

Dynamic Alpha Strategy

A flexible, multi-capability investment that seeks to achieve superior risk-adjusted returns

Capability overview





A pioneer in active global asset allocation creates a pioneering strategy

For over 24 years, UBS Global Asset Management has been committed to a global, multi-capability approach to help clients reach their investment objectives. Our Dynamic Alpha Strategy extends this time-tested expertise by drawing on our diverse investment capabilities in new ways.

Dynamic Alpha Strategy takes our flagship asset allocation capability to the next level, enhancing its possibilities by separating and actively managing a greater variety of investment risk and return sources. These include a wide range of:

- dynamic market risks;
- dynamic currency risks; and
- security selection risks.

Dynamic Alpha Strategy asks three key questions:

1. What market exposure do we need...
2. What securities exposure do we need...
3. What risk exposure do we need...

to achieve an anticipated return?

Through Dynamic Alpha Strategy, we can utilize all the strategies and investment tools at our firm, as well as cutting-edge risk management and portfolio construction techniques. This gives us the flexibility to respond faster to changes in the global capital markets. We believe it should also result in a superior return per unit of risk taken.

Absolute return strategies do not ensure against a loss.

Special considerations: Dynamic Alpha Strategy



Maintaining realistic expectations

As with all investments, it is important to maintain realistic expectations.

- The Strategy attempts to achieve a real return objective over full market cycles (generally defined as three to five years). There can be no guarantee that the Strategy will earn its return objective.
- During sharp upturns in the equity markets, our goal of limiting the Strategy's volatility level should result in more muted returns than those generated by funds that track a benchmark index and are fully invested in markets.
- While the Strategy seeks to provide downside protection, it is not immune to negative returns or losses.

How Dynamic Alpha Strategy works

Dynamic Alpha Strategy attempts to achieve a real return objective over full market cycles (generally defined as three to five years). In attempting to achieve its goal, the Strategy's investment team—leveraging UBS Global Asset Management's over 24-year time-tested investment process—combines extensive research, asset allocation, top-down and bottom-up analysis, and state-of-the-art risk management to identify opportunities across the global markets. (Note: The Strategy commenced operations on December 1, 2003. No representation is being made that our investment process included shorting stocks over the years.) Absolute return strategies do not ensure against a loss.

The investment team has the ability to short market, currency and individual security exposures, and to selectively invest only where it finds opportunities to add value. Market and security selection are managed as separate sources of return, which may provide the ability to invest in securities without acquiring uncompensated market risk. Top-down analysis yields market and currency exposures: When markets are deemed to be overvalued, the Strategy can avoid or adjust its exposure to them through the use of derivatives, such as futures contracts, while simultaneously investing in attractive securities within those markets. Bottom-up analysis determines security valuations: The team may buy securities that are undervalued and that may offer attractive risk-adjusted returns, and short securities that appear overvalued. During sharp upturns in the equity markets, our goal of limiting the Strategy's volatility level should result in more muted results than those generated by portfolios that track a benchmark index and are fully invested in markets.

This document is provided for information only.

Risks

Diversification and absolute return strategies do not ensure against risk of loss. The risk that the Strategy will be more volatile than a diversified portfolio, because the Strategy invests its assets in a smaller number of issuers. The gains and losses on a single security may, therefore, have a greater impact on the Strategy's net asset value.

Management Risk. The risk that the investment strategies may not produce the desired results. The Advisor may be incorrect in its assessment of the securities' values or market and interest rate trends, which can result in portfolio losses.

Market Risk. The risk that the market value of the Strategy's investments will fluctuate as the stock and bond markets fluctuate.

Foreign Investing and Emerging Markets Risks. The risk that the value of the Strategy's foreign securities investments may fall due to adverse political, social and economic developments abroad and due to decreases in foreign currency values relative to the US dollar.

Derivatives Risk. The risk that the Strategy's investments in derivatives may rise or fall more rapidly than other investments. For some derivatives instruments, it is possible for a Strategy to lose more than the amount it invested. The use of derivatives may not succeed for various reasons, including unexpected changes in the derivatives' value or their underlying assets. Derivatives may accelerate the velocity of portfolio losses.

