FTSE 100 EWFD had fallen by 10% from its start level. • Tempo LKO1 included a defined and significant level of protection from stock market risk that would have allowed the FTSE 100 EWFD to fall by 40% at the end date.

Table 10. Tempo Long Kick-Out Plan – October 2018 (Issue 3): Option 2 (*'LKO2'*); FTSE 100 EWFD; FTSE 100			
The terms of Issue 3, LKO2 defined: if the FTSE 100 EWFD closed at or above 100% of the start level on this kick-out anniversary date, the plan would kick-out, generating a return of 6.85% for each year that the plan ran and repaying the initial investment.			
	Start level (24.08.2018)	Year 3 level (24.08.2021)	3 year performance
Tempo Issue 3, LKO2	100	120.55	**20.55%**
FTSE 100 EWFD	929.79	1,061.63	**14.18%**
FTSE 100 (price return)*	6939.56	7,277.62	**4.87%**
Vanguard FTSE 100 Index Acc**	110.36	129.57	**17.41%**

Tempo LKO2 delivered 20.55% over 3 years compared to 17.41% for the FTSE 100 tracker: this can be seen as *'alpha by contract'* of 3.14%, which is equivalent to 1.04% p.a. The materially different – and arguably better – risk / return profile should also be recognised:
• Tempo LKO2 would have generated 20.55% at year 3 even if the FTSE 100 EWFD had closed c.14 percentage points lower. • Tempo LKO2 would have increased the return it generates at each subsequent kick-out anniversary date, with the index condition needed to trigger kick-out decreasing.
• Tempo LKO2 would have generated 68.50% at year 10 even if the FTSE 100 EWFD had fallen by 35% from its start level. • Tempo LKO2 included a defined and significant level of protection from stock market risk that would have allowed the FTSE 100 EWFD to fall by 40% at the end date.

Table 11. Tempo Long Kick-Out Plan – October 2018 (Issue 3): Option 3 (*'LKO3'*); FTSE 100 EWFD; FTSE 100			
The terms of Issue 3, LKO3 defined: if the FTSE 100 EWFD closed at or above 100% of the start level on any kick-out anniversary date, the plan would kick-out, generating a return of 11.10% for each year that the plan ran and repaying the initial investment.			
	Start level (24.08.2018)	Year 3 level (24.08.2021)	3 year performance
Tempo Issue 3, LKO3	100	133.30	**33.30%**
FTSE 100 EWFD	929.79	1,061.63	**14.18%**
FTSE 100 (price return)*	6939.56	7,277.62	**4.87%**
Vanguard FTSE 100 Index Acc**	110.36	129.57	**17.41%**

Tempo LKO3 delivered 33.30% over 3 years compared to 17.41% for the FTSE 100 tracker: this can be seen as *'alpha by contract'* of 15.89%, which is equivalent to 5.04% p.a. The materially different – and arguably better – risk / return profile should also be recognised:
• Tempo LKO3 would have generated 33.30% at year 3 even if the FTSE 100 EWFD had closed c.14 percentage points lower. • Tempo LKO3 would have increased the return it generates at each subsequent kick-out anniversary date, without the index condition needed to trigger kick-out increasing.
• Tempo LKO3 would have generated 111.00% at year 10 even if the FTSE 100 EWFD had not risen from its start level. • Tempo LKO3 included a defined and significant level of protection from stock market risk that would have allowed the FTSE 100 EWFD to fall by 40% at the end date.

Source: Tempo Structured Products / Bloomberg. * Price return, excluding dividends. ** FT.com, NAV to NAV, gross dividends reinvested. Tempo LKO Plan counterparty: Société Générale.

Past performance is not a reliable indicator of or guide to future performance and should not be relied upon, particularly in isolation.

Table 12. Tempo Long Kick-Out Plan – December 2018 (Issue 4): Option 1 *('LKO1')*; FTSE 100 EWFD; FTSE 100			
The terms of Issue 4, LKO1 defined: if the FTSE 100 EWFD closed at or above 90% of the start level on this kick-out anniversary date, the plan would kick-out, generating a return of 8.5% for each year that the plan ran and repaying the initial investment.			
	Start level (28.12.2018)	Year 3 level (29.12.2021)	3 year performance
Tempo Issue 4, LKO1	100	125.50	**25.50%**
FTSE 100 EWFD	895.37	1,076.15	**20.19%**
FTSE 100 (price return)*	6,733.97	7,420.69	**10.20%**
Vanguard FTSE 100 Index Acc**	107.70	132.67	**23.18%**

Tempo LKO1 delivered 25.50% over 3 years compared to 23.18% for the FTSE 100 tracker: this can be seen as *'alpha by contract'* of 2.32%, which is equivalent to 0.77% p.a. The materially different – and arguably better – risk / return profile should also be recognised:
• Tempo LKO1 would have generated 25.50% at year 3 even if the FTSE 100 EWFD had closed c.30 percentage points lower. • Tempo LKO1 would have increased the return it generates at each subsequent kick-out anniversary date, without the index condition needed to trigger kick-out increasing. • Tempo LKO1 would have generated 85.00% at year 10 even if the FTSE 100 EWFD had fallen by 10% from its start level. • Tempo LKO1 included a defined and significant level of protection from stock market risk that would have allowed the FTSE 100 EWFD to fall by 40% at the end date.

