

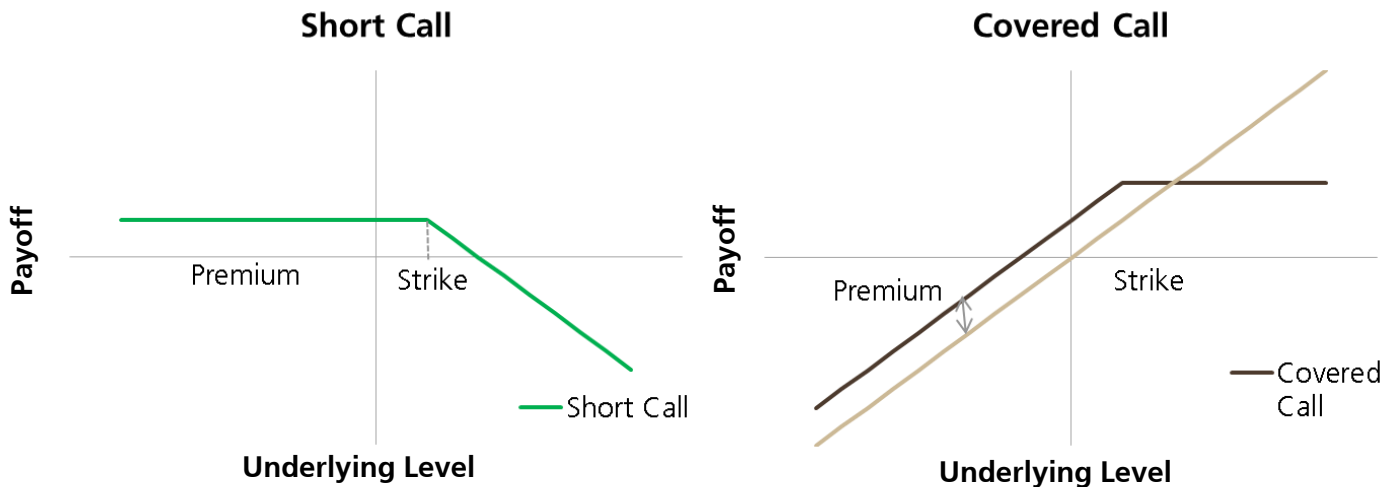


Gold Income Strategy

Rationale and Methodology

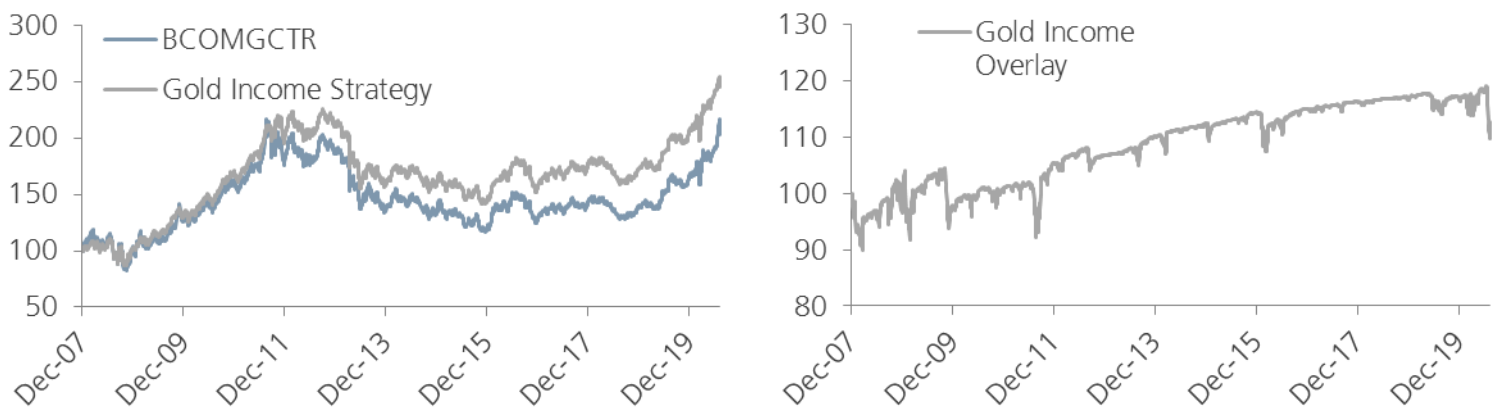
- Gold is a popular investment for both retail and institutional investors, used for portfolio diversification, hedging against rising inflation (or falling real rates) and hedging against risky assets in risk-off environments. However, one of its main drawbacks is that it is not expected to generate any income.
- The Gold Income Strategy combines Gold exposure and an overlay which generates income by systematically selling OTM call options. The strategy further benefits from a positive correlation of spot prices with both implied volatility and skew.
- The Gold Income Overlay systematically sells OTM call options on a daily basis based on 2 months target maturity and a strike of 107.5% of the forward (107.5%F). The daily selling mechanism leads to a diversification in entry points (strike, implied volatility) and expiries.

