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2021

France Structured Products Market Performance Analysis

Data & editorial: Nikolay Nikolov and Amélie Labbé

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Foreword

Cher/Chère collègue,

Je suis heureuse de vous présenter l'édition 2021 de notre rapport de performance France, le document de référence pour l'analyse du secteur français des produits structurés.

Chaque année, SRP commence son étude de manière en toute objectivité, ne tirant aucune conclusion avant d'avoir toutes les données en main. Chaque année depuis que nous avons publié le premier rapport en 2018, nous constatons la compétitivité et la ténacité des produits structurés en France.

L'année 2021 n'a pas fait exception, même avec les circonstances exceptionnelles que nous constatons depuis le début de l'année 2020 et qui n'ont épargné (presque) aucun secteur économique et financier. L'impact de la Covid-19 sur bon nombre de classes d'actifs a été documenté, analysé et disséqué abondamment dans les médias et autres.

Nous devons à présent tenir compte de l'impact sur les marchés de l'inflation, des taux d'intérêt croissants ainsi que de l'incertitude ambiante. Autant de facteurs qui jouent un rôle dans la performance et l'appétit pour les différentes classes d'actifs.

Cependant, malgré les obstacles, les produits structurés continuent de tenir le cap.

Ce rapport est une lecture essentielle pour plus de détails sur les rendements, les structures ainsi que tout autre point d'analyse sur le rôle que jouent les produits structurés.

Je souhaite également remercier toutes les personnes et organisations qui ont collaboré pour la production de ce rapport, en particulier l'AFPDB pour leur soutien dans la promotion du secteur français des produits structurés.

Je vous souhaite une bonne lecture,

Amélie Labbé
Directrice éditoriale, SRP

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Summary

Structured products are a fully-fledged asset class in the French savings market and one, which keeps proving its ability to deliver long-term returns in different market configurations.

As part of its commitment around transparency in the structured products market, SRP carried out an in-house local market research report. The analysis unveiled that less than 1% of the products that have matured or expired early in 2021 returned losses, and the average return was 7.65% p.a.

The report further outlines the stability and visibility of the returns that structured products delivered over the past seven years. Over these years, structured products have generated more stable and higher returns than those of an investment in a fixed income passive strategy for the same duration and dividends reinvested.

When compared with a direct investment in equities, we identified that structured products have allowed a controlled exposure to the most risky assets (with a number of occasions when they preserved the capital where a direct investment would have realised a loss.

The report also showcases the versalitity of structured products. The asset class is very flexible and broad and it has allowed working in different market contexts with solutions to adapt to challenging market conditions.

The ability to set protection barriers to reduce risk is one of the most important features of structured products. We think this is an advantage which clearly has allowed to add some certainty in a current very uncertain environment.

Virtually all future protection barrier have remained at a safe distance from the activation during the market low observed on June 16 2022. This solid capital protection is one of the remarkable achievements of the structured products industry tested in 2020 and in this year's turbulent market environment.

Methodology

This report provides an analysis of the performance of structured retail products distributed in France. The first part focuses on the products that matured or expired in 2021. For the analysis, we reviewed more than 4,000 products due to mature or potentially expire early. Out of the reviewed products, 2,530 products matured or expired early.

In a second part of this study, we analysed how structured products have performed relative to typical passive equity index-based and bond ETF strategies over the last five years.

The third part of the report looks ahead to review the outstanding structured products in France and see how they are placed to face the current challenging markets.

The analysed data is taken from the StructuredRetailProducts.com France database, which covers over 14,500 products, of which 5,500 are live year-to-date.

Data collection and criteria

The performance data has been calculated in-house and is based on the performance of the underlying over the investment period. Additional performance data has been extracted from public sources such as publicly available sources and submissions from market players.

The calculation of the performance of matured products takes into account the capital return and all interest, fixed or variable, paid during the lifetime of the investment and at maturity.

The value of the coupons itself is derived from the product description of coupon size and frequency.

Limitations

The returns shown do not take into account management fees in the case of a life insurance or investment contract, or custodial fees in the case of an investment in a securities account. In addition, returns exclude entry/arbitration fees in the case of a life insurance or investment contract, as well as the subscription fee in the case of an investment in a securities account and social and tax levies.

The study analyses only the products for which SRP has collected or calculated the performance (80% of the matured products in the database).

