UBS

Longer Term Investments

Retirement planning

CIO WM Research | 21 March 2017
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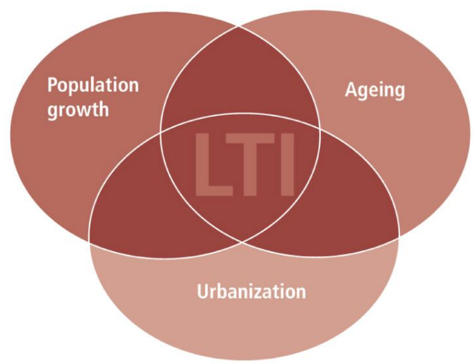
- Asset gatherers (wealth and asset managers) and life insurers are still benefiting from several positive medium to long-term trends, namely increasing longevity and an aging society, which lead to increasing savings gaps, with a growing middle class in emerging markets and a rising number of high net worth individuals.
- Furthermore, structural asset growth, upside potential on higher trading volumes, ongoing consolidation efforts and relatively high capital requirements are additional supportive drivers.
- This theme, although not free from challenges, also provides some degree of inflation protection, since revenue streams depend on nominal asset prices.
- The identified positive drivers should allow asset gatherers and life insurers to achieve good long-term profitability levels and superior earnings growth above market averages.

Introduction to the Longer Term Investments (LTI) series

› **The Longer Term Investments (LTI)** series contains thematic investment ideas based on long term structural developments.

› Secular trends such as population growth, ageing, and increased urbanization create a variety of longer term investment opportunities.

› Investors willing to invest over multiple business cycles can benefit from potential mispricings created by the typically shorter term focus of stock markets.



Our view

Changing demographics leading to greater longevity and an aging society should result in the need for more retirement planning, which in turn, we believe, provides opportunities for those companies with the right answers. We think companies with asset accumulation and decumulation solutions as well as products that match income needs to longevity should, in our view, benefit from these long-term trends:

1. **Increasing longevity:** People are living longer across the world. This means that *many more* people are reaching older ages, a trend that will likely extend into the future. (Fig. 1).
2. **Aging society:** With baby boomers reaching retirement age, the ratio of pension-age to working-age people is increasing. This trend is expected to continue for the foreseeable future and will put strain on pay-as-you-go systems (Fig. 2).
3. **Increasing savings gap:** With strained public finances, retirees will need to rely increasingly on their own savings for retirement. However, the difference between what is saved and what is needed to finance old age, in particular given higher longevity, remains a concern.
4. **Growing middle class in emerging markets:** Not only is the number of high-net worth individuals (HNWI) increasing, but there is also an increasingly wealthy middle class in emerging markets with a growing need for asset gatherers' products and solutions.

We believe that **asset gatherers (wealth and asset managers)** and **life insurers** should benefit from these structural demographic trends, since they offer asset accumulation solutions as well as protection against outliving one's assets. In our view, these industries should generate strong earnings growth which could lead to outperformance compared to the broader equity market. This report also identifies challenges to this theme. We elaborate on these risks later in the report.

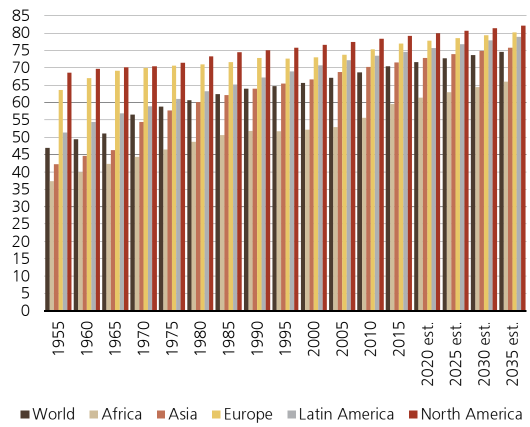
Introduction: The beneficiaries – asset gatherers and life insurers

Asset gatherers (asset and wealth managers) and life insurers should benefit from four key trends related to retirement planning: **increasing longevity**, **an aging society**, an **increasing savings gap** and a **growing middle class in emerging markets** together with rising numbers of high net worth individuals (HNWI). These asset gatherers and life insurers have the right products for asset accumulation and risk protection. In the following note, we describe the factors that support this investment theme, discuss important drivers of retirement planning in detail, highlight risk factors.

In addition to the four key drivers, we identify further relevant factors as to why asset gatherers and life insurers should benefit from retirement planning:

