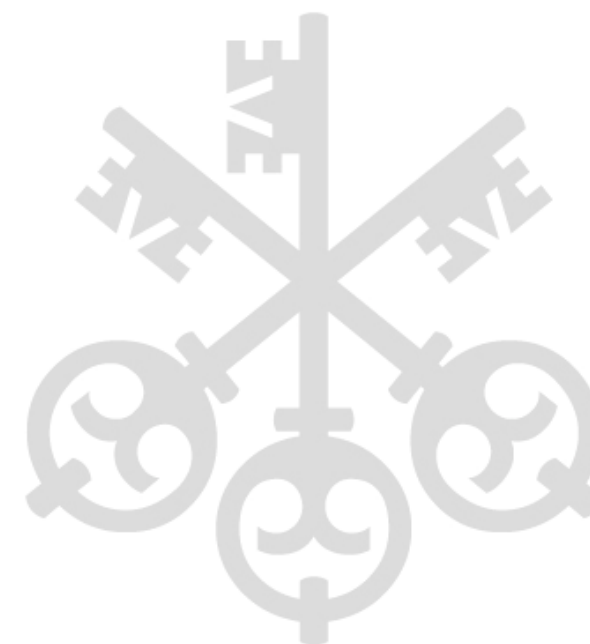


# Global convertible bonds

Uli Sperl, CFA

*Senior Portfolio Manager*



## Section 1

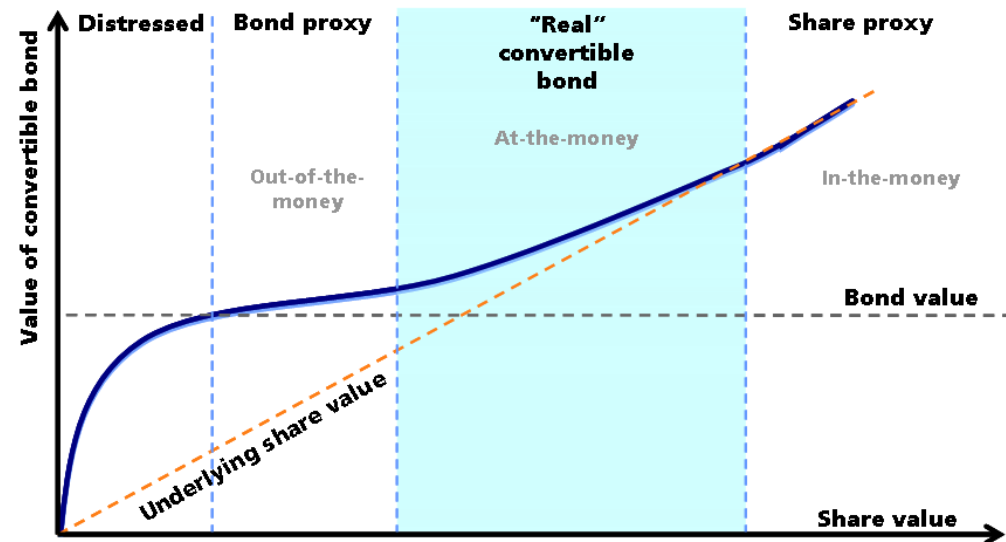
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# Asset Class

# Convertible bonds: The best of both worlds?

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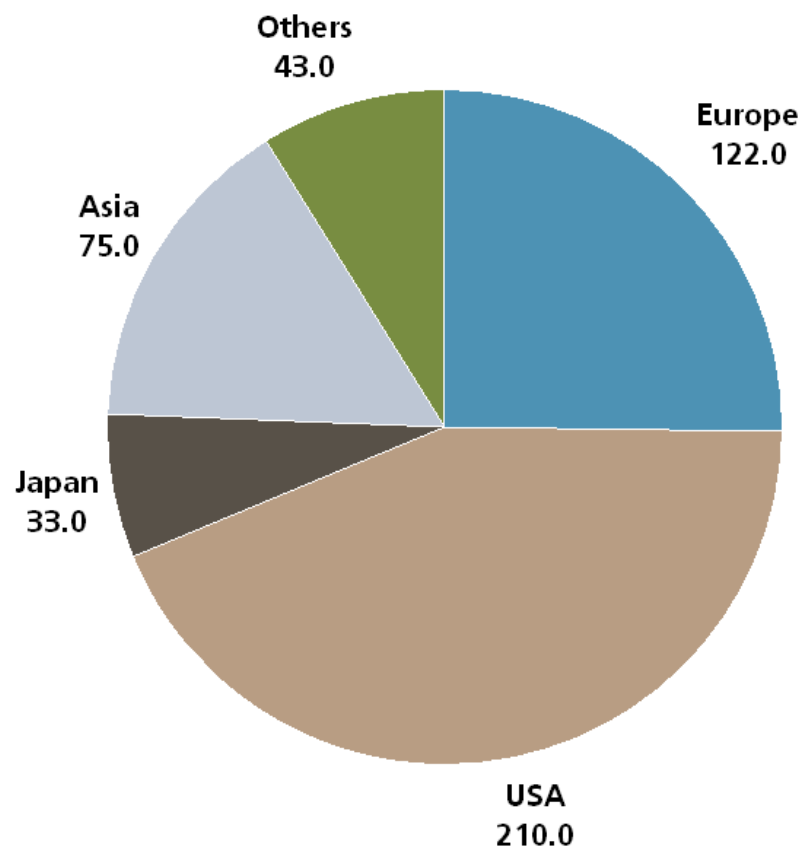
- Convertible bonds are fixed-income instruments that pay a coupon and can be redeemed at a predetermined price at maturity
- Prior to maturity, the investor may exchange a convertible bond for a predetermined number of shares
- When the stock markets are performing well, the convertible bond will behave like an equity share, and the probability of conversion will increase
- When the stock markets are performing badly, the convertible bond will behave like a straight bond, and the probability of conversion will fall



