Leonteq: Helping Wealth Managers Choose the Best SPs for their Asian Clients

Chinmay Patil, Executive Director, Investment Solutions for Leonteq Securities, is passionate about structured products and their ability to enhance both returns and safety for investment portfolios. He told delegates at the Hubbis Asian Wealth Management Forum how Leonteq works closely with the private banks and wealth managers to help them work with their HNWIs clients to build optimal structured product (SP) solutions. He emphasised the technical expertise of the firm, its digital excellence, and its human face.

SWISS INDEPENDENT FINANCIAL SERVICES FIRM Leonteq Securities has been operating in Singapore for more than seven years, offering a range of bespoke structured investment products. The firm works with many external asset managers, private banks, and family offices, and today employs some 50 people in Singapore and around 15 in Hong Kong and has 5 people in its newly opened office in Tokyo, giving it excellent coverage in the region.

"At Leonteq we are highlight how technologically advanced we are," Patil began. "We focus on industrialising production and management of structured products in a scalable manner. But we also emphasise how connected we are on a personal level, working with the wealth management industry to help them and their clients."

"With any investment portfolio that you want to manage you need to have three key pillars in your process," he continued. "You need to have the ability to evaluate the opportunities at your disposal. Once you have taken on position you need to be able to monitor your portfolio and then if there are any actions needed you must have the ability to effectively reinvest your returns or restructure the portfolio. So, let's today try to dig deeper into how you evaluate opportunities and what we offer."

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Access to the world

He said the client needs to have access to global investment universe. "At Leonteq we allow you to structure structured products on 1900 equities or 150 indices and ETFs, REITs, credits, all the major currencies and some EM currencies as well, commodities, and so forth. Once you have decided what kind of investment universe you're targeting, you need to evaluate the risk appetite and based on that you decide what kind of product you want to invest in."

Not all investment mandates are the same and not all products are suitable for all clients, he noted. "So, our digital platform allows you to structure, price, and execute all the different types of products that you can think of on the risk-return scale starting from relatively safe capital guaranteed notes with modest returns to yield enhancement, participation notes and all the way to leverage trackers which have high risk, high return profiles."

Defining your goals

"Once you have decided what structure you want to do then the next question comes is you have your starting universe, you know what product you want to invest in but which underlying basket can give you optimal or highest return for a given risk level. And for that we offer a digital tool allows the client to run an optimisation on their watch list, for example we can run 680 combinations in just nine seconds, and that is for just one pricing run. The mission of course is the best structure for the client in each case."

The next task is that of monitoring the portfolio. "And as a part of the same toolkit we provide a very sophisticated portfolio analysis tool. We provide different country exposure, sector allocations, ratings allocations, all that exposure measuring the delta of the product which is the real sensitivity of your portfolio to the movement in the underlying assets."

Predicting the future

He also highlighted how Leonteq provides some fascinating innovative tools for predictive analysis, such as predicting the cash flows of the structured products, redemptions and so forth. "Our portfolio analysis tool provides this right out of the box, giving clients a snapshot in the coming months of what different cash flows they can expect. And not just with current market scenario but with different market scenarios."

Another tool allows the clients to map their current risk exposure against the new opportunities in structured products across sectors versus geographies.

Keeping it personal

"And finally," he noted, "we are also there to support you, as we know that not everything can be automated. Accordingly, there are times when you want to change the predicted cash flow in your portfolio and then my specialists in Leonteq can come up with new restructuring suggestions which will allow you to move ahead your cash flow to match your certain needs that might come up in the portfolio."

In the Workshop, Patil mined down into far more detail on the products on offer and how to arrive at the optimal structures.

As a very simple example, he explained the objective of building a diversified portfolio, which will generate effectively a 10% yield.

