



News and views

PACE Select Newsletter 2024: First Quarter

Q1 2024



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Performance Highlights Q1 2024

After a robust 2023, 2024 began with a positive note for equities, with the US market leading the way. Prior to the final day of January, the S&P 500 was up 3.3% over the month, building on last year's 26.3% total return. The continued rally reflected optimism that the Federal Reserve was on track to cut rates early in the year and high hopes for fourth quarter earnings from top US tech firms.

The equity rally continued its momentum in February, spurred by enthusiasm over the speedy commercialization of artificial intelligence (AI). A robust fourth-quarter results season in the US was capped by results from AI chipmaker NVIDIA, which unveiled an above-expectations 265% increase in quarterly revenues versus a year earlier. Chief Executive Jensen Huang said AI had "hit the tipping point," with demand "surging worldwide across companies, industries, and nations," as he forecast sales for the coming quarter ahead of analysts' projections. The stock's market capitalization climbed to around USD 280 billion on the day after its fourth-quarter results, breaking a record set only earlier in the month by Meta for the largest one-session increase in value in history.

While all major markets gained ground in March, developed markets led the way. The S&P 500 returned 3.2% for the month, taking its advance so far in 2024 to 10.6%. The index has closed at a record high 22 times so far this year, ending the quarter at its highest-ever level.

Global stocks had the best first quarter in five years, amid optimism over the outlook for the US economy and hopes that AI will boost corporate profits. The MSCI All Country World Index delivered a total return of 8.2% in the quarter, the strongest performance in the first three months of the year since 2019. This extended the rally from the final quarter of last year, in which global stocks gained 11%.

Read more in '[January 2024: Month in Review](#)', '[February 2024: Month in Review](#)', and '[March 2024: Month and Quarter in Review](#)'

PACE on the Move: The most impactful changes in Q1

In **PACE Large Co Value Equity Investments** (the “Fund”), we tactically increased exposure to Hotchkis & Wiley, a deep value strategy, and decreased exposure to Wellington, a quality value strategy.

The portfolio management team sought to partially neutralize the Fund’s beta, which had been (and remains) below 1. The trade increased the Fund’s cyclical and value-oriented exposures. Furthermore, it was an opportunistic time to reduce the Wellington allocation as the strategy had generated very strong relative performance for the Fund since the sub-advisor's inception in November 2020.

Where was the highest Alpha?

PACE Large Co Cap Growth Equity Investments: The fund (P-share, net of fund fees) outperformed the benchmark by 3.13% for the quarter (A-share, net of fund fees, outperformed by 3.0%), placing it at the 21st percentile with the Morningstar Large Cap Growth category, which is comprised of 1,140 funds in total. GQG, a quality growth manager, significantly outperformed in the quarter mostly due to stock selection in technology. These gains were partially offset by weaker results from Polen Capital, which lagged due to stock selection in technology and health care.

PACE Alternative Strategies Investments: The fund (P-share, net of fund fees) outperformed the benchmark by 2.78% in the quarter (A-share, net of fund fees, outperformed by 2.68%), placing it at the 41st percentile within the Multistrategy Morningstar category, which is comprised of 137 funds in total. Outperformance was driven by a Macro Trading strategy run by Aviva Investors which benefited from equity directional trades and bond relative value investments. Equity Long-Short managers also added value including Allspring whose quantitative investment strategy benefited from momentum trades, and PCJ's Market Neutral Equity strategy which performed strongly due to stock selection in industrials. The Electron Long-Short Equity strategy benefited from strong security selection in the energy transition theme.

PACE Intermediate Fixed Income Investments: The fund (P-share, net of fund fees) outperformed the benchmark by 1.33% in the quarter (A-share, net of fund fees, outperformed by 1.17%), placing it at the 14th percentile within the Intermediate Core Bond Morningstar category, which is comprised of 569 funds in total. Outperformance was driven by Sector and rating exposure. The portfolio was overweight to stronger-performing segments of the credit market – notably ABS, CMBS, loans, and IG and HY corporate bonds. Positions in IG and HY corporate bonds issued by P&C insurance companies and midstream energy companies were notable contributors during the quarter. On the other hand, senior bank loans issued by midstream energy and healthcare companies, as well as some CMBS positions detracted from performance.

