

Added value of niche products for institutional investors?

STOXX Index Seminar at the Nordic Capital Markets Forum

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General Overview of Structured Products

- Structured products contain elements of both bonds and derivatives, blurring the threshold between a bond and derivative
- General conception: structured product = capital-protected stock index-linked note
- There are a number of ways to classify structured products
 - Underlying security: stocks, bonds, properties, funds, AI?
 - Risk: full or partial protection of capital?
 - Cash flows: growth or return?
 - Market view: bull, bear, neutral?
 - Allocation: passive or active?
 - Maturity: long, medium or short?
 - Technical: CDO, CPPI, CMS, Cliquet, Podium, Himalaya, Range Accrual, Rainbow...?
- What about added value?

Structured Products are more than a capital protected index linked note



Underlying asset class

		Equities	FI & Currencies	Real Estate	Commodities	Funds	Alternative Investments	Hybrid
Structured product categories	Investment like products	Index linked – passive products <ul style="list-style-type: none"> • Renewable Energy • BRIC - indices 	<ul style="list-style-type: none"> • Peso and Real FX-note 	EPRA note	<ul style="list-style-type: none"> • Raaka-aine 2007/2001 		<ul style="list-style-type: none"> • Hedge Fund Index linked notes (Tremont) 	<ul style="list-style-type: none"> • Renewable Energy & Pure Water
	Index linked – active products <ul style="list-style-type: none"> • CROCI* 	<ul style="list-style-type: none"> • Managed FI note 			<ul style="list-style-type: none"> • Alpha Notes 	<ul style="list-style-type: none"> • Capital protected Hedge Fund notes 	<ul style="list-style-type: none"> • Adagio Strategy** 	
	Yield Enhancement <ul style="list-style-type: none"> • Partial Capital protection 	<ul style="list-style-type: none"> • CLN's 	<ul style="list-style-type: none"> • Real Estate outperformance note 	<ul style="list-style-type: none"> • Brent 24 	<ul style="list-style-type: none"> • Fund linked outperformer 			
	Hedging Products				<ul style="list-style-type: none"> • Hedging Fund Investments 	<ul style="list-style-type: none"> • Inflation linked hedging products 		
	Trading/ Leveraged Products <ul style="list-style-type: none"> • Single stock • Certificates 	<ul style="list-style-type: none"> • EUR/USD spread too wide? 		<ul style="list-style-type: none"> • Oil range accrual 				