Call Overwriting – Concept



Performance Summary – Backtested*

The Gold Income Overlay has significantly improved the absolute risk-adjusted performance of Gold and reduced drawdowns.



Source: UBS AG, Bloomberg. Data as of 12 August 2020.

Data contains backtested values. See disclosure on the last page of this document for important information regarding back-tested data. Past performance not indicative of future performance. The performance is net of trading costs. *BCOMGCTR Index is net of carry cost throughout this presentation



	Gold Income Strategy	Gold (BCOM Gold TR)
IRR (p.a.)	7.39%	5.80%
Volatility (p.a.)	14.60%	18.44%
Return / Vol	0.51	0.31
Max Drawdown	-37.3%	-46.1%

	Gold Income Strategy	Gold (BCOM Gold TR)	Gold Income Strategy Outperformance
2008	2.9%	3.8%	-0.9%
2009	26.5%	22.7%	3.8%
2010	31.5%	28.5%	2.9%
2011	16.1%	9.5%	6.6%
2012	7.4%	5.9%	1.5%
2013	-26.3%	-28.8%	2.5%
2014	0.3%	-1.9%	2.2%
2015	-9.3%	-11.0%	1.7%
2016	8.5%	7.6%	0.9%
2017	13.8%	12.6%	1.1%
2018	-2.4%	-3.0%	0.6%
2019	18.1%	17.8%	0.3%
2020	20.8%	24.7%	-3.9%

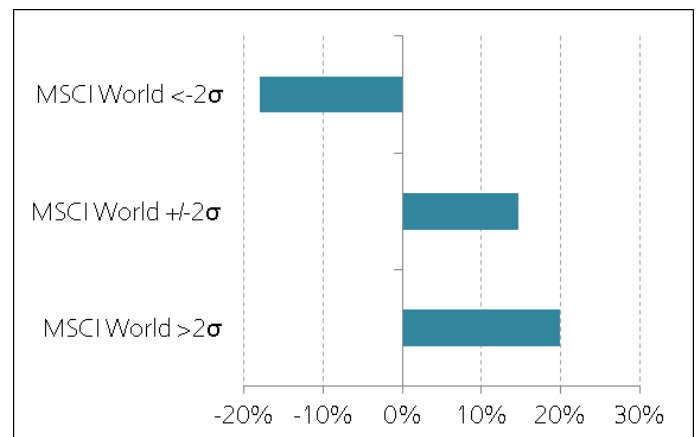
Gold Income Strategy – Further Analysis

In the subsequent section we analyse the hedging properties of Gold against equity risk as well as the relationship between Gold spot and volatility.

Does Gold provide a hedge against equity risk?

Gold has historically been an effective hedge against equity risk with negative correlation to stocks during large equity market drawdowns and positive correlation in sideways and rallying equity markets.

Correlation of Gold to Equities conditional on equity returns*



Source: UBS AG, Bloomberg. Data as of 12 August 2020.

