Preparing for 30 years in retirement

UBS Dynamic Alpha Fund

UBS Dynamic Alpha Fund was developed to provide investors with the potential to meet future fixed and growing obligations in variable and cyclical markets

Retirement planning today presents a unique challenge for investors. Longer life expectancies have created a greater need for investment solutions that can help individuals not only maintain, but also grow, their retirement assets in order to avoid outliving their savings. Originally developed to meet the income needs of our institutional clients, UBS Dynamic Alpha Fund is a globally diversified mutual fund that seeks to help individuals meet these goals, while seeking to manage risk.

UBS Global Asset Management

UBS Global Asset Management (US) Inc.
51 West 52nd Street
New York, NY 10019

Longer life expectancies mean longer retirements

A primary challenge for investors today is how to prepare financially to avoid the risk of outliving their retirement assets. Increased life expectancies mean that individuals born in the 1940s and the 1950s are facing longer retirements than any preceding generation. Today, a married couple approaching the average retirement age of 62 has a joint life expectancy that would require them to prepare for a 30-year retirement.

Over the course of this period, it is likely that inflation will erode the couple's purchasing power, and that the capital markets will undergo four, five or six market cycles (a market cycle is generally a five-year period that encompasses both an up and a down market). Both of these factors can significantly impact the value of the couple's retirement savings.

Inflation erodes purchasing power

Inflation is real, and it can erode even a $1 million portfolio over time. With only a 3% increase in the annual cost of living, $1 million in savings loses nearly half of its purchasing power over 20 years.

How inflation affects purchasing power

$1,000,000 today will be worth less tomorrow

Assuming an inflation rate of:[1]

Years	2%	3%	4%	5%
5	$903,921	$858,734	$815,373	$773,781
10	$817,073	$737,424	$664,833	$598,737
15	$738,569	$633,251	$542,086	$463,291
20	$667,608	$543,794	$442,002	$358,486

[1] Source: UBS Global Asset Management.

Traditional investments alone may not be enough

Typically, investors have primarily turned to traditional investments, such as stocks and bonds, to grow and maintain their retirement savings. Bonds are generally viewed by investors as offering relative safety of principal. However, fixed income investments have historically produced negligible real (after-inflation) returns, and a rising interest rate environment, such as the one we are presently in, can eat into a bond's principal prior to its maturity.[2]

Stocks, on the other hand, historically have offered the potential for higher long-term real returns; however, many investors approaching or in retirement find that they can no longer tolerate the volatility inherent in the equity markets. Moreover, we presently view the market environment as offering lower, not higher, stock returns, despite generating the same level of volatility that has characterized the markets over the last few years.

While blending stocks and bonds may help mitigate the effects of market volatility on a portfolio, it cannot eliminate the risks associated with a protracted market decline. Other solutions are needed to produce more consistent real returns in investors' retirement portfolios, and to reduce their portfolios' reliance on market performance.

UBS Dynamic Alpha Fund: One solution to certain investors' retirement needs

UBS Dynamic Alpha Fund, a new mutual fund offered exclusively at Wealth Management USA, may be one solution that aims to help investors meet growing or existing retirement needs.

As its name implies, the Fund seeks to manage risk and pursue return in a unique and dynamic way. Most traditional mutual funds generally have to reduce their weighting in an attractively valued security when its underlying market or asset class is overvalued. With UBS Dynamic Alpha Fund, the investment team has the flexibility to invest in undervalued securities even when the underlying market or asset class is overpriced. This is possible because the team can separately reduce or even short market or currency risk through the use of derivatives. As a result, the Fund can capture potential investment opportunities wherever they exist—in overvalued or undervalued markets and asset classes.

To achieve its investment goal, the Fund takes into consideration three distinct sources of return:

- market/asset class exposure (beta)
- security selection (alpha)
- currencies (beta)

Investment decisions for each source of return are implemented independently from each other, and are based on the results of UBS Global Asset Management's bottom-up and top-down proprietary research. This results in a portfolio that truly represents the investment team's strongest convictions in markets, securities and currencies from around the world.

Maintaining realistic expectations

As with all investments, it is important to maintain realistic expectations when investing in UBS Dynamic Alpha Fund.

- The Fund aims to achieve its return goal over a complete market cycle—typically, a five-year period, which is statistically likely to see both up and down markets. There can be no guarantee that the Fund will achieve its return objective, year-in and year-out.

- During sharp upturns in the equity markets, our goal of limiting the Fund's volatility level may result in more muted returns than those generated by funds that track a benchmark index and that maintain full capital markets exposure.

