Approved for use with
US individual investors.

Navigating concentrated stock positions

Passive investing your way.
UBS Tax-Optimized Indexed Portfolios

UBS

Understanding concentrated stock positions.

Many investors find themselves with a significant portion of their wealth tied up in a single stock or a small group of stocks. These concentrated stock positions are common amongst corporate executives, early-stage investors, and those who have inherited large stock holdings. They can also arise from various sources, such as employee stock compensation, inheritance, or business ownership. While the potential for high returns can be appealing, concentrated positions can carry substantial risks. The lack of diversification in these positions can lead to significant financial exposure to the performance of one or a few companies.

Although PTM is designed to make tax-aware trades, potential benefits of PTM will vary based on changes in federal tax rules or rates, or your own financial/tax circumstances. UBS Asset Management (Americas) LLC cannot guarantee that the application of PTM will result in reducing or causing the estimated tax liability of your tax-managed account or your aggregate tax liability to net to zero. Neither UBS Asset Management (Americas) LLC nor UBS Financial Services Inc. provides tax advice on clients accounts. Consult your tax advisor.

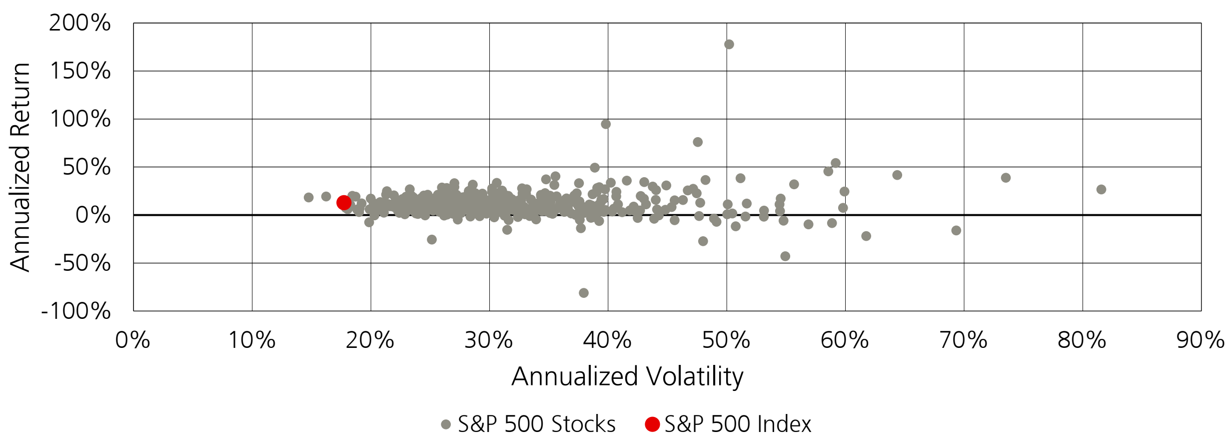
Diversification matters.

We believe diversification is a fundamental principle of investing. By spreading investments across a broad range of assets, investors can mitigate the risks associated with any single security. A diversified portfolio is less vulnerable to the fluctuations and potential downturns of individual stocks, which could provide a more stable and predictable performance over time.

The primary challenges associated with concentrated positions are multifaceted including the potential for significant exposure to volatility and lack of an effective exit strategy. Market volatility can severely impact the value of a stock, potentially leading to substantial losses. If held in a taxable account, divesting the position entirely comes with tax consequences, especially if the position is highly appreciated. Meaning, selling a large holding with significant unrealized capital gains can trigger considerable capital gains taxes, reducing the overall proceeds from the sale. Tax-efficient diversification, on the other hand, can help in spreading the risk across various companies, sectors, and geographies, enhancing the resilience of a portfolio.

Figure 1 demonstrates the case for diversification. If we look at the underlying constituents in the S&P 500 Index, as an example, we see that the average return is like that of the overall index but with one and a half times the return volatility[1].

Figure 1: Risk-return trade-off for S&P 500 index and constituents



Source: Bloomberg, UBS Asset Management. Annualized return and volatility for the S&P 500 and its constituents from 7/3/2014 to 7/3/2024.

