

## STRUCTURED PRODUCTS

**Roger Studer** is head of financial products, Bank Vontobel, and president of the Swiss Structured Products Association (SSPA). He shares his views on:

### **Investing in structured products... the next generation:**

#### **What are the next generation of structured products like?**

The next generation of structured products are no longer confined to assets that form a passive base.

Instead, the underlying assets (combination of financial instruments and derivatives) can be dynamically engineered to optimise and deliver the risk-return-cost profile being sought. As a trend, structured products increasingly traverse multiple asset classes such as - commodities, hedge funds, credit, fixed income, indices, etc.



#### **What is special about these structures?**

The fact that the underlying basket of dynamic "products" can be periodically adjusted to comply with the pre-defined quantitative criteria - makes them special. This is done to adapt and keep abreast of the changing market circumstances, which in turn makes it probable for structured products to deliver returns that are more appealing than those that might be offered by their static counterparts.

#### **What are the key benefits for an investor?**

Structured products with dynamic features give investors access to professional and active investment strategies that are based on purely objective criteria like financial indicators or risk factors. As an example our Dynamic Vontobel Sector Rotation (certificate) uses model-based-unbiased-criteria to identify sectors and stocks that offer the most promising growth potential. In so doing, and by overweighting or underweighting sectors and stocks compared to its benchmark, the certificate stands to accomplish its objective of outperforming the underlying index. Since the launch of the first certificates in early 2003, Dynamic Vontobels have proliferated. The first generation of Dynamic Vontobels were based on familiar equity indices such as the S&P 500, the EuroStoxx 50 or the Swiss Market Index. Dynamic Vontobels are now being structured around assets such as commodities and hedge fund indices.

Structured products also make it possible and affordable for a broader investor base to participate and easily access what might otherwise be out of reach assets and sectors (such as real estate, infrastructure - where barriers to entry may be high; the liquidity layouts and lock ups restrictive). They can be designed to achieve diversification and can still meet an investor's risk-return criteria.

#### **What are their constraints and risks? Is there a way to overcome them?**

As with all investments, investors need to clearly define their needs in terms of returns expected, risk appetite, and time frame. Structured products offer a comprehensive range of possibilities, such as capital protection or yield enhancement in sideways trending markets. For example, if the performance of the underlying were negative; by investing in a structured product, an investor has the opportunity to contain the downside losses, but is still positioned to benefit from the upside potential. In fact, an investor benefits from the positive performance of the underlying with a predefined participation rate. This makes it possible for us to offer individual investment solutions.

#### **What challenges are the new generation of structured products likely to face?**

In my view, one of the key challenges is the sheer number of structured products that are currently available. This makes it difficult for investors to understand the respective benefits they offer, and to compare them with other structures. There needs to be an educational process for investors to understand, be conversant and feel comfortable with the various structures and what they can and can't offer and at what price. Hence, I would recommend investors to look for products that have a demonstrated track record (or reliable back tests) and seek those that are based on a proven and sound investment strategy.

#### **Although structured products are not homogenised, how can they be made more cost efficient, transparent?**

As with most industries competition plays an important role - at least this is experience we have had from the structured products listed on the SWX Swiss Exchange. Competition is not only a powerful force within the industry but also among the different financial instruments. In terms of transparency, the foundation of the Swiss Structured Products Association (SSPA) has been a milestone. The association fosters the development of the industry and places emphasis on achieving and providing transparency.

#### **Structured products are going main stream – how relevant is nomenclature in this regard?**

One of the first and major projects of the SSPA was the introduction of nomenclature standards through a so called "Swiss Listed Derivatives Map". These nomenclature standards basically take an industry that has been based on individual product names to a point where we're all speaking the same language. Eventually, if we can't agree on what we're calling the various types of customised (structures) investments, we can't expect advisors and investors to understand this industry.