Note: For illustration purposes only

# Global Convertible Bond Market

## Capitalization by region

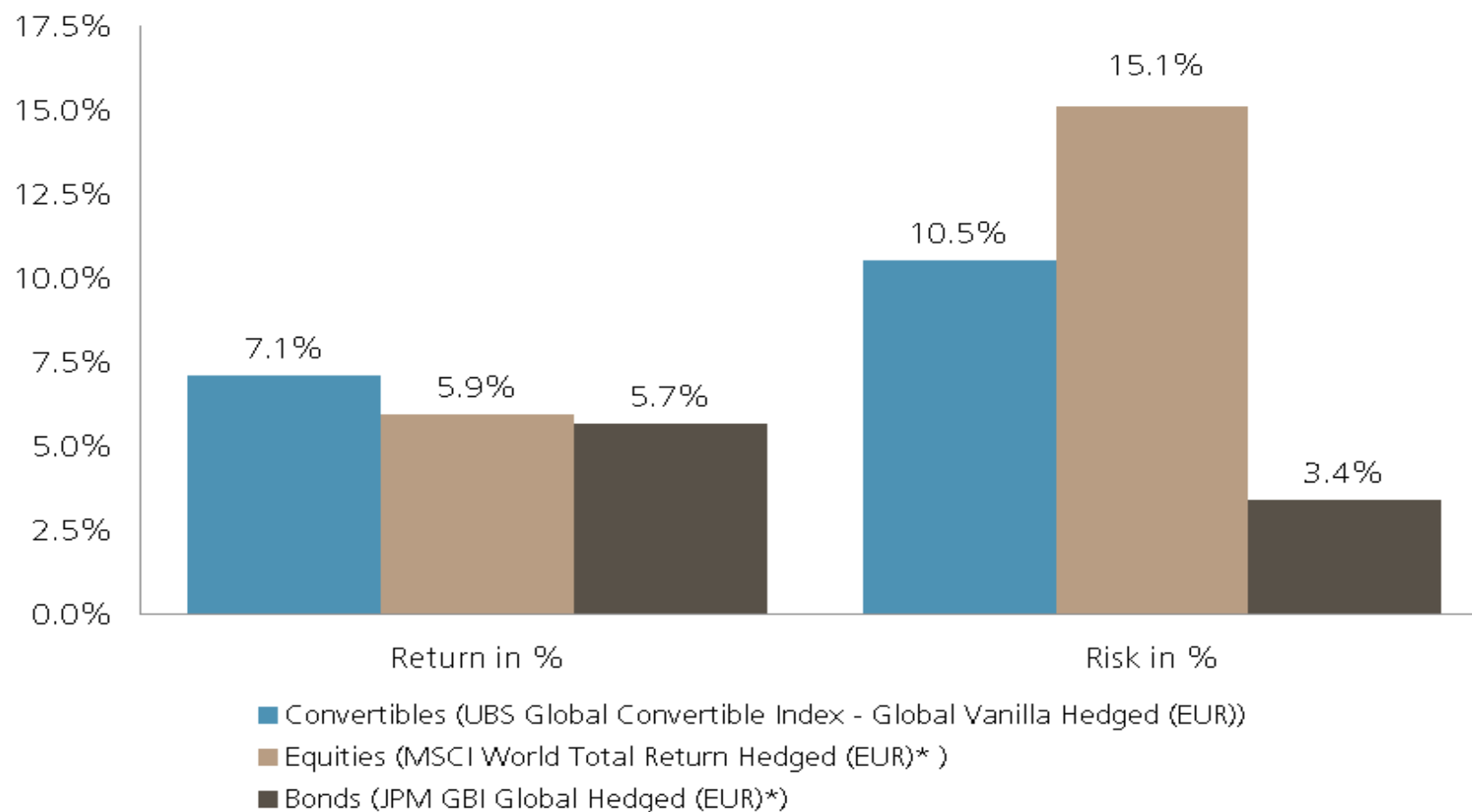


- Total = USD 483 billion
- 2084 issues
- US the largest market
- Asia & Europe were the most active with new issues in the past 2 years
- Broadly diversified by sector and countries

Source: UBS Investment Bank  
Data: as at 31. December 2012

# The multi-asset angle: Attractive risk/return attributes

## Global Convertibles hedged in EUR 1994 – 2013



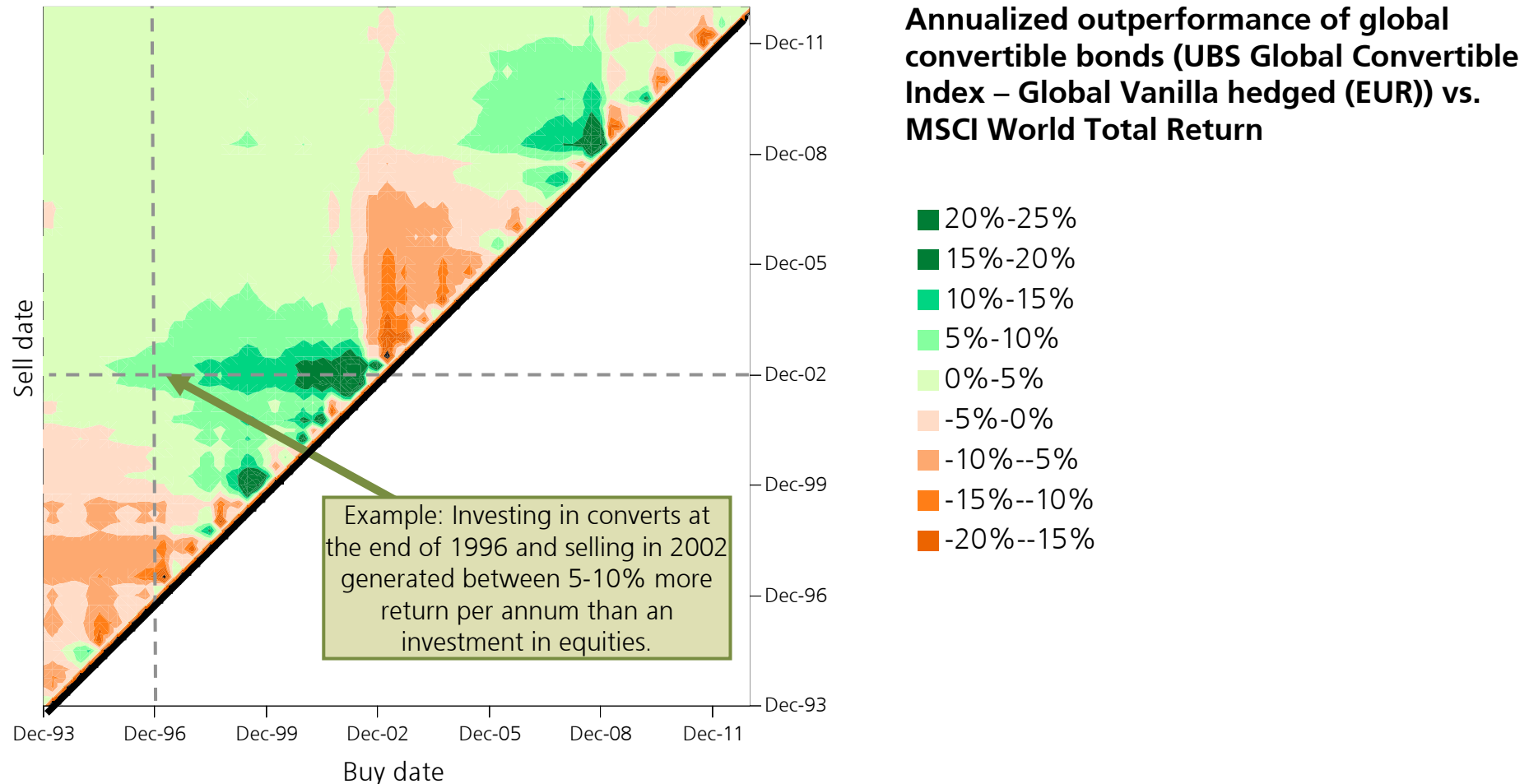
Source: Bloomberg, UBS Global Asset Management, \* currency hedged returns based on own calculations