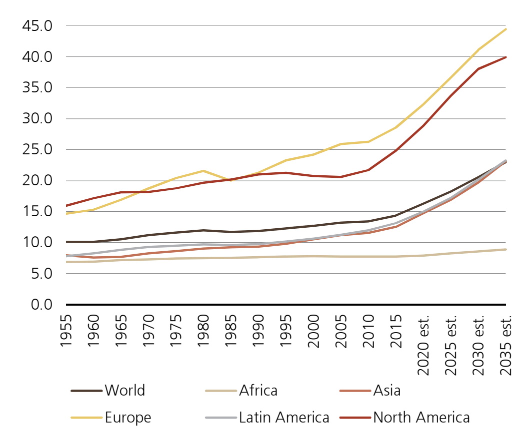
1. **Structural asset growth:** Asset growth is a multiple of world GDP growth and is thus expected to rise. Historically, global growth in Assets under Management (AuM) has been 1.5x of nominal GDP growth.
2. **Upside potential on trading volumes:** Rise from current historically low market volumes expected.
3. **Hedged long-run inflation risks:** The asset gatherers' business model provides a good inflationary hedge, as the nominal value of AuM is influenced by the inflation rate. A possible pick-up in inflation and the need to protect the purchasing power of savings in the long run should also increase the need for investment advice and suitable investment vehicles.
4. **Ongoing consolidation:** The fragmented wealth management industry is likely to undergo further consolidation, resulting in take-over premiums for individual companies.
5. **Relatively light capital requirements:** Asset gatherers' (wealth and assets managers) business model generates plenty of cash and consumes much less capital than other

Fig. 1: Increasing longevity
Life expectancy at birth (both sexes combined, in years)



Source: United Nations, Department of Economic and Social Affairs, Population Division (2015). World Population Prospects: The 2015 Revision, UBS. As of February 2017.

Fig. 2: The aging society
Old-age dependency ratio: ratio of population aged 65+ per 100 working population (ages 20-64)



Source: United Nations, Department of Economic and Social Affairs, Population Division (2015). World Population Prospects: The 2015 Revision, UBS. As of February 2017.

types of financial services, like retail and commercial banks. As such, they have a relative advantage from a capital perspective versus other financial services companies, in particular banks.

6. **High barriers to entry:** Investments in IT infrastructure, onshore advisor networks and legal departments limit new market participants and provide some degree of protection.
7. **Profitability, earnings and performance:** We believe the superior profitability and earnings growth of the past, underpinned by the long-term drivers outlined above, will continue to support performance.

On the other hand we identify several challenges to the theme. A cooling of Asian economies, low interest rates and the challenges to sound risk management this entails, as well as changing regulatory environments, tax treaties and the evolution of offshore businesses, in addition to overall margin compression, could pose significant risks to our long-term theme. We elaborate on these risks later in the report.

KEY DRIVERS

Increasing longevity

All over the world, people are living longer, and many more people are reaching higher ages. This trend puts the need for careful retirement planning and substantial retirement savings in focus for more and more people.

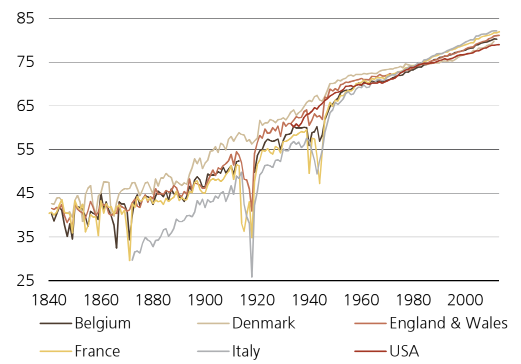
The retirement income challenge

How can we assure that accumulated savings can be converted into a lifelong stream of income to support the needs of a retiree? This is especially relevant considering that life expectancy has risen continuously over the last 100 years (Fig. 3).

In 2010, Allianz conducted a survey of US adults aged 44-75. Overall, 61% of respondents said they feared outliving their assets more than death. This number rose to 82% among people in their late 40s who are married and have dependents. In 2014, Allianz conducted a similar study, finding that not being able to cover basic living expenses and outliving one's income were still the top concerns of Americans. To our mind, these results present a material opportunity for companies to target the needs and fears relating to retirement.

Fig. 3: Rising longevity puts retirement planning in focus

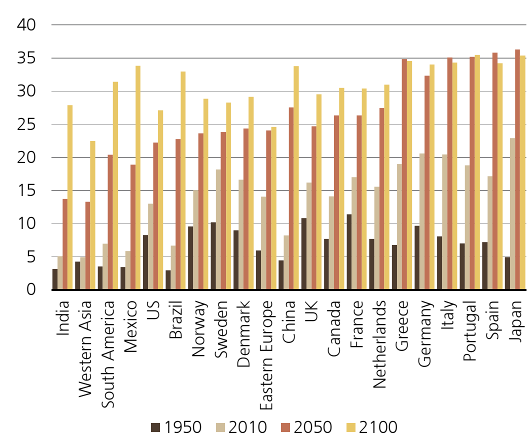
Life expectancy at birth for selected countries



Source: Human Mortality Database. University of California, Berkeley (USA), and Max Planck Institute for Demographic Research (Germany). Available at www.mortality.org or www.humanmortality.de (data downloaded on 7 February 2017), UBS

Fig. 4: The aging society

Old-age dependency ratio (number of people aged 65 and over per 100 persons of working age)



Source: United Nations, Department of Economic and Social Affairs, Population Division (2015). World Population Prospects: The 2015 Revision, UBS. As of February 2017.

The aging society

As baby boomers reach retirement age, the ratio of retirees to working-age people is increasing dramatically, a trend that is expected to continue.