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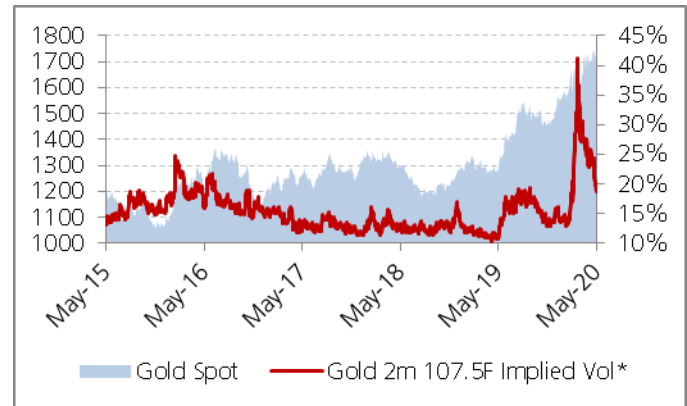
*Based on weekly returns of MSCI World and BCOM Gold TR Index from Dec 1980 to Jun 2020.



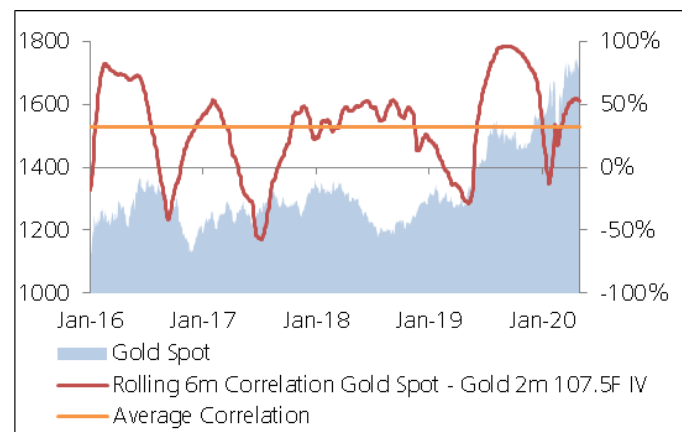
How does implied volatility correlate with Gold spot?

Gold spot and implied volatility have on average been positively correlated as opposed to equities where implied volatility tends to spike as prices go down. Therefore when gold prices go up, call options are richer and compensate investors for capping their upside on the underlying asset.

Selling OTM calls on Gold can therefore be a good funding trade even if prices are trending up.

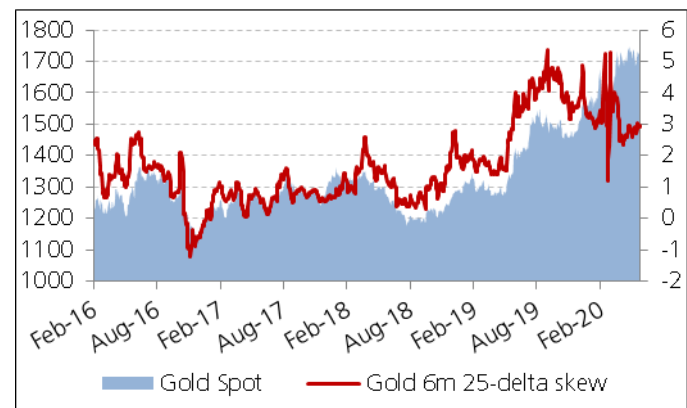


Over the last 5 years the rolling 6m correlation between Gold spot and Gold 2m 107.5F implied volatility has averaged ~32% - the rolling correlation has been particularly high during periods of Gold rallies.



How does the volatility smile behave?

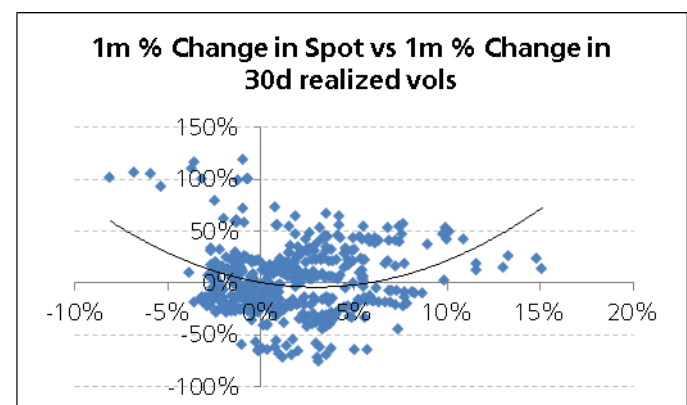
Gold volatility skew tends to be upward sloping (OTM calls more expensive than puts). The skew tends to increase as Gold spot moves higher. **This makes selling OTM calls more attractive as spot prices rise.**



What about realised volatility?

