TEMPO STRUCTURED PRODUCTS

AN ALPHA REAL CAPITAL GROUP COMPANY

TEMPO STRUCTURED PRODUCTS

- REDEFINING STRUCTURED PRODUCTS -

"Doing the right things - and doing simple well"

'SPs: Need; Evidence; & USPs'

FOR PROFESSIONAL ADVISER USE ONLY

- NOT FOR USE WITH CLIENTS -

About the Alpha Real Capital group / Tempo Structured Products … TEMPO STRUCTURED PRODUCTS

KEY ALPHA STATISTICS:
(as at 31 Dec 2019)

£3.7bn
AUM and capital commitments

120+
Professional team

7
Specialist platforms

4
Core business areas

Alpha Real Capital ('Alpha') is an international, co-investing fund management group.

Established in 2005, and headquartered in London, Alpha comprises an international network of offices in the UK, Europe and Asia. A 120+ strong professional team, combines extensive experience and expertise with research, analysis and market knowledge, operating through 7 specialist platforms, offering listed and unlisted property vehicles, open and closed-ended property vehicles, and UK and international funds, products and wealth management services.

Alpha engages with institutional investors, including leading pension fund consultants, family offices, UHNW and HNW investors, providing long-income expertise.

TIME Investments is the retail wealth manager / professional adviser-facing arm of Alpha (established when Alpha acquired the real estate asset management business of Close Brothers, in 2011). TIME provides retail access to Alpha's long-income expertise, as well as tax planning services, including Business Relief.

Tempo Structured Products is a specialist Alpha platform, operating with four areas of focus: Retail: Tempo's primary focus is deliberately defensive structured products, developed for UK-based professional advisers and wealth managers, distributed in collaboration with the retail side of Alpha, TIME Investments; Institutional: Tempo also provides structured products expertise for institutional investors, including pension fund consultants, in collaboration with the institutional side of Alpha; Family Offices / UHNW / HNW Investors: Tempo offers bespoke structured product solutions for Alpha's contacts, including Family Offices, UHNW and HNW investors; Strategic Alliances: Tempo provides other institutions the potential to in-source Tempo's expertise to develop structured products for their clients / customers.

Learning objectives …

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This presentation aims to:

- **Establish whether there’s a NEED to think about structured products**
- **Establish whether there’s EVIDENCE that structured products work**
- **Highlight the significant and important USPs of structured products**
- **Introduce Tempo Structured Products and what we do differently**

The agenda …

1. **Establish whether there's a NEED to think about structured products:**
   - let's think about markets, the investment backdrop / outlook, and portfolio construction considerations
   - what the global bond market is signalling re a challenging and potentially low (or worse) returns environment
   - let's think about 'alpha' by active fund management / 'beta' by passive fund management: and the merits and benefits of including 'alpha by contract' via structured products in diversified and balanced portfolios
2. **Establish whether there's EVIDENCE that structured products work:**
   - *when the facts change, I change my views: what do you do …*
3. **Explain the significant USPs of structured products:**
   - the ability to generate positive returns without markets needing to rise, with defined protection if markets fall
   - the benefits of legally binding, contractual obligations on issuers (in contrast with other investment options)
   - *and remembering the portfolio construction / portfolio diversification considerations (including the fact that there are just some things which active and passive funds can't do, which structured products can)*
4. **Introduce Tempo Structured Products … redefining structured products for professional advisers:**
   - *doing the right things - and doing simple well*
5. **Overview the Tempo product suite: 'deliberately defensive' products**
6. **Conclusion …**

1. The market backdrop / portfolio construction considerations …

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- **Let's think about markets and investor interests and needs:**
  - it's important to remember where we were at pre Covid-19
  - broadly speaking, it was relatively straightforward to generate solid / strong returns in the last decade, following the global financial crisis, but many advisers / investors were already starting to contemplate the likelihood / expectation of a lower returns environment in the decade ahead
  - touching on the basics: cash (on the floor / through the floor?); fixed income (return free risk?); equity markets (fairly / fully valued?): the bond market is signalling 'lower and slower for longer': inflation, rates, economic growth and returns expectations)
  - clearly Covid-19 hasn't improved what were already lower and slower for longer expectations
- **Let's think about portfolio construction considerations and optimising portfolio diversification in a challenging and potentially low (or worse) returns environment …**
  - what might lower for longer mean
  - what might investors expect in terms of 'alpha' from active fund management or 'beta' from passive fund management, in a challenging and potentially low (or worse) returns environment (the upside risks …)
  - the merits and benefits of including 'alpha by contract' via structured products
- **What do we know we know / and know we don't know:**
  - time in the markets, not timing markets: critically important periods for optimising long term portfolio returns
  - as an example: the 1972 – 74 peak to trough fall, and the 1974 / 75 – 1987 trough to peak rise

Portfolio construction considerations: cue structured products …

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- **Clearly, there are various reasons why professional advisers should be carefully considering the investment outlook and portfolio construction:** how far reaching will the effects of Covid-19 be …

- **Known and known unknown factors point to the likelihood of it being far harder to achieve such strong returns in the decade ahead of us, compared to the decade now behind us:** we could now be in a potentially low (or worse) returns environment (per the signals from the bond market: negative yielding debt)

- **History shows that the most important periods of return are often directly after a crisis:** missing these periods of return can decimate long term portfolio returns … but how to reconcile investor's hearts and minds …

- **The bottom line is that a low (or worse) returns environment could present significant portfolio construction challenges for advisers and investors:** particularly if portfolio diversification is limited to just active and passive fund management, and asset class and geography

- **Optimal portfolio diversification needs to include consideration of different types of investment – which can do different things, in different ways, at different times:** cue including structured products

