



Understanding our fees, charges and other compensation

January 2018

Important information about

- How we are paid by you
- Payments we receive from third parties
- How your Financial Advisor is compensated
- Conflicts of interest resulting from our compensation structures

The information in this brochure is updated as of January 2018.

UBS reserves the right to change its programs, fees and payment(s) (or payment structures) at any time.

About our fees, charges and other compensation—general

Our goal is to make sure our clients are informed about the costs of the various investment products and services that we offer, which is why we publish this overview of our fees and how we generate revenue.

Topics that are covered in this overview include:

- Sources of revenue to the firm
- Compensation and fees for our products and services
- Financial Advisor compensation
- Conflicts of interest

Brokerage and advisory services

As a UBS Financial Services Inc. client, you benefit from the broad scope of services and resources of a leading global financial services firm, whether we serve you as a broker-dealer, investment advisor or both. While there are similarities between the brokerage and advisory services we provide, there are important differences, including the pricing structures for these services. For detailed information regarding the distinctions between brokerage and advisory services, please visit our website at ubs.com/workingwithus. This information is also included in the disclosure materials we provide to you when you open an account(s) at UBS, or in the “Agreements and Disclosures” booklet, which can be found at ubs.com/accountdisclosures.

Brokerage relationships generate transaction-based compensation. In brokerage relationships:

- Investors pay fees and costs in connection with the products and services they receive, such as buying and selling stocks, bonds, mutual funds, annuity contracts and other investment products, as well as trading and exercising options.
- Compensation to UBS may include commissions, sales concessions, transaction fees, sales charges or expenses that are embedded in the purchase price as well as compensation from third parties in some cases.

Advisory relationships have fee-based compensation. In advisory relationships:

- Clients pay a set fee or a fee based on a percentage of the assets in the account according to an investment advisory program agreement.
- In some circumstances, UBS, our Financial Advisors and our affiliates receive additional compensation from third parties in connection with the assets in clients’ advisory accounts. This compensation is in addition to the fee that a client pays for investment advisory services. UBS may also receive compensation as a result of intercompany profit sharing and servicing agreements. For certain alternative investments in advisory accounts, the compensation may also include performance fees.

Pricing of products and services

Clients may purchase many of our products and services in either transaction-based or fee-based accounts, or a combination of both.

Factors that may affect pricing. It may be difficult to compare transaction-based and fee-based options solely on the basis of price. You may pay more or less in a fee-based program than you might otherwise pay if you purchased the products and services separately. The costs of a brokerage relationship or fee-based (advisory) relationship vary depending upon a number of factors, including:

- Product and service preferences
- Size and value of your account(s)
- Mix of products you hold
- Frequency with which you trade
- Administrative or management fees associated with the products or services you purchase

Please consider the costs and services associated with each option carefully and speak with your Financial Advisor about which approach is most appropriate for you.

Important information for Qualified Retirement Plan Fiduciaries holding accounts at UBS

This document, in conjunction with other documents and disclosures we provide to you, are intended to meet the disclosure requirements of the U.S. Department of Labor's regulations under ERISA Section 408(b)(2). If you are a retirement plan fiduciary and have questions or need additional information, please see the important information at ubs.com/retirementplandisclosures or contact your Financial Advisor who will provide you with written copies of these disclosures upon request.

Sources of revenue

Our firm earns revenue from our clients, from our affiliates, and, for some products and services, from third parties, including product vendors, underwriters and investment managers whose products and services are purchased by clients.

Revenue received from clients

In general, our firm receives revenue from clients in the following ways:

- Commissions charged to clients in connection with the purchase or sale of investment products
- Markups (increases) and markdowns (reductions) on the price of equities and fixed-income products, where the firm acts as principal in purchasing or selling securities for or from UBS's inventory
- Asset-based and other fees for our investment advisory programs and services
- Interest on loan accounts
- Administrative fees such as account maintenance fees
- Sales loads, commissions or fees for various financial products, such as mutual funds, alternative investment funds, structured products, unit investment trusts (UITs), insurance and annuities

Revenue received from clients is debited from accounts unless stated or agreed to otherwise.

