



COSI[®] NEWSLETTER

Information on collateral secured COSI[®] certificates

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COSI® as a pension solution

In this newsletter, we will be focussing on the topic of pension solutions. Due to the reduction of the minimum interest rate for pension funds to record lows in Switzerland, coupled with the fear of a further reduction of the pension conversion rate, we have seen an increasing tendency for people to cash out their pensions. These funds have to be reinvested, so suitable reinvestment opportunities are in demand. In our feature article on pages 3 and 4, we explore the issue in depth and provide insight into the Swiss pension plan system and the rising need for investment products after retirement.

We also examine the issue in an interview with Gianni Meleleo, Head of Pension Solutions at EFG Financial Products. He discusses the increasing importance of investment products like COSI® that offer a high degree of security and adequate returns, both of which are indispensable for long-term pension solutions.

COSI® protects investors from issuer payment default. But how high is the probability of payment default, and what criteria are used to measure issuer risk? Read more on page 7.

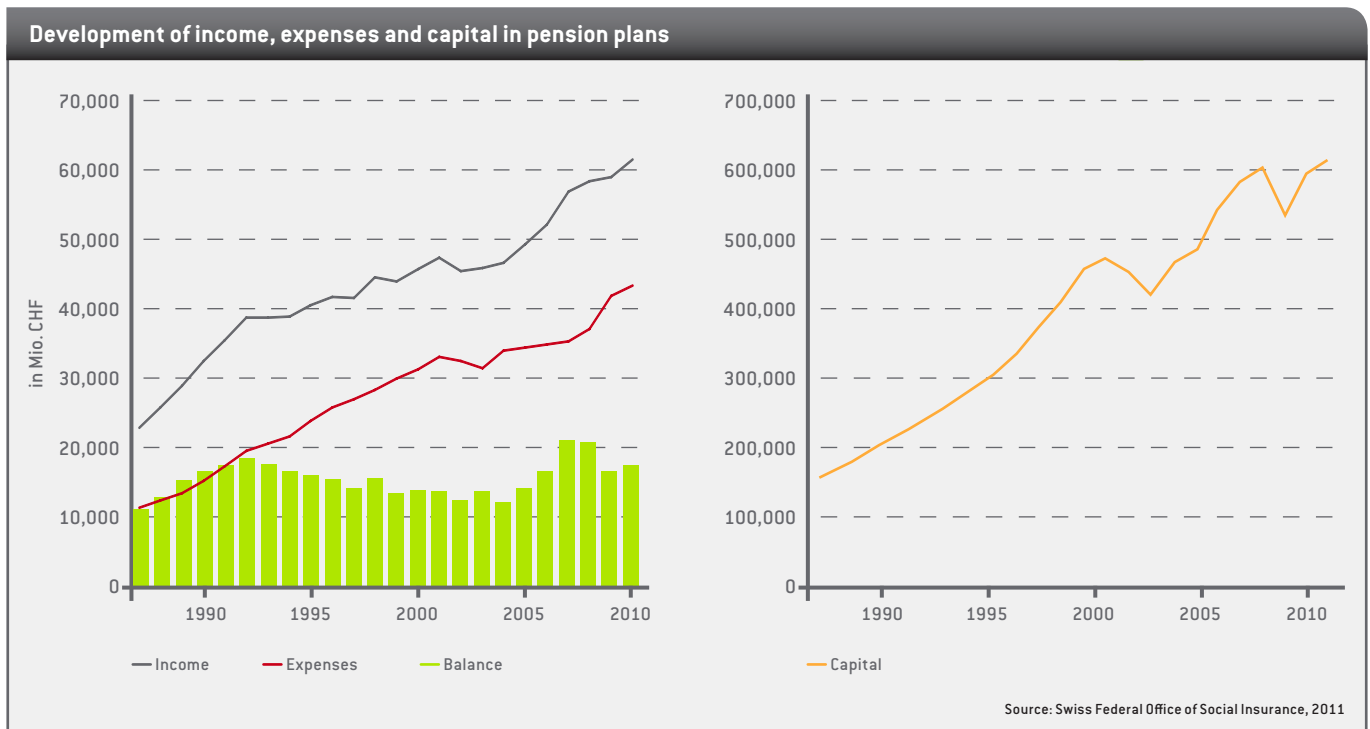
On behalf of the COSI® editorial team, we wish you a successful 2013. We will continue to keep you up to date on all the interesting news in the COSI® segment throughout the year.

