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Understanding Alternative Investments

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Alternative Investments at UBS

- UBS is recognized as a global leader in alternative investments, managing and distributing more than $100 billion in this category.*
- We follow a disciplined wealth management approach that begins with an understanding of your objectives and preferences.

* UBS Alternative Investments US, September 2008

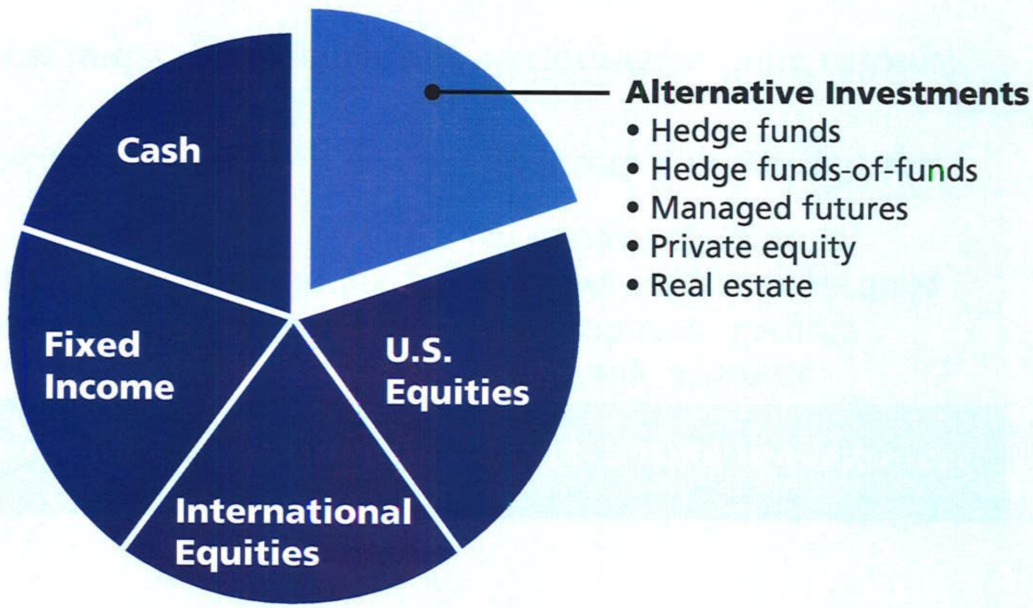
Please note that alternative investments are not for everyone. The sole purpose of this document is to educate investors and others by providing information about this asset class. This document does not constitute an offer to purchase any securities or to obtain any investment or advisory services.

Before investing, be sure to review the detailed explanation of risks, together with other information in the relevant offering materials. These include—but are not limited to—information regarding the tax treatment of the investment. Keep in mind that neither UBS Financial Services Inc. nor any of its employees provide tax or legal advice. Please consult your tax and legal advisors regarding your specific situation.

What are Alternative Investments?

Alternative investments cover a broad range of strategies and structures that fall outside the boundaries of traditional asset categories. When used as a strategic adjunct to a traditional, diversified portfolio of equity and fixed income investments, Alternative Investments can help eligible clients seek broader portfolio diversification.

- Hedge Funds
- Hedge Funds-of-Funds
- Managed Futures
- Private Equity
- Real Estate



Traditional versus alternative investments

Key differences among manager types

	Traditional investments	Alternative investments
Focus	Relative performance: Outperforming the index	Generally, absolute performance: Targets positive returns regardless of market conditions
Correlation with equity and bond markets	Typically very high	Reduced, and typically low
Chief driver of manager compensation	Assets under management	Performance (fund returns)
Liquidity	Typically high liquidity	May be limited or locked up

Source: UBS Alternative Investments US

The Value of Diversification

1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008 (1/1 – 9/30)
29.1%	30.5%	6.2%	38.1%	24.0%	36.5%	42.2%	44.2%	22.8%	14.0%	12.4%	48.5%	20.1%	10.9%	26.3%	11.2%	7.0%
21.3%	28.0%	3.1%	37.5%	23.0%	33.4%	28.6%	43.1%	11.6%	8.4%	10.3%	47.3%	18.4%	10.7%	23.5%	10.5%	0.6%
18.4%	23.8%	2.6%	37.0%	22.0%	31.8%	18.2%	28.3%	9.1%	2.5%	-4.7%	46.0%	17.6%	4.9%	22.1%	9.1%	-5.4%
10.5%	18.9%	1.3%	31.0%	21.8%	30.0%	16.0%	25.3%	7.9%	0.8%	-11.4%	35.3%	13.8%	4.6%	18.4%	7.6%	-10.4%
7.8%	18.6%	-0.6%	31.0%	21.4%	23.4%	14.7%	21.3%	6.1%	0.8%	-17.5%	31.8%	13.3%	3.6%	15.8%	7.1%	-15.3%
7.6%	13.4%	-0.7%	28.5%	16.5%	22.4%	8.7%	21.0%	-0.3%	0.4%	-20.5%	28.7%	10.9%	3.5%	13.3%	7.0%	-15.5%
7.4%	10.4%	-1.5%	25.8%	11.3%	13.0%	7.0%	12.7%	-9.1%	-9.2%	-20.9%	25.7%	7.7%	2.8%	11.7%	5.5%	-18.9%
5.1%	10.1%	-1.8%	18.5%	9.1%	10.9%	1.2%	-0.8%	-15.2%	-11.7%	-22.1%	20.5%	7.6%	2.5%	9.0%	2.0%	-19.5%
-0.9%	9.8%	-2.4%	13.6%	4.4%	9.7%	-2.6%	-1.2%	-22.1%	-11.9%	-23.6%	8.7%	4.7%	2.4%	4.3%	-1.6%	-20.3%
-13.9%	1.7%	-2.9%	9.4%	3.6%	0.2%	-6.5%	-1.5%	-22.4%	-12.7%	-30.3%	4.1%	3.3%	1.7%	3.5%	-9.8%	-29.0%

- Hedge Funds
- International Stocks
- U.S. Bonds
- Large-Cap Stocks
- Large-Cap Value Stocks
- Large-Cap Growth Stocks
- Small-Cap Stocks
- Small-Cap Value Stocks
- Small-Cap Growth Stocks
- Barclay CTA

Source: Lipper, HFRI (2008), www.hedgefundresearch.com. Indices are unmanaged and are not available for direct investment. **Past performance is not indicative of future results.** Hedge Funds are represented by the HFRI, an equally weighted performance summary of equity long/short hedge funds from a universe of over 600 hedge funds worldwide. No index is directly comparable to a particular hedge fund's investment strategy.