A common misconception is that Gold realized volatility is high when the spot rallies and less when it falls. **Gold realized volatility tends to have very low correlation to spot prices** most of the time. Over last 5y spot / vol correlation averaged a modest ~14%.**

Being short upside strikes in Gold may not be as risky as what the implied volatility indicates.



Source: UBS AG, Bloomberg. Data as of 30 June 2020.

*Gold 2m 107.5F implied volatility is calculated via linear interpolation of variance of the daily target options selected in the 2m 107.5F Call OW strategy.

**Based on data between June 2015 and June 2020.



Gold Income Strategy – Performance during different Market Scenarios*

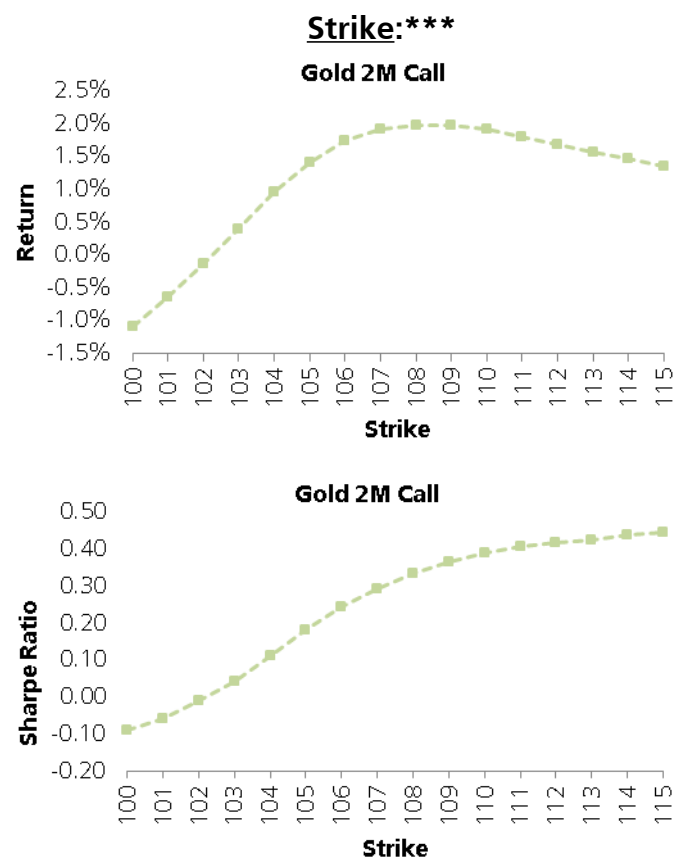
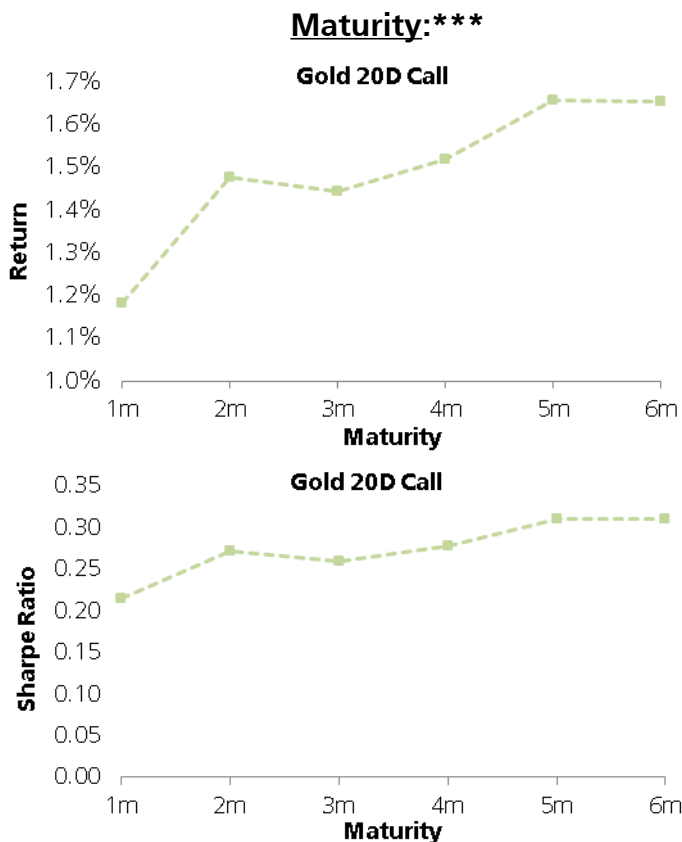
The Gold Income Overlay has increased the annual returns of Gold in all considered market scenarios. It has generated an additional income in upside or sideways markets and it has provided hedging benefits in downside markets.