Leverage Risk. The Strategy may borrow money from banks to purchase investments, which is a form of leverage. If the Strategy borrows money to purchase securities and they decrease in value, the Strategy's losses will be greater than if borrowing was not used. In addition, if an investment's return purchased with borrowed funds is insufficient to cover the borrowing cost, then the Strategy's net income will be less than if borrowing was not used. Leveraging a portfolio may accelerate the velocity of potential losses.

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Flexibility distinguishes Dynamic Alpha Strategy

With Dynamic Alpha Strategy, we have relaxed many of the constraints normally imposed on conventional multi-asset approaches. Our goal: a real return objective over full market cycles (generally defined as three to five years).

Dynamic Alpha Strategy has several key features, which UBS Global Asset Management employs in a unique way. Dynamic Alpha Strategy aims to provide superior risk-adjusted returns compared with conventional multi-asset approaches. It does so by lifting two common restrictions placed on traditional portfolios, namely:

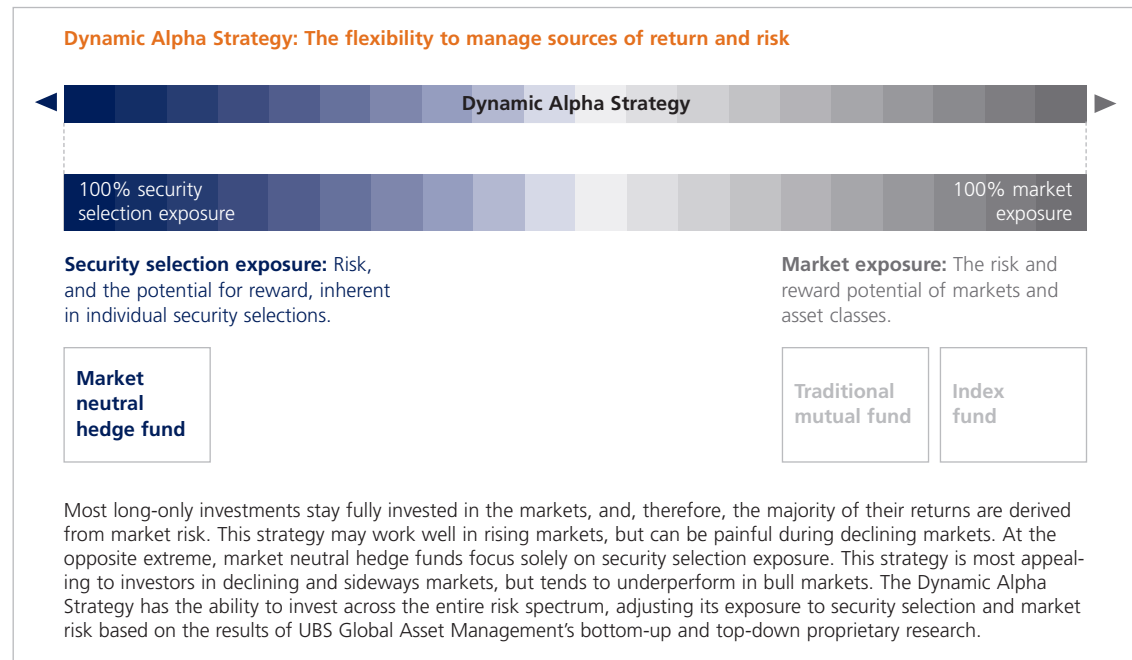
1. The Strategy has the ability to take short positions in asset classes and markets using derivatives, and
2. It is not constrained by a benchmark.

Dynamic Alpha Strategy's flexibility enhances its ability to diversify and manage risk.

- **Dynamic Alpha Strategy has a far greater range of investment opportunities than the typical multi-asset capability, thus improving risk diversification.**

- **Dynamic Alpha Strategy has the ability to seek to separate and manage different sources of investment risk with more precision.** This is achieved by lifting conventional portfolio constraints on short-selling and the use of derivatives. The ability to separate sources of risk to a far greater extent than in a conventional multi-asset portfolio significantly improves the ability to manage risk in Dynamic Alpha Strategy.