Table 13. Tempo Long Kick-Out Plan – December 2018 (Issue 4): Option 2 *('LKO2')*; FTSE 100 EWFD; FTSE 100			
The terms of Issue 4, LKO2 defined: if the FTSE 100 EWFD closed at or above 100% of the start level on this kick-out anniversary date, the plan would kick-out, generating a return of 7.75% for each year that the plan ran and repaying the initial investment.			
	Start level (28.12.2018)	Year 3 level (29.12.2021)	3 year performance
Tempo Issue 4, LKO2	100	123.25	**23.25%**
FTSE 100 EWFD	895.37	1,076.15	**20.19%**
FTSE 100 (price return)*	6,733.97	7,420.69	**10.20%**
Vanguard FTSE 100 Index Acc**	107.70	132.67	**23.18%**

Tempo LKO2 delivered 23.25% over 3 years compared to 23.18% for the FTSE 100 tracker: this can be seen as *'alpha by contract'* of 0.07%, which is equivalent to 0.023% p.a. The materially different – and arguably better – risk / return profile should also be recognised:
• Tempo LKO2 would have generated 23.25% at year 3 even if the FTSE 100 EWFD had closed c.20 percentage points lower. • Tempo LKO2 would have increased the return it generates at each subsequent kick-out anniversary date, with the index condition needed to trigger kick-out decreasing. • Tempo LKO2 would have generated 77.50% at year 10 even if the FTSE 100 EWFD had fallen by 35% from its start level. • Tempo LKO2 included a defined and significant level of protection from stock market risk that would have allowed the FTSE 100 EWFD to fall by 40% at the end date.

Table 14. Tempo Long Kick-Out Plan – December 2018 (Issue 4): Option 3 *('LKO3')*; FTSE 100 EWFD; FTSE 100			
The terms of Issue 4, LKO3 defined: if the FTSE 100 EWFD closed at or above 100% of the start level on any kick-out anniversary date, the plan would kick-out, generating a return of 12.75% for each year that the plan ran and repaying the initial investment.			
	Start level (28.12.2018)	Year 3 level (29.12.2021)	3 year performance
Tempo Issue 4, LKO3	100	138.25	**38.25%**
FTSE 100 EWFD	895.37	1,076.15	**20.19%**
FTSE 100 (price return)*	6,733.97	7,420.69	**10.20%**
Vanguard FTSE 100 Index Acc**	107.70	132.67	**23.18%**

Tempo LKO3 delivered 38.25% over 3 years compared to 23.18% for the FTSE 100 tracker: this can be seen as *'alpha by contract'* of 15.07%, which is equivalent to 4.79% p.a. The materially different – and arguably better – risk / return profile should also be recognised:
• Tempo LKO3 would have generated 38.25% at year 3 even if the FTSE 100 EWFD had closed c.20 percentage points lower. • Tempo LKO3 would have increased the return it generates at each subsequent kick-out anniversary date, without the index condition needed to trigger kick-out increasing. • Tempo LKO3 would have generated 127.50% at year 10 even if the FTSE 100 EWFD had not risen from its start level. • Tempo LKO3 included a defined and significant level of protection from stock market risk that would have allowed the FTSE 100 EWFD to fall by 40% at the end date.

Source: Tempo Structured Products / Bloomberg. * Price return, excluding dividends. ** FT.com, NAV to NAV, gross dividends reinvested. Tempo LKO Plan counterparty: Société Générale.

Past performance is not a reliable indicator of or guide to future performance and should not be relied upon, particularly in isolation.

10 out of 10! Tempo's first plan maturities all delivered *'alpha by contract'*

As tables 5 - 14 show, all ten of Tempo's first Long Kick-Out Plan maturities, across Issues 1, 2, 3 and 4 of our product suite, delivered *'alpha by contract'* outcomes for investors, with compelling risk / return profiles.

The *'alpha by contract'* ranged from 0.023% p.a. to 8.44% p.a. We would suggest that alpha at this level, delivered consistently, would be the making of an active fund manager: however, it is also important to remember the USPs of structured products and the materially different – and arguably better – risk / return profiles, vis-à-vis the tracker fund and / or other typical active or passive funds. The key points of difference are highlighted under each table.

While structured products will not always deliver *'alpha'*, the USPs that they offer are important – including the fact that they can evidently increase the likelihood of achieving the level of return that they generate – as explained in Section 10.

Our plan maturities add to the sector's evidence that structured products work, helping highlight the significant and important USPs of structured products and the specific merits of Tempo's plan design and approach.

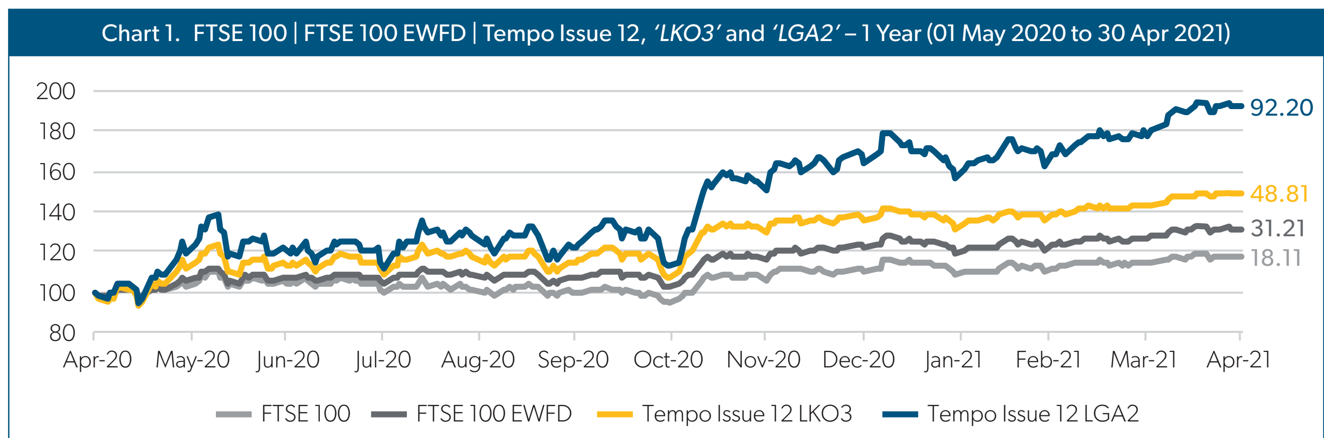
Examples of Tempo intra-term plan performance:
– further highlighting the general USPs of structured products and the specific merits of Tempo's plan design and approach
– and helping highlight that structured products can offer intra-term liquidity

