UBS

PACE





The mutual fund program that gives you personalized asset consulting and evaluation

PACE is a non-discretionary mutual fund asset allocation program in which the ongoing advice of your UBS Financial Advisor is one of the key components and services provided. When selecting PACE, you should consider that it is intended for investors who (i) establish a disciplined asset allocation strategy, (ii) seek and value the ongoing advice of a professional Financial Advisor but retain discretion over the trading activity of their account, (iii) are looking to implement a medium- to long-term investment plan and avail themselves of program features such as periodic rebalancing, automatic contributions and redemptions and (iv) prefer consistency of costs and aligning of interests with their UBS Financial Advisor.

Product mix is another consideration you should take into account. For example, while the mutual funds in PACE are traded at NAV (net asset value) with no sales load charged, if you would qualify for breakpoint discounts in a commission-based account, invest with a single mutual fund firm and do not use any of the automatic services available in PACE, purchasing those funds in a commission-based account may be a more cost-efficient option.

PACE is not appropriate for clients who maintain consistently high levels of cash or money market funds.

Your life is like no one else's

Your hopes and dreams are completely unique. That's why UBS offers a mutual fund investment program that can be shaped according to your needs, now and into the future.

Many different types of investors choose PACE℠ (Personalized Asset Consulting and Evaluation) to help them pursue their financial goals. Whether you have simple objectives or complex requirements, PACE gives you the choice, flexibility and personal advice you need to define your strategy and stay on track.

You choose mutual funds for these benefits:

- Active management by experienced professionals
- Diversification across a range of investments
- The convenience of a single investment in many securities
- Liquidity that allows investors to redeem shares at net asset value

PACE adds personalized advice and extensive choice:

- An asset allocation* strategy based on your investment preferences and risk tolerance
- Professional advice and support to guide you as your needs evolve
- A comprehensive range of mutual funds in all major asset classes

* Asset Allocation neither guarantees profit nor protects against loss.

A personalized program that starts with you

Your needs

We begin by asking questions about your investment goals, timeframes, preferences and comfort level with risk. Your answers help create a profile that captures your expectations about risk and return for your PACE assets.

We understand the importance of being comfortable with your portfolio no matter how markets behave. That's why we take the time to listen and help you identify your risk tolerance. As a result, you'll be less likely to jump in and out of investments.

Your comfort level with risk

Some investors take on too much risk in the mistaken belief they'll experience large gains. Other investors are overly cautious and are unlikely to reach their objectives. Your UBS Financial Advisor will help you set realistic targets so you'll have an effective investment program. He or she will also adjust your PACE investment profile whenever you feel your tolerance for risk has changed.

Your asset allocation strategy*

You'll receive a PACE proposal that includes a recommendation for your asset allocation strategy. This strategy will become the foundation of your portfolio, guiding your choice of investments over the long term. Your strategy is a reflection of your investment objectives and tolerance for risk. It also serves as a model when modifying or rebalancing your portfolio.

* Asset Allocation neither guarantees profit nor protects against loss.

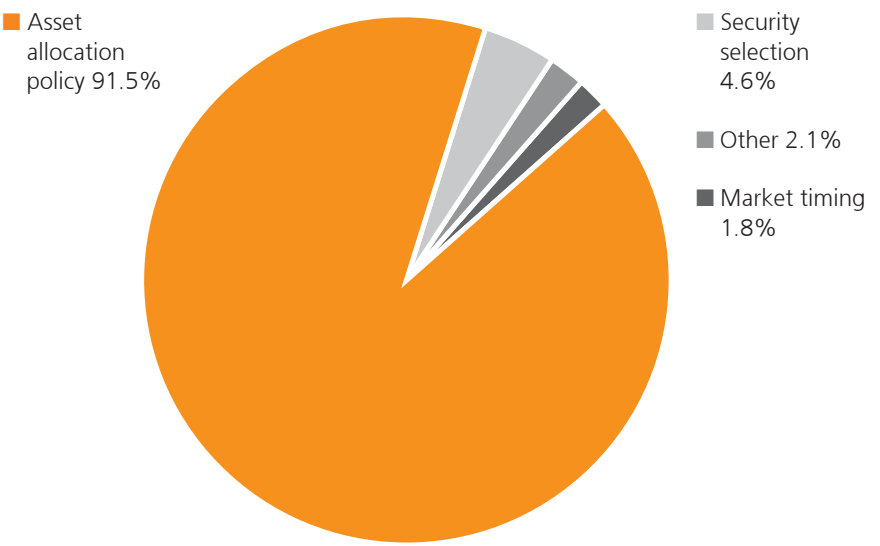
Your portfolio will be built with our best thinking

