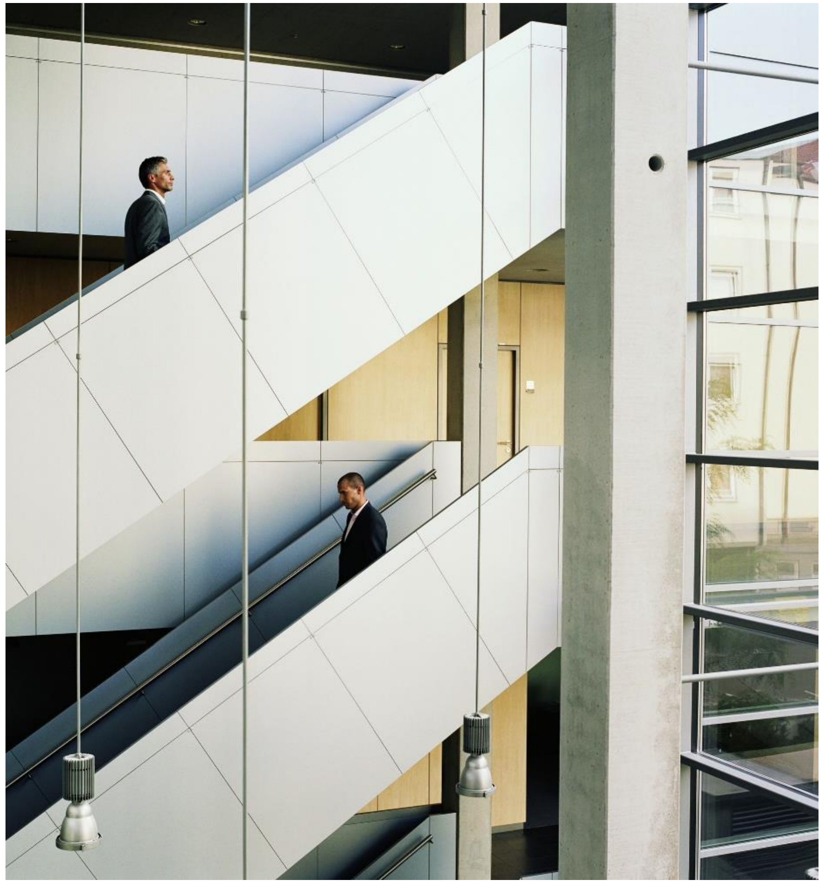
For professional / institutional / qualified investors only

Diversifying with Hedge Funds

Adding hedge funds to a traditional asset allocation

A path worth considering

Why alternatives may be key components to a diversified portfolio



In seeking attractive returns over time, while still placing a priority on attempting to limit losses, investors may want to consider alternative investments.[1]

The challenge

We believe investors should consider further diversifying their traditional stock and bond portfolios in an effort to improve risk-adjusted returns.

In the transition from the long period of low interest rates, low inflation and a generally stable geopolitical landscape, we believe that investors should reconsider the traditional 60/40[2] asset allocation model. Particular focus is on "the higher for longer" environment, driven primarily by higher inflation that has called into question the role of core fixed income exposures. There is data to suggest elevated correlations between equities and fixed income during periods of elevated inflation.[3], therefore investors may want to contemplate varied options that may have the potential to achieve more stable outcomes.

Stocks have offered relatively attractive long-term returns, but…

- Historically, they are more volatile than some investors may be comfortable with
- After the "lost decade,"[4] many investors remain cautious toward equities

A solution

A hedge fund portfolio is an actively managed portfolio of hedge funds[5], which can potentially serve as a diversifier to a traditional stock and bond portfolio.

Relative to traditional, long-only investments, hedge fund portfolios may:

- Rely less on favorable stock and bond markets for potentially attractive client outcomes
- Are designed to seek comparatively lower volatility and more consistent returns
- Prioritize the objective of loss avoidance
- Offer a variety of risk/return profiles

1 Alternative investments are a class of assets and strategies that, when used effectively, have the potential to help lower your overall portfolio risk, improve diversification and possibly help enhance returns, even in periods of market stress. This can include any investment beyond the traditional long-only investments such as stocks and bonds. See chart on page 6 for types of Alternative Investments. You must be a qualified investor to invest in a hedge fund portfolio.
2 The 60/40 asset allocation model refers to a split of 60% of a portfolio allocated to equities and 40% to bonds.
3 Based on data as of September 2023. Morningstar Direct, Macrobond. Analysis by UBS Asset Management.
4 The "lost decade" refers to the time period between January 2000 to December 2009.
5 When "Hedge fund portfolios" are mentioned in the context of this brochure, the term may be broadly expanded to encompass fund of hedge fund portfolios, or any funds which benchmark to the HFRI Fund Weighted Composite Index.