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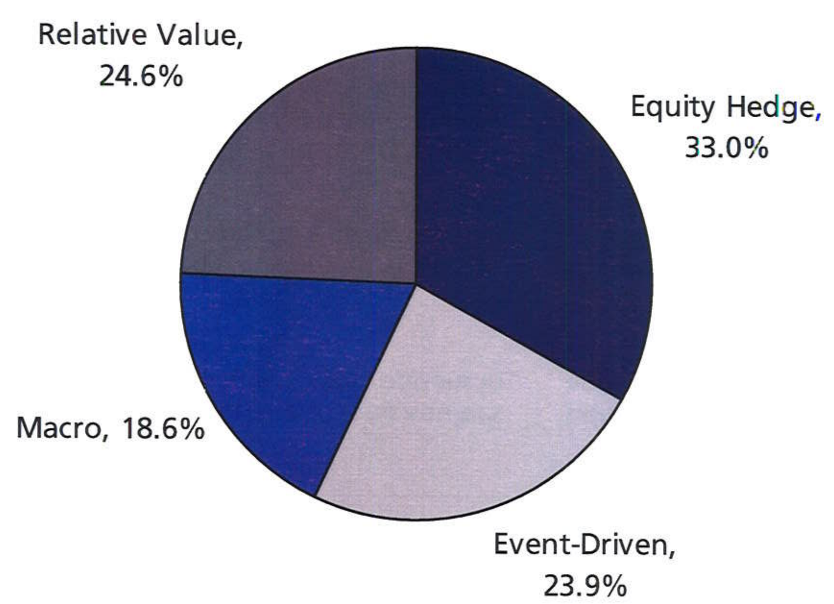
Types of Alternative Investments

- **Hedge Funds**
- Hedge Funds-of-Funds
- Private Equity
- Managed Futures
- Real Estate

Overview of the Hedge Fund Market

- Approximately $1.5 trillion under management
- Estimated number of hedge funds: 7,200



Source: HFR Global Hedge Fund Industry Report: Special Edition—October 2008
Hedge funds are actively managed; strategies, allocations and percentages are subject to change.

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Hedge Funds

A hedge fund is a private pool of assets that may invest in a diverse array of instruments:

- **Stocks**
- **Bonds**
- **Derivatives:** Futures and options, swaps and other structured products

Strategies

Equity Long/Short—Invests in a core holding of long equities and sells short stocks and/or stock options and index options in an effort to reduce market exposure and risk.

Global Macro—Attempts to profit from anticipated price movements in stock markets, interest rates, foreign exchange and physical commodities.

Distressed Securities—Invests in or sells short securities of companies undergoing or expected to undergo a significant change such as bankruptcy, reorganization or recapitalization.

Merger Arbitrage—Invests long and short in event-driven situations such as leveraged buyouts, mergers and hostile takeovers.

Special Situations—Invests in or sells short companies involved in spin-offs, smaller or less well-known companies or other unique characteristics

Equity Market Neutral—Invests in long equity positions and an approximately equal dollar amount of offsetting short positions in an attempt to achieve a net market exposure as close to zero as possible.

Convertible Arbitrage—Builds a portfolio of convertible securities; hedges company risk by shorting equities, debt securities, or by using derivatives

Statistical Arbitrage—Utilizes quantitative analysis of technical factors to seek to capitalize on pricing inefficiencies between related equity securities.

Fixed Income Arbitrage—Seeks to profit by investing in the pricing inefficiencies that occur among related fixed income securities.

There are risks specifically associated with investing in hedge funds. There can be no assurances that a hedge fund's investment objective will be achieved or that its investment program will be successful. The risks typically include those associated with investing in short sales, options, small-cap stocks, "junk bonds," derivative instruments, distressed securities, non-U.S. securities and illiquid investments.

In addition, an investment in a hedge fund is speculative, and an investor may lose some or all of his or her investment. A hedge fund is not a mutual fund, and is not subject to the same regulatory requirements as mutual funds. A hedge fund may engage in leveraging and other speculative investment practices that may increase the risk of investment loss. It can be illiquid, it may not be required to provide periodic pricing or valuation information to investors, it may involve complex tax strategies and there may be delays in distributing tax information to investors. A hedge fund generally is subject to investment management fees and performance-based allocations, and other fees and expenses, all of which will reduce profits. There is generally no secondary market for the interests of these funds, and none is expected to develop. Interests of hedge 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.

Hedge Funds (continued)

A variety of styles and exposures

Relative Value/Arbitrage	Event-Driven	Directional/Trading
Fixed Income Arbitrage	Merger Arbitrage	Equity Long/Short
Equity Market Neutral	Distressed	Macro
Statistical Arbitrage	Special Situations	Managed Futures
Convertible Arbitrage		

Lower ⟵⟶ **Higher**

Market Exposure

For illustrative purposes only.
Source: UBS Alternative Investments US

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Hedge Funds (continued)

Historical performance of hedge fund strategies

The table on the following page shows the historical performance and standard deviation of various hedge fund strategies from 1990 to 2008. Keep in mind that just as markets fluctuate, individual hedge fund strategies move in and out of favor, and return and volatility characteristics change over time. Indices are unmanaged and are not available for direct investment.