Dependency ratios are increasing across the globe

The dependency ratio shows the number of people aged 65 and over per 100 persons of working age. Fig. 4 depicts individual country ratios and Fig. 2 shows regions' ratios. Dependency ratios have risen materially over the last 50 years and the next 50 years will see more of the same. In Japan, for example, the dependency ratio has reached close to 23%, i.e. for 100 persons of working age, there are 23 people aged above 65. This is expected to increase to above 35% by 2050.

Public retirement systems are under pressure

The increase of the dependency ratio together with strained public finances creates the need for individuals to save for themselves rather than rely on governments to provide for them. As the dependency ratio rises, the "pay-as-you-go" models (see Box 1), will suffer further duress. It seems clear that most models in their current forms will struggle to survive. As such, we would expect individuals to consider other sources of income for retirement.

Weak government financials pressure public retirement systems

Weak government balance sheets in Europe, Japan and the US, generally burdened by high levels of debt, will accelerate the trends described above, especially if governments offer incentives for people to save more on their own.

Widening savings gap

With public finances strained, retirees will have to rely more on their own savings. But the difference between what is and what should be saved to finance old age (savings gap), in particular given rising longevity, remains a concern.

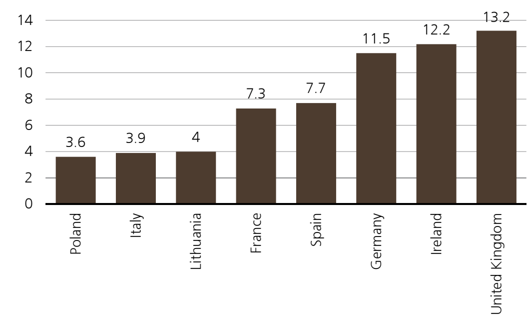
Aviva calculates that individuals in Europe, depending on the country, would have to increase their savings per year between EUR 4,000 and 13,000 to fully close their savings gaps (Fig. 5). The insurer revealed in its analysis that this is a problem especially for those nearing retirement, since they have less time to close the gap. While alternatives to saving more include retiring later to fund fewer years in retirement, or lowering expectations of retirement income, it is clear that in a large share of cases people

Box 1: Pay-as-you-go social security systems

In a pay-as-you-go (PAYGO) model, currently available funds finance present expenditures for services, rather than pre-financing or borrowing. With respect to retirement systems, this model funds current pensions for retirees with money paid in by working-age people. Thus it is an unfunded system. Normally, all contributions would be paid out in the same period as they are received and no reserves would be accumulated.

Fig. 5: The savings gap for individuals

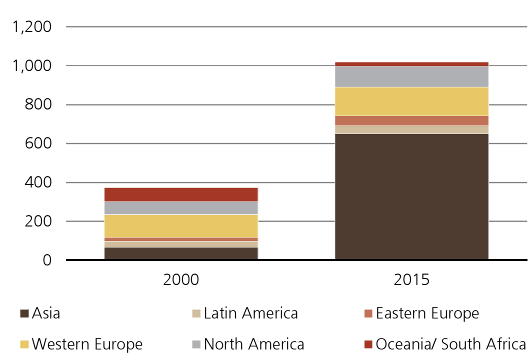
Average annual savings gap per person for individuals retiring 2017-2057 (EUR thousand per annum)



Source: Aviva, UBS as of February 2017

Fig. 6: Asian middle class growing markedly

Wealthy middle class by region in millions



Source: Allianz, UBS

would still need to increase total savings at least to some extent.

Growing middle class in emerging markets and rising number of HNWI

Not only is the number of high-net worth individuals (HNWI) rising, but the wealthy middle class is swelling, particularly in Asia.

Rising middle class in Asia

Definitions differ on what the middle class is and how the size of the middle class should be measured. Should an income threshold define the middle class, i.e. a particular level above the poverty line, or should consumption or some other metric be used?

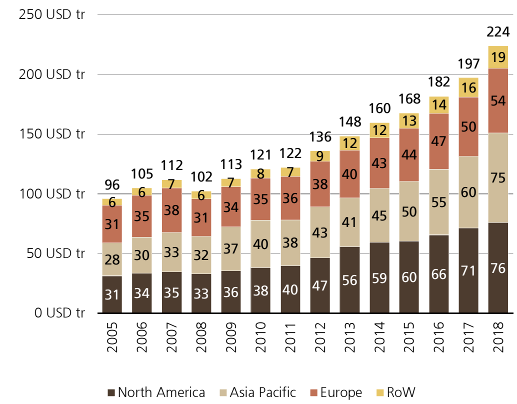
In any case, the middle class in Asia (Fig. 6) is swelling, and growing faster than the region's population overall. Moreover, the aggregate income of this class is growing faster still.

However, wealth accumulation becomes an option only when income rises above a certain threshold. On this point, Allianz has examined social classes, i.e. by dividing societies into "wealth classes." One result is that "income middle class" and "wealth middle class" are not the same, and that their financial needs differ. By either measure, the rising middle class in Asia has growing demand for financial products. Asia's share of the worldwide middle class measured by the number of individuals increased to 64% in 2015 from 18% in 2000, according to Allianz's Global Wealth report. Assets under management (AuM) globally have steadily increased, and particularly so in the Asian countries, despite the financial and debt crises in the global economy at the beginning of the decade. As Fig. 7 shows, current AuM are roughly USD 180trn, and the Boston Consulting Group expects this to grow at roughly 5.5% annually for the next four years, mainly driven by Asia. Double-digit growth there since 2008 has meant that approximately a third of global wealth is now centered in Asia, while Europe and the US have steadily declined in importance. Though the latter continents together are still home to 60% of global wealth, growth remains muted in these regions both in absolute and relative terms because of below global average economic growth and high levels of debt.