Where was the lowest Alpha?

PACE International Emerging Markets Investments: The fund (P-share, net of fund fees) underperformed the benchmark by 1.73% in the quarter (A-share, net of fund fees, underperformed by 1.73%), placing it at the 84th percentile within the Diversified Emerging Markets Morningstar category, which is comprised of 730 funds in total. Redwheel, a GARP strategy, lagged the benchmark primarily due to sector allocation, including an overweight to materials and underweight to technology, as well as challenging stock selection in communication services and consumer discretionary. William Blair, a quality growth manager, underperformed due to stock selection in the financials sector.

PACE Large Co Value Equity Investments: The fund (P-share, net of fund fees) underperformed the benchmark by 1.43% in the quarter (A-share, net of fund fees, underperformed by 1.48%), placing it at the 71st percentile within the Large Value Morningstar category, which is comprised of 1,145 funds in total. One of three sub-advisors underperformed during the period. Wellington, a quality value manager, underperformed the benchmark primarily due to stock selection in the consumer staples, materials and health care sectors. Additionally, the strategy's focus on yield acted as a headwind during the period, as higher-dividend stocks underperformed the broader market.

PACE Small/Medium Co Growth Equity Investments: The fund (P-share, net of fund fees) underperformed the benchmark by 1.22% in the quarter (A-share, net of fund fees, underperformed by 1.31%), placing it at the 47th percentile within the Small Growth Morningstar category, which is comprised of 569 funds in total. Two of the three sub-advisors underperformed during the period. Jacobs Levy, a quantitative manager, lagged primarily due to poor security selection within the information technology and health care sectors. Riverbridge, a quality growth manager, underperformed due to negative security selection within the information technology and industrials sectors. Calamos Timpani, a momentum growth manager, outperformed because of its significant tilt to the momentum factor and positive stock selection within the industrials and consumer staples sectors.

Did you know...

...The PACE Strategic Fixed Income Fund has consistently ranked in the top quintile amongst Morningstar Peers for the 1, 3, 5, and 10-year periods?

(March 31, 2014 – March 31, 2024)

The US fixed income market experienced notable volatility and negative returns in 2021 and 2022, primarily influenced by rising interest rates and inflationary pressures. The 10-Year Treasury yield bottomed at 0.91% in January 2021 and peaked at 4.24% in October 2022.¹ This extreme volatility had a pronounced impact on bond prices, with a significant drop observed at the end of 2022 when 30-year Government bond prices plummeted over 20% in a 2-month period.¹

By 2023, however, interest rates began to normalize bringing much-needed respite and a return to form for fixed income securities. For investors, the traditional view of “safe” credit assets requires a more nuanced approach moving forward. In a complex world of fixed income investing, active management offers distinct advantages. Managers can expertly navigate interest rate fluctuations, exploit market inefficiencies, and proactively respond to economic changes. This flexibility enables actively managed funds to potentially enhance returns by capitalizing on mispriced bonds or sectors that are poised for growth.

The value of active management only becomes more pronounced in times of economic uncertainty. With more flexibility to take advantage of various drivers of potential outperformance such as around sector, credit and curve positioning, and security selection. Active managers can enhance diversification and tap into a wider array of opportunities to better manage risks as compared to passive strategies that are confined to tracking an index. Investors can access active managers with a more tailored and responsive investment approach through funds such as PACE Strategic Fixed Income. This fund offers access to a diversified group of investment managers and can act as a “core” investment strategy designed to complement other platforms, and keep investors invested through market cycles.

The PACE Strategic Fixed Income Investments Fund is a dynamic multi-managed strategy, comprised of three subadvisors, each with a complementary yet unique skillset: Brown Brothers Harriman, Neuberger Berman, and Pacific Investment Management Company (PIMCO).

Brown Brothers Harriman seeks to invest in a diversified portfolio of fixed income instruments that are performing, durable and at attractive valuation with a bottom-up security selection focus, including floating or variable rate debt instruments. **Neuberger Berman** employs an Opportunistic Fixed Income Strategy that encompasses multiple sectors and is managed in a benchmark-diagnostic fashion. The team seeks to add value through sector rotation, security selection, duration, yield curve and country selection, with a modest focus on currencies. **PIMCO** has an investment process that contains both top-down and bottom-up components. The investment policy committee dictates the top-down strategy. Sector specialists and analysts perform bottom-up analysis given the investment policy committee’s overall macro view.