* Deutsche Bank strategy, intr. in 1995

** Bear Stearns Adagio Strategy, SP of the Year in US 2006.

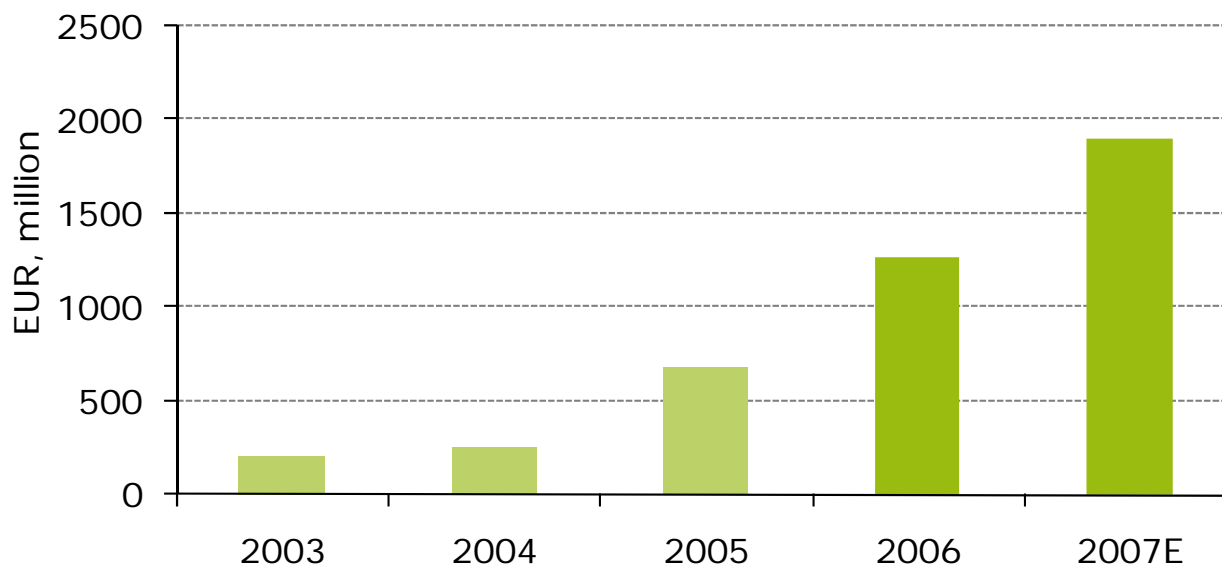
Market Review

Development of the Market in Finland

Explosive growth over the past years



Listed (public) notes in Finland

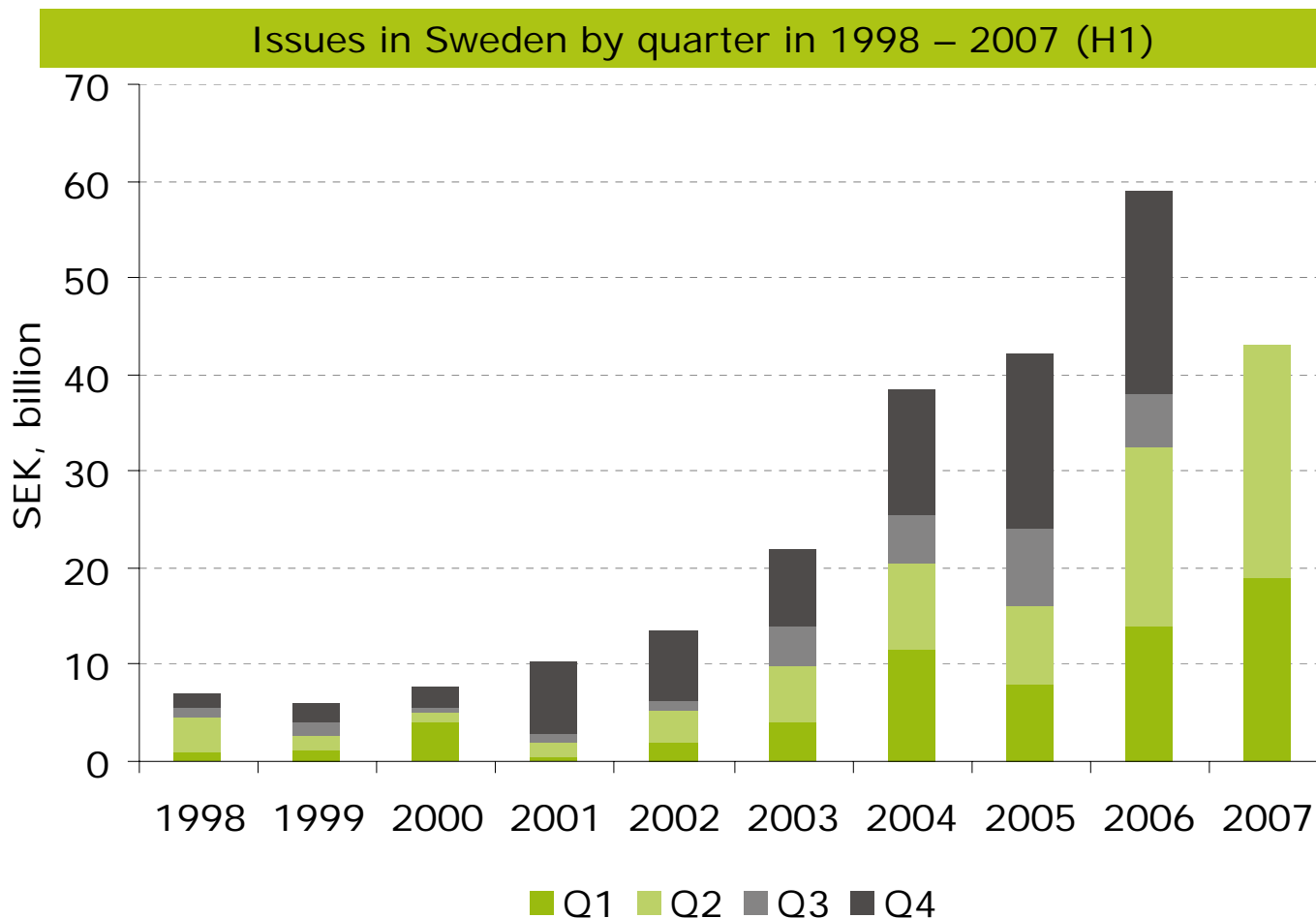


Source: FCSD (2003-2005) and Finnis Structured Products association.

2007E = 1,5 x H1/2007.

Structured Product Subscriptions in Sweden

H1/2007 volume €4,6 billion

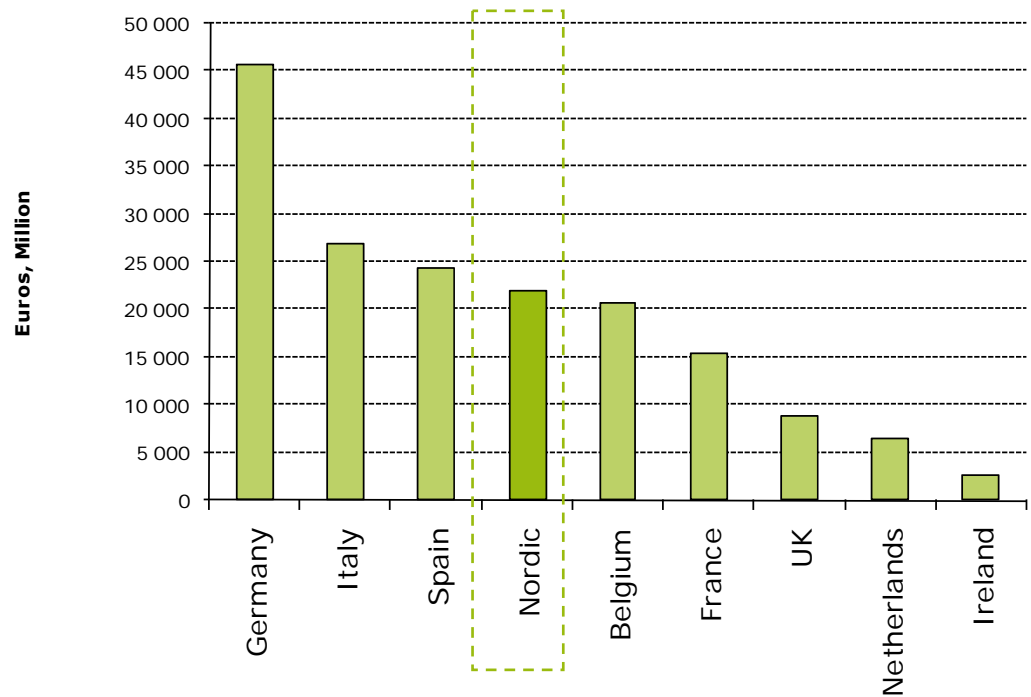


Nordic Countries - Innovative and Significant Market in European Scale



- Europe is the most advanced and, in terms of products, the most exotic market area
- Issue volumes totaled an estimated €172bn in Europe in 2006
- In 2006, the nominal value of structured products issued in the Nordic countries totaled an estimated €22bn (*)

