Structured products – solutions for your individual investment needs

Contents

General risks of structured products

When investing in structured products, we recommend that you become familiar with the relevant risks in advance. In this brochure we explain what you need to consider when buying structured products.

Issuer risk

The issuer risk includes unfavourable developments resulting from the creditworthiness of the issuer. In the event of the issuer becoming bankrupt, full or partial repayment may not be made, and you would therefore lose all your invested capital. If the issuer's creditworthiness deteriorates during the term of the product, the secondary market price of the product may fall, which could also produce a loss if the product is sold before the end of the term. There is an issuer risk for all structured products, which is why the creditworthiness of the issuer is of major importance. For products with a guarantor, the creditworthiness of the guarantor can have a similar effect on the price of the product as the creditworthiness of the issuer, and therefore is also of major importance.

Market risk

Market risk is the risk of possible losses due to unfavourable developments of the base value. These changes can occur for a variety of reasons, such as changes in interest rates, risk premiums, levels of equity indices, foreign exchange rates, commodity prices, etc. Market risks may also result from regulatory interventions, a lack of transparency in the markets and adjustments in the supply and demand of the base value. A negative development of the base value can also be triggered by transactions which the issuer makes in the course of their business activities.

Currency risk

Currency risks include unfavourable developments in the repayment value and the secondary market price for structured products, caused by fluctuations in the exchange rate. Two exchange rates can have a negative influence on the product: On the one hand, the structured product may include a base value in a currency other than the issue currency; on the other hand, the currency of the purchased product may not match the investment currency.

Liquidity risk

Liquidity risk is the risk involved of not always being able to sell the structured product at a reasonable price. In addition, the predefined payout profile of a structured product only ever applies at the end of the term. Sales proceeds during the term may therefore differ from the predefined payout profile or be lower than the payout profile.

Structured products have additional, specific risks that you should also be aware of.

Secondary market prices

For listed structured products, changes to the base value may not always be reflected proportionally and immediately in the secondary market price of the structured product. The nature of the secondary market price will therefore be influenced by the respective product type, remaining term and other possible factors.

Base value rights

By investing in and owning a structured product, there is no entitlement to the rights associated with the base value, such as voting rights, subscription rights, dividends or interest.

When choosing a structured product, we therefore recommend that you consider not only the individual product, but also all the risks associated with your entire portfolio, and assess these risks in the context of your portfolio. Ideally, the product should not only complement your portfolio, it should also match your investment profile.

In addition to these significant general risks of structured products, other risks also exist depending on the type of product. Detailed information on this subject can be found in the specific documentation of the respective structured product as well as in the brochure "Risks Involved in Trading Financial Instruments" issued by Swiss Banking. These documents can be obtained from us free of charge.

Yield enhancement products

What is a yield enhancement product?

Yield enhancement products are structured products which can generate an attractive return for investors, particularly in sideways-tending or slightly growing markets. In principle, the maximum return investors can achieve is therefore the initial investment amount, plus a coupon, with limited capital protection. Alternatively, there are products which guarantee a price reduction in comparison with direct acquisition of the base value instead of offering a coupon. Limited capital protection usually corresponds to the barrier included in the products. The product can be purchased for one or more base values. The limited capital protection depends on the price development of the worst base value. If the price of a base value decreases, it can result in the partial or total loss of the invested capital.

Barrier reverse convertibles are among the most popular yield enhancement products in Switzerland. This type of product is presented in detail in the "Barrier reverse convertibles" section.

Who are yield enhancement products suitable for?

Yield enhancement products are suitable for investors who expect sideways or slightly upward market performance over the term of the product. Investors should also have a moderate to high risk tolerance. If these conditions are met, yield enhancement products offer an attractive alternative to direct investment in the base value.

