

Report Prepared On: 11/19/14

**Structured Product Details**

**Name** Phoenix Autocallable Notes linked to American Eagle Outfitters

**Issue Size** \$2.00 million  
**Issue Price** \$1,000  
**Term** 36 Months  
**Annualized Coupon** 15.70%

**Pricing Date** June 25, 2014  
**Issue Date** June 30, 2014  
**Valuation Date** June 26, 2017  
**Maturity Date** June 29, 2017

**Issuer** UBS  
**CDS Rate** 25.86 bps  
**Swap Rate** 1.03%

**Reference Asset** American Eagle Outfitters's stock  
**Initial Level** \$11.67  
**Dividend Rate** 4.20%  
**Implied Volatility** 37.43%

**Fair Price at Issue** \$959.30

**CUSIP** 90270KCG2  
**SEC Link** [www.sec.gov/Archives/edgar/data/1114446/000119312514253071/d746751d424b2.htm](http://www.sec.gov/Archives/edgar/data/1114446/000119312514253071/d746751d424b2.htm)

**Related Research**

**Research Papers:**  
[www.slcg.com/research.php](http://www.slcg.com/research.php)

- "Are Structured Products Suitable for Retail Investors?" December 2006.
- "Structured Products in the Aftermath of Lehman Brothers," November 2009.
- "What TiVo and JP Morgan Teach Us about Reverse Convertibles," June 2010.

**Mike Yan, Ph.D., FRM**  
 Senior Financial Economist, SLCG  
 (+1) 703.539.6780  
[MikeYan@slcg.com](mailto:MikeYan@slcg.com)

**Phoenix Autocallable Notes linked to American Eagle Outfitters**

**Description**

UBS issued \$2.00 million of Phoenix Autocallable Notes linked to American Eagle Outfitters on June 30, 2014 at \$1,000 per note.

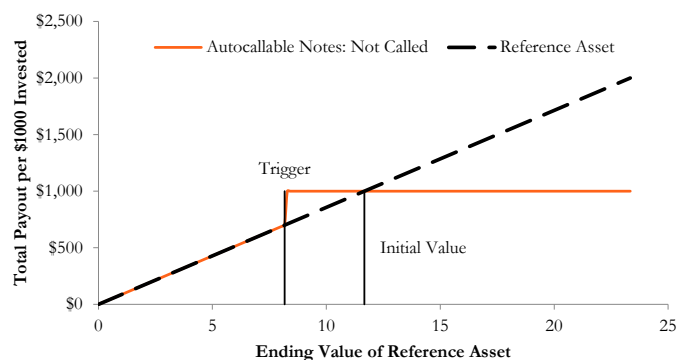
These 36-month notes are UBS-branded reverse convertible notes. On the quarterly coupon observation date, if the notes are not called back, they pay either quarterly coupon at an annualized rate of 15.70% if American Eagle Outfitters's stock price closes above the coupon barrier \$8.17, or no coupon if the stock price closes below the barrier. The first coupon observation date is September 25, 2014. This autocallable notes will be called back if the reference stock price on any quarterly call observation date after September 25, 2014 exceeds the initial stock price \$11.67. In this case, investors receive the principal plus any unpaid coupons. At maturity, the notes convert into shares of the reference security—85.69 shares of American Eagle Outfitters's stock in this case—if the market value of the reference stock at the note's maturity is below the trigger price \$8.17 (70% of the reference asset on June 25, 2014). Otherwise, investors will receive the \$1,000 face value.

**Valuation**

This note can be viewed as a combination of a zero-coupon note from UBS, a series of contingent coupon payments, and a short put option on the reference asset. For reasonable valuation inputs this note was worth \$959.30 per \$1,000 face value when it was issued on June 30, 2014, including \$984.97 for the present value of the zero-coupon note, (\$122.43) for the short put options, and \$96.76 for the present value of all future contingent coupon payments.

There is no active secondary market for most structured products. Structured products, including this note, therefore are much less liquid than simple stocks, bonds, notes and mutual funds. Investors are likely to receive less than the structured product's estimated market value if they try to sell the structured product prior to maturity. Our valuations do not incorporate this relative lack of liquidity and therefore should be considered an upper bound on the value of the structured product.

