UBS Structured Products
More opportunities for your money.
Structured products offer attractive investment alternatives. Structured products have developed from a niche product to an established form of investment. As a leading provider, UBS offers creative investment solutions, many of which can offer substantial benefits compared to traditional investment instruments.
The way markets have performed in recent years, combined with rising demand from private investors on the look-out for creative, individual investment solutions, has greatly boosted the importance of structured products within the financial sector. Products that used to be the exclusive preserve of institutional investors are now appearing with increasing frequency in private portfolios.

UBS, as a leading product developer, has set itself the goal of offering first-class products tailored precisely to its clients’ risk profiles and investment objectives. Alongside standardized investment solutions, which are the subject of increased investor interest and being traded more and more frequently in the secondary market, UBS offers its clients the opportunity to work hand-in-hand with their advisors to structure products precisely in line with their individual requirements. Above all, UBS ensures that clients are fully aware of the opportunities and risks associated with structured products.

The aim of this brochure is to provide an initial insight into this product category, while at the same time explaining the risks entailed and showing why in many cases structured products are superior to traditional investment instruments. In the brochure, we describe structured products on the basis of investor needs rather than technical categorization, which in any case differs from country to country. As a result, some of the products outlined here are actually financial instruments in their own right, but are nonetheless central to an understanding of structured products. This is particularly the case for “synthetic products” (certificates) in the section on Performance products and for option and futures contracts in the section on Leverage products.
Individual solutions for discerning investors.
UBS offers you the chance to have products structured to suit your individual needs.

**Breadth of choice is a particular strength**
In their narrower sense, structured products are generally understood to be combinations of traditional investment instruments with one or more derivative financial instruments which, incorporated into a single transaction, are traded as securities. From a legal point of view, structured products are bonds payable to the bearer. The default risk of these securities depends on the financial standing of the issuer, just as for bond issues. Thus the financial standing of the issuer should play an important role for all investors when they are selecting a structured product.

Thanks to all the different options and the inherent flexibility of structured products, a solution can be found to match just about every investment objective. The particular strengths of this product class are very much in tune with the evermore complex, globally networked market environment. Unlike traditional investments, some structured products can also generate positive returns in a falling (bear) or stagnant market. Even in a “normal” market, they can be a rewarding addition to an existing portfolio as a means of reducing overall risk, optimizing returns or capitalizing quickly on a market trend. Structured products give you access to investment opportunities in markets, themes and sectors that were previously reserved for institutional investors.

**Risk control**
Another advantage of structured products is that they can provide an appropriate solution for practically any risk profile – from the highest risk tolerance (leveraged products) to the lowest (capital protected products). It is wrong to assume that all structured products carry a higher than average risk.

There are a wealth of products available for pursuing very conservative strategies, for example. By choosing structured products and deploying them correctly in accordance with your specific market expectations and desired returns, you can control risk very precisely. What matters is selecting the right product – the one that best reflects your attitude to risk and your market expectations – at the right time. It is naturally also important to evaluate the product not in isolation but in the context of your portfolio as a whole. With so many options on offer and so many factors to consider when selecting a structured product, professional support from a client advisor is always recommended.

**Tailor-made solutions from a single source**
UBS not only offers you expert advice on where to invest. It can, literally, create a personal product for you – tailored specifically to your individual needs and risk profile. Whether you want to optimize your cash positions (FX) or equity investments, UBS can provide a structured product to precisely match your specifications – in some cases with an investment of as little as CHF, EUR or USD 20,000.
The choice is yours.
Select the right category to match your investment ideas, risk tolerance and personal investment objectives.

With such a huge variety of products on offer, it is difficult and time consuming for today’s investors to find the product that best suits their investment ideas and attitude to risk. UBS has divided the products into a set of colour-coded categories (from blue = Protection, to red = Leverage) to help you, as an investor, quickly find your bearings in this dynamic environment.

**Protection**
Solutions for investors with low to moderate risk tolerance who want either partial or full capital protection with limited, unlimited, or fixed potential returns.

**Optimisation**
Solutions for investors with moderate to high risk tolerance who want to get more from their investment portfolios in flat markets.

**Performance**
Solutions for investors with medium to higher risk tolerance who want to benefit from the performance of an underlying without committing too much capital or taking on much administration.

**Leverage**
Solutions for investors with high risk tolerance who wish to remain flexible enough to benefit from a particular trend or who wish to hedge their portfolio using a relatively small investment and with a high leverage effect.
“Protection” investment objective
Protect your capital while enhancing your potential returns.

Products allocated to the “Protection” category are aimed at investors with a low to moderate risk tolerance. All the products in this category offer a substantial capital protection component, meaning that when the investment comes to maturity you will receive a minimum repayment relating to the nominal capital invested. If you sell such a product prior to maturity you will, however, forfeit the benefit of this capital protection. These products also have a yield component which, depending on your preference, can be unlimited, limited or stipulated in advance. The high degree of capital protection offered – between 90 and 100% of the invested capital – does, of course, affect the return potential delivered by the product when compared to a direct investment in the relevant underlying itself.