Additional details and characteristics on the fund can be found in the [PACE Strategic Fixed Income Factsheet](#), [the prospectus](#) and [statement of additional information](#).

Source: UBS Asset Management, Bloomberg as of March 31, 2024.

Looking Ahead

Equity markets are buoyant. Optimism about the potential for artificial intelligence (AI) to bring about a profit boom has continued to grow. A soft landing for the US economy is now widely expected, and markets have dialed back their expectations for interest rate cuts. And while the geopolitical situation is still uncertain, volatility has stayed low across asset classes. Looking ahead to the second quarter, we see the next stage of two primary market drivers playing out: the start of rate-cutting cycles by major central banks, and the broadening-out of AI adoption and implementation across a wider range of companies.

A key principle is to get in balance. Today's strongest market forces—technological change, shifting rate expectations, and geopolitical uncertainty—require us to frame our global outlook in terms of scenarios and not linear paths. In line with this approach, we believe only by allocating across asset classes, regions, and sectors can investors fully manage the tension between navigating short-term market dynamics and growing long-term wealth.

Against this backdrop, investors can tap into today's attractive opportunity set in a diversified portfolio that is customized to their risk/return/time horizon profile with the PACE Select Program. While risk management is always critical within our process, we are focused on understanding country, sector, and style exposures across the PACE Select funds, as well as the potential outcomes for each fund in various stressed market scenarios.

Investors can use different PACE Select funds to reflect their respective "Personalized" strategic asset allocation. In addition, each of the 14 Funds is available outside of the PACE Select program and individually can act as a "core" or "complement" allocation to investors' existing exposure. We mentioned PACE Strategic Fixed Income Fund as a potential "core" fixed income fund to complement investors' equity allocation. Another example is the PACE Alternative Strategies Investments, which can be used as a core liquid alternative fund to "complement" a multi-asset portfolio with equity and fixed income exposure.

Read more in '[The next stage: Our outlook for 2Q](#)'

Disclosures:

PACE Funds Performance at a glance (%)

Average annual total returns for periods ended 03/31/24

| | 1yr | 3yr | 5yr | 10yr |
|--|------------|------------|------------|-------------|
| PACE Mortgage-Backed Securities | | | | |
| Before Deducting maximum sales charge | | | | |
| Class A ¹ | 4.95 | -3.53 | 0.12 | 1.13 |
| Class Y ² | 5.22 | -3.31 | 0.37 | 1.38 |
| Class P ³ | 5.12 | -3.31 | 0.37 | 1.37 |
| After deducting maximum sales charge | | | | |
| Class A ¹ | 1.01 | -4.75 | -0.64 | 0.74 |
| PACE Intermediate Fixed Income | | | | |
| Before deducting maximum sales charge | | | | |
| Class A ¹ | 7.66 | -3.07 | 1.23 | 1.28 |
| Class Y ² | 7.93 | -2.82 | 1.48 | 1.53 |
| Class P ³ | 7.82 | -2.85 | 1.48 | 1.52 |
| After deducting maximum sales charge | | | | |
| Class A ¹ | 3.58 | -4.31 | 0.46 | 0.90 |
| PACE Strategic Fixed Income | | | | |
| Before deducting sales charge | | | | |
| Class A ¹ | 7.84 | -2.84 | 1.96 | 2.26 |
| Class Y ² | 8.13 | -2.59 | 2.22 | 2.49 |
| Class P ³ | 8.03 | -2.60 | 2.21 | 2.51 |
| After deducting sales charge | | | | |
| Class A ¹ | 3.81 | -4.08 | 1.18 | 1.87 |
| PACE Municipal Fixed Income | | | | |
| Before deducting maximum sales charge | | | | |
| Class A ¹ | 5.19 | -0.75 | 1.74 | 2.22 |
| Class Y ² | 5.50 | -0.49 | 1.98 | 2.46 |
| Class P ³ | 5.53 | -0.50 | 1.99 | 2.47 |
| After deducting maximum sales charge | | | | |
| Class A ¹ | 2.78 | -1.50 | 1.28 | 1.99 |
| PACE Global Fixed Income | | | | |
| Before deducting maximum sales charge | | | | |
| Class A ¹ | 4.07 | -5.62 | -0.27 | 0.15 |
| Class Y ² | 4.24 | -5.46 | -0.11 | 0.31 |
| Class P ³ | 4.35 | -5.43 | -0.06 | 0.35 |
| After deducting maximum sales charge | | | | |
| Class A ¹ | 0.14 | -6.82 | -1.02 | -0.23 |
| PACE High Yield | | | | |
| Before deducting maximum sales charge | | | | |
| Class A ¹ | 12.59 | 1.01 | 4.39 | 3.74 |
| Class Y ² | 12.82 | 1.19 | 4.59 | 3.96 |
| Class P ³ | 12.76 | 1.19 | 4.54 | 3.91 |
| After deducting maximum sales charge | | | | |
| Class A ¹ | 8.32 | -0.28 | 3.59 | 3.34 |