HNWI are quickly rising driven by Asia

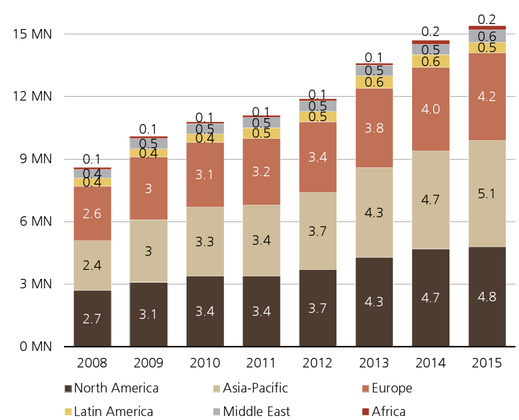
As per the 2016 World Wealth Report by Capgemini and RBC Wealth Management, the number of High Net Worth Individuals (HNWIs, typically defined as persons having investable financial assets in excess of USD one million) worldwide has been expanding at a double-digit growth rate over recent years (Fig. 8),

Fig. 7: Asia's share of global wealth increases
USD trillions, by region



Source: The Boston Consulting Group: Global Wealth 2016 report, UBS, as of February 2017

Fig. 8: HNWI Population, 2008–2015
Number of HNWIs in millions, by region



Source: "World Wealth Report 2016, Capgemini and RBC Wealth Management".

with 2015 experiencing a further rise in the number of these exceptionally wealthy individuals. Looking at the split of this wealth group shows that the Asia-Pacific (APAC) region is becoming the most important. The number of HNWI in the Asia-Pacific region rose by 8% in 2015 yoy to 5.1mn individuals and in doing so the Asia Pacific region became home to the greatest concentration of HNWIs in the world.

In our view, it is important to select companies that have a large presence in emerging markets, and in particular the Asia-Pacific region.

ADDITIONAL DRIVERS

Beyond the four key drivers described above, we see additional trends and factors that should support our long-term positive view on asset gatherers and life insurers.

Structural asset growth

Global AuM (Assets under Management) growth has averaged 1.5x global nominal GDP growth over the past ten years (Fig. 9) and it seems likely that the outperformance of AuM over GDP growth is likely to continue as the structural trend of wealth growth (fuelled by economic growth, inflation, market movements as well as central bank money) endures. Therefore, despite slow growth in some regions, a diversified basket of wealth management companies should, in our view, be able to offer both superior growth in AuM compared to the economic evolution as well as higher profitability versus the market.

Upside potential on trading volumes

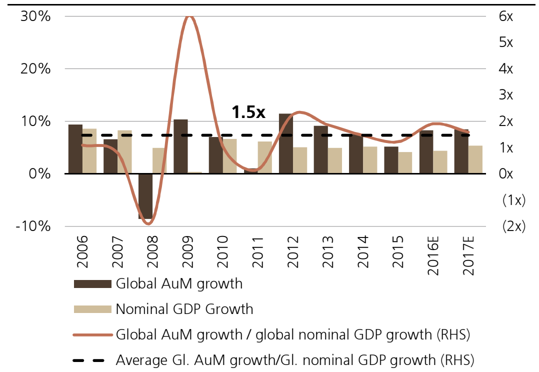
Normalized fees may be underestimated given current historically low trading volumes. Equity market performance (represented in Fig. 10 by the S&P 500 Index) and equity trade volumes were highly correlated between 1993 and mid-2008. However, the correlation has unraveled since, which we attribute mainly to increased investor risk aversion following the financial crisis and to cooling economic prospects. Also, we think that such divergence could, to a minor extent, have resulted from the rising number of exchange traded funds. Therefore, once investor risk appetite "normalizes" or reverts to its historical average, volumes traded are expected to pick up and the revenue of wealth managers will likely increase and boost sector profits, in our view.

Hedged long-run inflation risks

The asset gathering business model provides a hedge against inflation if the latter picks up: the large amounts of AuM offer meaningful leverage given the companies' limited fixed assets and

Fig. 9: Assets under Management (AuM) growth is higher than nominal GDP growth

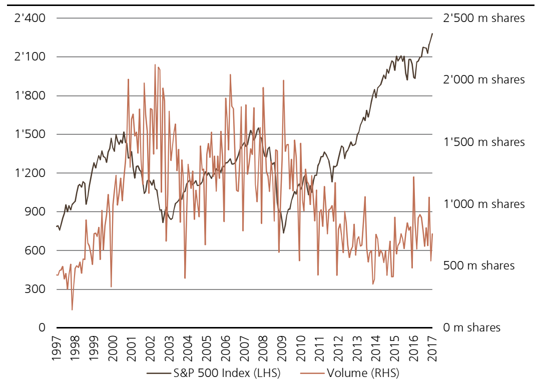
Ratio of global AuM to global nominal GDP growth



Note: Nominal GDP data is based on USD figures and is in PPP terms. "Gl." = Global, "RHS" = right hand scale. Source: The Boston Consulting Group: Global Wealth Reports, Oxford Economics for nominal GDP figures, UBS, as of March 2017.