- **Structured products can do things which neither active nor passive fund management can do, including generate positive returns without requiring markets to rise, with a defined level of protection if they fall:**
  - and structured products do it all by legally binding contractual obligation: offering **'alpha by contract',** as an alternative / complement to alpha by active fund management and / or beta from passive fund management

2. Establishing the EVIDENCE that structured products work …

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- **Comprehensive, granular data is now available for UK retail structured products. For example:**

> ONE YEAR: UK retail structured product performance: January 2018 - December 2018:

Structured products	Mutual funds
381 UK retail structured products matured in 2018	2,592 mutual funds in the UK Investment Association universe
None of the maturing structured products created a loss for investors	2,377 (c.92%) funds produced a negative return in 2018
358 (c.94%) generated positive returns, with an average return of 6.33% p.a.	202 (c.8%) funds produced a positive return
The average return of the top quartile products was 9.25% p.a.	Only 3% of funds delivered a return of more than 2%
Just 23 products (c.6%) returned capital only	13 (c.0.5%) funds produced a return of exactly zero

> THREE YEARS: UK retail structured product performance: January 2016 - December 2018:

927 UK retail structured products matured between January 2016 and December 2018
The average return of all maturing products was 6.77% p.a.
The average return of the capital-at-risk products was 7.45% p.a.
None of the maturing structured products created a loss for investors

> TEN YEARS: UK retail structured product performance: January 2009 - December 2018:

3,670 UK retail structured products matured between January 2008 and December 2018
3,613 (98.45%) generated positive returns or repaid capital | The average return of all maturing products was 6.23% p.a.
The average return of the capital-at-risk products was 7.9% p.a.
The average return of the capital-at-risk kick-out products was 8.55% p.a.
Only 57 (1.55%) maturing structured products created a loss for investors (only 5 of these were single index, linked solely to the FTSE 100)
The average duration of all maturing structured products was 3.78 years

Source: StructuredProductReview | FVC | Fundsmith

2. The EVIDENCE that structured products work (cont'd) …

TEMPO STRUCTURED PRODUCTS

- **Comprehensive, granular data is now available for UK retail structured products: cont'd:**

> ONE YEAR: UK retail structured product performance: January 2019 - December 2019:

334 UK retail structured products matured in 2019
315 (c.94%) generated positive returns
The average return of all maturing products was 5.73% p.a. | The average return of the top quartile products was 8.95% p.a.
The average return of the capital at risk products was 6.74% p.a. | The average return of the top quartile capital at risk products was 9.38% p.a.
The average return of all maturing deposit products was 3.01% | The average return of the top quartile maturing deposit products was 5.05% p.a.
Only 4 (1.2%) maturing structured products created a loss for investors (all 4 of these were share-based, not index-linked)

> FOUR YEARS: UK retail structured product performance: January 2016 - December 2019:

1172 index-linked UK retail structured products matured between January 2016 and December 2019
254 were capital protected | The average return of the capital protected products was 4.08% p.a.
918 were capital at risk | The average return of the capital at risk products was 7.24% p.a.
The average comparable return of the iShares FTSE 100 was 6.76% (remembering that most of the maturing structured products did not require the market index to rise and included a defined level of protection if it fell)
None of the maturing index-linked structured products created a loss for investors

> TEN YEARS: UK retail structured product performance: January 2010 - December 2019:

[this review is due to be published soon]

Source: StructuredProductReview | FVC

2. Establishing the EVIDENCE that structured products work …

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- **Objective analysis of the facts re UK retail structured product performance clearly evidences the virtues and value of structured products - and the efficacy of including them in diversified and balanced portfolios**

- **Particularly in a more challenging and potentially low (or worse) returns environment, these facts highlight that it may be hard to identify investment funds or products which might reasonably be considered more likely to deliver such strong levels of return, with such attractive risk / return profiles, than structured products:**
  - noting that the majority of the structured products are designed so that they generate positive returns without requiring the stock market to rise, with a defined level of protection if it should fall

- ***When the facts change, I change my views … what do you do:***
  - remembering that we are in a challenging and potentially low (or worse) returns environment
  - and recognising that there are some things which active and passive funds can't do, which structured products can

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UK structured products past performance: facts and analysis
'When the facts change, I change my views. What do you do?'

Despite some criticisms, from some commentators, in some quarters, in the past, detailed analysis of the performance of maturing structured products in recent years highlights the potential virtues, merits and efficacy of investors including structured products in portfolios.

Matured structured products performance over the last year: Jan 2018 – Dec 2018

StructuredProductReview's annual review of structured products which matured in 2018 showed that 358 of the 381 products which matured delivered positive returns for investors. None of the products which matured in 2018 delivered a loss.

It is also interesting to compare the performance of maturing structured products to mutual fund performance in 2018:

Retail structured products	Mutual funds
381 retail structured products matured in 2018	2,592 mutual funds in the UK Investment Association universe
No maturing structured products created a loss for investors	2,377 (c.92%) funds produced a negative return in 2018
358 (c.94%) generated positive returns, with an average return of 6.33% p.a.	202 (c.8%) funds produced a positive return
The average return of the top quartile products was 9.25% p.a.	Only 3% of funds delivered a return of more than 2%
Just 23 products (c.6%) returned capital only	13 (c.0.5%) funds produced a return of exactly zero

Source: StructuredProductReview　　Source: Fundsmith

The above statistics do not compare apples with apples, as the mutual fund performance is looked at over just the one year, while many of the structured products that matured over the year will have run for longer than just one year. However, the main point is that 2018 was clearly a challenging year for mutual funds (after a long period of positive returns, which served many investors well), while it was another strong year for structured products, as part of a trend that has been developing, following significant improvements in the sector over the last decade.