PACE Large Co Value Equity

Before deducting maximum sales charge

| | | | | |
|--------------------------------------|-------|-------|-------|------|
| Class A ¹ | 15.08 | 11.09 | 10.39 | 7.57 |
| Class Y ² | 15.43 | 11.35 | 10.66 | 7.83 |
| Class P ³ | 15.40 | 11.37 | 10.66 | 7.83 |
| After deducting maximum sales charge | | | | |
| Class A ¹ | 8.76 | 9.01 | 9.14 | 6.96 |

PACE Large Co Growth Equity

Before deducting maximum sales charge

| | | | | |
|--------------------------------------|-------|------|-------|-------|
| Class A ¹ | 34.91 | 5.28 | 16.40 | 12.11 |
| Class Y ² | 35.16 | 5.54 | 16.70 | 12.39 |
| Class P ³ | 35.15 | 5.52 | 16.68 | 12.38 |
| After deducting maximum sales charge | | | | |
| Class A ¹ | 27.54 | 3.32 | 15.09 | 11.48 |

PACE Small/Medium Co Value Equity

Before deducting maximum sales charge

| | | | | |
|--------------------------------------|-------|------|-------|------|
| Class A ¹ | 12.32 | 6.87 | 11.39 | 6.92 |
| Class Y ² | 12.60 | 7.09 | 11.63 | 7.13 |
| Class P ³ | 12.58 | 7.06 | 11.59 | 7.09 |
| After deducting maximum sales charge | | | | |
| Class A ¹ | 6.12 | 4.87 | 10.14 | 6.31 |

PACE Small/Medium Co Growth Equity

Before deducting maximum sales charge

| | | | | |
|--------------------------------------|-------|-------|-------|------|
| Class A ¹ | 15.67 | -1.10 | 10.66 | 7.61 |
| Class Y ² | 15.92 | -0.90 | 10.84 | 7.81 |
| Class P ³ | 15.89 | -0.94 | 10.83 | 7.76 |
| After deducting maximum sales charge | | | | |
| Class A ¹ | 9.35 | -2.95 | 9.42 | 7.01 |

PACE International Equity

Before deducting maximum sales charge

| | | | | |
|--------------------------------------|-------|------|------|------|
| Class A ¹ | 20.11 | 4.88 | 8.73 | 4.83 |
| Class Y ² | 20.50 | 5.16 | 9.03 | 5.12 |
| Class P ³ | 20.41 | 5.15 | 9.01 | 5.11 |
| After deducting maximum sales charge | | | | |
| Class A ¹ | 13.49 | 2.92 | 7.51 | 4.24 |

PACE International Emerging Markets Equity

Before deducting maximum sales charge

| | | | | |
|--------------------------------------|-------|-------|------|------|
| Class A ¹ | 10.05 | -4.47 | 4.39 | 1.96 |
| Class Y ² | 10.34 | -4.23 | 4.67 | 2.22 |
| Class P ³ | 10.32 | -4.23 | 4.66 | 2.20 |
| After deducting maximum sales charge | | | | |
| Class A ¹ | 4.02 | -6.26 | 3.22 | 1.38 |