What you need to know about yield enhancement products

- Thanks to the guaranteed coupon payment or reduction on the current price of the base value, in sideways-tending or slightly growing markets investors can benefit from a higher return in comparison with direct investment in the base value. In declining markets, investors suffer losses at a later stage than with direct investments, thanks to the guaranteed coupon payment.
- Yield enhancement products offer limited potential gains due to the limited capital protection (usually up to the predefined barrier). The maximum return generally corresponds to the product coupon. Other possibilities include reduced participation in price gains or a reduction on the current price of the base value, for example.
- Yield enhancement products have a limited term. During the term, fluctuations in the value of the product may be greater than corresponding fluctuations in the value of the base value (for example if the base value is listed close to the barrier level).
- The reimbursement of each product depends on the price of the worst base value at the end of the term. Depending on the yield enhancement product and the price of the worst base value, the investor receives a maximum amount agreed in advance, a cash payment equivalent to the price of the base value, the base value itself, a fixed number of shares in the base value, or recovers the invested capital.
- The use of more than one base value is not diversification. Instead, several base values increase the risk that one of the base values will fall below the predefined barrier (e.g. in the case of barrier reverse convertibles). For this reason you will receive a higher coupon.
- The investor bears the credit risk of the issuer or guarantor.
- In addition, the relevant risk information in the "General risks of structured products" section also applies to all structured products.

Barrier reverse convertibles

What is a barrier reverse convertible?

A barrier reverse convertible gives you a predefined coupon during the term, regardless of how the base value develops. The maximum return from such products is therefore limited to the coupon amount. The repayment on expiry, however, depends on the base value development (e.g. basket of shares, index, currency). The relevant point is whether the price of the base value was trading at or below the barrier during the term. As long as none of the base values traded at or below the barrier during the term, the investor will receive 100% of the initial investment at the end of term. If at least one base value traded at or below the barrier during the term but at the end of the term the base value with the worst price development is above the initial fixing, the investor will also be paid 100% of the initial investment. However, if at least one base value trades at or below the barrier during the term or below the barrier and at the end of the term the base value with the worst price development is at or below the initial fixing, the investor will be paid the initial investment less 1% for each percent of negative development of the base value with the worst price development starting from the initial fixing. Repayment can be made either through delivery of the base value or via a cash payment equivalent to the development of the base value. This depends on the structure of the corresponding product. If the barrier reverse convertible includes several base values, the "worst of" principle shall typically apply. In other words the relevant base value with the worst development is used to determine the repayment amount – regardless of whether this has fallen below the barrier (barrier event). Because of the higher risk involved with many base values, these products generally offer a more attractive coupon than products with one or fewer base values. Details of the exact repayment scenarios can be found in the respective term sheet of the structured product which you purchased.

Who are barrier reverse convertibles suitable for?

Barrier reverse convertibles are attractive for investors who expect neither strong upward nor downward movement of the base value but still want to achieve a return. Because of the fixed coupon, in such base value developments the product is an interesting alternative to a direct investment in the base value.

What you need to know about barrier reverse convertibles

– The predefined coupon is always paid out. If the base value tends to move sideways, a barrier reverse convertible is therefore generally more attractive than a direct investment in the base value.
– During the term, fluctuations in the value of the product may be greater than corresponding fluctuations in the value of the base values (in particular if one of the base values is listed close to the barrier level).
– The product offers conditional capital protection via the barrier: The capital is fully protected as long as it does not reach or fall below the barrier. Once the barrier is reached, the risk of loss corresponds to that of a direct investment in the base value, less the value of the received coupons. The investor therefore suffers losses amounting to the negative performance of the base value with the weakest price development between initial fixing and expiry. The coupon will always be paid out, however.
– Thanks to the barrier, the risk is lower than with a direct investment. This means that if the base value price increases, you will not benefit from this positive development and will forego any current income such as dividend payments from basic values.
– The use of more than one base value is not diversification. Instead, several base values increase the risk that a base value will fall below the predefined barrier. For this reason you will receive a more attractive coupon.
– The investor bears the credit risk of the issuer or guarantor.
– In addition, the relevant risk information for all structured products in the chapter "General risks of structured products" shall apply.

Example of use

Ms Sample often invests her assets in Swiss equities. She assumes that the stock market will develop more steadily in the coming two years, but she does not rule out slight price setbacks. However, in order to achieve an attractive return, she is prepared to bear any losses due to sharply falling prices. Up to a certain price level, however, she would like to guard against losses. The product below would meet Ms Sample's market expectations. If Ms Sample invests in this product, she will always receive a coupon of 4% p.a. If none of the base values fall by 35% or more, her capital will also be fully protected, even if the base values close below their initial value after two years. If one of the base values falls by 35% or more, Ms Sample will bear the loss of the worst share at the end of the term.

