Structured Products: A useful tool for foreign investments

Structured investment products can help institutional and HNW investors in growing markets such as Philippines to invest efficiently offshore. Leonteq Securities presented their benefits at the Philippines Wealth Management Forum in Manila.

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XAVIER BURKHARDT, EXECUTIVE DIRECTOR at Leonteq Securities (Leonteq) believes that structured products (SPs) "could become a suitable solution for clients in the Philippines willing to invest abroad in the future. We aim helping local financial institutions to understand better the opportunities and also educate them on using efficiently SPs," he explained.

Additionally, "unlike misconceptions around SPs, these products could be easy to understand, transparent and liquid".

SPs are usually created from the combination of a liquid asset and

XAVIER BURKHARDT
Leonteq Securities

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.

Leonteq – independent and a global leading manufacturer

Burkhardt explained that Leonteq is an independent firm, listed on the stock exchange in Switzerland. Leonteq has around 450 employees globally in 11 offices. In Asia, we operate through our regional headquarter in Singapore, with also an office and onshore license in Hong Kong and Tokyo. "We cover our clients across Asia from these offices," he noted.

He explained that Switzerland is one of the largest markets globally for SPs in terms of volume, and Leonteq is one of the largest issuers. "You might not be familiar with us, but in 2017 we have issued roughly 26,000 bespoke products, for a total traded volume globally of around USD28 billion."

Customised to client views

Burkhardt then explained that 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," he said, "they are not created by Leonteq based on any views the firm might have on the direction of any markets."

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.

"We pride ourselves on outstanding technology platform," he explained, "so we can create these tailored SPs efficiently. We aim to be faster to price and issue new products, while proposing a competitive pricing even for small trade size. Being innovative and flexible to suit local needs is also key for us."

Different type of SPs

Burkhardt then explained briefly how SPs can 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 a full capital protection.

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

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

Defined objective, tailored solutions

"To conclude today," Burkhardt said on closing his presentation, "the key message I would like to convey is that there are many different solutions available, but overall all products have the defined aim of diversifying portfolios and improving its risk-return profile. These SPs could help investors to improve their upside potential, reduce their downside risk, generate a guaranteed yield, but also access new underlyings and asset classes. ■