Data: as of 28 February 2013

These figures refer to the past. Past performance is not a reliable indicator of future results

# The multi-asset angle: relative performance vs equities

## Many periods of outperformance with much less risk



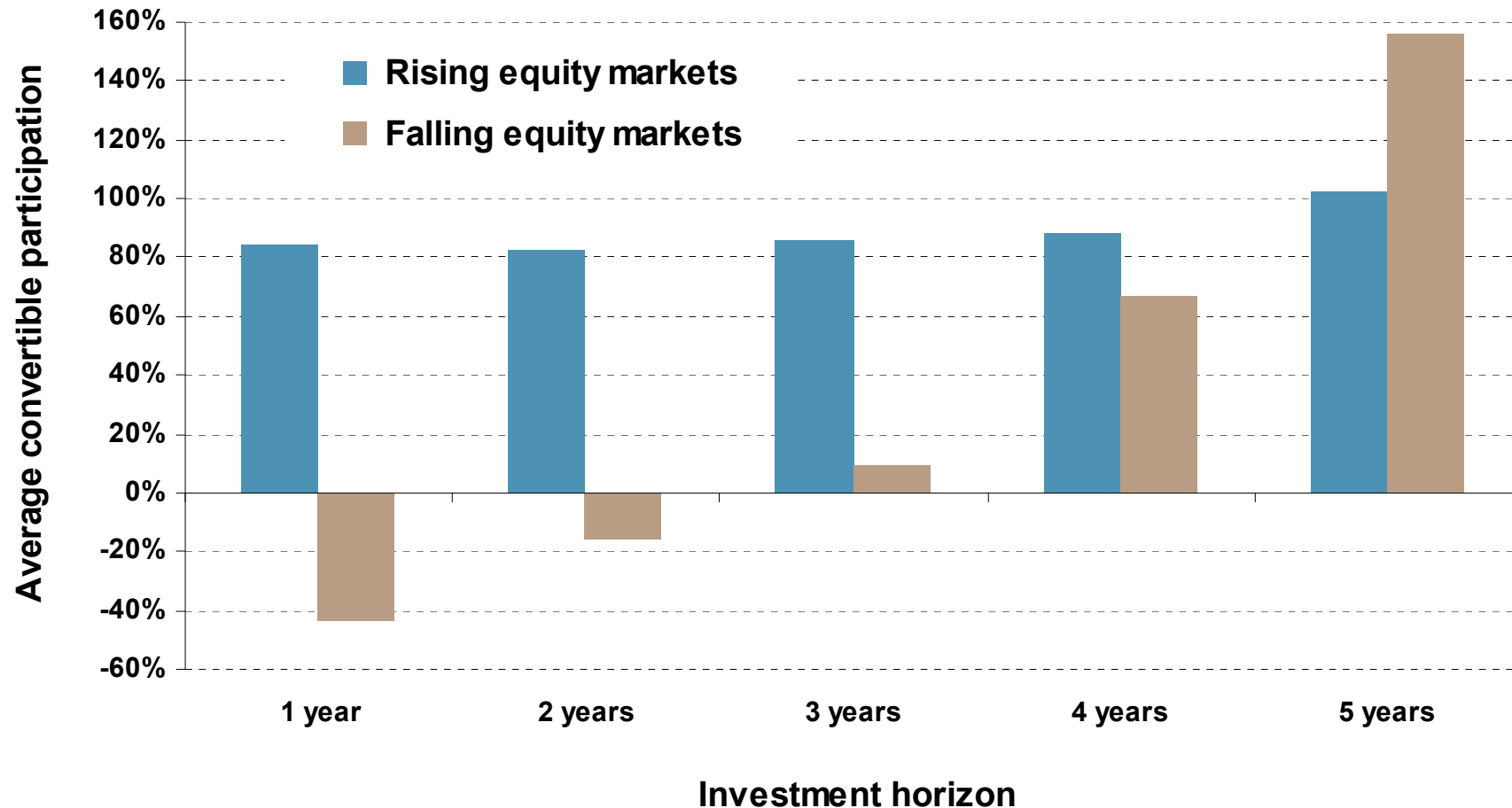
Source: Bloomberg, UBS

Data: as of 31 December 2012

These figures refer to the past. Past performance is not a reliable indicator of future results.

# Global CBs 1994-2013: patience pays out

Convertibles<sup>1</sup> are a defensive way to gain equity<sup>2</sup> exposure



<sup>1</sup> MSCI World Total Return Hedged (EUR)\*

<sup>2</sup> UBS Global Convertible Index - Global Vanilla Hedged (EUR)

Source: Bloomberg, UBS, as of 28 February 2013

\* Internal calculations

Past performance is no guarantee of future trends.

# Convertible bond asset class

---

## Why should the risk / return stay that attractive?

- Recurrent value added due to under-priced new issues
- Recurrent value added due to “suboptimal” call exercises by issuers
- Very good protection of optionality against corporate actions (takeover, dividends)
- Optionality often priced with high stock borrow which favours outright investors








- Attractive risk/reward
- Convertible arbitrage a very successful hedge fund strategy