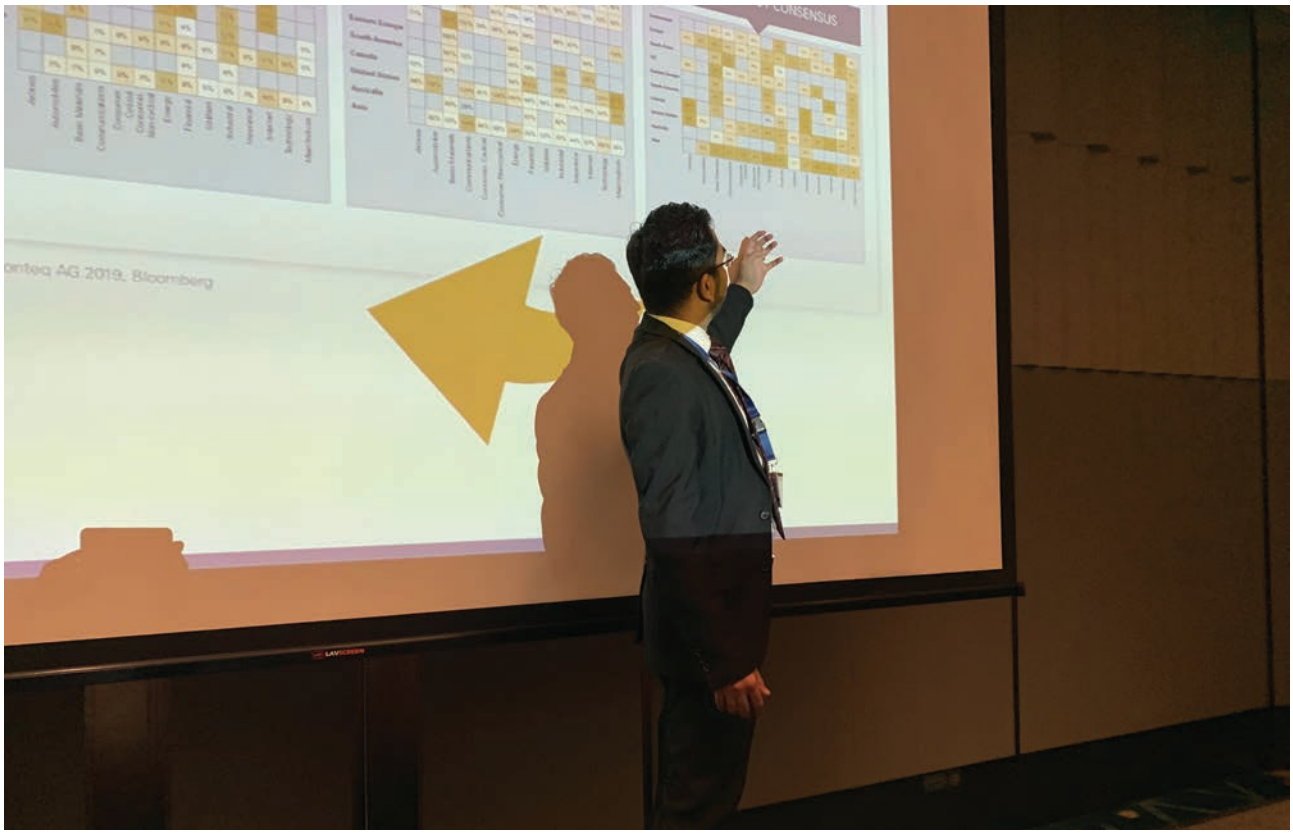
"We want to limit our concentration risk, so we want to have a lot of structured products, but in a systematic manner," he explained. "We will put a constraint that we will do worst of three. So, those who have done structured products before, structured products usually involve multiple underlyings and you take a view on the underlying basket. In this example, we will limit ourselves to the worst of three and for simplicity sake we will keep the maturity to one year six months tenure, but it will be an autocallable product, meaning the product can be called earlier and we will keep the strike level at 100% and a European barrier of 67%."