Structured products' market, Europe 2006



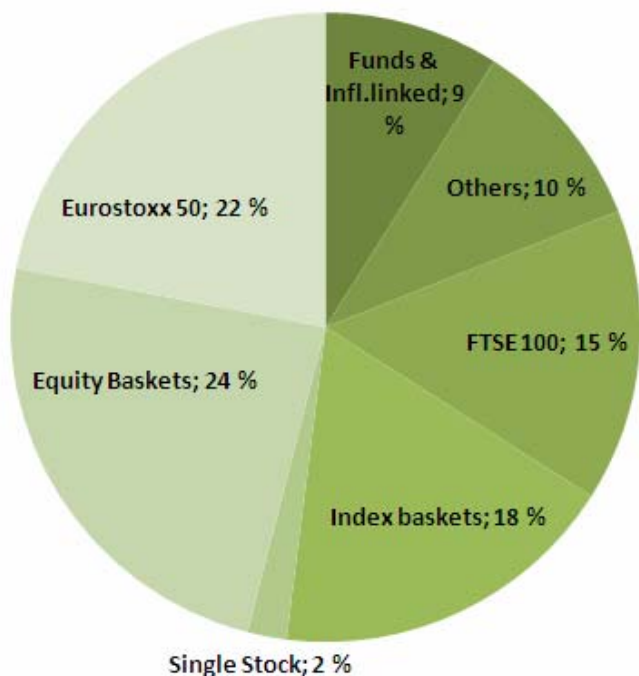
Source: JP Morgan/Arete Consulting 2006

* Estimate for Nordics includes both public and private placements

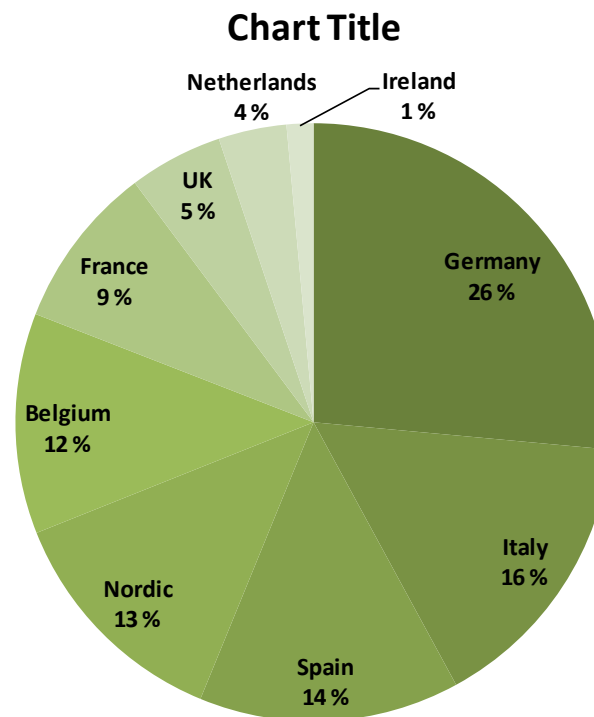
European Market – Underlying securities and issues per country



