UBS Global Asset Management

Global Perspectives
September 2009 update

At UBS Global Asset Management, we use proprietary models that are founded on insight gathered over 27 years of investment experience as the engine behind our valuation of equity and fixed income markets. Investment expectations for all asset classes are derived from passive, index-level information.

Using **US Equities**[1]—the first represented asset class listed in the table on this page—as an example, what follows is a step-by-step look at the variables that are used to identify valuation opportunities and how to interpret them, as well as a summary of our current Global Balanced strategy views.

All represented data are as of the most recent available date of August 31, 2009.

1 Other asset classes may result in the identification of different valuation opportunities and interpretations.

2 The relative valuations and investment expectations are for the indices only. The valuations and expected returns of the indices are subject to change at any time. Valuation and three-year expected return estimates are based on normalized earnings and growth rates. They are shown for illustrative purposes only of the valuation research process used by UBS Global Asset Management to identify potential investment opportunities among broad asset classes. They are not intended to predict the future performance of the markets or any UBS Global Asset Management account or portfolio. Please read the "Key to Reading the Asset Class Valuation Model Table" and "Definitions of 'Asset Class Investment Expectations' metrics" pages for a fuller understanding of the assumptions and limitations of the asset class valuation model. Some asset classes represented may not be available in some of the portfolios.

3 The price/value discrepancies are in local currency terms. The hedged returns, however, are measures of the market returns that are available to investors, independent of direct currency effects.

4 MSCI World Free Ex-US Index.

5 MSCI Emerging Markets Free Index (Unhedged).

6 Extra return may not equate to expected return minus required return due to rounding.

The Asset Class Valuation Model as of August 31, 2009[2]

Column: 1	2	3	4	5	6
Asset class benchmarks	Price/Value[3] overvalued (+)/ undervalued (-)	Equilibrium return	Three-year expected return	Extra return[6]	Secular risk estimate
US Equities: S&P 500 Index	-27.7%	8.1%	17.6%	12.5%	14.6%
Global (Ex-US) Equities: MSCI Index[4]	-30.2	8.3	18.8	13.4	15.1
Emerging Markets Equities: MSCI Index[5]	-26.7	9.8	21.1	12.0	18.7
Global Equities: MSCI All-Country World Index	-28.9	8.3	18.2	12.2	14.1
Private Markets: Private Equity Performance Indicator	-4.3	12.0	13.2	2.2	25.5
Real Estate: NCREIF Property Index	3.3	6.6	2.4	-1.3	10.1
US Bonds: Citigroup World Gov't Bond US Index	2.0	5.5	1.2	-1.3	4.6
Ten-Year Treasury Bonds	3.1	5.9	1.8	-1.1	7.0
High Yield: Merrill Lynch High Yield Master Index	-19.9	6.6	11.7	7.9	9.0
Global (Ex-US) Bonds: Citigroup World Govt. Bond Index	3.4	5.5	0.7	-1.9	4.7
Emerging Markets Debt: JP Morgan EMBI Global	-3.3	6.9	5.1	1.2	10.0
Treasury Inflation Protected Securities (TIPS)	-2.4	5.2	3.2	0.7	3.0
US Cash Equivalents: 3-Month Eurodollar	0.0	4.7	1.8	0.0	0.5

Key to reading the asset class valuation model table

Column 1: Asset Class Benchmarks identifies the indices and, where applicable, the associated asset class.

Example: In the case of US Equities, the prices and underlying cash flows for companies comprising the S&P 500 Index are used to arrive at valuation results for that asset class.

Column 2: Price/Value indicates whether the asset class is under- or overvalued based on its market price relative to our estimate of the intrinsic value of the asset class, as characterized by the associated index.

Example: The Price/Value relationship for US Equities is -27.7% or 27.7% undervalued, which means that the S&P 500 August 31, 2009 market price is below UBS Global Asset Management's estimate of intrinsic value.

Column 3: Equilibrium Return describes the passive return any given asset class should provide in a typical investment environment.

Example: In the case of US Equities, this figure is currently 8.1%. These returns do not take into account current capital market relationships, and are thus used as long-term (20- to 30-year) expectations for determining investment policies or custom benchmarks.

