



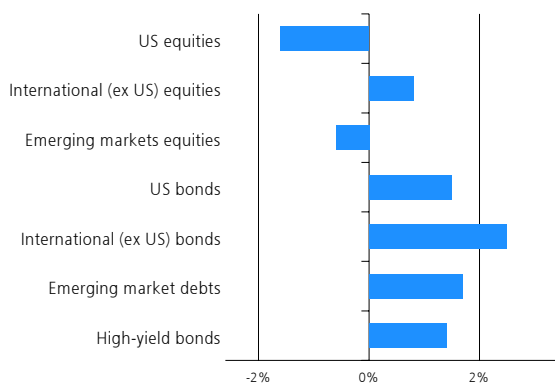
# Fund Report

## UBS (Lux) Key Selection Sicav - Global Allocation (USD) B

 Securities no. 1910935  
 ISIN no. LU0197216392

### Market review

#### Monthly return of sub asset classes



After almost eight months of uninterrupted positive returns, equities suffered a set-back in February after Chinese authorities introduced measures to curb stock market speculation and following pessimistic remarks by former US Federal Reserve (Fed) chairman, Alan Greenspan, which – incorrectly – were interpreted as a forecast of a recession. The sharp equity sell-off led to a rally in bond markets, particularly in the US. Virtually all developed government bond markets experienced relatively strong gains. The US, Europe and Australia led the way, while Japan lagged somewhat. Risky debt also posted gains; the fall in US Treasury yields more than offset wider credit spreads due to increased risk aversion. Fears of widespread defaults and poor collateral quality led to very sharp losses in the US sub-prime mortgage sector as well as fears of a possible spillover into higher-quality credit sectors and other areas of the US economy.

As regards central bank policy, most central banks remained on hold in February, except the Bank of Japan which raised its target rate from 0.25% to 0.50% on evidence that economic activity is picking up. The best-performing market was global (ex-US) bonds, which added 2.5% in US dollar terms, followed by emerging market bonds, up 1.7%. All equity markets showed negative returns except global (ex-US) equities, which was primarily due to the appreciation of foreign currencies versus the US dollar. On the currency side, the US dollar fell against

almost all major currencies, except the Swedish krona and the British pound. The fall of the US dollar versus the foreign currencies had a small positive impact on portfolio performance.

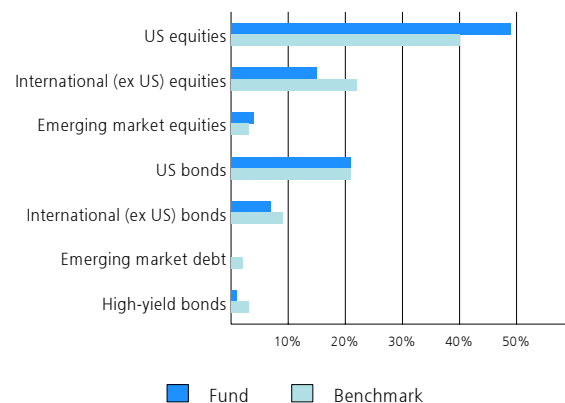
### Fund performance

in %	2003	2004	2005	2006	2007 YTD	2 years	Ø p.a. 2 years
USD	n.a.	n.a.	4.8	12.5	0.2	17.7	8.5
BM	n.a.	n.a.	6.6	14.9	0.9	22.8	10.8

Benchmark: UBS Cust. Benchmark (GSMI)  
 Past performance is no guarantee of future trends. The performance shown does not take account of any commissions and costs charged when subscribing and redeeming units. Benchmark in currency of account (without costs). Data as of end February 2007.