1 The S&P 500 Index annualized volatility for the stated period is 17.7% while the average annualized volatility of the underlying index constituents is 31.5%. See index definition in the disclosures.

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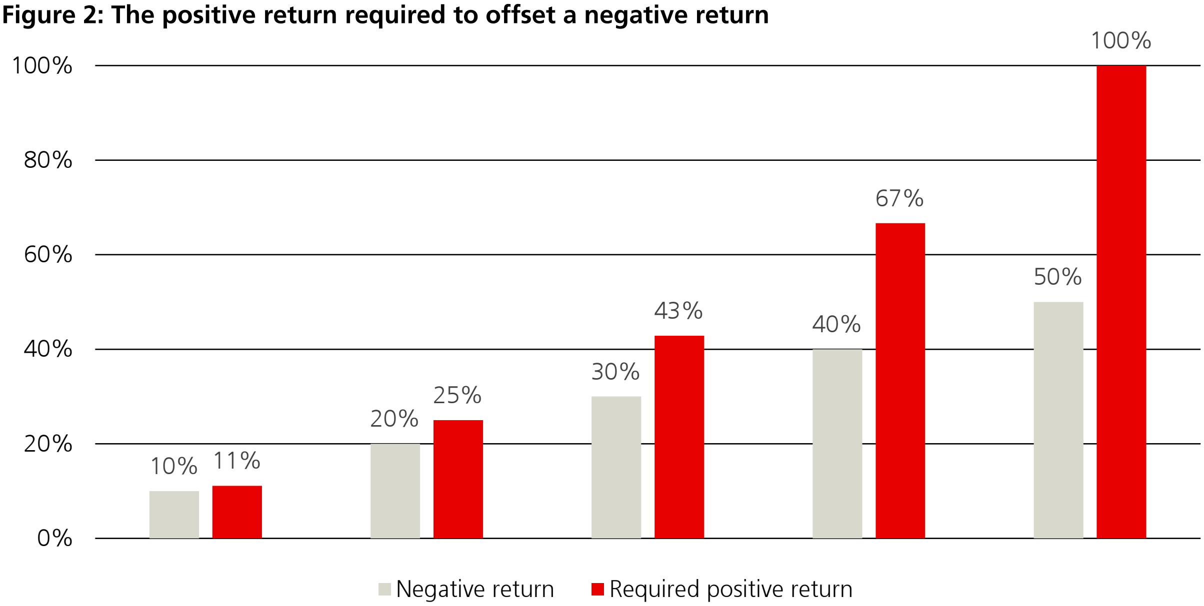
The impact of drawdowns

Understanding the impact of drawdowns on individual stocks is crucial. When a single stock suffers a substantial loss, it requires a disproportionately higher return to recover to its original value. For instance, a 50% loss necessitates a 100% gain to break even. More simply put, as the negative return of a stock position increases, the level of positive return required to offset its impact on a portfolio grows exponentially larger.

Figure 2: The positive return required to offset a negative return



Source: UBS Asset Management. For illustrative purposes only.

This underscores the importance of managing downside risk, particularly with concentrated stock positions, as the time required to recover from large losses can be extensive, potentially derailing long-term financial goals. So, how can you protect yourself from these risks?

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Transition out of concentrated positions with tax-efficient solutions

Direct indexing can be an effective and simple solution for managing concentrated stock positions. The UBS Asset Management (Americas) LLC (" UBS AM") Tax-Optimized Indexed Strategies can provide the flexibility needed to transition out of highly appreciated stocks. With our tax-optimized indexed separately managed accounts (SMA's), investors can effectively diversify their holdings while actively seeking to minimize potential tax burdens.
Our direct indexing solutions offer the flexibility needed to fund an account using highly appreciated stocks, while customizing the portfolio to fit existing holdings and individual tax needs, providing a tax-efficient means to transition from concentrated positions.