Using examples from Issue 12 of our product suite (which was our closest launch to the Covid-driven stock market low of 23 March 2020, with its start date on 17 April 2020), a look at the terms and intra-term values of option 3 of the Tempo Long Kick-Out Plan *('LKO3')* and option 2 of the Tempo Long Growth Accelerator Plan *('LGA2')*, further highlights the general USPs of structured products and the specific merits of our plan design and approach - including providing examples of plans which benefitted from our unique Tempo pledge, *'Stated terms or better'*.

- Issue 12, LKO3 terms: if the FTSE 100 EWFD closes at or above the start level on any kick-out anniversary date, the plan will kick-out, generating 20.1% for each year the plan has run and repaying the initial investment.
- Issue 12, LGA2 terms: 1) if the FTSE 100 EWFD closes at or above 110% of its start level on the 5th anniversary (i.e., it rises by just 2% p.a.), the plan will kick-out generating 175% (equivalent to 35% p.a.) and repaying the initial investment; OR 2) if the FTSE 100 EWFD does not close at or above 110% of the start level on the 5th anniversary, on the 10th anniversary the plan will generate 10X the amount by which the FTSE 100 EWFD closes above 90% of the start level, with a maximum of 300% (equivalent to 30% p.a.), which will be achieved if the index is at or above 120% of the start level (i.e, if rises by just 2% p.a.).

Chart 1 highlights the intra-term performance (based on the bid prices / plan values – sometimes referred to as the *'secondary market'* prices) of Issue 12, LKO3 and LGA2, including comparisons to the benchmark indexes, the FTSE 100 and the FTSE 100 EWFD, over the first 12 months of the investment term, following the start date.

Chart 1. FTSE 100 | FTSE 100 EWFD | Tempo Issue 12, *'LKO3'* and *'LGA2'* – 1 Year (01 May 2020 to 30 Apr 2021)



Source: Tempo Structured Products / Bloomberg. * Price return, excluding dividends. ** FT.com, NAV to NAV, gross dividends reinvested. Tempo LKO Plan counterparty: Société Générale.

Past performance is not a reliable indicator of or guide to future performance and should not be relied upon, particularly in isolation.

As briefly mentioned in Section 4, helping highlight that structured products can offer intra-term liquidity, Tempo plans offer daily liquidity throughout the investment term - and investors in these plans could have accessed the bid prices / plan values highlighted by Chart 1 at any point, should they have wished to.

It should be noted that these examples use a period following the Covid-driven stock market low of 2020, which saw a very strong rise in the level of the stock market and plan values. Clearly, stock markets do not always perform so strongly as during this period - and intra-term plan values do not always rise so strongly.

The value of structured products during the investment term is affected by various factors, including the level of the stock market, which of course may fall as well as rise, and charges, which can cause intra-term plan values to be below the amount invested, particularly during the early part of the investment term.

Further, it should also be understood that while accessing an investment intra-term is usually possible, under normal market conditions, this is not guaranteed.

9. Consideration of the challenging (and potentially long term, low returns) investment environment for portfolio construction and diversification: – the implications for and potential limitations of *'alpha'* by active fund management and / or *'beta'* by passive fund management – the merits of *'alpha by contract'* through structured products

We are clearly living through a challenging time in the world currently, not least from an economic backdrop and investment outlook perspective. Many economists, investment managers and commentators think we could potentially now be in a long term, low returns investment environment.

Of course, nobody has a crystal ball, so nobody knows. But it's a possibility – a risk – that many respected commentators are drawing attention to, also highlighting the portfolio construction challenges it may present.

We certainly think that it is timely – and important – for professional advisers to at least consider the possibility and risk and potential implications of a *'lower and slower for (much?) longer'* environment. For example:

- What might a low returns environment mean and feel like? And what might the potential implications for *'alpha'* by active funds and / or *'beta'* by passive funds be?

To our minds, in thinking about the economic backdrop and investment outlook currently, it's helpful to remember where we were at pre Covid-19, as well as considering more recent events, including the ongoing Russia / Ukraine conflict and increasing concerns about rising inflation and weakening economic growth.

Broadly speaking, even where investors had generated strong returns across portfolios in the decade now behind us, following the global financial crisis, even before the outbreak of Covid-19 and certainly before the more recent events, many professional advisers were already starting to contemplate the possibility of lower returns in the decade ahead.

Touching briefly on the basic asset classes of cash, fixed income and equities:

- Returns on cash, i.e. interest rates, were close to the floor in the UK for many years, following the global financial crisis – and even looked like they might fall through the floor at times (with talk of negative interest rates). We have now seen rate rises in the UK, and elsewhere in 2022, and more are expected, in response to concerns about inflation – but with much debate about inflationary pressures versus weak underlying economic growth, the risk of stagflation and what central bank policy should be;
- Returns / yields on fixed income, after a 30+ year bull market, including more than a decade of ultra-low interest rates and unprecedented global monetary policy / bond buying programmes, were such that this asset class was sometimes, over recent years, succinctly (albeit too simplistically) summed up as presenting *'return free risk'*, i.e., very low (or even negative) yields, with clear risks to capital (rising bond yields clearly come with falls in bond prices) and potentially less portfolio diversification benefits to balance equities (hence the increasing focus on and questions about traditional 60:40 equity / bond portfolios). 2022 has shown this view and concern to be valid, with dramatic falls in bond prices / values and rises in yields – although, notably, the moves seen in 2022 have a bearing on views regarding bonds, from this point;
- Strong returns on equities and equity market levels, including pre, through and post Covid-lockdowns (particularly in the US equity market), and despite recent events and market falls in 2022, mean that some commentators have observed that equity markets could be considered to be at least fairly valued, if not fully valued, or potentially overvalued, on a historical basis, at this point, given ongoing macro-economic concerns.

