

Truly flexible fixed income investing

UBS **Global Dynamic** strategy

The future returns of traditional, benchmark-oriented fixed income strategies may be limited by historically low yields and central banks that are normalising or seeking to normalise interest rates. For investors looking for a solution capable of navigating potentially volatile fixed income markets whilst taking advantage of opportunities as they arise, unconstrained bond strategies are an attractive option.

Why invest in unconstrained bond strategy?

Performance leadership across fixed income sectors changes over time, depending on the market environment. Traditional, benchmarked bond strategies have limited flexibility to adjust duration and credit exposures and therefore depend on favourable market conditions to generate returns.

Unconstrained strategies adopt a more flexible approach, with the ability to take advantage of opportunities across the entire fixed income market. A larger tool kit means unconstrained bond strategies have the potential to perform even in challenging markets, such as when interest rates are rising.

Why UBS Global Dynamic?

UBS Global Dynamic scours the globe for high conviction investment ideas across government bonds, corporate bonds, emerging market debt and currencies. Although 'unconstrained', the strategy takes a balanced approach, emphasising global diversification and actively striving to



avoid any sector bias. A blend of strategic and tactical positions should ensure the strategy is not reliant on any one particular source of returns. The portfolio management team seeks to maintain a high quality portfolio, with an average investment grade rating, while placing a priority on maintaining liquidity.

Which fixed income asset class performs best depends on the economic cycle

1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	Key
15.4%	10.0%	25.0%	17.2%	10.7%	13.1%	28.1%	11.3%	11.2%	11.8%	9.1%	14.0%	57.5%	15.2%	11.2%	17.1%	7.4%	9.8%	3.6%	17.5%	9.3%	US High Yield
13.3%	8.7%	2.5%	14.7%	8.1%	11.6%	26.6%	10.9%	3.9%	10.0%	7.0%	8.3%	25.3%	11.8%	9.8%	15.6%	-1.4%	7.5%	1.5%	9.1%	7.5%	US Investment Grade
10.9%	7.2%	1.6%	13.4%	6.7%	10.7%	8.3%	5.5%	2.8%	5.3%	6.5%	-4.0%	19.8%	9.5%	8.2%	10.4%	-1.5%	7.2%	0.8%	6.0%	6.5%	US Treasury
10.4%	7.1%	-1.9%	11.3%	4.5%	10.2%	6.2%	5.4%	2.7%	5.0%	4.6%	-6.8%	14.5%	5.9%	7.5%	7.3%	-2.9%	6.1%	0.7%	1.7%	5.4%	USD Emerging Market
9.6%	3.0%	-2.4%	9.1%	4.5%	9.4%	3.3%	4.7%	2.6%	4.4%	3.3%	-8.9%	5.8%	5.7%	6.1%	2.6%	-3.4%	6.0%	-0.6%	1.1%	2.5%	US Mortgage Backed
9.3%	-16.2%	-6.3%	-5.1%	4.5%	-1.9%	2.3%	3.5%	2.0%	3.1%	2.2%	-26.4%	-3.7%	2.3%	4.4%	2.2%	-6.0%	2.5%	-4.6%	0.4%	2.4%	US Municipal

Source: ICE BofA Merrill Lynch as at 31 December 2017
Note: Table shows annual total returns

Strategy

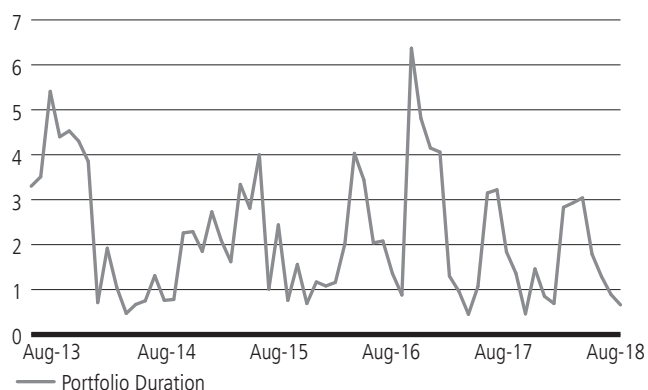
The flexible, total return bond strategy, free from the constraints of a benchmark aims to achieve attractive risk-adjusted returns compared to broad fixed income markets over the medium term whilst carefully managing risk.

The strategy actively takes positions in global rates, investment grade and high-yield corporates, securitized assets, emerging markets debt, developed and emerging market currencies and convertibles using bonds and derivatives while maintaining an overall positive duration and net long fixed income market exposure.