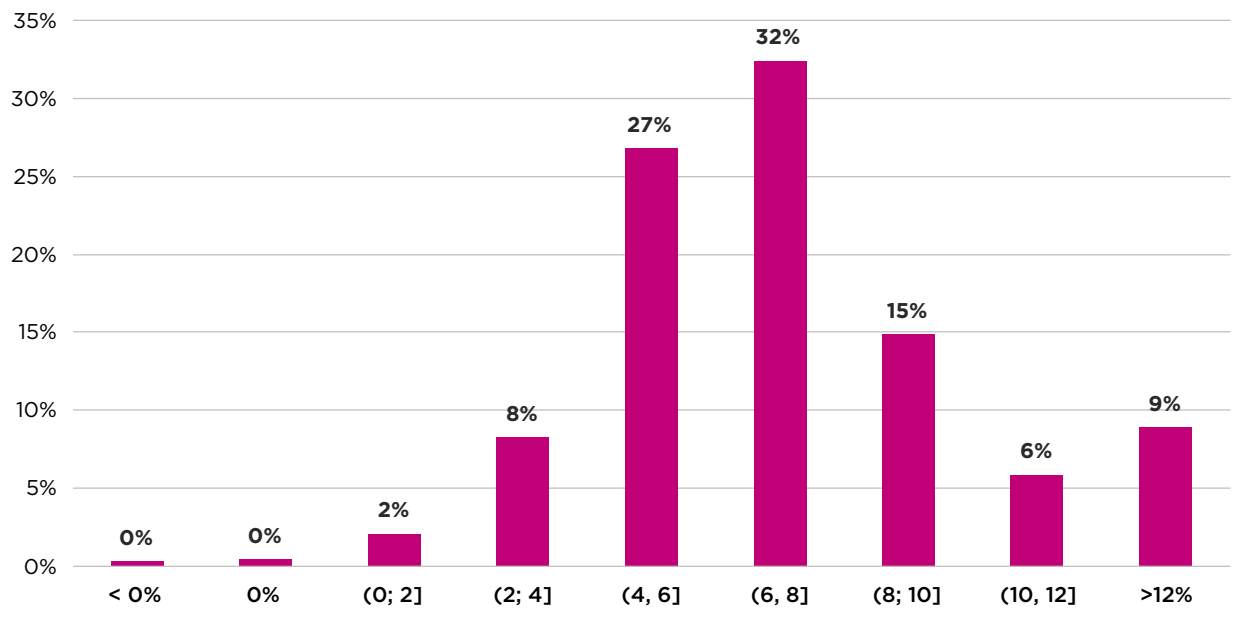
Part 1: **Performance Analysis**

1.1 Analysis of matured products 2021

Key points

- Some 99% of all products maturing (or expiring early) in 2021 generated positive returns for investors
- The 2,548 matured products collectively delivered an average annualised return of 7.65% over an average term of 1.8 years.
- 85% of products paid out a return > 5%
- Autocalling products made up 94% of all maturing products in the period and ran for an average term of 1.6 years producing an average annualised return of 7.87%.

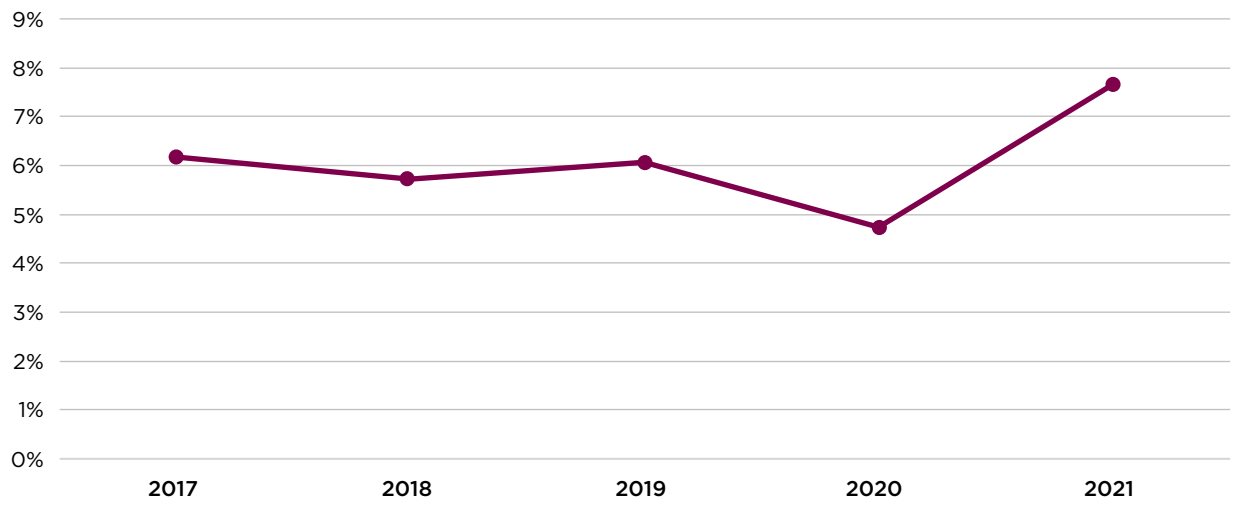
Annualised Return - Matured & Autocalled (Jan 2021 - Dec 2021)



2021 has been a record year for the stock markets which have experienced a massive rebound after the COVID-19 crisis. The histogram of returns shows that structured products performed impressively with an average annualised return of all products is 7.65%, which is 3% more than the annualised performance we reported for the previous 12-month period.

The exceptional performance was particularly boosted by opportunistic structures launched in the wake of the Covid crisis. Best performers linked to equity stocks succeeded to pay out double-digit returns and have outperformed in the equity segment, which was very in contrast to 2020 when precisely products linked to single names weighed at the performance.