Fig. 10: Volume traded is low compared to the past two decades

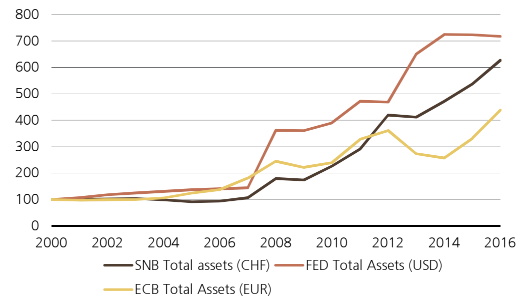
Divergent trends between S&P 500 performance and volume traded since 1997



Note: "LHS" = Left Hand Scale, "RHS" = Right Hand Scale. Source: Bloomberg, UBS.

equity base. The major central banks are growing their balance sheets in response to the global economic slowdown, resulting in a great deal of money being printed (Fig. 11); this portends future inflation once the economic recovery gains traction and money begins to circulate faster. We think that investing in asset gatherers, the nominal value of whose assets is directly influenced by the inflation rate, provides a good inflationary hedge: in a reflationary environment, we would expect the asset gatherer industry to outperform equities overall. Also, a rise in inflation would increase the need to protect purchasing power of savings in the long run. This would heighten the need for investment advice and suitable investment vehicles.

Fig. 11: Central bank total assets expansion
Index basis 31/12/2000 = 100

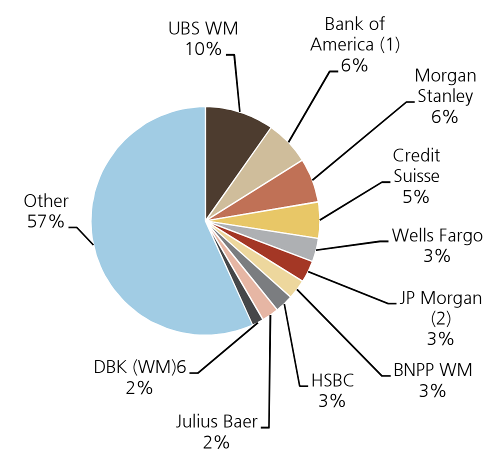


Source: Bloomberg, UBS

Ongoing consolidation

The trend of ongoing consolidation is mainly true for asset managers. In fact the wealth management industry is highly fragmented – the top ten global wealth managers account for 43% of the world's AuM (Fig. 12). As a consequence we expect industry consolidation to continue as global players grab higher market share from small banks, which to some extent still rely on the offshore banking model. Industry consolidation may, in turn, result in a rise in the valuation of the wealth management sector.

Fig. 12: The wealth management industry is highly fragmented
2016 AuM by single wealth manager



Note: (1): Assets under management in GWIM; (2): Private Banking assets under management; (3) Figures are rounded; DBK = Deutsche Bank. Source: JP Morgan, using exchange rate CHF/USD 1.0.

Relatively light capital requirements

While the financial sector is subject to tight regulatory requirements, the asset and wealth management industry is relatively unaffected by Basel 3 capital requirements. Furthermore, managing third-party assets is fairly cash generative and is a capital-light business from a regulatory perspective.

We do not envision that new capital regulations will force a new business model on asset and wealth managers, even if we do not exclude that regulations could become tighter, requiring higher capital standards or more rigorous stress tests, which could in various ways affect profitability margins. In our view, tax treaties and regulatory costs are ongoing issues faced by the industry, which we discuss below.

High barriers to entry

Investments in IT infrastructure, significant investments in onshore advisor networks and legal departments limit new market participants that have subscale assets under management. This provides some degree of protection.

THE RISKS

In the following paragraphs we discuss the main challenges that the asset gathering and life insurance industries are facing.

Low interest rates and risk management

Key risks for life insurers are risk management and market exposure, in particular given the current low interest rate environment. Not only for savings, but also risk and protection products, overall investment returns are a key ingredient in their attractiveness. As such, volatility and market disruption could result in material losses. While some products offload a significant portion of this risk to policyholders, life insurers will continue to have some market exposure, not least via guarantees or embedded return assumptions in certain products. With respect to market risk, we see the current low interest rate environment in many countries as a major concern. The low interest rate environment puts significant strain on life insurers' back-book profitability, where guarantees tend to be static, while investment returns are falling. Moreover, the shape of the yield curve could impact the rate of surrenders of policies, rendering strict asset-liability matching (ALM) approaches ineffective. While longevity is also a major risk for insurers, we believe low interest rates currently pose an even larger threat. This is especially true for European life insurers, as they have written policies with high guarantees in the past, which face material spread compression risk from the current low yield environment.

Cooling of the Asian economies

Given our analysis that the middle class and HNWI will be growing primarily in Asia-Pacific, weak economic outcomes in these countries could be detrimental to our investment case. Therefore, while we will monitor the risks for a substantial and extended slowdown in Asia, our economic base case view supports our theme, especially for the asset gathering industry.

