

UBS Dynamic Alpha Fund

Strategy Update | June 30, 2016

Morningstar category

Multi-Alternative

Share class: Ticker/billing symbols

A: BNAAX
MFPWFE

C: BNACX
MFPWFG

P: BNAYX
MFPWFH

Strategy summary

Equities: We remain relatively defensive on global equities given higher levels of political and economic uncertainty and continue to prefer markets outside the US due to valuation support and divergent monetary policy.

Fixed Income: We continue to prefer investment grade credit to global sovereign bonds.

Currency: Among developed market currencies, we see the US dollar as attractively valued and the Swiss franc among the most expensive currencies globally.

Market review

After a tumultuous start to the year, risk assets regained their composure in the first part of the second quarter. Investor concerns surrounding Chinese growth, lower oil prices and financial sector stability lessened and were replaced with tepid optimism amid renewed monetary policy stimulus efforts abroad and more encouraging global economic data. However, the quarter ended on less stable footing following the surprise vote by the UK in favor of leaving the European Union, which unleashed more political and economic uncertainty on the markets. While the referendum result prompted an immediate sell-off in risk assets, global equity markets largely rebounded in the final week of June on expectations of more stimulus and easier monetary policy by the world's central banks.

Over the quarter, most major asset classes posted modest but positive returns with the exception of ex-US developed market equities, which were down approximately 1.0% (measured by MSCI EAFE). High yield bonds and emerging market fixed income had a particularly strong quarter and were up more than 5.0% each amid lower global yields, improving economic data and tightening credit spreads, as measured by the Bank of America Merrill Lynch High Yield Index and J.P. Morgan EMBI Global Composite. US equities outperformed most other global equity markets once again, with the S&P 500 up 2.5%. Finally, currency markets remained volatile; notable movements included the yen, which appreciated approximately 9% versus the US dollar, and the British pound, which depreciated around 7% versus the US dollar. Looking forward, we expect risk assets to remain relatively challenged and anticipate elevated levels of political and economic uncertainty, particularly around the Brexit result and any

subsequent global central bank actions, to dominate investor sentiment.

Portfolio performance summary

Dynamic Alpha posted a slight negative return of -0.32% in the second quarter. Non-linear risk exposure to eurozone equities and our relative value trade of long Japanese equities versus US equities were the primary detractors from market performance. Additionally, our preferences for North Asian equities over emerging market equities and US Treasuries over UK Gilts performed poorly, as Gilts rallied in the wake of the Brexit announcement. On the other hand, several of our relative value trades performed well including our preference for credit exposure over government bonds, long China H shares versus A shares, and long Topix versus Nikkei. Additionally, our long Australian duration and US TIPS positions worked well and added to performance.

Currency allocation was negative for the period. The strategy's preference for the New Zealand dollar over the US dollar was a primary detractor. The Reserve Bank of New Zealand surprised markets in June by deciding to keep rates on hold instead of cutting, which led to an appreciation in the Kiwi. On the other hand, a long position in the US dollar relative to the euro performed well leading up to and following the UK referendum.

Portfolio positioning**Equities**

Since the start of the year, we have reduced overall risk levels in general and directional exposure to equities in particular given fuller valuations and the myriad of global political and economic

uncertainties. Among equities, we continue to maintain our preference for markets outside of the US due to valuation support and divergent monetary policy. We continue to hold a short US equities position since we find the market as overvalued on a number of measures in a historical context. Additionally, reported US earnings are set for a fifth consecutive quarterly decline year-on-year in Q2. With revenues under pressure from a muted growth backdrop, a strong dollar and further margin pressure from wage growth, the scope for disappointment relative to expectations is high, and we do not see any compelling rationale for further multiple expansion.

Relative to the US, we continue to prefer developed ex-US equity markets because we believe the recovery story in Europe remains intact and that loose monetary policy from the European Central Bank (ECB) will be supportive of earnings growth. Additionally, valuations among developed ex-US equity markets look more compelling than in the US. Over the course of the quarter, however, we closed two of our equity relative value trades: long Dutch versus UK equities and long Japanese versus US equities. We removed our relative preference for Dutch equities ahead of the UK referendum to reduce some Brexit-related risk from the portfolio. We also closed the relative preference for Japanese equities over US equities on the back of yen strengthening, which is a headwind for corporate earnings in an export-oriented economy. We continue to hold a relative position of short Nikkei 225 versus Topix position to take advantage of a dislocation between these two liquid indices that cover the same market but with different index compositions.