In a landmark study on the subject of asset allocation, researchers drew some startling conclusions.[1] They compared dozens of portfolios and discovered that asset allocation explained 91% of the variation of returns. Previously, conventional wisdom held that market timing or the selection of securities was primarily responsible for the variability of portfolios' returns.

Since the time of its publication, this research has been studied, discussed and referenced. To this day, it continues to have a profound influence on portfolio construction across the financial industry.

Your PACE portfolio will be built using our approach to asset allocation. The aim is to seek the highest potential return while maintaining an acceptable level of risk given your investment profile.

What drives the variability in performance?



[1] Gary P. Brinson, Brian D. Singer, and Gilbert L. Beebower, *Determinants of Portfolio Performance II: An Update*, The Financial Analysts Journal, 47, 3 (1991)

Adding a depth of diversification

PACE offers an extensive range of mutual funds that represents every major asset class, subclass and investment style. You and your UBS Financial Advisor will have the flexibility to select from a wide range of both traditional and alternative strategies, including U.S. and non-U.S. equities and fixed income, commodities, hedge funds and REITs.

Since it has always been impossible to predict next year's top performing investment style, your portfolio should be well-diversified[2] and well-positioned to participate in potential growth while managing risk, no matter which style becomes the next "best performer."

Can you predict the next best and worst performers?