Column 4: The **Three-Year Expected Return** is UBS Global Asset Management's anticipated return for an asset class over each of the next three years. The figure results from the required rate of return (which is calculated based on the current cash rate and the expected path of future cash rates as determined by UBS Global Asset Management), as well as the added (or subtracted) return that would result from the anticipated convergence of market price to intrinsic value in equal measure over each of the next three years.

Example: Because US Equities, as indicated in the table, is below our estimate, the three-year expected return would be higher than the return that would be anticipated from a US Equities investment given current capital market conditions (known as the required return). The Three-Year Expected Return for US Equities is 17.6%.

Column 5: The **Extra Return** is the premium between the Three-Year Expected Return and the required return for a given asset class.

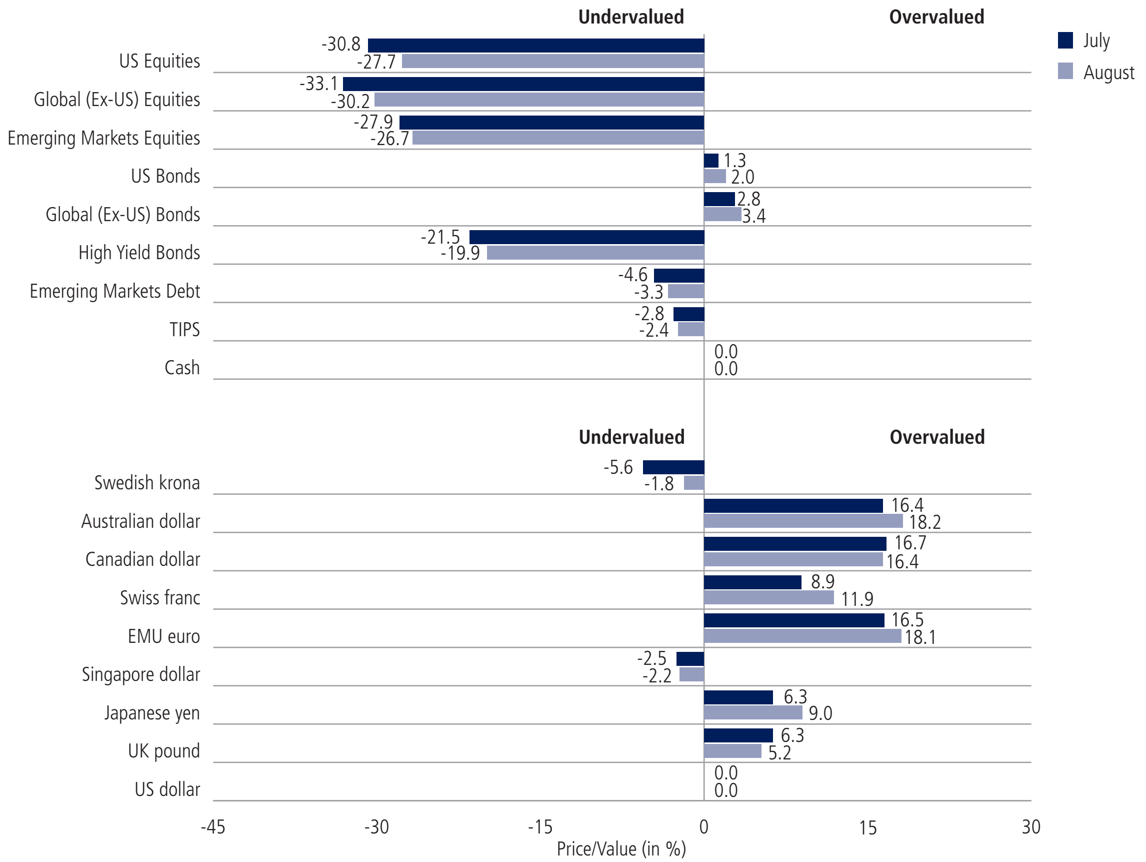
Example: The Extra Return for US Equities is 12.5%.