- **Dynamic Alpha Strategy also has the flexibility to allocate risk capital according to where we believe the associated risks are best compensated—another aid to enhanced risk management.**





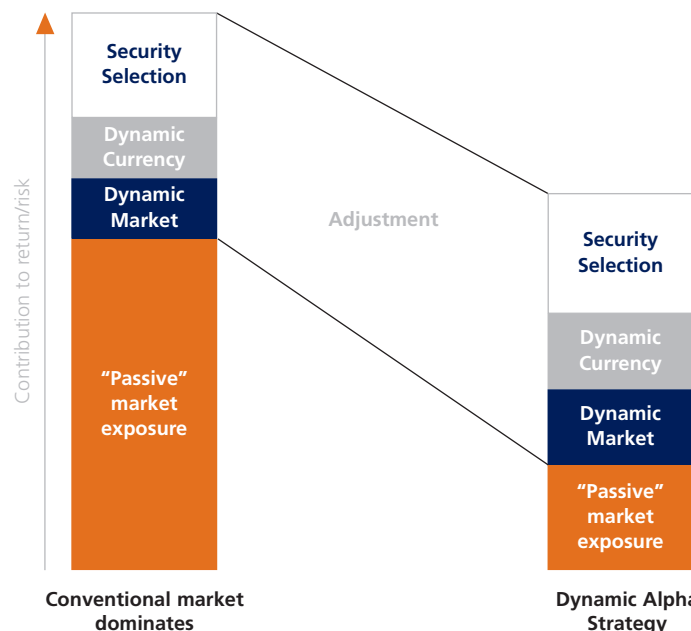
Enhanced diversification and management of risk

Conventional multi-asset portfolios cannot take advantage of the wide range of security selection capabilities available to the Dynamic Alpha Strategy portfolio. Every one of UBS Global Asset Management's 25+ distinct selection capabilities—spanning equity, fixed income, real estate and structured products—is a potential candidate for inclusion in Dynamic Alpha Strategy.

Similarly, with respect to market, asset class and currency exposure, Dynamic Alpha Strategy has the ability to seek out the best risk-adjusted return opportunities regardless of the type of asset class, its domicile, or its base currency.

The enhanced management of risk arises from Dynamic Alpha Strategy's ability to separate distinct sources of risk and return, integrating them into a single package. This allows us to seek to allocate risk capital far more efficiently than in traditional diversified funds.

Separating distinct sources of risk and return



Conventional market dominates
Security selection is an "add-on."
Returns from dynamic market and dynamic currency are often constrained.

Dynamic Alpha Strategy
More balanced mix of passive and dynamic risk. Scope for greater returns from dynamic risk management.

At the broadest level of separation, we distinguish "market" risk and return from "dynamic" risk and return:

- Market risk and return is attributable to the movements of the broad asset classes, primarily equities and bonds.
- Dynamic risk and return is uncorrelated with market movements.