Matured structured products performance over the last 3 years: Jan 2016 – Dec 2018

Independent research specialist Future Value Consultants (FVC) reviewed all structured products which matured over the last 3 years.

927 structured products matured between January 2016 and December 2018
The average annualised return of all products combined was 6.77%
The average annualised return of the capital-at-risk products was 7.45%
No maturing structured products created a loss for investors

Source: Future Value Consultants

Matured structured products performance over the last 10 years: Jan 2009 – Dec 2018

Most recently, StructuredProductReview reviewed all structured products which were launched and matured over the last 10 years:

3670 structured products matured between January 2008 and December 2018
3613 (98.45%) generated positive returns or repaid capital: with an average return of 6.23% p.a.
The average return of all maturing capital-at-risk products was 7.9% p.a.
The average return of all maturing capital-at-risk kick-out products was 8.55% p.a.
Only 57 (1.55%) maturing structured products created a loss for investors Only 5 of these products were single index, linked solely to the FTSE 100
The average duration of all maturing structured products was 3.78 years

Source: StructuredProductReview

These past performance facts evidence the potential virtues, merits and efficacy of investors including structured products in diversified and balanced portfolios. In fact, particularly in a more challenging market environment, it may be hard to identify investment funds or products more likely to deliver strong positive returns than 'best of breed' structured products, especially those which are designed to generate positive returns without requiring the stock market to rise, with a defined level of protection if the stock market falls.

Past performance is not a guide to future performance and should not be relied on, especially in isolation. The value of all investments, including structured products and mutual funds, can fall as well as rise.

The major USP of structured products: ‘investing by contract’ …

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- **‘Under the bonnet’ detail highlights how structured products are constructed (based on factors, including interest rates, credit risk, market level and volatility):**
  - when this is understood, it’s clear that there is no alchemy (or concern that terms may be ‘too good to be true’)
- **But the most important point to understand is that structured products equate to ‘investing by contract’:**
  - structured products are based on legal / contractual obligations
  - if the counterparty behind a structured product is solvent at maturity it doesn’t matter what they may (or may not) have done … they are legally obligated to deliver what they stated at the outset to investors, i.e. to deliver the terms of the bonds they issued, that back the structured product.
  - ***Want to test this point of understanding?*** *Imagine that everyone in a counterparty bank goes on holiday for 10 years, on the start date of a structured product. The bank therefore does absolutely nothing during the investment term. What can investors in the structured product expect to receive at maturity? The answer is everything that the contract detailed, if the counterparty bank is solvent.*

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Looking past the obvious...

Chris Taylor talks about the ‘contract’ benefits of structured products

After a long career in the asset management industry, one thing I’ve learnt is the importance of looking at things the industry does and looking through the obvious, to find the more interesting aspects, that sometimes flip the obvious on its head.

Chris Taylor is Global Head of Structured Products at Tempo Structured Products. He has been involved with structured products, and the broader asset management industry, since its earliest days in the UK, in the mid 1990s.

When it comes to structured products, the most obvious risk is well-known to be the ‘counterparty risk’, i.e. the risk that the bank behind a product can go bust and cause loss of capital. But rather than add more column inches to stating that advisers and investors should always ensure that they are cognisant of this risk, I’d like to flip the point on its head and talk about what I think is an overlooked point, which is the benefit – as opposed to the risk – of the counterparty behind a structured product!

The basic risk of a structured products is that the counterparty must stay in business – but the benefit is that they also remove or reduce some key risks that many investors naturally want to avoid… but have often been ‘educated’ to think that they can’t.

> The risk of a structured product is that the counterparty must stay in business – the benefit is that they remove or reduce some key risks that many investors want to avoid.

Most specifically, structured products can remove or reduce ‘market downside risk’, i.e. the risk of markets going down and investors losing capital.

But they can also remove or reduce ‘market upside risk’, i.e. the risk that markets don’t go up and generate the returns investors need.

In addition, structured products remove the ‘active fund management risk’, i.e. the risk that active fund management just doesn’t deliver the performance, or the risk control, that it marketed itself as being capable of providing (noting that the marketing of actively managed funds is actually based on nothing more than ‘aims’ and ‘hopes’, not legally binding contracts!).

The fact is that the counterparty banks behind structured products take on risks that exist in other types of investments, such as mutual funds, and turn them on their heads… by contractually defining both market risk and return. And the contracts mean that the process risk falls on the couterparties, not investors.

And that is the eureka point… that structured products equate to ‘investing by contract’. And it’s an important point.

> … structured products equate to investing by contract.

Investors in structured products basically delegate the investment process and performance risk to a major investment bank, the counterparty, which becomes legally obligated to deliver the terms of the contract at maturity, regardless of their process, unless they are bust.

But this major benefit of structured products is being overlooked by some advisers and investors, because they’re only focusing on the obvious points, not the less obvious (although the good news is that an increasing number are slowly cottoning on).

Yes, some ‘clever stuff’ may be going on behind the scenes of a structured product, in order for the counterparty bank to ‘hedge’ their legal obligation to deliver the terms of the products they issue, at maturity.

> There are just some things active and passive funds can’t do, that structured products do… and do by contract.

But investors are not investing into the the counterparty’s clever stuff or process – unlike active fund management, where if a fund’s process fails it’s the investor who suffers. Investors in structured products are investing in contracts! And the contracts are usually issued by some of the world’s strongest financial institutions, who take the process risk of investing away from the investor and own the risk themselves.

Investors in structured products therefore have a very different consideration to investors in active funds.