By far the largest selection of products offering 100% capital protection are in the “fixed-income” segment. The most popular investment instruments include Callable Step-Up Notes (CSUN) and Callable Daily Range Accrual Notes (CDRAN). Both of these products combine 100% capital protection at the end of the term with an option strategy. With a CSUN, the investor purchases a maximum-term bond with coupon payments that rise in stages as this term progresses. In effect, the noteholder sells a periodic call option to the issuer (hence the “callable” part of the name), and in return, the investor receives an option premium, so that when the note reaches maturity the overall yield is greater than on comparable bonds of the same maturity/credit quality. CDRANs, meanwhile, are bonds that can be redeemed before maturity by the issuer. Unlike CSUNs, the coupon payments are not fixed in advance, but depend on how many days during the coupon period a specified index (e.g. an interest rate or interest rate differential) remains within a predefined range. Depending on the number of days on which the relevant condition is met, a higher return can be achieved compared to an equivalent traditional bond.

Capital protection products based on equities and currencies are also very popular. The best-known, and in fact the oldest, is the CPN (Capital Protected Note). This instrument, developed by UBS, was one of the first structured products to be distributed internationally (under its former name “GROI”). The “Protection” category now offers the most varied range of all, with products affording capital protection on almost every conceivable underlying asset. As well as bonds, equities, equity baskets, indices, interest rates and currencies, there are an increasing number of solutions with capital protection based on precious metals and commodities, all featuring a range of possible maturities, payout models and income/participation structures. UBS’s “Protection” category does not include any products that offer solely conditional capital protection, i.e. through a risk buffer that disappears as soon as a specified price limit or threshold is reached.
Opportunities
If their expectations prove correct, investors receive higher returns than with traditional bond investments.

Risks
If interest rates fall, the Note may be redeemed prior to maturity for cash, leaving the investor to invest the repaid capital elsewhere. However, the return achieved prior to early redemption should still be higher than that available on a comparable alternative bond with the same maturity and rating.

Scenario
Portfolio: 75% bonds
10% equities
10% alternative investments
5% money market

The investor expects yields to be relatively stable or to rise slightly. For 10% of his bonds about to mature, he seeks an investment solution with 100% capital protection.

Solution
The investor invests the repaid capital in UBS Callable Step-Up Notes.

Example

“ISSUE” investment objective
Example

Investors should note that the above charts and examples are purely for illustrative purposes and do not give any indication of actual conditions or profits. These examples do not take account of dividend payments or standard securities trading costs (brokerage, etc.).
Optimization
Greater returns thanks to intelligent combinations.

A similar strategy is available for currencies thanks to the DOCU (DOuble Currency Unit) which is particularly popular with investors looking for customized solutions to optimize their short-term liquidity management while still retaining flexibility. Depending on the exchange rate, on expiry of the DOCU you receive the investment, including earnings, paid out in either the currency of investment or the second currency. The downside risk here is no greater than with a direct investment in the currency market. Optimisation strategies are also available for bonds. Credit Linked Notes (CLN), for example, give investors credit exposure to one or more reference borrowers in addition to the issuer risk. Compared with traditional bonds, this provides more flexibility with regard to currency, maturity and other features.

The “Optimization” category comprises a diverse range of products with features which have evolved over time. Investors who want a potentially higher return within a specified range can opt for UBS Capped Outperformance certificates. Another way of optimizing an investment is to take advantage of a discount on the underlying. UBS lets you do this with a Discount certificate or BLOC (Buy Low Or Cash). However, this discount, which works like a kind of safety buffer, is only possible at the cost of capping the potential profits to be made in a rising market.

When markets are “flat” or “sideways”-moving, there is little joy for investors who have adopted a classic buy-and-hold strategy. This problem can be solved by applying a combination of two transactions: instead of investing directly in an equity, for example, the investor can buy a bond and simultaneously sell a put option (option to sell) on this equity. However, because it is more trouble for the investor to keep track of two transactions, UBS has securitized this strategy in a structured product called GOAL (which stands for “Geld Oder-Aktien-Lieferung” – cash or equity delivered).
Opportunities

If his expectations prove correct, the investor receives the nominal plus the 7% coupon on expiry. The performance is better than with a direct investment.

Risks

If the share price rises very sharply, the investor is still only paid the coupon plus the nominal value on expiry. A direct investment would then have produced a better return (i.e. price rise plus dividends paid). However, if the share price falls significantly, the investor receives the share itself on expiry along with the coupon.