Hedge Funds (continued)

Historical performance of hedge fund strategies

HFRI Indices:	Annualized Returns (%) 1 yr	3 yr	5 yr	Jan. 1990– Sept. 2008	Risk Metrics* Standard Deviation	Maximum Drawdown	Correlation Analysis* S&P 500	Lehman Aggregate
Convertible Arbitrage	-19.6%	-1.6%	-.7%	8.1%	4.8%	-25.7%	0.48	0.18
Distressed	-9.6	3.9	8.7	13.4	6.0	-12.8	0.67	0.00
Equity Market Neutral	-2.6	3.1	4.0	8.2	3.2	-6.0	0.39	0.01
Event-Driven	-10.0	4.0	7.9	12.9	6.5	-12.0	0.79	-0.01
Hedge Fund-of-Funds	-9.3	3.4	5.2	8.8	5.7	-13.1	0.64	0.02
Equity Hedge	-14.8	2.3	5.8	14.7	8.9	-17.3	0.77	-0.05
Macro	6.8	8.2	7.9	14.5	7.9	-10.7	0.26	0.12
Merger Arbitrage	-3.9	6.0	5.7	9.5	4.3	-6.5	0.73	0.03
Fixed Income Arbitrage	-19.6	-1.6	-0.7	8.1	4.8	-21.1	0.53	0.15
Broad Market Indices:								
S&P 500	-22.0	0.2	5.2	8.8	13.9	-44.7	1.00	-0.01
MSCI World	-27.6	-1.2	5.4	4.0	14.1	-48.4	0.95	-0.02
Russell 2000	-14.5	1.8	8.1	9.3	18.1	-35.1	0.86	-0.12
Lehman Aggregate	3.7	4.2	3.8	6.9	3.7	-5.2	-0.01	1.00
Salomon High-yield	-11.4	0.9	4.2	7.9	7.6	-14.0	0.69	0.27
Altman Defaulted	-37.6	-7.3	1.2	4.8	15.2	-52.2	0.62	-0.02

Past performance is not indicative of future results.
Source: Bloomberg and Proprietary Services (September 2008).
* January 1990 – September 2008

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Types of Alternative Investments

- Hedge Funds
- **Hedge Funds-of-Funds**
- Private Equity
- Managed Futures
- Real Estate

Hedge Funds-of-Funds

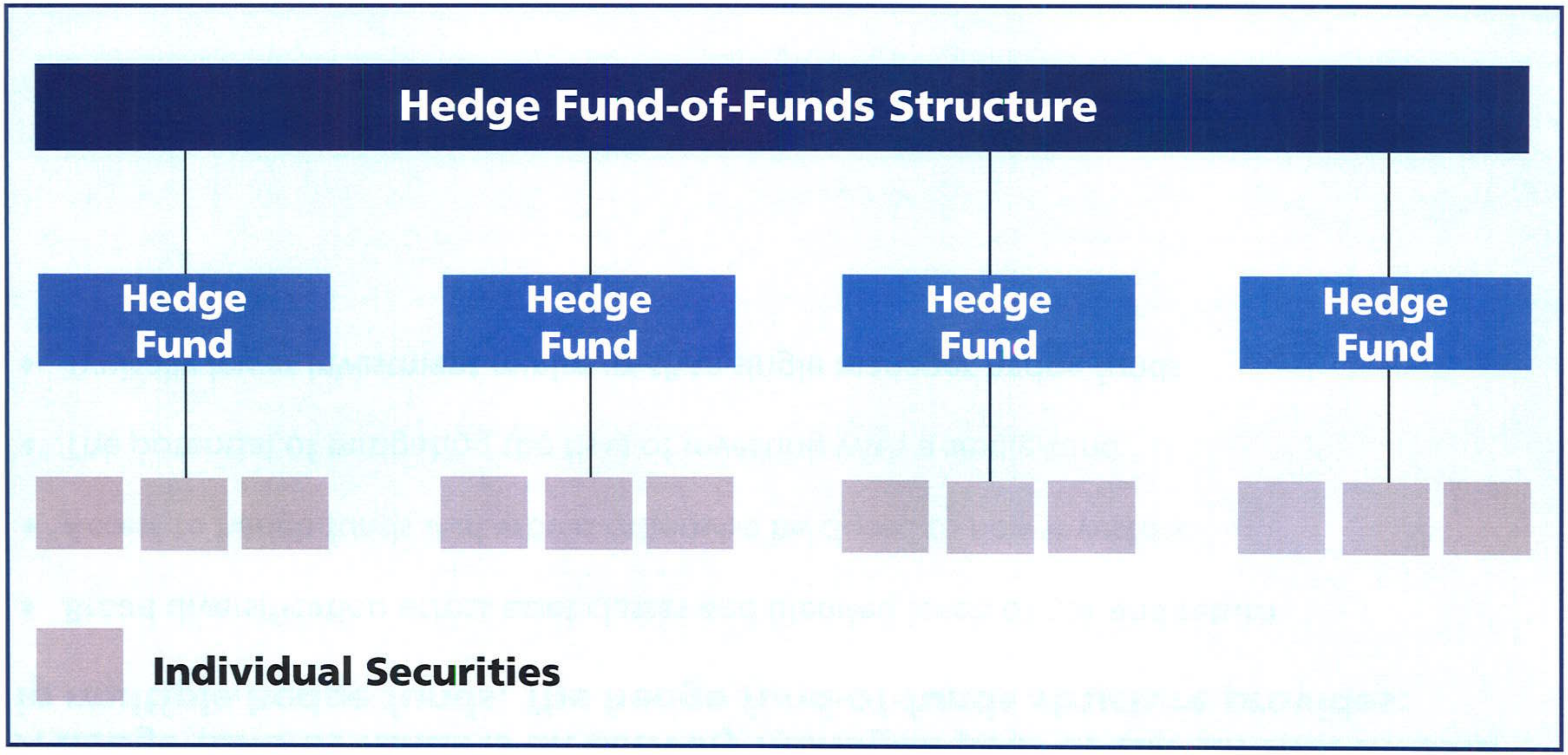
A hedge fund-of-funds is an actively managed pool of capital that invests in multiple hedge funds. The hedge fund-of-funds structure provides:

- Broad diversification across asset classes and blended levels of risk and return
- Access to hedge funds that would otherwise be closed to new investors
- The potential of mitigating the risks of investing with a single fund
- Typically lower investment minimum than single manager hedge funds

There are risks specifically associated with investing in hedge funds-of-funds. They often charge high fees; investors will bear the management fees and other fees and expenses of both the hedge fund-of-funds and its underlying hedge funds.

Hedge Funds-of-Funds (continued)

A hedge fund-of-funds is a hedge fund that invests in other hedge funds



For illustrative purposes only. Hedge funds typically hold a larger number of securities, albeit at the manager's discretion.