		Gold (BCOM Gold TR)	Gold Income Strategy	Premium Received	Expiring Option Payoff + MtM PnL			Gold (BCOM Gold TR)	Gold Income Strategy	Premium Received	Expiring Option Payoff + MtM PnL
Bull Market	2009	22.7%	26.5%	11.5%	-10.0%	Sideways Market	2008	3.8%	2.9%	13.8%	-17.3%
	2010	28.5%	31.5%	5.1%	-2.8%		2012	5.9%	7.4%	3.8%	-2.6%
	2011	9.5%	16.1%	5.9%	-0.7%		2014	-1.9%	0.3%	2.3%	-0.1%
	2016	7.6%	8.5%	3.5%	-3.0%		2018	-3.0%	-2.4%	1.1%	-0.5%
	2017	12.6%	13.8%	1.4%	-0.4%		Average	1.2%	2.1%	5.2%	-5.1%
	2019	17.8%	18.1%	1.8%	-1.6%	Bear Market	2013	-28.8%	-26.3%	3.5%	-0.3%
	2020**	17.9%	19.4%	3.9%	-7.6%		2015	-11.0%	-9.3%	2.6%	-0.9%
Average		16.7%	19.1%	4.7%	-3.7%		Average	-19.9%	-17.8%	3.0%	-0.6%

Income Overlay – Sensitivity Analysis

We have chosen a 2m 107.5F Call OW implementation as it provides a good trade-off between premium received vs. capped upside.

- Theoretically shorter-dated options tend to be beneficial due to a larger time decay (theta). Given the nature of the underlying movement and the liquidity, we have chosen a 2m maturity.
- The graphs below show the net-of-costs performance statistics across strikes for 2 month calls and across maturities for a 20 Delta Call.



Source: UBS AG, Bloomberg. Data as of 12 August 2020.

Data contains backtested values. See disclosure on the last page of this document for important information regarding backtested data. Past performance not indicative of future performance. The performance is net of trading costs. *Bull Market: BCOMGC Index > 7%; Bear market: BCOMGC Index < -10%; Sideways Market otherwise

2020 numbers are year-to-date and not annualised. *Performance numbers are annualised, Data as of 30 June 2020



Gold Income Strategy – Monthly Returns

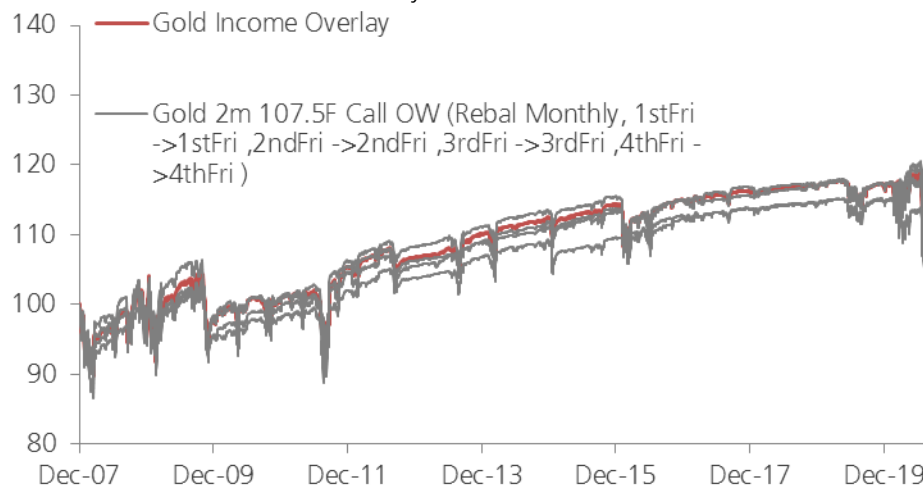
Below is the monthly return comparison of the Gold Income Strategy and Gold (BCOM Gold TR Index).

		Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Annual
2008	Gold Income Strategy	2.3%	3.3%	-2.0%	-4.8%	3.0%	3.8%	0.5%	-8.6%	3.7%	-14.1%	11.7%	5.3%	1.4%
	Gold	7.3%	5.2%	-5.8%	-6.0%	2.7%	4.3%	-1.5%	-9.4%	5.6%	-18.4%	13.8%	8.0%	1.1%
	Outperformance	-5.5%	-2.0%	4.2%	1.1%	0.2%	-0.5%	2.0%	0.8%	-2.0%	4.6%	-2.0%	-2.8%	-2.3%
2009	Gold Income Strategy	3.8%	2.3%	1.0%	-2.0%	8.8%	-2.9%	3.1%	0.3%	6.2%	3.4%	4.8%	-4.3%	26.5%
	Gold	4.8%	1.5%	-2.1%	-3.7%	9.8%	-5.4%	2.7%	-0.2%	5.9%	3.1%	13.5%	-7.3%	22.7%
	Outperformance	-1.1%	0.8%	3.3%	1.7%	-0.9%	2.6%	0.4%	0.5%	0.3%	0.3%	-9.0%	3.2%	1.5%
2010	Gold Income Strategy	-0.5%	3.4%	0.2%	5.2%	3.2%	2.7%	-4.0%	5.4%	4.2%	3.2%	2.2%	2.8%	31.5%
	Gold	-1.3%	3.2%	-0.5%	5.9%	2.8%	2.5%	-5.3%	5.6%	4.7%	3.7%	1.9%	2.5%	28.5%
	Outperformance	0.9%	0.2%	0.7%	-0.7%	0.5%	0.1%	1.4%	-0.2%	-0.5%	-0.5%	0.3%	0.3%	2.3%
2011	Gold Income Strategy	-5.2%	5.5%	2.4%	5.8%	0.6%	-1.6%	7.2%	6.8%	-4.4%	6.3%	2.2%	-9.1%	16.1%
	Gold	-6.2%	5.6%	2.0%	8.1%	-1.4%	-2.2%	8.4%	12.3%	-11.4%	6.3%	1.3%	-10.5%	9.5%
	Outperformance	1.1%	-0.2%	0.4%	-2.3%	2.2%	0.6%	-1.2%	-5.7%	8.1%	0.1%	1.0%	1.4%	5.2%
2012	Gold Income Strategy	9.9%	-0.6%	-1.6%	-0.3%	-5.9%	3.0%	0.6%	4.2%	3.3%	-2.2%	-0.2%	-2.1%	7.4%
	Gold	10.9%	-1.7%	-2.5%	-0.5%	-6.1%	2.6%	0.3%	4.5%	5.1%	-3.1%	-0.5%	-2.2%	5.9%
	Outperformance	-1.0%	1.1%	0.9%	0.2%	0.2%	0.4%	0.2%	-0.3%	-1.9%	1.0%	0.3%	0.1%	1.2%
2013	Gold Income Strategy	-0.8%	-4.9%	1.0%	-7.8%	-5.0%	-11.8%	6.9%	4.8%	-2.5%	0.3%	-5.2%	-3.6%	-26.3%
	Gold	-1.0%	-5.1%	1.0%	-7.8%	-5.5%	-12.2%	7.1%	6.3%	-5.0%	-0.3%	-5.6%	-3.9%	-28.8%
	Outperformance	0.1%	0.1%	0.0%	-0.1%	0.5%	0.4%	-0.2%	-1.5%	2.7%	0.5%	0.4%	0.2%	3.2%
2014	Gold Income Strategy	3.2%	6.0%	-1.8%	1.1%	-3.6%	5.8%	-2.7%	0.5%	-5.8%	-3.1%	0.3%	1.1%	0.3%