The key consideration is the strength of the bank behind the product and whether they will still be in business at maturity? And the fact is that the world’s biggest banks like to stay in business - and governments, central banks, regulators, shareholders, deposit holders, employees, etc. also like them to!

> Of course, as with any investment, there are risks that need to be understood with structured products.

There is no such thing as a perfect investment. And, as with any investment, there are risks that need to be understood with structured products. But many investors may find it easier to consider whether a major global bank is likely to stay in business, than what may or may not happen to the stock market.

Pragmatically, a good approach to portfolio construction is to diversify across various types of investments, including funds and products. In other words: the best of active funds; the best of passive funds (pretty much everybody seems to like passive and smart beta these days!); AND the best of structured products… because there are just some things that active and passive funds can’t do, that structured products do… and do by contract. It’s their major benefit, to my mind.

4. Introducing Tempo Structured Products …

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- **Tempo Structured Products is an independent plan manager, established in 2017, within the Alpha Real Capital group / family of companies:**
  - Alpha Real Capital is an international fund management group / family of companies, respected in its specialist areas of expertise, which is financially strong, conservatively managed and operationally robust
  - total group AUM is c.£4 billion (as of 31 Mar 2020)
  - importantly, we proactively highlight that operational risk is *the 3rd key risk* of structured products *(*in addition to counterparty risk and market risk), and that professional advisers should be more carefully considering the operational and governance strength of structured product plan managers
- **Tempo's senior management team includes individuals who have been at the forefront of the structured products industry since its earliest days in the UK**
- **Our philosophy and approach are founded upon a commitment to 'deliberately defensive' products, underpinned by operational strength and robust governance, presented with transparency and integrity, and exceptional support and service for professional advisers and their clients:**
  - at the heart of our approach our aim is to be known for *'doing the right things - and doing simple well'*, providing professional advisers with a high calibre provider, a carefully considered approach to structured products and a level of support and service ***which they 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 structured products, for the benefit of their clients**

Tempo: Redefining structured products …

TEMPO STRUCTURED PRODUCTS

REDEFINING STRUCTURED PRODUCTS FOR PROFESSIONAL ADVISERS AND THEIR CLIENTS

GOVERNANCE / COMPLIANCE

- Focus on best practice governance and compliance:
Framework and procedures; Operational strength; Product development processes; Distribution governance

- Investor-facing plan documents:
Plain English accredited plan brochures;
If/Then … summaries; Suitability letter inputs

- Professional adviser support and collateral materials:
CPD accredited academy; 'TICS'; PAIPs / EMTs; PPPs

COUNTERPARTY RESEARCH

- 'TICS':

5 Category Scorecards
Amalgamated Scorecard
Monthly Movement
Side-by-Side View
TICS Reports

INVESTMENT THINKING

- Investment backdrop and outlook

- Portfolio construction / diversification considerations
'alpha' from active fund management / 'beta' from passive fund management / 'alpha by contract' from structured products

- Underlying indexes

- Asset allocation

MARKETING ASSISTANCE

- Marketing assistance and support

- Communicating with clients about structured products
The 'Structured Products Investor'
(white-label newsletters and bulletins)

Tempo: Redefining structured products …

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PROD Sourcebook (3.3.11(3)) states that *'distributors (i.e. professional advisers) should consider the impact that the selection of a manufacturer (i.e. Plan Managers identified as 'co-manufacturers') could have on clients, in terms of various factors, including the financial strength of the manufacturer'*

PROD (3.2.16 (2)) requires manufacturers to make *'all appropriate information on our product approval process'* available to distributors

- Focus on best practice governance and compliance:
Framework and procedures; Operational strength; Product development processes; Distribution governance

- Investor-facing plan documents:
Plain English accredited plan brochures;
If/Then … summaries; Suitability letter inputs

- Professional adviser support and collateral materials:
CPD accredited academy; 'TICS'; PAIPs / EMTs; PPPs

- 'TICS':

5 Category Scorecards
Amalgamated Scorecard
Monthly Movement
Side-by-Side View
TICS Reports

- Investment backdrop and outlook

- Portfolio construction / diversification considerations
'Alpha' from active fund management / 'Beta' from passive fund management / Alpha by contract' from structured products

- Underlying indexes

- Asset allocation

- Marketing assistance and support

- Communicating with clients about structured products
The 'Structured Products Investor'
(white-label newsletters and bulletins)

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.'*

Best practice governance is embedded throughout Tempo …

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- **Ensuring that robust governance underpins all that we do has been key to our business from its inception:**
  - we established a best practice governance framework and culture, with high level expert input, that is embedded throughout our business, that encompasses working closely with everyone from issuing banks, to our plan administrator and custodian, to the professional advisers who use our products
- **Our aim is to meet (and surpass) regulatory requirements and guidance, based on recognising that good governance is a core value rather than just a requirement. We wholeheartedly believe that it is:**
  - fundamentally client-centric
  - best for the wealth managers / professional advisory firms we work with
  - best for our business, as an opportunity for us to demonstrate best practice, raise the industry bar, and show how we think structured products could be done and should be done …

Supporting issuer / counterparty research due diligence …

- **Issuer / counterparty risk is the most fundamental risk of structured products:**
  - both the potential returns of a structured product and the repayment of capital usually depend upon the financial stability of the issuer / counterparty throughout the investment term

- **We are an independent plan manager (not a bank issuing its own products) - we think it's straightforward - and important - to state the obvious:**
  - professional advisers and investors should seek to identify structured products backed by strong issuers / counterparties

- **Module 4 of our Academy explains counterparty due diligence, including credit ratings, CDS and fundamentals**

- **'TICS' (the Tempo Issuer & Counterparty Scorecards) provides a 'bar-raising' research and due diligence resource for professional advisers using structured products**

