

Newsletter

Financial crises are (too) quickly forgotten

Dear Reader,

Would you invest in a 10-year government bond with a return of just under 6% per year? Even if you knew that the gross national debt of that country was around 175% of its GDP, the unemployment rate was over 25% and the country had failed to generate a budget surplus for the last 20 years? Such an investment would appear to be a risky one. Nonetheless, the market for Greek government bonds is currently settling for a relatively modest return as compensation for the risk, because just two years ago Greece had to pay fivefold the interest on its debts. While there can be no doubt that Greece has had some success in redressing its budget, there is the uncomfortable feeling that many investors have already forgotten the financial crisis and counterparty risk.

As tensions on the financial markets have eased, the previous rapid growth in the COSI[®] segment has slowed slightly. However, this innovative segment has defended its market share in investment products. Meanwhile, reference entity certificates in particular are still enjoying considerable growth, which is why we have given this subject special attention on page 7.

This year we particularly noticed two COSI[®] issues in the field of commodities, both of which were nominated at this year's Swiss Derivative Awards. One of them even managed to take home the gold. Read more about these two innovative products on page 3.

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Interview with
Pascal Hildbrand,
cb risk solutions AG

"We advise our customers to actively manage default risks."

> 05

In the interview on page 5, Pascal Hildbrand from cb risk solutions gives us an interesting insight into his work and explains why customers are saying yes to COSI®s. You can also make up your own mind about COSI®s: On the last page, you can learn more from our new clip for investors.

Security is and remains a central issue for many investors, and if you want to play it safe, trust in COSI®s. This segment now has a loyal investor community that invests in well over 100 new products every month.

We hope you enjoy reading this newsletter!

Your COSI® Newsletter Team

Innovative COSI® Products in Commodities

Award for innovative COSI® commodity product

At this year's Swiss Derivative Awards, the Oscars of the Swiss derivatives industry, two COSI® products were nominated for an award. The three nominees in the "Best Commodity Product" category included a COSI® reference entity certificate with capital protection from the bank Vontobel for WTI light sweet crude oil and a COSI® range reverse convertible from Leonteq Securities for Brent Crude oil. The latter of these ultimately walked away with the coveted trophy for "Best Commodity Product."



Attractive returns plus COSI® collateral security

The two products each boast an attractive return and have COSI® collateral security. Until 2018, the reference entity certificate from the bank Vontobel (CH0141507878) still offers 200% participation in a rising oil price and a guaranteed repayment of 105%. However, this capital protection is considered contingent and lapses on (partial) default of the reference entity bond from Glencore.

The winning product from Leonteq (CH0204231606) has already matured and offered a performance of 8% p.a. until the end of its term on January 16, 2014. The range reverse convertible gave investors a guaranteed coupon of 8% per year regardless of the development in the underlying (Brent Crude oil). The high coupon was made possible by two strike levels – the innovative element of the product. Specifically, on maturity investors received the coupon of 8% and 100% of the denomination of USD 1,000 back as the underlying was within the predefined range of USD 87 to USD 126 at the end of its term. If the underlying had been below or above this range on maturity, two percentage points of the denomination of USD 1,000 would have been deducted per percentage point of deviation.

In addition to the innovative payoff, the jury for the Swiss Derivative Awards were apparently impressed by the right choice of underlying. For more than three years, Brent Crude oil has been tracking within the predefined range of USD 87 to USD 126. The hedging costs were therefore limited to this range. Moreover, by deliberately not having a barrier, only the level of Brent Crude oil on maturity was relevant. Last but not least, this product also had COSI® collateral security, which reduced the issuer risk during the term to a minimum.

COSI® products for every taste

With currently 32 COSI® products, the choice on offer in commodities is small but select. There are practically no limits to the possibilities for choosing an underlying, as long as the underlying meets the criteria of the exchange's listing regulations and is therefore suitable for investors. As expected, the choice of underlyings in the equities arena is the most extensive. More than 1,000 different shares can currently be invested in with COSI® products.

Investment class	Number of COSI®s
Alternative investments	1
Bonds	51
Commodities	32
Equities	1,385
Forex	7
Money market/swaps	4
Precious metals	32
Real estate	1
Miscellaneous investment classes	303
Total	1,816