	Gold	3.1%	6.6%	-2.9%	0.9%	-3.9%	6.1%	-3.1%	0.3%	-5.9%	-3.3%	0.2%	0.7%	-1.9%
	Outperformance	0.2%	-0.6%	1.1%	0.2%	0.2%	-0.3%	0.4%	0.2%	0.1%	0.2%	0.1%	0.4%	2.2%
2015	Gold Income Strategy	6.6%	-4.2%	-2.3%	0.1%	0.8%	-1.4%	-6.5%	3.2%	-1.1%	2.7%	-6.5%	-0.3%	-9.3%
	Gold	7.9%	-5.2%	-2.6%	-0.1%	0.5%	-1.5%	-6.7%	3.4%	-1.5%	2.3%	-6.7%	-0.5%	-11.0%
	Outperformance	-1.4%	1.1%	0.2%	0.2%	0.2%	0.1%	0.2%	-0.2%	0.4%	0.4%	0.3%	0.2%	1.7%
2016	Gold Income Strategy	5.1%	7.1%	1.7%	3.8%	-4.3%	7.8%	3.1%	-2.8%	0.7%	-3.3%	-7.7%	-1.8%	8.5%
	Gold	5.3%	10.6%	0.0%	4.5%	-5.8%	8.5%	2.2%	-3.4%	0.4%	-3.3%	-8.0%	-1.9%	7.6%
	Outperformance	-0.2%	-3.6%	1.9%	-0.7%	1.6%	-0.7%	0.9%	0.6%	0.2%	0.1%	0.4%	0.1%	0.5%
2017	Gold Income Strategy	4.8%	3.3%	0.1%	1.6%	0.4%	-2.3%	1.9%	3.5%	-2.0%	-0.9%	0.3%	2.5%	13.8%
	Gold	5.0%	3.5%	-0.4%	1.4%	0.3%	-2.5%	2.0%	3.9%	-2.8%	-1.0%	0.2%	2.7%	12.6%
	Outperformance	-0.1%	-0.2%	0.5%	0.2%	0.1%	0.2%	0.0%	-0.4%	0.7%	0.1%	0.1%	-0.1%	1.0%
2018	Gold Income Strategy	2.2%	-1.5%	0.4%	-0.3%	-1.3%	-3.6%	-2.3%	-1.9%	-0.7%	1.8%	0.7%	4.4%	-2.4%
	Gold	2.3%	-1.8%	0.4%	-0.5%	-1.4%	-3.7%	-2.4%	-2.0%	-0.7%	1.8%	0.6%	4.7%	-3.0%
	Outperformance	-0.2%	0.3%	0.0%	0.1%	0.1%	0.1%	0.0%	0.1%	0.1%	0.0%	0.1%	-0.3%	0.6%
2019	Gold Income Strategy	3.4%	-0.3%	-1.6%	-0.7%	1.6%	6.0%	1.8%	5.7%	-2.3%	3.1%	-2.8%	3.4%	18.1%
	Gold	3.1%	-0.5%	-1.7%	-0.8%	1.7%	8.0%	1.0%	6.5%	-3.5%	3.0%	-3.1%	3.6%	17.8%
	Outperformance	0.3%	0.3%	0.1%	0.1%	0.0%	-2.0%	0.9%	-0.9%	1.3%	0.1%	0.3%	-0.2%	0.2%
2020	Gold Income Strategy	4.1%	-1.2%	1.7%	6.2%	3.5%	2.6%	3.6%	-1.1%					20.8%
	Gold	4.0%	-1.2%	1.8%	6.1%	2.7%	2.8%	8.5%	-1.9%					24.7%
	Outperformance	0.1%	0.1%	0.0%	0.0%	0.8%	-0.2%	-5.1%	0.8%					-3.7%