‘TICS’: the Tempo Issuer & Counterparty Scorecards …

- **We developed ‘TICS’ for internal use:**
  - with a team of analysts working on the project over 2017
- **TICS covers all 30 ‘G-SIBs’, plus a small number of ‘D-SIBs’ and other issuers of or counterparties to UK retail structured products (including institutions which some issuers credit-link products to)**
- **TICS uses a robust methodology, including a scoring and ranking system, to help analyse, assess and compare issuers / counterparties – each month we produce:**
  - **TICS Category Scorecards (x5)**, using 27 factors in total
  - **TICS Amalgamated Scorecard**, which combines all of the categories and factors
  - **TICS Side-by-Side View**, which displays the data for the main structured products issuers / counterparties
  - **TICS Reports (x15)**, which are provided for the main UK retail structured product issuers / counterparties
  - **TICS Monthly Movement**, which summarises any significant changes (positive and negative) for the issuers / counterparties which TICS monitor
- **TICS is designed to provoke and support more detailed and objective consideration and understanding of issuer / counterparty financial strength / credit risk**
- **We publish TICS to provide transparency regarding our approach:**
  - and to support professional advisers in their research and due diligence responsibilities

TICS example: Amalgamated Scorecard (June 2020) …

	Bank / Institution	Region	Sovereign	FSB G-SIB Status	Credit Rating Score	CDS Score	Fundamentals (Bal. Sheet) Score	Fundamentals (Mkt. Indicators) Score	Systemic Importance Score	Amalgamated Scorecard
WEIGHTINGS APPLIED TO AMALGAMATED SCORECARD:					40%	15%	30%	10%	5%	
1	HSBC	UK	UK	Y	4.50	4.65	3.10	4.90	2.25	403.0
2	CCB	Asia	China	Y	5.67	N/A	3.25	2.10	2.95	423.8
3	ICBC	Asia	China	Y	5.67	N/A	3.65	1.45	2.50	427.6
4	Toronto Dominion	North America	Canada	Y	4.08	4.15	4.85	4.60	3.15	432.8
5	BONYM	North America	USA	Y	5.00	2.35	4.60	6.05	3.80	452.8
6	Nordea	Europe	Sweden	N	4.17	2.35	5.00	6.05	8.25	453.7
7	Credit Agricole	Europe	France	Y	4.83	4.45	3.95	6.75	3.35	462.8
8	Bank of China	Asia	China	Y	5.67	5.20	4.05	2.50	2.50	463.7
9	Sumitomo	Asia	Japan	Y	6.08	3.00	3.35	5.85	3.41	464.4
10	Mitsubishi	Asia	Japan	Y	6.33	1.90	3.90	5.50	2.76	467.6
11	UBS AG	Europe	Switzerland	Y	5.42	4.45	3.65	6.00	3.35	469.7
12	JP Morgan	North America	USA	Y	5.75	5.65	4.10	2.65	1.80	473.3
13	ABC	Asia	China	Y	5.67	6.40	3.90	2.30	2.95	477.4
14	BNP Paribas	Europe	France	Y	4.75	4.45	4.80	6.45	2.60	478.3
15	RBC	North America	Canada	Y	4.42	5.35	5.55	4.40	3.15	483.2
16	State Street	North America	USA	Y	5.00	N/A	4.10	6.95	4.00	485.3
17	BPCE_Natixis	Europe	France	Y	5.08	3.15	4.65	8.10	3.40	488.1
18	Bank of America	North America	USA	Y	6.00	5.65	4.05	3.60	2.40	494.3
19	Mizuho	Asia	Japan	Y	6.33	3.10	4.05	5.90	3.46	497.6
20	Wells Fargo	North America	USA	Y	6.17	6.25	3.55	5.30	2.35	511.7
21	MSIP	UK	UK	N	4.88	N/A	4.86	N/A	8.81	513.0
22	Societe Generale	Europe	France	Y	6.08	4.45	4.55	7.60	3.40	539.6
23	Citi	North America	USA	Y	7.08	6.40	3.55	5.55	2.10	551.8
24	Santander	Europe	Spain	Y	6.50	4.45	4.85	6.80	3.60	558.3
25	Lloyds	UK	UK	N	6.92	4.05	3.90	6.45	8.00	558.9
26	Danske Bank	Europe	Denmark	N	6.42	4.00	4.70	6.35	8.40	563.2
27	Morgan Stanley	North America	USA	Y	7.17	5.95	3.70	5.80	3.95	564.7
28	ING Bank	Europe	Netherlands	Y	6.75	4.80	4.60	6.90	3.20	565.0
29	Standard Chartered	UK	UK	Y	6.75	7.70	3.40	7.15	3.60	577.0
30	Goldman Sachs	North America	USA	Y	7.08	7.00	3.85	5.65	3.55	578.1
31	Investec Bank plc	UK	UK	N	6.50	N/A	4.30	8.05	8.90	605.4
32	Aviva	UK	UK	N	5.67	6.15	N/A	7.00	7.45	608.7
33	Barclays	UK	UK	Y	8.08	6.75	3.50	6.45	3.00	609.1
34	Prudential	UK	UK	N	6.08	5.85	N/A	6.15	7.50	614.4
35	Credit Suisse	Europe	Switzerland	Y	7.92	5.85	4.45	7.10	3.55	626.7
36	RBS	UK	UK	N	8.08	6.95	3.65	7.25	8.15	650.3
37	Nomura	Asia	Japan	N	7.67	6.85	4.70	6.70	9.11	663.0
38	Deutsche Bank	Europe	Germany	Y	8.25	9.60	3.65	7.25	2.70	669.5
39	Bank of Ireland	Europe	Ireland	N	9.50	3.55	4.45	8.20	9.05	694.0
40	Unicredit Group	Europe	Italy	Y	9.08	8.20	4.90	7.25	4.39	727.8