Product example

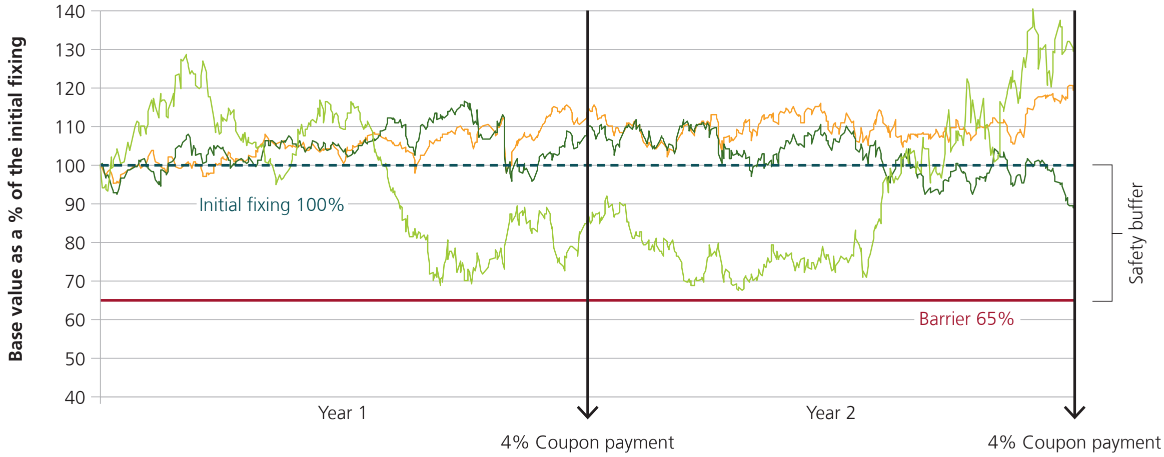
Two-year barrier reverse convertible in CHF on Swiss equities	
Base values	Nestlé S.A., Novartis AG, Roche Holding AG
Coupon	4% p.a.
Initial values	Share prices at initial fixing
Barriers	65% of the initial value of each base value
Repayment	100% if all base values are listed above their initial level at expiry. Also 100% if the value does not fall below a barrier. If the value falls below the barrier and at least one base value closes below its initial value: The title is delivered at a value equivalent to the worst performance.
Denomination	CHF 1,000

Examples of invested capital repayments for each development in the price of the base value in the case of cash payment

Status of the worst base value at expiry (as a percentage of the initial value)	Repayment if the value falls below at least one barrier	Repayment if the value does not fall below a barrier
50%	50%	Falls below the barrier
65%	65%	Falls below the barrier
75%	75%	100%
100%	100%	100%
115%	100%	100%

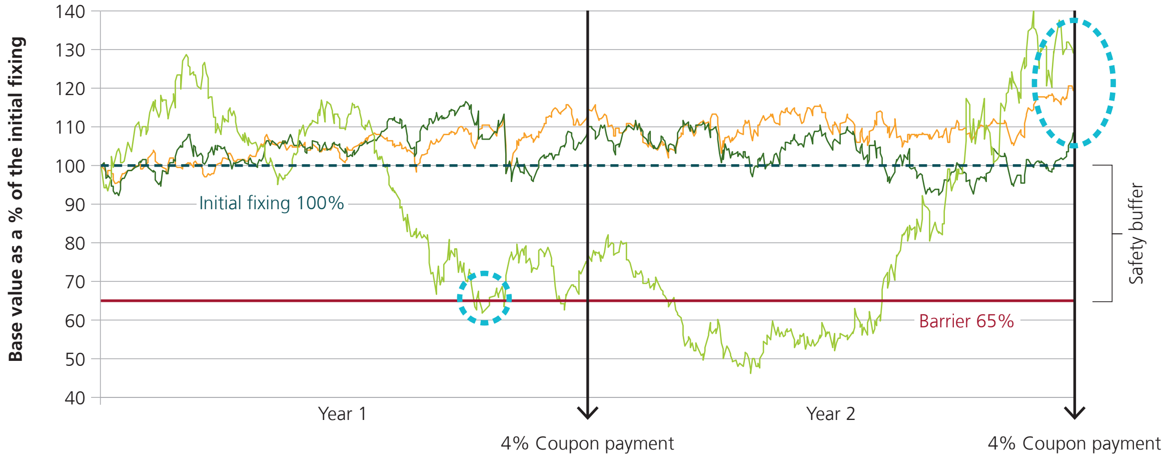
Scenarios «barrier reverse convertible»

