

Timing the easy way

UBS RADA Strategy Indices with **dynamic positioning**

ubs.com/rada-ch



Dynamic

The **challenge** on the stock exchange

The more frequent occurrence of crises since the beginning of the new millennium has fundamentally changed investment approaches on the stock exchange. The time-honoured 'buy and hold' strategy is becoming more and more questionable. At least in the past decade, long-term holding of

investments only to survive supposedly temporary price losses has mostly not yielded positive returns. Therefore, new investment approaches are needed to accommodate this changed investment environment more effectively.

Sophisticated

The **timing approach** of the UBS RADA Strategy

The UBS Risk Adjusted Dynamic Alpha ('RADA') Strategy Open End PERLES respond to this new challenge on the equity markets with a flexible timing approach. The UBS RADA Strategy Index does not merely invest in the respective underlying target index such as DAX™, EURO STOXX 50™ or S&P 500™ but, depending on the market phase, automatically decides whether to establish a long, short or cash position.* While a long position assumes an upward trend of the underlying target index (positive equity market environment), a short position makes use of the downward trend of the underlying target index (negative equity market environment). A neutral cash position means staying clear of the equity market and investing in the money market.

In this way, it is possible to effectively counteract the risks of changing equity markets. The rule-based market positioning of the respective UBS RADA Strategy Index is based on the UBS Dynamic Equity Risk Indicator ('UBS DERI'), which was developed by UBS Investment Bank Research – a unit that is independent from other business areas – on the basis of statistical methods in order to achieve higher and more consistent yields compared to a direct investment in the equity market.

Compared with the other RADA certificates, the Open End PERLES on the UBS Global Emerging Markets (GEM) RADA Strategy Index uses a modified DERI Indicator and an adapted investment logic. This strategy is therefore described separately from page 12 onwards.

Versatile

Open End PERLES – our product solution

In order to participate in one of the UBS RADA Strategy Indices, investors may choose between the following Open End PERLES:

Open End PERLES on the RADA Strategy Indices at a glance

Name	ISIN	SIX symbol	Target index	Currency	Management fee
Open End PERLES on UBS RADA Net Total Return Index on DAX™	CH0187379026	RADAD	DAX™	EUR	1,00% p.a.
Open End PERLES on UBS RADA Net Total Return Index on S&P 500™	CH0206785989	RADSP	S&P 500™	USD	1,00% p.a.
Open End PERLES on UBS RADA Net Total Return Index on EURO STOXX 50™	CH0188195264	RADAE	EURO STOXX 50™	EUR	1,00% p.a.
Open End PERLES on UBS Global Emerging Markets RADA Strategy Index*	CH0206785971	RADEM	Vanguard ETF on FTSE EM TR Index	USD	1,00% p.a.

The Open End PERLES participate on a one-to-one basis in the respective underlying UBS RADA Strategy Index and are subject to a management fee of 1 per cent p.a. In addition, they have no limited maturity.

There is no capital protection with the Open End PERLES and they are also exposed to issuer risk with the result that the invested capital may be lost irrespective of the development of the underlying UBS RADA Strategy Index.

* Open End PERLES on the UBS Global Emerging Markets RADA Strategy Index is described separately, from page 12 onwards.

Tried and tested

The **performance** of the UBS RADA Strategy Index

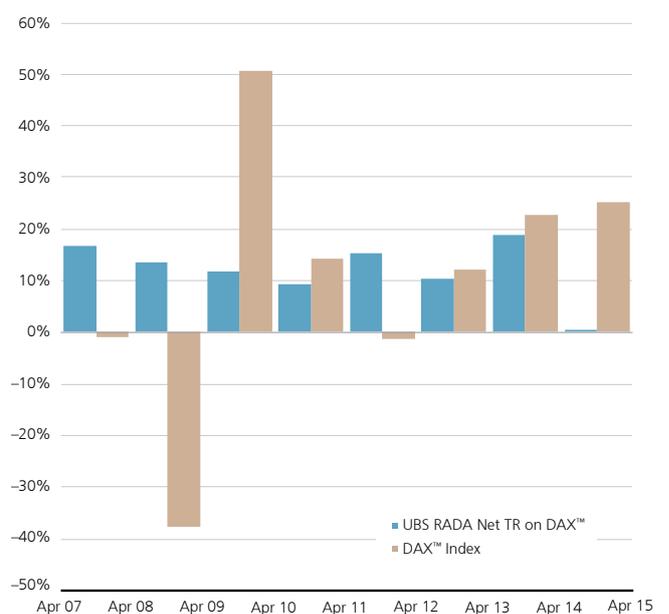
So far, the UBS RADA Strategy Indices have been able to achieve the self-defined goal of reaching more consistent returns compared to a direct investment in the equity market (measured against the respective target value). Since the indices were launched, the respective UBS RADA Strategy Index has been proven to outperform the respective benchmark index in terms of volatility. Please note that past performance is not a reliable indicator of future performance. (as of April 2015)

Historical performance UBS RADA DAX™ Index vs. DAX™



Source: Bloomberg/UBS, period: 30.04.2007 to 30.04.2015
Past performance data does not provide a reliable indication for future performance.