Seeking to mitigate risk while participating on the upside

Hedge fund portfolios provide a balance between the performance and volatility of equities and bonds

Hedge funds versus global equities and bonds

	1 Year	3 Years		5 Years		10 Years		Since 1990	
	Return*	**Return***	**Volatility**	**Return***	**Volatility**	**Return***	**Volatility**	**Return***	**Volatility**
HFRI Fund Weighted Composite Index	7.53%	4.32%	5.44%	7.00%	7.68%	4.54	6.15%	9.01%	6.72%
FTSE US Broad Investment – Grade Bond Index	5.63%	-3.40%	7.28%	1.12%	6.20%	1.81%	4.79%	5.16%	4.13%
MSCI World Total Return – Net USD	23.81%	7.27%	16.99%	12.81%	18.26%	8.60%	14.98%	7.06%	15.25%

Source: UBS Hedge Fund Solutions, Bloomberg. As of 31 December 2023.
*Returns are given as Annualized Returns
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A diversified portfolio that includes exposure to hedge funds might experience lower volatility compared to global equities, as indicated by the HFRI Fund Weighted Composite Index consistently demonstrating lower volatility than the MSCI World Total Return Index in both short and long-term scenarios. Furthermore, the historical volatility of the HFRI Fund Weighted Composite Index has closely aligned with the FTSE US Broad Investment Grade Bond Index, but notably outperformed in the past 3, 5, and 10 years. However, the historical return of hedge funds has underperformed compared to equities.

Investors considering to reduce portfolio volatility may wish to explore hedge funds, even during periods of market stress.

Potential to minimize risk

Historically, hedge fund portfolios often sought to limit losses relative to equities

Hedge fund portfolios do not always produce positive returns. But, a comparison of the historical monthly returns of hedge fund portfolios (as represented by the HFRI Fund Weighted Composite Index) versus global equities (as represented by the MSCI World Total Return Index) indicates that, generally, hedge fund portfolio declines weren't as severe or as frequent.

The bottom line: By seeking to perform consistently, reduce volatility and provide returns that offer low correlation to the markets, a hedge fund portfolio may help investors to weather equity market declines.

