UBS

Wealth Management Research

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Investment Strategy Guide *Update*

Bracing for further fallout

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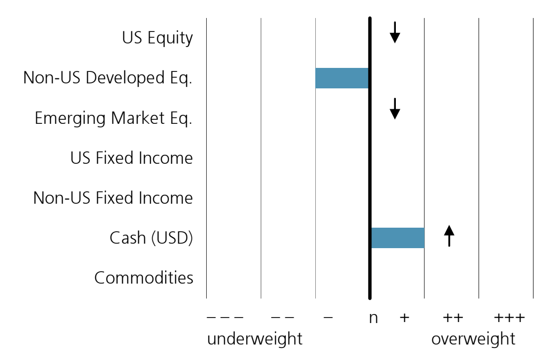
- We are recommending a reduction in equity exposure from a neutral (benchmark) weighting to a moderate underweight and a corresponding increase in cash positions.
- We are concerned that the low growth momentum that developed economies are currently exhibiting leaves almost no room for any shock or policy error.
- We believe that the risk of further financial stress in the Eurozone over the next three months, coupled with a higher risk of recession in developed economies including the US makes the risk / reward trade-off appear less supportive for equities.
- Within the equity portion of client portfolios, we also recommend reducing exposure to emerging markets and now hold an overweight in US equities, neutral position in emerging markets and continued underweight in non-US developed.

This is an intra-month strategy update

Our regular, monthly issue of the Investment Strategy Guide, with additional detail and guidance, will be published, as always, on the last Wednesday of the month.

Fig. 1: Tactical deviations across asset classes
Deviations from benchmark (9-12 month time horizon)



Note: Arrows indicate changes adopted in this report.
Source: UBS WMR, as of 18 September 2011. See *Deviations from benchmark allocation* in the Appendix for a detailed explanation of these suggested deviations.

Downside risks dominate

Rather than offering us comfort that markets found a bottom during the long restless summer, we view the most recent run-up in equity markets as but a temporary respite. The macroeconomic backdrop remains very challenging. Both the US and European economies are hardly growing and could easily be tilted into recession. Moreover, the risks emanating from the still unresolved Eurozone fiscal and financial crisis are substantial and create a significant downside scenario, which we believe is too severe to ignore. In particular, we believe that a Greek default is likely during the next six months and struggle to see how this could happen without some collateral damage. In short, we need to brace for further fallout. We are therefore adjusting our tactical asset allocation and shifting from a neutral (i.e. on-benchmark) allocation to a moderate underweight allocation to equities and increasing our allocation to cash to a moderate overweight.

Limited room for error

We are concerned that the low growth momentum that developed economies are currently exhibiting leaves almost no room for any shock or policy error. Both the US and the Eurozone have seen their growth rate nearly stall during the first part of the year, while Japan suffered an earthquake induced recession. Moreover, political paralysis on both sides of the Atlantic during the summer has further eroded confidence and risks delay the much hoped for second half rebound.

And while, we are still working off of a baseline scenario that assumes very low growth, but no recession, over the next 18 months, we do have to acknowledge that the probability of a recession is unusually large, on the order of a one in three chance. Although markets already appear priced for a fair amount of bad news, it's likely that risk assets will come under even further pressure amid softer economic data and a continued ratcheting up of political risks.

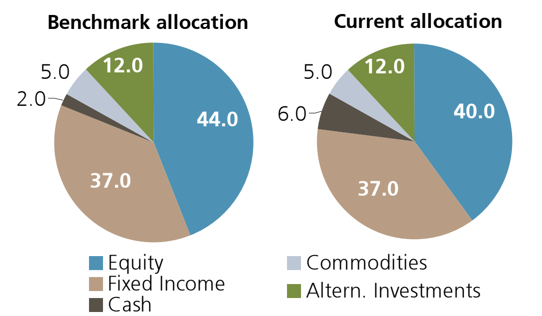
Recent economic data has been mixed to somewhat negative. Survey based data continues to be weak, while hard data (actual spending and net hiring) have not fallen off a cliff, but remain very sluggish. In particular, there is a large disconnect between consumer sentiment and actual consumer spending growth. While lesser gaps have persisted in the past for several months, the current gap is too significant to persist for long, in our view (see Fig. 3). Something has to give and we continue to fret that consumer spending growth could falter as opposed to consumer sentiment rebounding visibly any time soon.

Eurozone crisis: a brief respite

While there is a variety of shocks that could cause a recession given the fragile state of the global economy, the one that currently has the greatest number of investors concerned is, without a doubt, the Eurozone crisis.

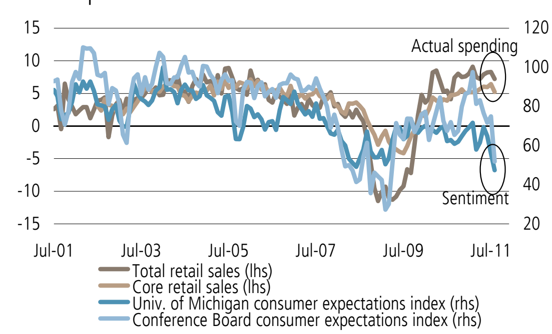
It is our view that Greece will default and therefore be forced to restructure its debt within the next year - and that this could even happen within the next 6 months. Greek bonds are already trading in a pattern very close that of defaulted securities. The price of bonds with different maturities (2, 5, and 10 years) have nearly converged, suggesting that the market is no longer focused on promised yields, but rather on expected recovery values. The question, therefore, is now whether Greece can be allowed to default in an orderly manner, i.e. one that does not cause broad contagion to other weak European sovereigns and to the banking sector.