Historical Performance of Structured Products (2017 - 2021)



There were significant number of bullish autocalls on indexes that offered participation in rising markets, as well as structures that offered bonus coupons and were able to pay out historic gains. An example of the latter is a product which paid 44.00% in just one year as its underlying index rose by more than the required 10% increase on the first observation date.

Autocallables

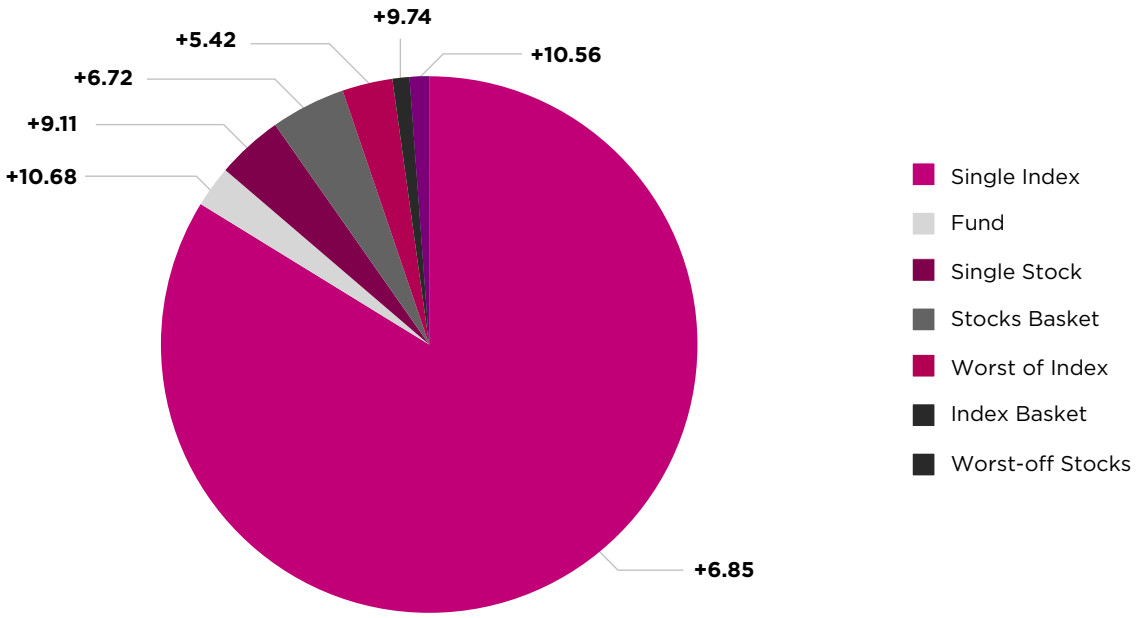
Payoff	Number of products	Market share by volume (%)	Average annualised return (%)	Average holding period (years)
Decrement Index	569	44.41	7.73	1.92
Market cap index	322	44.36	5.81	2.22
Single stock	220	4.57	10.44	1.29
Sector Index	100	2.99	8.44	1.29
Fund (with Decrement)	50	1.93	12.49	1.02
Worst-of (stocks)	57	0.83	11.32	0.91
Stocks basket	13	0.40	7.29	1.69
Fund	2	0.33	2.54	3.50
Grand Total	**1345**		**8.09**	**1.76**

Products that returned a loss in 2021 were extremely rare, representing under 1% of all maturities. Losses in the period stemmed mostly from single stock-linked and 'worst-of' structures from the banking and commercial real estate sectors.

Asset class

Asset class	Number of products	Market share by volume (%)	Average annualised return (%)
Single Index	1403	83.77	6.85
Fund	92	2.49	10.68
Single Stock	353	4.00	9.11
Stocks Basket	36	4.51	6.72
Worst of Index	39	3.03	5.42
Index Basket	6	1.02	9.74
Worst of Stocks	117	1.17	10.56
Grand Total	**2046**	**100**	**7.65**