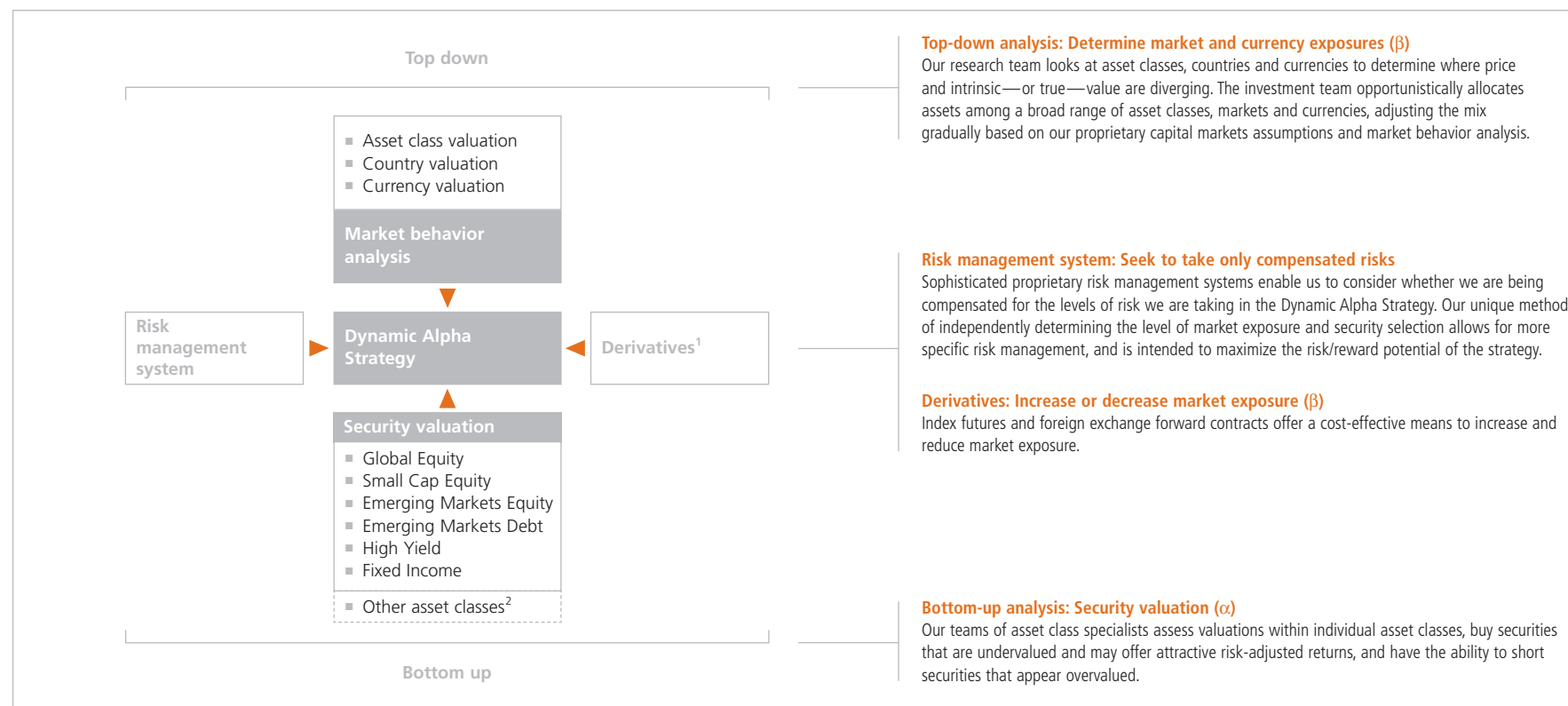
Unlike the constrained opportunity set of other types of investment strategies, Dynamic Alpha Strategy has the ability to move anywhere along the risk spectrum, to manage both the level and the composition of risk.

Dynamic Alpha Strategy

How it works

Dynamic Alpha Strategy represents a blend of UBS Global Asset Management's tried and proven capabilities in security selection, asset allocation, currency and risk management. The key change is the greater flexibility afforded Dynamic Alpha Strategy through the relaxation of many of the constraints typically imposed in conventional approaches.

It is helpful to think of Dynamic Alpha Strategy as a series of selection exposures (that is, physical investments in individual investment capabilities) plus various adjustments (in the form of derivatives) that allow us to achieve the desired market exposures.



¹ Derivatives risk: The Strategy's investments in derivatives may rise or fall more rapidly than other investments. For some derivatives, it is possible for investors to lose more than the amount the Strategy invested in the derivative instrument. The use of derivatives may not succeed for various reasons, including unexpected changes in the value of the derivatives or the assets underlying them. Derivatives may accelerate the velocity of the portfolio losses.

² Including TIPS (Treasury Inflation Protected Securities).