Column 6: The **Secular Risk Estimate** figure, which appears in the final column of the table, indicates the "forward-looking" expected standard deviation (which is a measure of volatility) for an asset class. A higher Secular Risk Estimate figure implies greater expected risk.

Example: In the case of US Equities, the Secular Risk Estimate is 14.6%.

Asset class and currency investment expectations[7]

Current month (as of August 31, 2009) versus prior month (as of July 31, 2009)



[7] The relative valuations and investment expectations are for the indices only. The valuations and expected returns of the indices are subject to change at any time. Valuation and three-year expected return estimates are based on normalized earnings and growth rates. They are shown for illustrative purposes only of the valuation research process used by UBS Global Asset Management to identify potential investment opportunities among broad asset classes. They are not intended to predict the future performance of the markets or any UBS Global Asset Management account or portfolio. Please read the "Key to Reading the Asset Class Valuation Model Table" and "Definitions of 'Asset Class Investment Expectations' metrics" pages for a fuller understanding of the assumptions and limitations of the asset class valuation model. Some asset classes represented may not be available in some of the portfolios.

Strategy viewpoints as of August 31, 2009

Asset class	Price/Value	UBS Global Asset Management's viewpoint
US Equities	-27.7%	■ The US equity market continued its rally, for the sixth consecutive month, on the back of earnings momentum. ■ Leading the way up was the financial sector, which rose over 12%, with strong double-digit returns across banks, diversified financials, insurers and REITs. **We view US Equities to be undervalued.**
Global (Ex-US) Equities	-30.2	■ International equity markets posted solid returns in August as risk assets remained strong, although somewhat choppy. ■ Economic conditions continued to show signs of improvement during August. **We find Global (Ex-US) Equities to be undervalued.**
Emerging Markets Equities	-26.7	■ Emerging markets equities ended the month of August roughly unchanged. ■ The emerging markets underperformed their developed market counterparts for the month. **We find Emerging Markets Equities to be undervalued.**
US Bonds	2.0	■ The Treasury yield curve rallied at the long end for the month. ■ Overall, the US Bond strategy remains high in quality and maintains liquidity, while incrementally adding risk. **We find US Bonds to be within our fair value range.**
Global (Ex-US) Bonds	3.4	■ Bonds posted positive results for August as yield curves shifted down for the month, especially in the UK. ■ Following the strong rally in equity markets in recent months, the increased caution produced a strong recovery in bond markets, which lowered yields significantly from their early August highs, to eventually close below end of July levels in most markets. **We find Global (Ex-US) Bonds to be within our fair value range.**
High Yield Bonds	-19.9	■ The US high yield market posted a positive return for August as spreads continued to narrow. ■ Lower-rated bonds led for the month again. **We feel the market has moved strongly ahead of economic reality, and that the majority of defaults are still ahead of us. Therefore, we have a neutral position in US High Yield Bonds in our portfolios.**
Emerging Markets Debt	-3.3	■ Emerging markets debt posted a positive return for August as spreads continued to narrow. ■ Positive trends in all market segments continued to be supported by declining risk aversion and an increase in investors' confidence. **We view Emerging Markets Debt to be within our fair value range.**
Currency	—	■ In Europe, we are short the euro, Swiss franc and British pound versus long the Swedish krona and Norwegian krone; elsewhere, we are long Asian currencies (ex-Japanese yen) and the Mexican peso, and short the Australian and Canadian dollars. **The risk in the portfolio is low compared to the level we would expect to run on average in the long term. We thus have room to expand the amount of risk, given the emergence of further investment opportunities.**
Cash Equivalents	—	**We are holding a strategic cash position in light of the higher uncertainty among market participants as they question whether the recovery in risk assets has run too far ahead of the economic recovery.**

The investment expectations are for the indices only, and are subject to change at any time. Valuation and three-year expected return estimates are based on normalized earnings and growth rates. They are shown for illustrative purposes only of the valuation research process used by UBS Global Asset Management to identify potential investment opportunities among broad asset classes. They are not intended to predict the future performance of the markets or any UBS Global Asset Management account or portfolio. Please read the "Key to Reading the Asset Class Valuation Model Table" and "Definitions of 'Asset Class Investment Expectations' metrics" pages for a fuller understanding of the assumptions and limitations of the asset class valuation model. Some asset classes represented may not be available in some of the portfolios.

