

## House of the year, Asia

### JP Morgan



Lionel Semonin, JP Morgan

> Ever since the formation of a new third-party distribution group in 2004, JP Morgan's Hong Kong-based team has stood out from the crowd when it comes to structured products in Asia. While the third-party group continues to provide cross-asset structured products to financial intermediaries serving Asia's high-net-worth and retail investors, JP Morgan has been strengthening its platform to speed up delivery in an increasingly sophisticated and competitive marketplace. And this year JP Morgan has pioneered new products for individual investors to access markets that are usually restricted to the institutional investors.

One of JP Morgan's innovations this year is an over-the-counter replication of the traditional constant proportion portfolio insurance (CPPI) strategy. Its aim is to maximise exposure to predefined premium assets such as equities and funds, while guaranteeing a minimum capital return over a predefined period. Unlike CPPI, synthetic portfolio insurance (SPI) does not require an external investment vehicle. Instead, it replicates a CPPI algorithm, and combines a zero-coupon bond for capital protection with a call option on a CPPI portfolio.

The development of SPI has enabled JP Morgan to enhance the payout of target redemption notes (Tarn). For example, a seven-year Tarn SPI gives investors the option to leverage a short term view and take profit early, given the view is correct. The initial exposure in an SPI depends largely on the level of the bond floor which is the cost of protecting the capital to maturity. Longer maturity means a lower bond floor and larger cushion, hence higher initial exposure and expected forward exposure to the premium asset.

What is more, the investment bank is also quick to respond to market changes. Its Enhanced Straggler Note, for example, was developed to replace the semi-annual review notes. The idea came from private banking clients who thought that volatility levels in the market were too low, says Lionel Semonin, managing director and head of the third-party group for Asia excluding Japan, at JP Morgan in Hong Kong. The non-principal protected product has a fixed maturity of two years and provides investors with leveraged return to the least performing stock or index or both, the Straggler, of an underlying basket.

The note does not cap the upside return while its knock-in/knock-out put feature gives un-leveraged exposure to the downside subject to a knock-in event. The put knocks in if the Straggler goes below 70% of its initial value on any day, but also knocks out completely if all stocks perform well. In addition, the note provides a minimum return of 30% if all three stocks rise above 10% of its initial value on any day.

There are more than 20 banks now vying for investors' attention in Hong Kong, a mature and sophisticated marketplace and new ideas have become all important, Semonin adds using JP Morgan's credit-equity hybrid, Abacus Equity Credit ("EC") Linked Notes, as an example of innovation. The hybrid is a combination of the characteristics of two popular products in the territory. The notes contain an equity basket of global blue-chip shares and a credit basket of global reference entities. The maturity term ranges between one and 10 years. The notes offer an 18% first year fixed coupon, unlimited upside on the final coupon upon target redemption. The bank also introduced the "All-Weather" concept earlier this year, paying semi-annual coupons in all equity market conditions.

And, importantly, JP Morgan's clients in the Asia-Pacific region are impressed with the bank's structuring capabilities. "It has captured the essence of a structured derivatives provider," says Tony Wang, director and head of structured products group at HSBC private bank in Hong Kong.

#### Why JP Morgan won

JP Morgan has made innovation its priority in the region. Key clients are impressed at the bank's structuring capabilities and its range of products is exhaustive. Jeong Ha, Seoul-based manager of derivatives business unit in Korea's Kookmin Bank, says JP Morgan is able to provide a level of service unmatched by competitors in the region.