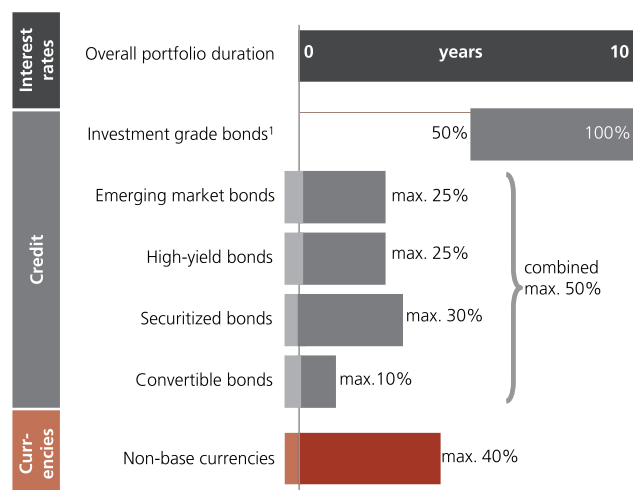
The strategy can have individual short exposures, enabling the portfolio managers to take advantage of relative value opportunities, for instance taking a long position in markets where rates are expected to fall and a short position in markets where rates are expected to rise. Derivatives may also be used to actively manage credit / interest rate exposure or for hedging.

Duration is actively managed from 0-10 years. Over time we would expect 50% of returns to come from active interest rate and currency positions and 50% from asset allocation and security selection.

Actively managing duration



Investment guidelines

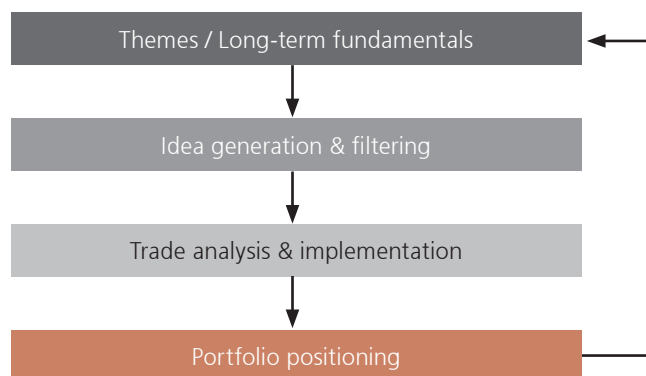


¹ Government and corporate

Note: Trade examples are provided for informational purposes only and are not a recommendation to buy or sell any particular security

Process

The investment process blends top-down macro views with bottom-up security selection. We combine fundamental, quantitative and technical analysis to construct a portfolio with a mix of strategic and tactical positions across the global fixed income opportunity set.



1 Identification of themes / long-term fundamentals

- Identify key macroeconomic drivers
- Establish a global investment context (stage of economic cycle, economic data trends, inflationary pressures, policy response and market valuation)

2 Idea generation and filtering

- Identify opportunities in context themes / long-term fundamentals
- Thorough analysis and filtering of ideas based on risk/return profile
- Best risk-reward trades selected for closer monitoring

3 Trade analysis and implementation

- Use quantitative and qualitative techniques to determine entry levels, stop loss limits and trade sizing

4 Portfolio construction and risk management

- Construct diversified portfolios while closely monitoring all portfolio risks. Identify and manage tail risk
- Conduct stress testing against extreme outcomes. Strictly adhere to stop loss discipline

For illustrative purposes only

Why UBS-AM?

The strategy is managed by the global bond team located in London and headed by Kevin Zhao. Kevin is supported in the daily management of the strategy by two additional portfolio managers specialising in rates and FX. The investment process involves close collaboration with the wider fixed income team at UBS, comprising more than 100 investment professionals globally. This approach enables the portfolio to leverage the best ideas generated by our portfolio managers specialising in rates, investment grade, high yield, emerging markets and securitized debt.



Opportunities

- Attractive total return potential
- Diversification across geography, asset class and issuer to mitigate risks such as liquidity and defaults
- Flexible duration management allowing portfolio managers to protect capital in rising rate environments or increase returns in anticipation of falling yields
- Access the best ideas from across our global fixed income platform
- Disciplined investment process supported by a global research platform, local presence and strong risk management capabilities



Risks

- The strategy is not a traditional long-only fixed income strategy. It may have exposures to higher-risk strategies within the fixed income and currency markets, and it may take both long and short positions utilizing derivatives
- The use of derivatives may result in additional risks, particularly counterparty risk
- Increased portfolio flexibility may increase the risk of portfolio management decisions adversely affecting performance
- Changes in interest rates, credit spreads and exchange rates have an impact on the value
- Default risk may be higher with corporate bonds than with government bonds
- Emerging markets investing involves specific risks

Glossary

Convertible bonds

Debt security that can be converted into a predetermined amount of the underlying company's equity at certain times during the bond's life, usually at the discretion of the bondholder.

Currency risk

Fluctuations in exchange rates may expose a strategy to losses

Derivatives

A financial security with a value that is reliant upon or derived from an underlying asset or group of assets.

High yield securities

A bond with a credit rating below investment grade as indicated by agencies such as Standard & Poor's, Moody's and Fitch

Securitized bond

Securitization is the financial practice of pooling various types of contractual assets and selling their related cash flows to third party investors

Unconstrained

A strategy whereby the manager has the freedom to invest according to his or her own strategy, not being obliged to allocate capital according to the weightings of any index, for example.

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