Finally, we do not hold directional exposure to emerging markets at this time. Emerging market equities look attractively valued by our measures. However, this is countered by concerns about growth and profits due to excess industrial capacity and sizable external debt loans in a number of countries. Further, we continue to hold a long position in the offshore (H share) Chinese equity market versus the onshore (A share) Chinese equity market to take advantage of these two indices trading wide in terms of their historical relative valuation range.

Fixed Income

We are maintaining a low but positive duration stance among fixed income holdings in the strategy. With low yields and the potential for further rate rises, we find nominal US government bonds as unattractive. The recent drop in global government bond yields has also further stretched valuations relative to history. We are tactically managing duration exposure and taking a

selective approach to sovereign bond exposure. Canadian government bonds, for instance, look attractive relative to US Treasuries and also provide an attractive hedge against lower oil prices and any related high yield stress given the importance of energy to the Canadian economy. Further, we continue to prefer global investment grade corporate bonds over sovereigns which is largely predicated on attractive yields. We do not believe that a sharp pick-up in defaults at the higher-quality end of corporate debt is likely in the current backdrop. Additionally, we expect credit sensitive segments of the fixed income market to continue to benefit with investor inflows from a “lower for longer” backdrop in the developed world. Finally, we added long exposure to European high yield at the end of June based on our expectation for ECB monetary policy to be supportive, the segment’s lower susceptibility to any energy-related stress and more attractive spreads after the Brexit vote.

Currencies

We maintain a long position in the US dollar against the New Zealand dollar which remains overvalued and is facing vulnerabilities given the state of the New Zealand economy. In May, we opened a long emerging market basket (Columbian peso, Mexican peso, Russian ruble) versus Canadian dollar trade. These emerging market currencies are trading at levels far below our estimate of fair value and given the stabilization of oil and fundamentals of these economies we expect them to appreciate in the medium term. We funded these currencies out of the Canadian dollar because we believe it is trading at levels too high given the challenges Canada faces economically. It also serves as a hedge to the oil exposure of these currencies, the Russian ruble in particular.

In June, we closed our long positions in the Indian rupee against the Taiwanese dollar and Korean won following the departure of India’s central bank governor, which increased downside risks. We also opened a long position in the US dollar versus the euro ahead of the UK referendum as we expected a Brexit scenario to have negative repercussions for the euro and volatility.

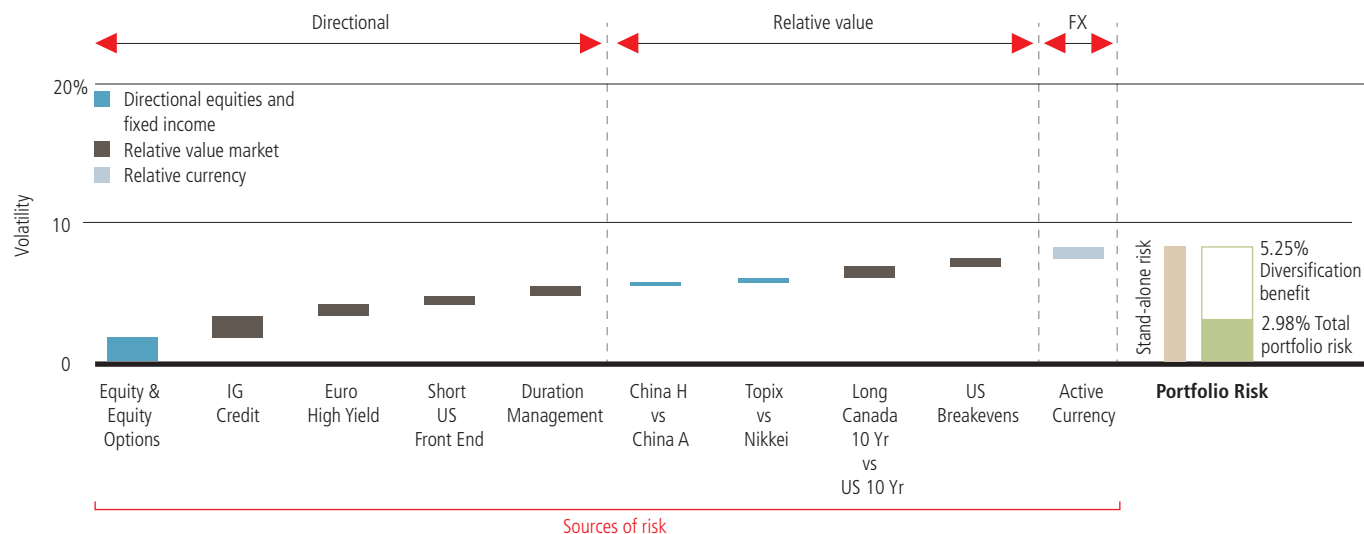
Risk Metrics

Beta: A measure of the fund’s sensitivity to the equity market returns. The strategy is running a beta of roughly 0.06 to the global equity market.¹

Duration: A measure of the fund’s sensitivity to the movement in interest rates. The fund’s duration is currently 2.19 years.