# Main performance drivers – market outlook

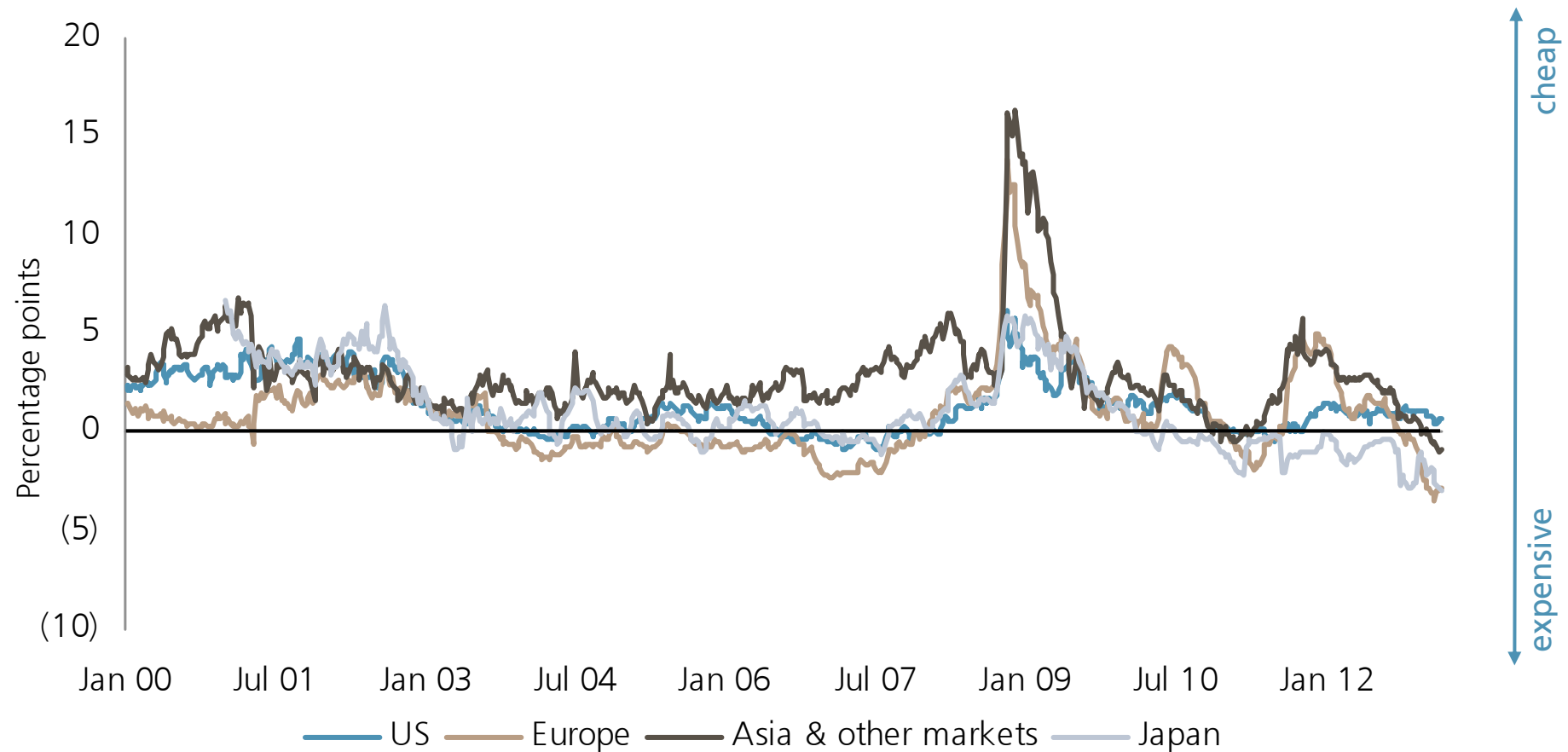
## Current outlook – A strategically attractive asset class back into balance

		Expected impact on CB market
<b>Equity markets</b> (equity component)	<ul style="list-style-type: none"> <li>We believe equity markets are fairly valued from a fundamental point of view</li> <li>Many convertible bonds convert into shares with high alphas</li> <li>Current convertible market sensitivity is +/- 3.9% for +/- 10% equity move</li> </ul>	
<b>Interest rates</b> (duration component)	<ul style="list-style-type: none"> <li>Rates may increase from current levels, negatively impacting performance</li> <li>Convertible market exposure to interest rates is quite low</li> <li>Current convertible market sensitivity is +/- 1.6% for +/- 1% yield change</li> </ul>	
<b>Credit Spreads</b> (credit component)	<ul style="list-style-type: none"> <li>Credit spreads are still trading on attractive levels even after the latest tightening</li> <li>Even without further tightening convertible bonds would earn a nice yield carry currently</li> <li>Diversification of credits remains key</li> </ul>	
<b>CB market specific factors</b>	<ul style="list-style-type: none"> <li>The overall CB market trades around fair value. Inexpensive valuations are most pronounced in smaller, less well known, more complex, less liquid, sub IG issues</li> <li>Primary markets to remain active</li> <li>Investor demand for the asset class feels healthy at the moment</li> </ul>	
		<b>Overall</b> 

This information represents the views of UBS Global Asset Management as of March 2013. While these forward-looking statements represent our judgments and future expectations concerning the development of our business, a number of risks, uncertainties and other important factors could cause actual developments and results to differ materially from our expectations.

# Global theoretical convertible bond valuations

## Back to theoretical fair value



Data as at end-February 2013, these figures refer to the past. Past performance is not a reliable indicator of future results.  
Source: BofA Merrill Lynch Global Research

## Section 2

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# Convertible Bonds at UBS Global Asset Management

# UBS Global Asset Management

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## Your partner for convertible bonds

- One of Europe's largest convertible bond manager (currently roughly 3.1 bn EUR under management)
- Excellent long term track record in Europe, Asia and Global rewarded by several "Lipper" and "Euro am Sonntag" fund awards as well as with a AA Citywire rating.
- Stable management team with a long investment experience in convertible bonds
- Team can leverage UBS Global Asset Management's resources across equity, credit, derivative and asset allocation
- Broad global market network which the team can access for valuable insights, liquidity, new issues

Data: As of March 2013

# Convertible bond – investment process

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## Our main goals

- **Give access** to the convertible bond asset class
  - Benefit from its long term attractive risk/reward characteristics
  - Making use of our privileged access to a stream of attractively priced new issues
  - Benefit from opportunities across regions, credit quality, structures
  - Offer regional as well as global portfolios
- **Add value** with active portfolio management
  - Leveraging UBS Global Asset Management global research platform
    - Equities
    - Fixed income & Credit
    - Derivatives & Convertible bond specific
    - Asset Allocation & Currencies
  - Strong risk management infrastructure

# Convertible bond – investment process

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## Main steps

- **Bottom up** convertible bond selection based on
  - Underlying equity view
  - Issuer credit view
  - Convertible bond theoretical valuation as well as specific terms and conditions
  - Bond risk/reward profile