Fig. 2: Benchmark and current allocation
Percentage of portfolio (moderate risk portfolio)



Source: UBS Investment Solutions and WMR, as of 18 September 2011. See Sources of benchmark allocations and investor risk profiles in the Appendix for a detailed explanation regarding benchmarks and their suitability. The current allocation is the sum of the benchmark allocations and tactical deviations.
The Tables on pages 6 and 7 in the Appendix also show asset allocations applicable to risk profiles other than the moderate risk profile shown here, both with and without nontraditional assets

Fig. 3: Weak US consumer sentiment not reflected in spending up to now
US retail sales, annual change in %; consumer sentiment expectations indices

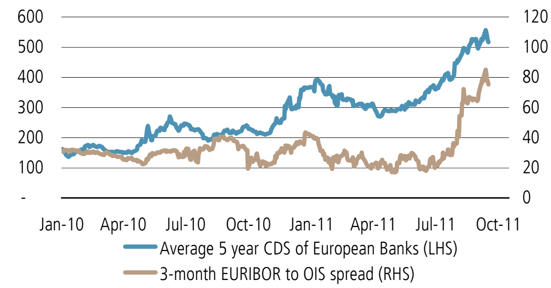


Source: Bloomberg, UBS WMR, as of 16 September 2011

We do believe it is still possible that the contagion of a Greek debt restructuring could be somewhat limited if it were announced in the context of a broad package of measures aimed at propping up other peripheral countries and recapitalizing the banking sector in key Eurozone countries. This would most likely have to happen after December 2011 when the expanded European Financial Stability Facility (EFSF) will have been ratified by all member countries. The new EFSF could then be relied on to recapitalize banks in countries where the sovereign were no longer in a position to do so. Stronger countries such as Germany, and perhaps France, would have to strengthen their banks on their own. The ECB would need to continue intervening to support Italian bonds, as the EFSF would be undersized to do so. Finally, commitments to further fiscal austerity would probably be needed. While it is conceivable that such a concerted set of measures could fall into place, there is clearly plenty of room for slippage given the large number of parties involved (different countries each with different political entities, the European Commission, the IMF, the ECB). There is therefore a significant risk that market confidence will be lost somewhere along the process. With an accident increasingly likely to happen at some point along the way, we believe that the Euro crisis creates an asymmetric downside risk that is too significant to ignore from overall investment standpoint.

Fig. 4: Bank credit and interbank spreads elevated in Europe

Spreads, in basis points



Source: Bloomberg, UBS WMR, as of 16 September 2011
Note: CDS= credit default swap; the EURIBOR to OIS spread measures credit risk in the European interbank funding market

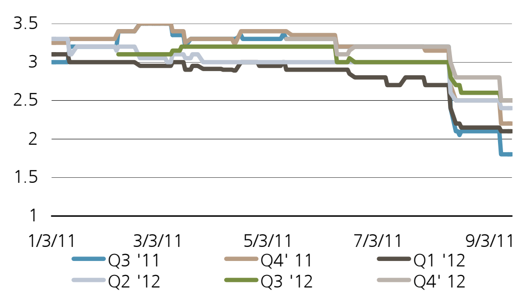
Downward revisions underway

In the current sluggish global growth environment, we believe that consensus expectations for corporate earnings and GDP have plenty of room to correct. Current consensus expectations for 11% earnings growth in European equities next year appear highly unlikely to be reached. And domestically, consensus bottom-up estimates for 2012 S&P 500 EPS have declined by over $2 to $111.67, from $113.91 in early August, but still remain nearly $10 above our forecast of $102.

Meanwhile, economists surveyed by Bloomberg have been ratcheting down their expectations for US GDP growth, but only moderately so. The "no recession" view remains consensus. The weakest sequential GDP growth is expected in the current quarter (Q3) at 1.8% annualized, down from 3.2% expected back in July. Growth of 2.2% is expected in 2012, down from a level around 3% back in July. With the UBS IB house view somewhat below consensus and in view of recent releases, we believe further downward adjustments to GDP consensus forecasts are likely.

Fig. 5: Ongoing adjustment in consensus growth forecast

Consensus expectations for quarterly annualized US real GDP growth, in %



Source: Bloomberg, UBS WMR as of 15 September 2011

Valuations attractive but not compelling

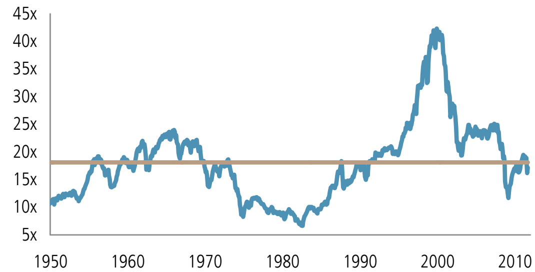
The decline in stock market values since mid-July has improved valuations at first glance. Based on our proprietary Dividend-Discount model, we estimate that global equities present an upside to fair value of 32%. While this is attractive for investors with a multi-year horizon, it is not necessarily compelling were the macroeconomic picture to deteriorate further. By means of comparison, the same indicators presented an upside of over 50% back in March of 2009 at the bottom of the bear market.