¹ Beta is a measure of volatility. A benchmark generally has a beta of 1.0. An investment with a beta under 1.0 is considered less volatile.

UBS Dynamic Alpha Fund: Current risk²



The diversification effect

We strive to construct a portfolio where each of the risk/return sources has a low correlation to each other, which produces a diversification effect. The benefit of combining uncorrelated sources of return is the reduction of risk to the overall portfolio.

For example

The combination of risk sources ("stand-alone risk") is 8.23%. The diversification effect created by combining these sources is 5.25%. Factoring in the diversification effect, therefore, reduced the overall portfolio risk to 2.98%.

Data as of June 30, 2016. Source: UBS Asset Management, UBS Asset Management Global Risk System.

Directional equity

Linear equity: Derivatives whose payoff is a linear relationship to the underlying asset where a given percentage move in the price of the underlying asset results in a nearly identical percentage move in the price of the derivative. This is most often derived through futures, forwards and swaps.

Non-linear equity: Derivatives whose payoff is a non-linear relationship to the underlying asset where a given percentage move in the price of the underlying asset does not result in an identical move in the price of the derivative. The price of the derivative is also impacted by elements such as its strike price, time to expiry and volatility of the underlying asset. This is most often derived through options.

Directional fixed income

Duration management: Fixed income exposure used to manage the duration of the portfolio. Duration is the measure of sensitivity of the price of a fixed income investment to a change in interest rates.

Investment grade credit: Municipal or corporate bonds with high credit ratings and a low risk of default. A bond is considered to be investment grade if it has a credit rating of BBB- or higher by Standard & Poor's or Fitch, or Baa3 by Moody's.

High yield bonds: Non-investment grade bonds that have higher risk and potential for greater yield. High yield bonds are those rated below BBB- by S&P or Baa3 by Moody's.

Relative value trades (market)

Long market exposures and short market exposures: By taking long and short positions, relative value trades are less dependent on the broad (directional) markets. We view long market exposures as "buy" exposures with longer-term potential, as opposed to the short market exposures, viewed as "sell" exposures.

Relative value trades (currency)

Currency overlay: Currency is actively managed and traded in pairs. Currency is a risk/return source that has low correlation to other traditional asset classes.

² The current risk of the portfolio is calculated by taking the standard deviation of returns for each position in the portfolio (as if it were a static holding in the portfolio) over the prior seven-year period. Standard deviation is a measure of the range of a portfolio's performance—that is, the degree to which it rises above and falls below its average return.

UBS Dynamic Alpha Fund: Fund performance³

As of June 30, 2016

	YTD (%)	1 year (%)	3 years (%)	5 years (%)	10 years (%)	Since inception (%)	3-year standard deviation (%) ⁵	Expense ratio gross/ net (%)
UBS Dynamic Alpha Fund Class P Shares ³	-3.68	-10.17	-0.74	2.64	1.44	2.25	5.43	1.21/1.11
UBS Dynamic Alpha Fund Class A Shares ³	-3.75	-10.48	-0.97	2.37	1.14	1.96	5.46	1.44/1.36
after maximum sales charge of 5.50%	-9.01	-15.35	-2.84	1.22	0.57	1.46	—	
BofA Merrill Lynch US Treasury 1-5 Year Index ⁴	2.39	2.43	1.65	1.43	3.22	3.00	1.36	
MSCI World Free Index (net) ⁴	0.66	-2.78	6.95	6.63	4.43	5.45	11.63	
Citigroup 1-Month T-Bill Index + 3% ⁴	1.58	3.10	3.05	3.05	3.88	4.20	0.02	

Performance quoted is past performance and no guarantee of future results. Results assume the reinvestment of all dividends and capital gains. Due to market volatility, current returns may be significantly higher or lower than those shown. See <http://am-us.ubs.com/corpweb/performance.do> for current month-end performance. Investment return and principal value will fluctuate, so that an investor's shares, when redeemed, may be worth more or less than their original cost. You can lose money investing in the Fund.