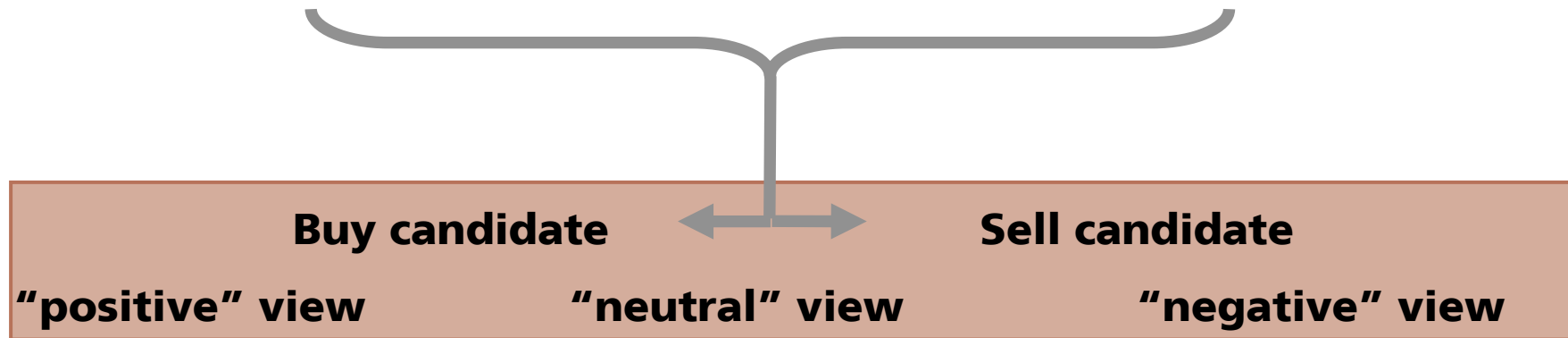
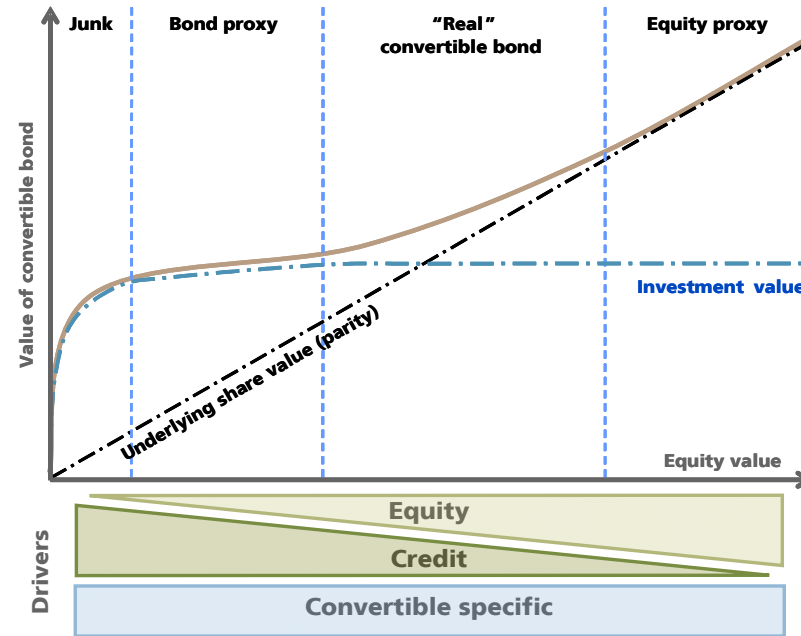
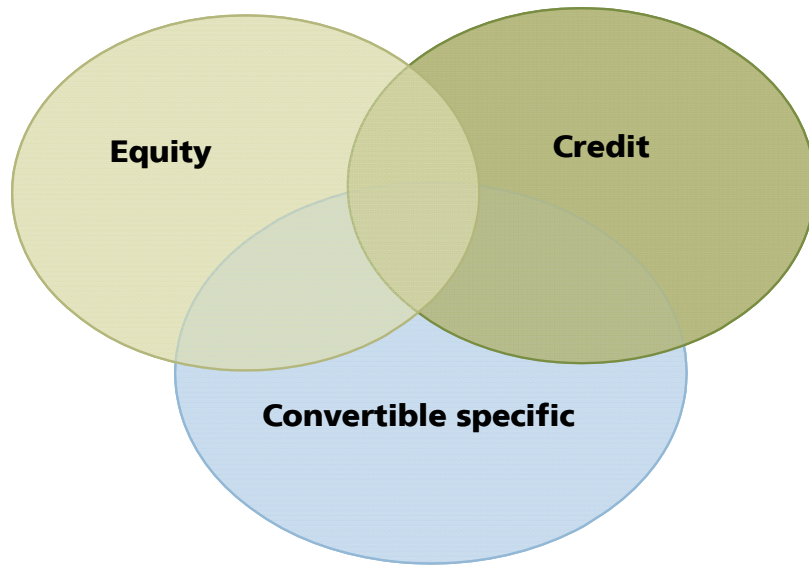
Choosing the most attractive bonds

- **Portfolio construction** taking into account
  - Risk and factor exposures
  - Asset allocation and currency views
  - Characteristics of the portfolio

Combining them into an attractive portfolio

# Bringing it all together

Our views on the drivers are weighted by their importance



Note: For illustration purposes only

# What we do and what we don't do

---

## *We do*

- Select bonds in a bottom up perspective
- Set strategies in absolute terms
- Look at all available opportunities (equity, credit, sector, geography, structure) thanks to our broad research
- Leverage our internal research
- Tend to like convexity ("real"/balanced convertibles)
- Use a comprehensive database to monitor the entire convertible bond universe
- Invest in a long only way
- Have a strong focus on risk & diversification
- Have a long term investment horizon
- Maintain strong relations with relevant counterparties

## *We don't*

- Buy bonds just because they are in a benchmark
- Buy overpriced positions just because they are "defensive"
- Buy overpriced positions just because they are investment grade
- Buy overpriced positions just because of liquidity
- Arbitrage bonds valuation anomalies
- Buy or sell stocks or equity futures as their risk profile is linear
- Set a top down strategy and then fill it up with bonds
- Build up cash as a tactical position
- Take significant currency bets



## Section 3

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# Performance & Positioning

# Track Record

## Global Composite

Composite	Global Convertible Bonds (Hedged in EUR)(GLCONVHEUR )
Primary Benchmark	UBS Glb Convertible Index - Glb Vanilla hdg in EUR (BAS.DS.028699.N)
Inception Date	31-MAY-2006
Reporting Currency	EUR (EURO)

	Month	Last Three Months	Year to Date	Annualized								<sup>1</sup> Since Inception
				One Year	Two Years	Three Years	Four Years	Five Years	Ten Years	Fifteen Years	Twenty Years	
<b>Composite (Gross of Fees)</b>	0.89	5.93	3.91	10.14	3.26	7.50	17.17	5.74	-	-	-	5.91
Primary Benchmark	0.78	5.40	3.36	8.92	3.47	7.09	14.19	4.58	-	-	-	5.09
Value Added <sup>2</sup>	0.12	0.52	0.55	1.23	-0.21	0.40	2.97	1.16	-	-	-	0.83
Standard Deviation <sup>3</sup>												
Composite				6.31	9.92	10.06	10.94	15.03	-	-	-	13.20
Primary Benchmark				5.41	8.63	8.84	9.32	13.38	-	-	-	11.91
Tracking Error <sup>4</sup>				1.42	2.00	1.86	2.20	2.72	-	-	-	2.48
Information Ratio <sup>5</sup>				0.87	-0.11	0.22	1.35	0.43	-	-	-	0.33

<sup>1</sup> Periods greater than 1 year are annualized.

<sup>2</sup> Value added is the arithmetic difference between the composite return and the benchmark return.

<sup>3</sup> For periods greater than 1 year, the annualized standard deviation is based on monthly logarithmic returns.

<sup>4</sup> Tracking error is the standard deviation of the difference between the monthly composite and benchmark returns, based on logarithmic returns. Tracking error is annualized for periods greater than one year.

<sup>5</sup> Information ratio is the arithmetic value added divided by the tracking error. For periods greater than one year, annualized returns are used to calculate the value added and the tracking error.

