SEB

Leveraged products
Information sheet

Financial instruments are all types of instruments that are intended to be traded on the securities market. They can be divided into complex and non-complex instruments. Before you trade in a financial instrument, we are required to ascertain whether you have sufficient knowledge and experience to understand the properties and risks involved in trading in financial instruments. Below is some information about the most important qualities and risks associated with a type of instrument in which you have shown an interest. If you do not have sufficient knowledge and experience, we recommend that you do not trade in this instrument.

Introduction

Leveraged products are complex financial instruments whose value is linked to the price movement of an underlying asset, such as an equity index, a commodity or a currency. Examples of leverage products include different types of certificates, warrants, Mini Futures and exchange-traded funds (ETFs). These products are also collectively referred to as exchange-traded products.

Leveraged products are designed to create leverage on the returns from an investment. This means that the change in the value of the financial instrument is greater than the change in the price of the underlying asset when that asset's value rises or falls. The leverage effect means that you have the possibility of higher returns with lower capital investment, but with a greater risk of losing all or part of your invested capital. The greater leverage the financial instrument has, the higher the potential gain and the higher the risk.

In this information sheet, you can read about the leveraged products offered by SEB that are linked to for example an underlying equity, commodity or a currency. Leveraged products allow you to invest in changes in the value of an underlying asset without the need to buy or sell the underlying asset.

There are many different leveraged products available, and each of them can be used in various ways. For this reason, it is important to check the specific terms and conditions, characteristics and risks relating to your chosen product. What all the products described here have in common is that they may rise and fall in value and that the entire invested capital can be lost. However, you can never lose more than the invested capital.

For whom are leveraged products suitable?

Leveraged products are suitable for a variety of investment strategies. Leveraged products can give you exposure to assets that are otherwise difficult to access, such as gold, oil, currencies and various equity indices. For instance, leveraged products can be used to spread the risk in your portfolio with new asset types, to protect your portfolio against a stock market downturn, or to leverage your investment if you have specific market expectations.

Trading in leveraged products

A characteristic of leveraged products is that they are listed on the stock exchange, where they can be bought and sold during the day in small or large quantities. Unlike ordinary equity trading, where the price is determined by supply and demand, the price of leveraged products is determined by the price development of the underlying asset. Leveraged products can be bought and sold at any time during their term.

In order to trade in leveraged products, you need a custody account, a securities/service account or an investment savings account. Certain endowment insurance policies also allow you to invest in leveraged products.

Different types of leveraged products

Below you can read about the leveraged products offered by SEB.

Exchange-traded certificates

Certificate holders can speculate on a rising or falling market, with or without leverage on the price movement of the underlying asset. Leverage certificates are suitable for active investors with a short investment horizon, while unleveraged certificates are suitable for both short- and long-term investments. SEB offers several types of certificates: 1:1, Long & Short and Bull & Bear.

1:1 certificates – without leverage

1:1 certificates are a type of unleveraged certificate that tracks the price of the underlying asset both when it rises and falls. A change in the price of the underlying asset results in a corresponding change in the certificate's value (exclusive of fees, interest and any exchange rate fluctuations). 1:1 certificates are suitable for investors who believe a certain asset or market will rise in value.

Long & Short certificates – with variable leverage

Long & Short certificates are leverage certificates, which means that a price change in the underlying asset has both a stronger positive and a stronger negative impact on the value of the investment (exclusive of fees, interest and any exchange rate fluctuations). For this reason, Long & Short certificates require more knowledge and more frequent monitoring than unleveraged certificates. This type of certificate is suitable for investors with a firm view of the market, regardless of whether they believe it will rise or fall.

- The value of a Long certificate increases when the underlying asset price increases, and decreases when the underlying asset price decreases.
- The value of a Short certificate increases when the underlying asset price decreases, and decreases when the underlying asset price increases.

Long & Short certificates have a leverage that varies with the certificate's value, i.e. when the price of the underlying asset changes. However, the leverage that applied when you purchased the certificate remains the same over the whole investment period and applies to the total price development of the underlying asset – from the time of purchase to the time of sale.

SEB's Long & Short certificates have an automatic stop loss, meaning that the position is closed prematurely if the leverage reaches a certain level. After the position is closed, a residual value is established for the financial instrument, which is paid to the investor. A stop loss ensures that the value of the investment never becomes negative, i.e. that you cannot lose more than your invested capital.

Bull & Bear certificates – with daily leverage

Bull & Bear certificates are leverage certificates, which means that a price change in the underlying asset has both a stronger positive and a stronger negative impact on the value of the investment (exclusive of fees, interest and any exchange rate fluctuations). For this reason, Bull & Bear certificates require more knowledge and more frequent monitoring than unleveraged certificates. This type of certificate is suitable for investors with a firm view of the market, regardless of whether they believe it will rise or fall.

