



# *2014* Investor Update

*Global AM – An Attractive Franchise with Growth Potential*

Ulrich Körner

*CEO UBS Global Asset Management*



# Cautionary statement regarding forward-looking statements

---

This presentation contains statements that constitute “forward-looking statements”, including but not limited to management’s outlook for UBS’s financial performance and statements relating to the anticipated effect of transactions and strategic initiatives on UBS’s business and future development. While these forward-looking statements represent UBS’s judgments and expectations concerning the matters described, a number of risks, uncertainties and other important factors could cause actual developments and results to differ materially from UBS’s expectations. These factors include, but are not limited to: (i) the degree to which UBS is successful in executing its announced strategic plans, including its efficiency initiatives and its planned further reduction in its Basel III risk-weighted assets (RWA) and leverage ratio denominator; (ii) developments in the markets in which UBS operates or to which it is exposed, including movements in securities prices or liquidity, credit spreads, currency exchange rates and interest rates and the effect of economic conditions and market developments on the financial position or creditworthiness of UBS’s clients and counterparties; (iii) changes in the availability of capital and funding, including any changes in UBS’s credit spreads and ratings, or arising from requirements for bail-in debt or loss-absorbing capital; (iv) changes in or the implementation of financial legislation and regulation in Switzerland, the US, the UK and other financial centers that may impose more stringent capital (including leverage ratio), liquidity and funding requirements, incremental tax requirements, additional levies, limitations on permitted activities, constraints on remuneration or other measures; (v) uncertainty as to when and to what degree the Swiss Financial Market Supervisory Authority (FINMA) will approve reductions to the incremental RWA resulting from the supplemental operational risk-capital analysis mutually agreed to by UBS and FINMA effective 31 December 2013, or will approve a limited reduction of capital requirements due to measures to reduce resolvability risk; (vi) the degree to which UBS is successful in executing the announced creation of a new Swiss banking subsidiary, a holding company for the UBS Group, a US intermediate holding company, changes in the operating model of UBS Limited and other changes which UBS may make in its legal entity structure and operating model, including, the possible consequences of such changes, and the potential need to make other changes to the legal structure or booking model of UBS Group in response to legal and regulatory requirements, including capital requirements, resolvability requirements and the pending Swiss parliamentary proposals and proposals in other countries for mandatory structural reform of banks; (vii) changes in UBS’s competitive position, including whether differences in regulatory capital and other requirements among the major financial centers will adversely affect UBS’s ability to compete in certain lines of business; (viii) the liability to which UBS may be exposed, or possible constraints or sanctions that regulatory authorities might impose on UBS, due to litigation, contractual claims and regulatory investigations; (ix) the effects on UBS’s cross-border banking business of tax or regulatory developments and of possible changes in UBS’s policies and practices relating to this business; (x) UBS’s ability to retain and attract the employees necessary to generate revenues and to manage, support and control its businesses, which may be affected by competitive factors including differences in compensation practices; (xi) changes in accounting or tax standards or policies, and determinations or interpretations affecting the recognition of gain or loss, the valuation of goodwill, the recognition of deferred tax assets and other matters; (xii) limitations on the effectiveness of UBS’s internal processes for risk management, risk control, measurement and modeling, and of financial models generally; (xiii) whether UBS will be successful in keeping pace with competitors in updating its technology, particularly in trading businesses; (xiv) the occurrence of operational failures, such as fraud, unauthorized trading and systems failures; and (xv) the effect that these or other factors or unanticipated events may have on our reputation and the additional consequences that this may have on our business and performance. The sequence in which the factors above are presented is not indicative of their likelihood of occurrence or the potential magnitude of their consequences. Our business and financial performance could be affected by other factors identified in our past and future filings and reports, including those filed with the SEC. More detailed information about those factors is set forth in documents furnished by UBS and filings made by UBS with the SEC, including UBS’s Annual Report on Form 20-F for the year ended 31 December 2013. UBS is not under any obligation to (and expressly disclaims any obligation to) update or alter its forward-looking statements, whether as a result of new information, future events, or otherwise.

---

**Disclaimer:** This presentation and the information contained herein are provided solely for information purposes, and are not to be construed as a solicitation of an offer to buy or sell any securities or other financial instruments in Switzerland, the United States or any other jurisdiction. No investment decision relating to securities of or relating to UBS AG or its affiliates should be made on the basis of this document. Refer to UBS’s first quarter 2014 report and its Annual report on Form 20-F for the year ended 31 December 2013. No representation or warranty is made or implied concerning, and UBS assumes no responsibility for, the accuracy, completeness, reliability or comparability of the information contained herein relating to third parties, which is based solely on publicly available information. UBS undertakes no obligation to update the information contained herein.