Revenue from third parties (including affiliates)

In addition to revenue that we receive from clients, UBS earns revenue from third parties and affiliates in the following ways:

- Issuers or underwriters of new issue securities pay us fees and/or offer underwriting discounts or share fees with us in certain cases
- Mutual fund and insurance companies pay us for offering and placing their products, and many of them also pay us for marketing support, known as revenue sharing, which is based on our total sales of and/or total client assets in their products
- Mutual fund companies pay recordkeeping and account servicing fees for processing services we provide in accounts held at UBS
- Insurance and annuity companies compensate us for the costs of establishing and maintaining their products in our distribution system
- For some alternative investment funds that are managed by third-party and affiliated investment advisers, we receive fees for distribution, shareholder services or solicitation services, or a combination of the three
- Third parties providing investment advisory or investment management services may pay us fees, which may be a recurring fee, a one-time fee, a portion of the third party's fees or revenues or as otherwise agreed with the third party, for solicitations, referrals or client services
- Third parties with whom we offer co-branded programs, such as the UBS Donor-Advised Fund or to which we make certain loan referrals, pay referral fees to us
- Underwriters of securities compensate us for trading activities we provide on their behalf
- Third-party UITs pay volume-based fees for the sale of their products to our clients
- Companies that issue investment products (e.g., mutual funds, UITs, exchange traded funds (ETFs), NextShares, insurance companies, investment advisers and other third parties) pay for educational programs and seminars for employees and clients
- Affiliate lenders pay us fees for various loan servicing, collateral monitoring and marketing services. These fees can be in the form of revenue splits between affiliates.
- Unaffiliated third-party lenders pay us referral fees for certain client referrals for loan transactions

Additional information regarding revenue sharing for mutual funds and for insurance and annuities can be found at ubs.com/mutualfundrevenuesharing and ubs.com/va-revenuesharing.

A number of companies that issue investment products that we offer to and place with our clients enter into agreements to pay UBS an annual fee ranging from \$150,000 to \$300,000 for receipt of data and analytics relating to all Financial Advisors and their sales of investment products. Participation by vendors in this program is optional and is not considered by UBS in determining whether a company's products will be made available to clients.

Revenue to affiliates

When you conduct business with us, our affiliates—including UBS Asset Management, UBS Bank USA, UBS Financial Services Incorporated of Puerto Rico, UBS Trust Company of Puerto Rico, UBS Limited, London and UBS Investment Bank—may earn compensation through activities in a client's account, including:

- The purchase of securities underwritten by a UBS affiliate
- Buying securities directly from or selling securities directly to UBS or one of our affiliates
- Management or other fees in conjunction with mutual funds or other investments purchased that are structured or managed by one of our affiliates
- Management fees earned through investments in a separately managed account managed by UBS or an affiliated investment manager
- Borrowing or maintaining credit with one of our affiliates
- Depositing or investing free credit balances into accounts with affiliated entities
- Revenue from referrals and introductions
- Trading and hedging activities related to structured products and Exchange Traded Notes (ETNs)
- Collecting licensing fees from mutual fund, ETF, ETN, structured product and other product providers for indexes or strategies owned by a UBS affiliate

Our affiliates typically pay us for referring or introducing clients or investors to them. Likewise, we typically pay our affiliates for referring certain clients and business opportunities to our Financial Advisors. Third parties to whom we introduce clients, including investment managers and investment banks, typically pay us a referral fee.

Referral payments can be based on a percentage of the revenue received or as otherwise agreed between the affiliates or with the third party. Depending on the type of referral, payments can be made over several years. These payments will not result in additional charges to clients.

Correcting trading and other errors

We have procedures for resolving trading and other errors that may occur from time to time. UBS maintains one or more error accounts to facilitate handling trading and other errors. Gains attributable to trading errors will be offset by losses attributable to other errors in these error accounts. At the end of the calendar year, any net gains in the error account are donated to charity.