In February, the fund lost 0.31%, underperforming its benchmark (UBS Customized Benchmark (GSMI)) by 0.43%. Pure asset allocation was negative, given our overweight in equities. Market allocation was marginally negative, due to our overweight to the US equity market, which underperformed. Security- and sector selection were also marginally negative due to the negative selection in Japanese equities which was, however, largely offset by the positive selection in Swiss equities. The currency strategy, on the other hand, was virtually flat. Our underweights to the euro and Australian dollar detracted value, while our overweights to the Japanese yen and the Swiss franc were good decisions, adding value to the portfolio.

#### Strategic asset allocation vs. benchmark



## Outlook & strategy

Global economic activity has turned somewhat weaker, but remains in expansionary territory. The US economy has slowed from its above-trend pace of the past few quarters, with the housing sector leading the way lower. The eurozone economy has shown signs of a pick-up in economic activity across the region; gross domestic product grew at a higher rate in the eurozone than in the US during the second, third and fourth quarters of 2006. The outlook for Japan's economy is fairly positive. Global monetary policy is moving towards neutrality, as central banks globally tend to be in tightening mode. The Fed remains on hold with its policy rate of 5.25%, and describes its outlook as "data-dependent", but seems to retain a tightening bias for now. The European Central Bank began a tightening cycle earlier in 2006, and hiked rates 25 basis points recently, but interest rates in the eurozone remain accommodative. The Bank of Japan has begun tightening from its zero interest rate policy, but the scope and pace of tightening remain to be seen. Consensus expectations for 2006 and 2007 indicate trend-like growth rates on a global basis.

Market participants are showing signs of complacency with respect to risk-seeking behaviour. The belief in abundant liquidity and a new era of lower capital market volatility has helped feed a seemingly unfettered appetite for risk. This has driven equity prices higher and bond spreads lower in a steady march over the past few years, with only brief pauses. Perhaps the market events at the end of February serve as a reminder of just how vulnerable the market is to a repricing of risk. In this instance, the catalysts — talk of restrictions on the ability to margin Chinese equities, and pessimistic comments by former US Federal Reserve chairman Alan Greenspan — were perhaps a bit surprising, but also reminders of the interconnection of the world's capital markets and of how easily investors can turn jittery in the wake of perceived bad news.

We do not believe that the recent market events should necessarily be viewed as a great destabilising event and a harbinger of what is to come. However, we do strongly believe that market participants should take note of these developments. We stand by our fundamental views that bond markets around the world are generally overvalued, that credit spreads may expand and that many equity markets are also at stretched valuations. We continue to see some opportunities in equity markets in the US and elsewhere, and we stand by our disciplined valuation approach and time-tested processes. As always, we continue to strive to take only risks that we believe will adequately compensate us and our clients.

We are overweight in equities, underweight in fixed income and overweight in cash. In currency we are overweight in the US dollar versus the British pound and underweight in the Canadian dollar in favour of Asian currencies. Within Europe we are overweight to the

Swedish krona and Swiss franc versus the euro and British pound.

## Portfolio structure by investment instruments

Investment instruments	Weight
<b>Cash</b>	<b>3.8%</b>
<b>Fixed Income</b>	<b>28.3%</b>
USD government bonds	8.2%
USD corporate bonds	3.9%
USD mortgage-backed securities	8.7%
International (ex US) bonds	6.6%
High-yield bonds	0.9%
Emerging market debt	0.0%
<b>Equity</b>	<b>67.9%</b>
US small caps	3.3%
US large caps	45.6%
International (ex US)	15.0%
Emerging markets	4.0%
<b>as of 28.02.2007</b>	

## The 10 largest direct equity positions

Name	Weight
CITIGROUP INC	1.7%
MORGAN STANLEY	1.5%
MICROSOFT CORP	1.4%
WELLS FARGO & CO	1.4%
EXELON CORP	1.2%
JOHNSON CONTROLS	0.9%
AMERICAN INTL GROUP	0.9%
ALLERGAN INC	0.9%
WYETH	0.9%
SPRINT NEXTEL CORP	0.9%
<b>as of 28.02.2007</b>	

Further details available on the Internet at:

[UBS Fact Sheet](#)