Annual performance UBS RADA DAX™ Index vs. DAX™



Source: Bloomberg/UBS, period: 01.04.2007 to 30.04.2015
Past performance data does not provide a reliable indication for future performance.

**UBS RADA Net Total Return Index (EUR)
on EURO STOXX 50™**

The UBS RADA Net Total Return Index (EUR) on EURO STOXX 50™ ('UBS RADA EURO STOXX 50™ Index') has been calculated and published every trading day since 4 April 2007.

Performance of the UBS RADA Net Total Return Index (EUR) on DAX™

The UBS RADA Net Total Return Index (EUR) on DAX™ ('UBS RADA DAX™ Index') has been calculated and published every trading day since 4 April 2007.

UBS RADA Net Total Return Index (USD) on S&P 500™

The UBS RADA Net Total Return Index (USD) on S&P 500™ (UBS RADA S&P 500™ Index) has been calculated and published every trading day since 4 April 2007.

UBS Global Emerging Markets RADA Strategy Index

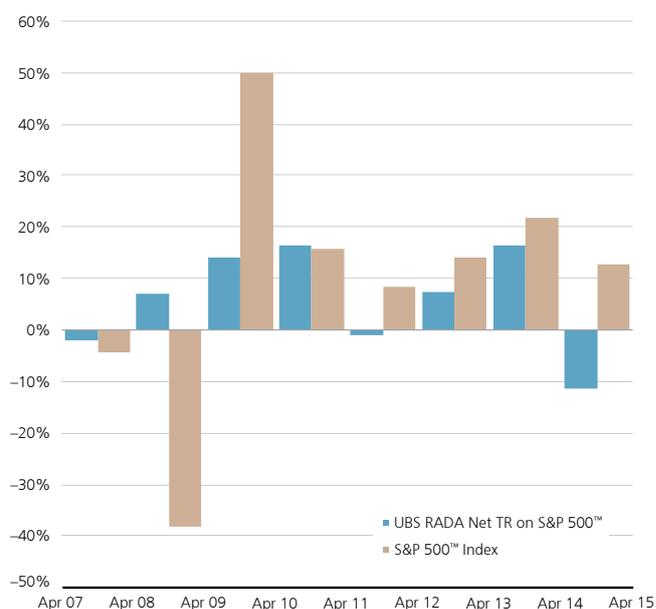
The UBS Global Emerging Markets RADA Strategy Index has been calculated and published every trading day since 14 October 2011. Due to the special features of emerging markets, this strategy differs from the other RADA strategies. The UBS GEM RADA Strategy Index is therefore described separately from page 12 onwards.

**Historical performance
UBS RADA S&P 500™ Index vs. S&P 500™**



Source: Bloomberg/UBS, period: 30.04.2007 to 30.04.2015
Past performance data does not provide a reliable indication for future performance.

**Annual performance
UBS RADA S&P 500™ Index vs. S&P 500™**



Source: Bloomberg/UBS, period: 01.04.2007 to 30.04.2015
Past performance data does not provide a reliable indication for future performance.

Convincing

The workings **in detail**

With the aid of the UBS Dynamic Equity Risk Indicator ('UBS DERI'), the respective UBS RADA Strategy Index decides which position should currently be taken in the relevant target indices (either EURO STOXX 50™, DAX™ or S&P 500™). This indicator was developed by UBS Investment Bank Research, a unit that is independent from other UBS business areas, and measures the sentiment on the global financial markets every trading day. To this end, the UBS DERI indicator uses selected benchmarks that have been condensed into one number according to certain statistical methods. In this way, the UBS DERI indicator offers a simplified and concentrated indication of the sentiment on the equity market.

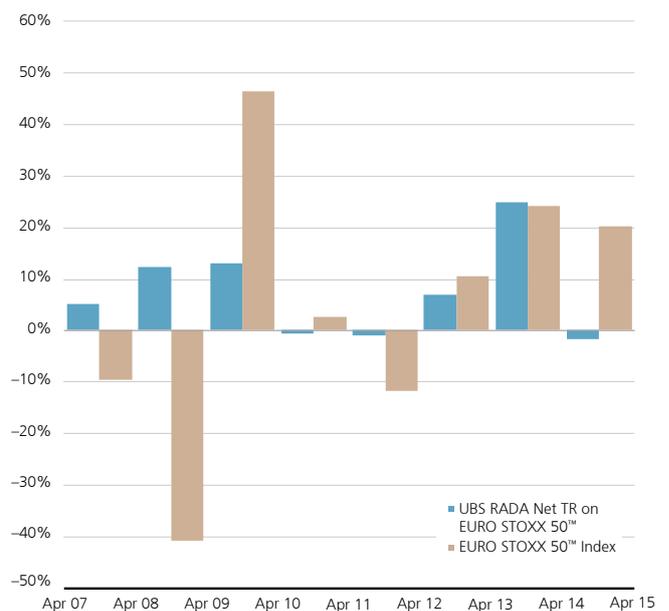
In detail, the UBS DERI indicator takes the following factors into account – in each case following statistical data preparation:

Historical Performance UBS RADA EURO STOXX 50™ Index vs. EURO STOXX 50™



Source: Bloomberg/UBS, period: 30.04.2007 to 30.04.2015
Past performance data does not provide a reliable indication for future performance.