The Trust, with respect to the Fund, and UBS Asset Management (Americas) Inc., the Fund's investment advisor ("UBS AM (Americas)" or the "Advisor"), have entered into a written agreement pursuant to which the Advisor has agreed to waive a portion of its management fees and/or to reimburse expenses (excluding expenses incurred through investment in other investment companies, interest, taxes, brokerage commissions, extraordinary expenses, and dividend expense and security loan fees for securities sold short) to the extent necessary so that the Fund's ordinary operating expenses, through the period ending October 27, 2016, do not exceed 1.36% for Class A shares, and 1.11% for Class P shares.

Pursuant to the written agreement, the Advisor is entitled to be reimbursed for any fees it waives and expenses it reimburses for a period of three years following such fee waivers and expense reimbursements to the extent that such reimbursement of the Advisor by the Fund will not cause the Fund to exceed any applicable expense limit that is in place for the Fund. The fee waiver/expense reimbursement agreement may be terminated by the Fund's Board of Trustees at any time and also will terminate automatically upon the expiration or termination of the Fund's advisory contract with the Advisor. Upon termination of the fee waiver/expense reimbursement agreement, however, the UBS AM (Americas)'s three-year recoupment rights will survive.

³ Performance results assume reinvestment of all dividends and capital gains. Returns would be lower if certain expense waivers had not been in effect. Class A shares are subject to a maximum 5.50% initial sales charge. They are subject to an ongoing 12b-1 service fee of 0.25%. Purchases of \$1 million or more are not subject to an initial sales charge; however, there is a 1.00% contingent deferred sales charge. The Fund's inception date is January 27, 2005. Other share classes are offered and their returns will vary depending on expenses and sales charges. Performance is net of fees.

⁴ The BofA Merrill Lynch US Treasury 1-5 Year Index is an unmanaged index tracking US Treasury securities with maturities between one and five years. The MSCI World Free Index (net) is a free float-adjusted, market capitalization index designed to measure the equity market performance of developed economies. The Citigroup 1-Month T-Bill Index is an unmanaged index representing monthly return equivalents of yield averages of the last 1-month Treasury Bill issue.

⁵ Standard deviation is a measure of the range of a portfolio's performance—that is, the degree to which it rises above and falls below its average return.

Diversification and absolute return strategies do not ensure against loss.

Views expressed

The views expressed are as of June 30, 2016 and are those of UBS Asset Management. These views, and asset allocations, are subject to change at any time in response to changing circumstances in the markets and are not intended to predict or guarantee the future performance of any individual security, asset class, the markets generally or the Fund.

This document is not an invitation to subscribe for shares in the UBS Dynamic Alpha Fund and is provided by way of information only. Subscriptions will only be received and shares issued on the basis of the current prospectus of the Fund. Shares are not FDIC-insured and involve risks such as possible loss of principal. The investment return and principal value of an investment will fluctuate so that an investor's shares, when redeemed, may be worth more or less than their original cost.

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 higher 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. To the extent the Fund invests in derivatives, it could lose more than the principal amount invested in those instruments. Derivatives are subject to various credit risks, and for the majority of derivatives 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 risks⁶

- **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. The use of derivatives may accelerate the velocity of potential losses.
- **Leverage risk:** The Fund may borrow money from banks to purchase investments for the Fund, which is a form of leverage. Leveraging a portfolio may accelerate the velocity of potential losses. 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 markets countries.
- **Short sales risk:** There are certain unique risks associated with the use of short sales strategies. When selling a security short, the Advisor will sell a security it does not own at the then-current market price and then borrow the security to deliver to the buyer. The Fund is then obligated to buy the security on a later date so it can return the security to the lender. Short sales, therefore, involve the risk that the Fund will incur a loss by subsequently buying a security at a higher price than the price at which the Fund previously sold the security short.

For more information

Contact your Financial Advisor, or UBS Asset Management (US) Inc., the Distributor, at 888-793 8637 for a current Fund summary prospectus or prospectus. Investors should carefully read the prospectus and carefully consider the Fund's investment objectives, risks, all charges, expenses and other matters of interest before investing. The prospectus contains this and other important information about the Fund. It is important you have all the information you need to make a sound investment decision.

⁶ For a more detailed discussion of risk, please see the Fund's prospectus.