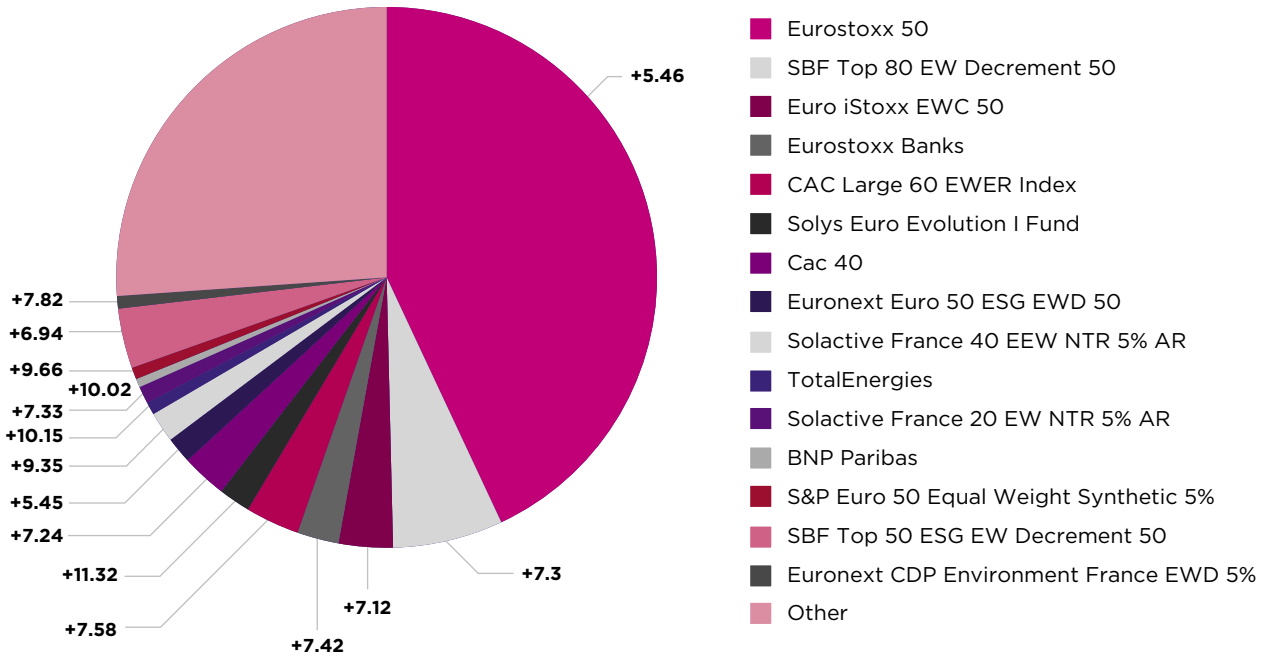
Asset class: Market share by volumes and average annualised return (%)



Underlyings

Underlying	Number of products	Market share by volume (%)	Average annualised return (%)
Eurostoxx 50	409	43.03	5.46
SBF Top 80 EW Decrement 50	114	6.59	7.30
Euro iStoxx EWC 50	143	3.23	7.12
Eurostoxx Banks	111	2.49	7.42
CAC Large 60 EWER Index	82	3.23	7.58
Solys Euro Evolution I Fund	82	1.90	11.32
Cac 40	51	2.70	5.45
Euronext Euro 50 ESG EWD 50	51	1.57	7.24
Solactive France 40 EEW NTR 5% AR	67	1.82	9.35
TotalEnergies	61	0.75	10.15
Solactive France 20 EW NTR 5% AR	39	1.03	7.33
BNP Paribas	27	0.52	10.02
S&P Euro 50 Equal Weight Synthetic 5%	37	0.71	9.66
SBF Top 50 ESG EW Decrement 50	26	3.58	6.94
Euronext CDP Environment France EWD 5%	19	0.75	7.82
Other	734	26.10	0.00
Grand Total	**2,053**	**100**	**7.65**

Most used Underlyings: Market share by volumes and average annualised return (%)



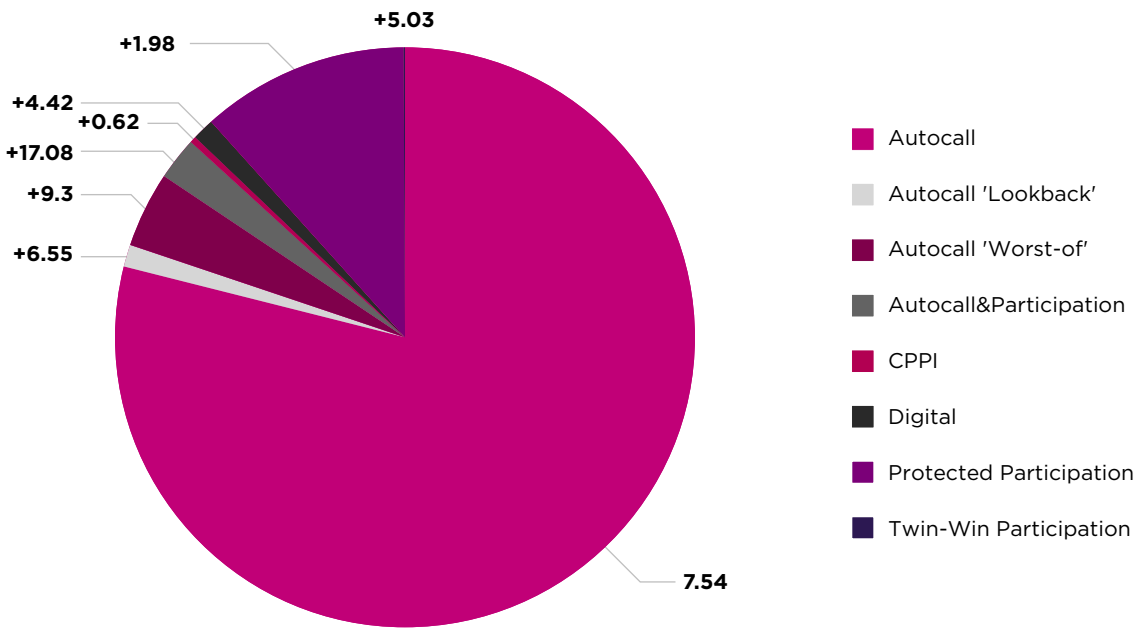
The Eurostoxx 50 in isolation was the prevalent underlying, accounting for 43% of all maturities. 409 of these were linked solely to the Eurostoxx 50 and these produced an average annualised return of 5.46% over an average term of 2.5 years.