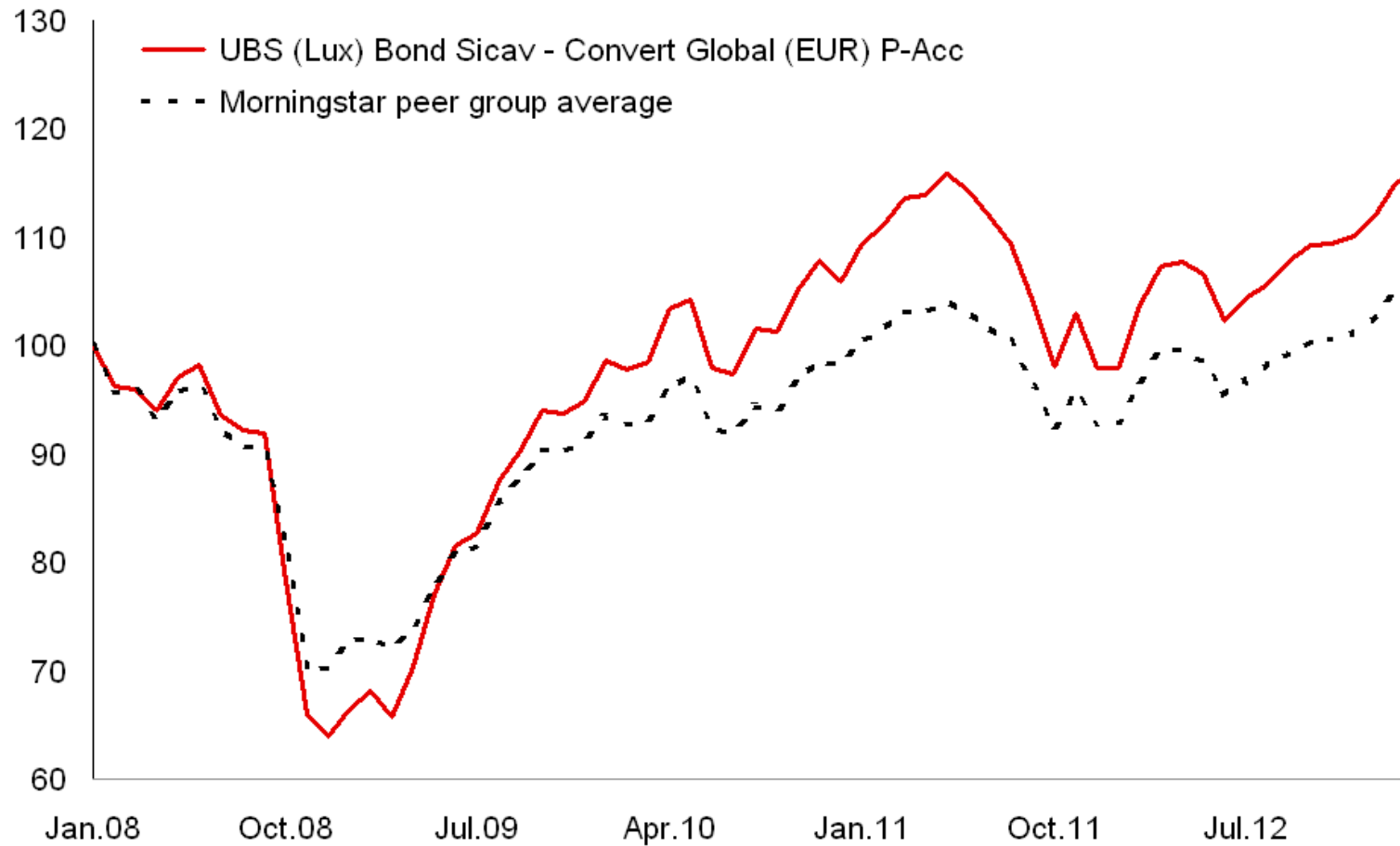
Source: UBS Global Asset Management

Data as of 28 February 2013

These figures refer to the past. Past performance is not a reliable indicator of future results.

# Track Record

## Performance vs. Morningstar peer group average



Data as at end-February 2013, these figures refer to the past. Past performance is not a reliable indicator of future results.  
Source: Morningstar

# UBS Global Convertible Bond Fund: value added versus peers I

## UBS (Lux) Bond Sicav – Convert Global (EUR) P-Acc

### ... versus BNP Paribas Convertible

Time Period: 01.03.2010 to 28.02.2013

Currency: Euro

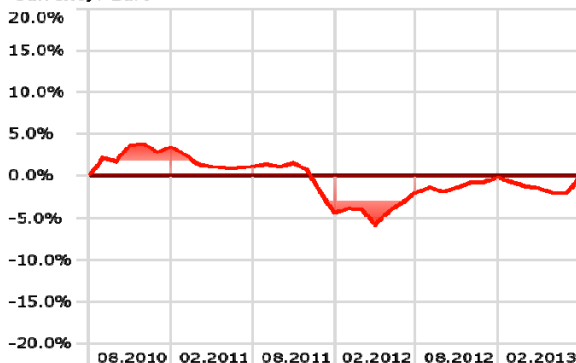


UBS (Lux) BS Convrt Gbl EUR Hdg P-acc BNPP \_1 Conv Bd World C C

### ... versus BlueBay Global Convertibles

Time Period: 01.03.2010 to 28.02.2013

Currency: Euro



UBS (Lux) BS Convrt Gbl EUR Hdg P-acc BlueBay Global Convert Bd R €(Div) Dis

### ... versus DWS Invest Convertibles

Time Period: 01.03.2010 to 28.02.2013

Currency: Euro



UBS (Lux) BS Convrt Gbl EUR Hdg P-acc DWS Invest Convertibles NC

### ... versus Jefferies Global Convert

Time Period: 01.03.2010 to 28.02.2013

Currency: Euro

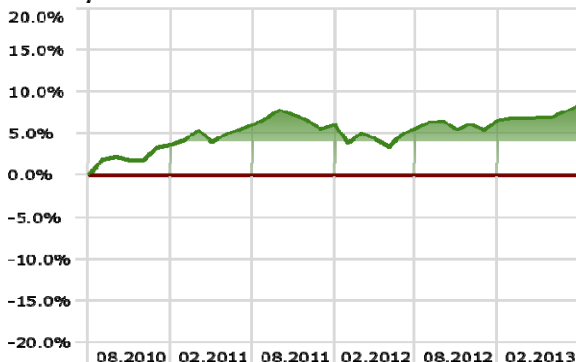


UBS (Lux) BS Convrt Gbl EUR Hdg P-acc Jefferies Global Convert Bond B EUR Hdgd

### ... versus JPM Global Convert

Time Period: 01.03.2010 to 28.02.2013

Currency: Euro



UBS (Lux) BS Convrt Gbl EUR Hdg P-acc JPM Global Convert EUR A EUR Acc

### ... versus Julius Baer Global Convert

Time Period: 01.03.2010 to 28.02.2013

Currency: Euro



UBS (Lux) BS Convrt Gbl EUR Hdg P-acc JB BF Global Convert EUR B

Source: Morningstar, as of 28 February 2013

These figures refer to the past. Past performance is not a reliable indicator of future results.



