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SVSP Schweizerischer Verband für Strukturierte Produkte
Swiss Structured Products Association
Associazione Svizzera per prodotti strutturati
Association Suisse Produits Structurés

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First comprehensive Swiss study on structured products: Facts instead of presumptions

In order to shed light on the performance and costs of structured products and the investment opportunities such products offer, Swiss Finance Institute (SFI) carried out the study—the first of its kind—in answer to a mandate from the Swiss Structured Products Association (SSPA). The study measured positive median returns of between 5% and 15% per annum under normal market conditions. According to the findings, the median total expense ratios (TERs) of structured products, including net margin and all production and distribution fees, are in the range of approximately 0.3% to 1.7% per annum and structured products performed well over the research period at reasonable costs.

Zurich, 18 June 2015. The most recent SFI White Paper, *Structured Products: Performance, Costs, and Investments*, is the first comprehensive, representative study for Switzerland. Prof. Dietmar Maringer (University of Basel), Dr. Walter Pohl (University of Zurich), and Prof. Paolo Vanini (Swiss Finance Institute and Zürcher Kantonalbank) investigated the performance of structured products for the period 2008–2014, which included the most recent global financial crisis and the European debt crisis. The authors evaluated the costs for investors at issuance for the period April 2012 to April 2015. In this way the study brings transparency and clarity to the issues of performance and cost. Moreover, the study discusses how structured products can be used to wrap an economic investment idea while respecting a short time-to-market both when markets are normal and—in particular—when they are under stress. The main conclusions of this SFI White Paper are as follows:

Performance

- In the period 2012–2014, some 80% or more of structured products generated positive returns, with median returns of between 5% and 15% per annum under normal market conditions. A particularly successful year was 2009 in which most medians were in the range of 19% to 31%.
- The years 2008 (the most recent global financial crisis) and 2011 (European debt crisis) saw drops in equity markets that also affected the—mostly equity based—structured products that make up the study's sample, and they too generated negative median returns. The impact of market movements was rather weak for capital protection products.

Median returns p.a. per product category:	2008	2009	2010	2011	2012	2013	2014
Barrier reverse convertibles	-42%	31%	9%	-6%	10%	7%	4%
Bonus certificates	-43%	19%	4%	-8%	15%	16%	9%
Capital protection certificates (with participation)	-7%	5%	0%	-2%	3%	4%	4%
Discount certificates	-31%	23%	9%	-1%	12%	10%	5%
Tracker certificates	-43%	24%	9%	-16%	10%	15%	6%

Costs

- According to the study, the costs borne by investors at issuance range—for the most popular structured products—from about 0.3% to about 1.7% per annum, depending on the product type. The study thereby brings clarity to issue of the cost of structured products, revealing its comparability to the cost of mutual funds and ETFs.
- The costs expressed as the total expense ratio (TER)[1] include the net margin and all production and distribution fees. Since March of this year, distribution fees must be disclosed by all issuers separately in the Swiss simplified prospectus.
- Rounded median TERs for the period April 2012 to April 2015:

Product category	Tracker certificates	Capital protection certificates	Bonus certificates	Discount certificates	Barrier reverse convertibles
Median TER	0.3% p.a.	0.6% p.a.	1% p.a.	1.4% p.a.	1.7% p.a.

Investments

- Swiss investors prefer to invest in barrier reverse convertibles on stocks, tracker certificates, and—if the time value of money is positive—also in capital protection structured products. Investors in other countries have different preferences about the underlying value and the payoff. Behavioral motives appear to play a major role in investment decisions.

  The study includes case studies that not only focus on possible return expectations but also stress how investors' views are the key contributory factor for decision making. The Swiss National Bank decision of January and the quantitative easing program for the eurozone, announced at the beginning of 2015, for example, paved the way for investment opportunities such as high quality or high dividend paying EUR shares at a discount of 15% or barrier reverse convertibles with very low barriers and a coupon of 1% to 2%.

[1] The authors of the study refer to the difference between the issuance price and the fair price of the components as the total expense ratio (TER). Investors are thereby informed, in a useful manner, about the costs of structured products, which are shown to be comparable to corresponding figures for other products. The figure however does not correspond to the issuer margin or the sum of the issuer margin and distribution and structuring fees. The expected issuer margin (profit) is lower and can only be determined at the maturity of the product as many cost components can only definitely be fixed at that point; they can, in fact, turn out be higher than the TER presented in this study. Out of the TER as defined in this study, the issuer has to pay all costs for structuring (staff, technology, know-how), for documentation (brochure), for funding/own funds, for training and for the counseling of investors, for sales (advertising, sales agents), for the listing on a stock exchange, for the prices quoted in the secondary market, etc.

Georg von Wattenwyl, President—SSPA: "This study creates another milestone in terms of the transparency and clarity of structured products—elements to which the SSPA has been fully committed for years. This SFI White Paper underpins scientifically the fact that structured products provide efficient investment solutions."

The SFI White Paper study is available at
http://www.swissfinanceinstitute.ch/16062015_sfi_wp_structured_products_web.pdf

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Swiss Finance Institute

Swiss Finance Institute (SFI) strives for excellence in research and doctoral training, knowledge transfer, and continuing education in the fields of banking and finance, as befits Switzerland's international reputation as a leading financial center. Created in 2006 as a public–private partnership, SFI is a common initiative of the Swiss finance industry, leading Swiss universities, and the Swiss Confederation. For further information about Swiss Finance Institute, please visit www.SwissFinanceInstitute.ch.

Swiss Structured Products Association

The Swiss Structured Products Association (SSPA) is the first port of call for all questions associated with structured products. It represents the collective interests of the key market players who bring together over 95 percent of the market volume for structured products in Switzerland. The headquarters of the association are located in Zurich. Further information is available at www.svsp-verband.ch.

About structured products

Structured products are investment instruments publicly issued by an issuer, the redemption value of which derived from the performance of one or more underlying securities. Equities, interest rates, foreign exchange, or commodities such as gold or oil may serve as underlying values.