Hedge Funds-of-Funds (continued)

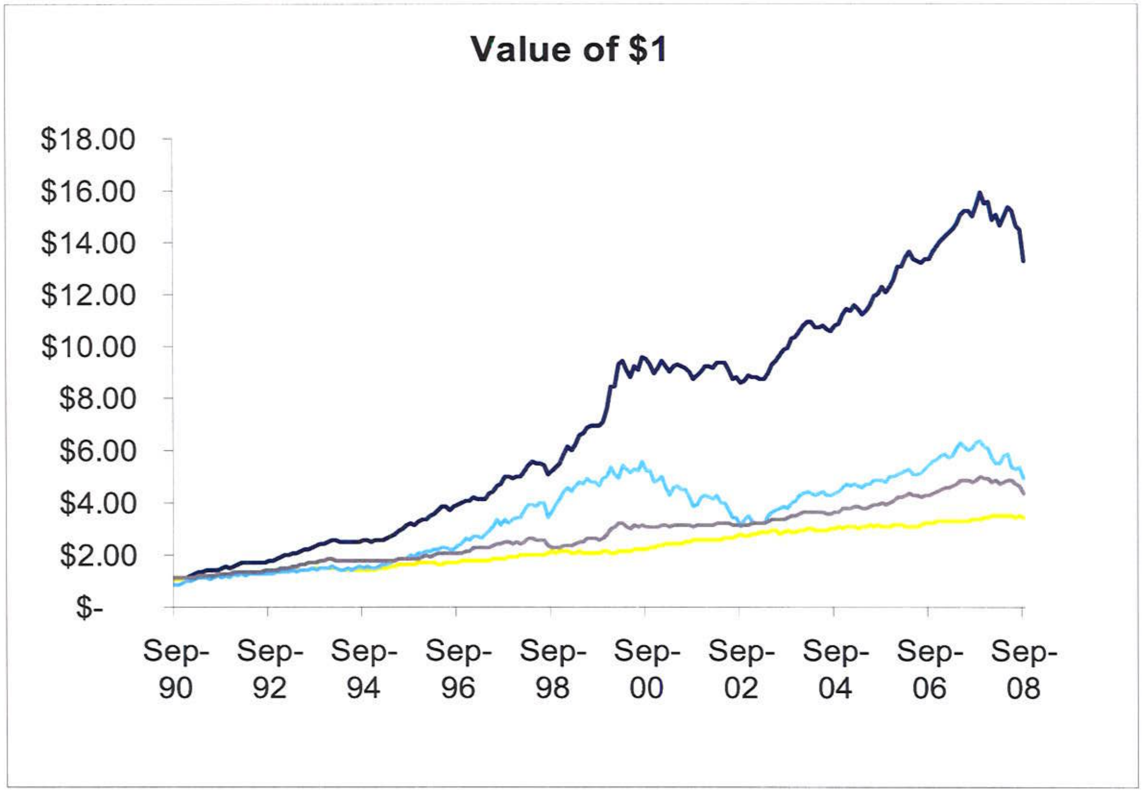
Quantitative and qualitative criteria are considered when evaluating individual managers for inclusion in a fund-of-funds.

- Quantitative factors include:
  - Manager return performance
  - Portfolio risk metrics
- Qualitative factors take into account:
  - Sustainable and repeatable investment process
  - Appropriate reporting and compliance procedures and suitable back-office technology
  - Clean regulatory record
  - Investment experience in various markets
  - Alignment of interest through significant manager co-investment

Hedge Funds-of-Funds (continued)

The value of $1

The graph compares the value of a dollar invested in a diversified funds-of-funds index with a dollar invested in the major stock and bond indices between 1990 and September 30, 2008.



$14.63	HFRI Equity Hedge Index
$5.50	S&P 500
$4.75	HFRI FOF
$3.50	Lehman Aggregate

Source: HFRI, www.hedgefundresearch.com, Lehman Brothers, Standard and Poor's, September 2008.
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Managed Futures

Managed futures can provide diversification and reduce risk when added to a traditional stock and bond portfolio.

- A managed futures program is an investment in a skill-based strategy using futures and forward contacts:
  - Futures are contracts to deliver specified commodities or financial instruments at a future time
  - Forward contracts are agreements to purchase or deliver commodities at a future time at a predetermined price

- Futures and forward contracts have a market value that fluctuates based on the shifting value of an underlying asset, such as currencies, stock indices or interest rates

There are risks specifically associated with investing in managed futures funds. They include, without limitation, the risk of total loss; a limited ability to redeem from such funds (e.g., there may be no secondary market for the interests of the fund); and a fund's fees and expenses may offset any profits or gains.

Managed Futures (continued)