Similarly, the S&P 500 forward price-to-earnings ratio, currently at 11.3x, is significantly below its long-term average value of 15x. However, this does not suggest that stocks are a crying buy. For one, in the current post-Great Recession environment, with lower growth prospects and increased macroeconomic uncertainties, a fair PE is likely to be lower than average. We believe that a fair PE should lie in the 12 to 14x range. Second, consensus earnings may be too optimistic. Based on WMR's EPS estimates, which are more conservative than bottom-up consensus ($97 for 2011 and $102 for 2012) the forward PE rises to 12.2x, thereby suggesting somewhat less potential upside from multiple expansion. Finally, forward earnings expectations – both ours and consensus – reflect a new high-water mark for S&P 500 EPS. Using a cyclically-adjusted earnings base instead (the average of the last ten years adjusted real operating earnings), the S&P 500 trades at 17.2x, or just a single multiple point below the long-run average of 18.2x (see Fig. 6). Keep in mind that on this basis, the S&P 500 would have to fall to 825 to match its trough valuation of 11.7x in March 2009.

In other words, while valuations appear attractive at first sight, digging deeper suggests that they are not outright compelling given the risk associated with the current environment and significant downside exists in a "black sky" scenario. In fact, US stocks are now trading within spitting distance of our year-end 2011 target of 1225 for the S&P 500.

Fig. 6: Stocks are not cheap assuming trend earnings

Price-earnings ratio based on 10 year trailing real earnings



Source: Bloomberg, UBS WMR, as of 18 September 2011.

Conclusion

In view of the asymmetric downside risks emanating from the Eurozone, we recommend reducing global equity exposure further to a moderate underweight tactical stance, from our previous neutral (i.e. on benchmark) recommendation. Regionally, we continue to recommend deemphasizing Eurozone equities the most. On a relative basis, we are recommending a modest overweight for the US relative to emerging markets, but a continued preference for emerging markets over the Eurozone. We believe that EM stocks should resume their outperformance if global growth merely experiences a slowdown, as this would reduce the overheating and inflationary concerns that have been a major drag on EM this year. However, in the even of a disorderly debt restructuring outcome in the Eurozone, we believe that the associated spike in risk aversion is very likely to lead EM stocks to underperform cash – despite current paltry yields.

Market Scenarios (next 12 months)

Economic data has continued to disappoint. Many sentiment indicators have dropped sharply. Tighter fiscal policy and deleveraging in developed markets will create further headwinds, making a strong recovery difficult to achieve. The recovery of Japan's manufacturing sector is helping to ease problems in global supply chains, giving a boost to output. Inflation should peak soon in many emerging markets.

Moderate recovery: Base Case Scenario
Probability: 55%

- The global economy remains on an expansion course as low real interest rates in most countries provides support.
- The recovery is more subdued than in prior cycles because of de-leveraging pressures, with unemployment rates remaining far above their pre-financial crisis levels.
- Growth in emerging markets continues to outpace developed markets.

Renewed recession: First Alternative Scenario
Probability: 30%

- The recent trend toward weaker growth continues as fiscal consolidation and higher interest rates create additional headwinds.
- Most countries suffer at least one quarter of negative growth as consumers cut back on spending.
- Weak demand keeps inflation under control.
- The Eurozone debt crisis represents a threat to global growth.

Stagflation: Second Alternative Scenario
Probability: 10%

- Loose monetary policy boosts commodity prices without helping the economy, setting an inflationary process in motion.
- The combination of rising price levels and weak growth prospects poses significant challenges to most financial assets.

Strong recovery: Third Alternative Scenario
Probability: 5%

- High profit margins and low interest rates encourage as surge in investment spending.
- Improvements in the labor market and in credit conditions allow a more dynamic consumer recovery.

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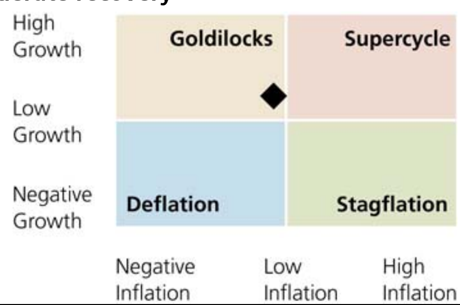
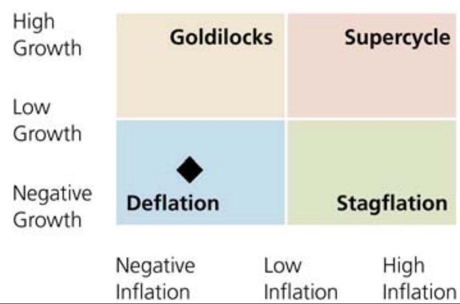
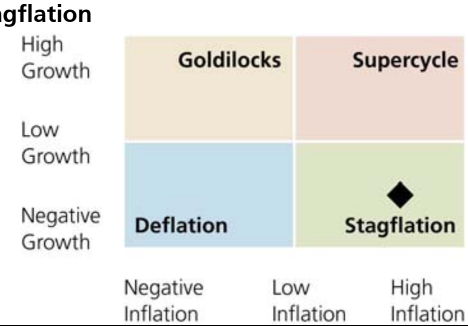
Moderate recovery



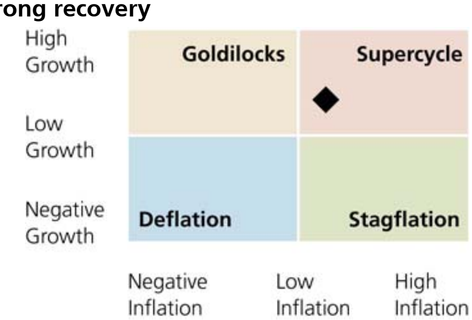
Renewed recession



Stagflation



Strong recovery

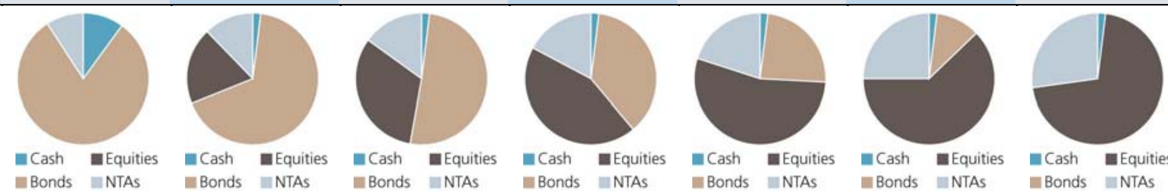


Source: UBS WMR

Appendix 1

Detailed asset allocations with non-traditional assets (NTAs)