Annual Performance UBS RADA EURO STOXX 50™ Index vs. EURO STOXX 50™



Source: Bloomberg/UBS, period: 30.04.2007 to 30.04.2015
Past performance data does not provide a reliable indication for future performance.

Price fluctuations of equity options

As a measure for implied volatility, the VIX™, which is based on CBOE options on the S&P 500™ Index, and the VDAX™, which is based on EUREX options on the DAX™, are used. As implied volatilities can significantly influence option prices, both the VIX™ as well as the VDAX™ can be regarded as an indicator of the costs (in percentages) that are required for one year to hedge a portfolio (consisting of US or German standard equities) against the systematic risk. In principle, the following applies: the higher the VIX™ or VDAX™, the higher the perceived systematic risk tends to be, the lower the risk appetite and the more negative the market sentiment (inverse relationship).

Risk premiums of corporate bonds

As a rule, corporate bonds have a greater risk of loss than US government bonds. For this reason, the yields on corporate bonds demanded by investors are usually higher than the yields on US government bonds. Therefore, the UBS DERI indicator takes into account the yield premium (risk premium) that bonds of American companies with a Moody's rating of 'BAA' (the lowest investment grade rating) have on average compared to 10-year US government bonds. In principle, the following applies: the higher the risk premium of corporate bonds, the higher the perceived issuer risk, the lower the risk appetite and the more negative the market sentiment (inverse relationship).

Swap spreads

Banks lend each other money on the interbank market by means of swap transactions. Here they agree on the interest rate of the swap that will be used until maturity of the swap transaction. The swap spread corresponds to the difference between the agreed interest rate of the swap and the yields on government bonds with the same maturity. In principle, the following tends to apply: the higher the swap spread, the higher the expected counterparty risk, the lower the risk appetite and the more negative the market sentiment (inverse relationship).

Currency fluctuations

The UBS DERI indicator takes into account volatilities that have been realized in the past with currency options. The relationships of the following currencies to the US dollar are included: the euro (until 1999, the Deutschmark), Japanese yen, Swiss franc, British pound and Australian dollar. In principle, the following applies: the higher the expected volatilities in the currency options, the higher the perceived systematic risk tends to be, the lower the risk appetite and the more negative the market sentiment (inverse relationship).

Relative development between cyclical and defensive stocks

If the majority of investors have a positive outlook on the economy, they prefer to invest in cyclical rather than defensive equities as this approach promises higher returns. For this reason, the UBS DERI indicator measures the difference in performance between cyclical and defensive stocks. Equities from the consumer durable goods industry, heavy industry, the raw materials sector and the technology industry are regarded as cyclical stocks. In contrast, defensive stocks include the consumer non-durable goods industry, the health sector, the telecommunications industry as well as the utilities sector. In principle, the following applies: the better the relative development of cyclical compared to defensive stocks, the lower the perceived systematic risk, the higher the risk appetite and the more positive the market sentiment (direct relationship).

Excess yields of investments in emerging countries that usually react sensitively to market movements ('high-beta equity regions')

During positive market phases, more and more money flows into higher-risk investment regions, such as equities from emerging countries, as market participants hope to generate higher yields here. This pro-cyclical approach tends to strengthen the fluctuation bandwidth of equity prices in these investment regions and usually ensures a high 'beta'. In this case, the beta shows how strongly a country index fluctuates compared to the global equity market. The UBS DERI indicator thus measures the excess yield between high-beta equity regions and a global equity portfolio. In principle, the following applies: the higher this excess yield, the lower the perceived systematic risk, the higher the risk appetite and the more positive the market sentiment (direct relationship).

Excess yields of investments in speculative sectors that usually react sensitively to market movements ('high-beta equity sectors')

The principles that apply to countries also apply to sectors. The UBS DERI indicator thus also measures the excess yield between high-beta equity sectors and a global equity portfolio. In principle, the following applies: the higher this excess yield, the lower the perceived systematic risk, the higher the risk appetite and the more positive the market sentiment (direct relationship).

Equity market momentum

The momentum of the equity market is measured using the MSCI AC World Index compared to its 200-day moving average. Equities in the traditional sense of finance are regarded as a risky asset class. A value of more than '1' indicates that the index is above average, while a value of less than '1' indicates that the index is below average. In principle, the following applies: the higher the index is above its average (i.e. the more the equities recently increased), the lower the perceived systematic risk, the higher the risk appetite and the more positive the market sentiment (direct relationship).