© UBS 2014. The key symbol and UBS are among the registered and unregistered trademarks of UBS. All rights reserved.

# Attractive industry fundamentals

---

## Evolving client needs

- Growing demand for outcome oriented **solutions and bespoke products**
- Shift from "**local**" to "**global**" portfolios
- Continued **separation** between beta and high alpha

## Compelling growth prospects

- **Structurally attractive growth prospects** (~2-3x GDP growth<sup>1</sup>)
- Double-digit growth<sup>1</sup> forecast for **solutions and passive** capabilities; high single-digit growth<sup>1</sup> expected for **alternatives**

## Attractive risk-adjusted returns

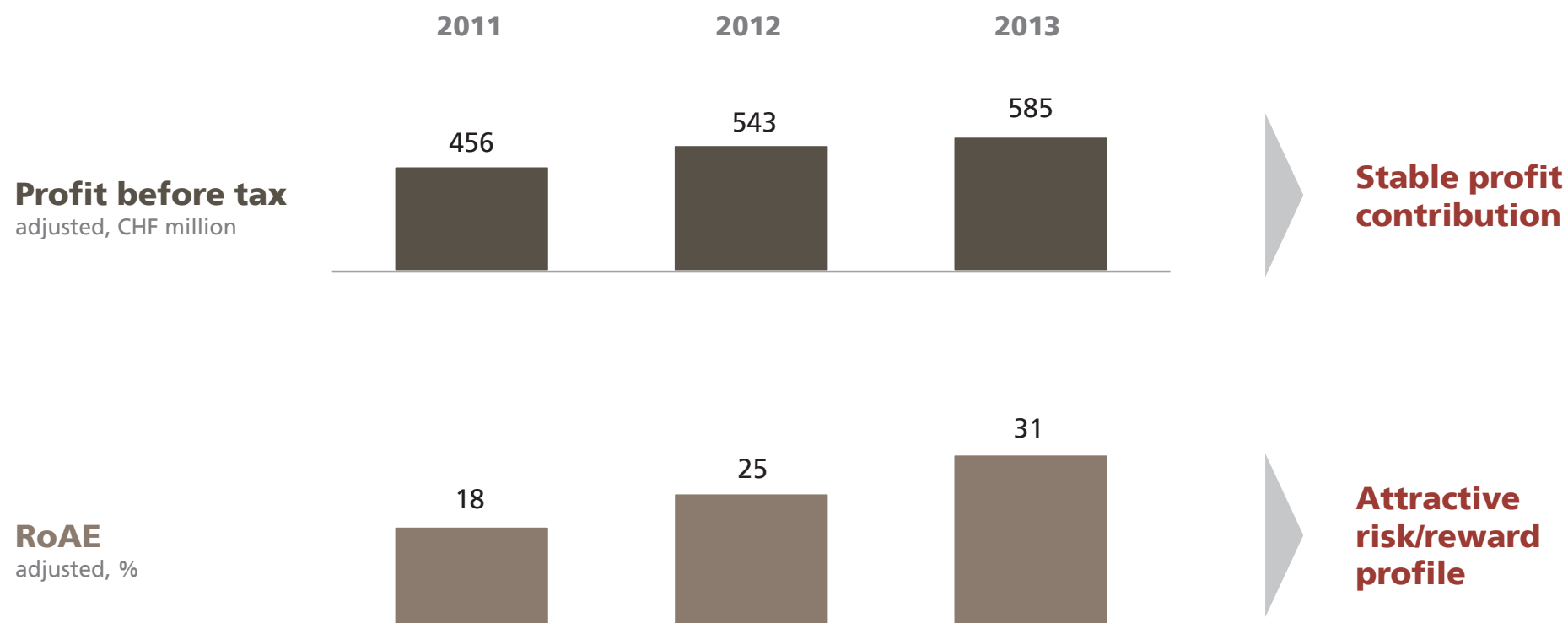
- Attractive risk/reward profile with **returns significantly in excess of the cost of capital**
- **Highly cash flow-generative business**

## Regulation: cost and opportunity

- Increasing requirements re **capital levels, size, client onboarding**, etc.
- Large global asset managers **best positioned** to deal with regulatory changes
- Shift **towards a guided (open) architecture**, reflecting increasing regulatory burden