- While we seek to provide downside protection, the Fund is not immune to, and may experience, negative returns.

Why UBS Global Asset Management?

At UBS Global Asset Management, our globally integrated investment management team and our process enable us to maintain a global perspective, whether investing in the US or in the international markets. For 23 years, the firm has employed a rigorous, disciplined process to managing clients' assets. We have been adding value to our clients' portfolios over the course of vastly different markets, through active asset allocation, individual security selection and currency allocation, all within a broad framework of risk management.

[2] For the period December 31, 1995 through September 30, 2004, the average annual real (inflation-adjusted) return for fixed income securities, as represented by long-term 20-year US Treasury bonds, was 2.3%. Source: Ned Davis Research; used with permission.

Who should consider UBS Dynamic Alpha Fund?

Whether approaching retirement or already there, investors may want to consider UBS Dynamic Alpha Fund, if they:

- Are concerned about their purchasing power, while managing their investment risk.
- Want greater global markets exposure and want to be less reliant on rising stock and bond markets to achieve or maintain their retirement goals.
- Have little tolerance for volatility, and expect more volatile, lower returns from the capital markets.
- Are seeking an alternative strategy with the mutual fund benefits of quarterly transparency, liquidity, lower pricing and a low investment minimum.

For more information

Contact your financial advisor or UBS Global Asset Management at 888-793 8637 for a current Fund prospectus. Investors should carefully consider the Fund's investment objectives, risks, all charges, expenses and other matters of interest before investing. Diversification does not ensure against loss. It's important you have all the information you need to make a sound investment decision.

General definitions

Alpha: A measure of an investment's excess return relative to an index. Alpha is independent of the return provided by the overall market.
Beta: A measure of an investment's volatility relative to an index. A beta greater than 1.0 indicates that an investment is more volatile than the index, while a beta less than 1.0 indicates that it is less volatile than the index.

Special considerations

Investors in the Fund should be able to withstand short-term fluctuations in the equity markets and fixed income markets in return for potentially high returns over the long term. The value of the Fund's portfolio changes every day and can be affected by changes in interest rates, general market conditions and other political, social and economic developments, as well as specific matters relating to the issuers and companies in whose securities the Fund invests. It is important to note that an investment in the Fund is only one component of a balanced investment plan. The value of the Fund's investments in foreign securities may fall due to adverse political, social and economic developments abroad and due to decreases in foreign currency values relative to the US dollar. These risks are greater for investments in emerging market issuers than for issuers in more developed countries. Use of derivative instruments may involve certain costs and risks such as liquidity risk, interest rate risk, market risk, credit risk, management risk and the risk that a fund could not close out a position when it would be most advantageous to do so. Portfolios investing in derivatives could lose more than the principal amount invested in those instruments. Derivatives are subject to various credit risks, and there is no central exchange or market for transactions. They also tend to be less liquid than exchange-traded instruments. Treasury Inflation Protected Securities (TIPS) issued by the US government are guaranteed by the US government and, if held to maturity, offer a fixed rate of return and a fixed principal value. Shares of the mutual fund are not guaranteed.

Additional risks

Nondiversification Risk: The risk that the Fund will be more volatile than a diversified fund, because the Fund 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 Fund's net asset value.
Derivatives Risk: The value of the Fund's investments in derivatives may rise or fall more rapidly than other investments. For some derivatives, it is possible for a Fund to lose more than the amount it 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.
Leverage Risk: The Fund may borrow money from banks to purchase investments for the Fund, which is a form of leverage. If the Fund borrows money to purchase securities and the Fund's investments decrease in value, the Fund's losses will be greater than if the Fund did not borrow money for investment purposes. In addition, if the return on an investment purchased with borrowed funds is not sufficient to cover the cost of borrowing, then the net income of the Fund will be less than if borrowing was not used. Certain derivatives that the Fund may use may also create leverage. Derivative instruments that involve leverage can result in losses to the Fund that exceed the amount originally invested in the derivative instruments.
Foreign Investing, Currency and Emerging Markets Risks: The risk that the values of the Fund's investments in foreign securities may go down, because of unfavorable foreign government actions, political instability or the absence of accurate information about foreign issuers. Also, a decline in the value of foreign currencies relative to the US dollar will reduce the value of securities denominated in those currencies. Also, foreign securities are sometimes less liquid and harder to sell and to value than securities of US issuers. Each of these risks is more severe for securities of issuers in emerging market countries.

UBS Global Asset Management

UBS Global Asset Management (US) Inc., the Fund's distributor, is a subsidiary of UBS AG.
UBS105.2916C 04-0682 S1008
www.ubs.com/globalam-us