After recently launching the POSB Invest Equities Series 1 (PIES1) , DBS/POSB has introduced a sequel with an even less attractive rate of return and more complex payout calculations.

The POSB Invest Equities Series 2 (PIES2) is linked to the performance of the same three Singapore-listed blue-chips as its predecessor: Singapore Exchange, Singapore Airlines and Keppel Corporation.

Yield

The deposits return basic payouts of 0.8% annually over 5 years, for a total minimum yield of 4%. The situation becomes more complicated when bonus yields are calculated.

- A 1% bonus will be paid for every year that the share prices of all three of the above-mentioned blue-chips are above (but not more than 20% above) the initial (year zero) prices.
- If the return of each share is above 20% from initial price, this leads to an additional special bonus of 1.8% and triggers an early redemption of the deposit by DBS/POSB.

In the best case scenario, the share price of each of the 3 companies would rise by more than 20% by the end of the first year and the deposit yields a return of 3.6% (0.8% basic return, plus 1% bonus and 1.8% special bonus). In the worse case, even if the share price of just one (any one) of the blue-chips remains below the initial price every year for 5 years, the annual return is a measly 0.8%.

The probability of the worse case scenario happening is not as remote as it sounds, as shares prices of the 3 companies linked to PIES2 are currently at or near one-year highs.

Risk

Similar to that of PIES1, the risk of PIES2 is underwritten by DBS/POSB and it is highly unlikely that the bank would become insolvent. However, if the unexpected insolvency of the bank does occur, structured deposits are not fixed deposits and they are thus not guaranteed by the Singapore Government.

Verdict

PIES2 is clearly not suited for uninformed retail investors. On the other hand, sophisticated investors can easily find more attractive rates of returns elsewhere.