# Global AM – An attractive franchise with growth potential

Capital-light, cash flow generative business positioned to benefit from industry fundamentals and management initiatives

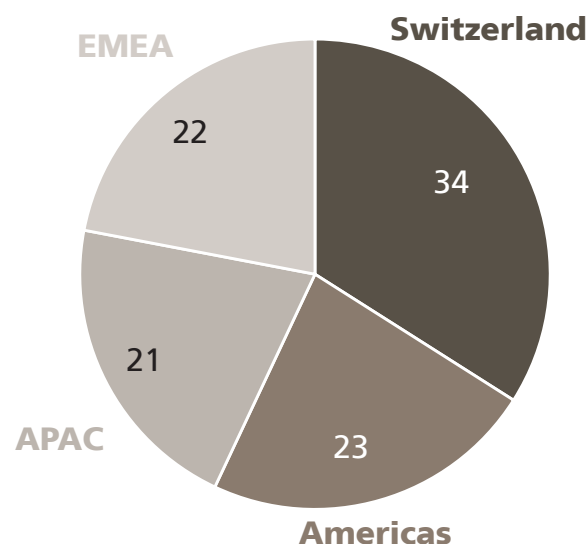


# Diversified across regions, asset classes and channels

## Well positioned to capture opportunities in shifting market dynamics

### Regions<sup>1</sup>

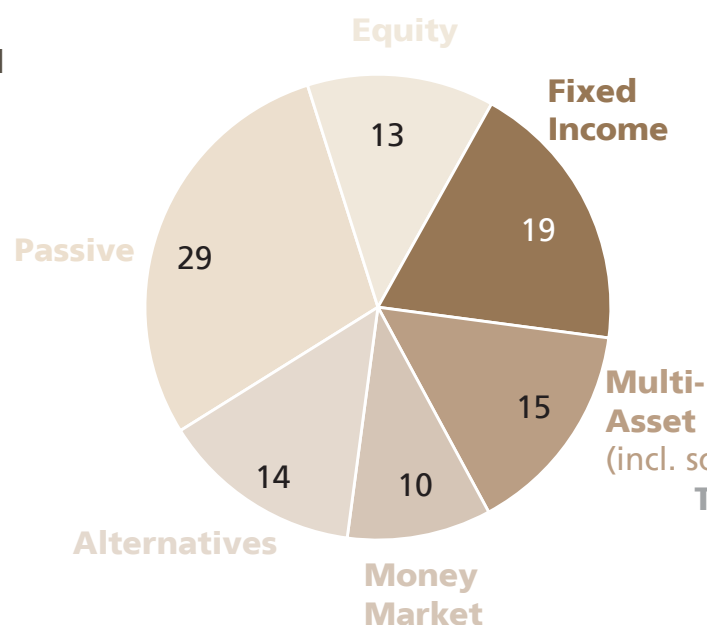
% of invested assets, 31.3.14



- True global reach
- Solid position in core developed markets
- Strong position in key growth markets, in particular across APAC

### Asset classes<sup>1</sup>

% of invested assets, 31.3.14

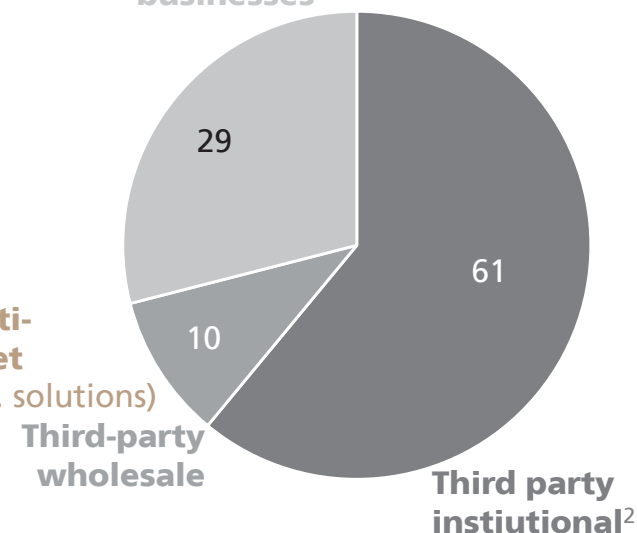


- Broad traditional offering providing core building blocks
- High growth passive business
- Leading manager in the alternatives segment

### Distribution channels<sup>1</sup>

% of invested assets, 31.3.14

UBS's wealth management businesses



- Significant institutional franchise and solid growing third party wholesale client base
- Strong collaboration with UBS's leading wealth management businesses