It's difficult to see how Covid-19 and more recent events, including the ongoing Russia / Ukraine conflict, and concerns about inflation and economic growth, don't compound what were already *'lower and slower for longer'* expectations.

Many investment professionals think the global bond market provides a good indicator of future investment returns expectations… and the bond market (in particular, the *'long end'* of the bond market, which at various points has been *'flat'* and / or *'inverted')* has been signalling a *'lower and slower for longer'* environment, in terms of weak economic growth expectations and, as a result, low equity returns expectations, for some time now.

In September 2021, Vanguard's global chief economist published a paper about why market forecasts matter to long-term investors, in which Vanguard set out its expectations / forecasts for markets, including a median forecast for 60:40 U.S. equity / bond portfolios of 3.8%, for the decade ahead.

More recently (January 2022), the head of the Norwegian sovereign wealth fund (at $1.3 trillion, the world's largest investment fund) warned that investors face years of low returns.

While it's true that forecasts are rarely, if ever, reliable, our basic view is that it was relatively easy for many investors to make and enjoy strong returns across their portfolios in the decade following the global financial crisis – but it looks like it may be more difficult to achieve the same level of returns in the decade ahead.

We also note that while many equity fund managers appear to be reasonably sanguine and optimistic, many bond fund managers appear to be more concerned and pessimistic – with many fixed income investors evidently prepared to invest in extremely low yielding bonds, for many years ahead. It should also be noted that even the more bullish equity fund managers aren't overly exuberant in their expectations.

We don't profess to have any better idea of the future than anyone. We are simply suggesting that professional advisers should be thinking about the possibility / risk of a long term, low returns environment – and the potential implications of such an environment for portfolio construction and diversification.

Even if equity market returns are in the region that equity fund managers are pointing to, the level of returns achievable through active and passive funds simply may not meet the interests and needs of some investors.

But if equity market returns are in the region that bond markets appear to be indicating, then this is even less likely.

Structured products interfere with the binary active / passive debate

Active fund managers will, of course, always do all that they can to deliver the stated aims and objectives of their funds… but their *'alpha'* aims are often little more than the market return plus 1-3% p.a., net of charges and costs.

And, of course, active fund managers don't provide legal, contractual obligations which investors can rely upon.

In addition to the pivotal academic points about the efficient market hypothesis, there are three important real world points regarding seeking alpha by active fund management at the heart of the active / passive debate:

- It is considered extremely difficult – if not impossible – to reliably identify the future sources of active fund management alpha in advance;
- Where tomorrow's sources of active fund management alpha are accessed, these are only rarely reliable / consistently replicable, over the long term; and
- Alpha by active fund management is generally expensive to access, which is a particular concern in a low returns environment.

The arguments for investing in passive index funds are increasingly widely accepted by many professional advisers and investors around the world, either in part (through a core and satellite approach to portfolio construction, that includes both active and passive funds) or in full (at the exclusion of any active funds from portfolios).

Of course, passive funds do not try to beat the market: they simply deliver the *'beta'* return of the market, less a fraction for tracking error and costs.

A specific concern at this point is how the swathe of investors whose portfolios may contain little or nothing else but passive funds may fare in a long term, low returns environment? We see this as a significant risk to consider.

But the key point we want to make is that regardless of whether professional advisers believe in the quest for alpha by active fund management, or content themselves and their clients with the beta of the market, surely we can all agree that everybody would like returns in excess of the market's beta, if alpha could be accessed in ways which counter the fundamental challenges of accessing it through active fund management.

Basically, everybody would like some alpha – but not everybody believes active management is good at providing it.

And this is where structured products can come in: structured products offer the potential for – and evidently can deliver – *'alpha by contract'*, in ways and with risk / return profiles that neither active nor passive funds offer or deliver.

Tempo's first plan maturities have all delivered market beta-beating returns for investors, through the legally binding contractual terms of bonds issued by a major G-SIB investment bank – in other words, *'alpha by contract'*:

- The plans linked to the stock market passively, through a price return index;
- The terms of the plans were defined in advance, including: the conditions for generating returns and the potential level of those returns; and the types and levels of risks to returns and / or capital, etc;
- The plans were not dependent on a fund management process and the skill (or lack of skill) of a fund manager;
- The implicit charges within the plans were disclosed and were low – and, notably, no explicit charges impacted on investor's capital or the level of returns generated by the plans;

Of course, again, we highlight that the risks and limitations of structured products also need to be understood:

- The counterparty risk which structured products present must be understood and accepted: both the potential returns of a structured product and the repayment of money invested usually depend on the financial stability of the issuer and counterparty bank throughout the investment term;
- The level of return a structured product generates may be more or less than the level of return generated through direct investment in the stock market or via active or passive funds;
- The terms of structured products can predefine what can be expected at maturity and at certain other dates, such as potential *'kick-out'* and early maturity dates: but these terms do not apply during the investment term;
- The value of structured products during the investment may be affected by various factors: while accessing an investment is usually possible, during normal market conditions, this is not guaranteed.

