UK Structured™ Products Association

Monthly Performance Update

August 2015

Monthly Performance Update, with commentary from David Stevenson

Today, we are delighted to launch a series of performance indices for structured products, available to view via our website. These performance indices show mark-to-market values of publicly offered products issued in the UK retail structured product market since January 2009. The indices will be published on a monthly basis, covering all qualifying products as well as a breakdown by different sectors, product types and risk ratings. As well as showing the historical performance levels for each index, the website will show the number of qualifying products included in the index at each historical point.

The purpose of the indices is to provide a useful benchmark to how different types of structured product have performed historically, and the data can be compared to the historical performance of other investment types and benchmark indices. We intend on publishing regular commentary alongside the performance indices, to help advisers and market commentators analyse and apply the data for their own purposes. The first commentary, from David Stephenson, is included below.

I've invested in structured products on and off for at least the last ten years, in funds and in listed products. Some of these investments have been a success, others less so - like any other investment, the outcome very much depends upon the robustness of the underlying idea (or asset class) and the exact details of the product used. This variability is of course to be expected but in the world of structured products, that wide range of outcomes presents an additional challenge. Structured products all have their own relatively unique characteristics, based on the issuer, the payout profile and the risk level. This variety has traditionally made comparing structured products with other investment products such as mainstream unit trusts or even exchange traded funds problematic - critics of structured products have long been able to point to the failure of a few individual plans and suggest a systemic failure yet the industry has had relatively few studies to fall back on to suggest otherwise. In simple terms, structured product providers have been ill equipped to counter criticism with any wider statistics looking at aggregate, across the board, returns from a large cohort of plans.

Again my own experience might help explain this predicament. I've long thought that Kick Out products have real utility for those investors concerned about the potential for sideways tracking stock markets. The structure of Kick Outs allows a fairly robust capital gain even if markets such as the FTSE 100 were to go nowhere for extended periods of time. The challenge from a journalistic perspective is to prove this intuition - one needs hard numbers from a big enough sample size to make any comment.

The industry association, the UKSPA, has now provided the first building blocks for those investors looking to properly compare different forms of structured products with other investment options including unit trusts. The key to this quantitative led approach has to be performance-based statistics, preferably for a robust period of time. Go to the UKSPAs website and one can now see returns for a relatively long list of structured product types varying from protected income structures through to uncapped, non-protected growth structures.

Once you've selected a structured product type, you're taken to a page which aggregates returns for all the different plans issued since January 2009 through to the end of July 2015 relevant for that category. A graph displays the changing number of plans issued as well as cumulative returns from the plans, accompanied by a separate break out table displaying 1, 3 and 5 year performance. Crucially each page also displays returns for different risk grades, recognising that not all structured products are created equally and that some boast higher levels of risk based on the plan structure.

For this observer - and user of structured products - that cumulative, aggregate return for all risk types within a category is absolutely invaluable, especially as one can compare those numbers with a benchmark index such as the FTSE 100 or the FTSE All Share over the equivalent time.

What do these numbers tell us? Perhaps the simplest way of answering this is to take the aggregate, combined total return of ALL products and plans (by sector) issued since January 2009. By my calculations, the total returns over the period January 2009 - July 2015 has been as follows:

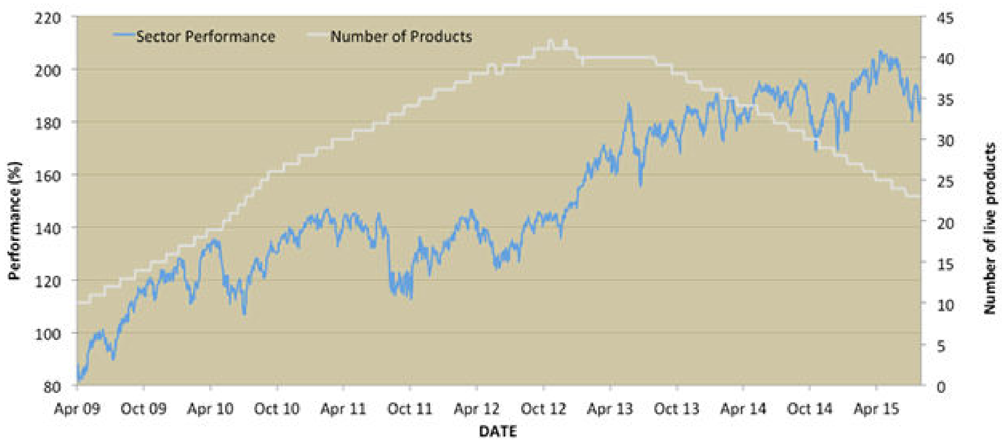
Protected Growth	+51.80%
Protected Income	+42.66%
Non-Protected Growth	+98.57%
Non-Protected Income	+80.99%

Over the equivalent period of time, the FTSE All Share Index has returned a total of 60%, increasing from an index level of 2,275 in January 2009 through to 3,652 until the end of July 2015.

It's important to understand that these cumulative returns include returns for plans which are much more cautious in payout structure than a straight index play (i.e. the Protected Growth and Protected Income sectors in particular). Thus one shouldn't expect a straight read through in terms of returns for all products against the UK's equity benchmark index (i.e. you shouldn't compare a straight unlevered, non-protected equity index with products that might have some capital protection element). Nevertheless these simple, aggregate numbers do back up what many structured product clients have known for a long time which is that most plans will at the very least keep track of the major markets (and sometimes outperform depending on the structure) while also minimising downside risks.

Let's look at another comparison, this time focusing on just one sub-section of the structured products universe, namely non-protected Uncapped Growth plans - UKSPA Product Code 1320. The chart below shows returns for this subset of plans - varying in number from 6 to 41 over these six years - has returned in aggregate 90% in total returns, well in excess of what one would expect from the FTSE All Share index for instance (60% positive gain). This outperformance also shouldn't come as a great surprise to investors, as uncapped growth plans are designed to outperform a reference index (frequently the FTSE 100 index) with upside leverage.

Over the next few months we'll start to start to dig a bit deeper into these numbers starting with Kick Out plans next month.



Performance Summary, as of 31st July 2015

Sector	Performance		
	1-year	3-year	5-year
Protected Income	3.71%	17.58%	35.40%
Protected Conditional Income	3.71%	17.58%	35.40%
Protected Growth	1.79%	18.73%	29.74%
Protected Uncapped Growth	2.39%	22.10%	29.27%
Protected Digital	2.57%	17.41%	29.20%
Protected Kick Out	1.71%	14.87%	26.47%
Protected Growth - Other	3.78%	22.27%	30.33%
Non-Protected Income	4.48%	25.67%	44.61%
Fixed Income	3.75%	21.10%	38.80%
Conditional Income	5.11%	34.53%	58.40%
Non-Protected Growth	2.92%	35.07%	55.39%
Uncapped Growth	0.91%	42.92%	53.65%
Capped Growth	6.79%	43.23%	66.42%
Kick Out	2.40%	29.58%	48.36%

Digital	6.68%	50.33%	78.67%
Growth - Other	7.91%	65.72%	84.52%

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