Gold Income Strategy – Path Dependency Illustration*

Daily trading using monthly listed expiries is the preferred implementation method as it provides entry and exit diversification to reduce path dependency.

- Each grey path represents a different strategy which only trades once a month (1st Friday, 2nd Friday, 3rd Friday or 4th Friday). By trading daily the Gold Income Overlay diversifies across entry points (implied volatility, strike) and exit points (expiries).
- Among the five variations the Gold Income Overlay ranks 2nd in terms of return and 1st in terms of Sharpe Ratio.



Source: UBS AG, Bloomberg. Data as of 12 August 2020.

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Appendix: Strategy Implementation

Bloomberg Gold Subindex

The BCOM Gold Index gives investors exposure to Gold by systematically rolling a future at the front of the curve.

- To avoid the physical delivery of commodities from the underlying futures, the BCOM indices roll from current to subsequent contracts during the roll period defined in the methodology, which falls within the 5th-9th business day of each month.
- The roll schedule for Gold is defined in the table below:

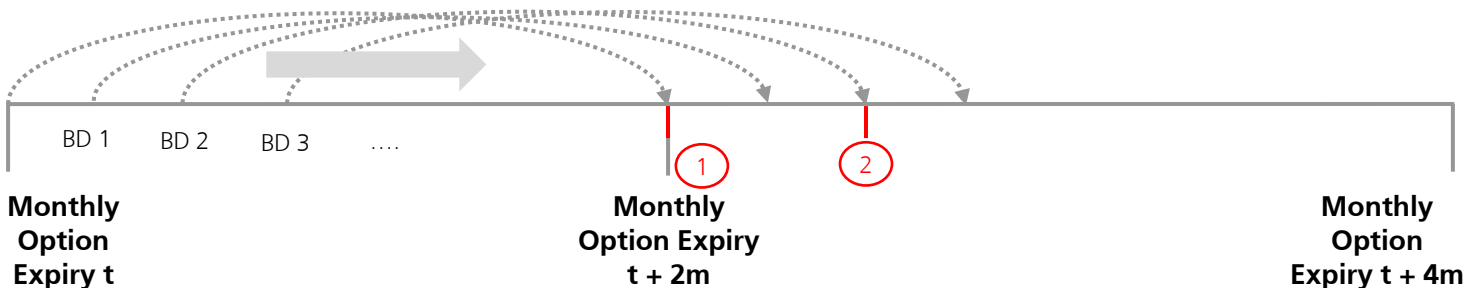
Month	Jan (F)	Feb (G)	Mar (H)	Apr (J)	May (K)	Jun (M)	July (N)	Aug (Q)	Sep (U)	Oct (V)	Nov (X)	Dec (Z)
Contract	G	J	J	M	M	Q	Q	Z	Z	Z	Z	G

- The contract shown in the table for the respective month is the "Lead Contract" which is held at the beginning of the month, but rolled out of during the 5th – 9th business day into the "Next Contract", which is the contract shown for the subsequent month.
- If Lead and Next Contract are identical (in Feb, Apr, Jun, Aug, Sept, Oct), no rolling activity takes place.

Gold Income Overlay

Every day the strategy aims to trade a 2m 107.5F call target option, implemented via listed options as outlined below.

- Every day the strategy trades 1 target option with maturity of 2 months and a strike of 107.5% of the forward with an allocation of 1/42 of the strategy notional.
- This target option is implemented via one or two available listed monthly expiring options enclosing the target maturity and with listed strike closest to the target strike.
- The Gold options and futures are listed on COMEX. The selected options are restricted to the expiries in odd months and they reference the Gold future expiring in the subsequent even month.



- Example 1: The target maturity exactly matches the listed expiry. Therefore only one option is traded (with strike closest to the target strike).
- Example 2: The target maturity falls between two listed expiries. Therefore a weighted position in the two enclosing options is taken such that the weighted average maturity equals the target maturity (and with strikes closest to the target strike).

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