

Mayor

Clay Koplin

Council Members

Tom Bailer

Kenneth Jones

Jeff Guard

Melina Meyer

Anne Schaefer

David Allison

David Glasen

City Manager

Alan Lanning

City Clerk

Susan Bourgeois

Deputy Clerk

Tina Hammer

Student Council

summer vacation

**City Council Work Session
September 4, 2019 @ 6:00 pm
Cordova Center Community Rooms
Agenda**

A. Call to order

B. Roll call

Mayor Clay Koplin, Council members Tom Bailer, Kenneth Jones, Jeff Guard, Melina Meyer, Anne Schaefer, David Allison and David Glasen

C. Work Session topics

1. UBS, City Investments, *Buck Adams* and..... (p1-23)
Tammy Head - Institutional Consulting Group

D. Adjournment

If you have a disability that makes it difficult to attend city-sponsored functions, you may contact 424-6200 for assistance.

Full City Council agendas and packets available online at
www.cityofcordova.net



The UBS Institutional Consulting Group

Our insights. Your advantage.

Tammy Head, CIMA®, ChFC®, CRPS®

Senior Vice President – Wealth Management
Institutional Consultant

Buck Adams, CIMA®, ChFC®, CFP®

Senior Vice President – Wealth Management
Wealth Advisor

The information contained herein is current as of the date of publication and is subject to change without notice. Please see "Important Information" at the end of this presentation for additional information.

August 1, 2019



Discussion outline

Section 1 Introduction

Introducing UBS and your UBS Institutional Consulting team

Section 2 UBS Institutional Consulting Group—Overview

Our purpose, guiding principles and difference

Credentials that inspire confidence

Who we serve

Section 3 Investment process

Our process

Investment Policy Statement

Strategic asset allocation

Investment management research, selection and recommendation

Portfolio review and evaluation

Thoughtful perspectives on issues that matter

Section 4 Our strengths, your benefits

Section 5 Summary

Sample timeline

Fee proposal

Representative client list

Who we are

The UBS Institutional Consulting Group is part of a global financial services leader.

Our nationwide group of 100+ Institutional Consultants—with \$130 billion² in combined assets under advisement—have the experience to help your organization meet its investment objectives.



Extensive resources to support you

- Your Institutional Consulting team
- 54 research analysts and strategists
- 16 Institutional program managers
- Robust operational support team
- Global investment committee
- Asset allocation committee

¹As of December 31, 2018. Worldwide figures (rounded).

²As of December 31, 2018; Institutional and Retirement Plan Consulting programs.

Your Team

Tammy Head, CIMA®, ChFC®, CRPS®

Senior Vice President – Wealth Management
Institutional Consultant

Tammy Head, Institutional Consultant has been in the industry for over 36 years specializing in Alaskan Native Corporations, Hospitals and many high net worth individuals. She has obtained her Certified Investment Management Analyst designation from Wharton School, Charter Financial Consultant, Chartered Life Underwriter, and her Chartered Retirement Planning Specialist designations. Tammy is a 2nd Lt of the Civil Air Patrol; she is a Mission Scanner as well as a private pilot. Her hobbies include skiing, flying, quilting and spending time outdoors with her husband and two sons.



Buck Adams, CIMA®, ChFC®, CFP®

Senior Vice President – Wealth Management
Wealth Advisor

Buck has resided in Alaska for over 44 years. After a distinguished career in law enforcement, Buck retired in 1994 and entered the financial services industry. For 22 years Buck has assisted his clients through financial planning, investment management and has earned numerous national and regional awards for excellence during his career. He is active in local and national charitable organizations, including the Special Olympics of Alaska.



Buck earned his BA from the University of Alaska, Anchorage. He is a CERTIFIED FINANCIAL PLANNER™ Practitioner, as well as a graduate of the Certified Investment Management Analyst® program at the Wharton School of Business. Buck has also earned the Chartered Financial Consultant® designation from the American College.

Chad Adams, CFP®

First Vice President
Portfolio Manager

Chad cofounded Aurora Wealth Management in 2005, with the vision of bringing together the best of experience and innovation. Chad always asks "How do we make this even better?" Which is an ideal attitude for his primary role as the team's portfolio strategist and risk manager.



Aurora Wealth Management serves Private Wealth, Institutional Investment Management and Retirement Plan clients across 21 states. Our process centers on working with clients to identify their objectives, acknowledge and manage risks, evaluate performance and design a service expectation from the beginning. We've served enough clients across the spectrum to know that every relationship is unique and should receive a personalized experience. Aurora Wealth Management also leverages our Northwest Intuitional Consulting Team with over \$20 Billion in Institutional assets and \$16 Billion in Retirement Plans when appropriate.

Chad earned a BA from the University of Massachusetts, Amherst with a concentration in Investments and a MS in Finance from Boston University. He is a CERTIFIED FINANCIAL PLANNER™ Practitioner.

Megan E. Antonucci

Registered Client Service Associate

Meghan was born and raised in Anchorage. After earning her Bachelors of Business Administration in Finance degree from the University of Alaska, Anchorage, Meghan began her financial career working in the highly complex field of mortgage underwriting. During her five years in underwriting, Meghan learned the importance of doing what may seem to be the little things correctly. She recognized that whether or not her clients were successful in buying their home was dependent on her getting the details right. Interested in broadening her financial services experience, Meghan joined UBS in 2009. The experience she gained in the underwriting field has made her extremely effective in servicing client relationships and assisting with banking functions.

Always interested in expanding her experience, Meghan volunteered to expand her responsibilities by assisting in the financial planning process. Outside of work Meghan enjoys spending time with her family.



The UBS Institutional Consulting Group—Overview

Our purpose

The UBS Institutional Consulting Group delivers insightful advice designed to help institutions meet their investment objectives

- Corporations
- Municipalities
- Taft-Hartley
- Foundations and endowments
- Faith-based organizations
- Other entities

Our guiding principles

- A disciplined and prudent approach applied to each client's specific needs
- Portfolios tailored to each client's Investment Policy Statement (IPS) and overall risk profile
- Investment solutions based on each client's specific needs

As a firm providing wealth management services to clients in the U.S., we offer both investment advisory programs and brokerage accounts. Each are separate and distinct, differ in material ways and are governed by different laws and separate contracts. For more information please visit our website at ubs.com/workingwithus.

Our difference

Dedicated resources provide a personalized approach to your investment needs.