Scenario 1
The value never crosses or falls below the barrier



- Repayment: 100% of the nominal value
- Coupon payment is guaranteed
- Investor achieves maximum returns

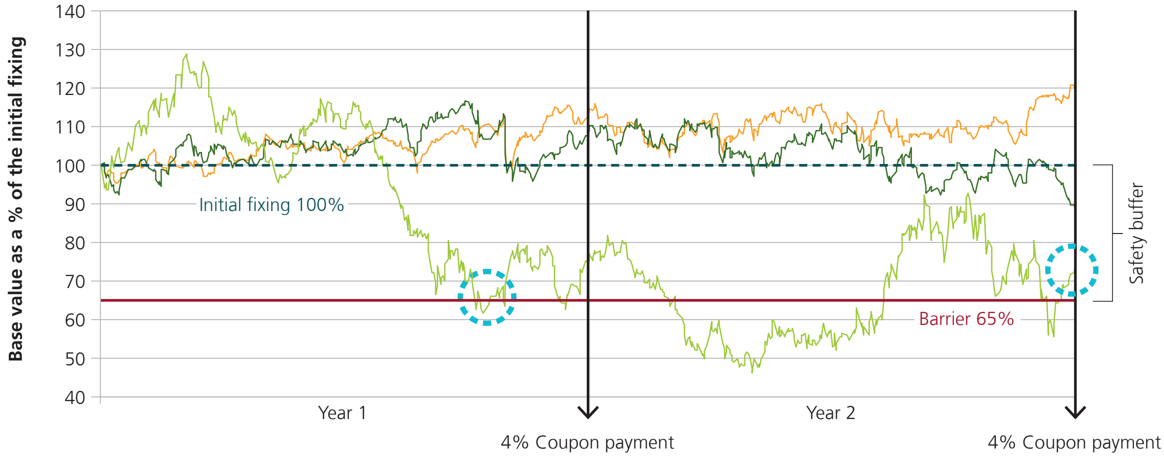
Scenario 2
Barrier is crossed but all base values close above the initial fixing at the end of the term



- Repayment: 100% of the nominal value
- Coupon payment is guaranteed
- Investor achieves maximum returns

Scenario 3a

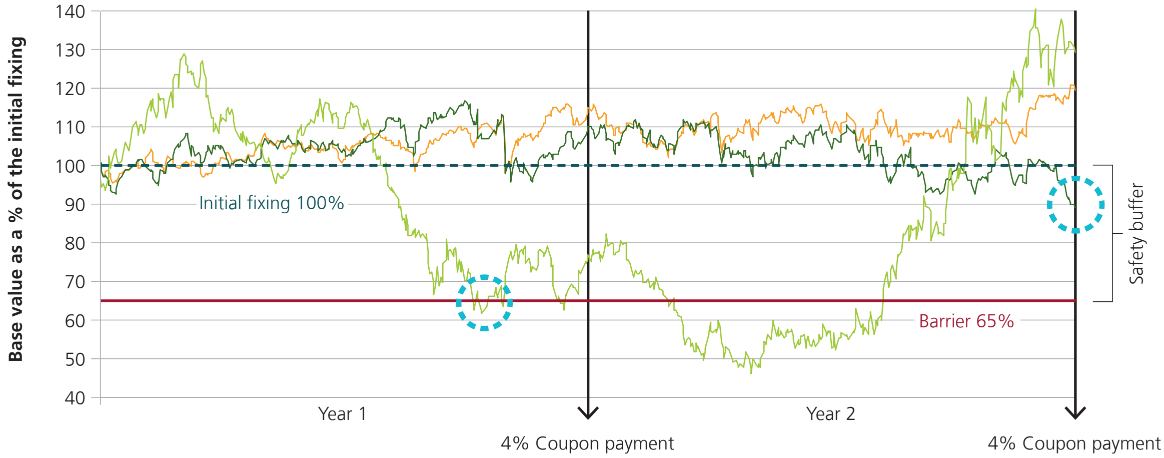
Barrier is crossed and this base value closes on or below the initial fixing at the end of the term