The case for managed futures

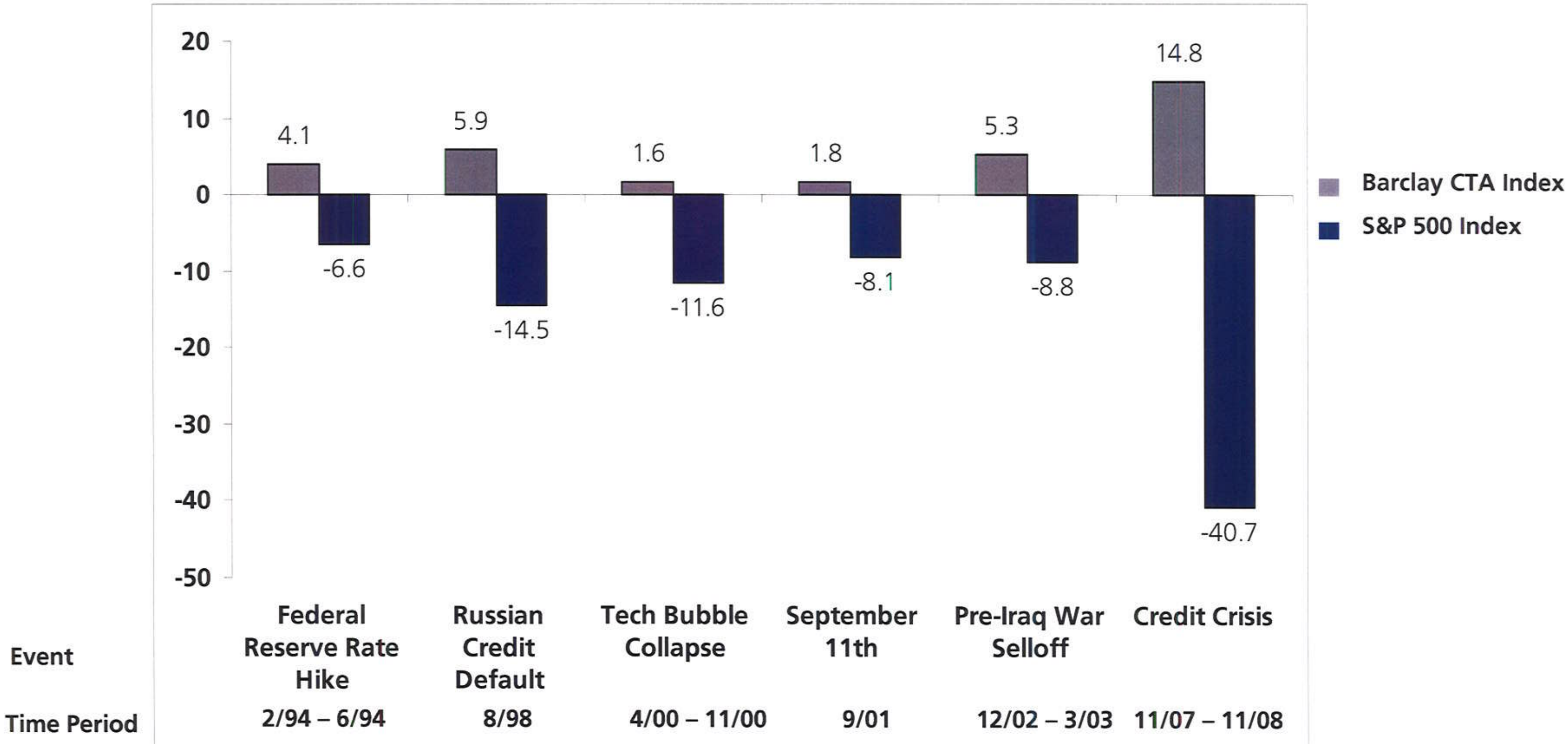
The potential benefits of adding managed futures to a diversified portfolio include:

- Opportunity for attractive returns across a variety of market cycles
- Global diversification
- Lower correlation with traditional asset classes

Managed Futures (continued)

The advantage of low correlation with traditional assets

During times of extreme stress in the equity markets, managed future's low or negative correlation with traditional assets can potentially enhance portfolio returns.



Source: *Pertrac*, December 2008.
For illustrative purposes only. Indices are unmanaged and are not available for direct investment.
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Managed Futures (continued)

Types of managed futures investors

There are two types of participants in the futures markets: hedgers and speculators

- **Hedgers** seek protection against adverse price fluctuations
  - Producers seek to hedge selling prices
  - Consumers seek to hedge purchasing prices
- **Traders**—Commodity Trading Advisors (CTAs), proprietary traders and individual investors—seek to profit from expected price movements.

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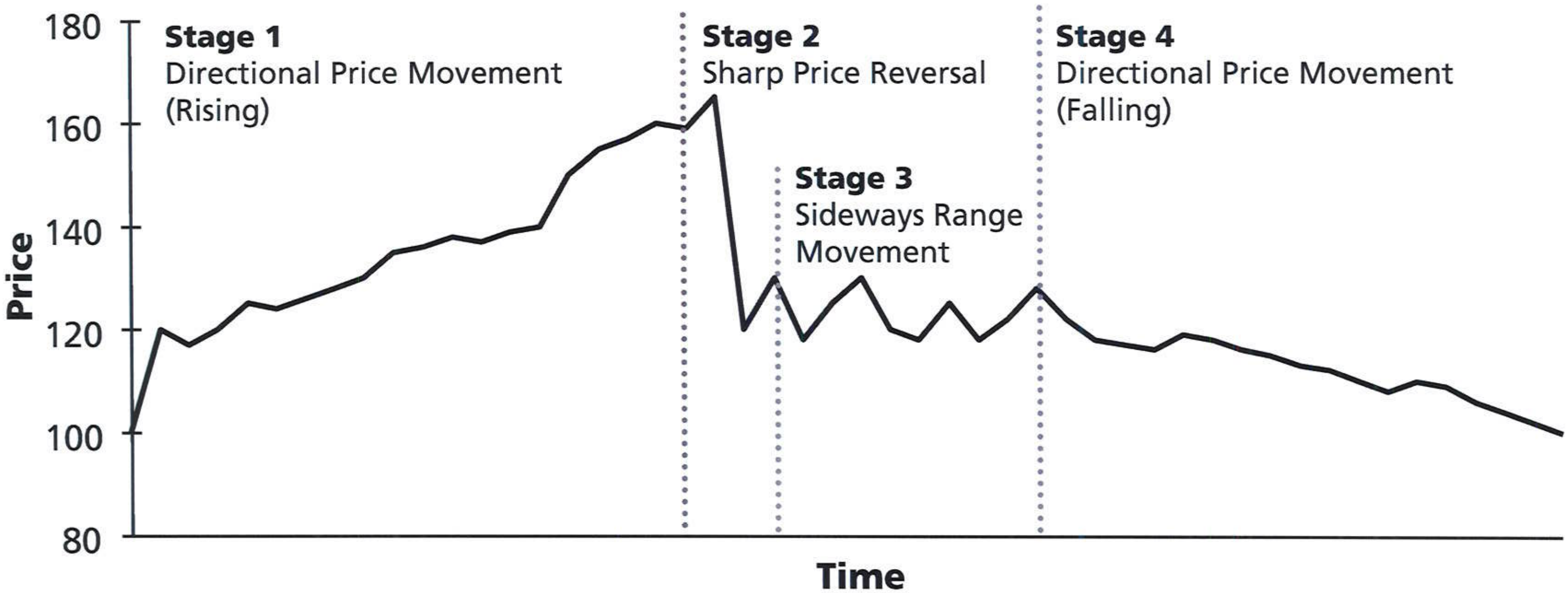
Managed Futures (continued)

Managed futures investment strategies

Managed futures traders tend to follow one of two main strategies: Systematic (Technical) and/or Fundamental.