Objective advice

We act as your fiduciary and our fees are not tied to the investments we recommend



Focused on you

Seasoned consultants with deep institutional knowledge



Access the strength and intellectual capital of UBS

Our clients benefit from our vast global resources—highly respected intellectual capital and thought leadership

Credentials that inspire confidence

A 150-year global heritage and strong financial resources drive our legacy.

Bringing the strength of UBS to work for you

- UBS Institutional Consulting has delivered customized investment solutions for 35+ years¹
- \$1.2 trillion in UBS Wealth Management Americas invested assets²
- Best Global Wealth Manager, 2019³
- UBS's capital position is strong, and its Basel III CET1 ratio is one of the highest among large global banks⁴

You will work with our highly credentialed Institutional Consultants

- Certified Investment Management Analyst® (CIMA®)
- An average of 35+ years of industry experience¹
- Strong internal network for sharing best practices

¹ As of 1/1/2019.

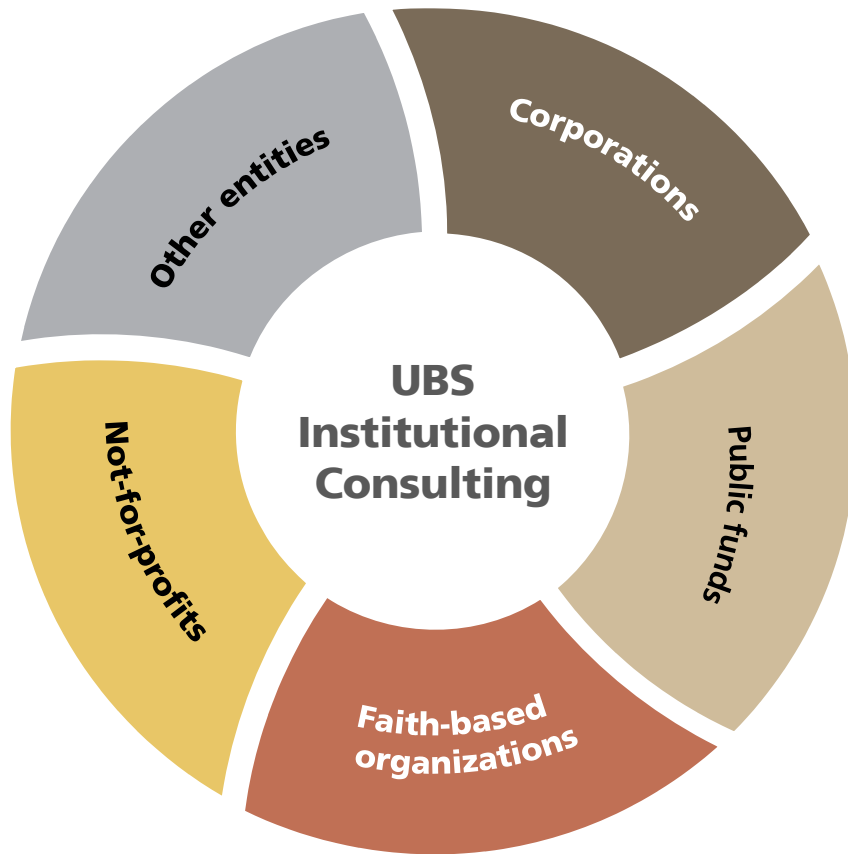
² Source: UBS quarterly report 4Q18.

³ Source: Euromoney, 2019. The Best Global Wealth Manager Award was determined and awarded by the Euromoney editorial team. The Euromoney Awards for Excellence were established in 1992 and are the global benchmarks for the banking industry. These annual awards cover more than 20 global product categories, best-in-class awards in all regions and the best banks in close to 100 countries around the world. UBS did not pay a fee in exchange for the award.

⁴ Source: Companies reporting. All figures are fully applied. UBS and CS are based on Swiss SRB Basel III, other European peers are based on Basel III under CRD IV, while US peers are based on Basel III rules under advance approach; HSBC, DB, CS and BARC as of 09.30.18. For more information, see disclaimers at the end of this presentation and 'Capital Management' section in our quarterly and annual reports available at ubs.com/investors.

Who we serve

Extensive client experience with a broad presence across many types of institutions



■ Corporations

- Public and private retirement plans
- Pension/defined benefit plans
- General/operating reserves
- Non-qualified plans

■ Not-for-profits

- Foundations
- Endowments
- Public trusts and associations

■ Faith-based organizations

- Ministries/Houses of worship
- Educational institutions and associations
- Community centers/Adult living/Senior care

