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

Publication: The Adventurous Investor
Journalist: David Stevenson
Date: 27 June 2018
URL: www.adventurousinvestor.com

Structured Products Redux… a proper income alternative

A couple of weeks back I suggested that readers take a closer look at the structured products space where some much-needed innovation is beginning to result in some really rather compelling new products.

Outfits such as Tempo Structured Products are beginning to open up this market to new ideas and a strong emphasis on education for advisers. This coincides nicely with data from the likes of Ian Lowes up in Newcastle which suggests that the track record of most structured products is actually fairly impressive.

My first blog picked up on a new structured product from Tempo which I think looked very attractive for income-hungry investors – of which there are a great many!

Here's the original blog post – http://wp.me/p8TAkm-c2. I've also pasted back in the product summary from that article at the beginning of June, looking at the Long Income Plan:

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.

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.

At the time I thought this looked very interesting but I've just heard that a new set of products have been released by Tempo today which improve the returns.

The Long Income Plan now pays an annual income of ***5.25% (0.45% higher than the first issue!)*** if the FTSE 100 is at or above 60% of the start level on the annual income dates, with the potential for early maturity from year 5, if the FTSE 100 is at or above 125% of start level on any annual income date.

As for the Long Income Builder Plan: this now pays an annual income of ***4.95% (0.55% p.a. higher than the first issue),*** if the FTSE 100 is at or above 80% of the start level on the annual income dates, with the income payment increasing by 0.25% each year, to 7.2% in year 10. Investors in this plan also benefit from a memory feature.

… continued

… continued

In compound terms, assuming the Long Income Plan continues for the full 10 year term, the maximum total income paid over that term would be 52.50% (versus 48.00% for the first launch). For the Long Income Builder product, the maximum total income paid over the term would be 60.75% (versus 55.25% for the first launch).

All the usual cautions apply – especially around the income condition level, which is at 80% of the FTSE for the LIB. But that plan does have the memory feature. In practical terms this means that as long as investors think that it is likely that the FTSE 100 will be above 80% of today's level in a decade then the plan will pay every coupon, rising from 4.95% to 7.2%. And repayment of capital is based on a 60% barrier only assessed in a decade, for both plans.

My own sense is that a 5.25% income return on the basic LIP is attractive, especially in a world where NS&I has started limited access to their most popular GIB and GEB products. Interest rates will, of course, rise and we could see some sensible corporate bonds pay out as much as 4% at some point but I also think by that time we'll be in a recession and interest rates will come straight back down again – dragging down bond yields. So, in these circumstances, a 5.25% return over the next decade looks very attractive. And the early maturity feature mitigates the risk of being locked in to a plan if the market environment does change and higher rates might then be available. Notably, Tempo also offers daily liquidity, in other worlds, access, on its plan throughout their life too.