Scenario

Portfolio: 45% equities
           45% bonds
           10% money market

The investor expects the performance of equity A (5% of the total portfolio) to move sideways in the short or medium term and would like to improve his potential return over this period.

Solution

The investor replaces equity A with a 7% UBS GOAL in the stock in question.

- 45% equities
- of which 5% in a UBS GOAL for equity A
- 45% bonds
- 10% money market

Opportunities

If his expectations prove correct, the investor receives the nominal plus the 7% coupon on expiry. The performance is better than with a direct investment.

Risks

If the share price rises very sharply, the investor is still only paid the coupon plus the nominal value on expiry. A direct investment would then have produced a better return (i.e. price rise plus dividends paid). However, if the share price falls significantly, the investor receives the share itself on expiry along with the coupon.

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Alongside passive investment instruments, whose composition remains constant throughout their lifetimes, UBS also offers products involving active or dynamic investment bundled into a single security (Strategy certificate) with only a small minimum investment. As well as the products mentioned, which enable investors to benefit from rising (bull) markets, some products also provide investors with the opportunity to profit from downward movements (bear market).

As a logical extension of this category of products, UBS has solutions that can combine performance with a partial hedge. UBS’s PERLES Plus is a product that includes limited capital protection. With a PERLES Plus certificate, investors effectively acquire a hedge against price falls down to a specified threshold without having to accept any limit on potential upside returns. In return for the hedge, investors forgo payment of the dividend on the relevant underlying and capital protection if the value of the certificate passes or falls below a certain limit (kick-out level) at any time during the life of the certificate. If during the life of the certificate this kick-out level is reached or breached, capital protection no longer applies and the repayment amount depends on the development of the underlying asset, as is the case for normal PERLES.

Products in the “Performance” category meet the needs of the large number of investors who want a cost-effective and efficient way of achieving diversification. UBS offers this popular product family under the name PERLES (PERformance Linked to Equity Securities). Also known as “Certificates”, they allow the investor to participate in the performance of an index or basket of specific individual stocks or indices. PERLES are now offered on an extremely varied range of underlying assets. As well as tracking the performance of equities, investors can participate in the price performance of precious metals. PERLES can cover an entire market with one single transaction. They also pick up on current investment topics, for example “commodities”.

Performance
Tap into the performance of an underlying asset.
Opportunities
If during the certificate’s life the price of the underlying always remains above the “kick-out” level, on expiry the investor receives at least 111% of the issue price and perhaps more depending on the actual situation. The investor therefore achieves a return of 11% despite price falls.

Risks
If the underlying falls below the “kick-out” level of 62% of the issue price at any time, then the risk cushion expires and the UBS PERLES Plus has the same risk profile as a regular equity index investment.

Scenario
Portfolio: 65% equities
25% bonds
5% alternative investments
5% % money market

The investor would like to provide his investments referencing the DJ Euro STOXX 50 index (10% of the portfolio) with a reasonable risk cushion.

Solution
The investor switches his DJ Euro STOXX 50 related investments into UBS PERLES Plus certificates with a “kick-out” level of 62% of the issue price and a conditional minimum repayment of 111% of the issue price.

65% equities
of which 10% in UBS PERLES Plus on the DJ Euro STOXX 50 index
25% bonds
5% alternative investments
5% money market

Opportunities
If during the certificate’s life the price of the underlying always remains above the “kick-out” level, on expiry the investor receives at least 111% of the issue price and perhaps more depending on the actual situation. The investor therefore achieves a return of 11% despite price falls.

Risks
If the underlying falls below the “kick-out” level of 62% of the issue price at any time, then the risk cushion expires and the UBS PERLES Plus has the same risk profile as a regular equity index investment.

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Leverage
Minimum outlay, maximum effect.

If you want to capitalize on a market trend at short notice without having to change your portfolio around too much, leveraged products can be the ideal solution. Classic leveraged products include all securitized options, known by bankers as warrants or option certificates. Warrants are available on just about any kind of investment. Using warrants, high potential returns can be achieved with a small capital outlay – as long as the investor is prepared to accept the risk of losing the full amount invested.

Depending on where an investor believes the market is heading, they can choose between call warrants (if they believe the price of the underlying will rise) or put warrants (if they believe it will fall). Put warrants are not only used for speculating on bear markets, but also for hedging purposes. In this latter context they work like an insurance policy that comes into play only when a specific event occurs – except the event in this case is not a fire or accident, but an underlying losing value. The profit made by the investor on the put warrant potentially compensates for the loss in value of the underlying. If the portfolio performs well as expected, however, the put warrant loses its value or simply expires worthless. The pricing of warrants and options is affected by a whole range of factors. This, coupled with the risk of loss of the entire invested capital, means that these financial instruments should only be used by experienced investors who fully understand their nature and behaviour and are comfortable taking on higher risks.