■ Public funds

- States
- Cities
- Counties
- Special purpose districts

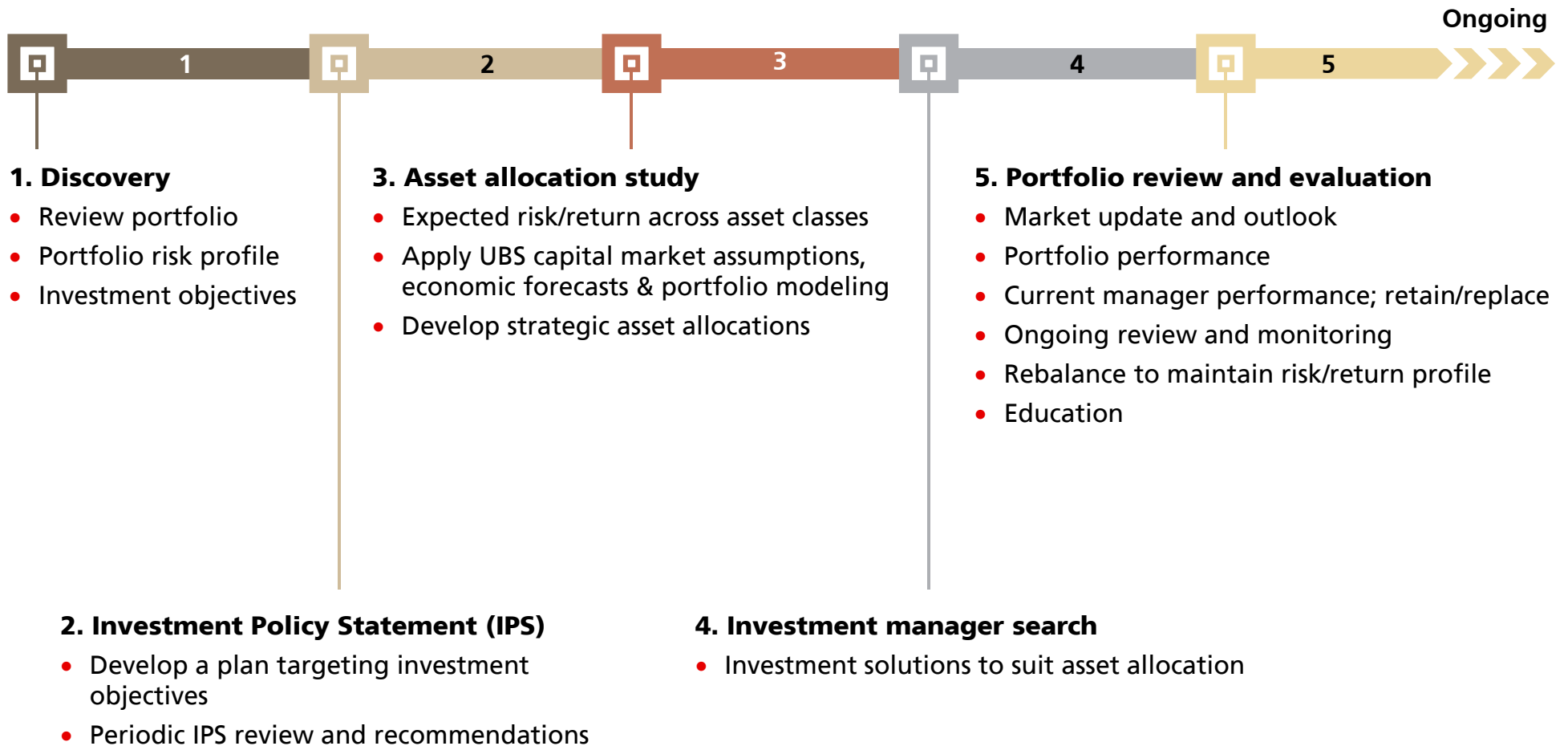
■ Other entities

- Hospitals and healthcare providers
- Educational institutions
- Insurance companies
- Native American tribes
- Taft-Hartley plans
- Law firms

Our process

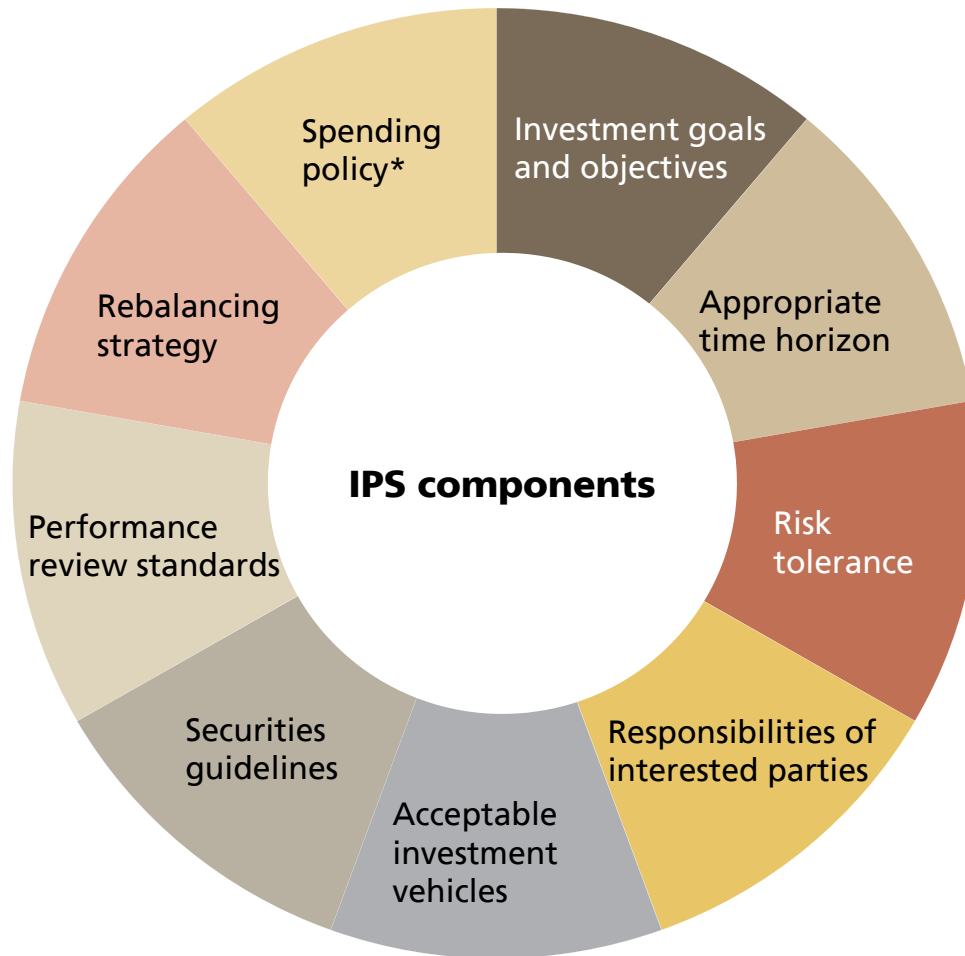
Hands-on guidance with a focus on goals

We start by learning about your organization's financial goals in order to provide a truly customized solution



Investment Policy Statement (IPS)

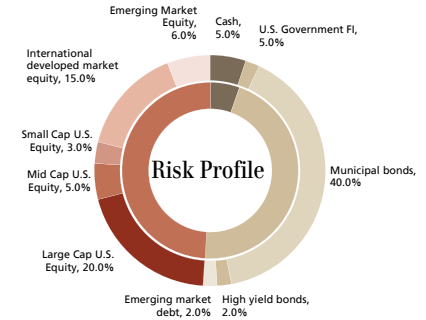
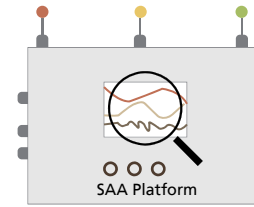
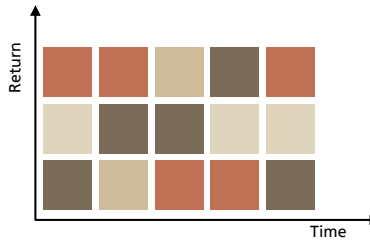
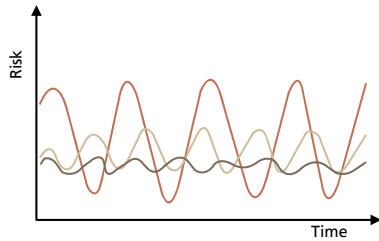
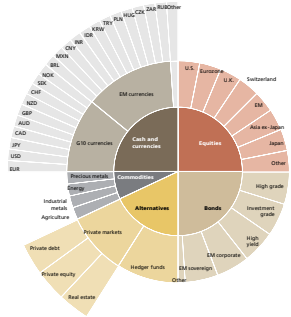
A well-written IPS can provide important guidance for the management of assets.



