

UBS ETFs Alternative Beta Investing

Gaining exposure to **systematic equity factors**

**Alternative Beta: non-market cap indexed strategies
constructed through a rigorous, rules-based and disciplined manner.**

Value. Volatility. Quality. Yield.



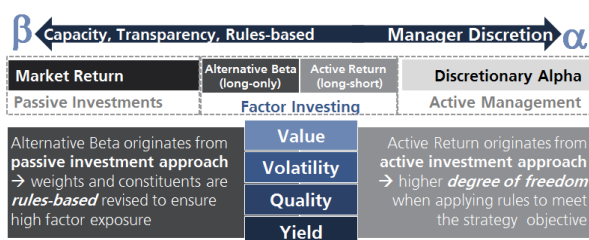
Mission statement

UBS Asset Management offers a wide range of Exchange Traded Funds (ETFs) providing access to Alternative Beta equity indices developed with the leading financial index provider MSCI. This unique range of Factor ETFs aims to improve returns, reduce risks and enhance diversification. The factor return drivers are captured through rules-based, transparent and flexible single strategies. These allow investors to access equity factors in the USA and Eurozone, whilst ensuring cost-efficiency and factor diversification. This new generation of Alternative Beta indices provides an optimal trade-off between high factor exposure and turnover.

Alternative Beta in the investing landscape

Alternative Beta investing bridges the gap between market beta exposure and pure alpha investments (Figure 1). Alternative Beta investing is about gaining exposure to an indexed strategy constructed through a rigorous and disciplined manner, where selected stocks meet specific criteria, and are weighted proportionally to the factor exposure rather than according to their market capitalization.

Figure 1: Investing Landscape



Source: UBS Asset Management, 2016.

These factor-based strategies tilt away from broad, market capitalization-based benchmarks. Historical analyses of sources of risk and returns on equity investments show that particular factor-based portfolios have outperformed the broad market over time¹. The optimized factor exposures (value, volatility, quality and yield) are alternatively weighted, and designed to best capture high factor exposure.

Index construction

The very DNA of Alternative Beta investing tilts away from market capitalization benchmarks by using a standardized, transparent and rules-based process of stock selection and formation. Figure 2 outlines the multi-step process of constructing a factor-exposed index. This process aims to select stocks that best qualify for the given factor exposure.

Figure 2: Factor Index Construction Steps

1.	Starting from the parent universe	Factor Investibility (Market Beta)
2.	Screening every stock through pre-defined criteria	Factor Eligibility
3.	Ranking of eligible stocks by their scores	Factor Loading
4.	Selecting the top-scored companies amongst their peers (long only)	Factor High Exposure
5.	Weighting proportional to the score of each selected stock	Alternative Beta

Source: UBS Asset Management, 2016.

¹ Bender J., Briand R., Melas D. and Subramanian R.A.: "Foundations of Factor Investing" MSCI, as of December 2013.

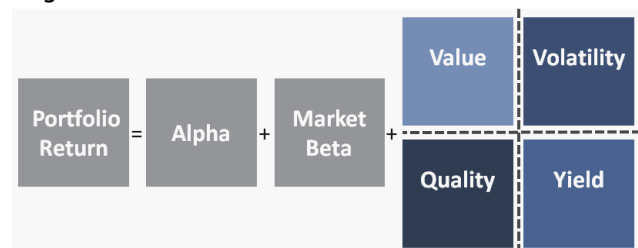
MSCI factor index construction is sector-agnostic, as it selects the most suitable stocks from the entire universe by using relative scores. Factor indices are usually rebalanced on a semi-annual basis in May and November, coinciding with Semi-Annual Index Reviews. Corporate events are processed in line with the standard MSCI methodology.

Non-overlapping building blocks

Every factor strategy represents exposure to systematic sources of risk, expressed through the factor load. A consistent construction process over different strategies assures minimal overlap and allows for an efficient combination to achieve a higher risk-to-reward ratio vs. a non-factor portfolio.