Managed Futures

For illustrative purposes only. Stages are random and do not necessarily happen in this order.
Stages 1 and 4: Good environment for systematic trend followers.
Stages 2 and 3: More difficult for systematic trend followers.



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Private Equity

Private equity funds are pools of actively managed capital that invest primarily in private—but also public—companies, with the intent of increasing shareholder value.

Private equity managers seek to create value in the companies by:

- Improving operations
- Reducing costs
- Selling non-core assets
- Maximizing cash flow

There are risks specifically associated with investing in private equity. Capital calls will 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.

Private Equity (continued)

Types of private equity

Private equity is a broad investment category representing the investment of equity capital in companies.

Types of Private Equity				
Venture Capital Focused on building businesses by investing in newly developing or underdeveloped products or companies, usually at an early stage in a company's life cycle.	**Mezzanine** Later-stage venture capital, often the final round of financing prior to an initial public offering (IPO). Mezzanine debt may include equity participation.	**Growth Capital** Providing equity or debt financing to a company for an anticipated period of significant growth or expansion.	**Buyout** Typically purchases a significant portion or majority control of mature, well-established companies. A leveraged buyout (LBO) is accomplished with borrowed money.	**Special Situations** Investments that capitalize on a range of opportunities, such as distressed debt securities, changing government regulations or industry trends.

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Private Equity (continued)

Taking an active role

Whether they specialize in young or mature companies, private equity managers generally take an active role in the management of the portfolio companies.

Source

- Identify target company
- Conduct due diligence
- Explore ways to add value
- Purchase/invest at attractive valuations
- Create appropriate investment structure

Enhance Value

- Structure financing
- Partner with company management
- Advise on strategic, operational and financial issues
- Provide access to industry contacts

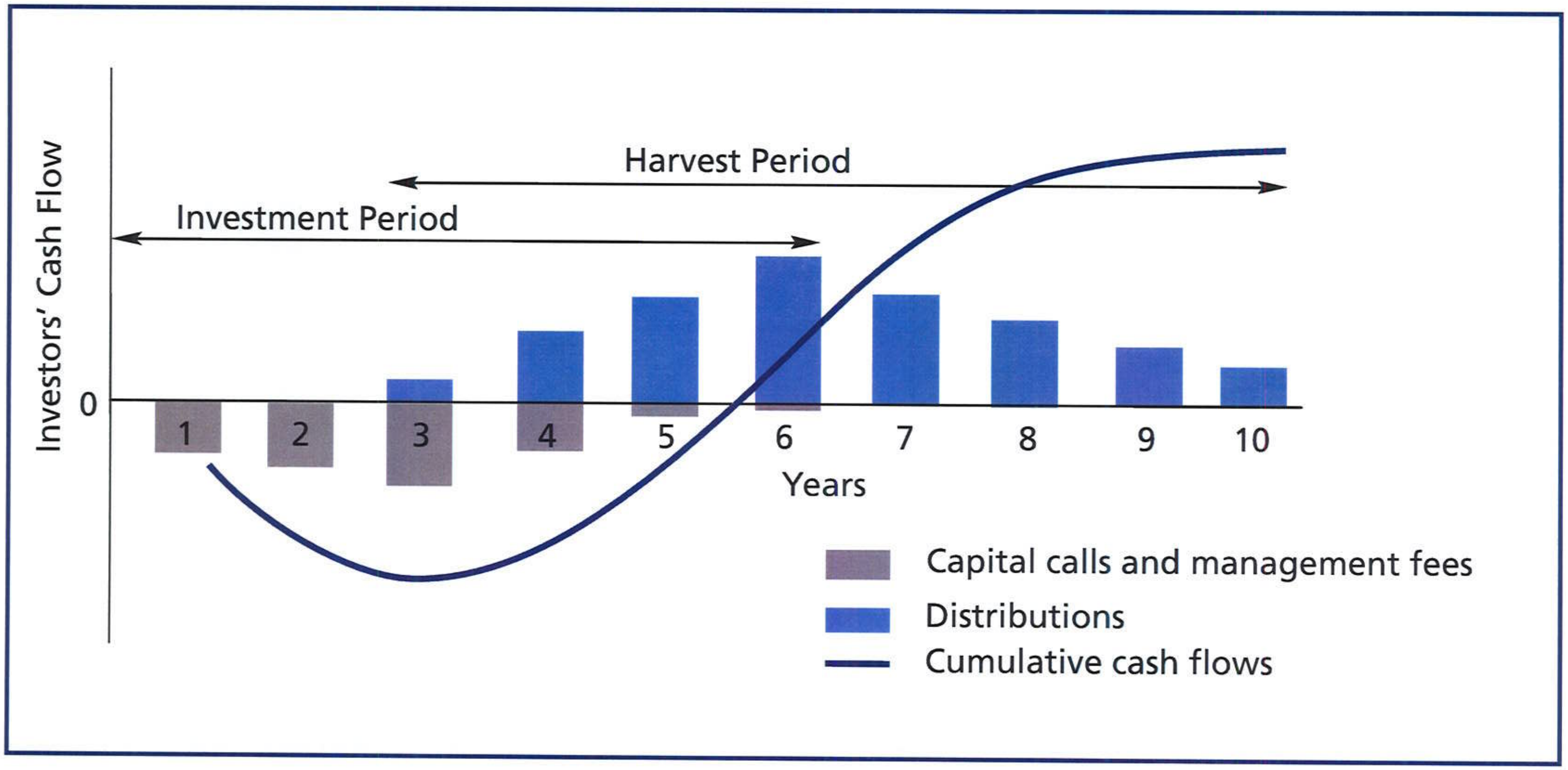
Exit

- Sell to strategic or financial buyer
- Initial public offering
- Recapitalization
- Sell securities in public market
- Exercise provisions of structured investment

Private Equity (continued)

Private equity returns: the J-curve

Private equity returns typically follow a J-curve.