**Payoff Curve at Maturity**

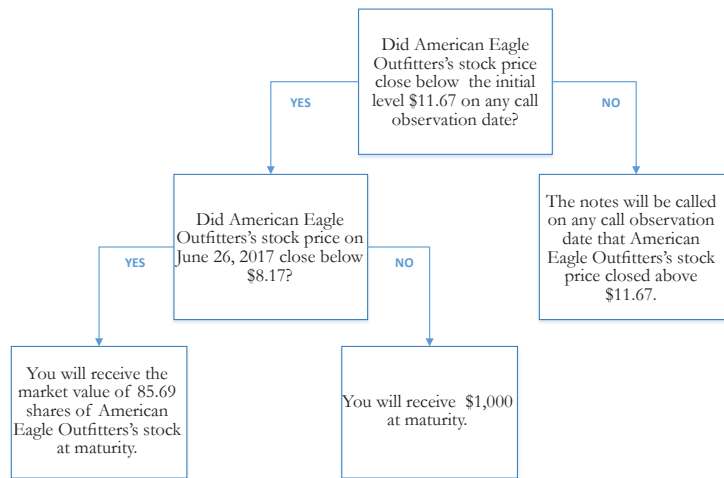


The payoff diagram shows the final payoff of this note given American Eagle Outfitters's stock price (horizontal axis). For comparison, the dashed line shows the payoff if you invested in American Eagle Outfitters's stock directly.

**Principal Payback Table**

American Eagle Outfitters's Stock	Note Payoff
\$0.00	\$0.00
\$1.17	\$100.00
\$2.33	\$200.00
\$3.50	\$300.00
\$4.67	\$400.00
\$5.84	\$500.00
\$7.00	\$600.00
\$8.17	\$700.00
\$9.34	\$1,000.00
\$10.50	\$1,000.00
<b>\$11.67</b>	<b>\$1,000.00</b>
\$12.84	\$1,000.00
\$14.00	\$1,000.00
\$15.17	\$1,000.00
\$16.34	\$1,000.00
\$17.51	\$1,000.00

**Maturity Payoff Diagram**



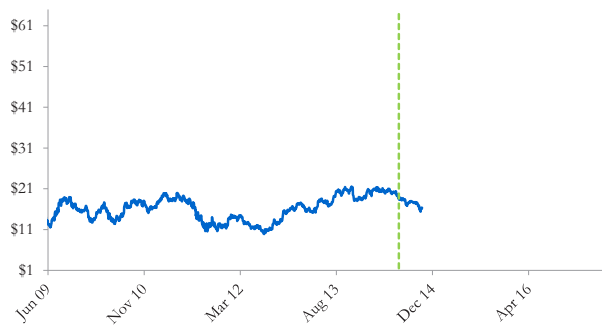
The contingent payoffs of this Phoenix Autocallable Note.

**Analysis**

The 15.70% coupon rate on this Phoenix Autocallable Note is higher than those paid by UBS on its straight debts but, in addition to UBS's credit risk, investors bear the risk that, 1) the note may be called; 2) the note may pay zero coupon because of the coupon contingency; 3) and the note will be converted into shares of American Eagle Outfitters's stock when American Eagle Outfitters's stock is worth substantially less than the face value of the note.

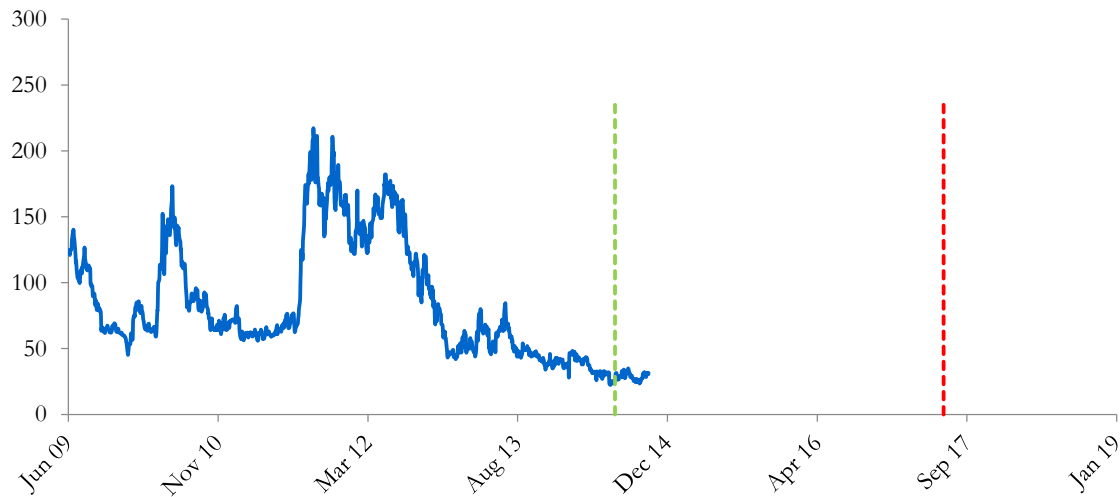
Investors purchasing these autocallable phoenix notes effectively sell contingent put options to UBS and post the note's issue price as collateral to secure satisfaction of the investors' obligations under the option contracts. UBS pays investors a contingent coupon that is part payment for the put options and part interest on the investors' posted collateral. This Phoenix Autocallable Note is fairly priced if and only if the difference between the contingent coupon and interest paid on UBS's straight debt equals the value of the contingent put options investors are giving to UBS. Whether this Phoenix Autocallable Note is suitable or not is identically equivalent to whether selling put options on the reference stock at the option premium being paid by UBS was suitable for the investor.