Your COSI® Newsletter Team

Rising need for reinvesting pension assets

In Switzerland, occupational pension schemes represent the second of three pillars to ensure adequate old age, bequest and disability insurance. Second-pillar benefits supplement first-pillar benefits (AHV/IV) in the case of old age, disability or death, but their primary purpose is to cover living expenses after retirement. According to the Swiss Federal Statistical Office, pension fund investments rose to CHF 626 billion by year-end 2011. But the obligation to make second pillar contributions has only existed in Switzerland since 1985, which means that despite a weak investment year income is still about CHF 20 billion higher than expenses.

The only times we have seen slight declines in pension fund capital was as consequence of the poor stock market trend in the 2002 new economy crisis and the 2008 financial market crisis. Increasingly, however, the majority of the growth in capital is typically generated during normal years with employee and employer contributions rather than capital gains. Until 2000, capital gains still represented at least one third of annual income, while in recent years they have plummeted to a quarter. The negative interest environment and strict investment guidelines for pension fund assets mean that substantial returns are barely possible anymore, which will further exacerbate the problems of the demographic shift in the near future.



At the time of regular retirement – for women currently at the age of 64 and for men at 65 – people have the option of either cashing out pillar two retirement savings or drawing a lifelong pension. A total of 31,890 retirees elected to cash out their pensions in 2011, 5.7% more than in the previous year. A total of CHF 5.5 billion was paid out, representing an average payout of CHF 173,100. The proportion of capital payouts to total benefits could well continue to rise in the coming years since it is generally anticipated that the pension conversion rate will con-

tinue to decline from currently 6.8%. This means an increasing number of pension savers will have to handle the management of their pension assets themselves. Even if the capital should increase in the course of the years, the annual benefits paid out will continuously rise as well since termination benefits in the form of pensions or capital payouts will be higher and higher. As a consequence, we are seeing steady growth in the volume of funds from pension payouts available for reinvestment.

While investors are currently enjoying low mortgage rates, they are also confronted with a continuous decline in interest on their savings. At the beginning of 2012, the Swiss Federal Council decided to reduce the minimum interest on pension capital to a record low of 1.5%. It was a clear signal that lower interest rates are likely over the long term as well. Even though inflation is currently low, a savings account is hardly worthwhile anymore for retired savers seeking to preserve assets, let alone build wealth.

COSI® as a pension solution

In this area, structured products can be a sensible addition to the portfolio. For retired investors, however, security is particularly important. Hedging or protecting can be achieved with various means – ranging from products with capital protection

to a targeted selection of underlying assets covering various sectors and countries and the minimization of default risk of an issuer with collateralized products. COSI® has closed a gap in the investment universe for structured products and thanks to its additional security components has opened up a world of possibilities for restrictive market participants.

In the meantime, more than 20% of all investment products tradeable at Scoach are collateralized. In figures, this means that six different issuers offer a total of over 2,600 COSI® products. Investors can choose between five different asset classes. They also have a selection of 12 different trading currencies and more than 1,100 underlying assets. Therefore, COSI® products offer an interesting investment opportunity with security for funds from pension payouts.