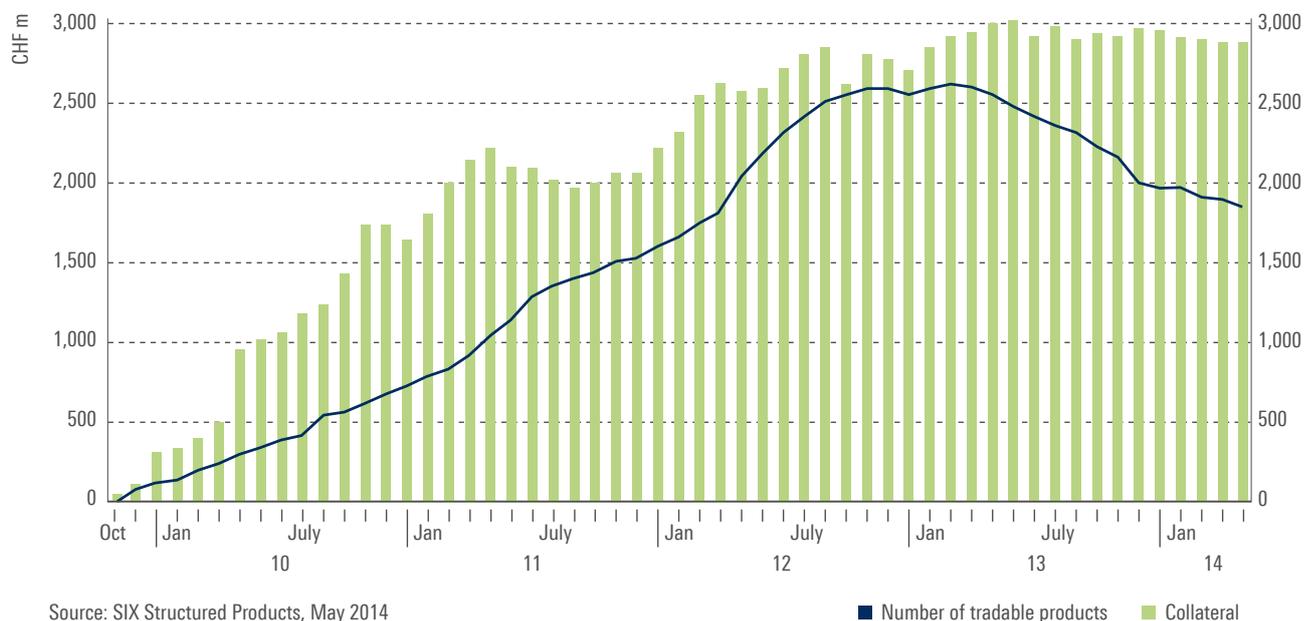
Source: SIX Structured Products, May 2014

Development since Launch

Development since start of 2013

The number of collateral secured instruments has been declining for some time. This is due to the fact that a lot of existing products have been maturing during this period and this decline has not been compensated by

a corresponding number of new issues. As a result of higher average investment in COSI® products, the outstanding volume remained practically unchanged at CHF 2.9 billion. There are currently seven active issuers in the COSI® segment.



COSI® issuers at a glance

Collateral provider	Reference bonds	Yield enhancement	Participation	Capital protection	Leverage	Total
Credit Suisse	1			6		7
EFG Bank	13	124	33	106	3	279
J. Safra Sarasin		10	4			14
Julius Bär		12	31			43
Leonteq Securities	10	780	176	93	25	1,084
Merrill Lynch Capital Markets			1			1
Vontobel	269	97	22			388
Total	293	1,023	267	205	28	1,816

Source: SIX Structured Products, May 2014

Interview with Pascal Hildbrand

on the value added of COSI® products

Pascal Hildbrand

Pascal has many years of experience in the fields of research and structured products. Previous banks that he has worked for include Julius Bär and Clariden Leu. In his last position, he was responsible for advising banks and external asset managers. Pascal holds a Bachelor of Business Administration (BSc) with a Major in Finance from the University of Applied Sciences (FHNW), Switzerland.



Pascal Hildbrand, cb risk solutions AG

What can you tell us about cb risk solutions' services portfolio?

We devise tailored derivatives solutions for our customers, which are primarily banks, EAMs and family offices. Our offering covers all investment classes. In addition to monitoring on the primary market, we support our customers after concluding transactions with periodic reports and scenario and risk analyses. Here we have many years of experience in financial engineering and research to rely on.

"I believe that our customers above all appreciate our openness."

What value added can your customers expect?

I believe that our customers above all appreciate our openness. We ourselves are highly critical and advise our customers to use structured products opportunistically in their portfolio, but only when this can better satisfy a defined investment requirement than a direct investment.

Which issuers do you work with?

We work with all Swiss issuers. We also have around half a dozen selected international banks on our platform. We predominantly make our selections accord-

ing to the criteria of credit rating/balance sheet quality, market making, product range, investment universe, and documentation.

How important do you consider cost transparency to be in structured products?

Very important. Without information on the cost structure of the various financial instruments, it's hard for investors to make good investment decisions. However, fair reporting of effective costs has to be well thought out, otherwise supposed transparency can end up being misleading.

Are counterparty risks still an issue in the current environment?