With UBS AM, you can customize your approach to managing concentrated positions through:

- A broad range of indexes
- The ability to tailor your portfolio based on your tax preferences and existing holdings
- Access to innovative technology
- Our dedicated tax management team which facilitates seamless transition options

Effective management of your investments doesn't stop there. We review and optimize accounts daily, seeking opportunities to actively defer unrealized capital gains and harvest capital losses, looking to maximize your tax outcomes all year.

An additional layer of customization is offered – unique to UBS AM – where you can tailor the portfolio to your investment priorities by choosing from three different tracking error preferences. Whether your goal is minimizing taxes and implementing tax management more aggressively or maintaining a closer alignment with the index, we offer the flexibility of choice:

Strategy-focused approach:

- Invest closely in line with your selected investment strategy mandate.
- For investors with low tolerance for performance deviation from the underlying strategy.
- Less emphasis on tax benefits.

Balanced approach:

- Pursue your investment strategy mandate and tax benefits in a balanced manner.
- For investors with moderate tolerance for performance deviation from the underlying strategy.
- Moderate emphasis on tax benefits.

Tax-focused approach:

- Invest more aggressive tax benefits.
- For investors with greater tolerance for performance deviation from the underlying strategy.
- Less emphasis on following your investment strategy mandate.

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With ten different indexes[1] to choose from…

- S&P 500
- S&P 500 ESG Elite
- Russell 3000
- Russell 2000
- Russell 1000 Growth
- Russell 1000 Value
- MSCI EAFE
- UBS Global Equity Blended Benchmark
- UBS Global Equity Blended Benchmark (WMA CIO-Aligned)
- UBS US Equity All Cap Blended Benchmark (WMA CIO-Aligned)

….We offer the breadth, the tools, and the expertise needed to help you transition out of concentrated positions.

The power of Direct Indexing: Transitions in action

The two primary objectives in mitigating concentration risk are enhancing portfolio diversification and minimizing the tax burden of divesting. To address these objectives effectively, we highlight two approaches, leveraging the UBS Tax-Optimized Indexed Portfolios:

1

Funding a tax-optimized index account with a large allocation to an existing concentrated stock plus some cash

2

Funding a tax-optimized index account primarily with cash while gradually selling shares of an existing concentrated stock in another account

[1] See index definitions in the disclosures.

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1. Funding a tax-optimized index account with a large allocation to an existing concentrated stock plus some cash

One approach to managing concentrated stock positions is by funding a direct indexed SMA with a significant amount of the existing concentrated stock – typically up to a maximum of 30% of the account value to any single stock and the remaining balance with cash.

This method offers several key advantages.

- By initially funding the account with a large allocation to the concentrated stock, we can leverage the cash at inception to purchase shares of companies that offer complementary risk exposures within the index.
- This avoids doubling down on stocks with similar characteristics as the concentrated position and instead, seeks to diversify the risk factors in the portfolio.
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Thanks to our flexibility, we are able to take in these concentrated positions and do not have to sell them down to index weight on day one. We can work with you on a plan to reduce exposure to the holding.

Over time, we will take advantage of market volatility to actively harvest losses across the portfolio. These losses can be used to offset some or all of the capital gains taxes triggered from selling shares of the concentrated stock.

This approach aims to make the gradual sale of the concentrated stock more tax efficient while accounting for its significant contribution to risk.

Benefits:

- Account for the risk of your concentrated position and add exposure to complementary positions
- Avoid immediate capital gains taxes by delaying the sale of your concentrated position

Drawbacks:

- Pre-tax performance may deviate significantly from underlying index due to higher initial estimated tracking error from funding the account with the large allocation to the concentrated position
- Fewer tax-loss harvesting opportunities given a large proportion of the account value is tied to the highly appreciated concentrated position

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2. Funding a tax-optimized index account primarily with cash while gradually selling shares of an existing concentrated stock in another account

While we believe that the first approach is the most optimal given that it accounts for concentration risk while still focusing on tax-efficiency. Another effective approach for managing concentrated positions is to fund an Indexed SMA with either cash alone or a combination of cash and the market weight of your concentrated stock, while maintaining the rest or all of your concentrated position in a separate account. This method takes a more direct approach to tax management but a more gradual, indirect method for reducing concentration risk.