It should be clear that structured products can intervene in the active / passive debate, offering – and evidently able to deliver – *'alpha by contract',* in ways and with risk / return profiles that neither active nor passive funds offer or deliver, presenting compelling alternatives and / or complements to alpha by active fund management and / or beta by passive fund management as portfolio options for investors.

Professional advisers who simply advise their clients that *'the market is the market'* and *'there's nothing that can be done about a potentially low returns environment'*, other than to *'believe in capital markets, adjust time horizons, be patient and be diversified'*, don't address the issues or offer any potential solutions for such an environment. Most pertinently, however, the fact is that there are things that can be done about the possibility / risk of a challenging and potentially long-term, low return investment environment.

'Diversification is the only free lunch'

As Harry Markowitz, the *'father of modern portfolio theory'*, put it, *'Diversification is the only free lunch'*.

Modern portfolio theory examines how investors can construct portfolios, focusing on portfolio diversification, to optimise risk / return profiles. Clearly, portfolio construction and diversification thinking is always of paramount importance, but arguably more so currently than usual, in this challenging investment environment.

A core assertion of this paper is that optimal portfolio construction thinking needs to involve diversification beyond just a binary choice of active and / or passive funds, asset class and geography. Simply put, if professional advisers are limiting their portfolio construction thinking in this way then they may be limiting their client's portfolio diversification.

Portfolio diversification needs to include different *'types'* of investments: different investment options, that will perform differently, for different reasons, at different times. Cue including structured products in portfolios.

We think professional advisers should be carefully considering portfolio construction and diversification options for clients at this time… and, in doing so, they should be recognising and considering the significant and important USPs of structured products, which could add material value in diversified portfolios in the years ahead.

The long term, granular, comprehensive and incontrovertible facts regarding the performance of matured UK structured products, and examples of plans such as Tempo's, highlight the USPs of structured products, including their ability to generate positive returns without requiring the stock market to rise, or even if it falls – in ways that neither active nor passive funds offer: in other words structured products can and do perform differently, for different reasons, at different times to both active and passive mutual funds.

The fact is that the facts regarding the performance of matured UK retail structured products evidence the efficacy of structured products and the potential merits of including structured products in diversified portfolios.

10. Increasing the likelihood of achieving a viable level of positive return, in the region of 6-12% p.a., for clients in the foreseeable years ahead: – including structured products as alternatives and / or complements to active and / or passive funds in diversified portfolios

As this paper explains, structured products can be designed to generate levels of return in the region of 6-12% p.a. (or less, or more, depending on the type of product and the risk / return profile wanted), without requiring the stock market to rise, with many products also allowing the stock market to fall – while including a defined and significant level of protection from stock market risk at maturity:

- The long term, granular, comprehensive and incontrovertible facts regarding the performance of matured UK retail structured products evidence that structured products can reasonably be viewed as having increased the likelihood of achieving a level of returns in the region of c.6-12% p.a., compared to other investment options;

  Active and passive funds would typically require the stock market to rise materially, potentially by c.6-12% p.a., or close, in order to generate this level of return, albeit benefitting from and inclusive of dividends.

Given the challenging investment outlook currently, we would suggest that 6-12% p.a. may be a level of return that many investors would be happy to target in the years ahead – and to increase the likelihood of achieving:

- Notably, a 7.18% annualised / compound return will double an investment over 10 years;

  Active and passive funds, while benefitting from dividends, would typically require the stock market to rise materially over 10 years in order to generate a c.100% return for investors;

  However, many structured products are designed so that they can generate a c.100% return over 10 years even if the stock market doesn't rise from its starting level over 10 years – with many structured products also offering options which allow it to fall.

Importantly, the case for structured products does not hinge only on a long term, low returns environment: however, if this is the environment that we're now in the USPs of structured products may be particularly pertinent.

In fact, we would suggest – and we think that this paper explains why and helps evidence – that it may be difficult for professional advisers to identify investment options which can reasonably be considered more likely to generate viable levels of potential return, in the region of 6-12% p.a., in low to medium return, no return and / or moderately falling market environments, than structured products.

For balance, we would also draw attention to other potential future market scenarios:

- Should the foreseeable years ahead present a very strong, long term bull market, it should be recognised that the fixed potential returns of many types of structured product, including kick-out products, may mean that the level of return generated by these products is less than the level of return that could be achieved through direct investment in the stock market or via active or passive funds.
- Alternatively, should the foreseeable years ahead present a very bad, long term bear market, it should be recognised that even the defined and significant levels of protection from stock market risk at maturity that is provided by structured products could be breached, resulting in capital losses for investors.

  In both instances, it should also be recognised and understood that structured products typically link to price return indexes, excluding dividends. While dividends that companies may pay are not guaranteed, they can be an important part of the total return that investors in the stock market or active and passive funds investing in these companies may benefit from. Dividends may increase stock market returns in a rising market and provide some return in a falling market, which can offset some capital losses.

The significant and important USPs of structured products can clearly help optimise portfolio diversification.

But the USPs of structured products need to be better understood and the facts which evidence the efficacy of structured products and the potential merits of including structured products in diversified portfolios need to be more widely recognised and accepted by a wider audience of professional advisers… including advisers / planners who consider themselves to be *'evidence based'*.

11. The challenge of deeply entrenched views and opinions: – the possibility of cognitive biases amongst some professional advisers, which may need to be addressed

As John Maynard Keynes is attributed with saying, *'When the facts change, I change my mind. What do you do?'*

This paper explains and evidences that the way the UK retail structured products sector operates today and the facts regarding UK retail structured products have changed – which should be beyond dispute.

This paper also explains and evidences that structured products offer significant and important USPs, with attractive risk/return profiles that neither active nor passive funds offer, with incontrovertible and compelling evidence of their efficacy.