1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Int'l 7.8%	Large Value 38.4%	Large Growth 23.1%	Large Value 35.2%	Large Growth 38.7%	Mid Growth 51.3%	Small Value 22.8%	Small Value 14.0%	U.S. Bonds 10.3%	Small Growth 48.5%	Mid Value 23.7%	Int'l 13.5%	Int'l 26.3%	Large Growth 11.8%	U.S. Bonds 5.2%
Large Growth 2.7%	S&P 500 37.6%	S&P 500 23.0%	Mid Value 34.4%	S&P 500 28.6%	HFRI 44.2%	Mid Value 19.2%	U.S. Bonds 8.4%	HFRI -4.7%	Small Value 46.0%	Small Value 22.3%	Mid Value 12.7%	Small Value 23.5%	Mid Growth 11.4%	HFRI -26.4%
HFRI 2.6%	Large Growth 37.2%	HFRI 21.8%	S&P 500 33.4%	Int'l 20.0%	Small Growth 43.1%	U.S. Bonds 11.6%	Mid Value 2.3%	Mid Value -9.7%	Mid Growth 42.7%	Int'l 20.3%	Mid Growth 12.1%	Large Value 22.3%	Int'l 11.2%	Small Value -28.9%
S&P 500 1.3%	Mid Value 34.9%	Large Value 21.6%	Small Value 31.8%	Mid Growth 17.9%	Large Growth 33.2%	HFRI 9.1%	HFRI 0.4%	Small Value -11.4%	Int'l 38.6%	Large Value 16.5%	HFRI 10.6%	Mid Value 20.2%	HFRI 10.7%	Large Value -36.9%
Small Value -1.6%	Mid Growth 34.0%	Small Value 21.4%	Large Growth 30.5%	HFRI 16.0%	Int'l 27.0%	Large Value 7.0%	Large Value -5.6%	Large Value -15.5%	Mid Value 38.1%	Mid Growth 15.5%	Large Value 7.1%	S&P 500 15.8%	Small Growth 7.1%	S&P 500 -37.0%
Large Value -2.0%	Small Growth 31.0%	Mid Value 20.3%	HFRI 23.4%	Large Value 15.6%	S&P 500 21.0%	S&P 500 -9.1%	Small Growth -9.2%	Int'l -15.9%	Large Value 30.0%	Small Growth 14.3%	Large Growth 5.3%	Small Growth 13.4%	U.S. Bonds 7.0%	Large Growth -38.4%
Mid Value -2.1%	HFRI 31.0%	Mid Growth 17.5%	Mid Growth 22.5%	U.S. Bonds 8.7%	Large Value 7.4%	Mid Growth -11.8%	S&P 500 -11.9%	S&P 500 -22.1%	Large Growth 29.8%	S&P 500 10.9%	S&P 500 4.9%	HFRI 11.7%	S&P 500 5.5%	Mid Value -38.4%
Mid Growth -2.2%	Small Value 25.8%	Small Growth 11.3%	Small Growth 13.0%	Mid Value 5.1%	Mid Value -0.1%	Int'l -14.2%	Mid Growth -20.2%	Mid Growth -27.4%	S&P 500 28.7%	HFRI 7.7%	Small Value 4.7%	Mid Growth 10.7%	Large Value -0.2%	Small Growth -38.5%
Small Growth -2.4%	U.S. Bonds 18.5%	Int'l 6.1%	U.S. Bonds 9.7%	Small Growth 1.2%	U.S. Bonds -0.8%	Large Growth -22.4%	Large Growth -20.4%	Large Growth -27.9%	HFRI 20.5%	Large Growth 6.3%	Small Growth 4.2%	Large Growth 9.1%	Mid Value -1.4%	Int'l -43.4%
U.S. Bonds -2.9%	Int'l 11.2%	U.S. Bonds 3.6%	Int'l 1.8%	Small Value -6.5%	Small Value -1.5%	Small Growth -22.4%	Int'l -21.4%	Small Growth -30.3%	U.S. Bonds 4.1%	U.S. Bonds 4.3%	U.S. Bonds 2.4%	U.S. Bonds 4.3%	Small Value -9.8%	Mid Growth -44.4%

[2] Diversification does not guarantee gains or protect against loss.

Estimated table source: Russell Mellon Analytical Services. Data as of 12/31/08. The indexes used are the following: Large-Cap Growth–Russell 1000 Growth Index; Large-Cap Value–Russell 1000 Value Index; Mid-Cap Growth–Russell Mid-Cap Growth Index; Mid-Cap Value–Russell Mid-Cap Value Index; Small-Cap Growth–Russell 2000 Growth Index; Small-Cap Value–Russell 2000 Value Index; International Equity–Morgan Stanley Capital International Europe, Australasia, Far East Index (EAFE) Net; U.S. Bonds–Barclays Capital Aggregate Bond Index; S&P 500–Standard & Poor's 500 Index; HFRI -HFRI Equity Hedge Index. The past performance of an index is not a guarantee of how your portfolio will perform. Indexes are not available for direct investment and reflect an unmanaged universe of securities which does not take into account advisory or transaction fees, all of which will reduce the overall return. Prepared by UBS Financial Services Inc. Manager Research Group. All rights reserved. Used with permission. Asset allocation does not assure profits or prevent against losses in declining markets.