Source: Tempo Structured Products / Thomson Reuters / FT Banker Database / Issuers: 01 June 2020

5. Overview of the Tempo product suite: *'deliberately defensive'* …

TEMPO STRUCTURED PRODUCTS

- **Our product suite offers a range of kick-out, growth and kick-out, and income plans**
- **All of our products carry the same Tempo hallmarks: in line with the philosophy of Alpha Real Capital and TIME Investments, we are committed to making defensive products our calling card**
- **While lots of providers do lots of defensive structured products, we are the only provider to set our stall out to ONLY do defensive products:**
  - our core products are designed to increase the likelihood of positive returns ('upside risk'), while decreasing the likelihood of loss of capital ('downside risk')
  - to us, that is the basic purpose of a good investment company and a basic principle of a good investment strategy
- **We call our core product range 'deliberately defensive':**
  - *but what do we mean by 'deliberately defensive' …*

What we mean by ‘deliberately defensive’ …

TEMPO STRUCTURED PRODUCTS

1. 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 that are regulatorily identified as Global Systemically Important Banks (‘G-SIB’s) or, as a minimum, Domestically Systemically Important Banks (‘D-SIB’s)
- G-SIBs are fundamentally more important (and usually bigger, deeper and stronger) banking groups, in a country / region / globally - as a result, they are subject to more stringent capital adequacy requirements, including higher Tier 1 capital ratios
- we use TICS to aid objective consideration of financial strength and credit risk

2. Market risk: Our core 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 index to which they are linked to rise - while also providing protection from a defined level of risk should the stock market index fall
- our products have deep end-of-term (‘European’) barrier protection barriers (only observed at maturity), which reduces market downside risk, as well as being easier for investors to understand
- our products are single index only

3. Operational risk (Plan Manager / Administration / Custody):

- we benefit from Alpha Real Capital’s operational strength and we seek to mitigate the plan manager and administration / custody risk of our products, throughout their term

Our product development response to Covid-19 …

TEMPO STRUCTURED PRODUCTS

- **The current market environment is potentially very favourable for manufacturing structured products:**
  - lower index levels and elevated volatility can lead to exceptional product terms … mathematically
- **Our response:**
  - we have focused on the risk / return profiles of our product suite
  - following the crisis, we moved to an exceptionally deep end of term barrier (the deepest end of term barrier we have ever arranged): a 30% end of term barrier (allowing the market index to fall by 70%)
  - we have since increased this, to a 40% level (allowing the market index to fall by 60%) for LKO and LGKO, and to a 50% level (allowing the market index to fall by 50%) for LIP (both of which remain exceptionally deep end of term barrier levels / deeper than is in use elsewhere in the sector on comparable products)
  - in addition, we introduced plan options with deep conditions for generating positive returns
- **The following link takes you to the current products area of our website, which includes 'document carousels' for all of the investor-facing and professional adviser collateral materials for each product:**
  - https://tempo-sp.com/our-products/our-current-products

Our Long Kick-Out Plan ('LKO') …

TEMPO STRUCTURED PRODUCTS

- **Kick-out products are widely used and liked by many professional advisers and investors**
- **Our Long Kick-Out Plan ('LKO') aims to optimise the kick-out strategy, through the simple steps of using a longer maximum term, with short term kick-out potential, with defensive kick-out conditions**
- **LKO offers three options, including two defensive step down options:**

THE LONG KICK-OUT PLAN ('LKO') | DELIBERATELY DEFENSIVE

Plan name	Kick-out or early maturity	Counterparty	Index link	Term	Growth conditions (dates | levels)	Potential return	Some or all of the returns without requiring inx to rise	A defined level of protection should inx fall
Long Kick-Out Plan: Option 1	YES	Societe Generale	FTSE 100 FDEW	10Y MAX	Y3 - Y10 : Inx at or above a level reducing each year, from 100% of start level in Y3 to 40% of start level in Y10	5.20% p.a.	YES	YES | 40% | End of term
Long Kick-Out Plan: Option 2	YES	Societe Generale	FTSE 100 FDEW	10Y MAX	Y3 - Y10 : Inx at or above a level reducing each year, from 100% of start level in Y3 to 65% of start level in Y10	9.45% p.a.	YES	YES | 40% | End of term
Long Kick-Out Plan: Option 3	YES	Societe Generale	FTSE 100 FDEW	10Y MAX	Y3 - Y10 : Inx at or above 100% of start level	15.90% p.a.	YES	YES | 40% | End of term

	LKO1	LKO2	LKO3
	UBER DEEP STEP DOWN	SUPER DEEP STEP DOWN	AT OR ABOVE START LEVEL
YEAR 3	100%	100%	100%
YEAR 4	90%	95%	100%
YEAR 5	80%	90%	100%
YEAR 6	70%	85%	100%
YEAR 7	60%	80%	100%
YEAR 8	50%	75%	100%
YEAR 9	45%	70%	100%
YEAR 10	40%	65%	100%
POTENTIAL RETURN	**5.20%**	**9.45%**	**15.90%**

Our Long Growth & Kick-Out Plan ('LGKO') …

TEMPO STRUCTURED PRODUCTS

- **Our Long Growth & Kick-Out Plan ('LGKO') uniquely combines two investment strategies (a kick-out and a defensive supertracker) in one plan, with exceptional potential returns**