PACE Global Real Estate Securities

Before deducting maximum sales charge

| | | | | |
|--------------------------------------|-------|------|------|------|
| Class A ¹ | 10.95 | 2.03 | 2.57 | 3.17 |
| Class P ³ | 10.93 | 2.25 | 2.81 | 3.42 |
| After deducting maximum sales charge | | | | |
| Class A ¹ | 4.88 | 0.13 | 1.43 | 2.58 |

PACE Alternative Strategies

Before deducting maximum sales charge

| | | | | |
|--------------------------------------|-------|------|------|------|
| Class A ¹ | 4.97 | 2.59 | 4.63 | 2.41 |
| Class Y ² | 5.13 | 2.86 | 4.90 | 2.67 |
| Class P ³ | 5.15 | 2.84 | 4.89 | 2.66 |
| After deducting maximum sales charge | | | | |
| Class A ¹ | -0.81 | 0.66 | 3.46 | 1.82 |

¹ Maximum sales charge for Class A shares on the fixed income Funds is 3.75%. Maximum sales charge for Class A shares on the Equity funds is 5.5. Maximum sales charge for Class A shares on the PACE Municipal fixed income fund is 2.2%. Class A shares bear ongoing 12b-1 service fees of 0.25 annually.

² The Portfolio offers Class Y shares to a limited group of eligible investors, including certain qualifying retirement plans. Class Y shares do not bear initial or contingent deferred sales charges or ongoing 12b-1 service and distribution fees.

³ Class P and Class P2 shares do not bear initial or contingent deferred sales charges or ongoing 12b-1 service and distribution fees, but Class P and Class P2 shares held through advisory programs may be subject to a program fee, which, if included, would have reduced performance.

PAST PERFORMANCE IS NO GUARANTEE OF FUTURE RESULTS. The holdings information above (and other related information involving such holdings) is as of the most recent quarter end and derived from the records of UBS Asset Management (Americas) LLC., investment manager to UBS Emerging Markets Equity Opportunity Fund (the "Fund").

The annualized gross and net expense ratios, respectively, for each class of shares as in the prospectuses dated November 28, 2023, were as follows:

PACE Alternative Strategies Investments Class A—3.09% and 2.76%; Class Y—2.82% and 2.51%; and Class P—2.83% and 2.51%

PACE International Emerging Markets Equity Investments Class A—2.82% and 2.51%; Class Y—1.46% and 1.21%; and Class P—1.68% and 1.45%

PACE International Equity Class A—1.87% and 1.75%; Class Y—1.60% and 1.51%; and Class P—1.59% and 1.50%

PACE Large Co Growth Equity Investments Class A—1.46% and 0.43%; Class Y—0.88% and 0.88%; and Class P—0.91% and 0.88%

PACE Small/Medium Co Growth Equity Investments Class A—1.26% and 1.26%; Class Y—1.02% and 1.02%, and Class P—1.13% and 1.08%

PACE Global Real Estate Securities Investments Class A—1.71% and 1.45%; Class Y—1.53% and 1.20%; and Class P—1.74% and 1.20%

PACE Large Co Value Equity Investments Class A—1.13% and 1.13%; Class Y—0.87% and 0.87%; and Class P—0.89% and 0.89%

PACE Small/Medium Co Value Equity Investments Class A—1.26% and 1.26%; Class Y—1.05% and 1.05%; and Class P—1.08% and 1.05%

PACE Global Fixed Income Investments Class A—1.23% and 1.03%; Class Y—1.09% and 0.87%; and Class P—1.04% and 0.84%

PACE High Yield Investments Class A—1.20% and 1.06%; Class Y—0.90% and 0.88%; and Class P—1.06% and 0.88%

PACE Municipal Fixed Income Investments Class A—0.90% and 0.82%; Class Y—1.40% and 0.57%; and Class P—0.64% and 0.57%

PACE Intermediate Fixed Income Investments Class A—1.09% and 0.86%; Class Y—1.03% and 0.61%; and Class P—0.87% and 0.61%

PACE Mortgage-Backed Securities Fixed Income Investments Class A—1.13% and 0.97%; Class Y—0.95% and 0.72%

PACE Strategic Fixed Income Investments Class Y—1.03% and 0.80%; and Class P—0.89% and 0.80%

