

## Structured funds house

### Barclays Capital Fund Solutions

> In days gone by, structured funds were all about formula funds. But times have changed, and now the demand is for a full spectrum of complexity and innovation. And this is where Barclays Capital Fund Solutions (BCFS) steps in.

"To some extent these days, the funds world is a mixture of derivatives products, absolute return, hedge fund and more active, quantitative strategies," says Shachi Shah, managing director and head of BCFS. "We have always targeted these areas simultaneously, leveraging our cross-asset platform and research capabilities. This innovation began when BCFS was founded in 2005 and has recently been added to with the launch of the Dynamic Gold Allocation Fund. The solution was sophisticated: "The model gives me, as an investor, dynamic exposure to gold in a bullish gold market and partially avoids down markets in gold," says Tsachi Cohen, head of equity, investment division at Amitim – Israel Senior Pension Funds. "The Barclays team is very active and innovative, and has an excellent understanding of our needs, requirements and views. I have the highest compliments for their ongoing service and effort in bringing me new ideas and solutions."

The fund is still being sold through 10 distributors and had already raised \$80 million by September. "The Golden Allocation was structured with one particular distributor in mind in Asia, but was distributed in Europe and proved attractive to institutional investors as well," says Edward Golosov, director of BCFS.

For quantitative investment strategies, however, the bank has offered Max Stability, which is a combination of its active strategies plus the quantitative investment strategies coming from the other trading desks in Barclays. "We combine index or investment strategies plus active strategies into one strategy and allocate between these strategies in a CPPI [constant proportion portfolio insurance] construct," explains Shah.

The product is available in a protected and an unprotected format, which, Shah says, "is very complicated to do within the fund because you are not only dealing with multiple strategies: some are done directly in the fund, while some are accessed by swaps, and some can potentially be accessed by other funds."

The solution lies in multiple instruments (covering seven asset classes) and strategies (cash, derivatives, also swaps, futures and funds), she continues. "We can do that because we run our own trading programme inside of our structured funds business. This



Shachi Shah

saves a lot of collateral costs, which is ultimately going to investors."

The Max Capital Stability 2020 Fund and Max Capital Stability 2028 Fund were launched at the end of the summer with a target size of €500 million, and has, according to Shah, already been sold in size to a leading Swiss insurance company.

Barclays also came up with Fondo Radar, a long-only multi-asset-type strategy run in accordance with the CPPI strategy that delivers principal protection at maturity in 2017. The assets are dynamically allocated in accordance with a fundamentally driven tactical asset allocation model based on their expected performance, correlation and risk.

"Collateral cost was a big issue for the client [a large European insurance company], but they still wanted capital protection," says Shah. "If you just buy a straightforward option, the participation in the risky asset is pretty low. If you do CPPI, to some extent you get to the same place – but you could also have this possibility of suffering from credit risk or gap risk events because normal CPPI is run between cash and risky assets.

"If you suffer a credit event on the same day, you need to go and buy bonds when they are going through the roof and the cash you have is limited. It is a pretty rare coincidence, but these days – namely after the 2008 crash – credit risk and viability on a gap event is very important to you, especially insurance clients when they are selling to retail. A lot of those types of clients were caught out in 2008 with the Lehman Brothers collapse. So naturally they are very sensitive on the day they have to pay out: if the bank providing the protection is not there, will they still be able to provide a 100 at maturity? We solved that dilemma: we buy the bonds on day one and we have them in the fund."

The protection component for the multi-asset basket consists of European sovereign bonds and is structured so that investors will only be exposed to the bonds should the CPPI strategy or the counterparty fail. The fund was launched in August with a target size of €1 billion and has already been sold to a leading Italian insurance company.

As opposed to a structured products business with a few funds people to wrap products, the group has a full-service asset manager and all personnel have derivatives skills. "Our funds business is built like a proper funds business," says Shah. "We have our own quantitative portfolio modelling capability, we run our investments ourselves, we have a separate research and investment committee, and we have our own structuring desk. ●