Yes. Around five and a half years since Lehman Brothers went under, counterparty risk is still an issue, at least for us. We advise our customers to actively manage default risks, to seek as broad a diversification as possible at issuer level, and to use collateral secured solutions such as COSI®s. We make the use of the latter contingent on the structure of the customer's portfolio; if an investor is stockpiling cash, for example, he already has a risk of default with a bank that is not completely covered by deposit insurance.

Is counterparty risk currently being underestimated in your opinion?

I hope it isn't being underestimated, but the issue has undoubtedly lost some of its currency. But given the

massive intervention in the financial market system in recent years – by governments and central banks – that’s hardly surprising. To put it a little cynically, bailing out countless banks and governments has little disciplinary effect on investors when it comes to managing counterparty risk.

Are your customers willing to pay for protection from issuer risk?

As before, many customers are still willing to give up part of their return for a more robust issuer or collateral securitisation. But the differences have to be proportionate, otherwise investors prefer to spread their risk through issuer diversification.

Which customers are primarily interested in COSI® products?

Naturally it’s generally the more risk-averse investors. Also those who don’t trust banks after all the damning headlines of recent years and want to avoid risks to the financial sector.

The structures most in demand from us as COSI® products are...

Yield enhancement products.

“We advise our customers to actively manage default risks.”

Where do you see the COSI® service in two years' time?

This is a very difficult question to answer. COSI®s have matured into a component that it is hard to imagine the Swiss derivatives market without. In my opinion, their future development will be closely tied to the general climate on the financial markets.

Thank you for speaking with us.

COSI® Products with Reference Entities

COSI® products with a reference bond for yield enhancement are becoming ever more popular. 50 reference entity certificates were already issued in the first quarter of 2014; there were 280 tradable products in total by the end of April 2014.

For COSI® products with reference entities, choosing the right borrower is crucial. Generally, the higher the return, the higher the risk. Bonds with a lower degree

of credit quality, i.e. higher credit spreads, usually offer a higher return than more solvent borrowers but also mean a higher risk of default.

The reference bonds chosen by investors are spread across 66 different borrowers. The most popular bonds are those from Holcim, Generali and Glencore, which are all still investment grade with ratings of BBB.



Source: SIX Structured Products, May 2014

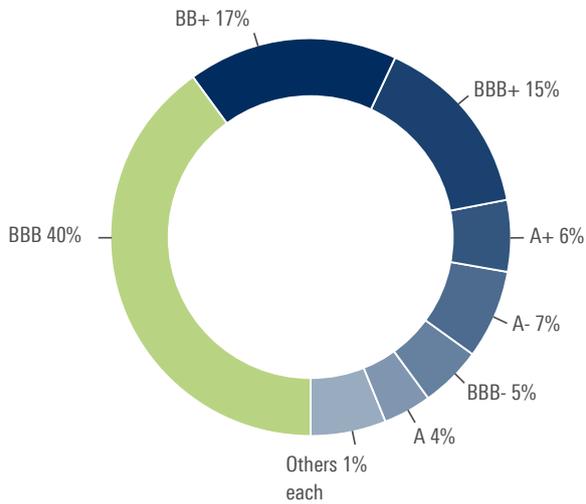
■ Number of COSI® reference entity certificates since 2012 ■ Sales

Top 10 reference entities	Number of COSI®s
Holcim	28
Assicurazioni Generali	23
Glencore Finance Europe	18
Gaz Capital	14
ArcelorMittal	13
ThyssenKrupp	12
Alcoa	11
Sony	11
General Electric Capital	11
Newmont Mining	10

Source: SIX Structured Products, May 2014

In isolated cases, investors also opted for government bonds (Brazil, Spain, France, and Italy). Around 59% of all products have “lower medium grade” reference bonds (BBB+ to BBB-). Roughly 18% of products have reference bonds in the speculative range (i.e. a rating of less than BBB-) with a correspondingly high risk premium.

Distribution of reference bonds by rating



Source: Ratings from S&P or Fitch if available, otherwise equivalent Moody's rating

There are structured products with reference bonds even without the protection against issuer default offered by COSI®. However, it seems to make sense to only issue such products in combination with COSI®. Otherwise, investors have to deal with two different, unsecured entity risks at the same time: That of the issuer and that of the reference entity. This increases the complexity of the investment decision.

However, COSI® can only minimize the issuer default risk, not the additional market risk of the reference bond. Given the risks entailed with the reference bond, investors should therefore have a clear opinion on the credit quality of the desired borrower before buying such a product. It is also recommended to monitor the credit quality of the reference bond throughout the entire holding period.