Underlying securities, Europe 2006



Issues by country, Europe 2006



Behind Growth Figures -

Drivers of historical growth and today's trends

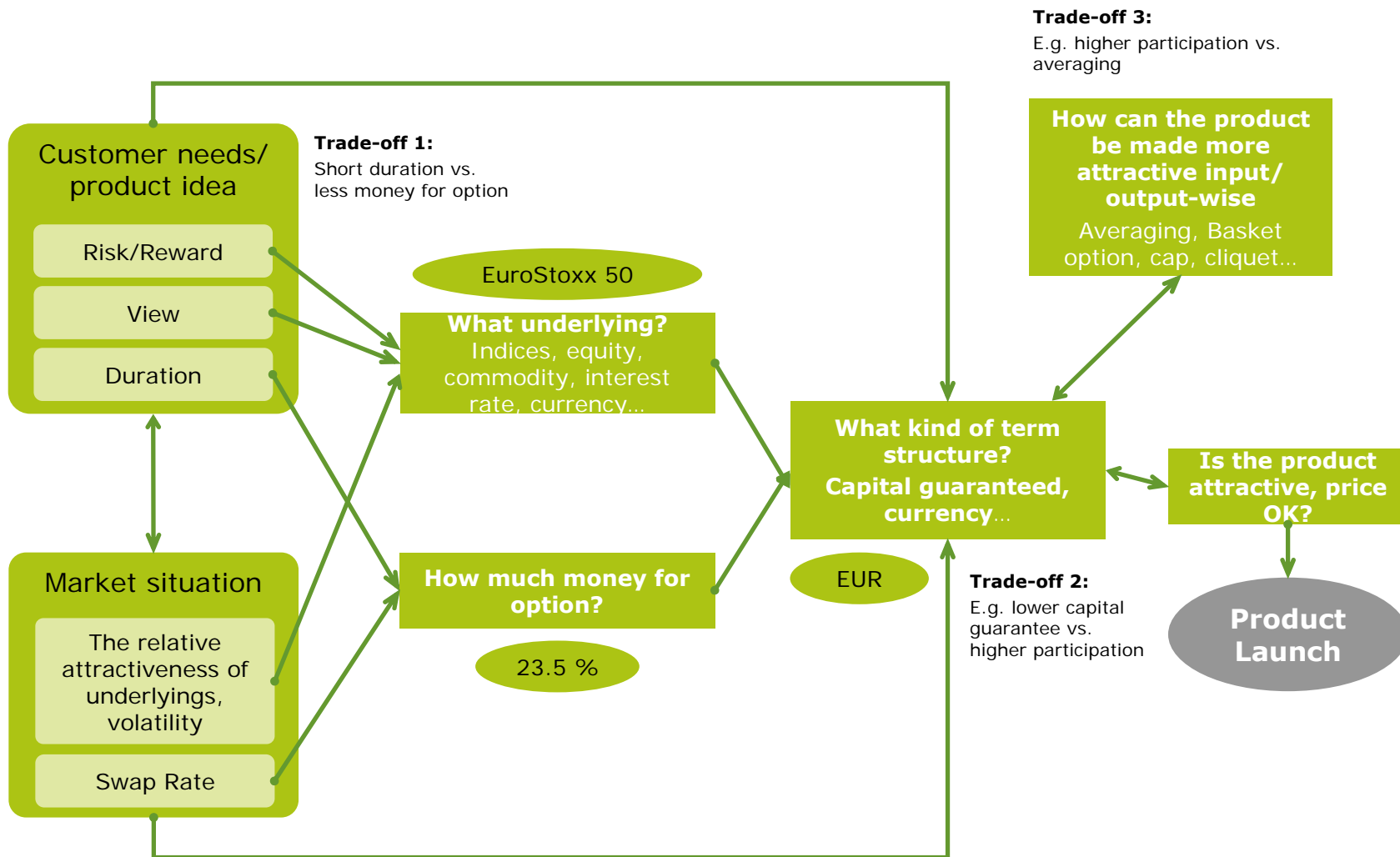
- Motors of historical growth
 - For long time a low interest rates and a low-return investment environment
 - Stock market volatility
 - Interest in alternative investment products
 - Growing product awareness and innovations
- Market trends?
 - With the market reaching a mature stage, growth is approaching the overall savings growth rate
 - Equity-linked products continue to be the most common, but are losing position to credit and alternatives
 - Protection of capital is still an important argument given the ageing population and growing stock volatility
 - Pressures to increase regulation and transparency
- Product trends?
 - Polarization between alpha and beta products
 - Expansion of the secondary market to cover restructuring of products

How do we add value with niche product

Development Process

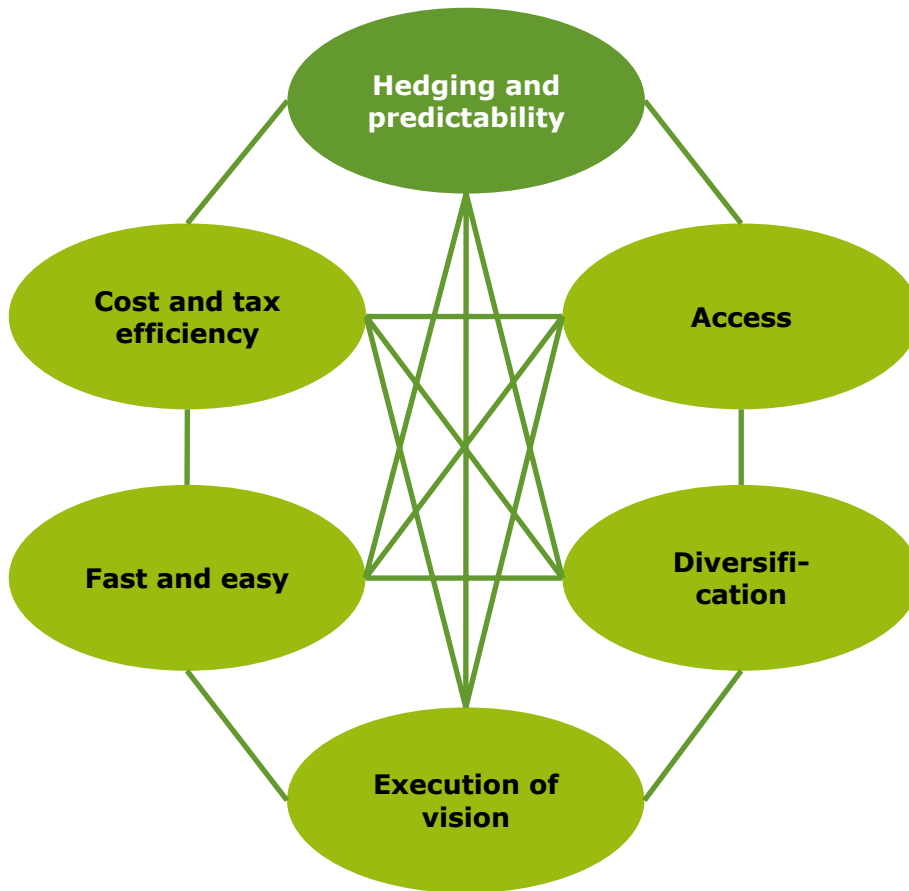
Added Value Created by Structured Products
for Institutional Portfolios