Early maturing products linked to synthetic dividend indices have increased the average return to 7.73%, which is an excellent return compared to the risk-free investments' return.

Payoffs

Asset class	Number of products	Market share by volume (%)	Average annualised return (%)
Autocall	1695	79.49	7.54
Autocall 'Lookback'	78	1.24	6.55
Autocall 'Worst-of'	159	4.25	9.30
Autocall&Participation	27	2.41	17.08
CPPI	3	0.35	0.62
Digital	3	1.23	4.42
Protected Participation	49	11.66	1.98
Twin-Win Participation	6	0.08	5.03
Grand Total	**2053**	**100**	**7.65**

Payoffs: Market share by volumes and average annualised return (%)



Part 2:
Structured products in perspective

Comparison to other investment alternatives

The following chapter analyses structured products' performance in the context of other popular investment alternatives. To benchmark the performance of structured products against industry standards, we have compared it to fixed income and direct equity holdings via passive index-based strategies.

The analysis shows that structured products have delivered an enhanced regular return compared to fixed income strategies, while at the same time, has allowed a controlled and low risk exposure to equities.

2.1. Structured products vs. bond strategies

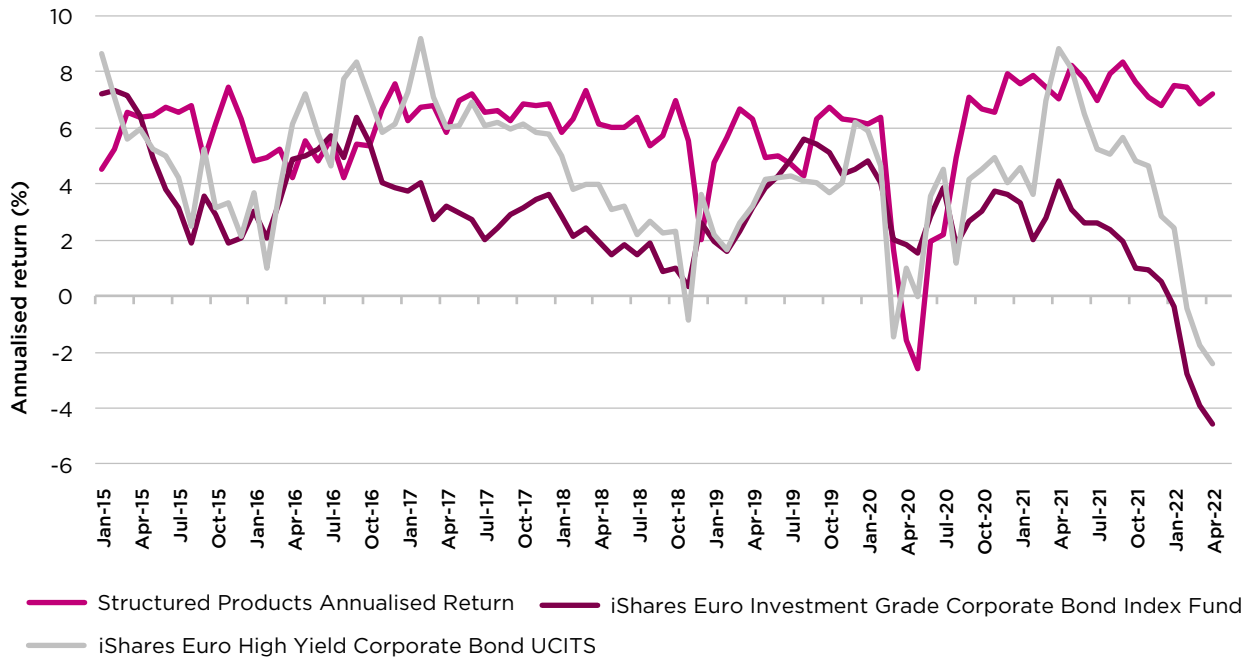
Key points

- **Rising inflation is having negative impact on bonds.**
- **Structured products delivered more stable and higher returns than an investment in a bond ETF with same duration.**

To measure structured products' performance against the fixed-income alternatives we have compared it to high yield and investment grade corporate bond ETFs with reinvested dividends. We calculate the performance of the two ETFs (based on their price) and for a duration similar to that of each matured structured product.

Prior to the creation of the ETFs, we used as a proxy the historical data of their respective benchmark indices - Bloomberg Barclays Euro Corporate Bond Index and Markit iBoxx Liquid High Yield Total Return Index.

