Introducing the House View Yield-Focused Strategic Asset Allocations

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The UBS Wealth Management US Asset Allocation Committee (AAC) is introducing new strategic asset allocations (SAAs) that put an emphasis on generating income. The motivation for developing these yield-focused SAAs was the growing demand for income-oriented investing, which has been challenged in an environment of very low interest rates. This leaves income-seeking investors with a dilemma: they can either accept low yields, take on more risk in the portfolio in order to achieve higher income, or eat into principal as a source of income.

Our goal is for these SAAs to offer higher income without sacrificing long-term total returns or adversely impacting portfolio "efficiency" (i.e., return per unit of volatility). Based on CIO research, the SAAs were designed to provide an optimal balance of portfolio yield, return, and risk attributes, and were the result of a holistic approach to multi-asset portfolio construction. The AAC produced five SAAs corresponding to the five UBS WM-US investor risk profiles, ranging from Conservative to Aggressive, for taxable and tax-exempt investors, and all-equity and all-income versions for investors that are not looking to diversify across both stocks and bonds (see Fig. 2 and Fig 3).[1]

These yield-focused SAAs complement the existing WM-US House View SAAs. Based on the UBS Capital Market Assumptions (CMAs), the yield-focused SAAs have similar expected total returns and total risks over the long term. Fig. 1 shows the CMA-determined total return and total risk estimates for the five tax-exempt SAAs. However, the new SAAs differ in that income comprises a larger share of their total return and they're more exposed to certain types of risk (e.g., drawdown, liquidity, and idiosyncratic risk). These attributes reflect the fact that these SAAs were designed to meet different investor objectives.

[1] The inclusion of MLPs in a tax-exempt or tax-deferred account may expose investors to potential tax issues. See the Appendix for reports providing details on the appropriate use of MLPs in these circumstances.

These new SAAs reflect the yield-focused portfolios that we're most comfortable holding in the current environment in order to achieve an optimal balance between income, total return, and risk. For investors with income-oriented portfolios, we recommend evaluating current positioning in light of these new SAA models, and making adjustments as appropriate. However, we recognize that not all investors follow our models directly. There are other considerations, such as tax gains/losses and transaction costs, that might limit or preclude a current allocation shift. Nevertheless, these SAAs provide an opportune time to examine your goals and objectives and assess current positioning in the context of your overall wealth management strategy.

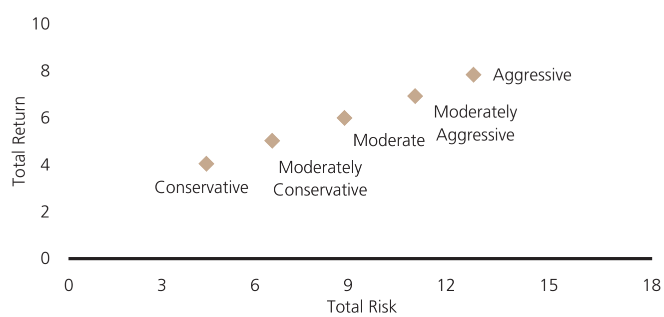
Contact your UBS Financial Advisor to review your accounts and update or create a financial plan, and discuss any changes you might be considering. Your Financial Advisor can help you assess the impact of these changes and guide you through the investment decision making process.

What are Strategic Asset Allocations?
Strategic Asset Allocations are diversified portfolios that we expect to produce a reasonable risk and return trade-off. They provide a baseline for tactical shifts based on short-term considerations, and are also appropriate for longer term use, such as in a financial planning analysis. They are usually designed with a particular goal in mind.

What are Capital Market Assumptions?
Capital Market Assumptions (CMAs) are the basis for prudent asset allocation decision-making. They are the risk and return prospects for a range of asset classes, including stocks, bonds, hedge fund strategies, private equity, and private real estate. Developing CMAs is not a "hard science" using repeated, controlled experiments, but our methodology combines both objective and subjective elements to use the most dependable aspects of a data-driven approach and enable us to overlay expert judgment in the process where necessary.

Fig. 1: Expected Total Return and Total Risk for House View Yield-Focused SAAs

In %



Note: Total return and total risk are based on the UBS Capital Market Assumptions.
Source: UBS

Fig. 2: House-View Yield-Focused SAAs (Tax-exempt)

Asset Class	Conservative	Moderately Conservative	Moderate	Moderately Aggressive	Aggressive	All Equity	All Income
Cash	**3%**	**3%**	**3%**	**3%**	**3%**	**3%**	**3%**
Fixed Income	**65%**	**56%**	**43%**	**30%**	**12%**	**0%**	**77%**
US Gov't	30%	16%	10%	5%	5%	0%	18%
US MBS	0%	0%	0%	0%	0%	0%	5%
US IG corp	18%	16%	6%	2%	0%	0%	20%
US HY corp	12%	14%	16%	15%	5%	0%	15%
EM US Dollar	3%	5%	5%	2%	0%	0%	8%
EM Local currency	2%	5%	6%	6%	2%	0%	11%
Equities	**12%**	**21%**	**34%**	**47%**	**62%**	**77%**	**0%**
US Large cap Growth	2%	3%	4%	5%	6%	7%	0%
US Large cap Value	4%	7%	11%	14%	18%	32%	0%
Int'l Developed Value	6%	11%	16%	22%	29%	28%	0%
Emerging Markets	0%	0%	3%	6%	9%	10%	0%
Yield Assets	**20%**	**20%**	**20%**	**20%**	**23%**	**20%**	**20%**
Senior Loans	6%	4%	2%	0%	0%	0%	15%
Preferreds	10%	7%	6%	4%	2%	0%	5%
MLPs	4%	7%	10%	13%	16%	16%	0%
US REITs	0%	2%	2%	3%	5%	4%	0%
SAA Estimates							
Total Return	4.0%	5.0%	6.0%	6.9%	7.8%	8.3%	3.6%
Total Risk	4.3%	6.3%	8.5%	10.7%	12.5%	13.9%	3.5%