Reliable

The market positioning follows **clear rules**

Using the following method, the level of the UBS DERI indicator determines the position to be taken in the respective UBS RADA Strategy Index:

DERI indicator	Market conditions	Market sentiment	Position
$i > 1,25$	If the indicator is very high, the market could be overbought, implying a risk of correction.	Neutral	Cash position
$-0,75 < i \leq 1,25$	A moderate level of the indicator points to an upward market trend, with low volatility.	Bullish	Long position in the target index
$-1,25 < i \leq -0,75$	A relatively low indicator level points to potential uncertainty.	Neutral	Cash position
$-2 < i \leq -1,25$	A low indicator level signals high risk aversion and usually declining prices.	Bearish	Short position in the target
$i \leq -2$	An extremely low indicator value points to an oversold market and a potential overreaction with uncertain outlook.	Neutral	Cash position

Source: UBS

The rules of the three UBS RADA Strategy Indices are based on the following considerations:

Cash position

The respective UBS RADA Strategy Index establishes a cash position by investing the available capital in the money market. Depending on the UBS DERI indicator level, there are three situations in which the respective UBS RADA Strategy Index opts for a neutral cash position.

- The UBS DERI indicator is very high (higher than 1,25) and shows a positive market excess. In such a market environment that is characterized by over-optimism, the probability of a price correction (in the sense of a downward countermove) increases with every further price increase on the equity market.

- The UBS DERI indicator is very low (lower than $-2,0$) and shows a negative market excess. In such a market environment that is characterized by over-pessimism, the probability of a positive surprise (in the sense of an upward countermove) increases with every further price decrease on the equity market.

- The UBS DERI indicator is between two thresholds (between $-1,25$ and $-0,75$) and is unable to formulate a clear market opinion. In such an environment, there is great uncertainty regarding the further price development of the equity markets. The scenario of the previous market trend being resumed is just as likely as the scenario of a trend reversal occurring.

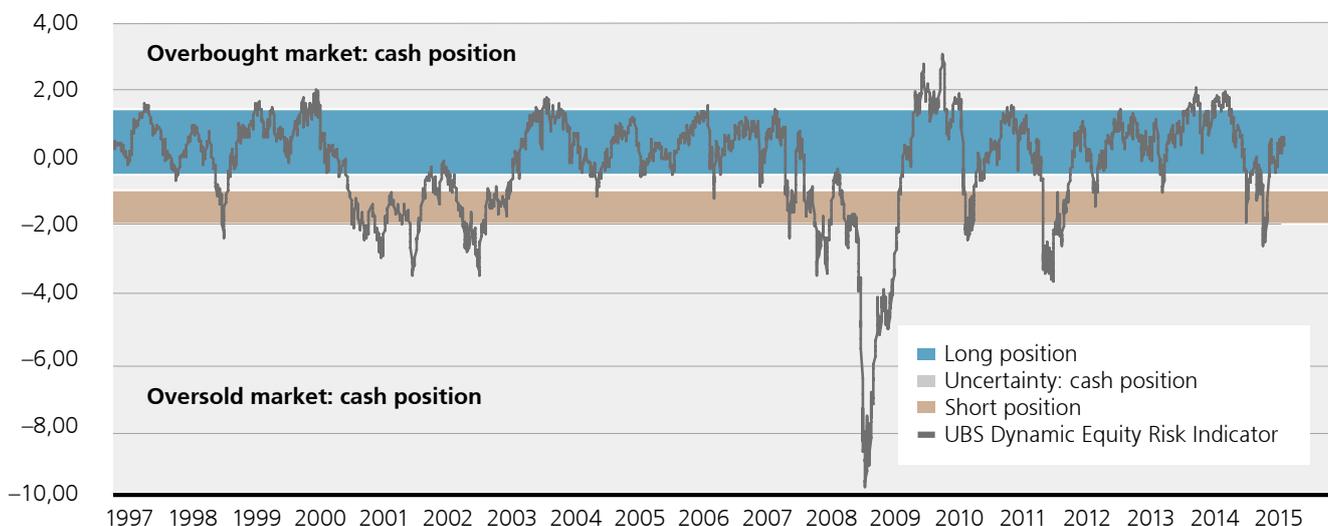
Long position

The respective UBS RADA Strategy Index assumes an upward trend of the target index and establishes a long position in the target index when the UBS DERI indicator is at a moderate level (between $-0,75$ and $1,25$) and indicates a natural to moderate risk aversion. This points to a positive equity market environment that represents a good precondition for a bull market and thus for the continuation of rising equity market prices.

Short position

The respective UBS RADA Strategy Index assumes a downward trend of the target index and establishes a short position in the target index when the UBS DERI indicator is at a low level ($-2,0$ to $-1,25$) and thus indicates high risk aversion. This points to a negative equity market environment that gives reason to expect a bear market (downward trend) and thus the continuation of declining equity market prices.