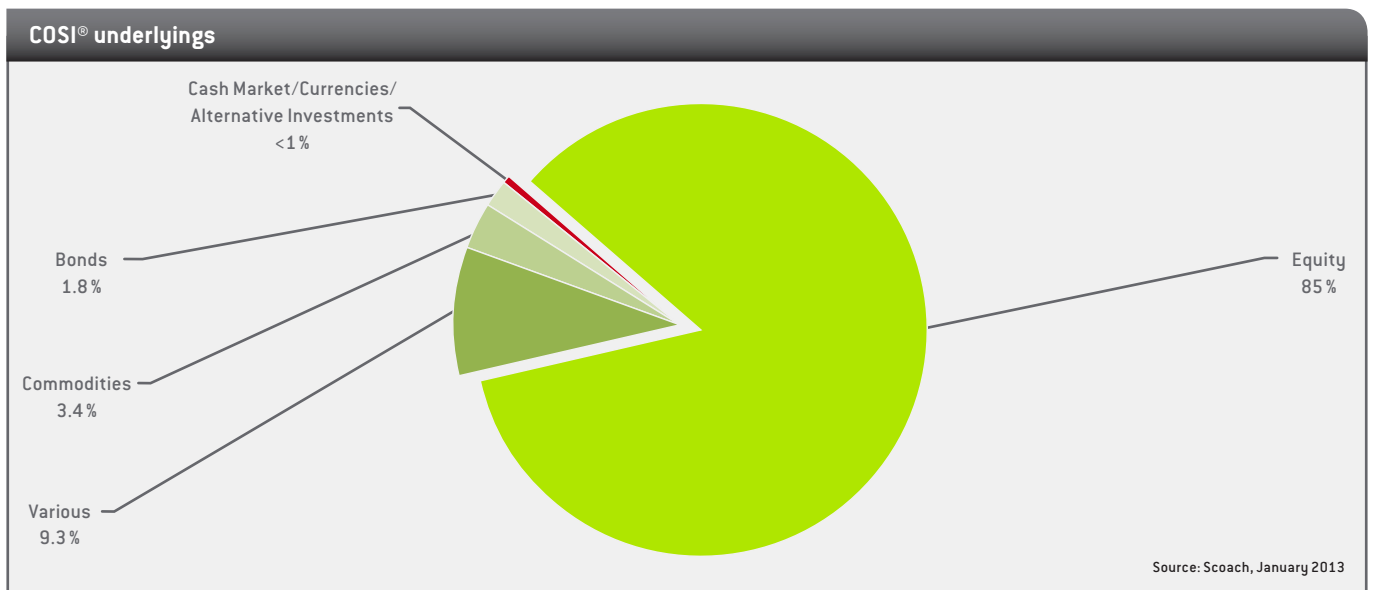
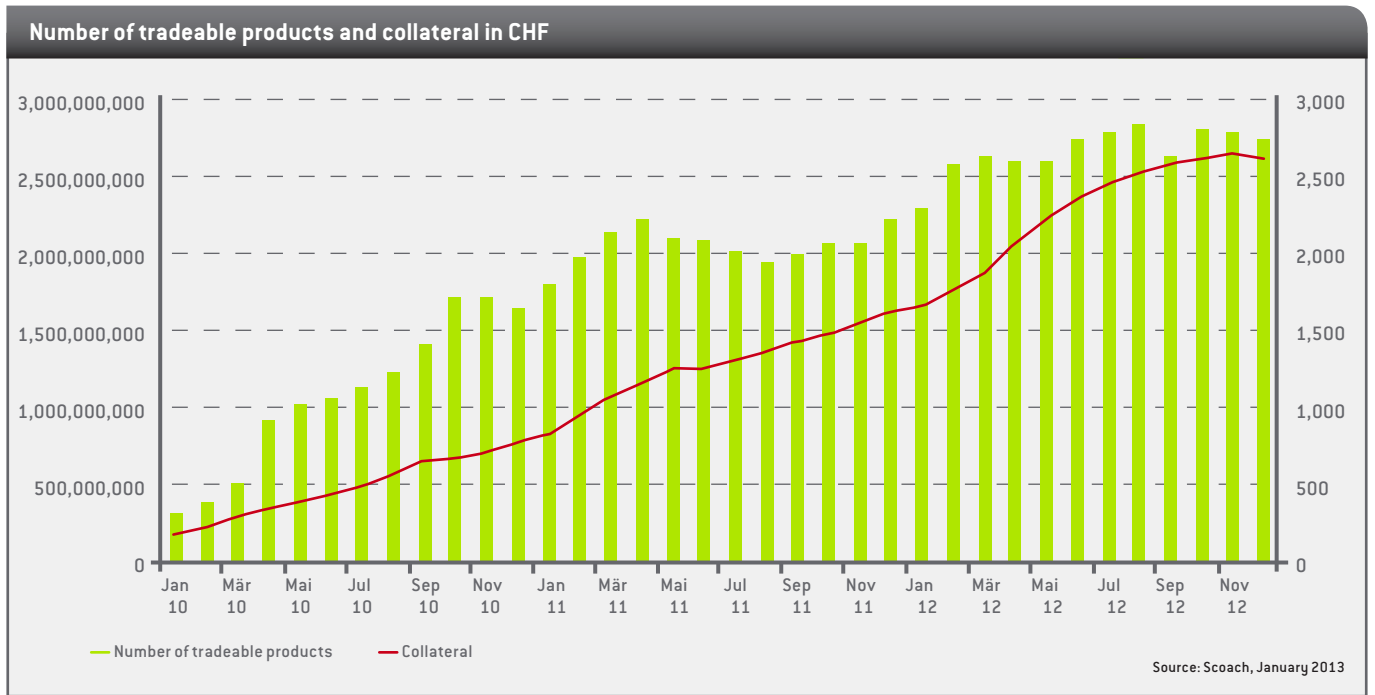
COSI® issuers at a glance						
	Yield Enhancement	Leverage	Capital Protection	Certificates with reference entity	Participation	Total
Bank Julius Bär	6				4	10
Bank Vontobel	147		2	233	29	411
Credit Suisse	5		7	1		13
EFG Financial Products	1,779	16	150	23	205	2,173
Merrill Lynch BoA					3	3
Bank Sarasin & Cie	8				2	10
Total	1,945	16	159	257	243	2,620