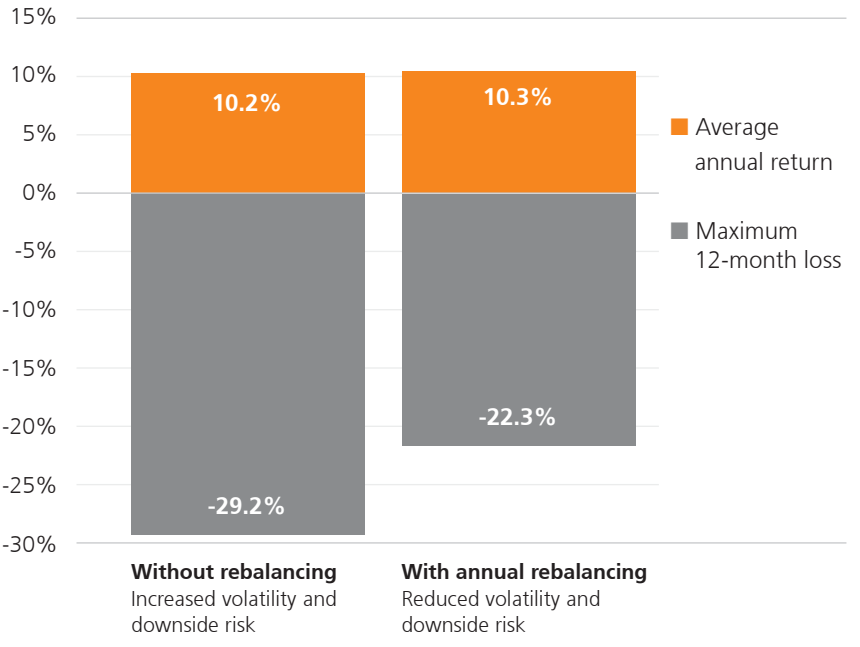
Rebalancing keeps your portfolio on track and on strategy

Different asset classes produce different results over time. While some classes are experiencing gains, others may show a loss or remain static. After a while, a different pattern may develop, with static investments surging ahead and previous gainers experiencing a correction. All this movement is natural and to be expected. But the result is that asset class weightings can drift from your portfolio's intended proportions. Therefore, to maintain your portfolio's asset allocation, your UBS Financial Advisor may recommend rebalancing on a periodic basis.

Rebalancing restores the original allocation of your asset classes while helping to manage volatility and control risk. By periodically selling overweighted investments and buying underweighted ones, automatic rebalancing reduces the likelihood of being unnecessarily exposed to unexpected developments and downward trending investments.

Results of a portfolio

60% stock / 40% bond: 1984-2008



Source: UBS Global Asset Management. The example above is based on a hypothetical portfolio consisting of 60% S&P 500 Index and 40% Barclays Capital Aggregate Bond Index. The portfolio rebalanced annually was rebalanced to the original allocation every January during the 25-year period. Maximum loss is based on rolling 12-month period during the 25-year period. Rebalancing alone does not ensure gains or prevent losses from occurring in a portfolio or account. Past Performance does not guarantee future results.



I know time is on my side, and that if I invest regularly, I can plan for an early retirement.

Meet Karen, age 25

Since Karen is relatively young, she's in an ideal position to take advantage of the power of compounding. By using the automatic contribution feature, she can put aside $250 a month, which amounts to $3,000 a year. Based on 6% growth per year over 30 years, her portfolio could grow to $224,916. If rates of return increase, her portfolio could grow even more, as illustrated in the chart on page seven.

PACE is Karen's investment-of-choice since it gives her a flexible portfolio that can change over time as her needs change. Currently, she has a balanced and diversified selection of mutual funds. When her investment objectives change, she can modify her portfolio accordingly.

She speaks periodically with her UBS Financial Advisor, who helps her review her progress and suggests ideas for enhancing diversification.