This paper also suggests that portfolio construction and diversification thinking is of paramount importance, arguably more so currently than usual, given the challenging investment environment – with many professional advisers and investors currently feeling like they are *'caught between rocks and hard places'*, in the search for investments which they think will deliver viable returns in the years ahead, with attractive risk/return profiles.

However, it's clear that many independent professional advisers, including some advisers/planners who describe themselves as *'evidence based'*, are not even considering including structured products in their client's portfolios.

Of course there may be some specific, sensible and legitimate reasons for this, but there are also many instances where it is apparent that it is due to a lack of working knowledge and understanding of structured products and their USPs and/or a lack of awareness of – or, worse, simply ignoring – the facts that evidence the efficacy of structured products and the potential merits of including structured products in diversified portfolios.

Notably, it's also clear that some professional advisers who ignore structured products are doing so because they are misguidedly subscribing to and/or influenced by *'popular delusions'*; (i.e., the misconceptions and reverberating myths) and the *'madness of crowds'*: on this *'Mackay'* point, we note that some professional advisers who are not using structured products seem to take comfort from the crowd, i.e. from other professional advisers they know holding the same views. There might be safety in numbers – but being surrounded by fellow professionals who share and help perpetuate misguided views doesn't make those views valid.

Independent professional advisers who are not using structured products need to reflect on why they are not…

We suggest that independent professional advisers who are not using structured products need to reflect on why they are not – and consider the case for structured products carefully and objectively.

Notwithstanding past industry events and the risks and limitations of structured products, that we have clearly referenced in this paper, we're basically baffled by professional advisers, including *'evidence based'* advisers/planners, who understand the academia behind, the principles of and the rationale for passive investing, not recognising the principles of, rationale for and merits of structured products – which link to indexes but can evidently increase the likelihood of positive returns being generated and decrease the likelihood of losses being experienced, by legally binding contract, in ways that passive funds do not.

As we said at the beginning of this paper, notwithstanding the need to fully understand structured products, including their risks and limitations:

- What professional adviser wouldn't want to increase the likelihood of positive returns and decrease the likelihood of losses for their clients? Surely all professional advisers would.
- And what professional adviser wouldn't want to access *'alpha by contract'*, if they could? Surely all professional advisers would: including those advisers/planners who describe themselves *as 'evidence based'*, who educate their clients to accept the beta of the market, via passive funds, because of the recognised challenges of accessing alpha by active fund management which academia identifies.

  It is thought-provoking to recognise and consider that structured products can evidently be seen as intervening in the active/passive debate – and that the debate should not be limited to a convenient binary consideration of just *'alpha'* by active fund management and *'beta'* by passive fund management: yet many professional advisers, including *'evidence based'* advisers/planners, appear to be doing this.

We also want to draw attention to an important point that we think some professional advisers may need to think about, which is the belief, often connected to the beliefs associated with passive investing, that professional advisers should not try to form or express views regarding the potential future level of returns from stock markets.

While we understand the thinking behind such a philosophical stance – basically, nobody has a crystal ball and we acknowledge in this paper that forecasts regarding future returns from stock markets are rarely, if ever, reliable – we do suggest that thinking about the stock market environment, the possible level of future returns and portfolio construction is prudent and sensible, in order for professional advisers to try to optimise portfolio diversification, so that portfolios are positioned to fare as well as possible for clients in various future environments and scenarios.

Further, in drawing attention to this important point generally, we would also raise a flag that we think professional advisers who do not use structured products may need to take a step back to consider more specifically:

- Professional advisers who remain unpersuaded by the USPs and proven efficacy of structured products, particularly in respect of their USPs within low return environments, must effectively / implicitly be making a call with regard to the future level of stock markets, despite many potentially not believing in doing so;

  It follows that professional advisers who are not including structured products in portfolios, despite their USPs, proven efficacy and potential merits in low return environments, must expect the future level of stock markets to rise sufficiently so that the level of return from active and / or passive funds will be higher than the level of return that structured products evidently increase the likelihood of achieving, i.e. 6-12% p.a.

Apart from drawing attention to the general point of professional advisers who may philosophically not believe in making calls about the future level of the stock market effectively / implicitly doing so, we would also highlight that expecting the future level of stock market rises and returns from active and / or passive funds to be at the higher end of the 6-12% p.a. range is quite a bullish expectation – particularly so currently, when so many respected economists, investment managers and commentators think that we may now be in a low returns environment.

The possibility of cognitive biases amongst some professional advisers

Given all the points that this paper sets out, including the USPs of structured products, the evidence of the efficacy of structured products and the potential merits of including structured products in portfolios, we think that it is time to suggest that professional advisers who are not engaging in meaningful research and dialogue with the structured products sector and considering and using structured products, when appropriate and suitable to do so, may need to objectively consider if any cognitive biases may need to be addressed.

Cognitive bias refers to ways in which the human brain frames and effectively simplifies information to influence and expedite judgment and decision-making.

There are many types of cognitive biases that have been identified by researchers, in a wide range of areas including social behaviour, business and finance and behavioural economics. For example:

- *'Anchoring bias'* refers to the tendency of individuals relying heavily on the first information that they have, on which views are initially founded, developed and held.
- *'Confirmation bias'* refers to the tendency of individuals favouring information that reinforces pre-existing beliefs, while avoiding and / or rebutting evidence that might challenge those beliefs.

Many professional advisers discuss behavioural economics, including cognitive biases, in conversations with clients, drawing attention to the importance of clients making informed, educated, objective decisions when investing.

But are professional advisers, including *'evidence based'* advisers / planners, who are not using structured products, as open to the facts that evidence the merits and efficacy of structured products as they could be and should be… or might there be some cognitive biases at play, that are resulting in steadfast beliefs being maintained, even in the face of compelling evidence and increasingly clear need for viable and attractive portfolio options and solutions for clients?