Source: Scoach, January 2013

Development

At the end of 2012, more than 2,600 collateralized products were available for trading. The outstanding volume of COSI® products amounted to CHF 2.8 billion at year-end. The one

billion threshold was first crossed in May 2010, the two billion threshold in March 2011. The highest daily volume ever reached was about CHF 70 million on September 13, 2011.





Gianni Meleleo is Head Sales Pension Solutions at EFG Financial Products Ltd and one of Switzerland's leading figures in the area of pension solutions. During his 24-year career, he was involved in a variety of activities at various insurance companies, most recently at an independent insurance broker as branch manager and Member of the Executive Board. He holds a degree as financial planner with Swiss federal diploma.

Interview with Gianni Meleleo, Head Sales Pension Solutions at EFG Financial Products AG, on the potential of COSI®-secured pension solutions

To what kind of investors do you offer Pension Solutions products?

Our pension solutions primarily address security-conscious investors who want to protect their capital and invest it for longer periods with attractive return opportunities. By participating in the performance of selected underlyings, coupons and partial payments are also possible, depending on the product. This makes these products particularly well suited as pension solutions.

What is the difference between pension solutions and the other products at EFG Financial Products?

Pension solutions are also structured products, and as bearer bonds they entail an issuer risk. However, due to the longer term investment horizon, we only offer these products in collateralized form.

How high is the market potential of this kind of product?

We are very pleased to see that our products are generating a lot of interest. We are convinced that our product range creates unique added value. Today, investors are looking for innovative and flexible solutions that satisfy their financial needs. Our COSI®-secured pension solutions fill a gap in demand for retirement products.

What is your responsibility?

Pension Solutions is one of three divisions of EFG Financial Products AG. The Pension Solutions sales team has many years of experience in the insurance sector. We are responsible for

supporting independent insurance brokers and for launching customized insurance and capital protection products together with our partners. For the most part, our products are marketed by insurance brokers and selected insurance companies in Switzerland.

Which structures are particularly popular in this area?

In addition to the Pension Solutions products, our standard-products include Safe Certificates, Step Certificates and customized products. We update these products each quarter so we can adjust them to the respective market situation and give investors the best possible conditions.