Net expenses reflect fee waivers and/or expense reimbursements, if any, pursuant to an agreement that is in effect to cap the expenses. The Portfolio and UBS Asset Management (Americas) LLC ("UBS AM") have entered into a written fee waiver/expense reimbursement agreement pursuant to which UBS AM is contractually obligated to waive its management fees and/or reimburse expenses so that the Portfolio's ordinary total operating expenses of each class through November 30, 2024 (excluding dividend expense, borrowing costs, and interest expense relating to short sales, and expenses attributable to investment in other investment companies, interest, taxes, brokerage commissions, trustee elections, as well as other matters related to shareholder meetings (unless specifically agreed by UBS AM) and extraordinary expenses) would not exceed the respective ratios. The Portfolio has agreed to repay UBS AM for any waived fees/reimbursed expenses to the extent that it can do so over the following three fiscal years without causing the Portfolio's expenses in any of those three years to exceed these expense caps and that UBS AM has not waived the right to do so. The fee waiver/ expense reimbursement agreement may be terminated by the Portfolio's board at any time and also will terminate automatically upon the expiration or termination of the Portfolio's advisory contract with UBS AM. Upon termination of the agreement, however, UBS AM's three year recoupment rights will survive.

The performance data quoted herein represents part performance. Past performance does not guarantee future results. The investment returns and the 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. Current performance may be lower or higher than the performance data quoted. For updated performance data contact the National Sales Desk: 888-793 8637. The performance numbers assume reinvestment of all dividends and capital gains.

Fund short-term performance is not a strong indicator of its long-term performance.

The Fund's portfolio is actively managed and its composition will differ over time.

The views expressed are as of March 31, 2024 and are those of UBS Asset Management. These views 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, market sector or the markets generally.

Mutual funds are sold by Prospectus. Investors should carefully read and carefully consider a Fund's investment objectives, risks, charges, expenses and other matters of interest before investing. The prospectus contains this and other information about the Fund. Contact your Financial Advisor, or UBS Asset Management (US) LLC, the Distributor, at 888-793 8637 for a current Fund prospectus or summary prospectus for PACE Alternative Strategies Investments.
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 www.ubs.com/us-mutualfundperformance 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 values of the PACE Select Portfolios change 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 companies or issuers** in whose securities the Portfolios invest. In addition, investments in **smaller-/medium-capitalization** companies and **foreign issuers** are subject to special risks. **Small and mid-cap companies** are typically subject to a greater degree of change in earnings and business prospects than are larger, more established companies. Therefore, they are considered to have a higher level of volatility and risk. The value of the fund's investments in **foreign securities** may fall due to adverse political, social and economic developments abroad. Investments in **foreign government bonds** involve special risks because the fund may have limited legal recourse in the event of default. However, because the fund's foreign investments must be denominated in US dollars, it generally is not subject to the risk of changes in currency valuations. These risks are greater for investments in **emerging market issuers** than for issuers in more developed countries. **High yield securities** are subject to higher risks than investment grade securities, including greater price volatility and a greater risk of loss of principal and nonpayment of interest. There are certain risks associated with investing in **fixed income** investments, including interest rate risk, derivative risk, futures risk and credit risk. There are certain risks associated with investing in **real estate** investments, including sensitivity to economic downturns, interest rates, declines in property values and variation in property management. It is important to note that an investment in a Portfolio is only one component of a balanced investment plan. There are certain unique risks associated with the use of **short sales** strategies. When selling a security short, a fund will sell a security it does not own at the then-current market price and then borrow the security to deliver to the buyer. A 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 a 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. **Derivatives** involve risks different from, and possibly greater than, the risks associated with investing directly in securities and other instruments. If an investment advisor incorrectly forecasts the value of securities, currencies, interest rates or other economic factors in using derivatives, a fund might have been in a better position if the fund had not entered into the derivatives. While some strategies involving derivatives can protect against the risk of loss, the use of derivatives can also reduce the opportunity for gain or even result in losses by offsetting favorable price movements in other fund investments. Derivatives also involve the risk of mispricing or other improper valuation, the risk that changes in the value of a derivative may not correlate perfectly with the underlying asset, rate, index or overall securities markets, and counterparty and credit risk (the risk that the other party to a swap agreement or other derivative will not fulfill its contractual obligations, whether because of bankruptcy or other default). Gains or losses involving some options, futures and other derivatives may be substantial (for example, for some derivatives, it is possible for a fund to lose more than the amount the fund invested in the derivatives). Some derivatives tend to be more volatile than other investments, resulting in larger gains or losses in response to market changes. Derivatives are subject to a number of other risks, including liquidity risk (the possible lack of a secondary market for derivatives and the resulting inability of a fund to sell or otherwise closeout the derivatives) and interest rate risk (some derivatives are more sensitive to interest rate changes and market price fluctuations). Finally, a fund's use of derivatives may cause the fund to realize higher amounts of short-term capital gains (generally taxed at ordinary income tax rates) than if the fund had not used such instruments. There are certain risks involved in investing in certain open- or closed-end **investment companies**. The shares of other investment companies are subject to the management fees and other expenses of those companies, and the purchase of shares of some investment companies requires the payment of sales loads and (in the case of closed-end investment companies) sometimes substantial premiums above the value of such companies' portfolio securities).