Global Equities: MSCI World Total Return Index

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD
2023	7.1	-2.4	3.2	1.8	-0.9	6.1	3.4	-2.4	-4.3	-2.9	9.4	4.9	23.8
2022	-5.3	-2.5	2.8	-8.3	0.2	-8.6	8.0	-4.1	-9.3	7.2	7.0	-4.2	-17.7
2021	-1.0	2.6	-3.3	4.7	1.4	1.5	1.8	2.5	-4.2	5.7	-2.2	4.3	21.8
2020	-0.6	-8.5	-13.2	10.9	4.8	2.6	4.8	6.7	-3.5	-3.1	12.8	4.2	15.9
2019	7.8	3.0	1.3	3.6	-5.8	6.6	0.5	-2.0	2.1	2.5	2.8	3.0	27.7
2018	5.3	-4.1	-2.2	1.2	0.6	-0.1	3.1	1.2	0.6	-7.3	1.1	-7.6	-8.7
2017	2.4	2.8	1.1	1.5	2.1	0.4	2.4	0.1	2.2	1.9	2.2	1.4	22.4
2016		-0.7	6.8	1.6	0.6	-1.1	4.2	0.1	0.5	-1.9	1.4	2.4	7.5
2015	-1.8	5.9	-1.6	2.4	0.3	-2.3	1.8		-3.7	7.9	-0.5	-1.8	-0.9
2014	-3.7	5.0	0.1	1.0	2.0	1.8	-1.6	2.2	-2.7	0.7	2.0	-1.6	4.9
2013	5.1	0.2	2.3	3.2	0.0	-2.5	5.3	-2.1	5.0	3.9	1.8	2.1	26.7
2012	5.0	4.9	1.3	-1.1		5.1	1.3	2.5	2.8	-0.7	1.3	1.9	15.8
2011	2.3	3.5	-1.0	4.3	-2.1	-1.6	-1.8			10.3	-2.4	-0.1	
2010		1.4	6.2	0.0		-3.4	8.1	-3.7	9.3	3.7	-2.2	7.4	11.8
2009			7.5	11.2	9.1	-0.5	8.5	4.1	4.0	-1.8	4.1	1.8	30.0
2008		-0.6	-1.0	5.3	1.5		-2.4	-1.4				3.2	
2007	1.2	-0.5	1.8	4.4	2.8	-0.8	-2.2	-0.1	4.8	3.1		-1.3	9.0
2006	4.5	-0.2	2.2	3.0	-3.4	0.0	0.6	2.6	1.2	3.7	2.5	2.0	20.1
2005	-2.3	3.2	-1.9	-2.2	1.8	0.9	3.5	0.8	2.6	-2.4	3.3	2.2	9.5
2004	1.6	1.7	-0.7	-2.1	0.9	2.1	-3.3	0.4	1.9	2.5	5.3	3.8	14.7
2003	-3.1	-1.8	-0.3	8.9	5.7	1.7	2.0	2.2	0.6	5.9	1.5	6.3	33.1
2002	-3.0	-0.9	4.4	-3.4	0.2			0.2		7.4	5.4		
2001	1.9			7.4	-1.3	-3.2	-1.3			1.9	5.9	0.6	
2000		0.3	6.9		-2.5	3.4	-2.8	3.2		-1.7		1.6	
1999	2.2	-2.7	4.2	3.9	-3.7	4.7	-0.3	-0.2	-1.0	5.2	2.8	8.1	24.9
1998	2.8	6.8	4.2	1.0	-1.3	2.4	-0.2		1.8	9.0	5.9	4.9	24.3
1997	1.2	1.1	-2.0	3.3	6.2	5.0	4.6		5.4		1.8	1.2	15.8
1996	1.8	0.6	1.6	2.3	0.1	0.5	-3.6	1.1	3.9	0.7	5.6	-1.6	13.5
1995	-1.5	1.4	4.8	3.5	0.8	-0.1	5.0	-2.3	2.9	-1.6	3.5	2.9	20.7
1994	6.6	-1.3	-4.3	3.1	0.2	-0.3	1.9	3.0	-2.7	2.8	-4.4	0.9	5.1
1993	0.3	2.3	5.8	4.6	2.3	-0.9	2.0	4.6	-1.9	2.7	-5.7	4.9	22.5
1992	-1.9	-1.8	-4.7	1.4	4.0	-3.4	0.2	2.4	-1.0	-2.7	1.8	0.8	-5.2
1991	3.6	9.2	-3.0	0.8	2.2	-6.2	4.7	-0.4	2.6	1.6	-4.4	7.3	18.3
1990	-4.7	-4.3	-6.1	-1.5	10.5	-0.7	0.9	-9.4	-10.6	9.3	-1.7	2.1	-17.0