- **The potential returns of our LGKO usually exceed the potential returns of comparable kick-out plans in the market (including our own LKO):**
  - the plan will generate the maximum potential return at either Y5 or Y10 if the index has risen by 1% p.a.
  - the maximum return at either point will double (or more) an investor's capital: **from a '1:1' strategy**
  - the plan is a great example of structured products offering 'alpha by contract'

THE LONG GROWTH & KICK-OUT PLAN ('LGKO') | DELIBERATELY DEFENSIVE

Plan name	Kick-out or early maturity	Counterparty	Index link	Term	Growth conditions (dates | levels)		Potential return	Some or all of the returns without requiring inx to rise	A defined level of protection should inx fall
Long Growth & Kick-Out Plan	YES	Societe Generale	FTSE 100 FDEW	10Y MAX	Y5	: Inx at or above 105% of start level (which requires +1% p.a. / +0.98% car)	Y5 : 107.50% (equals 21.50% p.a.) (15.72% car)	YES	YES | 40% | End of term
					Y10	: Inx above 80% of start level (max ret if inx @ 110% of start level, which requires +1% p.a. / +0.96% car)	Y10 : 5X Inx, to max 150% (equals 15% p.a.) (9.6% car)		

- **A great question for professional advisers to ask themselves is whether they can think of any other mainstream investment fund or product which they reasonably think would be more likely to deliver such strong returns in the next decade, with a defensive risk / return profile:**
  - we are seeing advisers use the plan as a core, long term portfolio holding, including within pension planning / DB transfers, as an alternative / complement to both active and passive funds

Our Long Income Plan ('LIP') …

- **Our Long Income Plan ('LIP') provides a simple, lower risk income solution**
- **LIP offers two options, both offering defensive conditions for generating income, with a deep end of term barrier:**
  - LIP includes a unique and compelling memory feature
  - and a kick-out feature, set at 110% of the start level, from the 3rd anniversary

THE LONG INCOME PLAN ('LIP') — DELIBERATELY DEFENSIVE

Plan name	Kick-out or early maturity	Counterparty	Index link	Term	Income conditions (dates | levels)	Potential income	Some or all of the returns without requiring inx to rise	A defined level of protection should inx fall
Long Income Plan: Option 1	YES	Societe Generale	FTSE 100 FDEW	10Y MAX	Y1 - Y10 : Inx at or above 50% of start level – with memory feature – and if inx at or above 110% of start level, early maturity from Y3	4.85% p.a.	YES	YES | 50% | End of term
Long Income Plan: Option 2	YES	Societe Generale	FTSE 100 FDEW	10Y MAX	Y1 - Y10 : Inx at or above 75% of start level – with memory feature – and if inx at or above 110% of start level, early maturity from Y3	6.75% p.a.	YES	YES | 50% | End of term

- **In a 'lower and slower for longer' environment, LIP can help meet the needs of income savers and investors:**
  - including as an alternative to cash, fixed income, and equity income

TEMPO STRUCTURED PRODUCTS

Important information

Professional Advisers should not invest in, or advise and recommend their clients invest in, any investment product unless they and their clients understand them, in particular the relevant risks.

Professional Advisers should access and read the relevant plan documents relating to any structured product plan of interest, in particular: the plan brochure; 'if/then' summary; plan application pack, including, the terms and conditions of the plan; and the Issuer's key information document ('KID'), securities prospectus and securities final terms sheet, before making a recommendation to their clients.

The 'Important risks' section of our website highlights the key and other risks of our structured product plans, in addition to explaining important information for Professional Advisers who wish to access the current products area of our website and who may use our structured product plans with their clients. To see our full 'Important risks', please see: www.tempo-sp.com/home/important-risks.

We also provide important resources and collateral support for Professional Advisers, including our Professional Adviser Information Packs ('PAIP's), Product Proposal Packs ('PPP's), and access to our Tempo Issuer & Counterparty Scorecards ('TICS') and CPD accredited Professional Adviser Academy.

Below is a brief summary of some of the main risks associated with investments in our plans:

Market risk to potential returns

Whether or not the plan or plan options chosen generate the potential returns for investors depends on the closing level of the relevant index that the plan is linked to, on the relevant dates for the plan, i.e. the kick-out and end dates for kick-out products; the early maturity dates and end dates for growth products; and the income dates, early maturity dates (if applicable) and end dates for income products. If the relevant index for the plan closes below the level needed, for the plan or plan options chosen, on all of the relevant dates, the plan or plan options will not generate a return.

Market risk to repayment of money invested

If the closing level of the relevant index that the plan is linked to closes below the level needed on all of the kick-out dates (if applicable), early maturity dates (if applicable) and end dates, repaying the money invested at maturity will depend on the closing level of the relevant index on the end date. All of our products are 'Deliberately Defensive' and use single indexes and end of term only barriers. If on the end date the relevant index for the plan or plan options chosen closes at or above the end of term barrier (being 40% of the start level for the Long Kick-Out Plan and Long Growth & Kick-out Plan, and 50% of the start level for the Long Income Plan), money invested will be repaid in full (less any agreed adviser fees and withdrawals). However, if on the end date the relevant index for the plan or plan options chosen closes below the end of term barrier, the amount of money repaid (less any agreed adviser fees and withdrawals) will be reduced by the amount that the index has fallen. For example, if the index has fallen by 75%, the repayment of money invested will be reduced by 75% (meaning that investors will get 25% of their investment back).

Issuer and Counterparty Bank risk

Both the potential returns and repaying the money invested, depend on the financial stability of the Issuer and Counterparty Bank, for all of our plans. If the Issuer and Counterparty Bank become insolvent, or similar, or fail to be able to meet their obligations, it is likely that investors will receive back less than they invested.