Isolating and capturing returns by separating risk sources

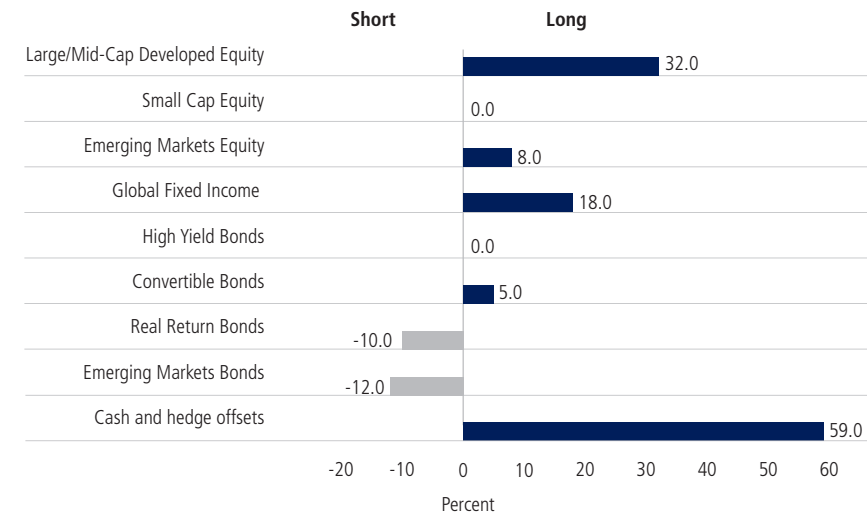


Many asset class, market and style exposures are replicable through the use of derivatives. The number is growing every day. Instruments such as futures and swaps are generally liquid and inexpensive to trade. These derivatives provide us with the ability to amplify selection exposures. We do this through security selection exposure in an effort to add value, through manager skill, over and above the normal policy allocation for a particular capability. At the same time, we can, if desired, hedge away the underlying market exposures that accompany investments in physical securities.

For example, assume that our research indicates that the US equity market is overvalued. From a top-down perspective, we would want to avoid this market. However, assume that we see undervalued sectors within the US market. Dynamic Alpha Strategy allows us to concentrate our holdings in the undervalued portions of the market, while reducing exposure to the broader market.

To accomplish this, we would assume security-specific (alpha) risk by investing in our actively managed US Equity strategies. Then, using derivatives such as index futures, we would seek to reduce or eliminate market (beta) risk by selling short the asset class. By separately managing security selection, market and currency risks, we are able to isolate and capture returns without taking the systematic risks a traditional portfolio would incur.

Top-down decisions (beta): Sources of market exposures



Source: UBS Global Asset Management. Data shown are strategy level only. Allocation shown is as of June 30, 2006 and is for illustrative purposes only. For the most recent strategy level data, please go to our Web site at www.ubs.com/globalam-us.



Adjusting market exposure through derivatives

The use of derivatives in the Dynamic Alpha Strategy serves two primary purposes:

1. Separates market exposure from securities exposure.

Traditional portfolios bundle these two exposures, forcing investors to compromise on their investment beliefs. Dynamic Alpha Strategy allows us to position both the market and the securities elements

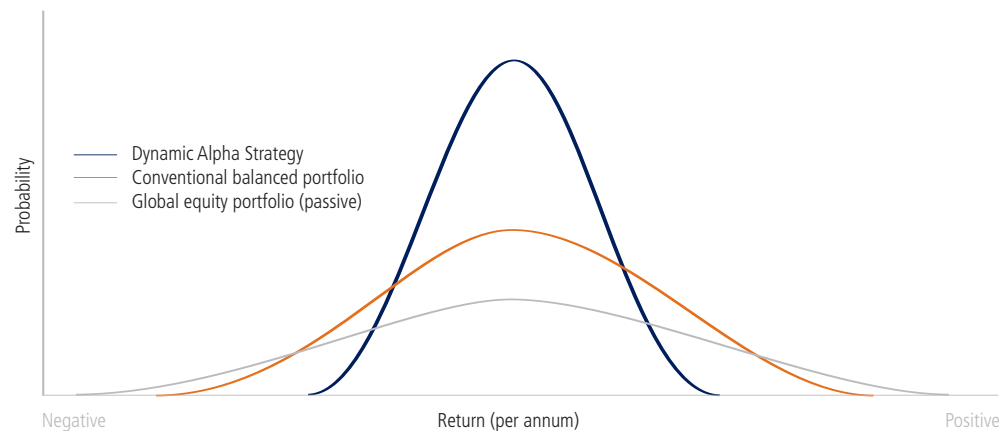
exactly where our research tells us they should be. We can use index futures contracts to take a neutral or negative position in an overvalued market, while still investing in the securities and sectors we find attractive—or vice versa. We can employ this approach wherever we find liquid futures contracts, in both equities and fixed income.

