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## THE BANKS WANT YOU TO LOOK AGAIN AT LISTED STRUCTURED PRODUCTS. SHOULD YOU?

Investment banks are starting to push listed structured products onto the market

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Investment banks are increasingly offering wealth managers bespoke structured products on a listed basis, lauding the added liquidity and transparency this brings.

Up until recently, the UK structured products market, which has always lagged behind Europe, has almost exclusively focused on over-the-counter (OTC) trades. Meanwhile, LSE-listed structured products have been few and far between and wealth managers have largely shunned them.

However, now Société Générale and Royal Bank of Scotland (RBS) are beefing up their listed structured product divisions, while Goldman Sachs, Merrill Lynch and Barclays also operate in this space.

The move has been welcomed by Ben Gutteridge, a Brewin Dolphin structured products analyst, who believes the listed structured products market warrants a second look.

He says: 'Listed structured products tick a lot of boxes. Their tax efficiency is pretty clear and they are always going to be cheaper to get launched than Ucits funds. Listed products offer a more robust capital gains tax structure, so the cheaper you can get exposure the better.'

For example, Gutteridge says, some Brewin Dolphin investment managers have been enquiring about the gold-based listed product from RBS. 'It's an interesting product, as it gives you the gold exposure but not the dollar. It's raised particular interest and we are getting a lot of calls from our wealth managers.'

Alexandre Houpert, Société Générale's head of listed products for Northern Europe, points out that under LSE rules, the investment banks have a number of market-making obligations that ought to appeal to wealth managers.

He says: 'As an investor, you are pretty sure that you will have a transparent pricing structure. We are obliged to provide liquidity on the stock exchange and we have to provide a bid/offer spread – which cannot be more than 1% for listed structured products during market hours.'

Meanwhile, Ben Board, director of RBS UK-listed products, points out that there is nothing that is done in the OTC space that cannot be done with listed structured products. He says: 'The only difference is that with listed products you've got the guarantee of liquidity. The real benefit is that brokers of listed structured products know that they can sell it back into the market. That is definitely

something that we don't see in terms of the OTC market.'

One of the main reasons that listed structured products have not taken off to the same degree in the UK as they have in Europe is the lack of choice. Wealth managers that have looked at the listed structured products space often notice that the products on the market are limited.

However, Board points out that wealth managers should be seeking bespoke solutions and not be restricted by what is on offer.

He says: 'If a wealth manager says I want X, Y and Z, there is absolutely no reason that we can't do that for them. We look at this as a cross between listed offering and OTC. Our tailored service is bespoke but benefits from regulatory framework, secondary market liquidity and price animation of listed structured products.'

Houpert agrees, and points out that Société Générale and other investment banks are building their product range through collaborations with wealth managers.

He explains: 'Our activity relies on the range of listed products we have on offer and our job is maintaining an effective range. Our product range needs to be adapted to the market conditions. If a discretionary stockbroker would like his clients to invest in gold, for example, and we don't have the most efficient product on gold, we will have a discussion and make sure that these products exist. We are very flexible.'

However, not everyone is convinced that the listed structured products market can take off in the UK.

Stephen Trowbridge, a senior investment director at Rensburg Sheppards, believes the fact more providers are expanding their listed structured products offering does not represent a broadening of the market in terms of tradability.

He says: 'If you want to buy and sell Goldman Sachs products you still have to go to Goldman Sachs. I don't think it makes any particular difference to liquidity because if the bank fails then that's it.'

'Besides, some providers have stood by their secondary market more religiously than others.'

James Grayson, head of alternative investments at Thesis Asset Management, concedes a listed product might offer more transparency but questions its liquidity in the years to come.

He says: 'I would be keen to see what kind of liquidity it offers four years into a five-year term. It would also be interesting to see the price when it gets near to maturity and



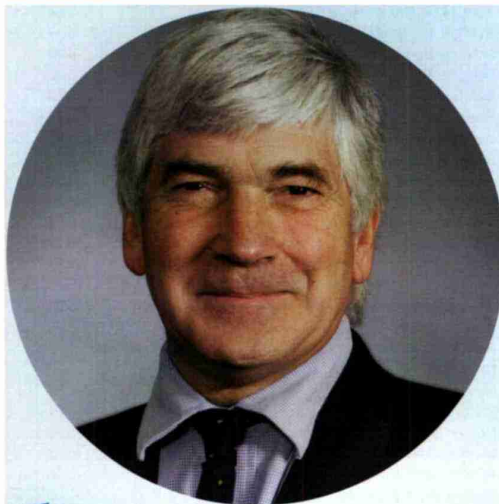
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whether it would go to significant discount or premium.'



**Ben Gutteridge:** Listed structured products deserve a second look



**Stephen Trowbridge:** No difference to liquidity