For illustrative purposes only. The graph represents a typical capital drawdown and distribution scenario for a 10-year fund.

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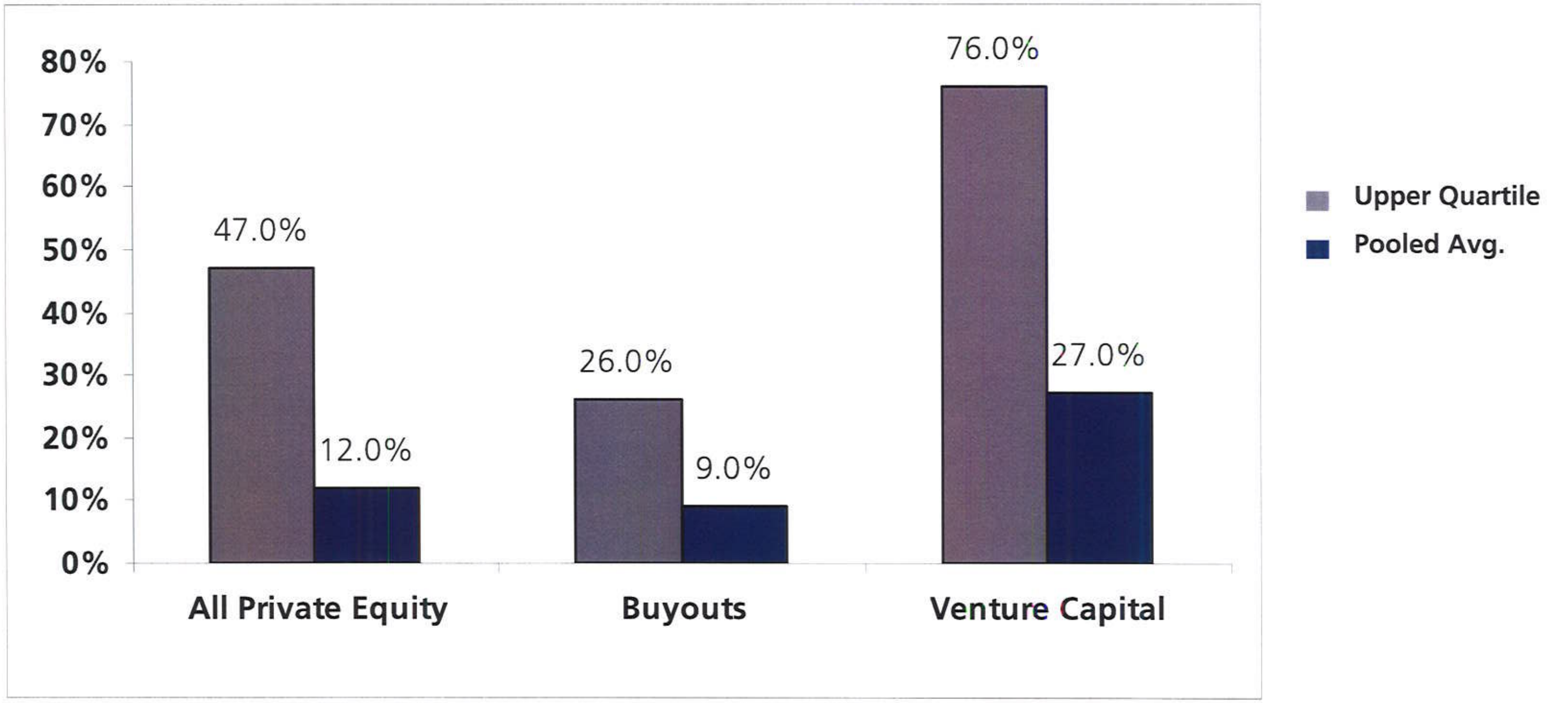
Fund Selection

Wide dispersions in private equity returns makes fund selection a key factor in earning attractive returns



Source: Venture Xpert; Return figures represent pooled internal rates of return, net of fees, as of September 30, 2005. These figures are based on 1200 U.S. venture capital and buyout funds formed since 1969 and over 450 European private equity funds formed since 1980. Returns are net of fees and carried interest. Private Equity generally involves more risk and is more illiquid than most asset classes. Past performance is not indicative of future results.

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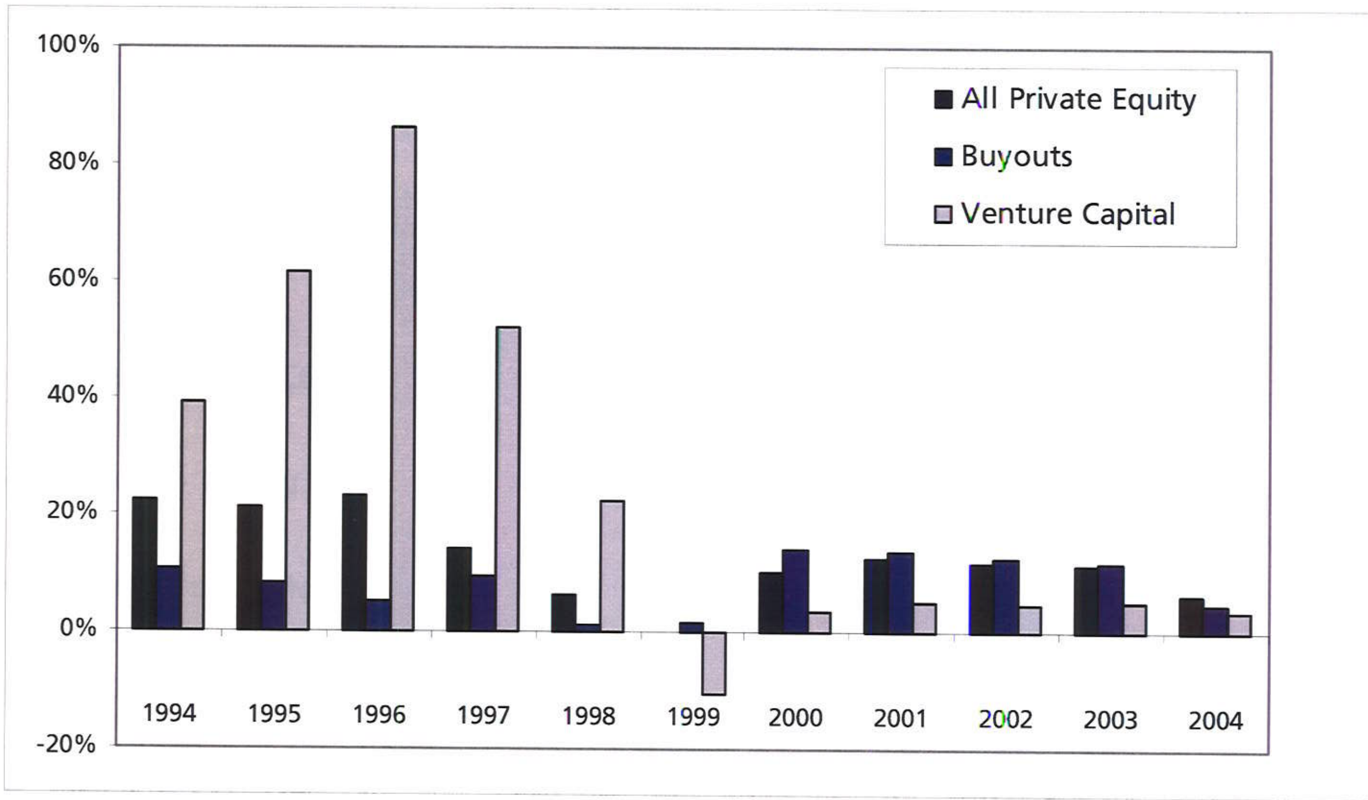
Private Equity Returns