Figure 3 summarizes the basic intuition behind individual factor-based strategies, while Table 1 provides more details behind the factor indices. The core-factor-satellite framework offers a number of ways to implement factor allocations to enhance the efficiency of a portfolio. The implementation can focus on the addition of one preferred factor, or combining two or more factors, in addition to market beta.

Figure 3: Core-Factor-Satellite



Value: "I like investing in under-valued while avoiding low quality companies"

Volatility: "I like investing in equities but I want to avoid high volatility and concentration"

Quality: "I like investing in companies with outstanding quality balance sheets"

Yield: "I like investing in companies which return capital to their shareholders"

Addressing investors needs

The financial markets have seen a shift towards lower yields and higher volatility, and ultimately have driven investors to search for an investment approach that better aligns with their needs. Alternative Beta strategies help to address important investor needs, as demonstrated below:

Example 1: An investor prefers a certain region (e.g. USA), but worries that market valuation is getting relatively high. In this case, he might consider tilting the portfolio towards **value stocks**.

Example 2: An investor wishes to keep an equity position, but due to certain risks (e.g. geopolitical), he is fearful of excess volatility. In this case, he might consider tilting the portfolio towards **low volatility stocks**.

Example 3: An investor has an aversion to equity risk, but does not want to miss opportunities. In this case, he might consider **quality stocks**, with durable business models and stable earnings.

Example 4: An investor cares about the income from his equity investments. In this case, he might select **higher yielding stocks** that return capital to shareholders.

The Implementation of Alternative Beta investing is generally governed by investors' constraints (risk budgets, investment horizon, costs etc.). These factors have proven to outperform market cap benchmarks over the long-run, see Figure 4. This creates an opportunity to enhance return and diversify risks.

Table 1: High Exposure Factor Indices

UBS Factor ETF MSCI	Key Features	Screening Criteria
Prime Value	Company fundamentals are accurate predictor of a stock's intrinsic value. The strategy screens for relatively under-valued stocks which pass through quality checks : stability in earnings, financial leverage and profitability on shareholder equity. This factor strategy is pro-cyclical .	Price-to-Book Value – Trailing 12-month Book Value per Share/Current Security Price Price-to-Earnings – Trailing 12-month Earnings per Share/Current Security Price Price-to-Sales – Trailing 12-month Sales per Share/Current Security Price Price-to-Cash Earnings – Trailing 12-month Cash Earnings per Share/Current Security Price
Low Volatility	Low volatility companies prove more robust in turbulent markets. The strategy selects stocks which have historically the lowest volatility in the peer group. The number of stocks dynamically accommodates to a volatility regime : in a low volatility regime, the number of stocks gets larger and more equally weighted. In contrast, in a high volatility regime the number of stocks gets smaller and more concentrated towards low risk companies. This factor strategy is defensive .	Historical Stock Volatility – Trailing 3-year realized volatility Inverse Risk Weights – Cumulated sum of inverse variance weights to dynamically adapt to volatility regime
Quality	Quality companies prove important for diversifying downside risks in portfolios. The strategy selects stocks with durable business models and sustainable competitive advantages. This factor strategy is defensive .	Return on Equity – Trailing 12-month Earnings per Share/Book Value per Share Debt to Equity – Current Total Debt/Book Value Earnings Variability – Standard deviation of y-o-y Earnings per Share Growth over the last 5 fiscal years
Total Shareholder Yield	Designed to capture the performance of companies that return above-average-cash to shareholders either through share buybacks or by paying dividends . This strategy targets companies that have returned capital directly to equity shareholders (as opposed to debt holders) and seek to minimize exposure to companies that have raised debt to support these capital repayments. This factor strategy is pro-cyclical .	Dividend Yield – Trailing 12-month Dividend Per Share/Current Security Price Buyback Yield – Trailing 12-month change in number of Ord. Shares/End Period Number of Ord. Shares Debt Repayment Yield – Trailing 12-month Debt Reduction/Enterprise Value

