

## BEST STRUCTURED PRODUCTS HOUSE

# BARCLAYS CAPITAL

An integrated approach to developing its structured products business is paying off

The structured notes market had its genesis in equity derivatives but it is becoming more and more of a cross-asset-class business, and this is a trend that Barclays Capital is uniquely placed to take advantage of. While other banks seeking to break into the fast-growing structured notes market will start by tentatively spinning off products from their equity derivatives desk, Barclays Capital has from the outset taken a more integrated approach to the development of its business. With so much investor interest now focused on alternative assets and exposures, that approach is paying off in a big way.

"We are completely integrated. All the seven asset classes – eight if you include private equity – sit in the same room, which allows cross-pollination between those asset classes," says Guglielmo Sartori di Borgoricco, the bank's global head of distribution, in London.

In a highly volatile and uncertain trading environment, BarCap has managed to maintain momentum in its structured notes business when others have been lucky just to tread water. "Our structured product revenues are 20% up on last year," says the bank's London-based global head of structuring, Michel Iskander.

The bank has rolled out several new products over the past year and has been at the forefront of developing the latest generation of algorithm-based strategic index investments. For example, at the end of February it launched the Commodities Out-Performance Roll Adjusted Liquid Strategy Index (Corals Index), which aims, through analysis of fundamentals, to capture alpha from the commodity markets. The index invests in 12 liquid commodities that analysis suggests will, as a portfolio, perform well on a risk-adjusted basis. It uses factors including global growth, momentum, mean reversion, roll yield and fundamental attributes to forecast the expected performance of individual commodities for the forthcoming month. These forecasts are used as inputs into an optimization model based on an algorithm that combines modern portfolio theory with value-at-risk analysis. The optimization model seeks to maximize returns per unit of risk for the overall portfolio within defined constraints, with concentration risk mitigated by restricting maximum exposure to single commodities and sectors. The model then generates a long/short allocation while maintaining a net market exposure of 100%, with the index rebalanced on a monthly basis.

The bank has also had success with its Q-Bes strategy, which aims to take advantage of surprises in company earnings. Q-Bes takes the stocks that make up the S&P 500 and monitors them on a monthly rolling basis, ranking them according to which ones are more likely to show a positive gain if there's a positive "earnings surprise" – defined as when the actual realized earnings differ from the expected based on analysts' estimates – and does so in a way that suggests the companies may be undervalued.

The idea is that quality companies that have earnings that are better than expected, don't often display an immediate move in



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price because the market should already have factored in any potential surprises. Any new upside will emerge afterwards, once the strategy has taken a long position in the stock. The Q-Bes strategy is then used as the basis of structured notes where the earnings surprise algorithm is overlaid with a long/short strategy, going long the earnings surprise strategy and short the S&P 500, representing a broad equity market benchmark. Investors can then take exposure in principal-protected or other structured note formats.

The bank has also been a leader in selling volatility-based strategies, such as Voltaire, which focuses on the differences between implied and realized equity volatility. Meanwhile, BarCap has rolled out a number of foreign exchange volatility indexes, and has been instrumental in creating products that let investors play the FX market in a systematic way. Its Intelligent Carry Index, for example, delivers the carry trade to investors that traditionally could not access such a strategy. The index is designed to consistently capture yield pick-up in the world's 10 most liquid currencies.

The FX carry trade index was launched on the US market in April in the form of an exchange-traded note (ETN) listed on the NYSE-Arca stock exchange. BarCap's success in creating the ETN market – a US version of what is referred to in Europe as an exchange-listed certificate – is testament to its place as a leading structured investments provider. "In Europe there are tens of billions of euros invested in certificates, and now the ETN market in the US is establishing itself," says Iskander.

Investment banks have been trying for a long time to convince the mass US retail market of the merits of structured products. BarCap has led the way with the introduction of ETNs. It now has a platform to make many more innovative structured investments available to US investors, which will further cement its place as a leading, global structured products house.

EM

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