Please see the prospectus for a more complete discussion of the risks associated with the PACE Select Funds.

The PACESM Select Advisors Program (Applicable to PACE Program Participants Only)

The PACESM Select Advisors Program is an investment advisory service pursuant to which UBS Financial Services Inc. provides clients with personalized investment allocation recommendations. UBS Financial Services Inc. does not have any investment discretion over your client's PACE Select Advisors Program account.

Clients will make all the investment decisions.

Under the PACE Select Advisors Program, Financial Advisors assist clients in:

- identifying client financial characteristics, including their risk tolerance and investment objectives; and
- completing an Investor Profile Questionnaire, which clients may update from time to time with Financial Advisors' assistance.

UBS Financial Services Inc. uses an investment profile evaluation and asset allocation methodology to translate this information into a suggested allocation of a client's assets among different funds. Financial Advisors present the recommended allocation to clients initially. Financial Advisors also may, if clients so request, review with clients the monthly account statements and other information, such as quarterly performance data. Financial Advisors also monitor any changes in a client's financial characteristics that clients identify through a revised Investor Profile Questionnaire and communicates these changes to UBS Financial Services Inc. for reevaluation of a client's investment profile.

Investors who no longer participate in the PACESM Select Advisors Program but continue to hold Class P shares will not be entitled to any of the services described in this section.

For the services provided to clients under the PACE Select Advisors Program, clients will pay UBS Financial Services Inc. a quarterly Program Fee at an annual rate of up to 2.50% of the value of the shares of the funds held in their account under the PACE Select Advisors Program. This quarterly fee is generally charged to your UBS Financial Services Inc. account.

Please note that past performance is not a guide to the future. Potential for profit is accompanied by the possibility of loss.

The value of investments and the income from them may go down as well as up and investors may not get back the original amount invested.

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Indexes:

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List of Pace Fund indices: US Treasury 1-3 YR: Bloomberg Barclays Series-E Govt 1-3 Yr Bond Index; US Treasury 7-10 YR: Bloomberg Barclays Serie-E US Govt 7-10 Yr Bond Index; US Investment Grade Bond: Bloomberg Barclays US Corporate Total Return Value Index Unhedged USD; US High Yield Bond: Bloomberg Barclays US Corporate High Yield Total Return Index Value Unhedged USD; Global Inflation-Linked Bond: Bloomberg Barclays Global Inflation-Linked Total Return Index Unhedged; US Aggregate Bond: Bloomberg Barclays US Agg Total Return Value Index Unhedged USD; Emerging Market Dollar-Denominated Sovereign Bond: Bloomberg Barclays Emerging Markets Sovereign TR Value Index Unhedged; Emerging Market Local Currency Sovereign Bond: Emerging Market Dollar-Denominated Sovereign Bond: EM Local Currency Government TR Unhedged USD Index; US Equity S&P 500: S&P 500 Index; US Equity Russell: Russell 2000 Index; Europe Equity: MSCI Europe USD Equity; Japan Equity: MSCI Japan Index; China Equity: MSCI China USD Price Return Index: Emerging Market Equities: MSCI Emerging Market Equity Index; Commodities: Bloomberg Barclays Commodity Spot Index: REITS; Dow Jones Equity REIT Index.

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