All figures in %



Investor Risk Profile[1]	Very conservative				Conservative				Moderate conservative				Moderate			
	Benchmark allocation[2]	WMR tactical deviation[3]	Change	Current allocation[4]	Benchmark allocation[2]	WMR tactical deviation[3]	Change	Current allocation[4]	Benchmark allocation[2]	WMR tactical deviation[3]	Change	Current allocation[4]	Benchmark allocation[2]	WMR tactical deviation[3]	Change	Current allocation[4]
Traditional Assets																
Equity	0.0	+0.0		0.0	19.0	-2.0	▼	17.0	32.0	-3.0	▼	29.0	44.0	-4.0	▼	40.0
US Equity	0.0	+0.0		0.0	14.0	+0.0	▼	14.0	23.0	+0.0	▼	23.0	32.0	+0.0	▼	32.0
Large Cap Value	0.0	+0.0		0.0	8.0	-1.0	▼	7.0	8.0	-1.5	▼	6.5	11.0	-2.0	▼	9.0
Large Cap Growth	0.0	+0.0		0.0	5.0	+1.0		6.0	8.0	+1.5	▼	9.5	11.0	+2.0	▼	13.0
Mid Cap	0.0	+0.0		0.0	1.0	+0.0		1.0	4.0	+0.0		4.0	5.0	+0.0		5.0
Small Cap	0.0	+0.0		0.0	0.0	+0.0		0.0	2.0	+0.0		2.0	3.0	+0.0		3.0
REITs	0.0	+0.0		0.0	0.0	+0.0		0.0	1.0	+0.0		1.0	2.0	+0.0		2.0
Non-US Equity	0.0	+0.0		0.0	5.0	-2.0	▼	3.0	9.0	-3.0	▼	6.0	12.0	-4.0	▼	8.0
Developed	0.0	+0.0		0.0	5.0	-2.0	▼	3.0	8.0	-3.0		5.0	10.0	-4.0		6.0
Emerging Markets	0.0	+0.0		0.0	0.0	+0.0		0.0	1.0	+0.0	▼	1.0	2.0	+0.0	▼	2.0
Fixed Income	81.0	+0.0		81.0	67.0	+0.0		67.0	51.0	+0.0		51.0	37.0	+0.0		37.0
US Fixed Income	74.0	+0.0		74.0	59.0	+0.0		59.0	43.0	+0.0		43.0	29.0	+0.0		29.0
Non-US Fixed Income	7.0	+0.0		7.0	8.0	+0.0		8.0	8.0	+0.0		8.0	8.0	+0.0		8.0
Cash (USD)	10.0	+0.0		10.0	2.0	+2.0	▲	4.0	2.0	+3.0	▲	5.0	2.0	+4.0	▲	6.0
Non-traditional Assets	9.0	+0.0		9.0	12.0	+0.0		12.0	15.0	+0.0		15.0	17.0	+0.0		17.0
Commodities	2.0	+0.0		2.0	3.0	+0.0		3.0	4.0	+0.0		4.0	5.0	+0.0		5.0
Alternative Investments[5]	7.0	+0.0		7.0	9.0	+0.0		9.0	11.0	+0.0		11.0	12.0	+0.0		12.0

Investor Risk Profile[1]	Moderate aggressive				Aggressive				Very aggressive			
	Benchmark allocation[2]	WMR tactical deviation[3]	Change	Current allocation[4]	Benchmark allocation[2]	WMR tactical deviation[3]	Change	Current allocation[4]	Benchmark allocation[2]	WMR tactical deviation[3]	Change	Current allocation[4]
Traditional Assets												
Equity	54.0	-5.0	▼	49.0	62.0	-6.0	▼	56.0	71.0	-6.0	▼	65.0
US Equity	39.0	+0.5	▼	39.5	44.0	+0.5	▼	44.5	52.0	+1.0	▼	53.0
Large Cap Value	11.0	-2.5	▼	8.5	11.0	-2.5	▼	8.5	13.0	-3.5	▼	9.5
Large Cap Growth	11.0	+3.0	▼	14.0	11.0	+3.0	▼	14.0	13.0	+4.5	▼	17.5
Mid Cap	9.0	+0.0	▼	9.0	11.0	+0.0	▼	11.0	13.0	+0.0	▼	13.0
Small Cap	5.0	+0.0		5.0	7.0	+0.0		7.0	8.0	+0.0		8.0
REITs	3.0	+0.0		3.0	4.0	+0.0		4.0	5.0	+0.0		5.0
Non-US Equity	15.0	-5.5	▼	9.5	18.0	-6.5	▼	11.5	19.0	-7.0	▼	12.0
Developed	12.0	-5.0		7.0	14.0	-6.0		8.0	14.0	-6.0	▲	8.0
Emerging Markets	3.0	-0.5	▼	2.5	4.0	-0.5	▼	3.5	5.0	-1.0	▼	4.0
Fixed Income	24.0	+0.0		24.0	11.0	+0.0		11.0	0.0	+0.0		0.0
US Fixed Income	18.0	+0.0		18.0	9.0	+0.0		9.0	0.0	+0.0		0.0
Non-US Fixed Income	6.0	+0.0		6.0	2.0	+0.0		2.0	0.0	+0.0		0.0
Cash (USD)	2.0	+5.0	▲	7.0	2.0	+6.0	▲	8.0	2.0	+6.0	▲	8.0
Non-traditional Assets	20.0	+0.0		20.0	25.0	+0.0		25.0	27.0	+0.0		27.0
Commodities	5.0	+0.0		5.0	6.0	+0.0		6.0	7.0	+0.0		7.0
Alternative Investments[5]	15.0	+0.0		15.0	19.0	+0.0		19.0	20.0	+0.0		20.0