UBS Dynamic Equity Risk Indicator and market positioning of UBS RADA Strategy Indices



Source: Bloomberg/UBS, period: 01.04.1997 to 30.04.2015. This chart is a historical review of the UBS DERI indicator and the historical market positioning of the UBS RADA strategy. This historical data is not a reliable indicator for future developments. The DERI indicator is not investable.

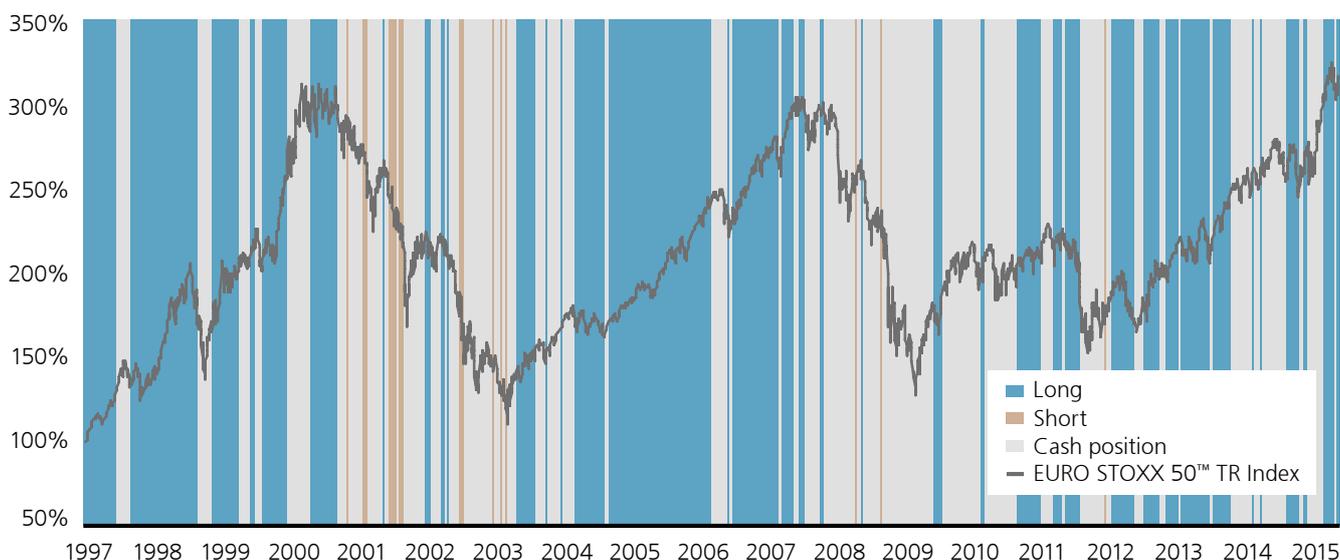
Reactive

The **historical market positioning** of the UBS RADA Strategy Indices

The UBS DERI indicator, whose level determines the positioning in the respective UBS RADA Strategy Index, was subject to major fluctuations in the past, leading to multiple market positioning shifts in accordance with the fixed rules. Incidentally, the UBS DERI posted the most significant downswing in the period following the collapse of the US investment bank Lehman Brothers and thus indicated a heavily oversold market, which resulted in the establishment of a cash position in the respective UBS RADA Strategy Index according to the rules.

The current value of the UBS DERI indicator is published on: ubs.com/deri

Example of the market positioning for the UBS RADA Strategy Index on EURO STOXX 50™



Source: Bloomberg/UBS, period: 01.04.1997 to 30.04.2015. This chart is a historical review of the UBS DERI indicator and the historical market positioning of the UBS RADA strategy. This historical data is not a reliable indicator for future developments. The DERI indicator is not investable.

Varied

Open End PERLES on the UBS Global Emerging Markets RADA Strategy Index

In principle, the RADA strategy also functions with equities from emerging markets. These are countries engaged in a highly dynamic process of development into established national economies. As a rule, there is considerable potential for growth on these markets. The downside of shares from emerging markets lies in peculiarities, such as exaggerated price fluctuations or political instability. Features such as these require adaptation of the UBS RADA strategy. The experts at UBS Investment Bank Research, who conduct intensive market research independent of other business areas, have therefore devised the UBS GEM RADA strategy for this specific purpose. GEM stands for Global Emerging Markets. The UBS GEM RADA strategy basically follows the same logic as the classic RADA, with the following three differences:

- The positioning is based on the adapted UBS GEM DERI sentiment indicator, a slightly modified version of UBS DERI (see page 7).
- Short positions are not part of the investment strategy, so the only possible positions in equities from emerging markets are long or cash.
- The equity placement is arranged via Vanguard ETF on the FTSE Emerging Markets Index (USD) and not over a future contract.

