

Asset Management January 2024

# PACE Small/Medium Co Value Equity Investments

## Fund Activity Update

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This update is intended to provide an overview of the current positioning in PACE Small / Medium Co Value Equity Investments (the "Fund") and inform you of changes within the Fund, including subadvisor additions and terminations. Please note that the subadvisor changes described below have already been implemented in the PACE Small / Medium Co Value Equity Investments Fund (PCSVX, P-share) and require no action on your part.

### Overview

The PACE Portfolio Management Team made the following subadvisor changes\*:

- Termination of Huber Capital Management, LLC ("Huber"; -15%).
- Reduction of assets allocated to Sapience Investments, LLC ("Sapience"; -20%).
- Appointment of ARGA Investment Management, LP ("ARGA"; +15%) to provide its US Small/Mid Cap strategy to the Fund out of assets previously allocated to Huber.
- Appointment of Victory Capital Management Inc. ("Victory"), through its business unit branded as Integrity Asset Management ("Integrity"; +20%) to provide its Small/Mid Cap Value strategy to the Fund from assets previously allocated to Sapience.

\*The trades were effective as of close of business on December 19, 2023.

### Rationale

The PACE Portfolio Management Team ("PM Team") seeks to enhance the Fund's return in excess of the Fund's benchmark more consistently in various market environments.

Huber, a sub-advisor since 2017, provided a deep value strategy for the Fund. Investing in stocks the team views as being at a significant discount to intrinsic value to exploit irrational investor behavior. Huber's strategy outperformed the Fund's benchmark on an annualized basis over the trailing three-year period. However, Huber has not been able to add value consistently via stock selection and peer relative performance versus our team's proprietary deep value peers has been mixed.

ARGA is a deep value investor that seeks to take advantage of investor overreaction to controversy and hence mispricing of stocks, as it believes that fear can provide the best opportunities for long-term returns. ARGAs strategy is based on a view that, at times, companies face temporary challenges from company-specific events and economic uncertainty that impact fundamentals. However, ARGAs view is that these events, in some instances, are likely to dissipate over a longer horizon, which may compress current valuations and create the potential to generate excess return for investors who understand long-term fundamentals. The approach is benchmark agnostic and rooted in

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fundamental research and intrinsic valuation with an understanding of how macroeconomic factors may influence company performance. This strategy is only available through PACE; ARGA does not offer a Small/Medium Cap Value 40-act fund for investment.

The PM team is funding the proposed allocation of Fund assets to ARGA through the termination of Huber.

Integrity has an experienced small/mid cap value team that has delivered robust risk-adjusted alpha across different environments and applied the investment process in a disciplined manner over the long-term. The team employs a flexible, relative value approach to investing that seeks to achieve consistent performance throughout the market cycle. The team is willing to invest across most of the value equity universe of stocks and, although the team is primarily a fundamental, bottom-up stock picker, the investment process is both bottom-up and top-down. The qualitative investment process is supported by a robust quantitative monitoring framework that helps the team understand and manage different types of risks and exposures.

The PM team is funding the proposed allocation of Fund assets to Integrity through a reduction of assets allocated to Sapience.

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### Disclosures

**Select UBS Asset Management (AM) strategies in the ACCESS and SWP/AAP Programs are available with no additional SMA management fee charged to Clients. UBS Financial Services has negotiated the SMA Management Fee with UBS AM based on an institutional fee schedule and will pay that fee out of its own resources.**

The lower pricing structure for our affiliated UBS AM separately managed accounts creates a conflict of interest and provides an opportunity for Financial Advisors to charge a higher UBS Investment Advisory Fee for the affiliated strategies than they would for strategies that charge an additional SMA Management Fee. The difference in SMA Manager Fees can also result in the recommendation of the affiliated strategies versus other strategies available at higher fees.

The ACCESS, SWP, MAC and Institutional Consulting ("IC") programs offer some of the same Separately Managed Account ("SMA") Managers for different SMA Manager fees. The amount of the fee paid to each SMA Manager is a function of that SMA Manager's investment style and the fee negotiated with the SMA Manager either by UBS (in ACCESS, SWP) and by you in the MAC or IC Program. Depending on your asset level and ability to negotiate the investment management fee with the SMA Manager in the dual-contract structure of the MAC or IC program, you may find that the single-contract structure in ACCESS and SWP provides a more cost-effective option or vice versa. In addition, based on the combination of our fees and your SMA Manager's fees, the overall fee for your SMA account in ACCESS, SWP, MAC or IC may exceed 3% of the account value. **Please review your options and overall costs carefully with your Financial Advisor before investing.**