# UBS Global Convertible Bond Fund: value added versus peers II

## UBS (Lux) Bond Sicav – Convert Global (EUR) P-Acc

### ... versus Lombard Odier Convertible

Time Period: 01.03.2010 to 28.02.2013

Currency: Euro



— UBS (Lux) BS Convrt Gbl EUR Hdg P-acc — LO Funds - Convertible Bond (EUR) P A

### ... versus Man Convertibles Global

Time Period: 01.03.2010 to 28.02.2013

Currency: Euro



— UBS (Lux) BS Convrt Gbl EUR Hdg P-acc — Man Convertibles Global EUR D

### ... versus Morgan Stanley Global Conv.

Time Period: 01.03.2010 to 28.02.2013

Currency: Euro



— UBS (Lux) BS Convrt Gbl EUR Hdg P-acc — MS INVNT Gbl Conv Bond All Acc

### ... versus M&G Global Convertibles

Time Period: 01.03.2010 to 28.02.2013

Currency: Euro



— UBS (Lux) BS Convrt Gbl EUR Hdg P-acc — M&G Global Convertibles Euro A

Source: Morningstar, as of 28 February 2013

These figures refer to the past. Past performance is not a reliable indicator of future results.



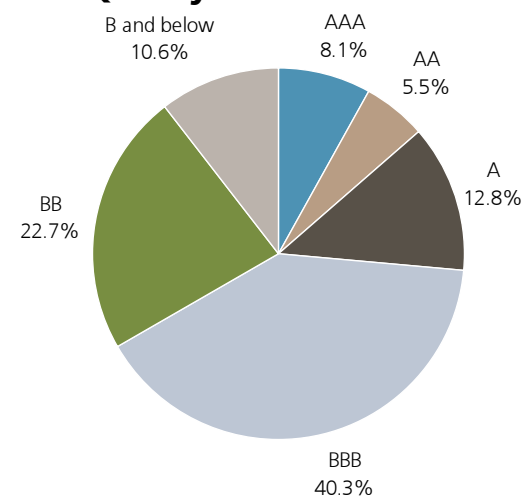
# UBS (Lux) Bond Sicav – Convert Global (EUR)

## Characteristics

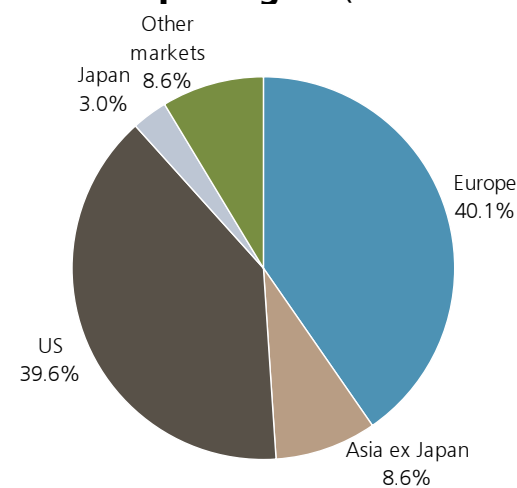
	Fund	Benchmark
Average delta	37.1%	39.1%
Average equity premium	122.2%	81.6%
Average premium to inv. value	19.8%	27.0%
Average effective duration	1.07	1.60
Average running yield	2.8%	2.3%
Average yield to worst	-1.8%	-4.1%
Average life in years	6.28	6.98
Average weighted credit rating <sup>1)</sup>	BBB	BBB
Number of bonds	126	369
Profile	Balanced	Balanced

<sup>1)</sup> assuming a linear relationship between different credit ratings

## Credit Quality



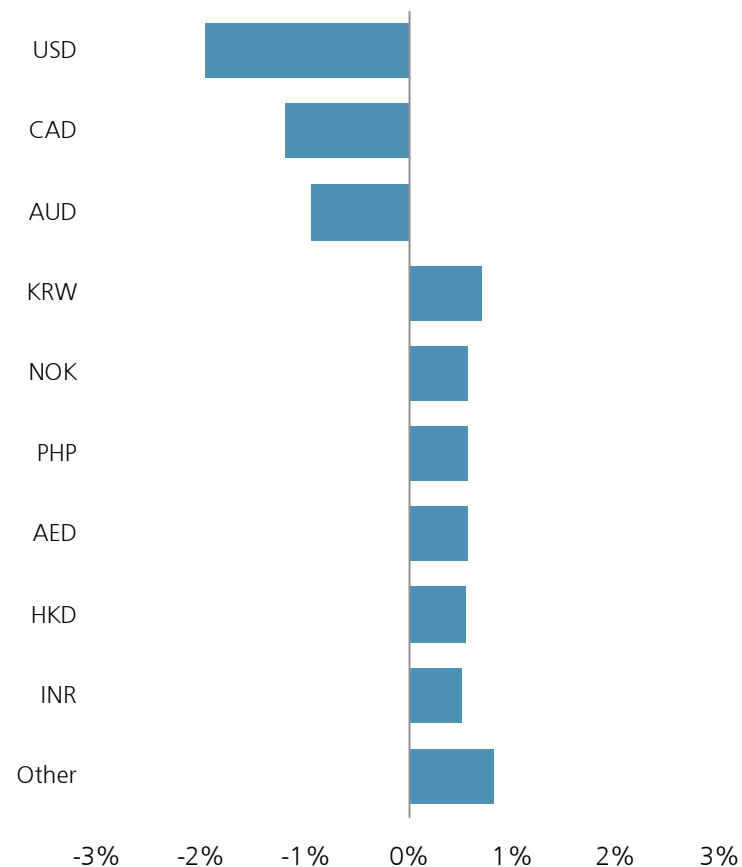
## Breakdown per region (based on underlying equity)



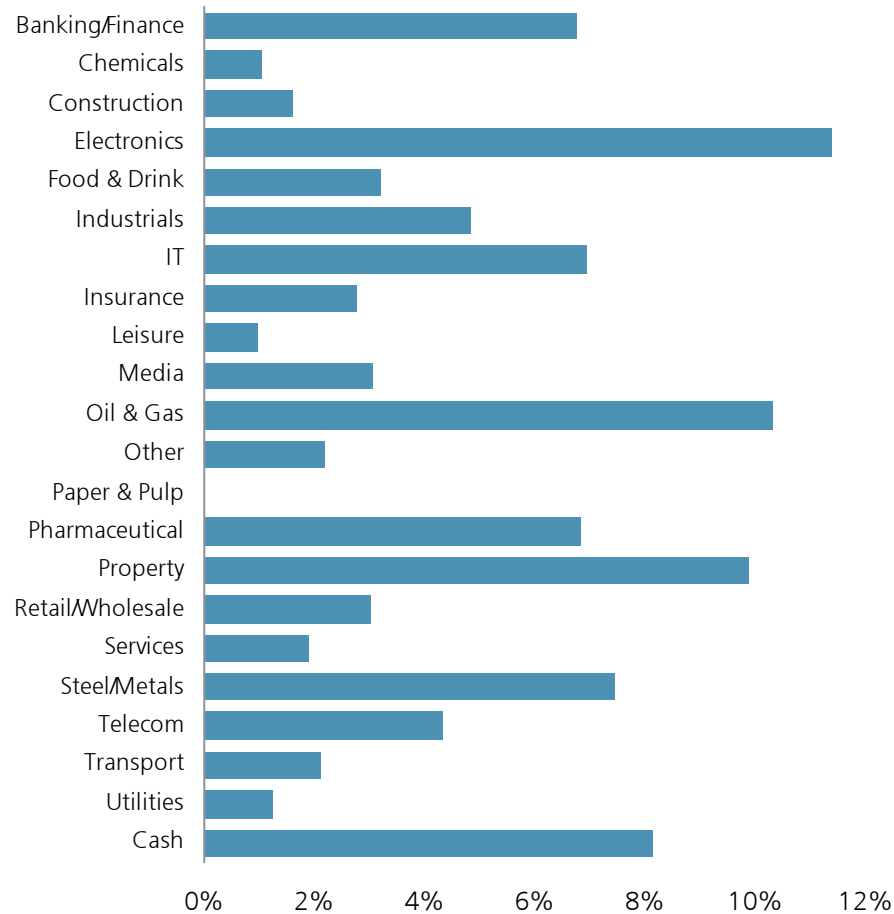
Data as at end-February 2013, fund exposures refer to share class P-acc  
Source: UBS Global Asset Management

