

Alpha Chronicles: A Sharpe Read

23 August 2017

Societe Generale Taps Rising Risk Appetites with DLCs



For financial services industry veteran Keith Chan, it's all about discipline, service and attention to detail.

The Head of Cross Asset Listed Distribution at Societe Generale's Global Markets in Asia Pacific is responsible for the business development, sales and marketing of listed products, including Structured Warrants, Callable Bull/Bear Contracts (CBBs), and more recently, Daily Leverage Certificates (DLCs). Last month, Societe Generale was the first financial institution in Asia to roll out DLCs to investors in Singapore and the region.

"The question is what kind of service do you provide? Every investor has his or her individual needs, so you need to put yourself in their shoes - take into account their risk/return spectrum, and make sure they understand the products they are investing in," Chan said.

The Bachelor of Commerce graduate with majors in Accounting and Finance from the University of Sydney spent nearly two decades of his career specialising in retail investment products. Prior to joining Societe Generale, the 41-year-old held similar roles at Macquarie and HSBC between 2005 and 2014.

"There's a sophisticated segment of the retail investor market that accounts for a good chunk of traded volumes in warrants, but over time, investors are generally demanding simpler products, so DLCs are a good addition to CBBCs and warrants," he noted.

DLCs offer investors fixed leveraged returns of three to five times the daily performance of the underlying asset, and the flexibility of trading both rising and falling markets. They are designed to be traded over short periods of time - not longer than a few days - to capture short-term market moves. Some investors would even trade them predominantly on an intra-day basis.

SGX is the first venue in Asia to offer trading in DLCs, allowing Specified Investment Product (SIP)-qualified investors to gain fixed daily leverage exposure to key Asian indices. DLCs come without implied price volatility¹ and time decay¹ - features that impact pricing for options¹. There are no margin calls¹, and investors will never lose more than their initial invested capital.

The first batch of DLCs issued by Societe Generale comprise 10 products, including Long and Short DLCs, offering fixed leverage of three or five times the daily returns of the MSCI Singapore Index, Hang Seng Index (HSI) and Hang Seng China Enterprises Index (HSCEI).

Robust Asian Demand

Societe Generale is one of the largest issuers of DLCs in Europe. Over the last five years, DLCs have become the fastest-growing listed products by volume in the continent. The bank has launched close to 700 DLC products across nine European countries, spanning a range of underlying assets, such as foreign exchange, commodities, equity indices and single stocks, Chan noted.

"We see strong demand for leveraged products from the Asian investor. In this region, the short-term trading mentality and appetite for leverage is much higher than in Europe, where investors tend to buy and hold their investments for yield over the medium or long term," he added.

Although DLCs are simple to understand and easy to access, investors still need to be educated on the technical details. "For retail products, it's always about education, to ensure investors understand the nature and risks. For example, we need to highlight the compounding effect of DLCs - they're designed for day or short-term trading, and not a buy and hold for an extended period."

Understanding risk is a key part of the education process, Chan emphasised. "Risk is not something to avoid, but should be used to work for you. Investors should be clear about how much risk they can stomach, how much of it they wish to assign to their portfolios - in other words, risk is a tool that can be used to boost your investment returns when it is properly managed."

In comparative terms, DLCs are higher risk products compared to ETFs or the trading of stocks, but carry lower risks than CBBCs and warrants, he added.

At the end of the day, it's important to ensure the investor has a good experience trading a product, regardless whether the end result is a profit or a loss. This would be one of the defining elements of the service that Societe Generale provides for its clients, Chan said.

"How does an investor have a good experience? It means that before buying, he understood the product, what was involved, and the risks, so whatever happens, there are no surprises," he added.

To achieve this, having the right educational tools to convey simple messages clearly and effectively - whether they be website materials, brochures or videos - are essential.

Another key service is how the issuer provides liquidity for each product listed on the exchange. "It means we provide consistency in the bid-ask spreads. For intraday trading tools like DLCs, this is critical," he added.

Apart from service quality, Societe Generale also places a premium on innovation - using technology, including different platforms and mobile tools to roll out new products.