Karen's strategy

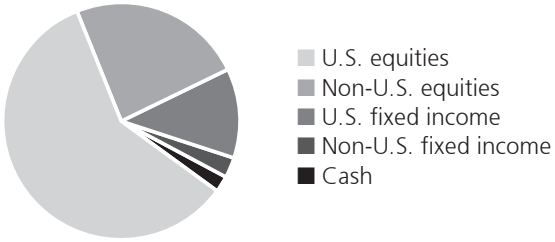
Pursuing her goals in the years to come

Monthly investment
$250

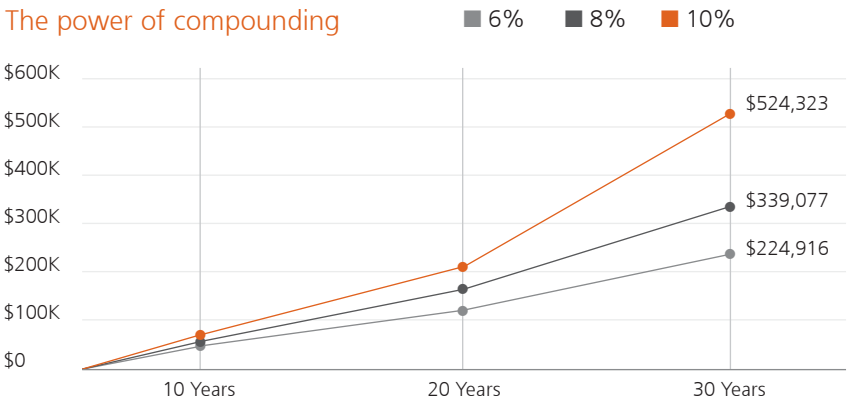
Current value
$10,000

Projected value in 30 years
$224,916

PACE portfolio



The power of compounding



Source of calculations: UBS Financial Services Inc. The previous example is hypothetical and for illustrative purposes only. Please see last page for additional disclosures.

The portfolio returns assume a 1.5% annual fee deducted at the end of the year. Program fee applies to both the principal and the interest earned. Returns are not based on actual portfolios and therefore do not include reinvestments of dividends or other distributions.

How Karen uses PACE features

Automatic contributions

Here's a simple and effective way to pay yourself first. Start a regular transfer from your bank account to your PACE program. Systematic investing is a convenient way to build assets.

Periodic rebalancing

Rebalancing helps keep your investments on track with your asset allocation strategy and comfort level with risk. When there's a significant imbalance in your portfolio, overweighted assets will be sold and underweighted assets will be bought.

Go online, go paperless

Sign up for UBS Online Services so you can view your portfolio from any computer with Internet service. Reduce paper with electronic delivery of prospectuses and other important documents.



We've always saved for retirement knowing it would be our reward after working and raising a family.

Meet Richard, 56, and Elaine, 50

Richard and Elaine have three separate PACE accounts, each contributing to a single goal: retirement. Richard contributes the maximum to his IRA, which invests in PACE, and his wife does the same with her IRA. Also, they each contribute to a jointly owned, taxable PACE account.

Their UBS Financial Advisor helps with financial planning and suggestions for a consolidated investment strategy. This couple was able to transfer existing mutual funds to their PACE accounts, making them part of their concerted effort to retire when Richard is 67 years old.

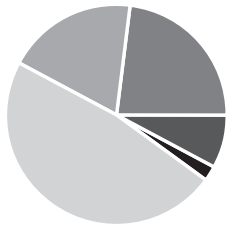
Richard and Elaine's retirement strategy

Working toward their joint goal

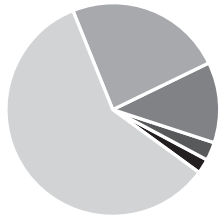
IRA portfolios
Current value (combined)
$400,000
Annual contributions
$12,000

Taxable portfolio
Current value
$200,000
Annual contribution
$10,000

Richard's IRA



Elaine's IRA



Taxable portfolio



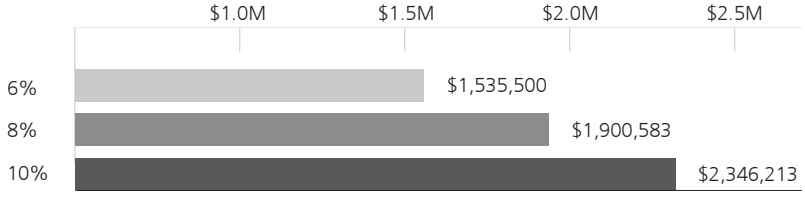
U.S. equities
Non-U.S. equities
U.S. fixed income
Non-U.S. fixed income
Cash

What this couple knows about PACE and IRAs

An IRA (individual retirement account) gives you two attractive incentives. First, it allows you to invest tax-deductible funds now, which lowers your taxable income. Second, it allows your investments to grow without being taxed until they're withdrawn, presumably when you're retired and in a lower tax bracket.[3]

In 2008, the annual contribution limit for IRAs was increased to $6,000 for investors age 50 and older. It's worth noting that the minimum investment for starting a PACE program is only $5,000. Opportunities exist for combining the benefits of PACE with the power of an IRA.