Pooled Internal Rate of Return (IRR) by vintage year for all private equity, buyouts, and venture capital



Source: Venture XPert, June 30, 2008. Past performance is not necessarily indicative of future results. This is a composite of various investments and does not reflect the performance of any one fund or investor.

Internal Rate of Return - IRR is the implied discount rate at which the present value of future cash flows equals the cost of an investment. There are significant differences between an annualized return and an IRR.

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Real Estate

Real estate investments can be organized into two broad categories: direct and indirect ownership

- **Direct ownership** is investment in property such as raw land, farmland, timber assets or commercial real estate. Direct real estate holdings are less liquid than marketable securities, and the valuation of properties is based on a combination of internal and independent appraisals.

- **Indirect ownership** is characterized by investment in real estate securities, such as mortgage-backed securities and real estate investment trusts (REITs). The market value of publicly traded REITs is not based directly on the appraisals of the underlying properties. Rather, their market value has historically been based on market sentiment, and at times is strongly correlated to the broader equity market.

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, and, for some real estate products, the risks associated with the ability to qualify for favorable treatment under the federal tax laws.

Considerations for Potential Alternative Investment Investors

There are risks associated investing in alternative investment products ("Funds"). An investment in a Fund is speculative, and an investor may lose some or all of his or her investment. This is not an offer to purchase or sell the interests of any Fund.

Alternative Investment Funds are not mutual funds, and are not subject to the same regulatory requirements as mutual funds. The Funds may engage in leveraging and other speculative investment practices that may increase the risk of investment loss. They can be illiquid, they may not be required to provide periodic pricing or valuation information to investors, they may involve complex tax strategies and there may be delays in distributing tax information to investors. They generally are subject to investment management fees and performance-based allocations, and other fees and expenses, all of which will reduce profits. There is generally no secondary market for the interests of the Funds, and none is expected to develop. Interests of a Fund 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.

The Funds should not comprise the entire investment solution or recommendation, and any asset allocation that includes or recommends that the Funds comply with the Firm's policies regarding concentration of investments.

Finally, investors must meet certain eligibility requirements in order to invest in the Funds. These requirements generally require that investors satisfy certain tests concerning their net worth, their annual income, the amount they have invested with the Firm and/or the amount of investible assets that they own.

Information about Indices

Hedge Funds are represented by the **HFRI Equity Hedge**, an equally weighted performance summary of global equity long/short hedge funds from a universe of over 600 hedge funds. Long/short hedge funds combine core long holdings of equities with the ability to utilize short sales of stock or stock index options. Some managers maintain a substantial portion of assets within a hedged structure and commonly employ leverage. In addition to equities, some funds may have limited assets invested in other types of securities. The universe of funds in the Index is limited. The number of funds included in the index as well as the amount of capital have varied over time. No index is directly comparable to a particular hedge fund's investment strategy. While the index is frequently used, it has limitations (some of which are typical of other widely used indices). These limitations include survivorship bias (the returns of the indices may not be representative of all hedge funds in the universe because of the tendency of lower-performing funds to leave the index); heterogeneity (not all hedge funds are alike or comparable to one another, and the index may not accurately reflect the performance of a described style); and limited data (many hedge funds do not report to indices, and the index may omit funds, the inclusion of which might significantly affect the performance shown).

The **Lehman Brothers Aggregate Bond Index** includes U.S. government, corporate and mortgage-backed securities with maturities up to 30 years.

The **S&P 500 Index** is an unmanaged index of 500 selected common stocks, most of which are listed on the New York Stock Exchange. The index is adjusted for dividends, weighted toward stocks with large-market capitalization's and represents approximately two-thirds of the total market value of all domestic common stocks.

The **Russell 2000® Index** is a market-value-weighted index of the 2000 smallest stocks in the broad-market **Russell 3000® Index**. These securities are traded on the NYSE, AMEX and NASDAQ.

The **MSCI EAFE Index** is a free float-adjusted market capitalization index that is designed to measure developed market equity performance, excluding the U.S. and Canada.

The **Barclay CTA Index** is a leading industry benchmark that measures the performance of commodity trading advisors.

The use of indexes in this presentation is for illustrative purposes only. Unlike a fund that invests in alternative investments, indexes generally are unmanaged, they are not subject to management fees and other fees and expenses, and an investor may not invest directly in them. Depending on the fund, a hedge fund or other fund may not seek to replicate or exceed the performance of any index, and may invest in securities of companies not listed on the indexes presented. Information about indexes are derived from sources that we believe to be reliable, but we have not independently verified them and we do not warrant as to their accuracy or completeness.