Hedge fund portfolios: HFRI Fund Weighted Composite Index

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD
2023	2.7	-0.6	-0.8	0.2	-0.2	2.1	1.8	-0.7	-0.7	-1.6	2.6	2.6	7.5
2022	-2.0	-0.1	1.2	-1.4	-0.5	-2.9	1.3	0.5	-2.4	1.4	1.2	-0.3	
2021	1.2	3.7	0.8	2.2	1.3	0.5	-0.9	0.8	-0.2	1.3	-2.0	1.2	10.2
2020	-0.5	-2.3		4.5	2.4	2.0	3.0	2.4	-0.9	0.2	5.9	4.6	11.8
2019	3.5	1.3	0.6	1.3	-1.9	2.3	0.4	-0.8	-0.2	0.6	1.1	1.9	10.5
2018	2.3	-1.8	-0.5	0.4	0.9	-0.4	0.5	0.3	-0.3	-3.2	-0.4	-2.5	
2017	1.2	0.9	0.4	0.5	0.2	0.3	1.1	0.5	0.7	1.0	0.5	1.0	8.6
2016	-2.6	0.0	2.1	1.0	0.4	0.4	1.9	0.4	0.7	-0.6	0.8	1.0	5.4
2015	0.0	1.9	0.4	1.0	0.6	-1.2	-0.5	-2.4	-1.4	1.7	0.2	-1.1	-1.1
2014	-0.5	2.0	-0.3	-0.2	0.9	1.3	-0.6	1.3	-0.9	-0.4	0.8	-0.2	3.0
2013	2.5	0.1	1.0	0.6	0.5	-1.5	1.3	-0.7	1.6	1.5	0.9	1.0	9.1
2012	2.8	2.1	-0.2	-0.5	-2.6	0.3	0.9	0.8	1.3	-0.4	0.4	1.4	6.4
2011	0.4	1.2	0.1	1.5	-1.2	-1.2	0.2	-3.2	-3.9	2.7	-1.4	-0.5	
2010	-0.8	0.7	2.5	1.2	-2.9	-1.0	1.6	-0.1	3.5	2.1	0.2	3.0	10.3
2009	-0.1	-1.2	1.7	3.6	5.2	0.3	2.5	1.3	2.8	-0.2	1.5	1.3	20.0
2008	-2.7	1.5	-2.2	1.6	1.9	-1.3	-2.3	-1.4			-2.7	0.1	
2007	1.1	0.7	1.0	1.8	2.0	0.7	0.1	-1.5	2.7	2.9	-2.2	0.5	10.0
2006	3.5	0.5	2.0	1.9	-1.6	-0.2	-0.2	1.0	0.2	1.8	2.1	1.5	12.9
2005	-0.2	1.8	-0.9	-1.5	1.0	1.6	2.3	0.8	1.9	-1.4	1.7	1.8	9.3
2004	2.0	1.2	0.5	-1.5	-0.3	0.8	-1.0	0.1	1.7	0.8	2.8	1.7	9.0
2003	0.7	0.0	0.1	2.6	3.6	1.4	1.3	1.8	1.2	2.5	1.1	1.9	19.6
2002	0.5	-0.7	1.9	0.3	0.0	-1.9	-2.9	0.5	-1.5	0.6	2.1	-0.2	-1.5
2001	3.4	-2.2	-1.6	2.0	1.2	0.3	-0.8	-0.4	-2.8	2.0	2.0	1.7	4.6
2000	0.6	6.2	0.9	-2.9	-2.0	3.7	-0.6	3.8	-1.2	-1.8	-3.5	2.1	5.0
1999	2.2	-1.3	3.1	4.5	0.7	3.6	0.5	0.0	0.2	1.6	5.1	7.7	31.3
1998	-0.7	3.3	3.0	1.0	-2.1	-0.1	-0.8		0.7	1.2	3.7	2.8	2.6
1997	3.2	1.0	-1.6	-0.1	4.4	2.7	3.9	0.3	3.7	-1.5	-0.9	0.9	16.8
1996	2.9	1.2	1.5	4.0	3.1	0.2	-2.1	2.3	2.1	1.0	2.1	1.3	21.1
1995	-0.2	1.3	1.7	2.1	1.7	2.5	3.2	2.2	2.0	-0.7	1.9	2.1	21.5
1994	2.5	-0.6	-1.5	-0.6	0.7	0.3	1.4	2.5	0.9	0.0	-1.3	-0.1	4.1
1993	2.3	1.3	3.1	1.5	2.6	2.6	2.1	2.9	1.6	3.2	0.2	3.9	30.9
1992	3.8	2.1	0.6	0.3	1.8	-0.4	2.1	-0.3	1.9	2.1	2.8	2.5	21.2
1991	2.6	4.0	5.0	1.3	2.0	0.4	2.6	2.1	2.3	1.8	0.3	4.0	32.2
1990	-2.1	1.5	3.2	0.0	3.1	2.1	1.5	-3.5	-2.0	0.0	0.8	1.4	5.8

Indicates returns equal to or in excess of -4.0%. Source: UBS Hedge Fund Solutions, Bloomberg, HFRI. MSCI World Total Return Index, HFRI Fund Weighted Composite Index. The chart displayed above is intended solely for illustrative purposes. The indices shown are not intended to track each other as they follow different investment strategies/programs, and different results over similar periods can be expected. The use of indices is for illustrative purposes only. See endnotes for index descriptions.

