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Structured Products vs Funds

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Like any investment, investing in structured products has both advantages and disadvantages. Below is our analysis of the positives and negatives of choosing a structured product, compared to choosing to invest in a fund. To discuss investing in a Meteor structured product, please contact our sales team at sales@meteoram.com.

	Structured Products	Funds
Flexibility	There are a wide variety of product profiles that can cater for all kinds of investment aims. Structures can provide capital growth, income, or both. They also offer various levels of capital protection to suit different risk appetites.	Funds can cater to various strategies but rarely specify at the outset, when and how much money exactly, you could lose/gain.
Security	There are products that aim to protect against all but extreme market conditions, regardless of the performance in the underlying asset class. In an uncertain economic environment, capital preservation is often a priority concern.	Although downside reduction measures are common in the fund industry (volatility control, use of derivatives), they rarely provide any form of explicit downside protection.
Return profile	Structures, by their algorithmic nature, provide predefined returns should specific conditions be met over the life of a product. This helps with portfolio planning and, in particular, helps give a clearer indication of the best- and worst-case scenarios.	The returns resulting from investments in funds can be highly volatile and uncertain. More often than not, only very vague projections of what could be achieved are possible.
Yield	Structures can often provide returns in excess of funds, particularly after fees. This is because whereas funds traditionally outperform when equity markets are bullish, structures can outperform in rising, neutral or falling markets. In addition, structures will generally have a pre-specified return profile. For example, in kick-out products, investors are often rewarded cumulatively for each period the product is active.	In a fund, the investor is generally at the mercy of the performance of the invested assets and returns are not necessarily conditional on time. Capturing capital appreciation by timing the market is an art. A major benefit, however, is that returns are often uncapped. Because structures are often developed with inbuilt capital protection features, product returns are often sacrificed so benefits on the upside are often capped.
Risk control	Excluding counterparty risk, structured products can only lose money when all the conditions to lose money are met. Oftentimes this means the linked assets need to have fallen a significant amount at the end of the investment term. Any adverse movement before this time, will not bind the product to a loss.	Many funds tout conservativeness and capital preservation but still lose money because the market value of invested “defensive” assets can still go down in adverse circumstances. In these cases, the losses are cemented unless the assets recover.
Counterparty risk	The financial institution with whom the assets are arranged may fail to pay the amounts due. If the issuing party becomes insolvent or defaults, then investors may lose capital.	Although this risk may be applicable to some proprietary funds too, counterparty risk is rarely a consideration.
Charges	Investors ‘pay’ an implicit fee on inception which covers the cost of administering, developing and marketing the product. Because the fee is built-in, product outcomes are very easy to understand – investors enjoy the full advertised yield of products.	The total expense ratio (TER) of funds may include other significant charges such as annual management fees and performance fees. This can often make them more expensive than what might be payable implicitly through structured products.
Liquidity	In general, the underlying securities can be traded daily. In extraordinary circumstances, though, the issuer may not be able to quote a price for your investment which may delay any early encashment request you may make.	As we’ve seen in some high-profile cases, even the most popular and trusted funds can suspend dealing activity, trapping investors for an indeterminate amount of time.
Investment process	Most structured products are issued in “tranches”. This means that there is a limit to how much is available to buy, subject to whether or not the provider is able to acquire more inventory. Investors need to be decisive in order to avoid missing out on opportunities. In addition, structures are fixed-term investments with predefined start and end dates. Investors are therefore subject to some market-timing risk if they are forced to enter or exit out of a structure at inopportune times.	Generally, inventory is rarely an issue with funds as it is simply a case of buying more units of the underlying assets. Funds are also slightly more capable in regard to entry and exit because, under normal conditions, you should be able to enter or exit at your own discretion. This is helpful for those hoping to time the market.

This information is for financial advisers only and should not be presented to, or relied upon by, private investors.

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