To be honest, we are concerned that the irony of this white paper is that the professional advisers who may most need to read it may be the professional advisers who are least likely to do so.

We hope that this will not prove to be the case – but it is clear that some professional advisers have literally and metaphorically pressed *'unsubscribe'* on the structured products sector many years ago, based on entrenched views of past industry events, issues and products…

12. Conclusions

This white paper aims to cogently articulate why independent professional advisers who are not currently using structured products – including advisers / planners who consider themselves to be *'evidence based'* – should take a fresh and objective look at structured products today, based on: facts and evidence; sensible consideration of portfolio construction, how to optimise portfolio diversification and client needs and interests; best of breed plan managers and products; and best practice, client-centric governance and compliance.

This paper asserts that independent professional advisers – including advisers / planners who consider themselves to be *'evidence based'* – may do their clients a disservice if they do not:

- Understand the significant and important USPs of structured products;
- Acknowledge the advances made by the UK retail structured products sector over the past 10+ years;
- Recognise the facts which evidence the efficacy of structured products and the potential merits of including structured products in diversified portfolios; and
- Objectively consider and use structured products, when it is appropriate and suitable to do so.

A materially changed and advanced sector today

It should be clear to professional advisers that the UK retail structured products sector has materially changed and positively advanced over the last 10-12+ years, including:

- The way that issuers / counterparty banks and plan managers operate, develop and distribute their products; and
- The way that professional advisers research, select and advise on structured products with their clients.

It's also the case that the banking sector has been transformed since the global financial crisis, as a result of far-reaching regulations and material changes to strengthen the banking sector over the years.

The significant and important USPs of structured products

It should be clear to professional advisers that structured products offer significant and important USPs:

- Structured products can generate positive returns without requiring the stock market to rise, or even if it falls;
- Structured products can include defined and significant levels of protection from stock market risk at maturity;
- Structured products are based on legally binding contracts, offering – and evidently able to deliver – *'alpha by contract'*, in ways and with risk / return profiles that neither active nor passive funds offer.

In other words, structured products can increase the likelihood of positive returns being generated and decrease the likelihood of losses being experienced in client portfolios.

Unlike actively managed mutual funds, structured products are not dependent on a fund management process and the skill (or lack of skill) of a fund manager. With a structured product, if the counterparty bank is solvent at maturity, they are legally obligated to deliver the terms of the bonds that they issued, which the structured product is based upon.

Of course, as we have said throughout this paper, in addition to understanding the USPs of structured products, professional advisers also need to understand their risks and limitations:

- Structured products present counterparty risk, which needs to be understood and accepted: both the potential returns of a structured product and the repayment of money invested usually depend on the financial stability of the issuer and counterparty bank throughout the investment term;
- The level of return a structured product generates may be capped and / or less than the level of return generated by direct investment in the stock market or via active or passive funds;
- The terms of structured products can predefine what can be expected at maturity and at certain other dates, such as potential *'kick-out'* and early maturity dates: but these terms do not apply during the investment term;
- The value of structured products during the investment term may be affected by various factors: while accessing an investment is usually possible, during normal market conditions, this is not guaranteed.

The facts which irrefutably evidence that structured products work

Professional advisers need to recognise and acknowledge the long term, granular, comprehensive and incontrovertible facts regarding the performance of matured UK retail structured products, which irrefutably: 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 portfolio construction need to consider structured products

We are undoubtedly in a challenging – and potentially long term, low returns – investment environment, which presents significant portfolio construction and diversification challenges for professional advisers and investors.

Importantly, the case for structured products does not hinge only on a long term, low returns environment: however, if this is the environment that we're now in the USPs of structured products may be particularly pertinent:

- We suggest – and we think that this paper explains why and helps evidence – that it may be difficult for professional advisers to identify investment options that can reasonably be considered more likely to generate viable levels of positive return, in the region of 6-12% p.a., for investors, in low to medium return, no return and / or moderately falling market environments, than structured products.

A core assertion of this paper is that structured products can intervene in the active / passive debate:

- Structured products offer the potential for – and evidently can deliver – *'alpha by contract'*, in ways and with risk / return profiles that neither active nor passive funds offer, that could add material value in diversifying client portfolios;

  This may present an inconvenient truth for those professional advisers who limit this debate to a convenient binary consideration of just *'alpha'* by active fund management and *'beta'* by passive fund management: however, as this paper explains and evidences, the debate and considerations are not and should not be binary.

A related assertion of this paper is that optimal portfolio construction thinking needs to involve consideration of diversification beyond just a binary choice of active and / or passive funds, asset class and geography.

- Simply put, if professional advisers are limiting their thinking in this way, then they may be limiting their client's portfolio diversification;

  Portfolio diversification needs to include different types of investment, which can do different things, in different ways, for different reasons, at different times: cue including structured products in portfolios.

The significant and important USPs of structured products can clearly help optimise portfolio diversification.

Cognitive biases that may need to be considered and addressed

Structured products should be more widely considered and potentially utilised, when appropriate and suitable to do so, by independent professional advisers. Indeed this is a regulatory requirement and expectation.

However, some independent professional advisers who are not currently considering and / or using structured products, including advisers / planners who describe themselves as *'evidence based'*, may need to reflect on why they are not, including objectively considering whether any entrenched views and cognitive biases may be interfering with considering structured products when it could be suitable and appropriate to do so.

The USPs of structured products, the evidence of the efficacy of structured products and the potential merits of including structured products in diversified portfolios need to be more widely recognised by a wider audience of professional advisers… including advisers / planners who consider themselves to be *'evidence based'*.