By funding the account predominantly with cash, it creates a greater opportunity set for potential tax loss harvesting. These harvested losses can be strategically employed to offset future capital gains from divesting the concentrated position.
This approach allows you to maintain the concentrated stock in a separate account while generating potential tax-efficiencies in the Indexed portfolio.

Over time, you can choose when to sell portions of the concentrated stock in the separate account, while utilizing the accumulated tax losses in the SMA to offset some of the tax impact of those sales. The proceeds from each sale can then be reinvested into the Indexed SMA, further enhancing the portfolio's potential to deliver improved after-tax performance by allowing us to purchase new tax lots.

This approach emphasizes a focus on tax management and tax-loss harvesting while providing a more measured approach to managing concentration risk.

Benefits:

- Tax managed indexed SMA begins with lower initial tracking error, resulting in pre-tax returns that more closely align with the index
- Cash-funded accounts offer a larger opportunity set for tax loss harvesting and capital gain deferral

Drawbacks:

- Limited consideration of concentrated stock risk factors, as the concentrated stock is held in another account
- Inconsistent efforts to reduce exposure in the concentrated position may impede potential diversification benefits

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Why UBS AM for Direct Indexing solutions?

Customization and flexibility	Frequency of account review	White glove client service	Institutional tax management approach

We have extensive institutional and professional management experience to manage your portfolio with the flexibility to incorporate your preferences.

Each portfolio can be customized to your tax rates, you decide how aggressive you want us to be with tax management. We can even include restrictions and account for external gains or losses. Each account is reviewed daily.

Our client centric approach, combined with our skilled portfolio management team, robust PTM capability and experience, we seek to provide a more personalized approach to investing.

UBS Asset Management division globally[2] numbers

- $1.7 trillion in AUM
- 40+ years managing indexing solutions at UBS AM
- $781bn in AUM for index-tracking solutions[3]

UBS Asset Management (Americas) LLC

- $460bn in assets under management
- $27bn in tax-managed accounts across 10 different indexed strategies and 20+ active Separately Managed Accounts (SMAs) offering our PTM Program

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As of June 30, 2024 unless otherwise noted. Past performance is not a reliable indicator of future results.
[2] UBS Asset Management is a business division of UBS AG and is made up of multiple legal entities across the globe.
[3] As of March 31, 2024.

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Personalized Tax Management

Important to know

Our tax management approach

- Our PTM team seeks to implement tax management by deferring capital gains and harvesting capital losses when we think it may be beneficial to your portfolio.
- In doing this, we weigh how much estimated 'tracking error' (see definition) a tax management trade would generate (i.e., the risk of pre-tax performance not following the model strategy as closely) versus how much of a tax benefit we think a tax management trade would provide. We can apply this framework to every investment decision we make in a PTM account at the tax-lot level by using our risk modeling and optimization tools.

What is tracking error?

- Once you've a selected a particular model investment strategy for your account, there is a risk that your account will deviate from that model strategy (i.e., tracking error risk). Estimated tracking error is a measure of that investment risk. It is not a measure of investment performance or return.
- Estimated Tracking Error is forward-looking measure of risk, which is calculated by measuring the standard deviation of the difference between the estimated pre-tax performance of a PTM account versus the performance of the model strategy. If the PTM account is identical to the model strategy, Estimated Tracking Error is about zero. But PTM accounts are generally not identical to the model strategy because they are managed using PTM techniques customized for the account. PTM generally increases Estimated Tracking Error, but PTM also aims to reduce tax impacts and increase after-tax returns.
- Estimated Tracking Error is not to be confused with 'realized tracking error' which is also commonly used to measure investment risk but is calculated using realized returns and is backward-looking. If you have any questions about Estimated Tracking Error, please ask your Financial Advisor.

What is 'personalized' about PTM?