Compensation attributable to float on uninvested cash

UBS benefits from deposits and credits to your account(s) before cash balances are invested or swept into the UBS Deposit Account Sweep Program or other sweep option (usually the next business day). This benefit may be in the form of income at the prevailing market rates on overnight investments (ranging for 2017 from 0.30% – 1.20%). The rate for December 2017 averaged 0.94% and will fluctuate with interest rates. In some cases, the benefit is in the form of not needing to borrow from an affiliate to meet daily liquidity needs (the prevailing rate is 1.25%). UBS does not receive this benefit for retirement accounts.

Financial Advisor compensation

In general, we pay our Financial Advisors cash compensation consisting of two components: a guaranteed monthly minimum draw required by applicable law, and a production payout if it exceeds the monthly minimum draw. The production payout is a percentage (called a payout or grid rate) of the product-related revenue (called production) that each Financial Advisor generates during that month with respect to the clients he or she serves, minus certain adjustments that are specified by our Financial Advisor Compensation Plan. The payout or grid rate is generally based on production levels and ranges from 28% – 50%, but may be reduced or eliminated in certain circumstances. Financial Advisors working as part of a team that meets minimum production requirements can qualify for a higher grid rate (but not above 50%) than they would receive working as an individual.

For our Investment Advisory Programs (asset-based fee programs), the payout rate is applied to the program fees credited to the Financial Advisor by the firm, but the payout may be reduced for accounts priced below certain thresholds. Advisory accounts in relationships with assets over certain thresholds may have customized pricing and payouts as approved by the firm.

We reduce or terminate the payouts described above to Financial Advisors in connection with accounts they service that do not meet certain prescribed asset levels on a household basis or for transactions or fees below specified amounts.

The standard compensation structure creates financial incentives for Financial Advisors to encourage clients to purchase multiple products and services and to choose a payment structure for products and services that generates greater compensation.

Financial Advisors also may receive certain awards based on their production, length of service with UBS and net new business. The Retirement Account Production (described below) will also apply to the annual awards.

Under certain circumstances (e.g., acquisitions and recruitment or particular programs or designations such as the Wealth Advice Center, Wealth Planning Analyst, New Financial Advisors, Institutional Consulting and Retirement Plan Consulting Services), some Financial Advisors or producing Branch Managers may be compensated differently.

A small group of Financial Advisors who primarily conduct insurance business and who are grandfathered as part of a UBS insurance program also receive a payout of 75% of amounts paid to UBS by the general agent for the sale of certain insurance products—currently, permanent and term insurance.

Production for Retirement Plans and to Address the Current Department of Labor Fiduciary and Conflict of Interest Regulation (effective June 9, 2017)

Instead of calculating a Financial Advisor's compensation based on the current revenue generated by such accounts (for example, advisory fees, commissions and sales credits), the production for retirement accounts for each Financial Advisor are subject to a calculation of the "Retirement Account Production" as follows:

- Effective January 1, 2018, subject to minimum and maximum thresholds, the Retirement Account Production rate for each Financial Advisor is a percentage calculated using the revenues generated between October 1, 2016 and September 30, 2017 and the average assets of their open retirement accounts as of September 30, 2017. IRA account fees and Financial Advisors' own retirement accounts are excluded from the calculation.
- The Financial Advisor's personal Retirement Account Production rate is applied to all of his or her retirement accounts held at UBS at the end of each month to determine the retirement account production.
- The calculations above may vary, at the firm's discretion, for Financial Advisors new to the firm. Retirement account production for Financial Advisors hired after June 9, 2017 is based on the information about the Financial Advisor's production and revenues disclosed to UBS at time of hire.
- The Retirement Account Production described above will also be used to determine the annual awards.

The production derived from the Retirement Account Production rate and ultimately the compensation Financial Advisors receive in connection with retirement accounts after June 9, 2017, may be higher or lower than Financial Advisors may otherwise be eligible to earn under our standard compensation calculations for taxable accounts.