* This is not a service described in our contract our ADV.

Strategic asset allocation (SAA)

Both quantitative and qualitative analysis are considered in the construction of the SAA.



Investment universe

**Capital Market Assumptions (CMAs)
Return, risk and correlation analysis**

SAA construction

SAA decision

For illustrative purposes only. Please refer to the important information section at the end of this presentation.

Investment management research selection process

Our Investment Manager Research group performs a rigorous process to identify qualified investment managers.



Identify

Identify gaps to build a diverse menu



Analyze

IMR analysts **Analyze** survey responses, portfolio statistics, and proprietary quantitative outputs



Understand

IMR analysts speak with portfolio managers and analysts to **understand** the process and build conviction



Verify

Robust peer review process helps **verify** IMR analyst's thesis



Decide

The Investment Management Research Committee **decides** on approvals/denials



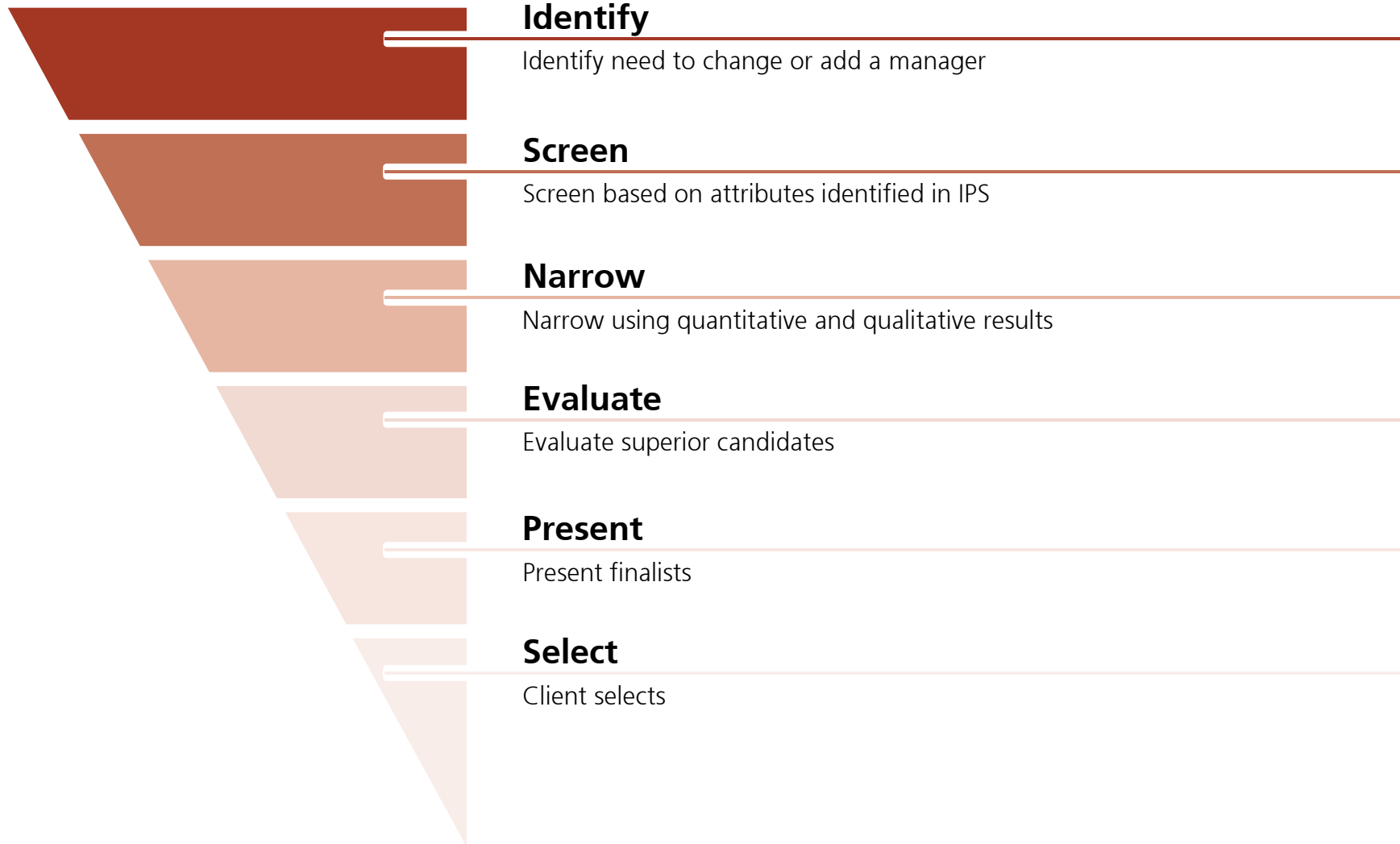
Monitor

IMR analysts **monitor** strategies regularly, including a quarterly review of qualitative and quantitative information

The Investment Management Research Group (IMR) is a business area within the UBS Global Wealth Management. IMR is not part of UBS CIO Wealth Management Research or UBS Investment Research. The Investment Management Research Committee ("IMRC"), comprised of senior members from IMR and Wealth Management Advice and Solutions strives to provide consistency in the due diligence work being performed by Investment Management Research Analysts for the various programs/platforms that they support. The committee reviews and votes on research and recommendations to ensure consistency and objectivity in the research process. UBS will not generally notify you of changes to its IMR research designations. This document provides limited information regarding the IMR Group and is provided for general informational purposes only. A given research designation for an SMA or Mutual Fund does not indicate or guarantee a successful investment outcome. Past performance is not a guarantee of future results.

Investment manager search

A robust screening process performed by your Institutional Consultant



We will only identify and present managers which are offered by the Firm and/or for which the Firm has conducted due diligence or has otherwise reviewed.

Portfolio review and evaluation

We will provide you with a comprehensive market and portfolio review.