Redefining structured products: find out more

If you would like to discuss any aspect of this white paper or find out more about structured products, including the support we provide to professional adviser firms to help advance working knowledge and understanding of structured products and client-centric, best practice use of best of breed structured products, please let us know.

About Tempo Structured Products

Tempo was established over the course of 2016-2018, by a highly experienced team, that includes individuals who helped create the structured products sector in the mid-1990s (and who have always been on *'the right side of the street'*, in terms of the past industry events), with patient and substantial investment of time, resources and capital by the Alpha Real Capital family of companies.

Our aim at Tempo is to ***'redefine structured products'*** for professional advisers and their clients. Our approach to this is straightforward, focusing on ***'doing the right things – and doing simple well'***.

We have tried to think through, establish and support a more rigorous, tighter, better – and safer – approach to structured products. This includes: a client-centric, best practice approach to governance and compliance, putting investors first; a bar-raising level and calibre of collateral materials, input and support for professional advisers; and a commitment to ***'deliberately defensive'*** products.

- First and foremost, **we aim to put investors first.** If we and the professional advisers who use our products together do a good job for investors then everybody (investors, advisers, ourselves, counterparties, etc.) is in a good place.

  With this in mind, critically, we aim to design fundamentally good investments: which our governance policies and procedures, specifically including our product governance process, are designed to help ensure.

  Importantly, as with all forms of investment there are risks involved but we are as clear about the potential risks as we are about the potential returns of our products, for both investors and professional advisers, and we have sought to explain everything using plain English which everyone should be able to understand.

- Second, we have worked exceptionally hard on providing **a bar-raising level and calibre of materials, input and support for professional advisers** using structured products with their clients.

  Our aim is to help strengthen professional adviser understanding and working knowledge of structured products, including portfolio construction considerations and regulatory requirements and expectations.

  Our approach to client-centric, best practice governance and compliance is designed to help professional advisers strengthen what they do, including their initial and ongoing plan manager due diligence, their product research, and how they document the advice they give to their clients.

  Our aim is to present a high calibre structured product provider, a carefully considered approach to structured products and a level of support and service which professional advisers and their clients can be genuinely confident in: our entire emphasis is on working closely with professional advisers to advance and enhance the value that can be gained from client-centric, best practice use of best of breed structured products.

'Tempo: Ticking the boxes' highlights what we are doing differently, all of which is explained in more detail in the materials we provide to professional advisers as part of a due diligence process. This includes:

- *'Alpha Overview'*
- *'Tempo Overview'*
- *'Product Governance Overview'*

We also provide the following inputs, including links to our cpd-accredited video webinar recordings:

- ***'SPs: Need; Evidence; & USPs'*** **presentation**
- ***'FTSE 100 EWFD: Introduction and overview'*** **presentation**
- ***'TICS'*** **workshop presentation**

If you would like to receive any of these materials or presentations or access our series of video webinars to find out more about our approach and everything we are doing to raise the structured products bar and support professional advisers, or if you would like to discuss any aspect of structured products, please let us know.

We welcome the opportunity to engage positively and constructively with professional adviser firms:

'Live' video webinars for professional advisers

*"Time to **rethink** what you think you know about structured products"*

Live dates: 28 September 2022; 30 November 2022; 22 February 2023; and 26 April 2023

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

› The significant and important *'USPs'* of structured products – including the *'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).

› 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 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? And 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 possibility of cognitive biases that may need to be addressed:

The video webinar will also consider how the views of professional advisers may have developed over the years – and suggest that professional advisers who are not currently using structured products may need to reflect on why they are not, including objectively considering if any longstanding and potentially outdated views, including any cognitive biases, may need to be addressed.

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
Visit our website: www.tempo-sp.com

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Important information

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This paper and all information herein are provided *'as is'*, *'as available'* and no representation or warranty of any kind, express, implied or statutory, is made regarding any statement or information herein or in conjunction with this paper. Any opinions, market prices, estimates, forward looking statements, hypothetical statements, forecast returns or other opinions leading to financial conclusions herein reflect our subjective judgment as of the date of this paper. Any forward looking information has been prepared on a number of assumptions which may prove to be incorrect and, accordingly, actual results may vary.

Structured products are not suitable for everyone - in addition to understanding the USPs of structured products, professional advisers also need to understand their risks and limitations:

● Structured products present counterparty risk, which needs to be understood and accepted: both the potential returns of a structured product and the repayment of money invested in a structured product usually depend on the financial stability of the issuer and counterparty throughout the investment term ● The level of return a structured product generates may be capped and/or less than the level of return generated by direct investment in the stock market or via active or passive funds ● The terms of structured products can predefine what can be expected at maturity and at certain other dates, such as potential *'kick-out'* and early maturity dates: but these terms do not apply during the investment term ● The value of structured products during the investment term may be affected by various factors: while accessing an investment is usually possible, during normal market conditions, this is not guaranteed ● Past performance is not a reliable indicator of or guide to future performance and should not be relied upon, particularly in isolation: the value of investments and the income from them can go down as well as up ● Capital is at risk and investors could lose some or all of their capital ●

The *'Important risks'* section of our website highlights the key and other risks of structured products, in addition to explaining important information for professional advisers who may use our structured product plans with clients:

www.tempo-sp.com/home/important-risks

Professional advisers should not invest in, or advise their clients to invest in, any investment product unless they and their clients understand them, in particular the relevant risks. By accepting this paper you will be taken to have represented, warranted and undertaken that: i) you are a professional adviser; ii) that you have read, agree to and will comply with the contents of this notice; iii) you will conduct your own analysis or other verification of the data set out in this paper and will bear the responsibility for all or any costs incurred in doing so; and iv) that you are not accessing and accepting this paper from any jurisdiction other than the United Kingdom, in compliance with all laws and regulations applicable to such access and acceptance.

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