This difference in compensation creates an incentive for Financial Advisors to recommend an increase in assets in retirement accounts and an incentive for Financial Advisors to focus on increasing the transaction or fee-based revenue in taxable accounts.

The Retirement Account Production calculation described above does not apply to Financial Advisors in the Wealth Advice Center or to brokerage and advisory retirement accounts where assets are held away from UBS, or accounts in the Retirement Plan Consulting Services Program (RPCS) and the Institutional Consulting (IC) and the Outsourced Chief Investment Officer (OCIO) Programs.

With respect to retirement account clients enrolled in the IC or OCIO programs, who also have brokerage accounts at UBS or accounts opened in another investment advisory program at UBS, including those that may have been included in IC Program services only as an accommodation, the production payout rate for the Financial Advisor related to the IC or OCIO relationship will generally be applied to all retirement assets and accounts the client has at UBS. However, on an exception basis, the production payout rate for the Financial Advisor may be the weighted average production rate generated by that client's retirement accounts at UBS during the period October 1, 2016 to September 30, 2017.

Recruitment compensation: In general, if your Financial Advisor is joining UBS from another firm, you should discuss the reasons your Financial Advisor decided to change firms and any costs or changes in services you may incur by transferring your accounts to UBS. In many cases, UBS pays Financial Advisors financial incentives when they join and on an ongoing basis as described below.

Many Financial Advisors who joined UBS prior to November 1, 2016 are eligible to receive incentives, including loans, bonuses and/or other compensation, if they reach certain asset and/or production levels or other targets. The amount paid to Financial Advisors under these arrangements is largely based on the size of the business serviced by the Financial Advisor at their prior firm and the Financial Advisor achieving a minimum percentage of their prior firm production and asset levels within a specific time period after joining UBS.

These payments may be substantial and may take various forms, including salary guarantees, loans, transition bonus payments and various forms of compensation to encourage Financial Advisors to join UBS, and are contingent on your Financial Advisor's continued employment. Therefore, even if the fees you pay at UBS remain the same or may be reduced, the transfer of your assets to UBS may contribute to your Financial Advisor's ability to meet such targets and to receive additional loans and/or compensation even if not directly related to your account or the fees you pay to us.

Recruiting offer letters issued by UBS after November 1, 2016 do not include recruitment incentives triggered by production, asset levels or other targets at UBS regardless of account type. Effective after June 9, 2017, for purposes of all existing arrangements including those entered into prior to November 1, 2016, production for retirement accounts will be calculated based on the applicable Retirement Account Production rate described above.

These practices create an incentive and a conflict of interest for your Financial Advisor to recommend the transfer of your account assets to UBS since a significant part of the Financial Advisor's compensation is often contingent on the Financial Advisor achieving a pre-determined level of revenue and/or assets at UBS. You should carefully consider whether your Financial Advisor's advice is aligned with your investment strategy and goals.

Wealth Planning Analyst compensation: Wealth Planning Analysts do not receive production payouts described above and do not qualify for awards or recognition programs described below in *Additional Compensation*. Wealth Planning Analysts receive base compensation and they are eligible for discretionary incentive compensation, which is based on the performance of the firm in general, as well as their individual performance.

New Financial Advisor compensation: New Financial Advisors in the Development Program ("NFA" or "Financial Advisor Associates") are eligible for a 48-month compensation structure that combines base compensation, production payout and potential awards. Production payout is based on a payout rate that is applied to the production credited to the NFA, and there is a minimum grid rate of 35%. NFAs in the Development Program with firm-determined and approved production start dates after June, 1, 2018, have a minimum grid rate of 35%.

We reserve the right, at our discretion and without prior notice, to change the methods by which we compensate our Financial Advisors and employees, including reducing and/or denying production payout and/or awards at our discretion for any reason.