- PTM is customized for every client portfolio individually, at that client's tax lot level and taking into account client-specific tax rates as well as external capital gain and loss information that the client provides to the Financial Advisor.

Key risks

Risks associated with PTM include but are not limited to:

- UBS Asset Management will rely solely on the information provided by you and your Financial Advisor. If that information is inaccurate or incomplete, PTM may be ineffective or less effective, and your taxes may be adversely affected.
- PTM can adversely affect portfolio performance when delaying the sale of some securities in an effort to reduce capital gains taxes, if during this time, the security's price declines, or when accelerating a sale to harvest capital losses if the security's price appreciates after being sold.
- Market conditions may limit the benefits of active tax management.
- Withdrawals from a PTM account can have adverse tax consequences, such as the realization (and possible taxation) of significant capital gains. If you discontinue PTM or change to a different investment strategy, you could realize significant capital gains subject to tax.
- The potential benefits of PTM could be reduced due to changes in the federal tax rules or rates, or your own financial/tax circumstances.

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Contacts

For more information, please contact
the UBS Asset Management National Sales Desk
at 888-793-8637.

Index definitions

The Bloomberg U.S. Treasury 1-3 Month Total return Index Value Unhedged tracks the performance of US dollar denominated sovereign debt publicly issued by the US government in its domestic market, with a minimum term to maturity greater than one year and less than three years.

The MSCI EAFE Index is an index of stocks designed to measure the investment returns of developed economies outside of North America. Net total return indices reinvest dividends after the deduction of withholding taxes, using a tax rate applicable to non-resident institutional investors who do not benefit from double taxation treaties. The Index is constructed and managed with a view to being fully investable from the perspective of international institutional investors.

The MSCI Emerging Markets Index (net) is a market capitalization-weighted index composed of different emerging market countries in Europe, Latin America and the Pacific Basin. Net total return indices reinvest dividends after the deduction of withholding taxes, using a tax rate applicable to non-resident institutional investors who do not benefit from double taxation treaties. The index is constructed and managed with a view to being fully investable from the perspective of international institutional investors.

The MSCI World ex. US Index captures large and mid cap representation across 22 of 23 Developed Markets (DM) countries excluding the United States.

The Russell Midcap Index measures the performance of the mid-cap segment of the US equity universe. The index is a subset of the Russell 1000 Index. It includes approximately 800 of the smallest securities based on a combination of their market cap and current index membership.

The Russell 1000 Growth Index measures the performance of the large cap growth segment of the US equity universe. It includes those Russell 1000 Index companies with higher price-to-book ratios and higher forecasted growth values. The Russell 1000 Growth Index is constructed to provide a comprehensive and unbiased barometer for the large cap growth segment. The index is completely reconstituted annually to ensure new and growing equities are included and that the represented companies continue to reflect growth characteristics.

The Russell 1000 Value Index measures the performance of the large cap value segment of the US equity universe. It includes those Russell 1000 Index companies with lower price-to-book ratios and lower expected growth values. The Russell 1000 Value Index is constructed to provide a comprehensive and unbiased barometer for the large cap value segment. The index is completely reconstituted annually to ensure new and growing equities are included and that the represented companies continue to reflect value characteristics.

The Russell 2000 Index measures the performance of the small-cap segment of the US equity universe. It includes 2,000 of the smallest securities based on a combination of their market cap and current index membership. The Russell 2000 is constructed to provide a comprehensive and unbiased small-cap barometer and is completely reconstituted annually to ensure larger stocks do not distort the performance and characteristics of the small-cap opportunity set.

The Russell 3000 Index measures the performance of the largest 3,000 US Companies. The index is constructed to provide a comprehensive, unbiased and stable barometer of the broad market and is completely reconstituted annually to ensure new and growing equities are included.

The S&P 400 Index provides investors with a benchmark for mid-sized companies. The index covers approximately 5% of the US equity market and seeks to remain an accurate measure of mid-sized companies, reflecting the risk and return characteristics of the broader mid cap universe on an ongoing basis.