- The value of a Bull certificate increases when the underlying asset price increases, and decreases when the underlying asset price decreases.
- The value of a Bear certificate increases when the underlying asset price decreases, and decreases when the underlying asset price increases..

Bull & Bear certificates leverage the daily price change of the underlying asset. This means that the return over longer periods will not necessarily equal the return on the underlying asset multiplied by the leverage. Daily leverage certificates are impacted by the volatility (price fluctuation) of the underlying asset. The certificate's value is negatively impacted in highly volatile markets where the asset's price fluctuates strongly up and down, but without a clear trend. The higher the leverage, the greater this effect will be.

SEB's Bull & Bear certificates have an automatic stop loss, meaning that the certificate is closed prematurely if the underlying asset moves strongly in the wrong direction. After the position is closed, a residual value is established for the financial instrument, which is paid to the investor. A stop loss ensures that the value of the investment never becomes negative, i.e. that you cannot lose more than your invested capital.

Mini Futures

Holders of Mini Futures can speculate on a rising or falling market, with leverage on the price movement of the underlying asset. Mini Futures are suitable for active investors with a firm view of the market, regardless of whether they believe it will rise or fall. Mini Futures are most suitable for short-term investment (one day to one month).

There are two types of Mini Futures: Mini Long and Mini Short.

- The value of a Mini Long certificate increases when the underlying asset price increases, and decreases when the underlying asset price decreases.

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- The value of a Mini Short certificate increases when the underlying asset price decreases, and decreases when the underlying asset price increases.

A Mini Future consists of two elements – the capital invested by the investor and the loan issued by the issuer. The capital invested is the price of your Mini Future and the loan is the amount financed by the issuer (SEB). These elements together make up the total exposure to the underlying asset. Leverage increases when the total exposure increases in relation to the capital investment.

Mini Futures have variable leverage, meaning that the leverage varies according to the price of the underlying asset. However, the leverage applies to the total development of the price of the underlying asset, from the time of purchase to the time of sale. Mini Futures require more knowledge and more frequent monitoring than unleveraged products.

A Mini Future has an in-built stop loss feature, which means that the position is closed prematurely and delisted from the stock exchange if the price of the underlying asset reaches or passes the stop loss level. After the position is closed, a residual value is established for the financial instrument, which is paid to the investor. A stop loss ensures that the value of the investment never becomes negative, i.e. that you cannot lose more than your invested capital. The stop loss level is adjusted over time, and in a worst case scenario the residual value could be zero.

Mini Futures issued by SEB have a specific term, and are closed either when the instrument expires or when the underlying asset reaches the stop loss level. If you hold your Mini Future until expiry, SEB is obliged to pay the residual value in accordance with the applicable terms and conditions.

Exchange-traded funds (ETFs)

An exchange-traded fund (ETF) is a fund that is listed on a stock exchange and traded and priced in real time in the same way as equities. An exchange-traded fund is normally an index fund which tracks a specific index, with exposure to, for instance, countries or regions.

Exchange-traded funds can be used to speculate on a rise or fall in the underlying index, which means you can earn returns whether the stock market rises or falls, depending on which fund you have chosen to invest in. Exchange-traded funds are available both with and without leverage. SpotR is the family name of SEB's exchange-traded funds.

Warrants

A warrant is a long-term option that is listed on a stock exchange. It gives the buyer a right, but not an obligation, to buy or sell an underlying asset at a predetermined price (redemption price) on a predetermined date (closing day). When you purchase a warrant, you pay a price for this right.

As with certificates and Mini Futures, a warrant offers the possibility to invest in changes in the value of an underlying asset without the need to buy or sell the underlying asset. Warrants can be used to speculate on a rise or fall in the price of an underlying asset, with leverage on the price development of the underlying asset.

There are two types of warrants: call warrants and put warrants.

- The value of a call warrant increases if the underlying asset value increases.
- The value of a put warrant increases if the underlying asset value decreases.

Warrants have a limited term. In order for a call warrant to yield returns, the price of the underlying asset must be higher than the redemption price on the closing day. In order for a put warrant to yield returns, the price of the underlying asset must be lower than the redemption price on the closing day. If the price of the underlying asset is lower than the redemption price (call warrant) or higher than the redemption price (put warrant), the warrant will be worthless.

The price of a warrant can fluctuate dramatically during the term. The price primarily depends on the price development of the underlying equity or equity index, but it can also be influenced by other factors such as any dividends, the remaining term, volatility in the underlying asset, the redemption price and fluctuations in the market interest rate.

During the term, a higher redemption price reduces the value of a call warrant, while a lower redemption price reduces the value of a put warrant. A rise in market interest rate has a positive impact on the price of a call warrant but a negative impact on the price of a put warrant.

Risk

In the context of investment, the term "risk" denotes the probability that the invested capital will decline in value. A higher risk often means a greater opportunity for a high return, but at the same time the risk of losing your invested capital increases.

