

Delta One and Thematic investing: A fly-by summary

This week's FNL focuses on a broad introduction to thematic investment and delta one products, in which our team have countless years of experience for a wide-ranging client base. Over the coming weeks, we are going to explore some thematic ideas that are proving popular and how they might be played using delta one products, such as Robotics, Commodities, Global Infrastructure Spending, Disruptive Technologies or Biotech. However, this week we are going to take a step back and briefly look at thematic investing more generally and explain what Delta One products are and the potential advantages they can provide to investors.

Thematic investing requires belief and an ability to stay focused on that belief and shut out the white noise of short-term market movements. It is not necessarily for everyone, however in a rapidly changing world where mega trends are becoming increasingly more relevant, those investors able to identify the beneficiaries of such trends in advance of them becoming more widely recognised can potentially profit handsomely. Delta one products can assist greatly in this. Contrary to Los Angeles' social elites, Delta one is not an upper-class airline service, but simply an investment that provides one for one exposure to an underlying basket of securities. There are numerous benefits to such a product:



No one likes missing out on top notch service...

1. The investment universe is essentially anything that is tradable
2. The baskets can be highly customised and dynamically rebalanced daily
3. Denominations are available all the way down to a single £; allowing them to be used across multiple portfolios at small size
4. Dividends can be rolled up and under current rules, ought to be taxed to CGT
5. Foreign dividends can be immediately converted into the currency of the note, and foreign currency exposure can be efficiently managed by the implementation of a daily FX hedging mechanism
6. SDRT not applicable and potentially more advantageous WHT treatment on dividends
7. Full intra-day liquidity on subscriptions and redemptions, at basket NAV +/- a narrow bid offer spread (somewhere between 50bps to 1% depending on the underlying assets)
8. Low and explicit fees, typically depending on scale, investment universe and frequency of rebalancing with fully transparent trade execution costs

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Product	Snowballing Return
Citigroup FTSE/SX5E Autocall EIS 100/95/90/85/80/65 65% WOEKIP	7.65%

	Rates (bps)	
	Current	Week Chge
GBP 1yr	46.00	-0.50
GBP 3yr	60.90	1.00
GBP 5yr	77.70	1.60

	Equity Indices (%)	
FTSE 100	7,565.39	0.24%
S&P 500	2,345.96	-2.89%
Nikkei 225	19,445.7	-1.22%
Eurostoxx 50	3,604.91	0.72%

	Currencies (%)	
GBPUSD	1.2866	0.48%

	5yr Credit Spreads (bps)	
Citigroup	57.80	1.74
Credit Suisse	75.37	0.56
Deutsche	99.24	1.95
GS	72.38	1.90
HSBC	51.44	1.52
JPM	50.51	2.94
MS	68.18	2.04

	Commodities (%)	
Gold	1,262.98	-0.30%
Oil (CLA)	46.93	-5.76%

	3m Implied (vol pts)	
FTSE 100	10.54%	-0.07%
S&P 500	9.53%	-0.09%
Nikkei 225	14.41%	-0.20%
Eurostoxx 50	12.98%	-0.41%

	5yr Implied (vol pts)	
FTSE 100	18.18%	0.11%
S&P 500	19.49%	0.14%
Nikkei 225	19.34%	0.37%
Eurostoxx 50	19.81%	0.02%

Source Bloomberg / Partner Banks
 Data as at 02nd June, 11.00am

	Upcoming events
02 nd Jun	US non-farm payrolls and unemployment data
06 th Jun	Eurozone Composite and Services PMI Index
08 th Jun	ECB Interest Rate announcement
08 th Jun	Chinese Trade Balance (USD bn)
09 th Jun	Indian Trade Balance (USD bn)
14 th Jun	Fed FOMC Meeting
15 th Jun	BoE MPC meeting & Rate decision

“A good hockey player plays where the puck is. A great hockey player plays where the puck is going to be”
 – Wayne Gretzky*

These are in essence, bespoke, in-house ETF style investments designed with the institutional manager in mind. ETFs, though prevalent in the market are not always as institutional as they seem. Apart from your headline cost (which can be quite high for the more esoteric ideas), there is a second hidden set of fees that are far less transparent – this can result in a large tracking error depending on the cost of the provider’s transactions and hedging mechanisms. Moreover, certain ETFs can trade at a premium or discount to NAV. Delta one products as discussed above, have transparent fixed fee structures and a pre-defined bid offer spread around the NAV. They provide scalability, efficient delivery and a USP from competitors when looking to take advantage of global themes without waiting for an off the rack solution. So, what’s the catch? Well, much like when buying a structured product an investor is taking on senior, unsecured bank risk. It is important to note though, that your mark to market is not affected by the underlying bank’s funding or the “Greeks”, which dictate a traditional product’s performance. Moreover, certain issuers can even collateralise the underlying assets to ensure greater security.



A tailored fit...

The only other major concern for a delta one investor is, naturally, the performance of the underlying basket of assets you’ve chosen to track, however that is certainly not unique to these products. So there you have it; fully customisable, transparent institutional investments. Delta one in a nutshell. For more details on anything referenced in this week’s FNL, or to find out more about the products described above, do please get in touch via the usual means.

**Our resident Canadian insisted on this quote being included, despite never having mentioned Ice Hockey to date at all...*

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