Workings in detail

The UBS GEM RADA strategy seeks the right timing for an investment in shares of emerging markets. Ideally, it should be possible to use entries and exits to exploit the potential for price rises, which shares in emerging markets undoubtedly possess, while avoiding extended phases of losses. The decision on which positioning to adopt now is not taken by UBS DERI, described above, but by the slightly modified UBS Global Emerging Markets Dynamic Equity Risk Indicator (UBS GEM DERI). This indicator is also the brainchild of UBS Investment Bank Research and has been calculated live since November 2011. Backtesting stretches back to March 2005. Like UBS DERI, UBS GEM DERI gauges the mood on the global finance markets every trading day, and measures the current risk acceptance and positioning of institutional investors from all over the world. In doing this, it relies on the same calculation logic as UBS DERI, though some of the quantities it uses are different.

Calculation of the UBS GEM DERI

The detailed input to UBS GEM DERI consists of the following seven data sets:

1. Share option price fluctuations

UBS GEM DERI uses only VIX™, based on CBOE options on the S&P 500™ Index, to measure implicit volatility. Unlike UBS DERI, it excludes VDAX™ (see page 7).

2. Risk premiums of corporate bonds in emerging markets

The average risk premium on the bonds of companies in emerging markets compared with 10-year US Treasury Bonds takes the place of the corporate bond risk premiums in UBS DERI (see page 7). The basic thinking is the same: the higher the risk premiums of companies in emerging markets, the higher the perceived issuer risk will be in emerging markets. This means risk aversion is proportionately greater, and market sentiment correspondingly more negative (inverse proportion).

3. Swap spreads

As with UBS DERI, UBS GEM DERI takes account of the swap spreads in USD, EUR and JPY, but not GBP (see page 7).

4. Currency fluctuations

On similar lines to UBS DERI, UBS GEM DERI takes into account volatilities that have been realized in the past with currency options. However, it only considers the various local currencies of the countries listed on the MSCI Emerging Markets Index in relation to the US dollar (see page 7).

5. Relative development between cyclical and defensive stocks

This quantity is part of the input, exactly as with UBS DERI (see page 8).

6. Excess yields of investments in speculative sectors that usually react sensitively to market movements ('high-beta equity sectors')

This quantity is part of the input, exactly as with UBS DERI (see page 8).

7. Equity market momentum

The momentum of the equity markets in emerging markets is measured using the MSCI Emerging Markets Index compared with its 65-day moving average. By contrast, the UBS DERI uses a 200-day moving average on the MSCI AC World Index (see page 8). In principle, the following applies: the higher the index is above its average (i.e. the more the equities recently increased), the lower the perceived systematic risk, the higher the risk appetite and the more positive the market sentiment (direct relationship).

