



After the debacle of failed structured deposits (SD) leading from the collapse of Lehman Brothers, one would have expected SDs to have disappeared for good from Singapore's retail investment scene. Instead, POSB has been making a major foray into promoting structured deposits.

POSB, a unit of DBS Bank, has recently launched the POSB Invest Equity Series 1 (PIES1). The structured deposit has a term of 4 years 11 months. It is linked to the performance of three Singapore-listed blue-chips: the Singapore Exchange, Singapore Airlines and Keppel Corporation.

Yield

The deposits return fixed payouts of 1.38% annually for the first 4 years and 1.86% for the fifth year, for a total yield 7.38%. There is a prospect for a 2.5% Bonus Payout when the return of shares of each of the three performance-linked blue-chips is 20% or higher in Year 5.

The internal rate of return (IRR) of PIES1 amounts to a mere 1.47%. Even if the remote chance of a 2.5% bonus is included, the IRR is just 1.95%.

To put this return into perspective, the average [inflation rate](#) in Singapore in the five years

between 2004 and 2008 was 2.3%. The CPF base interest rate is currently 2.5%. Blue chips in Singapore typically yield annual dividends of about 3%.

Moreover, if an investor withdraws the deposit before the Maturity Date, he will receive less than 100% of the full principal.

Risk

While it is really difficult to imagine the collapse of any of the 3 companies that are linked to the POSB Invest Equity Series 1, the same was said two years ago about Lehman Brothers. Nonetheless, the risk of default of the deposits is probably very low.

In its print advertisement, POSB made the disclaimer that Structured Deposits are not fixed deposits and they are thus not guaranteed by the Singapore Government.

Verdict

The return from the PIES1 is below the rate of inflation and simply too low to warrant consideration. For a superior risk-return ratio, investors are probably better off buying shares of any of the three underlying companies behind the structured deposit, investing in the STI [ETF](#) or topping up their CPF accounts.