2. Takes outright market positions, either long or short.

Derivatives allow us to increase or reduce our exposure to broad markets in a more cost-effective way than through buying individual bonds and stocks. By establishing certain market exposures through the use of derivatives, including futures, we preserve our clients' capital for strategies where we can use it most efficiently.

At UBS Global Asset Management, we use derivatives to manage the volatility of the Dynamic Alpha Strategy. Our goal is to produce enhanced risk-adjusted returns through the prudent management of risk. Please see the "Risks" section at the front of this brochure for a discussion of the risks associated with the use of derivatives.

Seeking consistent risk-adjusted returns



In a passive global equity portfolio, as shown by the gray line in the chart, the distribution of returns has historically been very wide. In very good or very poor years, returns will fall into the tail ends of the distribution. In a conventional balanced portfolio, the distribution of returns can be reigned in to a degree (see orange line), as the addition of fixed income and other assets will reduce overall volatility. By using derivatives, we actively manage the market exposure of Dynamic Alpha Strategy; this added diversification can help to eliminate the extreme ends of the return distribution spectrum and produce more consistent risk-adjusted returns.

Source: UBS Global Asset Management. For illustrative purposes only.

Managing risk in a Dynamic Alpha Strategy portfolio



The key tools we use in our risk management process are two complementary approaches, which, together, provide us with a multi-dimensional view of risk and return.

- The top-down risk capital allocation system incorporates the expected compensation, or returns, for taking different types of risk.

- The bottom-up system comprises an equity risk model and a fixed income model, integrating the two.

The two systems together provide a detailed estimate of the risks inherent in Dynamic Alpha Strategy at the asset class, currency and security selection levels.

Putting our capital markets assumptions to work through active asset allocation

There have been several occasions in the history of UBS Global Asset Management when our market views were considered unconventional. We have even lost clients because we refused to follow the accepted wisdom of the times. Time and again, however, the views that evoked the most controversy eventually earned us the greatest respect from our clients.

At the turn of the millennium, many investors were certain we had embarked on a “new era” of growth and prosperity. We disagreed, telling our clients that a stock price bubble had formed. We believed it would eventually burst, and we, therefore, trimmed our US equity allocation in our multi-asset portfolios to a mere 18%. Several clients abandoned ship in search of managers who would pursue the dizzying returns we believed came at too high a price.

As it happened, the mania ended—and ended badly for some. Our active asset allocation strategies protected our portfolios against the worst of the damage. This period, one of the biggest opportunities for our investors, was backed by our strongest convictions.