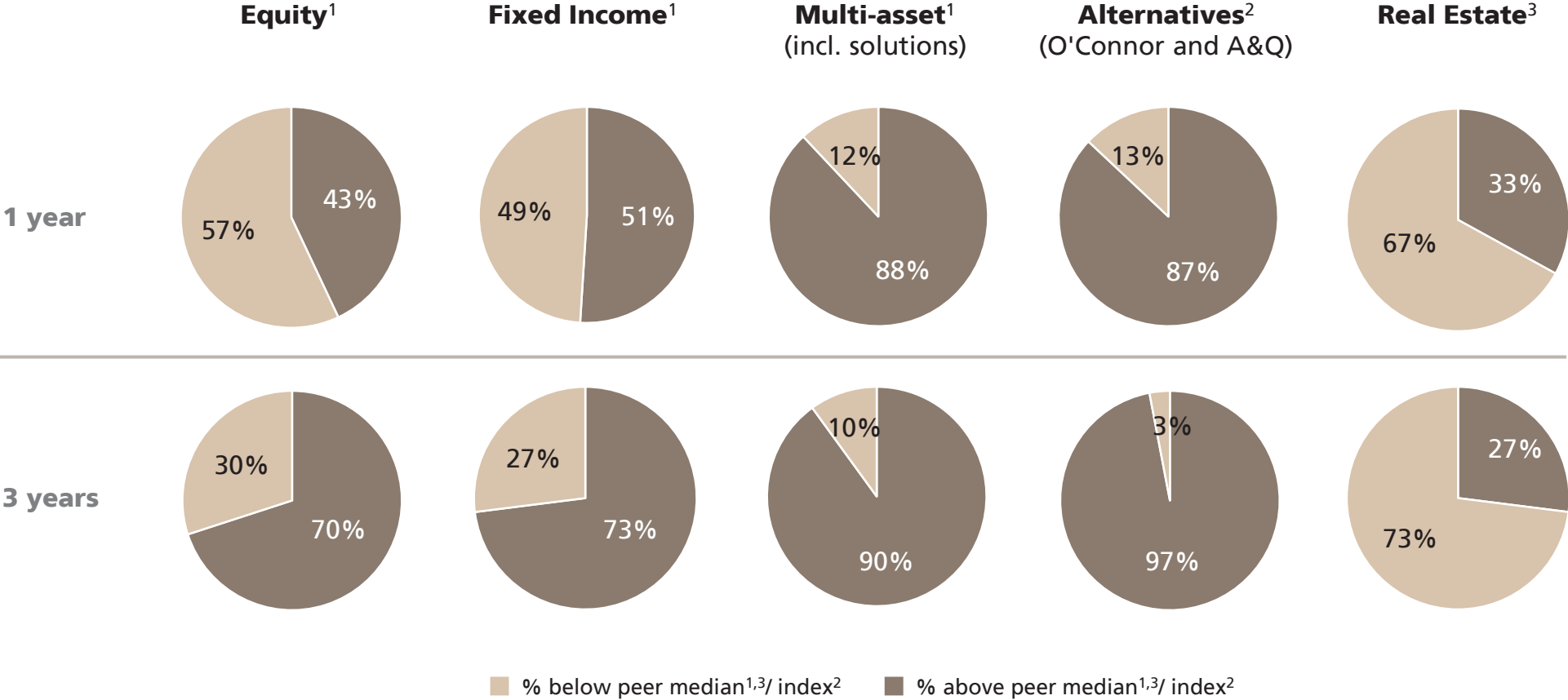


<sup>1</sup> Share of total invested assets as per internal distribution view for regions and distribution channels, and product view for asset classes; <sup>2</sup> Incl. invested assets from UBS Investment Bank channel

# Solid investment performance with key areas of strength to build on

## Investment performance

31.3.14



1 Percentage of invested assets per Lipper ranking. Investment performance versus peers of UBS Swiss, Luxembourg, German and Irish-domiciled wholesale funds available to UBS's wealth management businesses and also distributed through other wholesale intermediaries. The UBS fund universe covered by Lipper includes actively-managed funds totalling CHF 98 billion on 31.3.14. Source: ThomsonReuters LIM 2.7 (Lipper Investment Management) data extracted 7.4.14; 2 Percentage of invested assets above appropriate peer indices among key hedge fund and hedge fund-of-fund products with at least a 3-year record as at 31.3.14; 3 Percentage of invested assets by peer quartile ranking for key real estate funds with relevant peer universes; some products have significantly lower leverage and risk profiles than those of peers