Figure 4a: MSCI EMU Risk/Return Profile

(Dec. '05 – Dec. '15; monthly net returns in EUR)

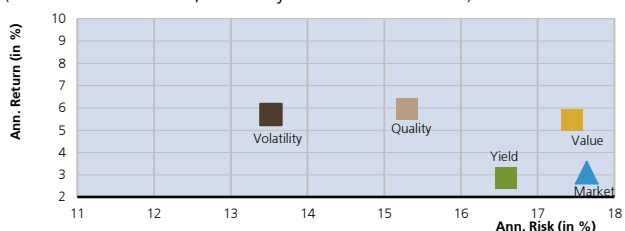
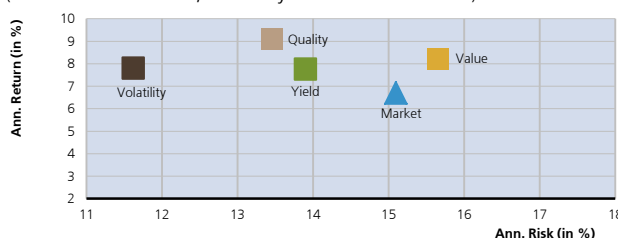


Figure 4b: MSCI USA Risk/Return Profile

(Dec. '05 – Dec. '15; monthly net returns in USD)



Past performance of investments is not necessarily an indicator of future results

Source: MSCI, UBS Asset Management, as of January 2016.