– Share delivery of the worst base value; fractions in cash
– Coupon payment is guaranteed (buffer effect)
– Negative scenario for the investor

Scenario 3b

Barrier is crossed and another base value closes on or below the initial fixing at the end of the term



– Share delivery of the worst base value; fractions in cash
– Coupon payment is guaranteed (buffer effect)
– Negative scenario for the investor

Capital protection products

What is a capital protection product?

Capital protection products offer effective protection against falling prices. Capital protection is normally between 90% and 100% of the nominal value of the product and applies at the end of the term. As in the case of bonds, there may be exchange rate fluctuations during the term. The upward potential of capital protection products is lower than for products without capital protection due to the financing of capital protection and may have an upper limit. Depending on the market situation, the investor has the possibility of achieving a higher return than with risk-free investments, without forgoing the (partial) capital protection.

Who are capital protection products suitable for?

Capital protection products are especially useful if you expect a rising base value and at the same time cannot rule out large price setbacks. Repayment of the capital will at least match the amount of capital protection. On the other hand, you will forego the secure interest from a money market investment and be unable to participate fully in growing markets. However, the value of the product can still fall below the guaranteed repayment amount during the term (e.g. due to issuer risk or rising interest rates) as the capital protection only applies at the end of the term. There is therefore no capital protection if the product is sold prematurely.

What you need to know about capital protection products

- Capital protection is only valid until the end of the term.
- Before expiry, the value of the product in the secondary market is dependent on various factors including volatility and interest, and may even be listed below the capital protection level.
- Thanks to capital protection, the risk of loss is limited (e.g. 10% risk of loss at 90% capital protection). The hedging costs of capital protection mean that if the base value price increases, you will not benefit or will only partially benefit from this positive development and will forego any current income such as dividend payments from base values.
- The investor bears the issuer risk of the issuer or guarantor.
- In addition, the relevant risk information for all structured products in the chapter “General risks of structured products” shall apply.

Example of use

Mr Sample invests his money primarily in bonds or places it in his savings account. Due to the current low interest rate environment, he is looking for an alternative way to invest his money more profitably over the next four years. Mr Sample wants to avoid suffering a loss of more than 10% and assumes that Swiss equities will develop positively over the next few years. The following product example would represent a suitable investment opportunity for Mr Sample based on his risk appetite and market expectations. With this product, Mr Sample would benefit from 90% capital protection and at the same time would participate in the positive development of having 20% of his basket of shares invested in Swiss blue chip equity.

Product example

Four-year capital protection product in CHF on Swiss equities	
Basket of shares	Swisscom AG, Zurich Insurance Group AG, Nestlé S.A., Novartis AG, Roche Holding AG
Participation	20% participation in the initial value price development measured against the equal weighted average value of the basket of shares
Initial values	Share prices at initial fixing
Capital protection	90% of the denomination
Repayment	If at the end of the term the average value of the basket of shares is at the initial value, there is full capital protection. If the weighted average value of the basket of shares is below 100%, a repayment of 90% capital protection is made. 20% participation in the initial value price development measured against the weighted average value of the basket of shares (no cap – strike price 100%)
Denomination (nominal)	CHF 1,000