Overview of Top Products

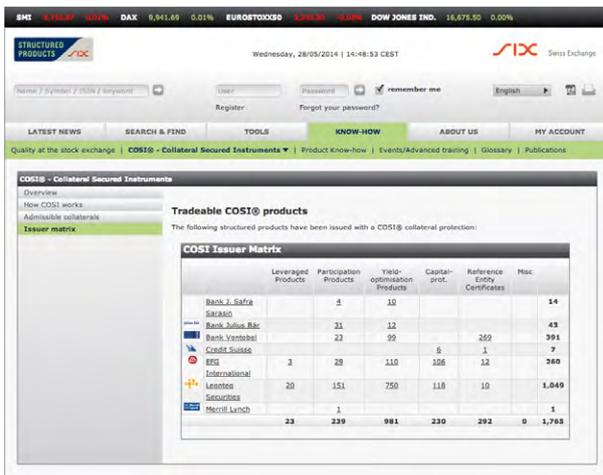
Category	Symbol	SVSP categorization	Underlying	ISIN number	Total sales in CHF
Capital protection	EFHSX	Capital protection with coupon	Novartis N/Swisscom N/Syngenta N/Zurich Insurance N	CH0115890706	7,132,301
	EFHAM	Capital protection with coupon	ABB N/Credit Suisse Group N/ Nestlé N/Roche GS	CH0110622609	3,721,720
	EFGE0Z	Capital protection with participation	Various foreign shares	CH0204231242	1,813,966
	BCNCH	Capital protection with coupon	Various foreign shares	CH0110879472	1,578,409
	EFGEOL	Capital protection with participation	Gold fix PM	CH0204230954	1,486,278
Yield enhancement	LTOAHR	Barrier reverse convertible	DAX Price Index/EURO STOXX 50 PR Index/ iSHARES ETF on MSCI Indonesia	CH0213854364	5,380,600
	LTOBNW	Express certificate	EURO STOXX 50 PR Index	CH0228509151	4,468,215
	EFGDMF	Other yield enhancement	Various foreign shares	CH0195385692	3,927,025
	EFLEM	Express certificate	Basket of Direxion ETFs	CH0135856646	3,763,739
	VONHHK	Barrier reverse convertible	Anglo American Plc./Barclays Plc.	CH0206166438	3,537,225
Participation	EFGEFO	Tracker certificate	Various bonds	CH0201061105	6,698,911
	EFGGPH	Outperformance certificate	EURO STOXX 50 PR Index	CH0222268333	4,454,811
	EFGFEE	Other participation	Mixed underlyings (commodities and bonds)	CH0205167569	3,390,193
	EFFGGM	Tracker certificate	Various funds	CH0205168468	2,893,162
	EFGFFF	Other participation	EURO STOXX 50 PR Index	CH0205167981	2,010,753
Reference bonds	VFRTY	Reference entity certificate (contingent capital protection)	5 ThyssenKrupp AG 04.04.2022/LIBOR 3M CHF	CH0141504511	5,648,406
	VFGEN	Reference entity certificate (contingent capital protection)	5.125 Assicurazioni Generali S.p.A. 16.09.2024/LIBOR 3M CHF	CH0141508652	5,178,220
	VFPBB	Reference entity certificate (contingent capital protection)	7.875 Petrobras Intern. Finance Co. Ltd. 15.03.2019/LIBOR 3M CHF	CH0141511045	4,982,128
	VFGAZ	Reference entity certificate (contingent capital protection)	3.389 Gaz Capital S.A. 20.03.2020/LIBOR 3M CHF	CH0141509718	4,097,269
	VFTHE	Reference entity certificate (contingent capital protection)	5 ThyssenKrupp AG 04.04.2022/EURIBOR 3M	CH0141510211	3,770,372
Leverage products	LTQCCX	Mini-future	TOPIC Index Future Jun 14	CH0218791256	901,092
	LTQCPY	Mini-future	Forex EUR/USD	CH0218791546	358,001
	LTOBNC	Warrant	Forex CHF/HUF	CH0218791058	286,022
	LTOAIY	Mini-future	S&P share basket (EFGGHN)	CH0213859132	281,538
	EFGGHN	Warrant	Basket of foreign shares	CH0198382720	204,059

Source: SIX Structured Products, May 2014

Events and Publications

Keep Track

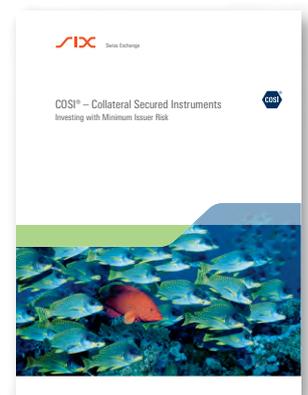
Visit our new website at www.six-structured-products.com/cosi. A table will show you all the available COSI® products. The right product for you is just a few clicks away!



COSI®s have never been explained this clearly before! With this easy-to-understand video, COSI®s and their mechanism can be understood by people interested at any level of expertise.



The most important facts at a glance: The COSI® fact sheet



The COSI® information brochure for comprehensive information



Overview of passive finance products

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