# UBS (Lux) Bond Sicav – Convert Global (EUR)

## Currency Exposure (EUR exposure: 99.8%)



## Sector allocation (based on underlying equity)



Data as at end-February 2013, fund exposures refer to share class P-acc  
 Source: UBS Global Asset Management

## Section 4

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# Summary



# Summary

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## UBS offers a first class vehicle to invest into an interesting asset class

The convertible bond market

- offers a **defensive** way to get equity exposure
- delivers a very **attractive return for the risk taken** over the cycle
- is experiencing a continuous flow of **attractively priced new issues**
- has the advantage of a bond: mechanical **reversal to fair value at maturity**

By investing in UBS convertible bond funds

- you build up **pure exposures** to the convertible bond asset class
- you access an **award-winning track record** managed by a **stable team**
- you enjoy a **broad diversification**
- you **leverage the broad research platform** of UBS Global Asset Management

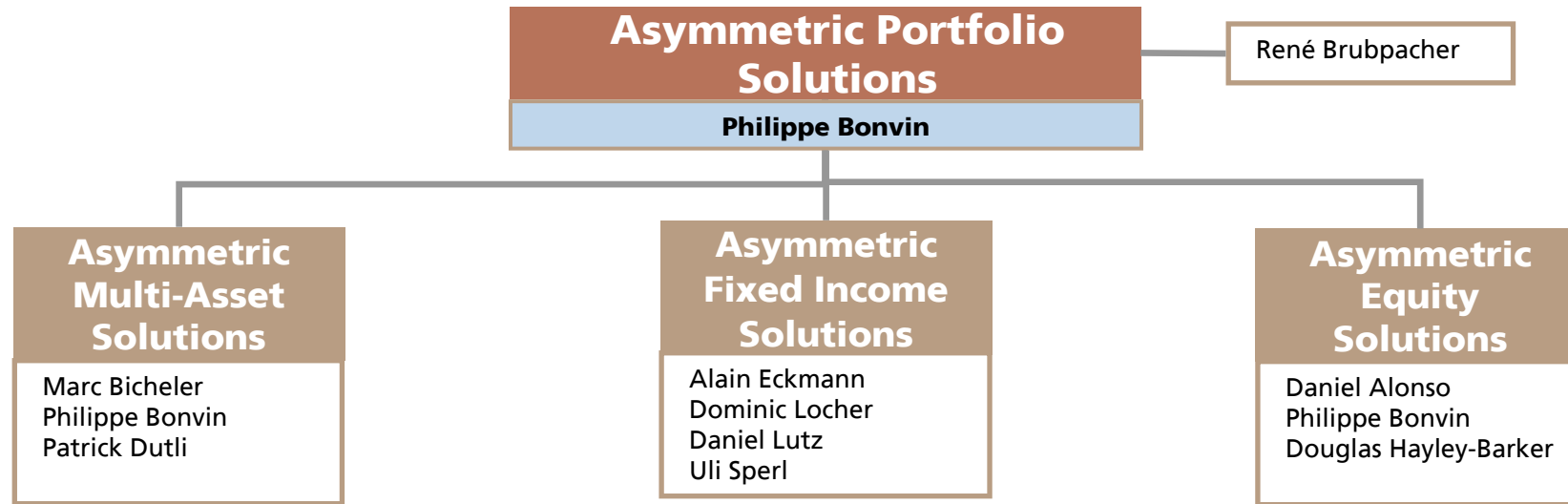
## Section 5

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# Team

# Asymmetric Portfolio Solutions

The manager of and advisor for non linear investment solution



## Offered capabilities

### Active Capital Preservation

tailor made actively managed multi asset investment solutions with a predefined capital preservation level

### Total Risk Portfolios

active multi asset strategies with a clearly defined maximum risk budget (Volatility or VaR)

### Convertible Bond Portfolios

actively managed global, regional as well as tailor made convertible bond strategies

### Equity Income Solution

equity portfolios enhanced with the help of active derivative overlays (e.g. overwriting)

### Defensive Equity Portfolios

dynamic investment solution where the equity exposure is linked to market volatility

Data: as of January 2013

# Portfolio Management Team – Convertible Bonds

## Long Term Experience in Managing Convertible Bonds



Alain Eckmann, CFA  
Managing Director  
Senior Portfolio Manager

Geneva University, Master of Mathematics  
Investment Experience: 19 years,  
with UBS for 16 years



Dominic Locher, CFA  
Associate Director  
Associate Portfolio Manager

FHNW Zurich, MAS Banking & Finance  
Investment Experience: 4 years,  
with UBS for 7 years



Daniel Lutz  
Associate Director  
Senior Portfolio Manager

HWZ Zurich, Bachelor of BA  
Investment Experience: 12 years,  
with UBS for 16 years



Uli Sperl, CFA  
Executive Director  
Senior Portfolio Manager

Munich University, Master of Economics  
Investment Experience: 14 years,  
with UBS for 9 years

Data: as of March 2013

# Uli Sperl, CFA

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## Senior Portfolio Manager Executive Director

Years of investment industry experience: 14

Education: University of Munich (Germany), Masters degree in Economics (Diplom-Volkswirt)

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- Uli Sperl is a Senior Portfolio Manager within the Asymmetric Portfolio Solutions team. He is responsible for the management and strategy of convertible bond funds. The managed funds won several "Lipper" & "Euro am Sonntag" fund awards. His track record is rated AA at Citywire.
- He joined UBS in 2005. Before, he worked as a portfolio manager at Activest Investment in Munich. His responsibilities included global index-linked equity portfolios as well as European convertible bond portfolios.
- In 2008 Uli successfully completed the post graduate "Certified Rating Analyst" program at the Hochschule St. Gallen (HSG).
- Uli is co-author of the publication "*The benefits of convertible bonds*" and has repeatedly published on convert related matters in financial newspapers such as "NZZ" and "Finanz & Wirtschaft". In addition, he is a member of the Swiss CFA Society and of the CFA Institute.

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