Comparison against an investment in fixed-income



*Source: SRP, Investing.com
** Includes capital-at-risk and capital protected structured products (strike date > Jan-2010; maturity date Jan-2015 to Apr-2022)
*** Bloomberg Barclays Euro Corporate Bond Index and Markit iBoxx Liquid High Yield Total Return Index historical data is used as a proxy prior to the creation of the funds

As we can see from the chart, during the last 5 years structured products have delivered more stable and broadly higher return compared to an investment in a fixed-income ETF with the same duration. In fact, since 2015, an investment in the bond ETFs would have outperformed structured products only in 2016, as well as between April and June 2020, when a number of riskier structures weighed on the average return.

In the first case, oil-exposed HY utility ETFs tended to outperform in 2016 after slowing Chinese economy and falling crude oil prices in the second half of 2015.

In March 2020, the Covid-19 pandemic market crash slashed returns across all asset classes. Then we saw corporate bonds' valuations soar from their lows due to the purchases by the central bank especially in the high yield. Notably, as a result of the massive monetary stimulus yields plummeted, pushing up bond prices.

The environment has changed since and the inflationary pressures have pushed interest rates up.

Since the beginning of 2022, bonds prices have been falling under the effect of higher interest rates.

By contrast, yields on structured products have remained stable since the 3rd quarter of 2020.

2.2. Structured products vs. direct equity holdings

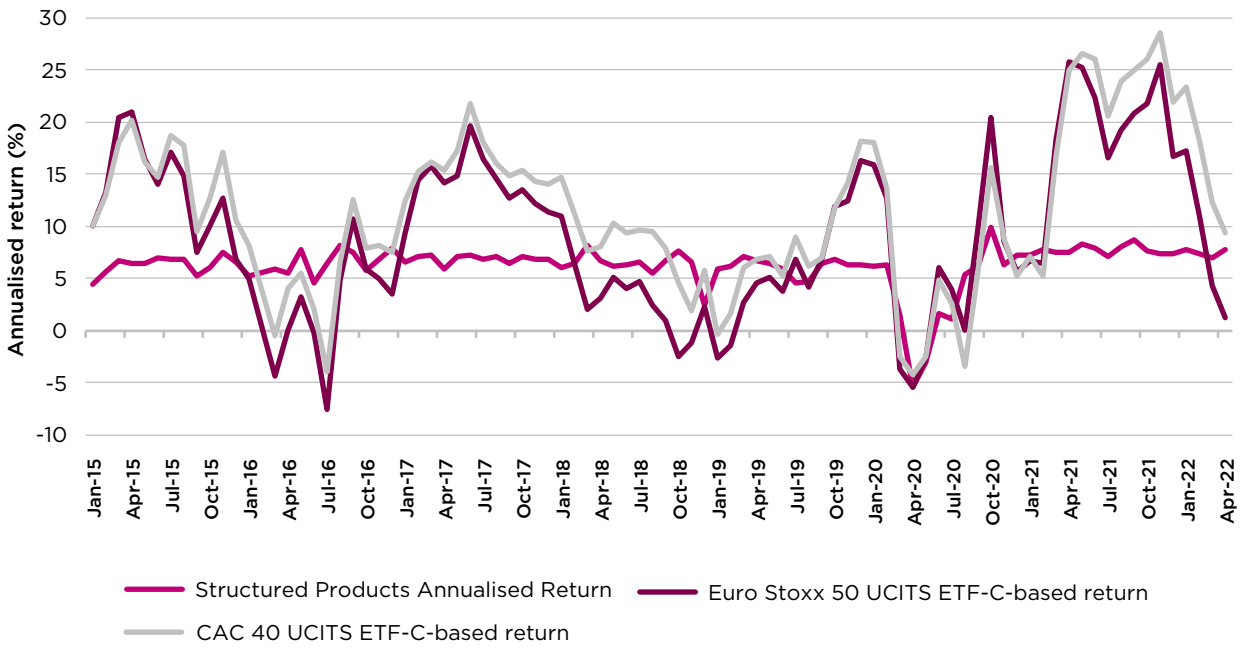
Key points

- Unlike a passive index-based strategy, structured products have delivered stable returns while moderating the exposure to excessive fluctuations in volatile markets.
- Solid protection barriers and diversified index-linked exposure helped preserving capital at the height of the Covid-19-related market crash.
- Performance peaked up and stabilised since markets crash in 2020, specifically a return of between 6 and 8%.

In the chart we have compared the performance of capital-at-risk structured products to exchange-traded funds (ETFs) replicating the performance of the Cac 40 and the Eurostoxx 50, with reinvested dividends.

As with the previous comparison, we calculate the performance of each of the two ETFs over the investment term of each matured structured product.

Comparison against a direct investment in equities



*Source: SRP, Investing.com
**Includes capital-at-risk structured products only (strike date > Jan-2010; maturity date Jan-2015 to Apr-2022)

Once again, we can observe is fairly stable performance of structured products compared to a direct investment in the equity markets.