"That's why I enjoy being in the financial markets and dealing with retail products - things are changing all

the time, and they're different every day," Chan said with a smile.

"We get to explore new ways of doing things, and there's no time to be bored."

The Le Cordon Bleu London graduate in patisserie, who has a son, eight, and a daughter, six, is also passionate about cooking.

His favourite recipe? Tarte Tatin - an upside-down pastry in which the fruit, usually apples, are caramelised in butter and sugar before being baked.

"Cooking in a restaurant requires strict discipline and consistent standards, because you are serving customers with expectations. It's exactly the same when you work in financial markets."

Daily Leverage Certificates

- DLCs offer investors fixed leveraged returns of 3 to 5 times of the daily performance of the underlying asset, be it a rising or falling market. The basic principle is simple - if the underlying index moves by 1% from its closing price the previous day, the value of the 3x DLC will move by 3%, and that of a 5x DLC will move by 5%.
- DLCs are designed to be traded over short periods of time, predominantly on an intra-day basis. The DLC offers the flexibility to trade both rising and falling markets. For each underlying and leverage level, there is a long and short DLC available.
- A bullish investor who thinks that the underlying index is set to rise over the trading day can select a 3x Long DLC, which will rise in value by 3% for each 1% rise in the underlying index (before cost and fees). A bearish investor who expects the underlying index to fall can select the 3x Short DLC, which will rise in value by 3% for every 1% fall in the underlying index (before cost & fees).
- If the market goes against the investor, the DLC will amplify losses in the same way. The investor's entire invested capital is at risk, but not more than the invested capital.
- Investors should note that the leveraged 3 to 5 times exposure to the daily performance of the underlying index is on the basis of a one-day holding period. DLCs are generally not suited for holding periods longer than a few days. If held over a period longer than one day, actual returns will deviate from the projected leverage exposure. In addition, even with a one-day holding period, there will be tracking errors due to cost and fees.
- DLCs are a Specified Investment Product (SIP). Under MAS' guidelines to enhance safeguards for retail investors, brokers must assess if investors have the relevant knowledge and experience before they can invest in SIPs. SIPs are products that have structures, features and risks that may be more complex, and include DLCs, structured warrants, synthetic ETFs, futures and options. Investors who wish to trade DLCs need to complete a customer account review with their respective broker. Alternatively, investors may assess their qualifications to trade SIPs or enhance their product understanding through the **SGX Online Education Program**.

To read more FAQs on DLCs, click [here](#).

¹Definitions of the Day

Option

An option is a financial derivative that represents a contract sold by one party - the option writer - to another party - the option holder. The contract offers the buyer the right, but not the obligation, to buy (call) or sell (put) a financial asset at an agreed-upon price - the strike price - during a certain period of time or on a specific date, known as the exercise date.

Implied Price Volatility

It refers to an estimate of the expected volatility of the security that an option is based upon, determined by the price of the option. Factors that affect implied volatility are the exercise price of the option, the risk-free rate of return, the option's maturity date, and the price of the option.

Time Decay

This is a factor that affects the value of an options contract. It is the ratio of the change in an option's

price to the decrease in time to expiration. Options are assets which suffer a decline in value over time. As an option approaches its expiry date without being in the money, its time value falls because the probability of that option being profitable, or in the money, is reduced.

Margin Call

When an investor uses margin to buy or sell securities, he pays for them using a combination of his own funds and borrowed money from a broker. A margin call is triggered when one or more of the securities he bought with borrowed money declines in value past a certain point. He must then either deposit more money in the account or sell off some of his assets.



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Photo: Societe Generale

Alpha Chronicles is a regular column on SGX's My Gateway website that aims to profile best-in-class asset managers in the financial industry. The excess return of a fund relative to that of its benchmark is its alpha, while the Sharpe ratio - developed by Nobel Laureate William Sharpe - measures the fund's risk-adjusted returns.

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For more information, or if you would like your asset managers to be featured on SGX Market Dialogues, please send suggestions to jennifer.tan@sgx.com.

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