# Driving profitable growth

---

## Strategic priorities focusing on four key levers

---

### Investment performance

- Establish clear investment **performance metrics**
- Fully leverage diversified capabilities and capitalize on strong position in **high alpha, smart beta capabilities and multi-asset solutions**
- Increase **focus on key investment strategies/capabilities**

### Distribution

- Strengthen focus on **core and key growth markets**
- **Dedicated wholesale and institutional** distribution approach
- Global **top client coverage model** to deliver holistic service quality and expertise
- Further leverage **internal collaboration** with WM and WMA

### Talent

- Foster an environment that attracts, develops and retains **industry-leading talent** and expertise
- Extend **talent development programs** to cover key areas of growth

### Operational efficiency

- **Upgrade operating platforms** and streamline existing processes to enhance efficiency and address future needs
- **Global solutions, locally tailored/packaged** to address specific local requirements

# Leveraging our strong position in alternatives and real estate

## A leading alternatives manager (#4<sup>1</sup>) with CHF 78 billion in invested assets

### Global Asset Management alternatives<sup>2</sup>

31.3.14, invested assets

**A&Q**  
(CHF 25 billion)

- One of the largest hedge fund allocators globally<sup>5</sup>
- Long track record of tactical allocation across wide range of managers and strategies

**O'Connor**  
(CHF 5 billion)

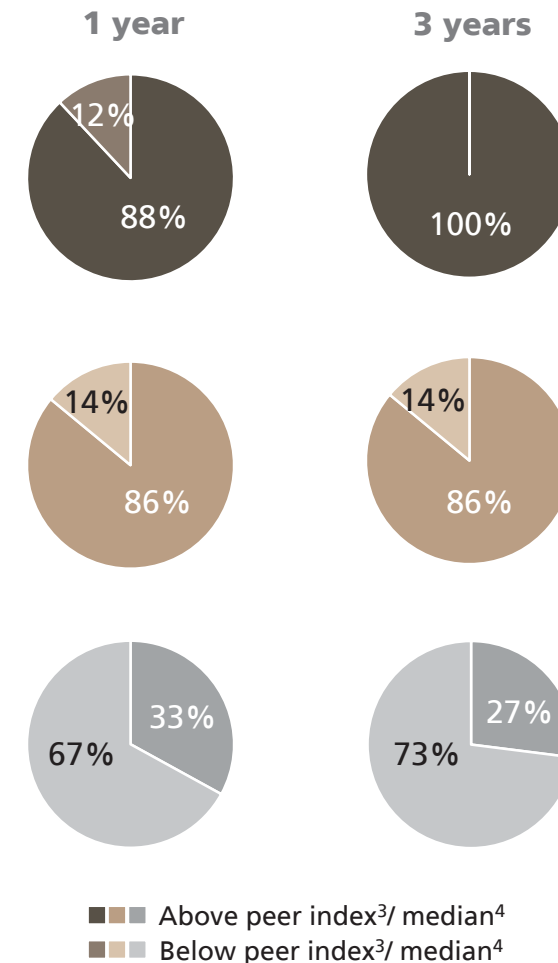
- Single manager hedge fund business with 14-year track record dedicated to absolute return investment management

**Real Estate**  
(CHF 40 billion)

- Largest, most diversified bank-owned real estate manager
- Capabilities across the risk/return spectrum with focus on core and value-add
- Long track records across major markets
- Returns reflect lower leverage and risk profiles of certain products

### Investment performance

% of invested assets with returns above/below peer indices, 31.3.14



1 Source: Towers Watson Financial Times, July 2013; 2 UBS Global AM invested assets in alternatives excl. infrastructure and private equity; 3 Percentage of invested assets above appropriate peer indices among key hedge fund and hedge fund of fund products with at least a 3-year record at 31.3.14; 4 Percentage of invested assets by peer quartile ranking for key real estate funds with relevant peer universes; 5 InvestHedge Billion Dollar Club, June 2013