Development Processes of Structured Notes and Their Respective Trade-offs



Added Value Created by Structured Products

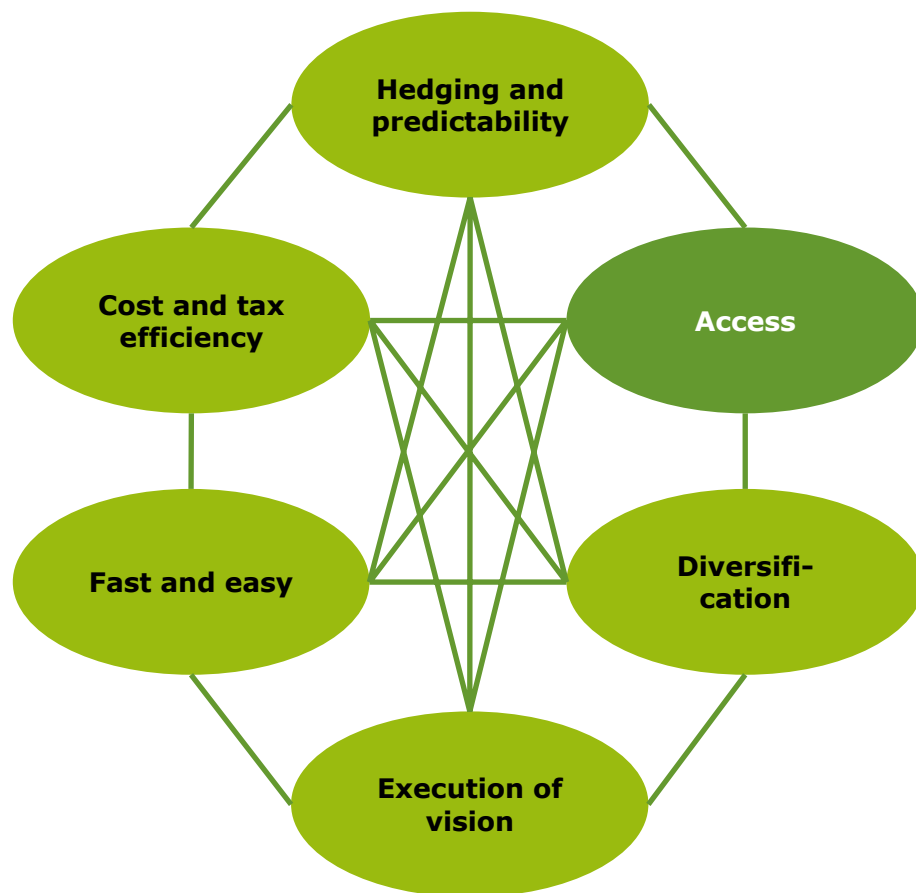
Hedging and predictability



- Partial or 100% capital protection
 - When risk appetite/ability to take risk is limited
 - When the investment is required for a future commitment
- Tailored maturity and cash flows
 - When cash flows and liabilities need to be timed to coincide
- Transparency increases predictability
 - Clear cut accumulation of returns
 - The best and worse outcomes are known beforehand
 - Independent of the portfolio manager's talents or style (also generates alpha)
- Hedging
 - When standardized hedging instruments are not available

Added Value Created by Structured Products

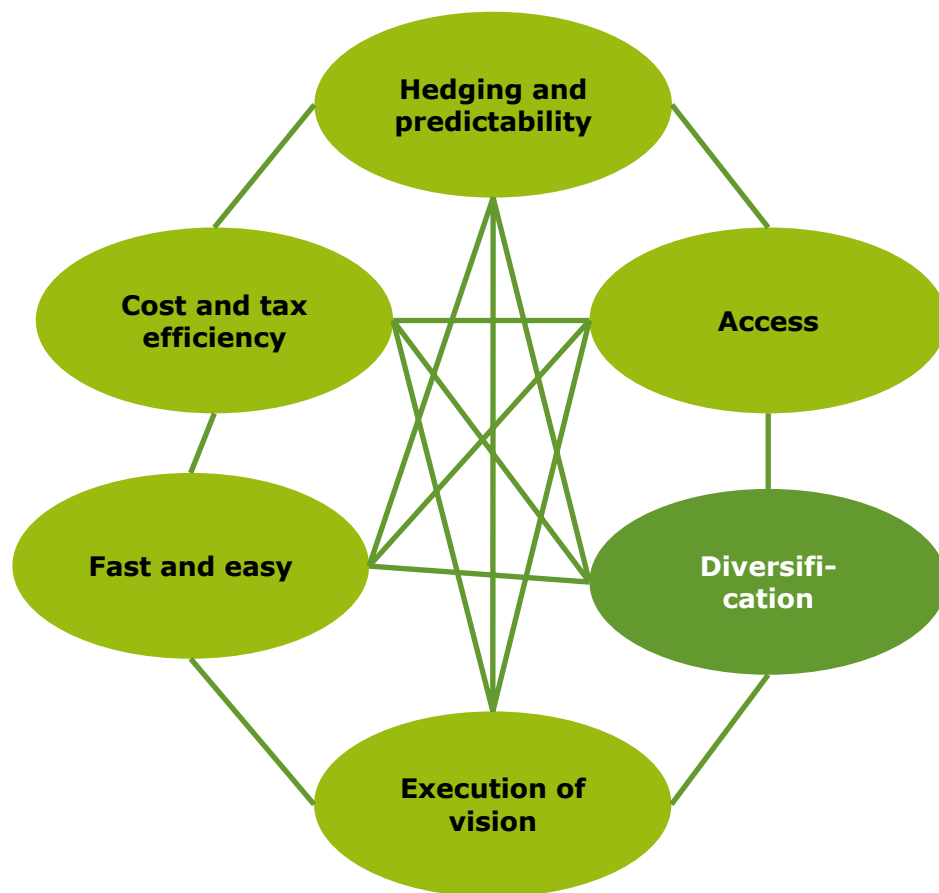
Access



- Structured products enable a wider group of investors to invest in products otherwise out of their reach
- Investment classes:
 - Credit risk
 - Commodities
 - Hedge funds
 - Private equity
 - Forex
 - Mortgages, forest, etc...
- Geographical regions:
 - Emerging markets
- Regulation may also limit the investment universe