Note: Total return and total risk are based on the UBS Capital Market Assumptions.
Source: UBS

Fig. 3: House-View Yield-Focused SAAs (Taxable)

Asset Class	Conservative	Moderately Conservative	Moderate	Moderately Aggressive	Aggressive	All Equity	All Income
Cash	**3%**	**3%**	**3%**	**3%**	**3%**	**3%**	**3%**
Fixed Income	**65%**	**56%**	**43%**	**30%**	**12%**	**0%**	**77%**
US Gov't	25%	15%	6%	3%	3%	0%	13%
US MBS	0%	0%	0%	0%	0%	0%	0%
US Munis	23%	14%	6%	3%	3%	0%	30%
US IG corp	4%	4%	4%	0%	0%	0%	0%
US HY corp	9%	15%	16%	16%	4%	0%	15%
EM US Dollar	4%	5%	5%	2%	0%	0%	9%
EM Local currency	0%	3%	6%	6%	2%	0%	10%
Equities	**12%**	**21%**	**34%**	**47%**	**62%**	**77%**	**0%**
US Large cap Growth	2%	3%	4%	6%	6%	7%	0%
US Large cap Value	4%	8%	12%	15%	18%	32%	0%
Int'l Developed Value	6%	10%	15%	21%	29%	28%	0%
Emerging Markets	0%	0%	3%	5%	9%	10%	0%
Yield Assets	**20%**	**20%**	**20%**	**20%**	**23%**	**20%**	**20%**
Senior Loans	6%	4%	2%	0%	0%	0%	15%
Preferreds	10%	7%	7%	5%	2%	0%	5%
MLPs	4%	7%	9%	12%	16%	16%	0%
US REITs	0%	2%	2%	3%	5%	4%	0%
SAA Estimates							
Total Return	3.8%	4.9%	5.9%	6.9%	7.8%	8.3%	3.4%
Total Risk	4.1%	6.1%	8.4%	10.6%	12.5%	13.9%	3.7%

Note: Total return and total risk are based on the UBS Capital Market Assumptions.
Source: UBS

Appendix: Implementing MLPs in tax-exempt Yield-Focused SAAs

Owning individual MLPs in a tax-exempt or tax-deferred account may expose investors to potential tax issues stemming from Unrelated Business Taxable Income (UBTI). Therefore we strongly suggest seeking tax advice and reading our *MLP Primer* dated 26 January 2018, and our *MLP Investment Alternatives: One size does not fit all* report, published on 7 March 2018, which discusses alternatives to owning individual MLPs, but still offering exposure to the asset class.

Important Information and Disclosures

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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 macroeconomic 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; (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.

Wealth Management Americas Asset Allocation Committee and the UBS Capital Market Assumptions and Strategic Asset Allocation Models
The capital market assumptions and strategic asset allocation models discussed in this publication were vetted and approved by the Wealth Management Americas Asset Allocation Committee (WMA AAC). The WMA AAC is comprised of the following members: Mike Ryan (Chair), Jeremy Zirin, Michael Crook, Tom McLoughlin, Jason Draho, Leslie Falconio, David Lefkowitz, Brian Rose, Laura Kane.

The capital market assumptions are estimates of forward-looking average annual returns for a particular asset class. **They are not guaranteed and do not represent the return of a particular security or investment.**

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 by the WMA AAC for hypothetical U.S. 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.

Please note that UBS has changed its capital market assumptions and strategic asset allocation models in the past and may do so in the future.

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 report 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.

Non-Traditional Asset Classes: Non-traditional asset classes are alternative investments that include hedge funds, private equity, and private real estate, (collectively, alternative investments). 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.

In addition to the risks that apply to alternative investments generally, the following are additional risks related to an investment in these strategies:

- **Hedge Fund Risk**: There are risks specifically associated with investing in hedge funds, which may include risks associated with investing in short sales, options, small-cap stocks, "junk bonds," derivatives, distressed securities, non-US securities and illiquid investments.
- **Managed Futures**: There are risks specifically associated with investing in managed futures programs. For example, not all managers focus on all strategies at all times, and managed futures strategies may have material directional elements.
- **Real Estate**: There are risks specifically associated with investing in real estate products and real estate investment trusts. They involve risks associated with debt, adverse changes in general economic or local market conditions, changes in governmental, tax, real estate and zoning laws or regulations, risks associated with capital calls and, for some real estate products, the risks associated with the ability to qualify for favorable treatment under the federal tax laws.
- **Private Equity**: There are risks specifically associated with investing in private equity. Capital calls can be made on short notice, and the failure to meet capital calls can result in significant adverse consequences including, but not limited to, a total loss of investment.

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