PAST PERFORMANCE IS NOT INDICATIVE OF FUTURE RESULTS.

Help participate and protect

Hedge fund portfolios seek to participate on the upside and have the potential to protect on the downside of equities

A look at the three worst drawdown periods
(January 1990-December 2023)

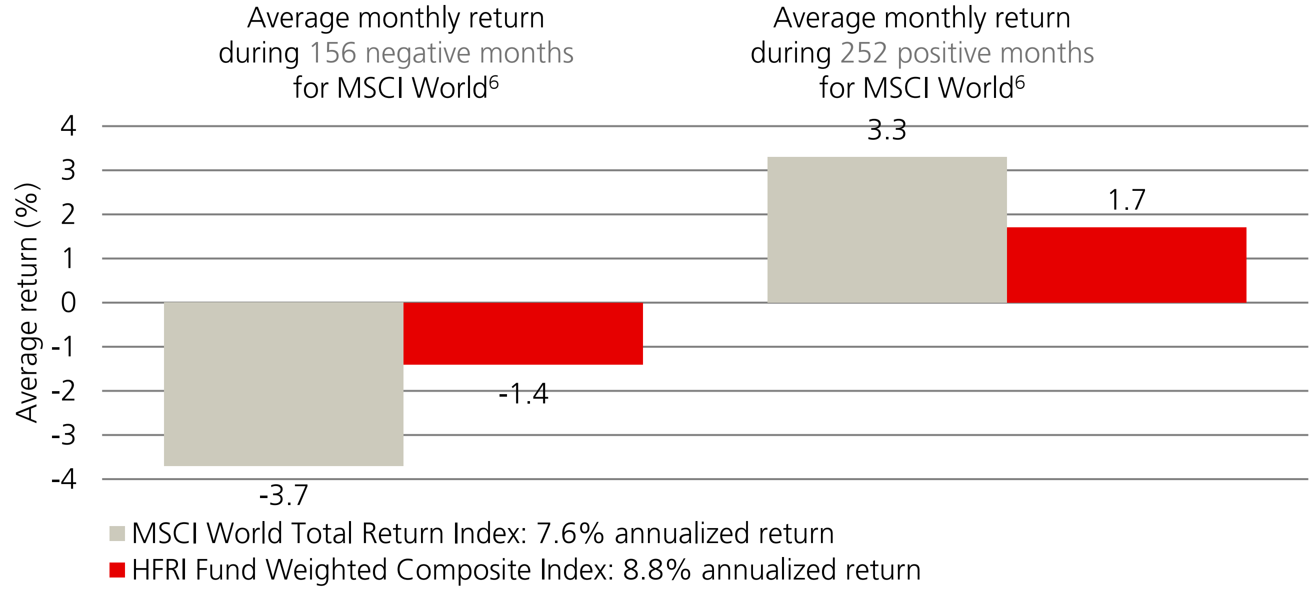
	Global Equities (%)	Hedge fund portfolios (%)
Worst drawdown (11/07—2/09)	-54.0	-23.5
Second worst drawdown (4/00—9/02)	-46.8	-1.5
Third worst drawdown (1/90—9/90)	-24.3	3.8

When you look at the three largest drawdowns experience by global equities over the past 30 years those periods weren't nearly as difficult to endure for hedge fund portfolios.

Source: UBS Hedge Fund Solutions, Bloomberg.
The table above shows the three worst drawdowns for global equities and how hedge fund portfolios performed during the same time periods, from January 1990 through December 2023. For global equities, the three worst drawdowns occurred in 2009 (November 2007—February 2009), 2002 (April 2000—September 2002) and 1990 (January 1990—September 1990). Hedge fund portfolios = HFRI Fund Weighted Composite Index. Global equities = MSCI World Trade Index.

Historically, hedge funds have sought to preserve capital during down months for equities while attempting to benefit from some of the gain in up months.

Global equities versus hedge fund portfolios
January 1990—December 2023



Source: UBS Hedge Fund Solutions, Bloomberg.