Added Value Created by Structured Products

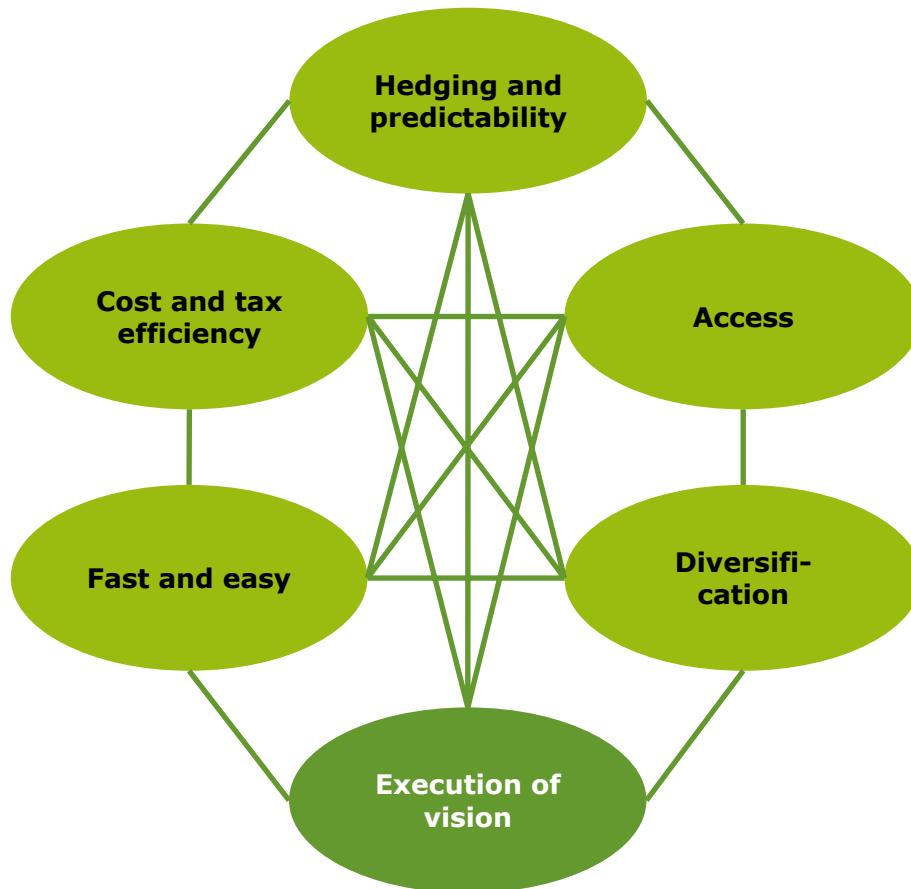
Diversification



- Structured products are an efficient diversification tool for portfolio management
 - By geographical region
 - By asset class
- The correlation between hedge funds and traditional investments, for example, is weak
- It is possible to build a structure for portfolio diversification purposes