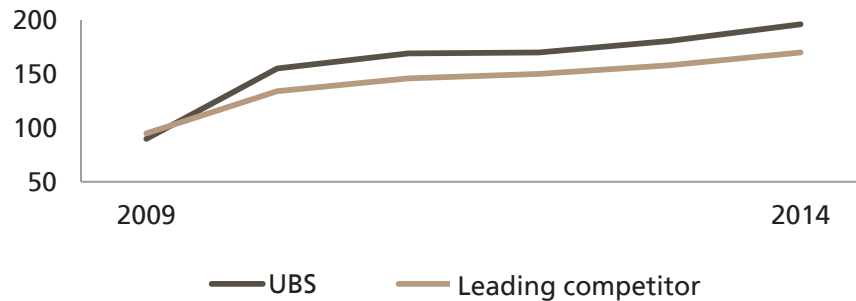


# Leading capabilities in the multi-asset solutions business

## Innovative solutions leveraging our expertise (examples)

### Asset allocation and currency

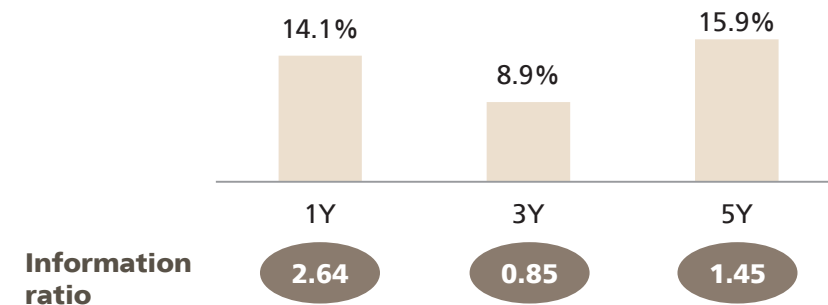
Example: Global Allocation Fund (NAV indexed)



**Top-10 global balanced funds provider;** strong performance track record

### Manager selection

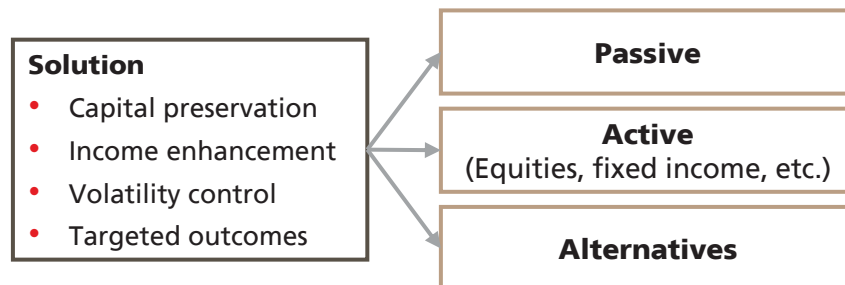
Example: PACE Select gross absolute performance<sup>1</sup>



**Superior manager selection insights and access,** resulting in consistent alpha generation

### Structured solutions

Client-focused solutions, **combining Global Asset Management's investment capabilities with solutions overlay** (e.g., downside risk reduction, income)



### Institutional financial advisor

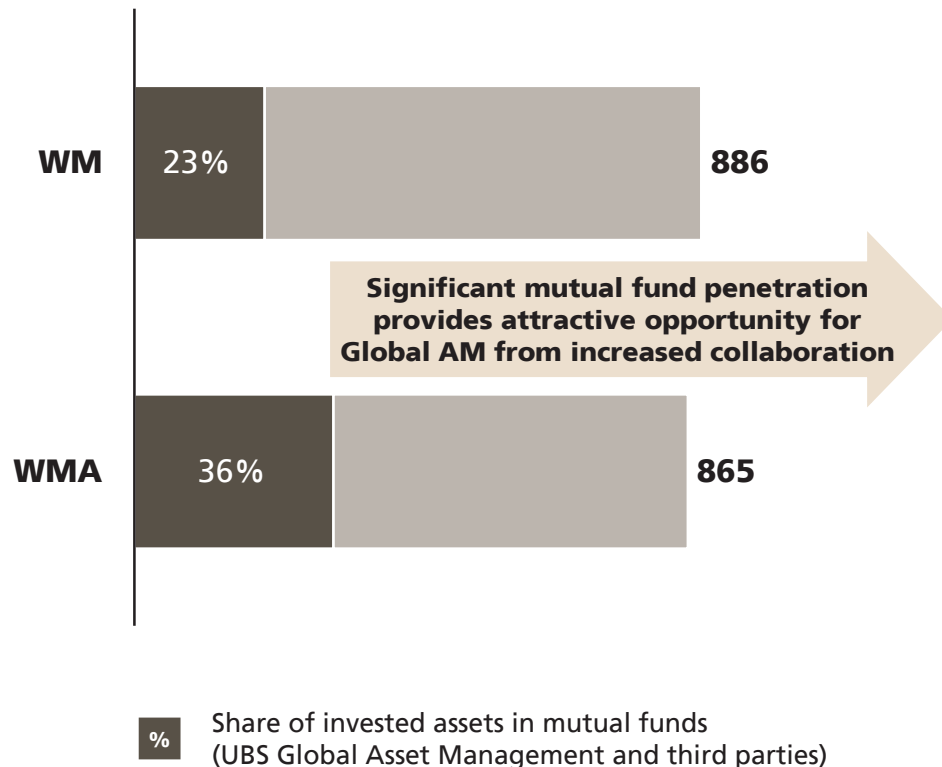
**Flexible tactical and strategic advisor providing CIO-type services** to key clients, based on Global Asset Management's investment expertise including LDI, risk advisory, etc.