Based on the standards established in your Investment Policy Statement, the review will include:

Comprehensive historical performance evaluation

- Executive performance summary
- Portfolio return versus objectives, indexes and peer groups
- Comparative benchmarks and peer universes
- Industry standard time-weighted rates of return
- Graphic and tabular representations of performance
- Market cycle comparison
- Performance attribution
- Risk and return analysis

Investment manager analysis

- Detailed investment manager performance
- Investment manager material changes



Thoughtful perspectives on issues that matter

Institutional Perspectives
 A UBS Institutional Consulting Group publication
 Spring

Contents

- 01 Market Review
- 04 Market Performance Report
- 05 Market Outlook
- 06 Washington Watch

Market Review First Quarter

Overall in U.S. dollar terms, international equity markets and results varied dramatically region-to-region and emerging markets.

Within major international stock markets there was the MSCI Japan Index +3.3% vs. the MSCI Europe over the period. Europe continues to be weighed down by related issues (most notably the Cyprus government tax decisions, the so-called "bail in," in order to be sovereign adjustment program). Meanwhile, Japan in response to the Bank of Japan's announcement easing measures specifically targeting higher inflation finally put an end to persistent deflationary conditions.

The larger emerging economies by contrast have by pressures, most notably in India, Brazil and China, a central banks to conduct less accommodative money the world. This has posed a challenge for emerging

Contact information

Senior Vice President - Wealth Management
 Institutional Consultant



Insights for Fiduciaries

Selected Areas of Potential Risk Exposure for ERISA Plan Fiduciaries and Service Providers

The previous four papers in this series have covered fiduciary governance considerations for ERISA plans, fee and expense issues, service provider disclosure rules, and the rules governing participant-directed individual account plans. This paper highlights certain common areas of potential risk exposure for ERISA plan fiduciaries and service providers, and steps they can take to address and mitigate those risks.

I. Inadvertent Fiduciary Status Under ERISA

Under ERISA, a person is a "fiduciary" to a plan to the extent the person either


- exercises any discretionary authority or discretionary control respecting management of the plan, or exercises any authority or control respecting management or disposition of the plan's assets;
- renders "investment advice" for a fee or other compensation, direct or indirect, with respect to any moneys or other property of the plan, or has any authority or responsibility to do so; or
- has any discretionary authority or discretionary responsibility in the administration of the plan.

The U.S. Department of Labor ("DOL"), the federal agency with interpretive and enforcement authority over the ERISA fiduciary responsibility rules, and the courts have indicated that the ERISA fiduciary definition amounts to a **functional** test. This means that persons performing any of the listed functions would be considered as fiduciaries, regardless of their formal titles or designations. As a result, a person who is not formally designated as a fiduciary under a plan document, or through

a procedure contemplated, could nevertheless become fiduciary through acting in

"Inadvertent" fiduciary status under the first two parts of instance, there have been acted as a broker for the fiduciaries relied to such a advice that the broker was fact control, and thereby investments, making the first part of the definition. 5th Circuit decision in *Re* the court found that insu providing professional ad authority over the plan to fiduciaries. As a result, the undisclosed commissions connection with the plan policies. The more comm, whether a person acting or consultant is providing investments that could be advice" under the second

The scope of the "investment advice" category was clarified by a DOL regulation. The regulation, as interpreted by the courts, establishes a five-factor test, all five of which must be met to support a finding of fiduciary status. Consequently, to constitute "investment advice" that makes the advisor a fiduciary, the advice must: (1) involve "recommendations as to the advisability of investing in, purchasing, or selling securities or other property"; (2) be provided for a "fee or other compensation"; (3) be individualized to the needs of the plan; (4) be given pursuant to a "mutual understanding" that the advice will be a primary basis for investment decisions (no written contract is required—courts have implied a "mutual understanding" based on the context in which advice is being given); and (5) be provided on a "regular basis."



UBS

U.S. Office of Public Policy
Washington Weekly
 Under the Dome: The Week in Review



This week: The **House** passed a long-term highway bill (see below) and a defense authorization bill. The **Senate** passed legislation to block an Environmental Protection Agency regulation to expand the Clean Water Act to smaller waterways.

Next week: The **House** will be out of session to celebrate Veterans Day. The **Senate** will have a shortened week and consider various nominations and a defense authorization bill.

Financial Reform Bills

Financial Reform Bills. The House Financial Services Committee this week passed ten separate bills, some with substantial bipartisan support, making reforms to the Dodd-Frank law. One bill would replace the \$30 billion threshold at which banks are subject to heightened regulatory requirements with a more qualitative determination by the Financial Stability Oversight Council (FSOC), while several others would reform the FSOC. The Senate Banking Committee earlier this year passed a more comprehensive regulatory relief package that covers much of the same ground as the House bills. However, the progress of that legislation has stalled due to disagreement between Republicans and Democrats over its overall scope. While there remains strong bipartisan support for targeted regulatory relief (particularly for community banks), we continue to believe that a compromise agreement will remain elusive.

Other Policy Issues in May

Social Security Changes. The high-profile budget deal signed into law by President Obama this week includes a variety of changes to Social Security (SS), a few of which were overlooked as the bill sailed quickly through Congress last week. Two changes specifically will affect how some couples claim SS benefits: The claiming strategy known as "file-and-suspend" restricted application for spousal benefits have possible for both members of a couple to file benefits based on their own earnings records; takes a spousal benefit based on the other's. This practice allows both individuals to take advantage of delayed retirement credits and increase the benefit 6% to 8% for each year they defer before 66 and 70. The new law ends those two steps but not until six months from the day the law takes effect (this week). Some have speculated that may overturn this change as many lawmakers fully understand the provisions, but we are still Congress will reverse course.

Highway to the President's Desk. Yesterday's term highway bill to authorize highways, rail and improvements passed the House and now will be reconciled with a similar Senate bill passed last year. We expect a final bill to be hammered out and sent to the President later this month, post Thanksgiving. This is a big win for new House Paul Ryan (R-WI) as he completed his first week in role. He insisted on an "open process," so members could offer amendments to the bill. 200 amendments were offered. The final bill is some criticism as it authorizes six years of transit construction projects, yet only funds three year projects. Regardless, a long-term highway bill been enacted in a decade and many view this bipartisan victory and a personal win for Speaker

Bank Highway Off-ramp. Banks scored a win when the House voted overwhelmingly to eliminate