The S&P 500 Index is an unmanaged, weighted index composed of 500 widely held common stocks varying in composition and is not available for direct investment.
S&P 500 ESG Elite Index measures the performance of securities from the underlying index that meet stricter sustainability criteria, while maintaining similar overall sector weights as the respective reference index.
The S&P 600 Index covers approximately 3% of the domestic equities market, measuring the small cap segment of the market that is typically renowned for poor trading liquidity and financial instability.

Blended Index Compositions:

- **UBS Global Equity Blended Benchmark:** 52% S&P 500, 7.8% S&P 400, 5.2% S&P 600, 24.5% MSCI World Ex. US (Net), and 10.5% MSCI Emerging Markets Net
- **UBS Global Equity Blended Benchmark (WMA CIO-Aligned):** 19.50% Russell 1000 Growth, 19.50% Russell 1000 Value, 10.00% Russell Mid Cap, 6.00% Russell 2000, 31% MSCI EAFE, 12% MSCI Emerging Markets, and 2.00% Bloomberg U.S. T-Bills 1-3 Month
- **UBS US Equity All Cap Blended Benchmark (WMA CIO-Aligned):** 34.75% Russell 1000 Growth, 34.75% Russell 1000 Value, 17.80% Russell Mid Cap, 10.70% Russell 2000, and 2.0% The Bloomberg U.S. T-Bills 1-3 Month

Disclosures

Separately Managed Accounts discussed herein are offered through UBS Financial Services Inc., which serves as the program sponsor. UBS Financial Services Inc. provides consulting, custody and execution services to clients invested in the UBS Asset Management separately managed account strategies.

There are fees associated with investing in separately managed accounts. ETFs impose an additional layer of management and administration fees. For fees charged in connection with the UBS Financial Services program, please refer to the UBS Financial Services ADV Wrap Fee Program Brochure.

There is no assurance that a separately managed account (SMA) will achieve its investment objective. SMAs are subject to market risk, which is the possibility that the market values of the securities in an account will decline and that the value of the securities may therefore be less than what you paid for them. Market values can change daily due to economic and other events (natural disasters, health crises, terrorism, conflicts, social unrest, etc.) that affect markets, countries, companies or governments. It is difficult to predict the timing, duration and potential adverse effects (portfolio liquidity, etc.) of events. Accordingly, you can lose money investing in an SMA.

Individual account holdings and performance may vary from the stated strategy composite cited due to a variety of factors such as, but not limited to account size, target weight, security prices, lot sizes, restrictions/substitutions and tax considerations.

Nothing contained herein constitutes investment, legal, tax or other advice. This should not be construed as a solicitation, offer or recommendation to acquire or dispose of an investment, or to engage in any other transaction.
Special considerations and risks:

Investors should be able to withstand short-term fluctuations in the equity and fixed income markets in return for potentially higher returns over the long term. The value of the securities held within the portfolios changes every day and can be affected by changes in interest rates, general market conditions, and other political, social and economic developments, as well as specific matters relating to the issuers and companies in whose securities the portfolios invest. Securities held within the portfolio are not guaranteed.

Asset allocation risk. The portfolio is subject to asset allocation risk, which is the risk that the allocation of the portfolio's assets among the various asset classes and market segments will cause the portfolio to underperform other funds with a similar investment objective.

Equity risk. Equities represent ownership interest in a corporation. Historically, equities are more risky than fixed income or cash investments as they experience greater volatility risk, which is the risk that the value of your investment may fluctuate over time. The value of investments in equity securities will fluctuate in response to general economic conditions and to changes in the prospects of particular companies and/or sectors in the economy. The risk of equity investments can vary based on the market capitalization (market value) of the company, for example, Large, Mid, and Smid. Investments in small cap and medium company stocks can be more volatile over the short term than investments in large company stocks.