Even with the performance mishap resulting from the Covid-19-triggered crash, it remains clear that over the last seven years structured products have effectively allowed a controlled exposure to equities' fluctuations. Therefore, investing in the markets via structured products allowed investors to avoid some of the corrections that we had in 2016 following the crash of the Asian markets and in 2018.

Obviously, there have been counter-performing products, with 4% of the products that matured in 2020 suffering a capital loss. It is worth noting that counter-performing products at the time, just as in 2021, were among the riskier structures linked to individual stocks or to a worst-of performance of stocks (like Renault, Carrefour, Saint Gobain, and stocks in the banking sector).

Notably, equity index-linked products in the SRP database have not lost capital during the Covid-related market crash as globally they have not breached the protection barriers (generally absorbing a -40% to -50% fall). This brings us to our second conclusion, notably that investing in equity markets via structured products has allowed investors to avoid some of the market falls, thanks to the protection barriers that almost all structured products offer today.

Part 3:
Looking ahead

Maturities going forward and barrier risks

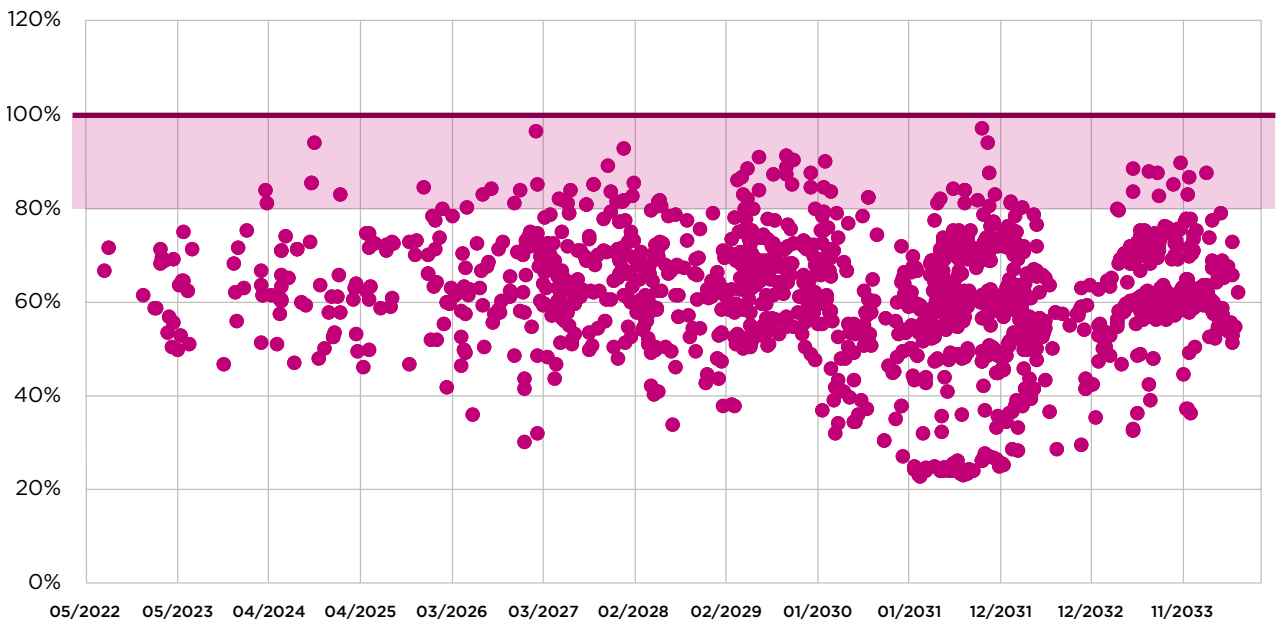
This part of the study looks ahead to reviewing the outstanding structured products and whether there has been a risk for the invested capital during the most recent market low point in June this year.

Given the low interest rates environment, capital guaranteed products have been extremely scarce over the past years. This is why almost 90% of the outstanding products in France feature a conditional protection of the invested capital in the shape of a Knock-In protected put. This means that while their mark-to-market value is highly correlated with the performance of the underlying, the invested capital is protected at maturity so long as the underlying does not depreciate to more than the predefined barrier level.

In general, capital at risk structured products in France are protected by a single "European" barrier, which is reviewed at maturity. This means that if the underlying is above this level at maturity then investor's capital will be repaid in full, and potentially with a coupon if markets have recovered.

Around three quarters of the outstanding products in France are linked to a single equity index and our analysis will focus on that sub-group.

Future barrier risks (Barrier levels relative to market low point on June 16, 2022



*Include Single Index-linked products with Conditional protection (KnockIn).
**Include 1,600 live products = 65% of the Single index-linked universe
***Data source: Investing.com, Stoxx, Euronext, S&P Dow Jones

The red line represents the activation level for each product which, if crossed, would result in a capital loss. The dots represent the barrier levels relative to the underlying indexes level measured on June 16 2022.

The distance between the dots and the red line represents how far (in %) the barrier is from the activating barrier. The further the points are below the red line, the safer the products.