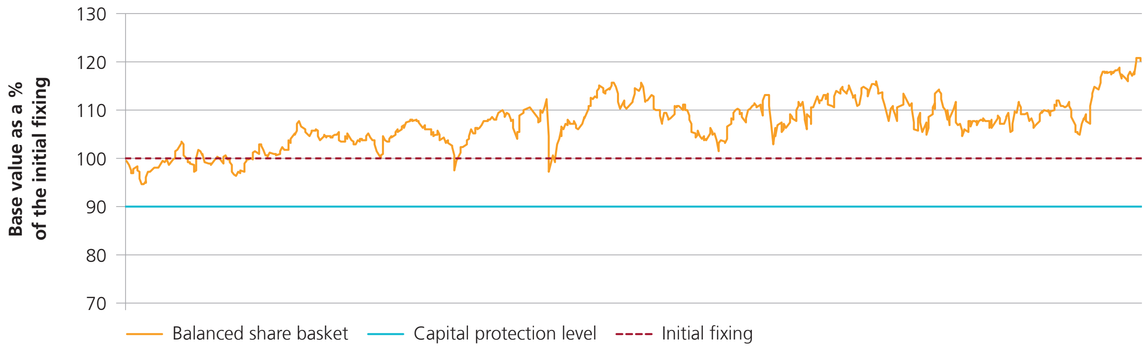
Examples of repayments for each development in the price of the base value

Status of the weighted average value of the basket of shares at expiry (as a percentage of the initial value)	Payment at the end of the term
70%	90%
90%	90%
95%	90%
100%	100%
110%	102%
130%	106%

Scenarios "capital protection products"

Scenario 1

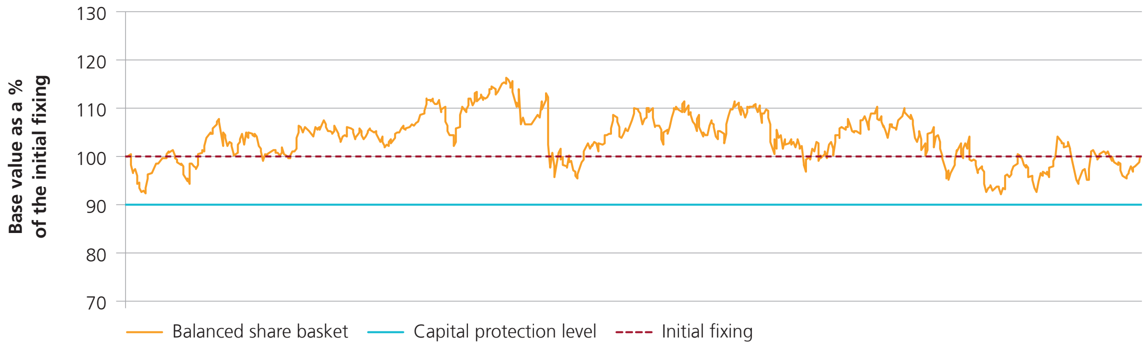
The base value (balanced share basket) closes above the initial fixing of 100%



- The base value closes up 20% at the end of the term
- The reimbursement amounts to 104% of the nominal value
- Investors achieved a return of 4% (1% p.a.)

Scenario 2

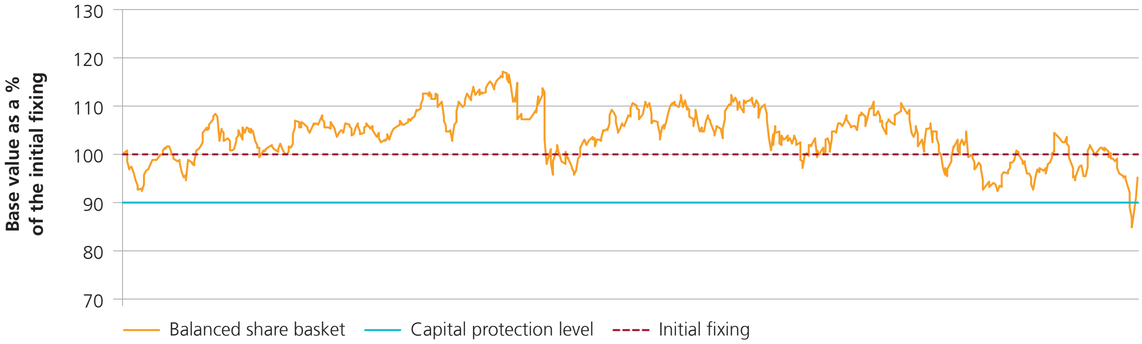
The base value (balanced share basket) closes on the initial fixing of 100%