6 The left side of the graph depicts the average monthly return for both indices during the 156 negative months for the MSCI World Total Return Index. The right side of the graph depicts the average monthly return during the 252 positive months for the MSCI World Total Return Index. Based on USD total returns from January 1990 through December 2023. **PAST PERFORMANCE IS NOT INDICATIVE OF FUTURE RESULTS.** The indices are for illustrative purposes only. See endnotes for further information and for index descriptions.

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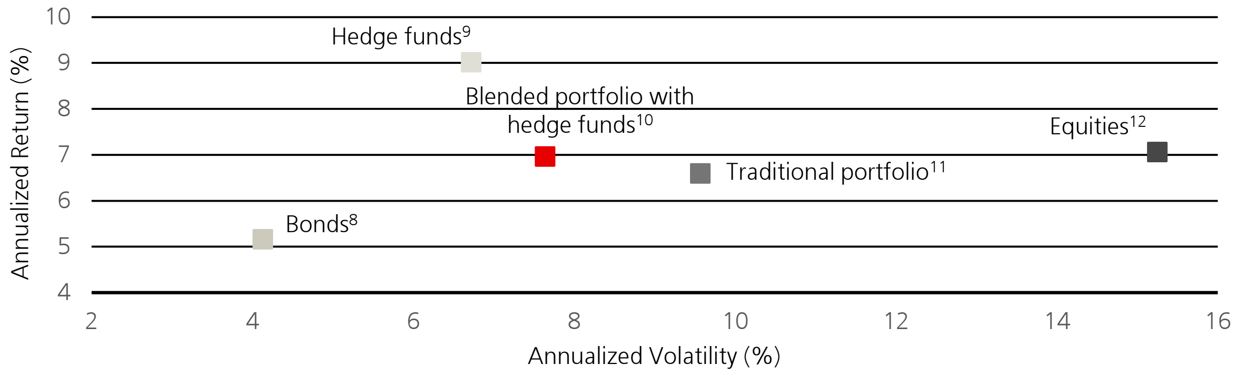
Potential for a smoother ride

Hedge fund portfolios may help navigate volatile markets

By adding hedge fund portfolios to a traditional stock/bond portfolio, investors have the potential to increase their returns and reduce the volatility in their portfolio. An investment in a broad-based multi-strategy hedge fund portfolio offers investors even further diversification[7] and may help mitigate volatility.

The chart below shows how a blended portfolio with a 20% allocation to hedge fund portfolios reduces volatility and can increase long-term performance in comparison to a more traditional portfolio allocation without hedge fund portfolios.

Adding hedge fund portfolios to a traditional portfolio
Annualized risk/return (January 1990—December 2023)



Source: UBS Hedge Fund Solutions, Bloomberg.
PAST PERFORMANCE IS NOT INDICATIVE OF FUTURE RESULTS

7 Diversification neither assures a profit nor protects against loss in declining markets.
8 FTSE US Broad Investment-Grade Index
9 HFRI Fund Weighted Composite Index
10 40% FTSE US Broad Investment-Grade Index, 40% MSCI World Total Return Index, 20% HFRI Fund Weighted Composite Index.
11 40% FTSE US Broad Investment-Grade Index, 60% MSCI World Total Return Index.
12 MSCI World Total Return Index.

Performance and volatility
Traditional portfolio vs. hedge fund portfolios
(January 1990—December 2023)

	Traditional portfolio[11](%)	**Blended portfolio with hedge funds[10](%)**
Annualized return	6.59	**6.96**
Annualized volatility	9.57	**7.64**

For over two decades, hedge fund portfolios have had similar performance to the traditional portfolio and have accomplished this with much less risk.

Source: UBS Hedge Fund Solutions, Bloomberg.
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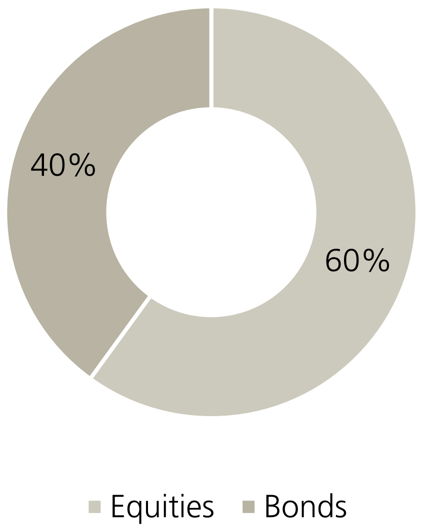
Piece of the pie

Where do hedge fund portfolios fit in the investment universe?