**UBS's Stock Price**



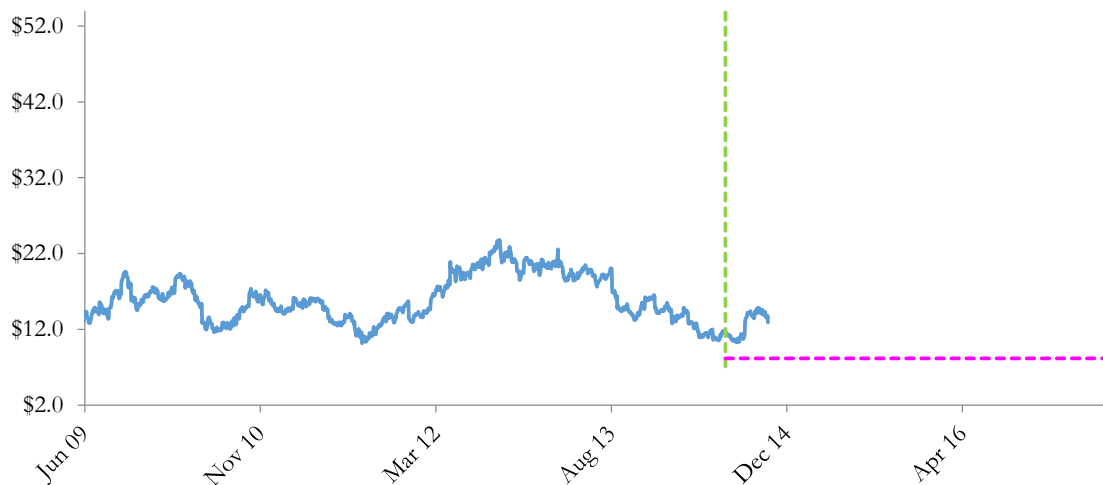
The graph above shows the adjusted closing price of the issuer UBS for the past several years. The stock price of the issuer is an indication of the financial strength of UBS. The adjusted price shown above incorporates any stock split, reverse stock split, etc.

### UBS's CDS Rate



Credit default swap (CDS) rates are the market price that investors require to bear credit risk of an issuer such as UBS. CDS rates are usually given in basis points (bps). One basis point equals 0.01%. Higher CDS rates reflect higher perceived credit risk, higher required yields, and therefore lower market value of UBS's debt, including outstanding Phoenix Autocallable Note. Fluctuations in UBS's CDS rate impact the market value of the notes in the secondary market.

### American Eagle Outfitters's Stock Price

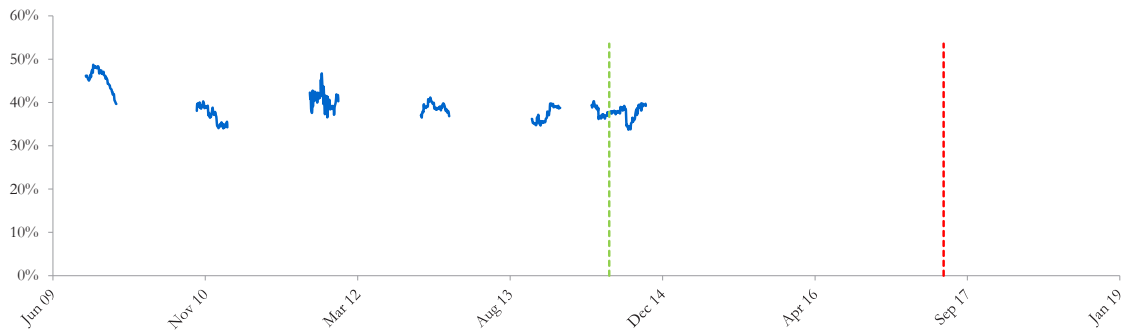


The graph above shows the historical levels of American Eagle Outfitters's stock for the past several years. The final payoff of this note is determined by American Eagle Outfitters's stock price at maturity. Higher fluctuations in American Eagle Outfitters's stock price correspond to a greater uncertainty in the final payout of this Phoenix Autocallable Note.