**The PACE Small/Medium Co Value Equity Investments is designed for clients (i) who want to delegate portfolio management discretion to UBS, (ii) are looking to implement a medium- to long-term investment plan, and (iii) prefer the consistency of fee-based pricing. The Program is not appropriate for clients who want to maintain trading control over their account or clients who seek a short-term investment.**

**Trade Allocation Practices:** Portfolio Managers in the PACE Small/Medium Co Value Equity Investments aggregate orders for accounts managed in strategies within the same program. For example, the orders for the various strategies offered in the PACE Small/Medium Co Value Equity Investments are aggregated by Program. Changes for tactical asset allocation shifts are aggregated unless there are volume concerns, in which case a trade rotation is utilized. All orders in a batch will receive "average pricing" and the price of securities shown on client confirmations will be the average execution price on either all of the purchases or all of the sales (as applicable) aggregated for this purpose.

**Allocation of Securities and Opportunities Across Accounts:** Portfolio Managers in our Discretionary Programs have broad discretion to trade their Advisory Accounts. There can be no assurance that they can purchase or sell the same securities for all such Accounts at the same time, or that they will aggregate your orders with those of other clients and charge an average price per share or unit and, when applicable, a pro-rata share of any fees. As a result, you may receive different prices and executions for the same securities as compared to other clients investing in the same strategy. In addition, although we monitor performance dispersion and other characteristics of Accounts, investment opportunities will not necessarily be allocated among participating Accounts proportional to their overall amount invested.

Market conditions, technology failures, illiquid securities, securities with limited redemption schedules, trading volumes, the availability of funds and orderly purchase and redemption procedures may cause a delay in the processing and/or completion of the rebalancing. In addition, we may adjust the date on which reviews and rebalancing are done, if necessary, to ensure accurate processing of the review or rebalancing. We may also adjust the rebalancing date if UBS is in the process of reviewing its proprietary capital market assumptions to avoid duplicative rebalancing of accounts and ensure accurate and orderly processing.

**The views and opinions contained in this Allocation Overview were prepared by UBS Asset Management Inc. for the above-stated strategy PACE Small/Medium Co Value Equity Investments and may differ materially from the view and opinions of others at UBS AG. This Allocation Overview should be viewed as a general guideline only. In the context of an actual client's investment, this actual asset allocation would need to be customized to adequately meet the needs of the client. This Allocation Overview should not be considered a substitute for an individualized suitability analysis which should be made on a client-specific basis taking into consideration the client's own tax, legal, or other advice to determine suitability for their specific circumstances.**

All of the recommendations made/positions held within the preceding 12-month period are available upon request. Not all recommendations/holdings should be assumed to be profitable and future recommendations/holdings may not be profitable. Past performance is no guarantee of future results. Above is an overview of the portfolio holdings in the above-stated strategy of PACE Small/Medium Co Value Equity Investments as of the date of this report. The program is actively managed and holdings may be replaced at any point in time. The actual allocation within the individual portfolios may be different due to portfolio changes, market conditions or the imposition of investment restrictions.

**Mutual Funds are sold by prospectus. You should consider a fund's investment objectives, risks, charges, and expenses carefully before investing. The prospectus contains this and other information about the fund. Your clients should read it carefully before investing. Contact the UBS Wealth Management Solutions Managed Sales Desk to obtain a free copy of a fund's prospectus.** Current and future portfolio holdings are subject to risk.

The strategy involves investments in mutual funds, exchange traded funds and other pooled investment vehicles which carry internal management and administrative expenses borne by shareholders in addition to the advisory fee you pay for the PACE Small/Medium Co Value Equity Investments. Program fees will not be reduced or offset by these fees. These additional fees will reduce the overall return of your account. You may be able to purchase those securities directly in the open market without incurring the program fee. Please review the applicable prospectus and offering documents carefully for a detailed description of the additional fees associated with these securities. For more information on how UBS may receive compensation, please visit [ubs.com/understandingourfees](http://ubs.com/understandingourfees).

Investors should be aware that the value of mutual funds and exchange traded funds changes from day to day. Therefore an investment's return and principal value will fluctuate so that an investor's shares, when redeemed or sold, may be worth more or less than their original cost. ETFs seek investment results that, before expenses, generally correspond to the price and yield of a particular index. There is no assurance that the price and yield performance of the index can be fully matched. ETFs are subject to tracking error and may be unable to sell poorly performing stocks that are included in their index. ETFs may trade in the secondary market at prices below the value of their underlying portfolios and may not be liquid.

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**Asset allocation does not guarantee a profit or protect against loss in a declining financial market.**

If you would like more information about the Program or have questions about your account, please refer to the firm's Form ADV Disclosure Brochure.



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