The total of all portfolios at age 67



Source of calculations: UBS Financial Services Inc. The previous example is hypothetical and for illustrative purposes only. Please see last page for additional disclosures.

The portfolio returns assume a 1.5% annual fee deducted at the end of the year. Program fee applies to both the principal and the interest earned. Calculations are based on contributions to the taxable account at the beginning of the tax year. Returns are not based on actual portfolios and therefore do not include reinvestments of dividends or other distributions.

[3] Speak to your UBS Financial Advisor about other methods for saving for retirement, such as 401(k) plans, Simplified Employee Pension plans, Roth IRAs and others.

This information is general in nature and should not be considered legal, tax or professional advice. Neither UBS Financial Services Inc. nor any of its employees provide tax or legal advice. You should seek the advice of a professional for legal or tax assistance on issues regarding your retirement plans.



There's a world of intriguing opportunities I'd like to explore.

Meet Martin, age 40

Martin is an entrepreneur with a well-developed portfolio of separately managed accounts. Each is handled by a different professional manager and has a required investment of at least $100,000.

Martin has decided to complete his strategy by making smaller investments, concentrating on areas that interest him: alternative strategies, commodities and REITs.

Since PACE presents a wide range of mutual funds with low investment minimums, Martin can round out his investment strategy while satisfying his need to explore these new opportunities.