### Realized Payoff

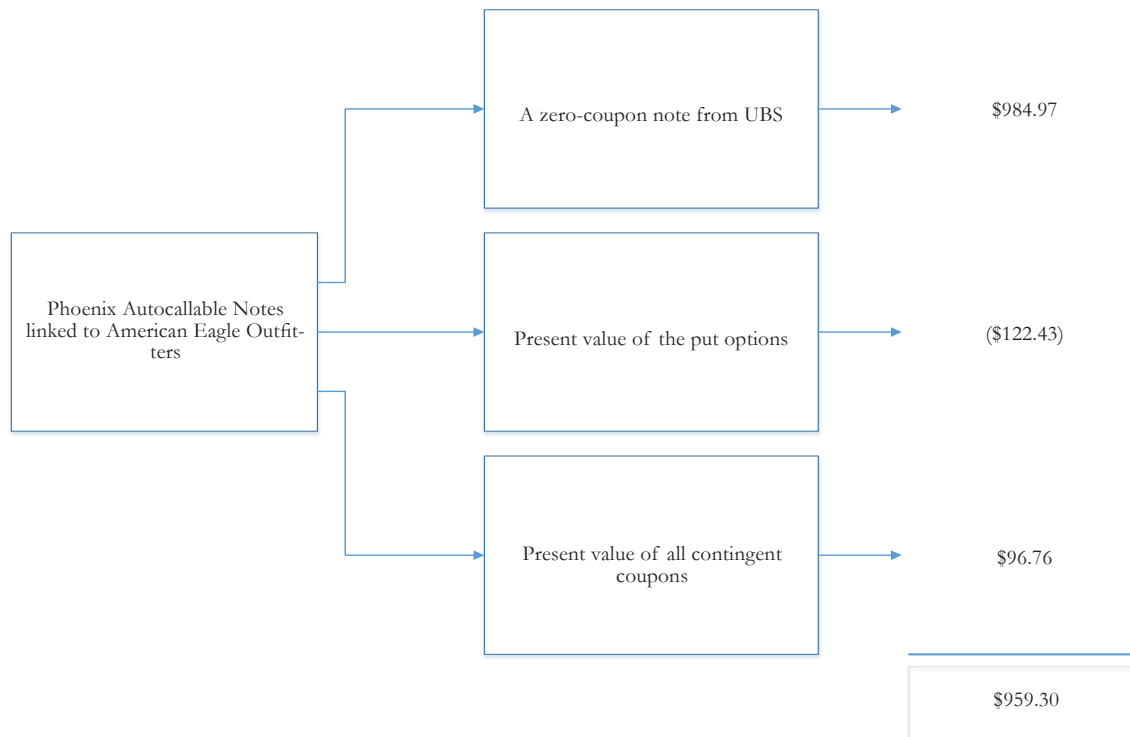
This note was early terminated on September 25, 2014 due to its automatic call feature. The American Eagle Outfitters's stock price on September 25, 2014 was \$14.39, higher than the initial level \$11.67. Investors received \$1,000 per note plus any unpaid coupons.

## Reference Asset American Eagle Outfitters's Stock's Implied Volatility



The annualized implied volatility of American Eagle Outfitters's stock on June 25, 2014 was 37.43%, meaning that options contracts on American Eagle Outfitters's stock were trading at prices that reflect an expected annual volatility of 37.43%. The higher the implied volatility, the larger the expected fluctuations of American Eagle Outfitters's stock price and of the Note's market value during the life of the Notes.

## Decomposition of this Phoenix Autocallable Note



This note can be decomposed into different components, and each component can be valued separately. The chart above shows the value of each component of this Phoenix Autocallable Note.

1. Delta measures the sensitivity of the price of the note to the American Eagle Outfitters's stock price on June 25, 2014.
2. CDS rates can be considered a measure of the probability that an issuer will default over a certain period of time and the likely loss given a default. The lower the CDS rate, the lower the default probability. CDS rate is given in basis points (1 basis point equals 0.01%), and is considered as a market premium, on top of the risk-free rate, that investors require to insure against a potential default.
3. Fair price evaluation is based on the Black-Scholes model of the American Eagle Outfitters's stock on June 25, 2014.
4. Calculated payout at maturity is only an approximation, and may differ from actual payouts at maturity.
5. Our evaluation does not include any transaction fees, broker commissions, or liquidity discounts on the notes.