

Leonteq Highlights the Flexibility and Appeals of Structured Products for Asia's HNWI's

David Meier, Executive Director of Investment Solutions Sales at the Singapore subsidiary of the Swiss-based Leonteq AG, gave an informative and detailed presentation to delegates at the Malaysia Wealth Management Forum. Armed with an informative, high-quality slide presentation, Meier highlighted the appeals of structured products as an ideal diversification tool that should be an active part of any well-diversified HNWI portfolio, offering potential returns in sync with the market perspectives of the investors themselves.

MIEIER BEGAN WITH A BRIEF INTRODUCTION TO LEONTEQ'S PRODUCTS PLATFORM and to structured products themselves [see box below], which he clarified are financial products, that are packaged by using other existing financial products, such as securities, indices, commodities, debt issuances, foreign currencies and derivatives. Leonteq offers an integrated technology platform that enables the automation of all processes in the value chain for the production of structured investment products customised to the individual requirements of its banking platform partners. The scope of cooperation with banking partners can range from a semi-integrated set-up with only a few services and interfaces to a fully integrated set-up covering the entire product lifecycle.

Differentiation

"I presented here last year," Meier began, "and this year I want to expand on that introduction. Our state-of-the-art technology-driven platform is one of our key differentiating factors. From the outset, we focused on the creation of an IT infrastructure from the ground up. This allows us to straight-through efficiently



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automate all the processes from front to back end, giving us a speedier time to market and lower issuance costs. The result is that very high levels of automation lead to competitive cost per issued product, as well as allowing for small ticket sizes. This, in turn, means we can tailor-make a product for each individual client, instead of just taking a product from the shelf.”

The business model is another core differentiating factor. “We have created a white label strategy to offer our platform to other banks, so they do not have to develop it themselves from scratch. We take care of the whole issuance process but issue the products on the balance sheet of the other banks, allowing your

clients to profit from the brand and name recognition of those banks.” What this means to investors is that they have the flexibility to choose between different issuers on the Leonteq platform.

Made in the image of the investor

Clients like Financial advisers, asset managers and banks can work with Leonteq’s platform to design products with customized risk-return preferences of their customers. They facilitate highly tailored payoff objectives adapted to individual investor’s market expectation.

“We take traditional financial instruments and package them together in one product to replicate a client’s market view and risk

appetite on behalf of the banks and other financial intermediaries which then distribute it to their own client base.”

Pay your money, take your choice...

Structured products, Meier elucidated, can be used to take any kind of market view and any kind of risk appetite. “To simplify things,” he explained, “we structure products that are essentially in three groups - low, moderate and higher-risk. The beauty of our platform is that we can customise Structured Products according to the risk tolerance and market outlook for each individual client as opposed to a mass product off the shelf.”

This, Meier explained, means that investors with a low-risk

tolerance are likely to opt for structures with capital protection allowing them to participate modestly in any upside. If the client has a moderate risk proclivity, the investor is likely to prefer conditional capital protection, offering a higher yield provided that there are no significant drawdowns in the markets. If very bullish, the investor might opt for less capital protection, and possibly some leverage. “This middle category is very popular with investors in this region,” Meier added.

Win-win for all parties

Meier then told the audience that structured products are not designed to be a win-win for the issuers and distributors, while at the expense of the investors. “That,” he stated, “is not how structured products work. When an investor enters a structured product with us, we are fully hedged, so our interests are aligned.”

He also debunked the misconception that an investor is trapped stuck in a structured product for its duration. “We diligently provide a liquid secondary

market that allows an investor to take profits or cut out with mitigated losses,” he explained.

Meier closed his talk by reiterating that SPs are instruments that can be fully customised based on the risk-reward profile of each individual client, and that Leonteq’s platform offers wealth management firms the choice of either distributing Leonteq products directly to their clients, or the firms designing and distributing their own products by leveraging Leonteq’s whitelabeling platform. ■



Leonteq: Maintaining its Dynamic Expansion Programme in Asia

Leonteq is an independent financial services firm, listed on the stock exchange in Switzerland. Leonteq is headquartered in Zurich and has around 490 employees globally in 11 offices. In Asia, the firm is represented with offices in Singapore Hong Kong and Tokyo. In 2018 the firm issued more than 28,000 bespoke products, for a total traded volume globally of CHF28.8 billion.

The firm is an expert at creating tailored SP for institutional clients including asset managers, independent financial advisors, banks or brokers which sell them to their private clients. Leonteq's clients are served by an experienced sales force with the support of a distribution system that includes a dedicated in-house ideation, structuring and trading team as well as a digital, automated pricing engine.

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.

Leonteq's global expansion strategy focuses on continued organic or geographical growth. "We aim to achieve this through gaining more market share by selling our own issued products or the products issued by our partners manufactured on our platform, and a growing number of partner institutions in the banking and insurance sector," Meier concluded. "Asia is a very important market for us."