"WMR tactical deviation" legend: Overweight Underweight Neutral

"Change" legend: ▲ Upgrade ▼ Downgrade

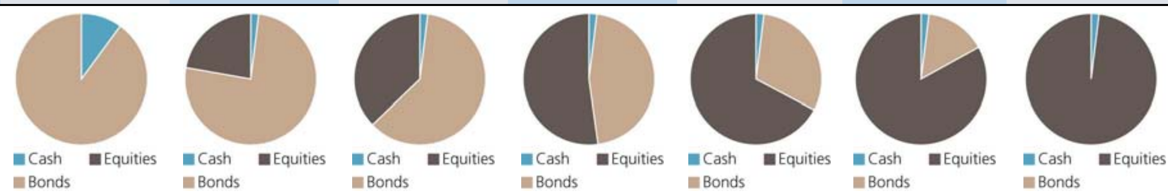
Source: UBS WMR and Investment Solutions, as of 18 September 2011.

For end notes, please see appendix.

Appendix 1

Detailed asset allocations without non-traditional assets (NTAs)

All figures in %



Investor Risk Profile[1]	Very conservative				Conservative				Moderate conservative				Moderate				Moderate aggressive				Aggressive				Very aggressive			
	Benchmark allocation[2]	WMR tactical deviation[3]	Change	Current allocation[4]	Benchmark allocation[2]	WMR tactical deviation[3]	Change	Current allocation[4]	Benchmark allocation[2]	WMR tactical deviation[3]	Change	Current allocation[4]	Benchmark allocation[2]	WMR tactical deviation[3]	Change	Current allocation[4]	Benchmark allocation[2]	WMR tactical deviation[3]	Change	Current allocation[4]	Benchmark allocation[2]	WMR tactical deviation[3]	Change	Current allocation[4]	Benchmark allocation[2]	WMR tactical deviation[3]	Change	Current allocation[4]
Traditional Assets																												
Equity	0.0	+0.0		0.0	22.0	-2.0	▼	20.0	37.0	-3.0	▼	34.0	52.0	-4.0	▼	48.0	67.0	-5.0	▼	62.0	83.0	-6.0	▼	77.0	98.0	-6.0	▼	92.0
US Equity	0.0	+0.0		0.0	16.0	+0.0	▼	16.0	26.0	+0.0	▼	26.0	37.0	+0.0	▼	37.0	48.0	+0.5	▼	48.5	59.0	+0.5	▼	59.5	72.0	+1.0	▼	73.0
Large Cap Value	0.0	+0.0		0.0	9.0	-1.0	▼	8.0	9.0	-1.5	▼	7.5	13.0	-2.0	▼	11.0	14.0	-2.5	▼	11.5	15.0	-2.5	▼	12.5	18.0	-3.5	▼	14.5
Large Cap Growth	0.0	+0.0		0.0	6.0	+1.0		7.0	9.0	+1.5	▼	10.5	13.0	+2.0	▼	15.0	14.0	+3.0	▼	17.0	15.0	+3.0	▼	18.0	18.0	+4.5	▼	22.5
Mid Cap	0.0	+0.0		0.0	1.0	+0.0		1.0	4.0	+0.0		4.0	6.0	+0.0		6.0	11.0	+0.0	▼	11.0	15.0	+0.0	▼	15.0	18.0	+0.0	▼	18.0
Small Cap	0.0	+0.0		0.0	0.0	+0.0		0.0	3.0	+0.0		3.0	3.0	+0.0		3.0	6.0	+0.0		6.0	9.0	+0.0		9.0	11.0	+0.0		11.0
REITs	0.0	+0.0		0.0	0.0	+0.0		0.0	1.0	+0.0		1.0	2.0	+0.0		2.0	3.0	+0.0		3.0	5.0	+0.0		5.0	7.0	+0.0		7.0
Non-US Equity	0.0	+0.0		0.0	6.0	-2.0	▼	4.0	11.0	-3.0	▼	8.0	15.0	-4.0	▼	11.0	19.0	-5.5	▼	13.5	24.0	-6.5	▼	17.5	26.0	-7.0	▼	19.0
Developed	0.0	+0.0		0.0	6.0	-2.0	▼	4.0	9.0	-3.0		6.0	13.0	-4.0		9.0	15.0	-5.0		10.0	18.0	-6.0		12.0	20.0	-6.0	▲	14.0
Emerging Markets	0.0	+0.0		0.0	0.0	+0.0		0.0	2.0	+0.0	▼	2.0	2.0	+0.0	▼	2.0	4.0	-0.5	▼	3.5	6.0	-0.5	▼	5.5	6.0	-1.0	▼	5.0
Fixed Income	90.0	+0.0		90.0	76.0	+0.0		76.0	61.0	+0.0		61.0	46.0	+0.0		46.0	31.0	+0.0		31.0	15.0	+0.0		15.0	0.0	+0.0		0.0
US Fixed Income	82.0	+0.0		82.0	67.0	+0.0		67.0	51.0	+0.0		51.0	36.0	+0.0		36.0	23.0	+0.0		23.0	12.0	+0.0		12.0	0.0	+0.0		0.0
Non-US Fixed Income	8.0	+0.0		8.0	9.0	+0.0		9.0	10.0	+0.0		10.0	10.0	+0.0		10.0	8.0	+0.0		8.0	3.0	+0.0		3.0	0.0	+0.0		0.0
Cash (USD)	10.0	+0.0		10.0	2.0	+2.0	▲	4.0	2.0	+3.0	▲	5.0	2.0	+4.0	▲	6.0	2.0	+5.0	▲	7.0	2.0	+6.0	▲	8.0	2.0	+6.0	▲	8.0