What that means, he explained, is if the view goes against the client there will be a physical delivery of shares at strike that is 100% of today's level, but that for that to happen on the final fixing date, on the final maturity date of the product, the worst performer has to be below 67% of its initial fixing level. "This means the client has a buffer of roughly about 33% there."

The thought process

Patil highlighted the thought process involved. "We obviously want to generate enough yield but the stocks that we choose as underlyings should show some sort of historical safety, we need to take into account how those underlyings have moved in in the past and choose only those stocks which give some sense of safety. Moreover, we cannot just do it based on some numbers, simple technical numbers, but we want to be able to back up our decision by fundamental research."

Patil offered slides to support a variety of case studies he highlighted, going into immense technical detail of the structuring and the thought processes behind them.



Digital filtering

He highlighted the ability with technology and research to align given risk parameters identify the highest yielding underlyings. Then comes the narrowing down by risk to see which underlying, for example, offer the determined standard, or target, yield with the highest degree of safety.

"What we achieve," he reported, "is to determine a measure of yield for a standard risk, a measure of risk for a standard yield, and a measure of fundamental research, a quantified way of fundamental metric. The next step is to combine these three criteria together and come up with a product that matches the client's appetite and return expectations, with the key factors weighted tidily to that client's investment mandates requirements."

Follow the process

He then showed the audience a model portfolio, with the benefit of some very detailed slides. "Structured products are not really rocket science," he stated. "You follow the process and you come up with something workable, something that is under control and working with Leonteq we can help the wealth management industry help their end clients achieve the best outcomes possible in the most technologically efficient manner, and supported always by our advisers and experts at our firm."

Working with the industry

A structured product is a binding contract, he added, on closing. "You cannot change it without the approval of the investor, so typically we as product manufacturers are one step removed from the investor. At Leonteq, our clients are the private banks and asset managers as they are the custodians talking to us on behalf of the investors, but we need the investors' approval before we create or change something." ■

Leonteq Securities: Building its Structured Products Proposition Across Asia Pacific

Leonteq is an independent financial services firm, listed on the stock exchange in Switzerland. Leonteq has around 480 employees globally in 11 offices. In Asia, the firm operates through the regional headquarters in Singapore, and has an office and onshore license in Hong Kong and Tokyo.

Switzerland is one of the largest markets globally for SPs in terms of volume, and Leonteq is one of the largest issuers. In 2018 the firm issued roughly 28,000 bespoke products, for a total traded volume globally of around CHF28.8 billion.

The firm is an expert at creating products for financial institutions, mostly private banks, securities houses, who sell them to their private clients. Leonteq also creates SPs tailored for institutional clients such as the asset managers and insurance companies, for their own investment purposes.

A key feature of SPs is that they can be customised to align directly the risk-return profile of the investors with their investment views. Crucially, they are not created by Leonteq based on any views the firm might have on the direction of any markets.

Leonteq is well known for having an outstanding technology platform, from which it can create these tailored SPs efficiently. The firm aims to be faster to price and issue new products, while proposing competitive pricing even for small trade sizes. Innovation and flexibility are core to Leonteq's abilities to suit local needs.

Structured products (SPs) are usually created from the combination of a liquid asset and a derivative, packaged in a single product. SPs are therefore tailor-made solutions that can be created on various asset classes, such as equities, indices, ETFs, mutual funds, commodities, FX, interest rates, credit and so forth.

SPs can for simplicity be defined in three categories. The first is the capital protection SP; this is typically created on low volatile underlying assets, such as fixed income and balanced funds. It allows the investor to participate simply in the fund performance with full capital protection.

The second SP would be classified as yield enhancement product. It is usually used on volatile underlying assets, such as equities, indices and commodities. Investors will receive a fixed guaranteed coupon/yield (the upside), while combining soft downside protection.

The third category is the participation product. It allows the investor to get more upside with the same downside risk inherent to the underlying asset(s); or the same upside with less downside exposure. These products are usually seen as equity replacement ideas.