Changing regulatory environments

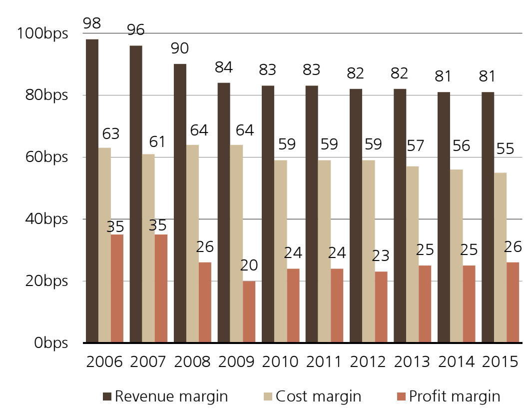
Insurers: There have been major regulatory and political changes impacting the retirement savings market directly or indirectly. These have not always been positive for market participants. Hungary, for example, was one of several Eastern European countries that introduced a multi-pillar pension system in the late 1990s. However, in 2010/2011, the government effectively forced mandatory private pension savings to be moved to the state. The motivation was to lower government debt, but it also materially impacted the retirement savings market. Poland followed a similar course to Hungary in 2014. Both of these changes had profound impacts on the then active private pension providers. Another

Box 2: Solvency II

Solvency II is EU Commission legislation that fundamentally transforms the way insurers are regulated, in particular with respect to capital requirements. It requires companies to back various risks with capital, such as insurance risks, but also asset and operational risks. The key objectives of the new regime are improved consumer protection, modernized supervision, deepened EU market integration, as well as increased international competitiveness of EU insurers.

Fig. 13: Revenue, cost and profit margins of Western European wealth managers

2006–2015, in bps



Note: Revenue margin is also commonly referred to as gross margin. Source: McKinsey European Private Banking Survey 2016.

example of changing regulation is the introduction of new solvency rules in Europe, called Solvency II (see Box 2). With respect to the pension market, it introduced new capital requirements for products with longevity risks and guarantees.

Asset gatherers: Given their fiduciary nature and minor own risk taking, the asset and wealth management business consumes much less capital than other types of financial services, for example, retail and commercial banks. At the moment we do not envisage that the requirements will significantly increase, leading to a change in the business model. Even so, increased regulatory complexity and change in the tax treaties would favor accelerated M&A within the sector, most likely pushing overall valuation multiples higher.

Margin compression

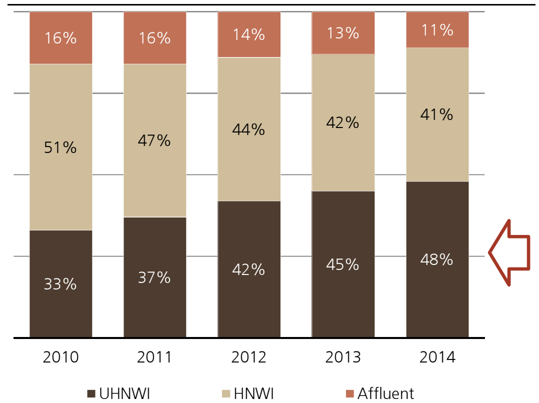
According to a McKinsey study of Western European wealth managers (McKinsey Private Banking Survey 2016 – An attractive sector in transition), profit margins have declined by 9bps over the last years, that is from 35 bps in 2006 to 26 bps in 2015 (Fig. 13). While we think that the trend toward margin compression is a major issue that the industry will have to overcome, we offer two caveats in this context:

First, wealth and asset managers deliberately focus on ultra-high net worth individuals as clients (UHNW). Fig. 14 shows the increasing share of this client category within Credit Suisse's AuM. While we do not have precise recent data split for the most recent years, at the December 2016 investor day the company confirmed that roughly 50% of their AUM was related to UHNWIs. Although gross margins are weak in this segment because clients have more bargaining power, transactions generally are larger and the cost base doesn't experience a similar rise. This bodes well for wealth managers' net margins. Fig. 15 shows that Credit Suisse's net margins for UHNWIs are the highest. It is also important to notice, as we highlighted in the previous paragraphs and in Fig. 8, that the overall number of HNWIs is increasing strongly.

Second, the decline in revenue margins that banks have been dealing with was not initially accompanied by stronger cost control, as a review of the numbers makes clear. Banks are now fully aware of the challenges and, while they still face higher compliance and risk requirements, they have become much better at containing costs. Overall, this more disciplined approach has resulted in lower cost margins and stable profit margins in recent years (Fig. 13).

Fig. 14: UHNWIs increase proportion of AuM

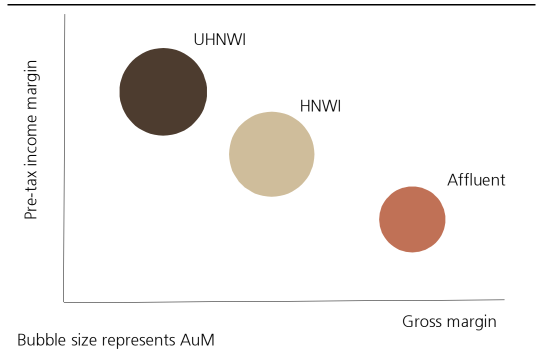
AuM segment split, 2010–2014



Note: While we do not have precise recent data split, at the December 2016 investor day the company confirmed that roughly 50% of their AUM was related to UHNWIs. Source: Credit Suisse, UBS.