- The base value finishes unchanged from the initial fixing at the end of the term
- 100% of the nominal value is reimbursed
- The investor gets the invested capital back

Scenario 3

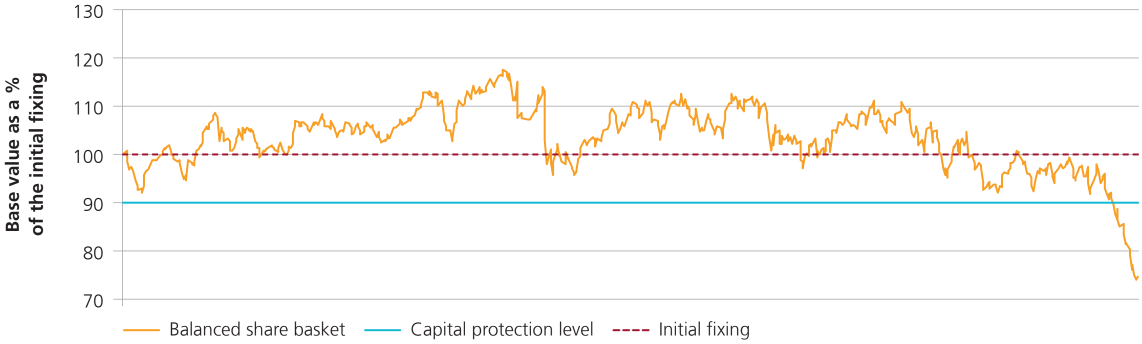
The base value (balanced share basket) closes below the initial fixing of 100%



– The base value finishes 5% below the initial fixing at the end of the term
– 90% of the nominal value is reimbursed (capital protection level)
– The investor suffered a loss of 10% (2.5% p.a.)

Scenario 4

The base value (balanced share basket) closes below the capital protection level of 90%



– The base value finishes 25% below the initial fixing at the end of the term
– 90% of the nominal value is reimbursed (capital protection level)
– The investor suffered a loss of 10% (2.5% p.a.)

Participation products

What is a participation product?

Participation products allow you to share in the price performance of one or more base values without owning them yourself. Depending on the product's structure, you participate in both the positive and negative percentage price trend of the base value. The participation product's price trend does not necessarily have to replicate that of the base value identically. Some participation products have a disproportionately high share in rising prices or capital protection when prices fall. Traditional participation products (known as tracker certificates), for example, do not provide capital protection which means their maximum potential profit is unlimited. By dispensing with ongoing returns, such as dividends, participation products can be combined with attractive option components. These option components include, for example, limited capital protection, which is used in bonus certificates. This capital protection is only guaranteed provided the base value does not reach, fall below or exceed a certain threshold. Another type of structure enables disproportionately high participation in rising prices and is used in outperformance certificates. Positive results can also be achieved when the base value's prices increase or fall moderately, which is the case with twin-win certificates.

Who are participation products suitable for?

Participation products are ideal for investors with moderate to high risk appetite who anticipate an upward or downward trend on the market during the product's term and wish to participate in it.

What you need to know about participation products

- Participation products allow you to share in the positive or negative performance of one or more base values (the product's structure is the key factor).
- Even with a small amount of money, you can affordably purchase a diversified product investing in shares, commodities, currency and real estate baskets or indices without having to purchase the expensive base value directly.
- Participation products enable you to invest in a sector, region, promising investment style or current investment theme with a certificate.
- You bear the credit risk of the issuer or guarantor.
- In addition, the relevant risk information in the "General risks of structured products" section also applies to all structured products.

Opportunities offered by participation products

- As an investor, you can broadly distribute your risk and directly participate in the price performance of several base values.
- Participation products are usually simpler and more affordable than direct investments.
- An investment in participation products can be made starting at CHF 1,000.

Risks of participation products

- As an investor, you may suffer losses amounting to the negative performance of the base value(s) between initial fixing and expiry.
- The value of the financial instrument is subject to market fluctuations. The financial instrument (unless expressly indicated otherwise) is not capital-protected. Like direct investments, investors can lose some or all of their invested capital.
- Ongoing returns, such as dividends from the underlying base values, are generally reinvested in the product, i.e. the certificate generally does not provide ongoing payouts.
- As an investor, you bear the credit risk of the issuer or guarantor.