# Strong collaboration with WM and WMA

## Working together to deliver the best of Global Asset Management to WM and WMA and their clients

### Mutual fund penetration of invested assets

31.12.13, CHF billion



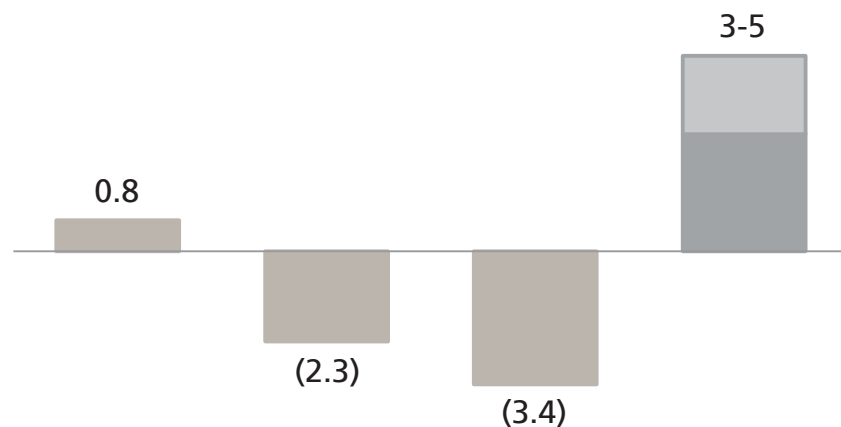
### Key measures to enhance co-operation

- Provide superior support and services to the world's premier wealth management platform:
  - Strengthen coverage model for WM and WMA with clear responsibilities and accountabilities
  - Increase focus on joint product development tailored to clients' needs
  - Continue to leverage strong alternative investment capabilities to meet increasing demand
  - Deliver institutional-like and customized solutions to UHNW and GFO clients
  - Increase accessibility of UBS mutual funds globally