"WMR tactical deviation" legend: Overweight Underweight Neutral

"Change" legend: ▲ Upgrade ▼ Downgrade

Source: UBS WMR and Investment Solutions, as of 18 September 2011.

For end notes, please see appendix.

Appendix 2

Wealth Management Americas Investment Committee (WMA IC)

- The WMA IC is the primary decision making body within WM Americas for recommended asset allocations across investor risk profiles. As explained more fully below, the WMA IC vets the flagship tactical asset allocation recommendations which appear in this publication, the Investment Strategy Guide (ISG). The WMA IC also reviews and approves (i) inputs relating to WM Americas' strategic asset allocations, and (ii) other tactical asset allocation recommendations which may be developed for ultra high net worth and other specific client groups by business areas other than WMRA.

Composition

- The WMA IC currently has seven voting members, and two non-voting members.

The voting members include:

Mike Ryan – Head of Wealth Management Research – Americas (WMRA);
Stephen Freedman – WMRA Investment Strategy Head;
Jeremy Zirin – WMRA Equities Head;
Anne Briglia – WMRA Taxable Fixed Income Head;
Tony Roth – Head of Wealth Management Strategies, within Wealth Management Advice and Platforms (*)
Mihir Bhattacharya – Head of Strategic Projects and Services, Wealth Management Solutions (*)
Thomas Troy – Head of Market Executions, Wealth Management Solutions (*)

(*) Business areas distinct from WMRA

The two non-voting members are employee of UBS Global Asset Management, an affiliate of UBS Financial Services Inc. They are:

John Dugenske – Global Fixed Income, Head of US Fixed Income;
Andreas Koester – Global Investment Solutions, Head of Asset Allocation and Currency.

Vetting of WMRA flagship TAA recommendations

- At least monthly, WMRA presents to the WMA IC for its review a flagship TAA proposal and supporting investment case for a moderate-risk profile investor. In order to be published in the ISG, the flagship TAA must be accepted by the WMA IC and be supported by a majority of the WMRA members. The flagship TAA recommendations across other risk profiles published in the ISG are further calculated in accordance with a methodology approved by the WMA IC.

Appendix 3

Additional Asset Allocation Models

US Taxable Fixed Income (TFI) Allocation, in %

	Benchmark allocation[1]	WMR Tactical deviation[2]		Current allocation[3]
		Previous	Current	
Treasuries	12.0	-1.0	-1.0	11.0
TIPS (Treasury inflation-protected securities)	5.0	-1.0	-1.0	4.0
Agencies	22.0	-1.0	-1.0	21.0
Mortgages	20.0	+1.0	+1.0	21.0
Investment grade corporates	22.0	+2.0	+2.0	24.0
High yield corporates	10.0	0.0	0.0	10.0
Preferred securities	4.0	0.0	0.0	4.0
Emerging Market sovereign bonds in US dollar	5.0	0.0	0.0	5.0
Total TFI non-Credit	59.0	-2.0	-2.0	57.0
Total TFI Credit	41.0	+2.0	+2.0	43.0

Source: UBS WMR and Investment Solutions, as of 18 September 2011

Non-US Developed Equity Module, in %

	Benchmark allocation[1]	WMR Tactical deviation[2]		Current allocation[3]
		Previous	Current	
EMU / Eurozone	28.0	-20.0	-25.0	3.0
UK	19.0	+20.0	+15.0	34.0
Japan	18.0	+0.0	+5.0	23.0
Other	35.0	+0.0	+5.0	40.0

Source: UBS WMR and Investment Solutions, as of 18 September 2011

Non-US Fixed Income Module, in %

	Benchmark allocation[1]	WMR Tactical deviation[2]		Current allocation[3]
		Previous	Current	
EMU / Eurozone	43.0	-10.0	-10.0	33.0
UK	9.0	+10.0	+10.0	19.0
Japan	32.0	-10.0	-10.0	22.0
Other	16.0	+10.0	+10.0	26.0

Source: UBS WMR and Investment Solutions, as of 18 September 2011

[1] The benchmark allocation refers to a moderate risk profile. See “Sources of Benchmark Allocations and Investor Risk Profiles” in the Appendix for an explanation regarding the source of benchmark allocations and their suitability.

[2] See "Deviations from Benchmark Allocations" in the Appendix for an explanation regarding the interpretation of the suggested tactical deviations from benchmark. The “current” column refers to the tactical deviation that applies as of the date of this publication. The “previous” column refers to the tactical deviation that was in place at the date of the previous edition of the previous edition of Investment Strategy Guide or the last Investment Strategy Guide Update.

[3] The current allocation column is the sum of the benchmark allocation and the WMR tactical deviation columns.