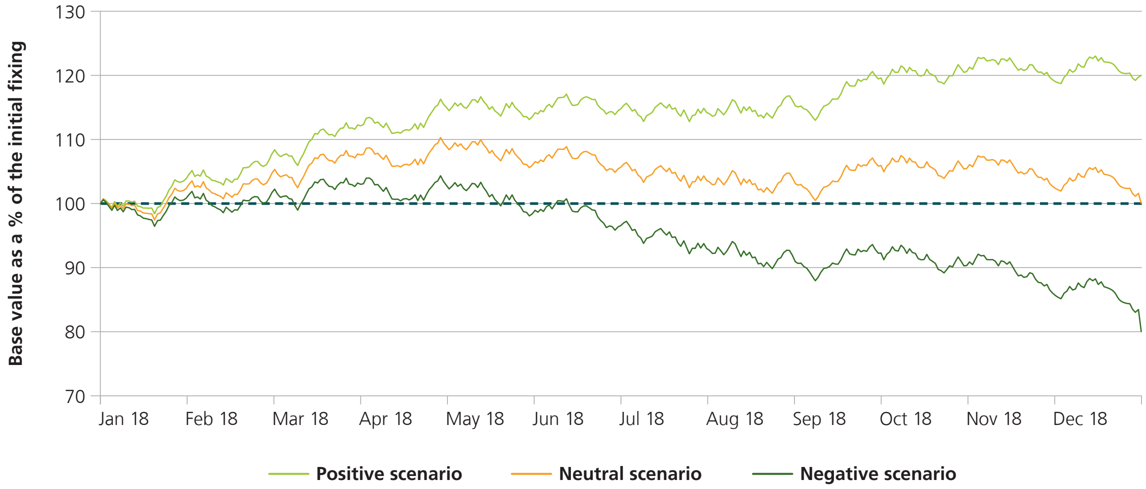
Example scenario

Mrs Müller often invests in shares. Over the next few years, she expects Swiss dividend shares to perform well and would like to participate in the trend. She is willing to bear high price losses.

Product example

Bull tracker certificate on the Swiss Dividend Growth Index	
Investment theme	Swiss dividend shares
Index	Swiss Dividend Growth Index
Implementation	Shares with a primary listing on the SIX Swiss Exchange with an average daily trading volume of at least CHF 1 million in the last month.
Participation	Value of the base values less a management fee of 0.75% p.a.
Product details	Term: one year Currency: CHF

"Participation products" scenario



Positive scenario: the base value closes above the initial fixing of 100%
– The base value trades at 20% above the initial fixing at the end of the term.
– 120% of the nominal value is reimbursed.
– The investor achieves a profit of 20% if they keep the product for the full term.

Neutral scenario: the base value closes at the initial fixing of 100%.
– The base value trades at the initial fixing at the end of the term.
– 100% of the nominal value is reimbursed.
– The investor achieves no profit if they keep the product for the full term.

Negative scenario: the base value closes below the initial fixing of 100%.
– The base value trades at 20% below the initial fixing at the end of the term.
– 80% of the nominal value is reimbursed.
– The investor makes a loss of 20% if they keep the product for the full term.

Prices and conditions

What costs are incurred when buying or selling a structured product?

You will not be charged any fees for purchasing a structured product from issue with PostFinance for any structured products guaranteed by PostFinance and issued together with Leonteq. The structured product is booked to your e-trading custody account. The prices and conditions for the use of e-trading apply. Detailed information on e-trading can be found at postfinance.ch/e-trading. Detailed information on pricing can also be found in the Termsheet of the respective structured product.

Disclaimer

This document is intended for general information purposes only and does not replace a personal consultation. Investments in structured products should only be made if the customer is familiar with the functionality, structures and risks of structured products. The customer should consult other specific documentation for the respective investment products, especially when considering future investment decisions. The documentation for structured products sold by PostFinance can be found at postfinance.ch/structuredproducts or ordered free of charge by phoning the Investment business Support.

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