Definitions of "Asset Class Investment Expectations" metrics

1. Asset Class/Benchmark

All investment expectations displayed here are modeled from the discounted cash flows as replicated by the relevant publicly available index. This bears mentioning because these expectations are developed assuming no benefit from active management (i.e., security selection) within the asset classes themselves.

2. Price/Value

An intrinsic value based on the cash flows that an asset class provides—discounted at an appropriate rate of return (the required rate of return)—is identified for each of the asset classes listed. The cash flows would be those that would be expected to pass through to the asset holder; in the case of equities, the relevant cash flows are earnings and nonreinvested earnings (including, though not exclusively, dividends). That intrinsic value is then compared to the market price for the proxy index, and the degree of over- or undervaluation is thereby calculated in percent. As of August 31, 2009, the S&P 500 Index indicated a Price/Value of -27.7%, reflecting our estimate of undervaluation.

3. Equilibrium Return

The equilibrium return represents the return of an asset class in a typical market environment, or one where supply and demand for capital market returns is in 'equilibrium.' This is often considered to be the 'long-term expected asset return' absent any price/value discrepancy. Equilibrium returns are calculated as the geometric addition of the UBS Global Asset Management estimates of three crucial components:

(a) Real risk-free rate: An estimate of the underlying real rate common to all assets in the global economy, representing the underlying real interest rate reflects the fundamental ability and willingness of society to expand wealth through savings and investment. The real risk-free rate is currently estimated to be 2.40%.

(b) Inflation premium: The additional return an asset must provide investors to protect them against losses in purchasing power from inflation. The level of long-term inflation is the result of fiscal and monetary policy objectives and actions, as well as the path of overall global inflation. This premium is currently 2.25%.

(c) Asset risk premium: Additional return to compensate investors for the additional systematic risk experienced in an asset class. US equities, carrying more systematic risk to the global investable capital market, thus have higher risk premiums (3.27% for the S&P 500 Index) than US fixed income investments (0.72%). The equilibrium return for US equities, therefore, is (1.024)*(1.0225)*(1.0327) – 1 = 8.13%.

4. Expected (Three-Year) Return

Reflects UBS Global Asset Management's expectations using current market assumptions. There is no assurance that these projections ultimately will be realized. This return is the annualized return expected in an asset class for each of the following three years if market price fully realizes our estimate of intrinsic value. Simply, an asset class should yield its required return in an efficient market, but any mispricing that may occur has the potential to increase (if the asset is currently underpriced) or decrease (overpriced) the asset class return. The three-year period is subjective, but does match the horizon of the AARM strategy-setting: Asset class overweights and underweights taken in anticipation of higher or lower expected returns are expected to have a positive impact on market allocation results within a 36-month period of being undertaken.

The calculation is more sophisticated than this, but it helps to conceive of the three-year expected return as follows, for the S&P 500 Index as an example:

The required return for the S&P 500 Index is 5.2% as of the end of August. Since this represents a 27.7% undervaluation, if market price appreciates 9.2% per year relative to the required return for each of the next three years as it matches intrinsic value, the S&P 500 Index can be expected to appreciate overall by (1.052)*(1+0.092) –1 = 14.9% for each of the next three years. This imperfect back-of-the-envelope estimate approximates the true expected three-year return of 17.6%. During periods of extreme misvaluation, the expected return estimation is not as close to the actual expected return as it would be during normal times. Any difference results from the process of 'averaging' the future 10-year path of required cash returns into a single number for communication purposes. Remember that the required cash return is not a single number per se, but a 10-year process of adjustment.

5. Extra Return

The extra return represents the premium between the three-year expected return and the required return for an asset class. For example, the extra return for the S&P 500 Index is 12.5%.

6. Secular Risk Estimate

These are forward-looking expected standard deviations for the expected returns of the asset classes listed. The secular risk estimate for the S&P 500 Index is 14.6%.

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