Appendix 4

End notes for table labeled detailed asset allocations with non-traditional assets (NTAs)

[1] See "Sources of benchmark allocations and investor risk profiles" on next page regarding the source of investor risk profiles.

[2] See "Sources of benchmark allocations and investor risk profiles" on next page regarding the source of benchmark allocations and their suitability.

[3] See "Deviations from benchmark allocations" in the Appendix regarding the interpretation of the suggested tactical deviations from benchmark.

[4] The current allocation row is the sum of the benchmark allocation and the WMR tactical deviation rows.

[5] UBS WMR considers that maintaining the benchmark allocation is appropriate for alternative investments. The recommended tactical deviation is therefore structurally set at 0. See "Sources of benchmark allocations and investor risk profiles" on next page regarding the types of alternative investments and their suitability.

End notes for table labeled detailed asset allocations without non-traditional assets (NTAs)

[1] See "Sources of benchmark allocations and investor risk profiles" on next page regarding the source of investor risk profiles.

[2] See "Sources of benchmark allocations and investor risk profiles" on next page regarding the source of benchmark allocations and their suitability.

[3] See "Deviations from benchmark allocations" in the appendix regarding the interpretation of the suggested tactical deviations from benchmark.

[4] The current allocation row is the sum of the benchmark allocation and the WMR tactical deviation rows.

Emerging Market Investments

Investors should be aware that Emerging Market assets are subject to, amongst others, potential risks linked to currency volatility, abrupt changes in the cost of capital and the economic growth outlook, as well as regulatory and socio-political risk, interest rate risk and higher credit risk. Assets can sometimes be very illiquid and liquidity conditions can abruptly worsen. WMR generally recommends only those securities it believes have been registered under Federal U.S. registration rules (Section 12 of the Securities Exchange Act of 1934) and individual State registration rules (commonly known as "Blue Sky" laws). Prospective investors should be aware that to the extent permitted under US law, WMR may from time to time recommend bonds that are not registered under US or State securities laws. These bonds may be issued in jurisdictions where the level of required disclosures to be made by issuers is not as frequent or complete as that required by US laws.

For more background on emerging markets generally, see the WMR Education Notes "Investing in Emerging Markets (Part 1): Equities", 27 August 2007, "Emerging Market Bonds: Understanding Emerging Market Bonds," 12 August 2009 and "Emerging Markets Bonds: Understanding Sovereign Risk," 17 December 2009.

Investors interested in holding bonds for a longer period are advised to select the bonds of those sovereigns with the highest credit ratings (in the investment grade band). Such an approach should decrease the risk that an investor could end up holding bonds on which the sovereign has defaulted. Sub-investment grade bonds are recommended only for clients with a higher risk tolerance and who seek to hold higher yielding bonds for shorter periods only.

Non-Traditional Assets

Non-traditional assets include commodities and alternative investments. Alternative investments, in turn, include hedge funds, private equity, real estate, and managed futures. Interests of alternative investment funds are sold only to qualified investors, and only by means of offering documents that include information about the risks, performance and expenses of alternative investment funds, and which clients are urged to read carefully before subscribing and retain. An investment in an alternative investment fund is speculative and involves significant risks. Alternative investment funds are not mutual funds and are not subject to the same regulatory requirements as mutual funds. Alternative investment funds' performance may be volatile, and investors may lose all or a substantial amount of their investment in an alternative investment fund. Alternative investment funds may engage in leveraging and other speculative investment practices that may increase the risk of investment loss. Interests of alternative investment funds typically will be illiquid and subject to restrictions on transfer. Alternative investment funds may not be required to provide periodic pricing or valuation information to investors. Alternative investment fund investment programs generally involve complex tax strategies and there may be delays in distributing tax information to investors. Alternative investment funds are subject to high fees, including management fees and other fees and expenses, all of which will reduce profits. Alternative investment funds may fluctuate in value. An investment in an alternative investment fund is long-term, there is generally no secondary market for the interests of a fund, and none is expected to develop. Interests in alternative investment funds are not deposits or obligations of, or guaranteed or endorsed by, any bank or other insured depository institution, and are not federally insured by the Federal Deposit Insurance Corporation, the Federal Reserve Board, or any other governmental agency. Prospective investors should understand these risks and have the financial ability and willingness to accept them for an extended period of time before making an investment in an alternative investment fund and should consider an alternative investment fund as a supplement to an overall investment program.

In addition to the risks that apply to alternative investments generally, the following are additional risks related to an investment in these strategies:

- Hedge Fund Risk: There are risks specifically associated with investing in hedge funds, which may include risks associated with investing in short sales, options, small-cap stocks, "junk bonds," derivatives, distressed securities, non-U.S. securities and illiquid investments.
- Hedge Fund of Funds: In addition to the risks associated with hedge funds generally, an investor should recognize that the overall performance of a fund of funds is dependent not only on the investment performance of the manager of the fund, but also on the performance of the underlying managers. The investor will bear the management fees and expenses of both the fund of funds and the underlying hedge funds or accounts in which the fund of funds invests, which could be significant.
- Managed Futures: There are risks specifically associated with investing in managed futures programs. For example, not all managers focus on all strategies at all times, and managed futures strategies may have material directional elements.
- Real Estate: There are risks specifically associated with investing in real estate products and real estate investment trusts. They involve risks associated with debt, adverse changes in general economic or local market conditions, changes in governmental, tax, real estate and zoning laws or regulations, risks associated with capital calls and, for some real estate products, the risks associated with the ability to qualify for favorable treatment under the federal tax laws.
- Private Equity: There are risks specifically associated with investing in private equity. Capital calls can be made on short notice, and the failure to meet capital calls can result in significant adverse consequences including, but not limited to, a total loss of investment.
- Foreign Exchange/Currency Risk: Investors in securities of issuers located outside of the United States should be aware that even for securities denominated in U.S. dollars, changes in the exchange rate between the U.S. dollar and the issuer's "home" currency can have unexpected effects on the market value and liquidity of those securities. Those securities may also be affected by other risks (such as political, economic or regulatory changes) that may not be readily known to a U.S. investor.
- Options: Options are not suitable for all investors. Please read the Options Clearing Corporation Publication titled "Characteristics and Risks of Standardized Options Trading" and consult your tax advisor prior to investing. The Publication can be obtained from your Financial Services Inc., Financial Advisor, or can be accessed under the Publications Section of the Option Clearing Corporation's website: www.theocc.com.