UBS House View

Investment Strategy Guide

COO Wealth Management Research
 US Edition



Focus and diversify

In Context: Searching for leadership
 In Focus: Letter from Washington



Our strengths, your benefits

Our strengths

Your benefits

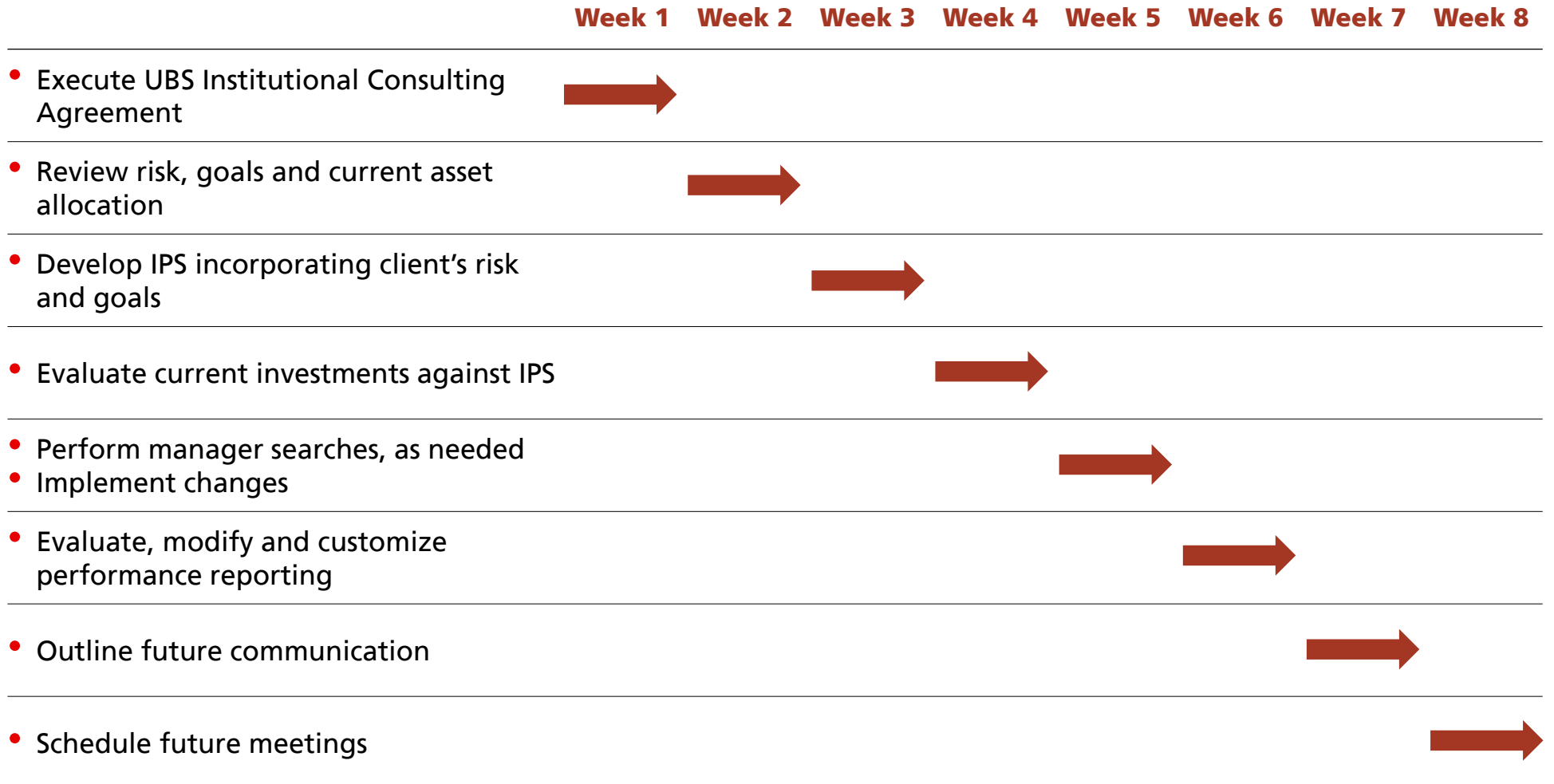
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|---|---|--|
| • A dedicated, Institutional Consulting team | ➔ | Personalized, attentive client experience |
| • A fiduciary acknowledged in writing | ➔ | Prudent, objective investment advice |
| • A global leader with a 150-year heritage and wealth management at its core | ➔ | Access to the intellectual global resources of UBS |
| • A robust methodology and process used in conjunction with your investment goals | ➔ | A disciplined process to help you perform your fiduciary obligations |
| • Help in crafting or improving your Investment Policy Statement (IPS) | ➔ | A strategy and guidepost for your asset allocation |
| • Search for and recommend portfolio managers | ➔ | Investment recommendations designed to align with your goals |
| • Robust portfolio reporting and analysis | ➔ | A clear understanding of your portfolio performance help quantify your mission |

Summary

- Insightful advice delivered through a collaborative approach
- Objective—UBS acts as your fiduciary
- Team backed by UBS—a leading global financial services firm
- Thorough, field-tested process including
 - Investment Policy Statement assistance
 - Asset allocation study
 - Manager recommendations
 - Ongoing portfolio evaluation
- Ongoing education

Sample timeline

Transition timeframe: Typically 4 – 8 weeks¹



¹ Dependent upon schedule and needs of the organization.

Fee proposal

All services below are included in the quoted fee:

- Assistance in development of the Investment Policy Statement
- Strategic asset allocation studies
- Investment performance reports
 - *Quarterly portfolio analysis and performance attribution reports*
 - *Investment manager evaluation reports*
- Investment manager search
 - *Separately managed accounts, mutual funds, ETFs, collective investment trusts, unit investment trusts*
- IC attendance at investment committee meetings
- Ongoing investment committee education
- Custody and trade execution costs through UBS (if custodied and traded at UBS)

Based on our current understanding of the engagement, we propose an annual consulting fee schedule (billed quarterly) as follows: **60 basis points.**¹

¹ It is important to note that our consulting fee stays constant regardless of the investment products chosen. Fees charged by money managers or pooled investment expense ratios (mutual funds, ETFs etc.) are additional. Subject to execution of a UBS Institutional Consulting Agreement. Additional charges and fees apply. Please refer to your UBS Institutional Consulting Agreement and UBS's Form ADV Part 2A brochure, available from your Financial Advisor, for more information

Important information

This document is for informational purposes only and is not intended as, and should not be considered or construed to be, investment advice or legal advice. UBS and its representatives do not provide legal or tax advice. Clients are responsible for ensuring their compliance with applicable rules and regulations, including, where applicable, compliance with the Employee Retirement Income Security Act of 1974 ("ERISA") and the Internal Revenue Code. Clients should consult with their tax and legal advisor for advice regarding their precise duties, responsibilities and liabilities in specific situations.

UBS Institutional Consulting is an investment advisory program. Details regarding the program, including fees, services, features and suitability, are provided in the ADV Disclosure, available from your Financial Advisor or accessed at ubs.com/accountdisclosures.

