Zuger Kantonalbank

# Structured products

**Asset class fact sheet**

This document informs you about the characteristics, advantages and risks of structured products and is designed to help you make your investment decisions. If you have any questions, please do not hesitate to contact your client adviser at any time.

A structured product is a combination of classic financial assets (=underlying asset) and derivatives that, brought together as a self-contained product, is certificated in a security and is issued by an issuer.

Selection of a structured product can reinforce, weaken or eliminate opportunities and risks.
This enables the risk/return profile to be brought into line with individual requirements ad expectations.

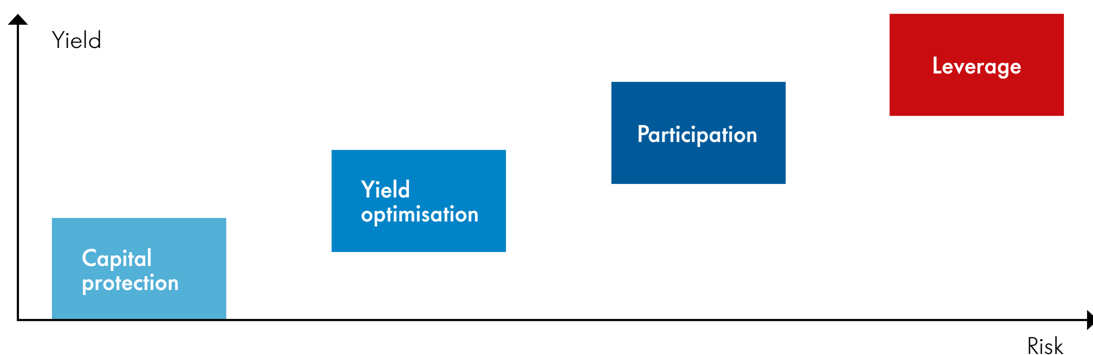
## Term end and disposal

Structured products are securities with different terms. As a rule, these products are held until maturity: the repayment sum is then determined by the payout profile and the performance of the price of the underlying asset. Alternatively, the product can also be sold before its term has ended. Disposal takes place in the so-called secondary market.

## Product

- **Capital protection products:** In the case of these products, a minimum repayment is performed upon maturity, irrespective of the performance of the price of the underlying asset. In addition to the minimum repayment, a further payout component may trigger a distribution, depending upon the performance of the price of the underlying asset.
- **Yield optimisation products:** Products in this category offer an attractive yield from stable or gently rising prices in the form of a coupon payment. They offer no or only a conditional minimum repayment and can lead to a partial or total loss of the deployed capital if prices develop unfavourably. The yield is capped by the coupon payment.
- **Participation products:** These products enable the investor to participate without limit in the favourable performance of the price of the underlying asset. In contrast to a direct investment in the underlying asset, the payout profile can include additional components such as conditional capital protection. Products in this category offer no or only a conditional minimum repayment and can lead to a partial or total loss of the deployed capital if prices develop unfavourably.
- **Leverage products:** The repayment value of a leverage product disproportionately replicates changes in the price of the underlying asset – if this rises or falls for example by 2%, the leverage product can rise or fall by e.g. 10%. Leverage products thus facilitate high yields with low capital deployment, but also entail substantial risks. If the price of the underlying asset develops unfavourably, they can also lead to a partial or total loss of the deployed capital.

**The higher the potential yield, the higher the risk of a loss.**



# Benefits

### Realising market expectations
Irrespective of whether the investor is expecting financial markets to perform positively, negatively or to stagnate, all expectations can be realised with structured products.

### Bringing opportunities and risks into line with requirements
In the case of structured products, the potential yield of an investment and the associated risk can be optimally brought into line with the requirements of the investor. The higher the potential yield, the higher the risk of a loss.

### Likelihood of success
The performance of structured products is transparent – the payout profile of a structured product is defined for every market development at the time of issue. This means the yield is dependent merely on the market movements and not on the skill of a portfolio manager.

### Lots of advantages, little investment
Structured products offer investors numerous advantages that are typically available with other investment instruments only on making a substantial investment. These advantages include, for example, portfolio diversification and access to markets or underlying assets that are difficult to access.

### Flexibility
The great advantage of structured products is their flexibility. They allow you to respond very rapidly to financial market opportunities. Example: If the perceived risk on financial markets becomes extremely high or low, this can be exploited anticyclically.
There is also flexibility when it comes to risk diversification: the payout profile of an instrument can be tailored to meet the specific requirements or market expectations of the investor.

# Risks

### Potential loss
The investor can suffer a loss when investing in a structured product, as the value of the structured product can fall below the purchase price.

### Market risk
The market risk corresponds to the risk of a loss due to unfavourable changes to the underlying asset. These changes may have various causes – e.g. changes in relevant market variables (interest rates, risk premiums, share index levels, exchange rates, commodity prices), regulatory interventions, lack of market transparency and in particular shifts in supply and demand for the underlying asset. An unfavourable change in the underlying asset can also be caused by transactions that the issuer performs during the course of their business activities.

### Issuer risk
In the event of the bankruptcy of the issuer, the repayment may fail to materialise at the end of the term, resulting in a total loss of the deployed capital. If the creditworthiness of the issuer deteriorates during the term of the product, this may cause the secondary market price to fall, which, in the event of a sale before the end of the term, can also lead to a loss.

### Liquidity risk
Structured products cannot be sold at any time at a reasonable price. The payout profile of a predefined structured product is always applicable at the end of the term. It may not be possible to sell the product at a reasonable price before the end of the term, for example because no binding prices are available for the product.

### Currency risk
The currency risk entails negative impacts on the repayment value and secondary market price of the product caused by exchange rate fluctuations. Two exchange rates may exert an influence: on the one hand, the product may contain an underlying asset denominated in a currency other than the issue currency, while on the other the issue currency might not be the same as the underlying investment currency in the investor portfolio.

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