

M&A investments

Systematically investing in European **takeover candidates**

Open End PERLES on the Solactive M&A Europe TR Index

Mergers and acquisitions: Various motives

Mergers and acquisitions (M&A) are a basic element of the strategy for many companies. They pursue various motives in that context: An M&A deal is just as likely to be based on a desire for external growth as the establishment of a strategic alliance or the wish to "freeze out" a competitor. From a global perspective, there have always been periods when there have been a particularly large number of mergers and acquisitions of significant size. Such boom phases were frequently linked with a friendly market and economic environment. For example in the year 2000, global M&A volume reached a record high of USD 941 billion, according to figures from Dealogic.

M&A strategy: Investors lying in wait

When the euphoria surrounding the New Economy evaporated and there was a correction on the equity markets, M&A deals also crashed. But the appetite for takeovers has long since reawakened and global volumes have been maintained at a high level for years. There is also great interest in this market among investors. As soon as a company comes into the sights of a buyer or possible merger partner, the share price usually rises strongly. A prime example comes from Switzerland: At the end of January 2017, US consumer goods giant Johnson & Johnson made a takeover bid for Actelion. The purchase price of CHF 280 per share in the biotech company was 23 percent above the last stock market price before the offer. Against this background, it is no surprise that many investors are constantly on the lookout for potential targets. In this way, they hope to pick up some lucrative M&A premia. However, it is far from easy to distinguish between the frequent takeover rumors and substantial news. Additionally, this approach requires a lot of patience.

Index methodology: Multi-stage selection process

The Solactive M&A Europe Total Return (TR) Index approaches this exciting investment theme using a systematic, rule-based method. The experienced service provider Solactive AG launched the benchmark in April 2016, defining a clear objective: Investors are to be given the opportunity to allocate their capital to a basket of 40 European stocks which are interesting candidates for takeover because of their relative undervaluation. To be considered for selection, a company has to meet several criteria. Firstly, the method stipulates an average daily share



SSPA product type

Tracker certificates (1300)

Currency	Valor	SIX Symbol
EUR	33482976	MANDAU

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trading volume of at least five million euros over the last six months. At the same time, the market capitalization has to be within a range of 50 million to 20 billion euros.

Quality features: Focus on valuation

All the securities that make it through this preliminary selection process are checked against known stock market indicators. For example, the average of the analysts' forecasts for the profits per share with regard to the next fiscal year (FY1 IBES EPS) must be positive. The same applies to the price to book value (P/BV) and the one-year sales growth. Any securities that are overvalued in relation to their sector in terms of the P/BV are left out of the reckoning. The same applies to companies for which the average EPS estimate is below the sector median. Of the remainder, the 40 companies with the strongest sales growth go into the index, equally weighted. To ensure that the measure takes the dynamics of the M&A business into account, Solactive performs a quarterly check and makes any necessary adjustments – restoring the balance in the process.

The product solution

A single transaction is all it takes to participate cost-effectively in a targeted M&A strategy, diversified across Europe and regularly adjusted, with the UBS Open End PERLES on the Solactive M&A Europe TR Index. The product mirrors the underlying asset one-to-one after deduction of the management fee of 0.75 percent, with no term restriction. Any net dividends of the index members are reinvested.

Opportunities

- Equity-linked participation in potential takeover candidates from Europe, which are relatively undervalued.
- Transparent, multi-stage selection process, in which both quantitative and qualitative criteria are taken into account.
- Diversified index portfolio – both in terms of region and sector.
- Dynamic index concept with quarterly rebalancing.
- Net dividends of index members are re-invested.
- Index composition, monitoring and calculation by the experienced service provider, Solactive AG.
- Tradable every trading day under normal trading conditions.
- No fixed term restriction.

Risks

- No capital protection: investors run the risk of losing their investment if the price of the underlying index worsens.
- Investors bear the issuer risk and could lose their investment if the issuer files for bankruptcy.
- The issuer intends to ensure liquidity in normal market phases on trading days. However, investors should realize that they may not be able to buy/sell the product at any point in time.
- As the stocks included in the index may be listed in different currencies and the product does not have any currency hedges, the investor may also be exposed to an exchange rate risk, which may adversely affect the value of the product.
- The issuer has the right to terminate the product if certain conditions are met.

Open End PERLES in EUR

Underlying	Solactive M&A Europe Total Return Index
Conversion ratio	1:1
Management fee	0.75% p.a.
Issue day	22 August 2016
Issue price	EUR 177.30
ISIN	CH0334829766
SIX symbol	MANDAU

Investor profile

Solutions for investors with experience in stock market topics and structured products and with a medium to increased risk tolerance who would like to participate in the performance of the equities included in the index at little capital and administrative expense.

For other products and information on opportunities and risks visit: ubs.com/keyinvest

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