



Canada distributor

National Bank of Canada

> As is the case in the US market, structured products in Canada suffer from a relatively fragmented distribution network. Though structuring is dominated by a small number of domestic players, physical distribution is scattered across various channels, including the banks' own offices, investment advisers and independent dealer firms. A key challenge facing distributors is to establish consistent coverage of these different channels. Simultaneously, distributors must tackle the problems inherent in a relatively small market, which, despite growing in size, still lags behind its US neighbour.

National Bank of Canada has successfully addressed all these issues over the past 12 months. In line with most distributors in this market, the bank's on-the-ground effort is split between two channels: its proprietary network consists of 734 investment advisers spread across 94 offices in Canada (in Quebec this is enough to give it the leading retail distribution network), while the bank works with more than 100 independent financial advisory firms via its correspondent network, including Edward Jones and Richardson Partners. "Our products have also received strong support from investment advisers from other bank-owned and non-bank-owned dealers," says Hamid Omoumi, Toronto-based head of equity derivatives marketing at the bank.

Though the past year's financial market woes have made product development more complex for distributors and structurers, National Bank of Canada's philosophy is that structured products can be used to provide optimal returns from essentially any market conditions. The bank's foray into the alternative exchange traded-fund (ETF) market has been the perfect illustration of this, conducted in partnership with Horizon BetaPro ETFs. Its Bull and Bear funds offer 200% participation in either direction on a selection of major indexes, including the DJ-AIG Agricultural Grains Index and the S&P/TSX (Toronto Stock Exchange) 60. The funds were launched to investors in January 2007, and are traded on the TSX.

In terms of developing the overall market, the bank has introduced several thematic option-based products giving investors opportunities away from the fund-linked constant proportion portfolio insurance (CPPI) investments that have dominated this space. This has proved a good choice, as many CPPI structures have suffered in the recent market volatility. "We have been careful in how we have gone along with fund-linked notes because they are all CPPI, which is very path dependent, and



Hamid Omoumi, National Bank of Canada

rely on how the fund performs in the first couple of years," says Omoumi. "What we have seen happen in the market in the past six months is exactly what we were concerned about." Subsequently, only around 10-15% of the bank's structured note portfolio is in CPPI structures; the rest are option-based.

Thematic products can be as simple or as complex as investors want, ranging from commodity-linked leveraged super-trackers to more structured offerings such as the Globe-Trotter deposit note. This note combines exposure to a basket of 20 leading global companies and is callable by the Bank after 4 years at \$146.41 for an annualized return of approximately 10%.

If not called, the return at maturity is calculated advantageously starting from the lowest of 13 monthly portfolio levels observed during the first year.

These notes offer a 100% capital guarantee at maturity, and more importantly, no direct currency exposure, providing shelter from potential foreign currency weakness relative to the Canadian dollar.

It is no surprise then that National Bank of Canada's distributor competitors describe the bank as moving up in the market this year. The bank's increase in sales volume was 15% for structured notes between 2006 and 2007, with double that figure anticipated for this year. In tandem with the rise, the bank has stepped up education efforts, with Omoumi describing it as one of the cornerstones of its growth strategy. Over 2007, the focus was on education for its investment adviser network, for which general education seminars are held covering a variety of topics. "We recognise that supporting the product after the sales process ends is also critical to the growth of the market as a whole," says Omoumi.

The bank is particularly rigorous about ensuring that full risk disclosure obligations are met. As a result, none of 2007's regulatory tightening in this area caught it off guard. Omoumi hails it as a welcome change which will bring all market participants onto a level playing field. "We have been very supportive of the requirement for increased disclosure because we felt we were ahead of the curve on that, and some of our competitors were not following," says Omoumi. "We have a number of competitors that bring products into our network for distribution and we have at times had to go back to them and ask them for better disclosure on some of the key risk elements."