Fig. 15: UHNWIs burden gross margins but support net margins

Pre-tax income margin vs. gross margins, Swiss wealth management booking center only



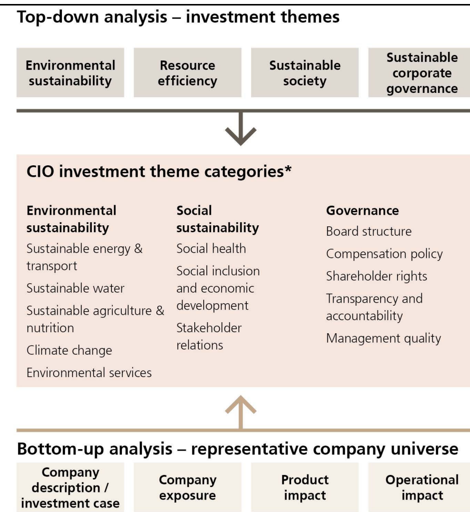
Source: Credit Suisse, UBS

LINK TO SUSTAINABLE INVESTING

Longevity and aging are long-term challenges to society. To ensure sustainability, adjustments to national social frameworks are needed, in particular changes to the pension age and to mandatory saving schemes are required. Investing sustainably into this topic means investing in companies that can help to steer the above-mentioned society's developments in a more sustainable direction within the area of their influence (e.g. by encouraging savings from a young age on, discovering innovative ways for saving, by doing a "good job" in terms of actually not losing their clients' money but accumulating, or conducting systematic management of environmental and social risks in the insurance business).

Companies exposed to this theme show a significant revenue exposure to wealth management services, asset management or life insurance. When looking at their sustainability performance, one important criterion is their positioning on incorporating environmental, social and governance (ESG) risks and opportunities. Asset managers who cannot show how they are incorporating ESG risks and opportunities in the management of their assets may be losing out as clients increasingly want transparency on these approaches and proof that this is actually done. In the case of insurance companies, the risk aspect is more prominent in terms of making sure there are systems for recognizing and managing environmental and social risks such as climate change. Other important aspects are good corporate governance (e.g. effective board oversight), human capital development (stronger human capital practices may achieve higher productivity levels – measured as both revenue and earnings per employee) or access to finance for the underbanked population. Also, issues such as privacy and data security are becoming increasingly material. MSCI ESG Ratings can give guidance on performance on such areas, provided by rating companies within each industry from AAA (best) to CCC (worst) based on a selection of the most important environmental, social and governance (ESG) issues in each industry. See Fig. 17.

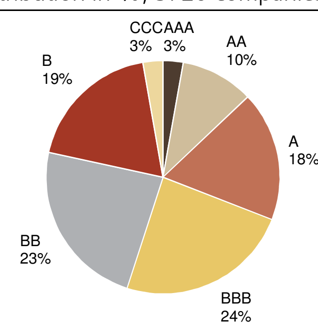
Fig. 16: Overview of LTI topic clusters



* For simplicity, all topic clusters include several subcategories not included in the graph. For example: sustainable water includes water utilities, treatment, desalination, infrastructure & technology, water efficiency and ballast-water treatment. Within each subcategory are further specifications; e.g. water treatment includes filtration, purification and waste treatment. In total, we have more than 100 categories (potential sustainable investment themes) in our thematic database. Source: UBS

Fig. 17: Entire MSCI ESG Research corporate coverage

Rating distribution in %, 5720 companies



Note: AAA = best possible ESG rating; CCC = worst. Source: MSCI ESG Research, UBS, as of 24 February 2017

CONCLUSIONS

Although not free from challenges, asset gatherers (wealth and asset managers) and life insurers continue to benefit from several positive medium to long-term trends. Namely increasing longevity and an aging society, which lead to widening savings gaps along with a growing middle class in emerging markets and rising number of high and ultra-high net worth individuals. Furthermore structural asset growth, upside potential on higher trading volumes, ongoing consolidation efforts and relatively low capital requirements constitute additional supportive drivers. These also provide some degree of inflation protection since revenue streams depend on nominal asset prices.

In summary, these drivers should positively influence our theme in two ways: 1) they should result in above market average earnings growth and 2) offer re-rating potential for financial companies with retirement savings exposure. In our view, investors have the opportunity to benefit from the retirement savings trend over the next few years.

