

Proprietary underlyings prove an uphill battle in US

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Underlyings in the US structured products market have historically been dominated by ubiquitous benchmarks such as the S&P500, which benefit from being known by both financial advisers and investors. But some issuers continue to try to market proprietary indices for products that can help make them stand out and, ultimately, add another degree of product tailoring.

Barclays Capital now sports a wide selection of index strategies designed to produce alpha, along with several enhanced beta strategies, many of which have been utilised as underlyings for structured products. "We sit at the nexus of ideas," said Waqas Samad, head of index portfolio and risk solutions at Barclays Capital. "We see our role as providing solutions; to provide a whole toolbox of indices and strategies for whoever the investor is."

"We have the opportunity to talk to all departments and we get a lot of input and ideas," said Anthony Lanzas, head of portfolio modelling and index strategies. His team of quants is responsible for creating proprietary indices at the firm. "We analyse and test to see if an index makes sense, then we create an index that can be traded. For every index, we have a four- to six-page factsheet which goes a long way to making clients comfortable," he said.

"Some clients will approach Barclays Capital to structure new products, but we tend to develop products based on current trends and themes that can provide transparency, efficiency and liquidity," said Richard Couzens, head of product origination for the investor solutions team at Barclays Capital. "From a strategy perspective, we want to provide the solutions and flexibility that meet the needs of our clients. As the structured products market has grown and evolved, some of these strategies have been very successful," he noted. However, he added that education is a critical focus and an ongoing process with structured investments.

"By linking the performance of a retail structured product - an investment type that many advisers are just recently coming to understand and use - to a proprietary index, the issuer substantially increases the educational burden on the adviser and investor," said Chris Warren, MD, head of structured products for the Americas at DWS Investments. Additionally, many issuers do not make information about their proprietary indices readily available via multiple channels the way major index providers do. That scarcity of index data is one of the major reasons distributors cite for not approving the sales of these investments, he added. "Given investors' recent experience with other types of complex investments, there is a natural resistance to financial products that are not straightforward and relatively easy to understand."

"If I can't figure out the product and its index in ten to 15 minutes, chances are brokers won't understand it," said one structured products industry distribution executive who spoke on condition of anonymity. Structured products linked to proprietary indices most often are successfully sold to high-net-worth investors and through those captive financial advisers who are employed by the firm that created the index, he said. "A well-known index will get you further. For a proprietary index to be successfully linked to a structured product, the terms of the product have to be very attractive."