Generally, the IC program is designed for clients seeking: advice on the establishment of a strategic asset allocation and assistance in the development and review of an investment policy statement; to implement a medium to long-term investment plan; to use the advice and guidance of an investment professional either in their self-directed accounts or by delegating management of their assets to a portfolio manager and/or SMA Manager. You may delegate investment discretion to your Institutional Consultant through use of the UBS Consultant Investment Discretion program (CID) may also elect to retain investment discretion within the IC program.

Our investment searches are limited to those for which the Firm has conducted diligence. Neither UBS Financial Services Inc., UBS Asset Management nor your Financial Advisor will act as your investment advisor or discretionary manager with respect to investments that are excluded from or ineligible for the program, including investments that have not been reviewed or recommended by UBS and those that are not available on your record-keeper platform, where applicable. Investment restrictions will apply only to those assets over which we or your investment managers have discretion in the CID programs.

The IC program is a fee-based investment advisory program but wrap-fee or "all-inclusive fee" pricing is available only for accounts held at UBS Financial Services Inc. The fee for accounts held away from UBS Financial Services Inc. is an asset based fee but it is not a wrap-fee as it does not include custody or trading costs, which you may have to pay for separately.

Cautionary statement regarding forward-looking statements. This report contains statements that constitute "forward-looking statements", including but not limited to statements relating to the current and expected state of the securities market and capital market assumptions. While these forward-looking statements represent our judgments and future expectations concerning the matters discussed in this document, a number of risks, uncertainties, changes in the market, and other important factors could cause actual developments and results to differ materially from our expectations. These factors include, but are not limited to (1) the extent and nature of future developments in the US market and in other market segments; (2) other market and macro-economic developments, including movements in local and international securities markets, credit spreads, currency exchange rates and interest rates, whether or not arising directly or indirectly from the current market crisis; and (3) the impact of these developments on other markets and asset classes. UBS is not under any obligation to (and expressly disclaims any such obligation to) update or alter its forward-looking statements whether as a result of new information, future events, or otherwise.

Capital Market Assumptions and Strategic Asset Allocations. The asset class risk and return assumptions displayed in this publications, as well as the asset class correlations, are based on estimated forward-looking return, risk—as measured by standard deviation—and correlation assumptions ("capital market assumptions"), which are based on UBS proprietary research. The development process includes a review of a variety of factors, including the return, risk, correlations and historical performance of various asset classes, inflation and risk premium. The CMAs have two sets of return assumptions, designed for different investment time horizons, but a single set of risk assumptions. The "strategic" return assumptions are used for investing over one full economic cycle, whereas the "equilibrium" returns have an **Capital Market Assumptions and Strategic Asset Allocations.** The asset class risk and return assumptions displayed in this publications, as well as the asset class correlations, are based on estimated forward-looking return, risk—as measured by standard deviation—and correlation assumptions ("capital market assumptions"), which are based on UBS proprietary research. The development process includes a review of a variety of factors, including the return, risk, correlations and historical performance of various asset classes, inflation and risk premium. The CMAs have two sets of return assumptions, designed for different investment time horizons, but a single set of risk assumptions. The "strategic" return assumptions are used for investing over one full economic cycle, whereas the "equilibrium" returns have an investment horizon of multiple economic cycles. The strategic returns have multiple uses, including developing strategic asset allocations, custom portfolio analysis, and risk monitoring. The equilibrium CMAs are used, in certain circumstances, for long-term planning purposes. The capital market assumptions are subject to change at any time at our discretion and without notice. UBS has changed its return, risk and correlation assumptions in the past and may do so in the future. Neither UBS nor your UBS Consultant is required to provide you with an updated analysis based upon changes to these or other underlying assumptions.

Important information

Since assumptions are subject to uncertainty, including market forces and factors outside of our control, you should also understand that the capital market assumptions are estimates and are not guarantees or projections of future results. There is no certainty that the assumptions will accurately estimate asset class return rates going forward. Actual long-term results for each asset class may differ from our assumptions, with those for classes with limited histories potentially diverging more. As a result, UBS will not be responsible for omissions in the analysis, regardless of the source of such inaccuracies, errors, or omissions. In addition, capital market assumptions pertain to the asset or sub-asset class in general, not the performance of specific securities or investments. Particular investment products may have higher or lower returns than the range for the corresponding asset class used in this analysis. Your actual results may vary significantly from the assumptions shown.

The strategic asset allocation models are intended to provide a general framework to assist our clients in making informed investment decisions. They are provided for illustrative purposes, and were designed UBS for hypothetical U.S. institutional investors with a total return objective under five different investor risk profiles: conservative, moderate conservative, moderate, moderate aggressive and aggressive. Your UBS Financial Services Inc. Financial Advisor can help you determine how a strategic allocation could be applied or modified according to your individual profile and investment goals. Asset allocation does not assure profits or prevent against losses from an investment portfolio or accounts in a declining market.

