Absolute return strategies: half don’t seem to work as well as they should half the time?

Might some structured products offer better absolute return characteristics than absolute return funds? We think so…

Our investment thinking…

To our minds, some structured product strategies may be more absolute than better recognised absolute return fund strategies. We will be focusing on certain strategies, with this in mind. In addition to the fact that structured products equate to ‘investing by contract’, another key consideration is that of ‘time / timing’.

A structured product may offer more absolute risk and return – but the variable can be timing, i.e. when will the return be generated (i.e. for a kick-out product, at which year will the return be triggered?)

For many investors, variable timing may be more appealing than variable risk and return, particularly with the variable of active fund process risk replaced by a contract backed by one of the world’s largest financial institutions.

Over recent years, so called absolute return strategies have seemingly emerged as the holy grail of the active fund management world, yet quite a bit of commentary and data raise the question that half of them don’t actually seem to work as well they should half of the time!

It’s not hard to see why investors are drawn to absolute return strategies – the well-articulated descriptions of ‘solid returns in all market environments’ is obviously appealing. But the fact is that the descriptions of active fund management propositions are nothing more than well-articulated ‘hopes and aims’: they’re certainly not contractual / legal obligations on the fund managers to deliver what they describe. And, indeed, if or when they don’t, investors are simply sent equally well-articulated explanations of why not (while the fund managers takes their usual charges).

One of the key differences between structured products and other types of investments is that structured products create contractual / legal obligations upon the issuing banks to deliver precisely what they describe at the outset. If the bank responsible for issuing the securities behind a structured product is solvent at maturity they must deliver the terms of the securities / bonds: anything different may be considered a credit event.

… more to follow from our investment committee in a full future *alphaTIMES* newsletter

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There are risks associated with an investment in any structured product. 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 and 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.