UBS Factor ETFs on the SIX Swiss Exchange²

Fund name	Fee	AuM	NAV ccy	Replication	Distribution	ISIN	Bloomberg
UBS ETF (LU) Factor MSCI EMU Low Volatility UCITS ETF	0.28%		EUR	Physical	Yes	LU1215454460	ELOVD SW
UBS ETF (LU) Factor MSCI EMU Low Volatility hedged CHF UCITS ETF	0.38%	31	CHF	Physical	No	LU1215454973	ELOVS SW
UBS ETF (LU) Factor MSCI EMU Low Volatility hedged GBP UCITS ETF	0.38%		GBP	Physical	Yes	LU121545350	ELOVH SW
UBS ETF (LU) Factor MSCI EMU Low Volatility hedged USD UCITS ETF	0.38%		USD	Physical	No	LU1215455277	ELOVU SW
UBS ETF (LU) Factor MSCI EMU Prime Value UCITS ETF	0.28%		EUR	Physical	Yes	LU1215452928	EPVLD SW
UBS ETF (LU) Factor MSCI EMU Prime Value hedged CHF UCITS ETF	0.38%	9	CHF	Physical	No	LU1215453496	EPVLS SW
UBS ETF (LU) Factor MSCI EMU Prime Value hedged GBP UCITS ETF	0.38%		GBP	Physical	Yes	LU1215453819	EPVLH SW
UBS ETF (LU) Factor MSCI EMU Prime Value hedged USD UCITS ETF	0.38%		USD	Physical	No	LU1215453736	EPVLU SW
UBS ETF (LU) Factor MSCI EMU Quality UCITS ETF	0.28%		EUR	Physical	Yes	LU1215451524	EQLTD SW
UBS ETF (LU) Factor MSCI EMU Quality hedged CHF UCITS ETF	0.38%	10	CHF	Physical	No	LU1215456325	EQLTS SW
UBS ETF (LU) Factor MSCI EMU Quality hedged GBP UCITS ETF	0.38%		GBP	Physical	Yes	LU1215452332	EQLTH SW
UBS ETF (LU) Factor MSCI EMU Quality hedged USD UCITS ETF	0.38%		USD	Physical	No	LU1215452258	EQLTU SW
UBS ETF (LU) Factor MSCI EMU Total Shareholder Yield UCITS ETF	0.28%		EUR	Physical	Yes	LU1215455947	ETSYD SW
UBS ETF (LU) Factor MSCI EMU Total Shareholder Yield hedged CHF UCITS ETF	0.38%	9	CHF	Physical	No	LU1215456325	ETSYS SW
UBS ETF (LU) Factor MSCI EMU Total Shareholder Yield hedged GBP UCITS ETF	0.38%		GBP	Physical	Yes	LU1215456754	ETSYH SW
UBS ETF (LU) Factor MSCI EMU Total Shareholder Yield hedged USD UCITS ETF	0.38%		USD	Physical	No	LU1215456671	ETSYU SW
UBS ETF (IE) Factor MSCI USA Low Volatility UCITS ETF	0.25%		USD	Physical	Yes	IE00BX7RQY03	ULOVD SW
UBS ETF (IE) Factor MSCI USA Low Volatility hedged CHF UCITS ETF	0.35%	27	CHF	Physical	No	IE00BX7RR250	ULOVS SW
UBS ETF (IE) Factor MSCI USA Low Volatility hedged EUR UCITS ETF	0.35%		EUR	Physical	No	IE00BWT3KJ20	ULOVE SW
UBS ETF (IE) Factor MSCI USA Low Volatility hedged GBP UCITS ETF	0.35%		GBP	Physical	Yes	IE00BXDZNF85	ULOVH SW
UBS ETF (IE) Factor MSCI USA Prime Value UCITS ETF	0.25%		USD	Physical	Yes	IE00BX7RR706	UPVLD SW
UBS ETF (IE) Factor MSCI USA Prime Value hedged CHF UCITS ETF	0.35%	5	CHF	Physical	No	IE00BX7RR250	UPVLS SW
UBS ETF (IE) Factor MSCI USA Prime Value hedged EUR UCITS ETF	0.35%		EUR	Physical	No	IE00BWT3KL42	UPVLE SW
UBS ETF (IE) Factor MSCI USA Prime Value hedged GBP UCITS ETF	0.35%		GBP	Physical	Yes	IE00BXDZNF85	UPVLH SW
UBS ETF (IE) Factor MSCI USA Quality UCITS ETF	0.25%		USD	Physical	Yes	IE00BX7RR27	UQLTD SW
UBS ETF (IE) Factor MSCI USA Quality hedged CHF UCITS ETF	0.35%	64	CHF	Physical	No	IE00BX7RRN62	UQLTS SW
UBS ETF (IE) Factor MSCI USA Quality hedged EUR UCITS ETF	0.35%		EUR	Physical	No	IE00BWT3KN65	UQLTE SW
UBS ETF (IE) Factor MSCI USA Quality hedged GBP UCITS ETF	0.35%		GBP	Physical	Yes	IE00BXDZNF85	UQLTH SW
UBS ETF (IE) Factor MSCI USA Total Shareholder Yield UCITS ETF	0.25%		USD	Physical	Yes	IE00BX7RR275	UTSYD SW
UBS ETF (IE) Factor MSCI USA Total Shareholder Yield hedged CHF UCITS ETF	0.35%	5	CHF	Physical	No	IE00BX7RRY77	UTSYS SW
UBS ETF (IE) Factor MSCI USA Total Shareholder Yield hedged EUR UCITS ETF	0.35%		EUR	Physical	No	IE00BWT3KQ96	UTSYE SW
UBS ETF (IE) Factor MSCI USA Total Shareholder Yield hedged GBP UCITS ETF	0.35%		GBP	Physical	Yes	IE00BXDZNF85	UTSYH SW

AuM in CHFm

² UBS ETFs may also be listed on other exchanges (incl. XETRA, Borsa Italiana, LSE, Euronext)

Source: UBS Asset Management, as of 4 March 2016.

Current fund performance data and further product information are available at www.ubs.com/etf.

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Risk disclaimer

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