To what extent are the products customizable?

We offer investors customized solutions for investments as low as CHF 50,000.

Can investors resell the products at any time?

Yes, we are committed to publishing bid prices on Scoach on a daily basis for all of our products. This means our products can be sold at any time at the respectively valid rate for the investment.

How much does collateralization cost for the investor?

No additional costs arise for the investor since the cost of collateralization is already included in the product.

Thank you for the interview.

Standards for assessing issuer risk

COSI® protects investors in structured products from losses resulting from payment default of the issuer or debtor of these instruments. But how high is the likelihood of such a payment default? With the aid of two indicators – the credit rating and the credit spread of the debtor – it is possible to determine how likely various market participants consider this risk.

Credit rating

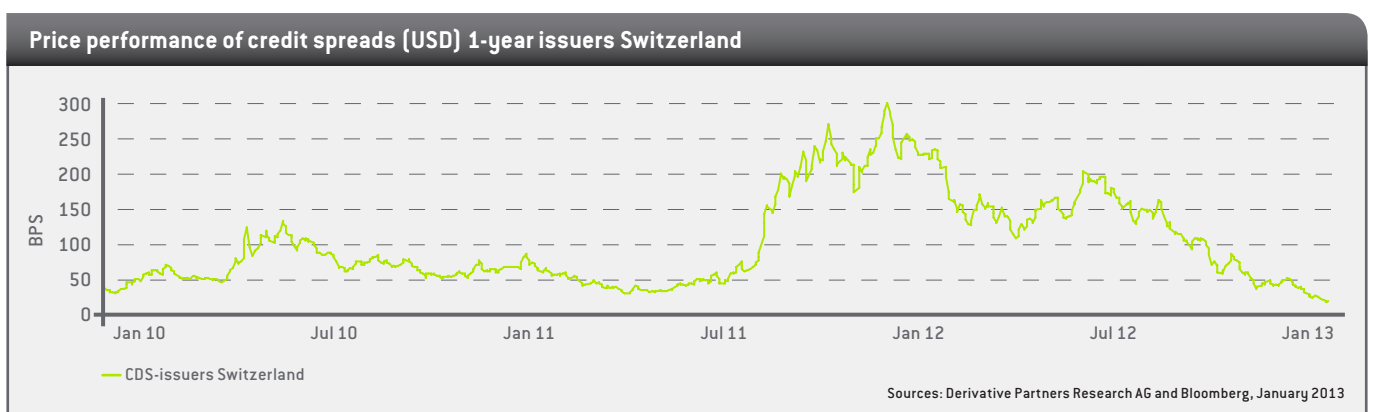
A credit rating is attributed to a debtor on request by rating agencies such as Moody's, Standard & Poor's or Fitch Ratings. Since the debtor generally has to pay for the rating, credit ratings are not necessarily available for every issuer. Debtors are classified in categories ranging from "triple A" – the category with practically no default risk at all – to "non-investment grade" – a category designating debtors who are likely to default. The assessment is based on an independent evaluation of qualitative information such as political stability in the company's home country as well as quarterly figures such as the equity-to-assets ratio.

Investors who invest in conventional structured products should keep an eye on the issuer's rating throughout the term of the investment. This way they can sell the product as soon as the risk appears too high. With an investment in a COSI® pro-

duct, the investor can disregard the rating during the term since the default risk is minimized by the collateralization. SIX Swiss Exchange also takes ratings into consideration in its COSI® services. Ratings play a role when evaluating securities for their suitability as COSI® collateral. For instance, for securities accepted by the Swiss National Bank (SNB) a minimum rating of A2/A/A (Upper Medium Grade) is required for issues denominated in Swiss francs and Aa3/AA-/AA- (High Grade) for those denominated in another currency. For securities accepted by the European Central Bank (ECB), the current minimum rating is A3/A-/A- (Upper Medium Grade).