Appendix

Terms and Abbreviations

Term / Abbreviation	Description / Definition	Term / Abbreviation	Description / Definition
1H, 2H, etc. or 1H11, 2H11, etc.	First half, second half, etc. or first half 2011, second half 2011, etc.	1Q, 2Q, etc. or 1Q11, 2Q11, etc.	First quarter, second quarter, etc. or first quarter 2011, second quarter 2011, etc.
2011E, 2012E, etc.	2011 estimate, 2012 estimate, etc.	A	actual i.e. 2010A
ADR	American depositary receipt	ARPU	Average Revenue Per User
AUM	Assets under management = total value of own and third-party assets managed	Avg.	average
bn	Billion	bp or bps	Basis point or basis points (100 bps = 1 percentage point)
BVPS	Book value per share = shareholders' equity divided by the number of shares	CAGR	Compound annual growth rate
Cant Inc/Capita	Cantonal income per capita (Switzerland only)	Capex	Capital expenditures
CF	Cash flow	CFO	1) Cash flow from operations, 2) Chief financial officer
Cons.	Consensus	Core Tier 1 Ratio	Tier 1 capital minus tier 1 hybrid securities
Cost/Inc Ratio (%)	Costs as a percentage of income	CPI	Consumer price index
CR	Combined ratio = ratio of claims and expenses as a percentage of premiums (for insurance companies)	CY	Calendar year
DCF	Discounted cash flow	DDM	Dividend discount model
Dividend Yield (%)	Dividend per share divided by price per share	DPS	Dividend per share
E	expected i.e. 2011E	EBIT	Earnings before interest and taxes
EBIT Margin (%)	EBIT divided by revenues	EBITDA	Earnings before interest, taxes, depreciation and amortization
EBITDA Margin (%)	EBITDA divided by revenues	EBITDA/Net Interest	EBITDA divided by net interest expense
EBITDAR	Earnings before interest, taxes, depreciation, amortization and rental expense	EFVR	Estimated fair value range
EmV	Embedded value = net asset value + present value of forecasted future profits (for life insurers)	EPS	Earnings per share
Equity Ratio (%)	Shareholders' equity divided by total assets	EV	Enterprise value = market value of equity, preferred equity, outstanding net debt and minorities
FCF	Free cash flow = cash a company generates above outlays required to maintain/expand its asset base	FCF Yield (%)	Free cash flow divided by market capitalization
FFO	Funds from operations	FY	Fiscal year / financial year
GDP	Gross domestic product	Gross Margin (%)	Gross profit divided by revenues
H	half year	h/h	Half-year over half-year; half on half
hist av.	Historical average	Interbank Ratio	Interbank deposits due from banks divided by interbank deposits due to banks
Interest Coverage	Ratio that expresses the number of times interest expenses are covered by earnings	Interest exp	Interest expense
ISIN	International securities identification number	K	One thousand
LLP/Net Int Inc (%)	Loan loss provisions divided by net interest income	LLR/Gross Loans (%)	Loan loss reserves divided by gross loans
LPR	Least Preferred: The stock is expected to both underperform the relevant benchmark and depreciate in absolute terms.	Market cap	Number of all shares of a company (at the end of the quarter) times closing price
m/m	Month-over-month; month on month	mn or m	Million
M and A	Merger and Acquisition	MP	Marketperform: The stocks expected performance is in line with the sector benchmark
MPR	Most Preferred: The stock is expected to both outperform the relevant benchmark and appreciate in absolute terms.	n.a.	Not available or not applicable
NAV	Net asset value	Net Debt	Short- and long-term interest-bearing debt minus cash and cash equivalents
Net DPS	Net dividends per share	NIM or Net Int Margin (%)	Net interest income divided by average interest-bearing assets

Appendix

Term / Abbreviation	Description / Definition	Term / Abbreviation	Description / Definition
Net Margin (%)	Net income dividend by revenues	NV	Neutral View: The stock is expected to neither outperform nor underperform the relevant benchmark nor significantly appreciate or depreciate in absolute terms.
n.m. or NM	Not meaningful	NPL	Non-performing loans
OP	Outperform: The stocks is expected to outperform the sector benchmark	Op Margin (%)	Operating income divided by revenues
p.a.	Per annum (per year)	P/BV	Price to book value
P/E or PE	Price to earnings / Price Earnings Ratio	P/E Relative	P/E relative to the market
P/EmV	Price to embedded value	PEG Ratio	P/E ratio divided by earnings growth
PPI	Producer price index	Prim Bal/Cur Rev (%)	Primary balance divided by current revenue (total revenue minus capital revenue)
Profit Margin (%)	Net income divided by revenues	q/q or QQQ	Quarter-over-quarter; quarter on quarter
R and D	Research and development	ROA (%)	Return on assets
ROAE (%)	Return on average equity	ROCE (%)	Return on capital employed = EBIT divided by difference between total assets & current liabilities
ROE (%)	Return on equity	ROIC (%) or ROI	Return on invested capital
Shares o/s	Shares outstanding	Solvency Ratio (%)	Ratio of shareholders' equity to net premiums written (for insurance companies)
sotp or SOTP	Sum of the parts	Tax Burden Index	Swiss tax index; 100 = average tax burden of all cantons
tgt	Target	Tier 1 Ratio (%)	Tier 1 capital divided by risk-weighted assets; describes a bank's capital adequacy
tn	Trillion	UP	Underperform: The stock is expected to underperform the sector benchmark
Valor	Swiss company identifier	WACC	Weighted average cost of capital
CIO	UBS WM Chief Investment Office	x	multiple / multiplicator
y/y or YOY	Year-over-year; year on year	yr	Year
YTD	Year-to-date		