Added Value Created by Structured Products

Execution of vision

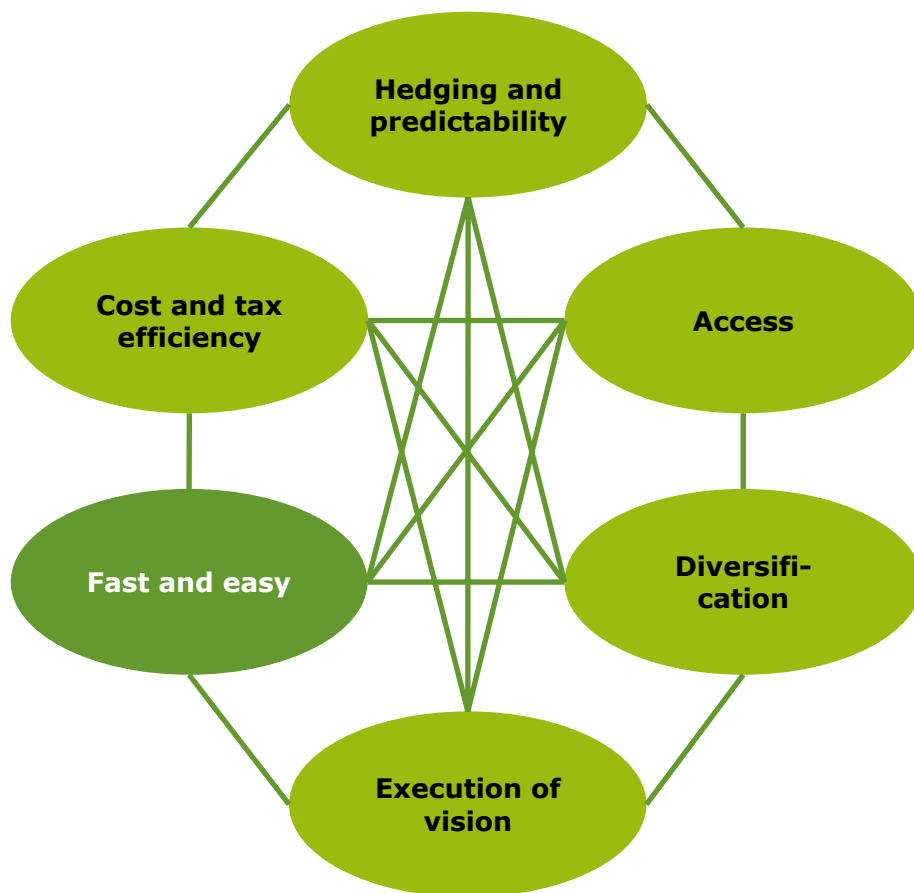


- Structured products are a good tool for investment allocation and the execution of a chosen view
 - Tailored solution
 - Suits the customer's needs
 - Right timing
- Reduction of capital protection to obtain the desired leverage
- For example
 - Renewable Energy
 - TARN -notes
 - Products for the sideways market

Added Value Created by Structured Products

Fast and easy

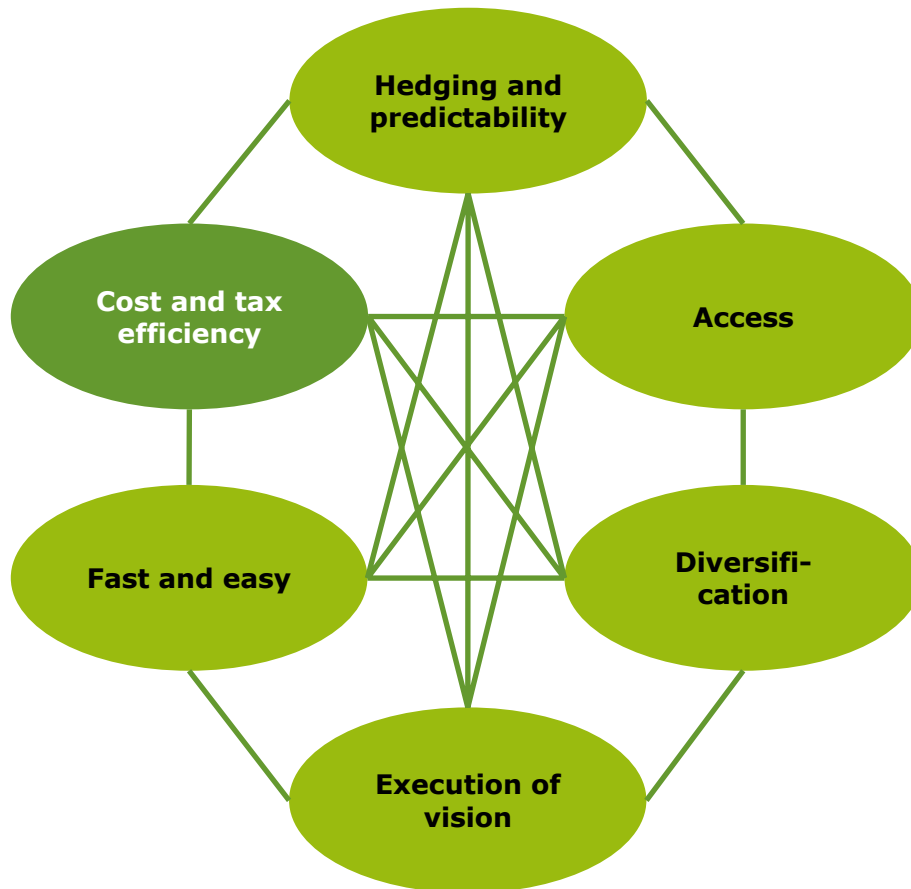
FIM



- Many structures can be executed "overnight"
 - Enables the right timing
- Even when the investment is structurally complex, its
 - execution is effortless for the investor
 - monitoring is easy
- Allocated products
- Practically all Finnish companies provide a secondary market for their products – the quality of the services differ