Currency management as an additional source of return

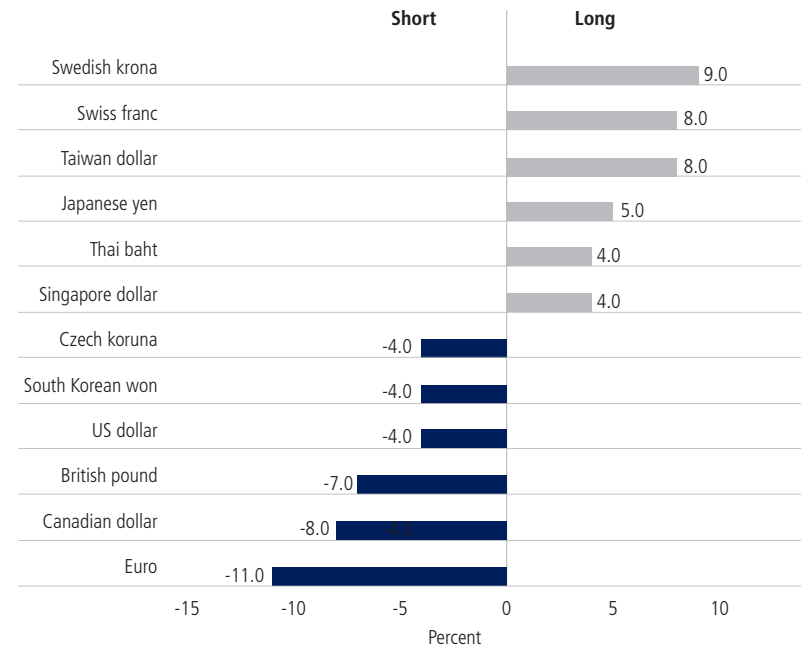


We make currency decisions with both return and relative risk in mind, and we separate them from market allocation decisions. When managing currency exposures, we are guided by the knowledge that exchange rates periodically diverge substantially from their long-term sustainable levels, defined by relative inflation trends, productivity and terms of trade. Our currency management is based on a fundamental valuation approach, and aims to benefit from the correction of shorter-term price/value discrepancies, taking into account global interest rate differentials.

We construct our forward-looking risk model using a factor approach that considers currency exposures to be a combination of factors and specific risk exposures. We examine current exchange rates, compare them with fair value exchange rates, and seek to take advantage of the discrepancies.

Ultimately, we derive our currency positions from a combination of fundamental valuation and proprietary market behavior analysis. We have recently enhanced our currency management implementation process allowing us to use nondeliverable forward contracts in order to seek to manage currency risk exposures with greater precision.

Currency positions in Dynamic Alpha portfolios



Source: UBS Global Asset Management. Data shown are strategy level only. Allocation shown is as of June 30, 2006 and is for illustrative purposes only. For the most recent strategy level data, please go to our Web site at www.ubs.com/globalam-us.

Our goal for Dynamic Alpha Strategy is to provide a relatively low-risk, capital-efficient and consistent return through time.

The benefits of Dynamic Alpha Strategy

We believe there is a single optimal global market portfolio—and Dynamic Alpha Strategy attempts to own it. We also believe we can identify the best risk-adjusted mix of investments. The other sources of risk and return—dynamic market and dynamic currency management—are completely independent of domicile or currency base. Dynamic Alpha Strategy therefore offers investors a combination of “optimal” market, securities selection, dynamic market and dynamic currency exposures.

Our goal for Dynamic Alpha Strategy is to provide a relatively low-risk, capital-efficient and consistent return through time. Thus, the Strategy will tend to have a very low correlation with other alpha-generating investments, and will tend to have a moderate positive correlation with investors’ other market exposures.

Dynamic Alpha Strategy offers many attributes that hedge funds do not, including:

- transparency³
- liquidity
- scalability
- relatively attractive fees
- a longer investment time horizon than most hedge funds

Depending on investor needs and preferences, the Dynamic Alpha Strategy can be positioned as a core holding or a non-core holding. The Strategy is flexible in this regard and is currently being used by clients in the following ways:

- As a core portfolio holding among other diversified strategies;
- As an absolute-return strategy (as a peripheral allocation to, or within, a multi-asset policy portfolio); and
- As a strategic holding and distribution vehicle for allocating to alternative assets over time.

³ The extent and timing of the Strategy’s transparency will vary depending on which investment vehicle is utilized.



What sets UBS Global Asset Management apart

We have a global perspective. Because capital markets are global and interrelated, even investing in securities from a single country requires a broad and comprehensive understanding of companies, industries, economies and markets around the world. At UBS Global Asset Management, we take a global view on everything we do.

We adhere to a disciplined investment approach. This has led to consistent and repeatable results, which we believe is in the best interests of our clients.

We are a leading institutional asset manager. UBS Global Asset Management, a business group of UBS, is one of the world's largest asset managers, with USD 614 billion under management worldwide.⁴ Our financial strength, the stability of our organization and the talent of our people provide us with the depth of resources to craft intelligent investment solutions that can help our clients preserve and build their wealth.

⁴ As of March 31, 2006.



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DAF606.3344C S1032 06-0176 8/06
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