Hot off the press! The following article focussed on our two income plans – the Long Income Plan and the Long Income Builder Plan.

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Time to look again at structured products and income options

I haven't written about structured products for quite some time. Which is a pity because by and large most IFA distributed products have been delivering solid returns. Amongst others, Ian Lowes up in Newcastle has been keeping track of returns from structured products and his latest note came out in February. It revealed that structured products have produced an average annualised return of 7.03% across all products maturing in 2017. Here's the blurb from the time – their website is at www.lowes.co.uk ………

Lowes Financial Management produces the Structured Products Annual Performance Review every January, providing a comprehensive and thorough analysis of all plans, distributed via UK financial advisers, which matured during the previous year.

Of the 658 products maturing in 2017 the average annualised return was 7.03%, over an average term of 3.65 years. 94% of maturing products produced positive results for investors. The upper quartile delivered an annualised average of 10.88% and the lower quartile 2.67%. This was across all product types, deposit-based, capital 'protected' and capital-at-risk plans. The average return for products maturing in 2016 was 5.48%.

My only small caution is that these decent results have been accompanied by a certain homogeneity of product. What I mean by this is that the classic autocall or kick out product has dominated most advisers buy lists. These annual rolling plans have their enormous virtues, especially in sideways moving markets, but they can't really address a much wider potential market.

Many investors, for instance, are focused on income and although autocalls can in effect be used as income vehicles, they aren't specifically designed to produce a contractual income every year. Many of these autocalls will kick out after a year but there's a decent chance that some will roll on to additional years, thus depriving the income investor of their yearly contractual return.

There have been a few products with a more income based focus but in reality, they've tended to look and feel a bit like an autocall with a few bells and whistles on. By contrast, what we really need to broaden out the market for structured products especially to income based investors is a more thoroughly income-focused product.

The good news is that over the last few weeks we've had the first of these products in the shape of the Tempo Structured Products Long Income plan. Here's the basic outline of the product:

1. Linked to FTSE 100 index
2. Income return of 4.8% per annum, if the index is above 60% of start level (strike date is 22 June)
3. 10 year maximum term: early maturity between years 5 and 10 if the index is at or above 125% of start level.
4. Capital not at risk if the index is at or above 60% of start level, only observed at the end of the ten year term
5. Counterparty is Morgan Stanley.

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There's also another version of this Long Income Plan called the Builder which starts at 4.40% but increases by 0.25% every year as long as the index is above 80% of start level. While the 80% index condition for the income is higher than for the Long Income Plan so is the increasing income, which increases to 6.65% by year 10 – and the plan includes a very innovative 'memory feature', which means that any missed coupons can be recovered at subsequent income dates.

Stepping back from the detail, I think the basic Long Income plan is fairly radical. It's not a complete replacement for a fixed income hedge against equities as you'll be putting capital at risk if the FTSE falls by more than 40% (to say around 4500). But that barrier is observed over ten years and I think the chances of a sustained collapse in the equity markets and then a subsequent Ice Age for ten years is low (though not impossible). Corporate bond funds would also be badly hit in this scenario and frankly, the only real safety would be in ten year government bonds and I suppose gold.

So, this isn't an investment idea for the deeply cautious but for most everyone else the Long Only Option of 4.8% per annum looks quite attractive. It could sit nicely inside the fixed income portion of a portfolio alongside govies but replacing corporate bond funds and high yield credit. Income investors can of course access other fund structures that do pay out more than 4.8% but I'd wager that the risk levels are much higher – although I suppose liquidity might be much better. Morgan Stanley isn't the lowest risk counterparty but I suspect the big American banks are a much lower risk than some European and EM counter parties. Overall though I think is exactly the kind of innovation we need in the market – let's hope the competition comes up with some rival products.