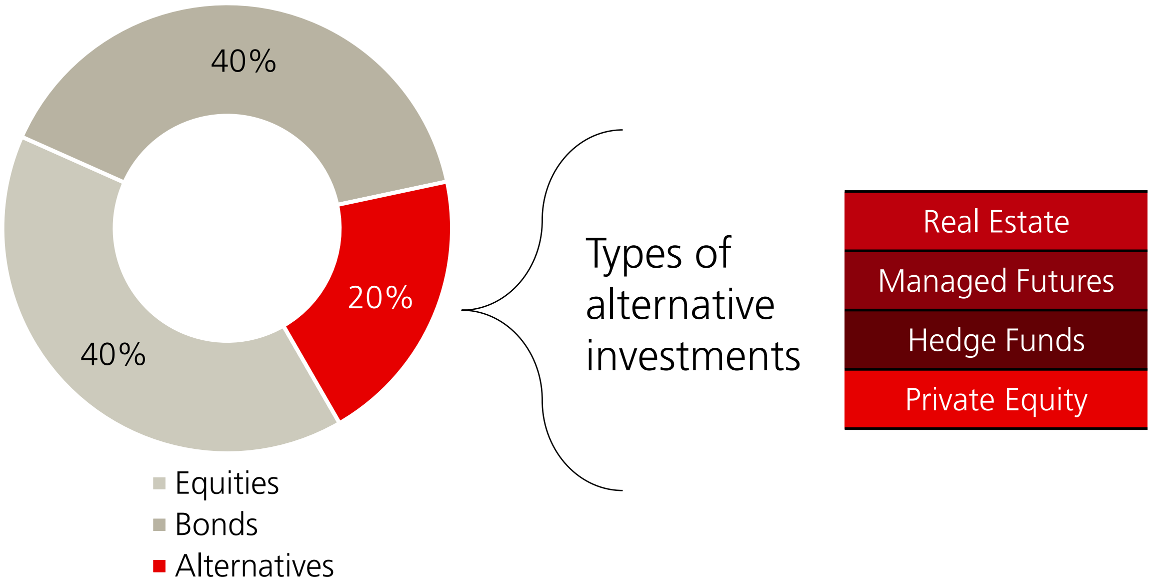
Consider diversifying your asset allocation
The old asset allocation framework, which included stocks and bonds, may benefit from the inclusion of alternative investments. More specifically, investors can seek hedge fund portfolios.

Consider hedge fund portfolios as your core allocation to alternatives. Please consult with your financial advisor regarding your own circumstances.

Traditional Allocation



Blended Portfolio with Alternatives



Note: For illustrative purposes only.
Asset allocation neither assures profit nor protects against loss in declining markets.

Index definitions:

- **The HFRI Fund of Funds Composite Index** is an equally weighted performance index broken down into 37 different categories by strategy. There is no required asset-size minimum for fund inclusion in the HFRI and there is no required length of time a fund must be actively trading before inclusion in the HFRI.
- **The MSCI World Total Return Index (Net) USD** uses the same methodology as the MSCI World Index, which is a free-float-weighted equity index including developed world markets; however, the Total Return Index also includes reinvestment of net dividends. Indices with net dividends approximates the minimum possible dividend reinvestment by using a dividend minus tax credit calculation the dividend is reinvested after subtracting withholding taxes retained at the source for foreigners who do not benefit from a double taxation treaty. The index performance has been translated into the feeder currency using the applicable daily currency exchange rate from Bloomberg.
- **The HFRI Fund Weighted Composite** Index is a global, equally weighted index of over 1,400 single-manager funds that report performance statistics to HFR. Constituent funds report monthly performance net of all fees in US dollar and have a minimum of USD 50 million under management or a twelve month track record and active performance. The HFRI Fund Weighted Composite Index does not include funds of hedge funds.

Strategy definition:

- **Volatility** is measured using the standard deviation. The standard deviation is a statistical measure of the degree to which an individual value in a probability distribution tends to vary from the mean of the distribution. The greater the degree of dispersion, the greater the risk.

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