Compensation from the sale of investment products

In general, our Financial Advisors are compensated from the following sources of revenue:

- Commissions charged to clients in connection with the purchase, or sale, of equities, fixed income products and other investments such as structured products
- Markups (i.e., an increase) and markdowns (i.e., a reduction) on the price of purchases and sales of equities and fixed income products, where the firm acts as principal, which means the securities were purchased for, or sold from, UBS's inventory
- Underwriting concessions in connection with products sold in initial offerings; Financial Advisors generally earn more for products sold in initial offerings than for those purchased and sold in secondary offerings
- Asset-based fees and hard-dollar fees charged in connection with our investment advisory programs and financial planning services
- Interest on loan accounts
- Production credit for mortgage origination based on the amount of the mortgage loan
- Sales loads, commissions and 12b-1 fees for various financial products such as mutual funds, NextShares, offshore funds, alternative investment funds, unit investment trusts, insurance and annuities
- Referral fees and/or production credits for referrals to UBS affiliates, other employees and third parties, including referrals and/or transfers to the UBS Financial Services Inc. Wealth Advice Center
- A portion of the management and performance fees the firm receives in connection with the distribution of alternative investments

Non-cash compensation

We and our Financial Advisors may receive non-cash compensation from mutual fund companies, investment managers, UIT sponsors, annuity providers, insurance vendors and sponsors of products (including ETFs and NextShares) that we distribute. This compensation may include the following:

- Occasional gifts up to \$100 per vendor per year
- Occasional meals, tickets or other entertainment of reasonable and customary value
- Sponsorship support of educational or training events (which may include educational events Financial Advisors arrange for clients and prospects) and seminars and/or payment of expenses related to training and education of employees, which can (and often do) include a non-training element of the event
- Various forms of marketing support and, in certain limited circumstances, the development of tools used by the firm for training or recordkeeping purposes

The receipt of cash and non-cash compensation from sources other than clients, and the differences in which we compensate Financial Advisors for the products we offer, create an incentive for Financial Advisors to recommend certain products over others. We address these conflicts of interest by maintaining policies and procedures on the suitability and supervision of the advisory programs and services we offer to you, and by disclosing our practices to ensure you make a fully informed decision.

Additional compensation

Financial Advisors are generally eligible to qualify for strategic objective awards and recognition programs, which are based on production, length of service at the firm and net new assets brought to the firm by the Financial Advisor.

These awards are subject to various caps and deferrals. Additionally, we may reduce or deny any such awards for any reason at our discretion.

- **Net New Business Award.** This award is granted to Financial Advisors based on their year-end result for net new business, subject to minimum requirements and overall caps, and can include assets in certain accounts referred by Financial Advisors to the Wealth Advice Center. The Net New Business Consulting Award for IC/RPCS consultants and contracts that meet certain qualifications may be higher than the Net New Business Award paid for non-IC/RPCS business. Consultants who do not qualify for the Consulting Net New Business Award will still be eligible to receive the Net New Business Award otherwise available to Financial Advisors. Consultants who do qualify for the Consulting Net New Business Award will **not** also receive the Net New Business Award otherwise available to Financial Advisors.
- **UBS Length of Service Award.** This award is based on a Financial Advisor's current year production and length of service with UBS. It is subject to minimum production and length of service requirements.
- **The payment structure of the awards generally consists of deferred cash awards paid annually over a specified timeframe, and restricted equity/notional shares subject to the plan's vesting schedule, or some combination thereof. Total awards below a certain threshold will be paid in cash. Financial Advisors who meet minimum award thresholds may be eligible to receive a loan based upon a percentage of their total strategic objective awards. If Financial Advisors leave the firm before the term of the loans ends, they must pay back any outstanding loan balance.**

The Retirement Account Production described above will apply to the annual awards.