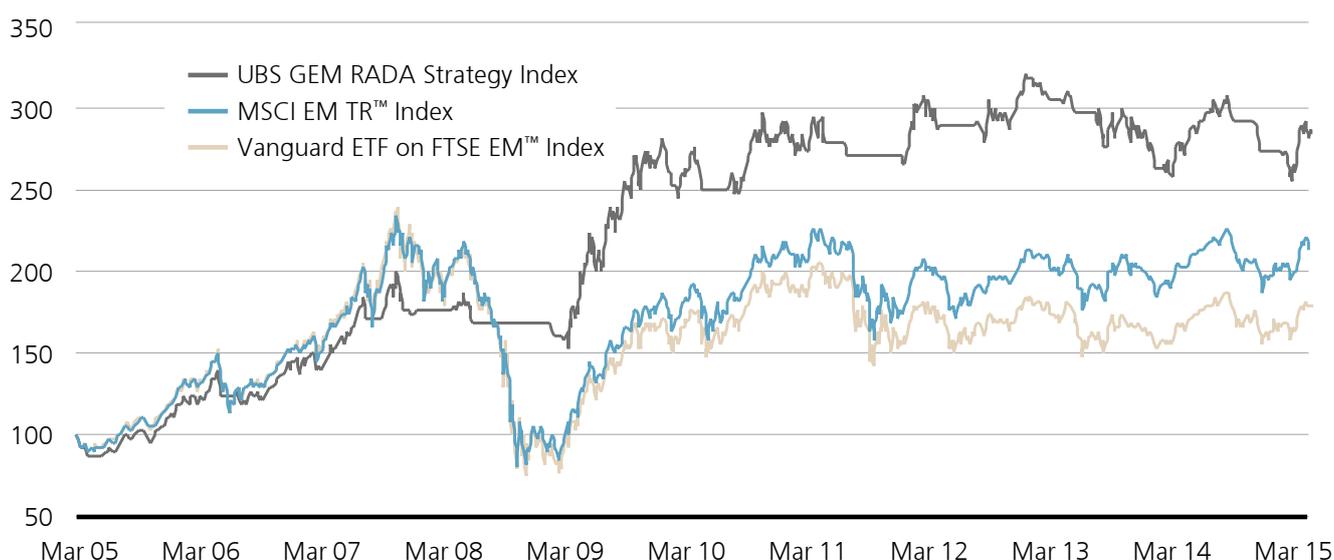
Transparent indexing method

The UBS GEM RADA Strategy Index likewise follows a clear set of rules. Depending on the level of the UBS GEM DERI, the UBS GEM RADA strategy invests the available capital either in emerging market equities or in cash positions which are neutral in market terms. In detail, the investment strategy builds up a long position in the Vanguard ETF on the FTSE Emerging Markets Index (USD) if the UBS GEM DERI has a value of at least zero. In this positive case, the UBS GEM DERI interprets the market environment for emerging market equities as favourable. On the other hand, if the UBS GEM DERI lies in the negative range, this can be taken as a warning signal of a market sentiment, so that it might be better to reduce market risk exposure. In this case, the UBS GEM RADA strategy therefore

dissolves the equity position and parks the available capital in a market-neutral cash position. Thus, it seeks to keep its powder dry until such time as the UBS GEM DERI again gives the green light for investment in emerging market equities. In phases of a cash position, the strategy invests in the money market at the going local LIBOR rates.

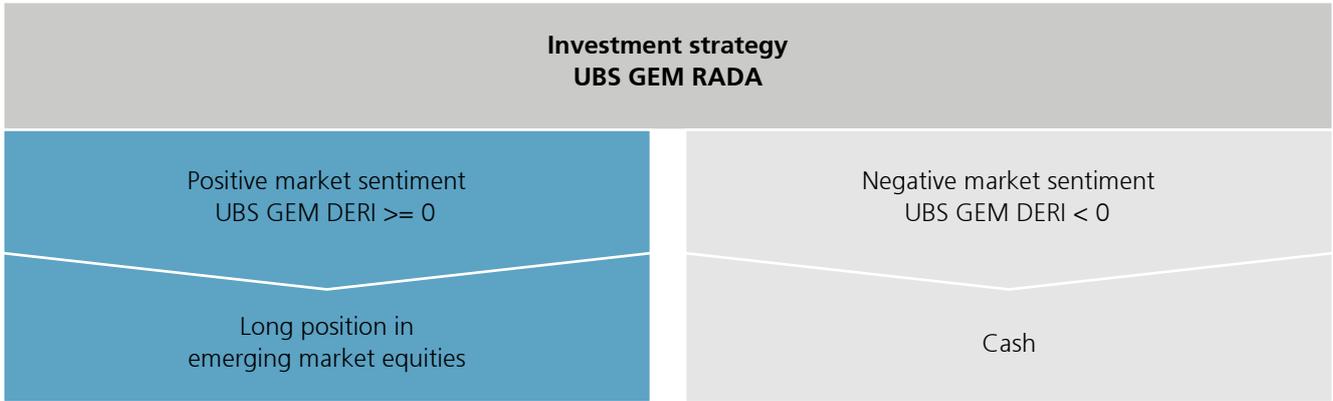
One source of publication of the current level of the UBS GEM DERI is on the Internet at ubs.com/deri, where it appears with a delay of two trading days. Backtesting (and live testing from 14 October 2011) by UBS GEM DERI shows that, 62 per cent of the time, the indicator would have displayed positive market sentiment between 2000 and 2014 (both inclusive).*

Historical performance UBS GEM RADA Strategy Index vs. Vanguard ETF on FTSE EM Index vs. MSCI EM TR Index*



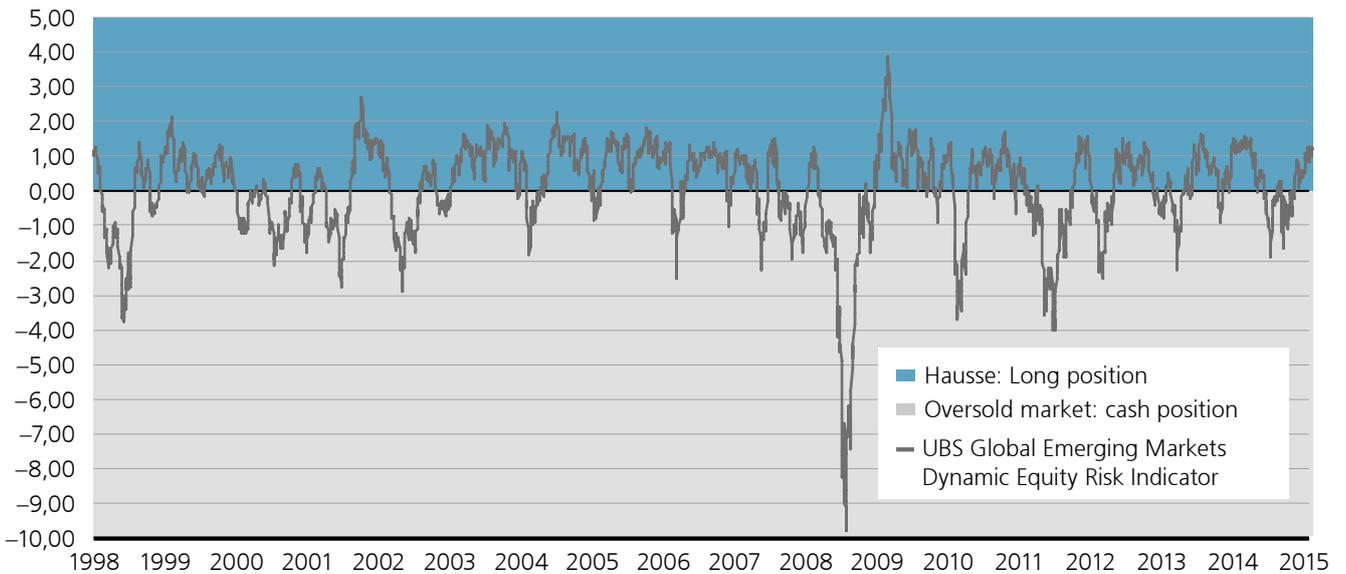
Source: Bloomberg/UBS, period: 31.03.2005 to 30.04.2015