Credit spreads

A credit spread refers to a risk premium, the value of which depends on the default risk of the issuer. The level of the credit spread is measured in basis points as a difference between the investment in a risk-free and congruent reference investment. The higher the difference, or in other words the risk premium, the higher the default risk of the debtor expected by the market. Since credit spreads are defined by the market ("how much is the market willing to pay with respect to the estimated risk?") rather than by independent agencies as is the case with ratings, credit spreads are considered more neutral and up-to-date than ratings.



Credit spreads play a central role in COSI® products with reference bonds. The higher the risk premium as a consequence of a high credit spread of the reference bond, the higher the coupons or participation that the investor receives. Investors

can selectively control their risk and return opportunities by choosing the right reference bond. In the case of COSI® products with reference bonds, however, only the default risk of the issuer is collateralized, not the risk of the reference debtor.

Top-Products					
Category	Symbol	SSPA category	Underlying	ISIN Number	Total turnover in CHF
Capital protection	EFHAM	Capital protection with coupon	ABB / CS / Nestlé / Roche GS	CH0110622609	4,992,363
	EFHNS	Capital protection with participation	SMI Index	CH0114264952	3,158,106
	EFHSX	Capital protection with coupon	Novartis / Swisscom / Syngenta / Zurich	CH0115890706	1,929,522
	EFGNR	Capital protection with coupon	ABB / Actelion / Adecco / CS / ...	CH0106308643	1,458,858
	EFKAU	Capital protection with participation	Nestlé N	CH0128752885	1,427,959
Yield enhancement	EFGDNE	Express certificate	EURO STOXX 50 PR Index	CH0197481986	16,453,525
	EFGCFD	Barrier reverse convertible	Apple / LinkedIn	CH0190893971	7,254,810
	EFLTE	Express certificate	n/a	CH0139211723	6,408,230
	EFKJV	Express certificate	EURO STOXX 50 PR Index	CH0130536656	4,361,501
	EFKDP	Express certificate	EURO STOXX 50 PR Index	CH0129731912	3,858,690
Participation	EFGNV	Tracker certificate	EFG Anleihen Basket	CH0107029024	10,973,584
	EFLEH	Outperformance certificate	Nestlé N	CH0133920584	7,704,440
	JPYEXP	Tracker certificate	EFG Japanese Exporters Basket (JPYEXP)	CH0149116581	4,510,314
	EFMXJ	Diverse participation	Gold	CH0149116276	4,417,563
	EFGOF	Tracker certificate	EFG Bond Basket III	CH0107029347	2,024,304
Certificates with reference entity	VFRSC	Certificates with reference entity	CHF 3M LIBOR	CH0141502465	7,516,888
	VFRCN	Certificates with reference entity	CHF 3M LIBOR	CH0141501897	5,710,446
	VCSWL	Certificates with reference entity	Swiss Life Hldg. N	CH0141501103	3,034,125
	VUFTE	Certificates with reference entity	France Télécom S.A.	CH0137711740	2,789,430
	VFRSE	Certificates with reference entity	EURIBOR 3M	CH0141502473	1,725,794
Leverage products	EFGBNK	Mini-Future	DAX Index Front Month Future	CH0184262290	14,366,938
	EFGBNG	Mini-Future	DAX Index Front Month Future	CH0184262266	13,291,185
	EFKKM	Mini-Future	Nikkei Dividend Future DEC 15	CH0129409402	2,442,213
	EFGCPR	Mini-Future	n/a	CH0187368342	2,391,665
	EFGBDM	Diverse Hebel	LinkedIn / MAN / Morgan Stanley / Telefonica	CH0185657670	2,110,082

Source: Scoach, January 2013

COSI® in a nutshell

Number of listed products	2,620
Number of issuers	6
Capital protection products	159
Yield enhancement products	1,945
Participation products	243
Certificates with reference entities	257
Leverage products	16
Highest daily volume	CHF 70.24 Mio. (13.09.2011)
Outstanding volume	CHF 2.8 Mrd.

Source: Scoach, January 2013

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Scoach Switzerland Ltd
Selnaustrasse 30
P.O. Box
CH-8021 Zurich

www.scoach.ch
e-mail: contact@scoach.com

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