Investors can likewise achieve a leverage effect on the underlying asset with only a small capital outlay using Mini Futures. For these products, which are also known as UBS Currency Certificates, UBS Longy and UBS Shorty or UBS Precious Metal Keys, a change in implied volatility has little or no effect on the pricing of products, but there is the threat of losing the full amount if the stop-loss limit is reached during the term.

There are also various leveraged products available in the interest area. Thus interest warrants and futures/rates certificates offer both the option of benefiting from yield curves that are rising or levelling off and protection from increasing interest rates.
**Opportunities**
If the USD falls, the Bear Certificate increases in value. For every cent that the exchange rate falls, each Bear Certificate gains CHF 100 in value. In this way the loss on the portfolio can be reduced or even be neutralized.

**Risks**
If the USD rises in value, the Bear Certificate loses value. As soon as the value of each certificate reaches the stop-loss limit, an automatic sell order is activated and any residual sum is reimbursed to the investor.

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**Scenario**
Portfolio: 80% equities
10% bonds
5% alternative investments
5% money market

The investor would like to actively protect his high exposure to US equities against a currency loss in USD.

**Solution**
The investor reduces the equity allocation to 72% and invests the repaid capital in UBS Currency Certificates USD/CHF Bear. He can hedge an investment value of USD 10,000 per currency certificate.

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Structured products
Points to note.

**Investment risks and issuer risk**
The many permutations of structured products are also reflected in the differing risk profiles of the individual products. It is therefore essential to ascertain the precise terms and conditions of any specific structured product and the particular risks associated with it from the relevant issue documentation and the relevant term sheets and product descriptions.

Another important risk factor is the issuer’s credit standing. So you should always check exactly who the issuer of the product is (and their credit rating) before subscribing an issue or buying a product in the secondary market. This is because, as an investor, you bear the full issuer default risk for all structured products – even capital-protected products. For products involving exposure to the credit market, it is also important to be sure about the credit quality of the reference borrower(s), underlying(s) or portfolio(s) to which the investment relates.

**Market makers and liquidity**
Once a structured product has been issued, the lead-manager is responsible for the secondary market. It is important that investors can be confident that the product can be bought and sold at a fair price after it has been issued. The quality of the market maker is particularly important in the case of products based on little-traded securities or complex structures with long lifetimes. But even if there is a liquid market in the underlying asset, or if the product is traded on a stock exchange, there is still no guarantee that it will be cheaper than products traded off-exchange.
Price per transaction/spread
When trading on the secondary market, you, as the investor, pay the ask price when you buy the product and receive the bid price when you sell it again. The difference between the two prices is known as the bid-ask spread, and can be seen as the price of the securities transaction. Please note that the spread can vary greatly from product to product. It tends to be very narrow for leveraged products, but can amount to more than one per cent for mature and complex instruments. Even if you think you won’t be selling the product until it reaches maturity, you should keep an eye on how wide the spread is. Your personal circumstances could suddenly change, forcing you to unwind an investment prematurely.

Tax treatment
Structured products combine traditional investment instruments with one or more derivative financial instruments. Concrete tax treatment depends on the individual circumstances of the individual investor as well as on the individual product. For this reason, it is essential to seek independent and expert tax advice.

Sales and distribution restrictions
Note that certain products cannot be sold in some countries or to citizens of some countries. Sales restrictions will be set out clearly in the relevant issue documentation (termsheets, etc.) or product descriptions and should always be considered. This brochure is for information purposes only and is not an offer, recommendation or solicitation to conclude any transaction in any product mentioned.

Take advantage of UBS's expertise
UBS offers more than just expert advice on investment decisions. You may ask your client advisor to have a product structured especially for your individual requirements and risk profile. Instead of waiting to find a ready-made solution that more or less fulfils your needs, by investing as little as CHF, EUR or USD 20,000 you can have a special solution structured on a broad range of underlying assets to meet your precise requirements.
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Investors can choose from many different sources of information.

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**UBS KeyInvest – the UBS Investment Bank portal**
As well as global market data, UBS KeyInvest also offers extensive information on structured products and derivatives from the UBS Investment Bank. The user-friendly navigation, from market to product, replicates the standard investment decision process and guides you through the wide range of information.

[www.ubs.com/keyinvest](http://www.ubs.com/keyinvest)

**UBS Equity Investor Marketplace**
Displays current price indications for the broad range of tailored equity investment products offered by the UBS Investment Bank. The prices shown are indicative live prices and thereby offer a new level of price transparency. This service is designed to help you to make decisions related to your own investment product. With a minimum investment of CHF 20,000, you can determine risk parameters such as barriers, strikes and maturities. Your client advisor can create the product in just a few minutes, including term sheets in several languages.

[www.ubs.com/equityinvestor](http://www.ubs.com/equityinvestor)

For general information on structured products, visit [www.ubs.com/structured-products](http://www.ubs.com/structured-products)
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