Trading in leveraged products generally offers potential for high returns, but there is also a high risk of losing much or all of the invested capital. The leverage effect means that even small price changes in the underlying asset can strongly impact the investment's value. However, you can never lose more than the invested capital.

Leverage products can be used both to increase and reduce risk. By using leveraged products you can avoid or reduce the risk associated with a future price change. If you use this financial instrument for speculation, you take a higher risk. The risk can vary dramatically between different leveraged products. You will find full details of the specific risks associated with your chosen product in the fact sheet or final terms and conditions relating to the product.

When you trade in leveraged products, you take a credit risk on the issuer (SEB). If the issuer goes bankrupt, your investment will be worthless. Moreover, during certain periods it can be difficult or impossible to sell the product. This can happen, for instance, if there is a lack of liquidity in the market, if trading in the marketplace closes due to market disruptions, or if technical errors occur. This is known as liquidity risk.

If the underlying asset is traded in a currency other than that of the leveraged product, the investment's value can also be impacted by any exchange rate fluctuations between these two currencies.

Leveraged products issued by different market participants are often designed in different ways, so can be hard to compare.

Costs

When you trade in SEB's exchange-traded products, you pay a commission fee in the same way as when you trade in equities. When you trade in SEB's certificates and Mini Futures, you pay a commission fee as well as a financing fee and/or an administration fee, which is expressed as a percentage on an annual basis. The portion ascribable to one day is deducted daily from the value of your investment. The costs applicable to each product are specified in the final terms and conditions relating to the product.

When you trade in SEB's exchange-traded funds, you pay a commission fee and a small administration fee, which is included in the fund price.

More information

For more information on SEB's leveraged products (exchange-traded products), visit www.seb.se. You will find full details of the specific characteristics and risks of your chosen product in the fact sheet and final terms and conditions relating to the product. More information is also available in the published Base Prospectus for the Skandinaviska Enskilda Banken AB (publ) Certificate and Warrant Program.

Things to remember:

- The historical return of a financial instrument is not a guarantee of future return. The value of financial instruments can rise or fall, and it is not certain that you will get back all the capital you have invested.
- In order to trade in these instruments, you must familiarise yourself with the terms and conditions that apply to trading in financial instruments. The contracts that apply depend on the instrument you are trading in.
- Certain instruments require you to be liable to make payments in future. It is important that you are prepared to comply with your undertaking.
- Check the information on the statement and other reporting relating to your holdings, and inform us immediately of any errors.
- Regularly monitor changes in the value of your holdings and positions.
- You are responsible for taking any action necessary to reduce the risk of losses.
- Always ask for supplementary marketing material or further information with more details about the financial instrument you are interested in.

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Check your experience

How long have you invested in this type of instrument?	What is the average amount of money you have invested in this type of instrument?	How many times per year have you traded in this type of instrument?
☐ No experience	☐ Up to 50 000	☐ Up to 2
☐ Less than one year	☐ Up to 100 000	☐ Up to 5
☐ 1 to 5 years	☐ Up to 250 000	☐ Up to 10
☐ More than 5 years	☐ Up to 500 000	☐ More than 10
	☐ More than 500 000	

Check your knowledge

1. What does trading in leveraged products mean?

A) ☐ The opportunity for gain increases
B) ☐ The opportunity for gain decreases
C) ☐ The opportunity for gain increases, but so does the risk of losses

2. How are leveraged products traded?

A) ☐ Directly with the bank
B) ☐ Via a stock exchange
C) ☐ Directly between customers

3. What is characteristic of a Bear certificate?

A) ☐ It rises in value when the price of the underlying asset rises
B) ☐ It rises in value when the price of the underlying asset falls
C) ☐ It falls in value when the price of the underlying asset falls

4. Which of the following is true of Mini Futures?

A) ☐ A Mini Long is a Mini Future that rises in value when the underlying asset rises
B) ☐ A Mini Short is a Mini Future that falls in value when the underlying asset falls
C) ☐ A Mini Long is only suitable for long-term investments

5. What risk are you taking if you invest in Mini Futures?

A) ☐ You could lose more than you invested
B) ☐ The risk is limited to your invested capital and the fees you have paid
C) ☐ They are capital-protected, which means you are always guaranteed your invested amount

6. For whom are Long & Short certificates suited?

A) ☐ Someone with a firm view of the market, regardless of whether they believe it will go up or down
B) ☐ Someone with a firm view that the market will go up
C) ☐ Someone with a firm view that the market will go down

7. What does a stop loss involve?

A) ☐ Trading in the instrument starts when the underlying equities approaches a certain value
B) ☐ The loss in the certificate can never exceed a certain amount
C) ☐ The instrument is closed early when the underlying asset reaches or passes a certain price level

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