* Past performance is not an indicator of future value growth. This document contains data that results from data backtested by UBS in good faith by standard methods. Please see the important backtesting disclaimer at the end of this document. For illustration display purposes only.



Source: UBS
For illustration purposes only.

UBS Global Emerging Markets Dynamic Equity Risk Indicator (GEM DERI) and market positioning of the UBS GEM RADA Strategy Index



Source: Bloomberg/UBS, period: 01.04.1998 to 30.04.2015

Well thought out

Detailed information for investors

The RADA Strategy Indices are suitable for investors with medium to high risk tolerance who, with little capital and administrative expense, wish to access a well-thought-out investment concept that was previously reserved primarily for institutional investors.

Open End PERLES on the RADA Strategy Indices in detail

Indices	UBS RADA Net Total Return Index (EUR) on EURO STOXX 50™	UBS RADA Net Total Return Index (EUR) on DAX™	UBS RADA Net Total Return Index (USD) on S&P 500™	Open End PERLES on UBS Global Emerging Markets RADA Strategy Index (USD)
Product type	Open End PERLES	Open End PERLES	Open End PERLES	Open End PERLES
SVSP name	Tracker certificates	Tracker certificates	Tracker certificate	Tracker certificate
SVSP code	1300	1300	1300	1300
Target index	EURO STOXX 50™	DAX™	S&P 500™	Vanguard FTSE Emerging Markets ETF
Currency	EUR	EUR	USD	USD
Issuer	UBS AG, London branch	UBS AG, London branch	UBS AG, London branch	UBS AG, London branch
Rating (Moody's / Fitch / S&P)	A2 / A / A	A2 / A / A	A2 / A / A	A2 / A / A
Issue date	14 June 2012 (at EUR 90.55)	8 June 2012 (at EUR 127.44)	1 March 2013 (at USD 66.80)	24 April 2013 (at USD 102.37)
Management fee	1,00% p.a. of the respective certificate value	1,00% p.a. of the respective certificate value	1,00% p.a. of the respective certificate value	1,00% p.a. of the respective certificate value
SIX symbol	RADAE	RADAD	RADSP	RADEM
ISIN	CH0188195264	CH0187379026	CH0206785989	CH0206785971

Opportunities and risks

Opportunities

- With UBS RADA Open End PERLES you can participate in the respective UBS RADA Strategy Index that automatically takes buy or sell positions in the respective target index or a neutral cash position depending on the market conditions (measured with the UBS DERI, respectively UBS GEM DERI indicator).
- UBS RADA Strategy Indices offer the opportunity to beat the conventional ‘buy and hold’ strategy in the respective target indices through dynamic positioning of the respective UBS RADA Strategy Index in the target index (with long, short or cash position) with respect to performance and volatility.
- UBS Open End PERLES offer cost-efficient access to an innovative investment strategy with timing approach that had previously been reserved mainly for institutional investors.
- UBS Open End PERLES have no limited maturity (open end).
- UBS Open End PERLES can basically be bought and sold on all trading days.

Risks

- No capital protection: investors bear the risk of losing the invested capital.
- Systematic risk: the development of the yield depends on the respective market conditions.
- The performance of the index depends on whether the positioning rules determined by UBS Investment Bank Research match the actual market development.
- The issuer intends to ensure liquidity in normal market phases on trading days (over the counter). The sale of a certificate, however, may not always be possible at any given time.
- Each investor bears the general risk that the financial situation of the issuer may worsen. In the event of insolvency of the issuer, the products are direct, unsecured and subordinated liabilities of the issuer.

Further information

- Further information about UBS RADA Open End PERLES including opportunities and risks as well as term sheets and final terms can be found under: ubs.com/rada-ch
- Further information about UBS DERI, UBS GEM DERI and its current values (delayed by 2 business days) can be found here: ubs.com/deri



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