Investment Risks. Asset Class is a term that broadly defines a category of investments that share common investment characteristics. Typical broad asset classes include equities, fixed income securities, cash and cash alternatives. This section describes some of the asset classes used in this presentation and some of the general risk considerations. *All investments involve risks which you should carefully consider prior to implementing an investment strategy.* **Cash:** Cash and cash alternatives typically include money market securities or three-month T-Bills. These securities have short maturity dates and they typically provide a stable investment value as compared to other investments and current interest income. These investments may be subject to credit risks and inflation risks. Treasuries also carry liquidity risks for sales prior to maturity. Investments in money market funds are neither insured nor guaranteed by the Federal Deposit Insurance Corporation (FDIC), the U.S. government or any other government agency. There can be no assurance that the funds will be able to maintain a stable net asset value at \$1.00 per share or unit. **Equities:** Equity securities are subject to market risk and will undergo price fluctuations in which downward and upward trends may occur over short or extended periods. Historically, equities have shown greater growth potential than other types of securities, but they have also shown greater volatility. In addition to these risks, securities issued by small-cap companies may be relatively highly volatile because their earnings and business prospects typically fluctuate more than those of larger-cap companies. Securities issued by non-U.S. companies can have risks not typically associated with domestic securities, including risks associated with changes in currency values, economic, political and social conditions, loss of market liquidity, the regulatory environments of the respective countries and difficulties in receiving current or accurate information. **Fixed Income:** Fixed Income represents debt issued by private corporations, governments or Federal agencies. Two main risks related to fixed income investing are interest rate risk and credit risk. Typically, when interest rates rise, there is a corresponding decline in the market value of bonds. Credit risk refers to the possibility that the issuer of the bond will not be able to make principal and interest payments. High yield investments are high yielding securities but may also carry more risk. A bond fund's yield and value of its portfolio fluctuate and can be affected by changes in interest rates, general market conditions and other political, social and economic developments. **Corporate Bonds:** Fixed income securities are subject to market risk and interest rate risk. If sold in the secondary market prior to maturity, investors may experience a gain or loss depending on interest rates, market conditions and issuer credit quality. **Municipal Securities:** Income from municipal bonds may be subject to state and local taxes based on residency of the investor and may be subject to the Alternative Minimum Tax. Call features may exist that can impact yield. If sold prior to maturity, investments in municipal securities are subject to gains/losses based on the level of interest rates, market conditions and credit quality of the issuer. **Foreign Exchange/Currency Risk:** Investors in securities of issuers located outside of the United States should be aware that even for securities denominated in U.S. dollars, changes in the exchange rate between the U.S. dollar and the issuer's "home" currency can have unexpected effects on the market value and liquidity of those securities. Those securities may also be affected by other risks (such as political, economic or regulatory changes) that may not be readily known to a U.S. investor. **Emerging Markets:** Investing in emerging market securities can pose some risks different from, and greater than, risks of investing in U.S. or developed markets securities. These risks include: a risk of loss due to political instability; exposure to economic structures that are generally less diverse and mature, and to political systems which may have less stability, than those of more developed countries; smaller market capitalization of securities markets, which may suffer periods of relative illiquidity; significant price volatility; restrictions on foreign investment; and possible repatriation of investment income and capital.

Important information

Non-Traditional Asset Classes: Non-traditional asset classes are alternative investments that include hedge funds, private equity, private real estate, and managed futures (collectively, alternative investments). *These investments can be subject to substantial risks. The risks of alternative investments should be carefully considered in light of your investment objectives, risk tolerance and net worth.* Interests of alternative investment funds are sold only to qualified investors, and only by means of offering documents that include information about the risks, performance and expenses of alternative investment funds, and which clients are urged to read carefully before subscribing and retain. An investment in an alternative investment fund is speculative and involves significant risks. Specifically, these investments (1) are not mutual funds and are not subject to the same regulatory requirements as mutual funds; (2) may have performance that is volatile, and investors may lose all or a substantial amount of their investment; (3) may engage in leverage and other speculative investment practices that may increase the risk of investment loss; (4) are long-term, illiquid investments, there is generally no secondary market for the interests of a fund, and none is expected to develop; (5) interests of alternative investment funds typically will be illiquid and subject to restrictions on transfer; (6) may not be required to provide periodic pricing or valuation information to investors; (7) generally involve complex tax strategies and there may be delays in distributing tax information to investors; (8) are subject to high fees, including management fees and other fees and expenses, all of which will reduce profits. Interests in alternative investment 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. Prospective investors should understand these risks and have the financial ability and willingness to accept them for an extended period of time before making an investment in an alternative investment fund and should consider an alternative investment fund as a supplement to an overall investment program.

Mutual funds are sold by prospectuses, which contain more complete information about the funds, including investment objectives, risks, charges and expenses. Investors and Financial Advisors should carefully read and consider the information in the prospectus before investing or making a recommendation.

Actively managed SMAs and mutual funds generally carry higher fees and expenses than more passively managed investments such as Exchange Traded Funds (ETFs) and mutual funds that seek to replicate an index. There is no guarantee that an active manager will outperform, or perform as well as, a given index or index replication mutual fund or ETF.

With regard to SMA Managers you select in the IC Program, we are not responsible for your choice of SMA Manager (in the non-discretionary IC Program), their day-to-day investment decisions, their performance, their compliance with applicable laws, rules or regulations and best execution obligations, their receipt of or compliance with your IPS, or any other matters within the SMA Manager's control. **Important Considerations of an Asset-Based Fee Option.** You may pay more or less in a UBS Financial Services Inc. wrap-fee program than you might otherwise pay if you purchased the services separately. For example, depending on your asset allocation or strategy selection, you may find that the individual components of your strategy or allocation are available to you outside of the IC Program for more or less than you would pay in the IC Program.

Referral Arrangements. UBS has referral agreements with our affiliates that outline how they refer prospective investors to us. Under those agreements, we share fees with, or receive fees from, our affiliates for the referral or solicitation of investors in our programs. These payments may vary, depending on the type of agreement, product or the nature and extent of the services provided, and may continue as long as the client account is maintained with UBS or our affiliate, or for an agreed upon period. Arrangements may also be based on a percentage of revenue received. These arrangements can incentivize referrals among affiliates, which is a conflict of interest in making the recommendation.

Important information about advisory and brokerage services

As a firm providing wealth management services to clients, we offer both investment advisory and brokerage services. These services are separate and distinct, differ in material ways and are governed by different laws and separate contracts. For more information on the distinctions between our brokerage and investment advisory services, please speak with your Financial Advisor or visit our website at ubs.com/workingwithus.



Important information

Our investment advisory services are separate and distinct from our brokerage services and entail comprehensive, sophisticated or specialized asset allocation studies and analysis and portfolio evaluation and review services as an investment advisory service, for which we charge a separate fee. Depending on the services you select, you may find that components or variations of the individual services described in this Brochure are available to you outside of these Programs for more or less than you would pay in the program. For example, as a brokerage service, Financial Advisors can provide certain asset allocation modeling, mutual fund selection services and basic portfolio analytics to clients either free of charge or for the 12b-1 payments we receive from your mutual funds.

Compensation to SMA Managers in Other UBS Advisory Programs. UBS offers additional advisory programs which offer some of the same 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 our ACCESS and SWP Programs) , by UBS on your behalf (in our CID Program), or by you (in our IC or MAC Programs). Depending on your asset level and ability to negotiate the investment management fee with the SMA Manager in the dual-contract structure of the IC and MAC programs, you may find that the single-manager structure in ACCESS and SWP provides a more cost-effective option or vice versa. You may elect to enroll in the ACCESS program while enrolled within the IC program (and be subject to the ACCESS fees, terms and conditions).

Please discuss our various product offerings, their features and costs with your Financial Advisor for more information on the other available services.

Products and services may not be available for residents in certain jurisdictions. No offer of any security or product will be made in any jurisdiction in which the offer, solicitation or sale is not permitted or to any person to whom it is unlawful to make such offer, solicitation or sale.

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