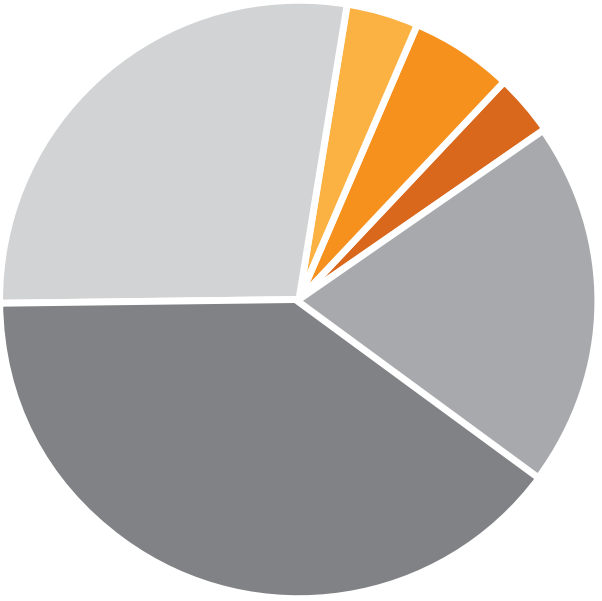
Martin's completion strategy

Exploring a world of choice with PACE

Value of total assets
$1,500,000

Value of PACE portfolio
$300,000

Investment objective for PACE
Growth



How Martin capitalizes on our information

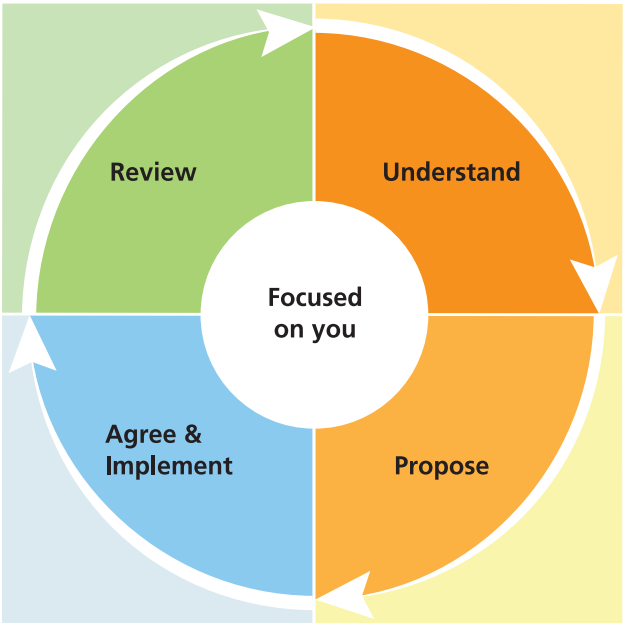
Quarterly reviews

Receive in-depth quarterly analyses of your PACE portfolio. Use the informative charts to examine performance and have conversations with your UBS Financial Advisor. Reduce paper waste by viewing reviews online at UBS Online Services.

UBS Wealth Management Research

Stay informed about sectors and trends. Delve into thematic topics such as socially responsible investing and other subjects by reading reports written especially for the individual investor.

The experience you can expect



As a UBS client, you'll find that our Financial Advisors take the time to understand your needs and goals, and propose appropriate investments. You'll have a personalized asset allocation strategy that we can help you monitor—and adjust whenever appropriate—to respond to the ever changing markets and your evolving needs.

When you select PACE, you'll have a mutual fund asset allocation program that combines the firm's expertise with the ease and efficiencies of mutual fund investing. You'll also have the ongoing advice of your UBS Financial Advisor as you move closer to your investment destination.

It is important that you understand the ways in which we conduct business and the applicable laws and regulations that govern us. As a firm providing wealth management services to clients in the U.S., we are registered with the U.S. Securities and Exchange Commission (SEC) as an investment adviser and a broker-dealer, offering both investment advisory and brokerage services. Though there are similarities among these services, the investment advisory programs and brokerage accounts we offer are separate and distinct, differ in material ways and are governed by different laws and separate contracts. It is important that you carefully read the agreements and disclosures that we provide to you about the products or services we offer. While we strive to ensure the nature of our services is clear in the materials we publish, if at any time you seek clarification on the nature of your accounts or the services you receive, please speak with your UBS Financial Advisor or visit **www.ubs.com/workingwithus**.

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PACE is a service mark of UBS Financial Services Inc.

The funds available through PACE include shares of funds available at NAV that are not affiliated with UBS Financial Services Inc., and shares of PACE Money Market Fund and certain other funds advised by UBS Financial Services Inc. or its affiliates. Recommendation of proprietary or affiliated funds raises a conflict of interest, as purchasing those securities will result in increased compensation to, depending on the circumstances, UBS Financial Services Inc. and/or an affiliated company of the UBS organization.

Move complete information about mutual funds available through PACE including the investment objectives, risks, charges and expenses can be found in the funds' prospectuses which may be obtained from your Financial Advisor. Please read and consider this information carefully before you invest or send money.

You may buy and hold in your account assets that are not invested through PACE. Neither UBS Financial Services Inc. nor your UBS Financial Advisor will act as your investment advisor with respect to, or exercise investment discretion over, these other assets. We will affect transactions for you in these assets at your direction and in our capacity as a broker-dealer for our customary fees and commissions. The Program fee does not apply to these other assets and transactions. Non-PACE assets will not be included in your review but will be included in your account statement.

Investing in hedge funds can result in a loss of capital invested. Use of leverage, short sales and derivative transactions by underlying Portfolio Managers can result in significant losses to the Fund.

Investing in REITs involves certain risks, such as refinancing, changes in the value of properties REITs own, dependency on management skills, economic impact on the industry and risks similar to those linked to small-company investing.

Commodities or commodity-related equities may ba affected by supply and demand characteristics of commodity markets. Prices for individual commodities can fluctuate based on production and demand forecasts, weather, political events, seasonality, tariffs, and many other reasons. Individual commodity prices can fluctuate widely over short time periods and can deviate from equity and fixed income price movements.

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