The recognition programs and awards include the following:

- **Recognition Councils.** At UBS, there are four Recognition Councils for top-performing Financial Advisors. They are Pinnacle Council, Chairman's Council, President's Council and Director's Council. Membership is based on a combination of production and net new asset rankings and other eligibility factors set by the firm, including disciplinary history and compliance with firm rules, standards and policies. Recognition Council members participate in training and education events that may involve travel paid for by the firm.
- **The Expense Allowance program.** Recognition Council members and other Financial Advisors with a minimum production level are generally eligible to participate in the Expense Allowance Program, which provides an expense allowance for the purpose of promoting business. The amount of the expense allowance awarded is based on production level and Recognition Council Membership.
- **Aspiring Legacy FA program.** Subject to specific program requirements, Financial Advisors with minimum production and length of services requirements who are leaving the financial services industry and transition their client relationships to other UBS Financial Advisors can earn production on transitioned accounts over a specified period, and may qualify to receive an up-front cash loan and annual cash transition payments.

Compensation to Financial Advisors in the UBS Wealth Advice Center

UBS Wealth Advice Center Financial Advisors receive an annual fixed salary, are eligible to receive an annual discretionary incentive compensation award and have the ability to earn quarterly incentive awards. This UBS Wealth Advice Center incentive compensation plan is operated in UBS's sole and absolute discretion and may be amended or discontinued at any time.

- **Annual Discretionary Incentive Compensation Award:** Eligibility and potential payout for the annual discretionary compensation award is calculated by taking into account a Financial Advisor's performance under the UBS Wealth Advice Center compensation plan and UBS's overall performance.
- **Quarterly Incentive Award:** UBS Wealth Advice Center Financial Advisors who meet specific criteria are eligible to earn quarterly incentive awards. Potential payout for qualifying Financial Advisors is determined in part by using a formulaic evaluation of multiple criteria, which includes production credits.

Production credits for brokerage accounts vary by product-type and are based on the purchase of a limited set of specified products, including mutual funds, fixed income and exchange traded funds. (Note: For fixed income, credits are also applied for the sale of positions.) For investment advisory accounts, production credits are determined by using a formulaic calculation that includes transactions within an account, the funding of new accounts and/or assets transferred into UBS.

Financial Advisors in the Wealth Advice Center receive more production credits for investment advisory accounts than for other products or transactions. This creates a conflict of interest and an incentive for Financial Advisors to recommend advisory accounts over other products, services and transactions.

UBS Wealth Advice Center clients may participate in the Managed Portfolio Program, PACE Multi and PACE Select. New enrollments are limited to the Managed Portfolio Program; however, clients already enrolled in PACE Multi or PACE Select are permitted to enroll in a subsequent account in that program. UBS Wealth Advice Center clients will be able to enroll and participate in the UBS Advice Portfolio Program, which is expected to be available early in 2018.

Production for Retirement Plan and IRA accounts: As of July 1, 2017, the production credits Financial Advisors in the Wealth Advice Center accumulate on retirement accounts (both brokerage retirement accounts and investment advisory retirement accounts) held at UBS will be awarded equally across all product types.

The compensation Financial Advisors receive in connection with these accounts may be higher or lower than Financial Advisors may otherwise be eligible to earn under our standard compensation calculations for taxable accounts. Additionally, while a Financial Advisor's compensation will be consistent across all products affected in retirement accounts as of July 1 2017, Financial Advisors will be paid differently in retirement accounts versus taxable accounts, which could impact Financial Advisor recommendations. For retirement accounts (brokerage and advisory), the amount of production credits earned by a Financial Advisor will increase as the number of transactions increases.

This change applies to all Financial Advisors in the UBS Wealth Advice Center who meet specific criteria and are eligible for the quarterly incentive program, but excludes retirement accounts held away from UBS.

Additional information for Qualified Retirement Plan Fiduciaries Non-cash compensation received by Financial Advisors

If Financial Advisors receive non-cash compensation worth \$50 or more that is attributable to a particular retirement plan client, it will be reported to that client on the Form 5500 Schedule C disclosure materials (Schedule C disclosure is generally provided to clients with both more than 100 participants and from whom we've received greater than \$5,000 in compensation). Non-cash compensation received by Financial Advisors must be consistent with the rules of FINRA and other regulators, and UBS non-cash compensation policies.