Financial Services Compensation Scheme ('FSCS') protection

It is not usually possible to claim under the Financial Services compensation Scheme if the Issuer and Counterparty Bank fail to meet their obligations or if the stock market index that a plan links to falls.

FTSE 100 FDEW …

- **The FTSE 100 FDEW is developed, calculated and published by FTSE Russell:**

- **It measures the performance of the same 100 companies that make up the FTSE 100 - however, as its name suggests, the FTSE 100 FDEW is different to the FTSE 100 in two important ways:**
  - the 100 shares in the FTSE 100 FDEW are all equally weighted, at 1% by FTSE Russell, instead of being weighted according to their 'market capitalisation' (which means how big or small each company is, based on the value of its shares)
  - the FTSE 100 FDEW is based on a total return index / this means that all of the dividends paid by the companies are included in the index / however, a fixed dividend of 50 points per year is deducted when FTSE Russell work out the index level.
  - both of these features are explained in more detail in the plan brochures and in the collateral inputs which we provide to Professional Advisers

- **The FTSE 100 FDEW will perform differently to the FTSE 100, due to the equal weighting and the total return and fixed dividend approach - this means that the returns from the plan might be higher or lower than the returns from a similar product linked to the FTSE 100**

- **It is important that investors carefully consider the level of the FTSE 100 FDEW, the level of its fixed dividend, and the outlook for its future level**

The Tempo 'Stated terms or better' pledge…

TEMPO STRUCTURED PRODUCTS

- **As part of our aim of 'doing the right things and doing simple well', our plans carry the Tempo 'Stated terms or better' pledge**

- **Our pledge allows us to improve the terms of our plans above the terms stated in plan brochures, if the stock market and other factors during the offer period mean that we can do so - recent market volatility provided an opportunity to demonstrate the value of the pledge in action (in issue 12):**

  - **for example … LONG KICK-OUT PLAN (OPTION 3):** we increased the potential coupon from 13.1% per year, stated in the plan brochure, to 20.4% per year
  - **for example … LONG GROWTH ACCELERATOR PLAN (OPTION 2):** we increased the potential coupon at Y5 from 107.5%, stated in the plan brochure, to 175% (equivalent to 35% p.a. simple (or 22.42% p.a. compound). This would nearly triple capital, i.e. £100,000 invested would mean £275,000 returned (including capital). If the FTSE 100 FDEW does not close at or above 110% of the start level on the 5th anniversary, the return generated on the end date has also been increased from 6 times the amount, to 10 times the amount by which the FTSE 100 FDEW closes above 90% of the start level. The maximum potential return for investors on the end date, if the FTSE 100 FDEW closes at or above 120% of the start level, therefore increased from the 180%, stated in the plan brochure, to 300% (plus capital back) at year 10, achieved if the index is 20% up, is equivalent to 30% p.a. simple (or 14.87% p.a. compound). This would quadruple capital, i.e. £100,000 invested would mean £400,000 returned (including capital).

Conclusion …

- **Clearly, we are in a challenging investment environment for investors**
- **Structured products offer significant USPs for investors, including their ability to generate positive returns without requiring the stock market to rise, with a defined level of protection if it should fall:**
  - offering legally binding contractual obligations: ‘alpha by contract’
  - optimal portfolio construction / diversification should involve consideration of more than just active and passive fund management, and asset class and geography: it should include different types of investment
  - there is comprehensive evidence of the virtues and value of structured products, and of the efficacy of including structured products in diversified and balanced investor portfolios
- **Tempo aims to bring something different to the UK retail structured products sector, redefining structured products for professional advisers:**
  - our philosophy and approach are founded upon a commitment to ‘deliberately defensive’ products, underpinned by operational strength and robust governance, presented with transparency and integrity, and exceptional support and service for professional advisers and their clients
  - at the heart of our approach our aim is to be known for *‘doing the right things - and doing simple well’*, providing professional advisers with a high calibre provider, a carefully considered approach to structured products and a level of support and service ***which they 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 structured products, for the benefit of their clients**

Learning outcomes …

TEMPO STRUCTURED PRODUCTS

Following this presentation, you should now:

- Understand the need to consider structured products, thinking about current markets, the investment backdrop and outlook, and optimal portfolio construction / diversification principles
- Have thought about what ‘alpha’ by active fund management and ‘beta’ from passive fund management may offer in a challenging (and potentially low) returns environment, and recognise the merits and benefits of including ‘alpha by contract’ from structured products in diversified and balanced portfolios
- Have reviewed the facts about the performance of UK retail structured products over the last decade, and recognise that the facts evidence the virtues and value of structured products and the efficacy of including structured products in diversified and balanced portfolios
- Understand the important USP’s of structured products, including their ability to generate positive returns without requiring markets to rise, with defined protection if they should fall … particularly noting the fundamentally important point of understanding, that structured products equate to ‘investing by contract’, creating legally binding, contractual obligations on the issuing banks (in contrast with other investment options)
- Recognise the ways in which Tempo is redefining structured products, ‘doing the right things and doing simple well, focusing on operational strength and robust governance and compliance
- Understand what is meant by ‘deliberately defensive’ in relation to the Tempo product suite

Important notice

TEMPO STRUCTURED PRODUCTS

- **It should always be understood that:**
  - structured products are not suitable for everyone
  - 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
  - the value of structured products may be affected by the price of their underlying investments
  - 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 wish to access the current products area of our website and who may use our structured product plans with their clients:**
  - www.tempo-sp.com/home/important-risks
- **Professional Advisers should access and read the relevant plan documents relating to any structured product plan of interest, in particular: the plan brochure; plan application pack, including, the terms and conditions of the plan; and the issuer's key information document (KID), securities prospectus, final terms sheet, before making a recommendation to their clients**.
- **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**

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