Scale for tactical deviation charts

Symbol	Description / Definition	Symbol	Description / Definition	Symbol	Description / Definition
+	moderate overweight vs. benchmark	–	moderate underweight vs. benchmark	n	neutral, i.e., on benchmark
++	overweight vs. benchmark	––	underweight vs. benchmark	n/a	not applicable
+++	strong overweight vs. benchmark	–––	strong underweight vs. benchmark		

Appendix

Explanations about asset allocations

Sources of benchmark allocations and investor risk profiles

- Benchmark allocations represent the longer-term allocation of assets that is deemed suitable for a particular investor. Except as described below, the benchmark allocations expressed in this publication have been developed by UBS Investment Solutions (IS), a business sector within UBS Wealth Management Americas that develops research-based traditional investments (e.g., managed accounts and mutual fund options) and alternative strategies (e.g., hedge funds, private equity, and real estate) offered to UBS clients. The benchmark allocations are provided for illustrative purposes only and were designed by IS for hypothetical US investors with a total return objective under seven different Investor Risk Profiles ranging from very conservative to very aggressive. In general, benchmark allocations will differ among investors according to their individual circumstances, risk tolerance, return objectives and time horizon. Therefore, the benchmark allocations in this publication may not be suitable for all investors or investment goals and should not be used as the sole basis of any investment decision. As always, please consult your UBS Financial Advisor to see how these weightings should be applied or modified according to your individual profile and investment goals.
- The process by which UBS Investment Solutions has derived the benchmark allocations can be described as follows. First, an allocation is made to broad asset classes based on an investor's risk tolerance and characteristics (such as preference for international investing). This is accomplished using optimization methods within a mean-variance framework. Based on a proprietary set of capital market assumptions, including expected returns, risk, and correlation of different asset classes, combinations of the broad asset classes are computed that provide the highest level of expected return for each level of expected risk. A qualitative judgmental overlay is then applied to the output of the optimization process to arrive at the benchmark allocation. The capital market assumptions used for the benchmark allocations are developed by UBS Global Asset Management. UBS Global Asset Management is a subsidiary of UBS AG and an affiliate of UBS FS.
- In addition to the benchmark allocations IS derived using the aforementioned process, WMR determined the benchmark allocation by country of Non-US Developed Equity and Non-US Fixed Income in proportion to each country's market capitalization, and determined the benchmark allocation by Sector and Industry Group of US Equity in proportion to each sector's market capitalization. WMR, in consultation with IS, also determined the benchmark allocation for US dollar taxable fixed income. It was derived from an existing moderate risk taxable fixed income allocation developed by IS, which includes fewer fixed income segments than the benchmark allocation presented here. The additional fixed income segments were taken by WMR from related segments. For example, TIPS were taken from Treasuries and Preferred Securities from Corporate Bonds. A level of overall risk similar to that of the original IS allocation was retained.
- Alternative investments (AI) include hedge funds, private equity, real estate, and managed futures. The total benchmark allocation was determined by IS using the process described above. The Wealth Management Americas Investment Committee (WMA IC) derived the AI subsector benchmark allocations by adopting IS' determination as to the appropriate subsector benchmark allocations with AI for the following risk profiles: conservative, moderately conservative, moderate, moderate aggressive and aggressive. The WMA IC then developed subsector allocations for very conservative and very aggressive risk profiles by taking the IS subsector weightings for conservative and aggressive risk profile investors and applying them pro rata to the IS AI total benchmark allocations for very conservative and very aggressive, respectively. Allocations to AI as illustrated in this report may not be suitable for all investors. In particular, minimum net worth requirements may apply.
- The background for the benchmark allocation attributed to commodities can be found in the WMR Education Note "A pragmatic approach to commodities," 2 May 2007.

Deviations from benchmark allocation

- The recommended tactical deviations from the benchmark are provided by WMR. They reflect our short- to medium-term assessment of market opportunities and risks in the respective asset classes and market segments. Positive / zero / negative tactical deviations correspond to an overweight / neutral / underweight stance for each respective asset class and market segment relative to their benchmark allocation. The current allocation is the sum of the benchmark allocation and the tactical deviation.
- Note that the regional allocations on the International Equities page are provided on an unhedged basis (i.e., it is assumed that investors carry the underlying currency risk of such investments). Thus, the deviations from the benchmark reflect our views of the underlying equity and bond markets in combination with our assessment of the associated currencies. The two bar charts ("Equity regions" and "Bond regions") represent the relative attractiveness of countries (including the currency outlook) within a pure equity and pure fixed income portfolio, respectively. In contrast, the detailed asset allocation tables integrate the country preferences within each asset class with the asset class preferences stated earlier in the report. As the tactical deviations at the asset class level are attributed to countries in proportion to the countries' market capitalization, the relative ranking among regions may be altered in the combined view.

Appendix

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