As we observe from the chart, virtually all future protection barrier levels were at a safe distance from the activation of their barrier level. We also note that only 6% of the products (on the highlighted area) would have experienced capital loss if the indexes dropped further 20% in the coming months and if the markets ended up not recovering from these levels until products' maturity. Therefore, the dots on the highlighted area are those that are most sensitive to market developments at this stage.

As for the remaining 94% of index products (points on a white background), they would absorb at least an additional 20% drop in their index compared to the prices recorded on June 16.

The 2nd thing to observe is that around 80% of future maturities are concentrated after 2028. Structured products are long-term investment solutions which means that with several years to maturity and optimized autocall mechanisms, it would give further chances for the products to autocall before they even reach maturity.

Future barrier risks (Barrier levels relative to market low point on June 16, 2022)

The chart above replicates the previous one, breaking-down the individual products between those linked to a market benchmark (Eurostoxx 50, Cac 40), and to the most used ESG Indexes and Decrement indexes (ex ESG) in equal proportion.

The blue dots (SX5E and Cac 40 linked products) represent 75% of the products due to mature over the next five years and 60% of the maturities before 2030. Decrement indexes are to be expected to mature after 2025 which is basically 10 years after they started to become popular. From 2030 on, maturities linked to Decrement indexes and ESG represent more than 90%.

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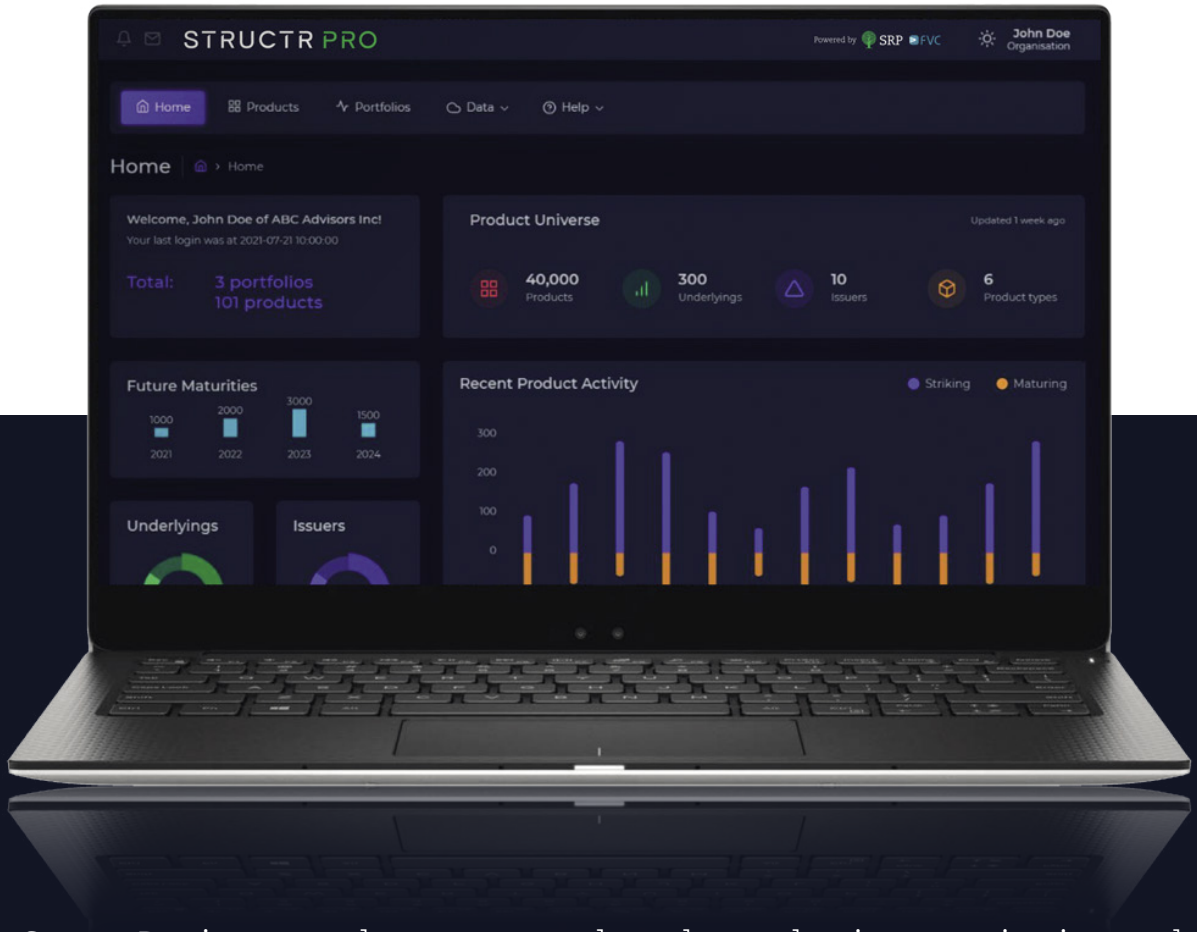

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