Added Value Created by Structured Products

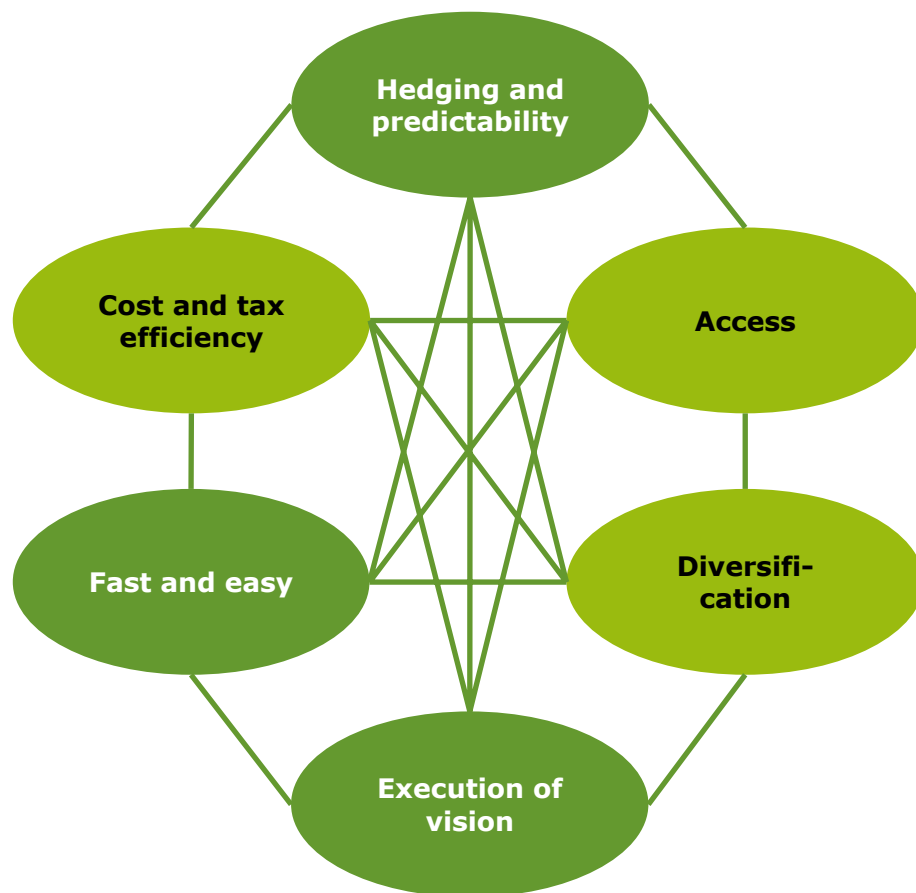
Cost and tax efficiency



- Competitive pricing compared to e.g. mutual funds
- Tax efficient alternative for the private investor

Added Value Created by Structured Products

...is always the sum of components for the customer



- Added value varies case by case
- Structures enable both diversification (β) and the execution of a focused view (α) under certain market conditions
- Relative advantages emerge especially in long-term investments

FIM Structured Products

Facts about FIM Structured Products

FIM Group, part of the Glitnir Group

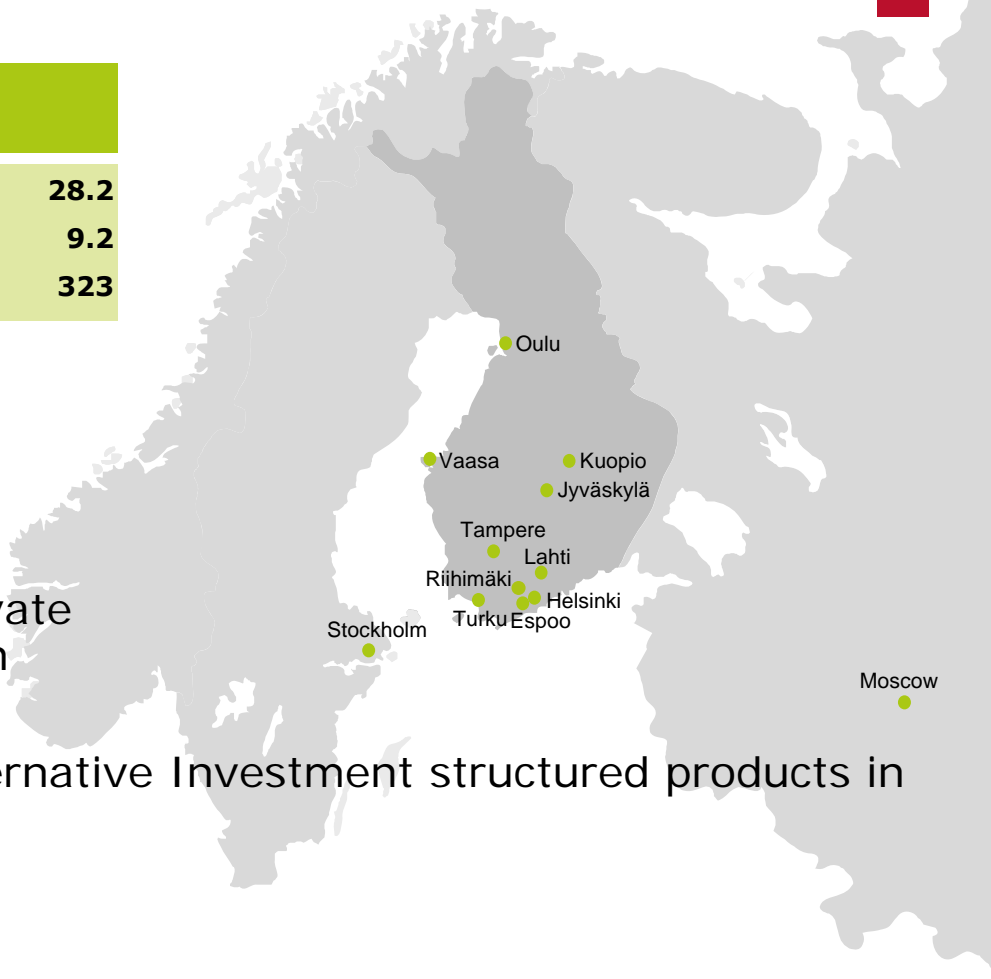
Summary H1/2007

FIM

FIM Group¹⁾

Net sales (EUR millions)	28.2
Operating profit (EUR millions)	9.2
Employees ¹⁾	323

- FIM's market share in all structured products in H1/2007 was 14.1 %²⁾
- FIM's market share in private placements was 17.4 % in H1/2007²⁾
- FIM's market share in Alternative Investment structured products in H1/2007 was 48 %²⁾



1) The number of employees is the average number of personnel, converted to full-time staff, in the review period.

2) Finnish Structured Products association

FIM –Alternative Investments -Unit



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