# Targets<sup>1</sup>

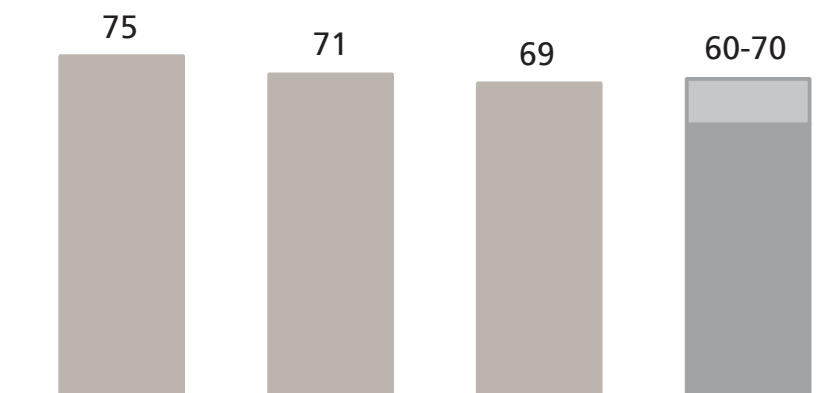
## Net new money growth

Excluding money market flows, %



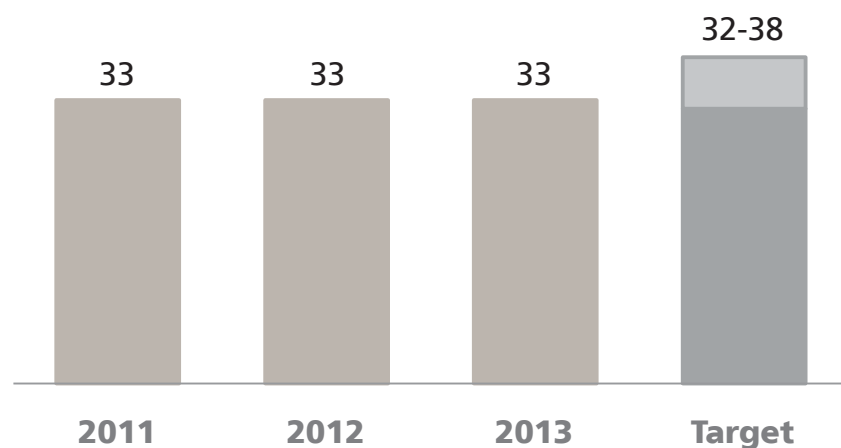
## Cost/income ratio

adjusted, %



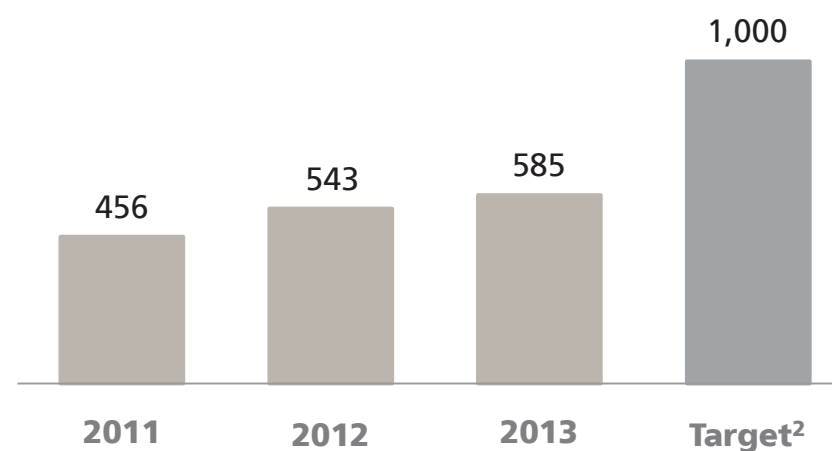
## Gross margin

bps



## Profit before tax

adjusted, CHF million



# Key messages

---

**Well diversified and highly cash flow generative business in an industry with attractive fundamentals**

**Striving to deliver superior investment performance with industry-leading talent and expertise**

**Trusted partner for clients with our high quality solutions, drawing on the full breadth of the firm's capabilities**

**Targeting a profit before tax of CHF 1 billion in the medium term**

# Important information related to numbers shown in this presentation

---

## **Use of adjusted numbers**

Adjusted results are non-GAAP financial measures as defined by SEC regulations. Refer to page 12 of the first quarter 2014 report and pages 76-77 of our 2013 annual report for an overview of adjusted numbers.

## **Basel III RWA, Basel III capital and Basel III liquidity ratios**

Basel III numbers are based on the BIS Basel III framework, as applicable for Swiss Systemically relevant banks (SRB). In the presentation are SRB Basel III numbers unless otherwise stated. Our fully applied and phase-in Swiss SRB Basel III and BIS Basel III capital components have the same basis of calculation, except for differences disclosed on page 80 of the 1Q14 financial report.

Basel III risk-weighted assets in the presentation are calculated on the basis of Basel III fully applied unless otherwise stated. Our RWA under BIS Basel III are the same as under Swiss SRB Basel III.

Leverage ratio and leverage ratio denominator in this presentation are calculated on the basis of fully applied Swiss SRB Basel III, unless otherwise stated.

From 1Q13 Basel III requirements apply. All Basel III numbers prior to 1Q13 are on a pro-forma basis. Some of the models applied when calculating pro-forma information required regulatory approval and included estimates (discussed with our primary regulator) of the effect of these new capital charges.

Refer to the "Capital Management" section in the 1Q14 financial report for more information.

## **Currency translation**

Monthly income statement items of foreign operations with a functional currency other than Swiss francs are translated with month-end rates into Swiss francs. Refer to "Note 36 Currency translation rates" in the 2013 Annual Report for more information.

## **Performance targets**

Unless otherwise stated, performance targets exclude, where applicable, items considered non-recurring and certain other items that management believes are not representative of the underlying performance of our businesses, such as own credit gains and losses, restructuring-related charges and gain and losses on sales of businesses and real estate. Additionally, where applicable, performance targets assume constant foreign currency translation rates.

## **Rounding**

Numbers presented throughout this presentation may not add up precisely to the totals provided in the tables and text. Percentages, percent changes and absolute variances are calculated based on rounded figures displayed in the tables and text and may not precisely reflect the percentages, percent changes and absolute variances that would be derived based on figures that are not rounded.