Foreign investing and emerging markets risks. Investing internationally presents certain risks not associated with investing solely in the US such as currency fluctuation, political and economic change, social unrest, changes in government relations, differences in accounting and available legal remedies, and the lesser degree of accurate public information available. A decline in the value of foreign currencies relative to the US dollar will reduce the value of securities denominated in those currencies. Also, foreign securities are sometimes less liquid and harder to sell and to determine the value of than securities of US issuers. Each of these risks are more severe for securities of issuers in emerging market countries. A company is considered a US company even though it is organized outside of the United States, if it meets any of the following conditions: (a) it is included in an index representative of the United States; (b) it has its headquarters or principal location of operations in the United States; (c) its primary listing is on a securities exchange or market in the United States; (d) it issues securities that are guaranteed by the United States government, its agencies, political subdivisions or instrumentalities; (e) it derives at least 50% of its Market risk.

Market risk. The risk that the market value of a portfolio will fluctuate as the stock and bond markets fluctuate. Market risk may affect a single issuer, industry, or section of the economy, or it may affect the market as a whole.

Passive strategy risk. The ETFs that the portfolio could potentially hold in are passively managed and attempt to track the performance of unmanaged indices of securities. The ETFs may hold constituent securities of an index, which they track regardless of the current or projected performance of a specific security or a particular industry or market sector. Maintaining investments in securities regardless of market conditions or the performance of individual securities could cause an ETF's return to be lower than if the ETF employed an active strategy.

Fee Based holdings: This strategy may be implemented using fee-based exchange traded funds, which carry additional management and/or administrative expenses borne by the strategy account holder and paid to the investment manager or a third-party provider. These expenses are not charged to the client as a separate specified advisory program fee, but rather are embedded within the performance of the underlining funds and will reduce the strategy investor’s return.

The Personalized Tax Management manages client assets based on defined responses to questions in the Personalized Tax Management Appendix to the New Account Application or a Personalized Tax Management Update form (the "Forms"), as well as account information, including but not limited to assets’ purchase date(s) and cost basis, as provided by your Financial Advisor or the custodian of your assets. If you or your Financial Advisor fails to provide purchase date(s) and cost basis information, UBS Asset Management may assume that you purchased the asset as of the date indicated on the Form and that the cost basis of the asset is the market price as of the date indicated on the Forms. Clients and their Financial Advisors are responsible for the accuracy of the data provided and for informing UBS Asset Management of any changes to the reported data. UBS Asset Management is not responsible for any adverse tax consequences that may occur due to inaccurate or incomplete information. This document is aimed to help readers in understanding the tax management process. This should not be construed as a solicitation, offer or recommendation to acquire or dispose of an investment, or to engage in any other transaction.

There are risks associated with PTM that may include, but are not limited to, the risks that follow. UBS Asset Management will rely solely on the information provided by you and your Financial Advisor, and to the extent that such information is inaccurate or incomplete, PTM may be ineffective, and your taxes may be adversely affected. It is possible for a tax-managed account’s performance to be less than a non tax-managed account, due to the fact that PTM may delay the sale of a security in an effort to reduce capital gains taxes, and during this time, the security's price may decline. Withdrawals from a tax-managed account may adversely affect the ability of PTM to minimize tax consequences and may result in the recognition of significant gains. The benefits of PTM may change due to changes in the federal tax rules, including the federal capital gains tax rates. If you opt to discontinue PTM, UBS Asset Management will begin managing the account as if it is not tax-managed, which may result in the recognition of significant capital gains.

The Personalized Tax Management may not be an appropriate product under all circumstances. Please discuss PTM with your personal tax and or legal advisors regarding your unique circumstances.

Services to U.S. persons are provided by UBS Asset Management (Americas) LLC ("UBS AM"). UBS AM is registered as an investment adviser with the US Securities and Exchange Commission (“SEC”) under the Investment Advisers Act of 1940, as amended (Note that an investment adviser does not have to demonstrate or meet any minimum level of skill or training to register with the SEC). From time to time, UBS AM’s non-US affiliates in the Asset Management Division who are not registered with the SEC ("Participating Affiliates") provide investment advisory services to UBS AM's U.S. clients. UBS AM has adopted procedures to ensure that its Participating Affiliates are in compliance with SEC registration rules.

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