UBS House View Update

Replacing Brazil with Russia in the All Equity portfolio | 5 July 2017

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- The risk-reward of being overweight MSCI Brazil has deteriorated sharply. We are downgrading Brazil to neutral in our emerging markets intra-equity portfolio.
- The latest developments in the country add more pressure by reducing the probability of any reforms this year and could reduce 2018 earnings growth.
- As a result of the downgrade, in our House View All Equity portfolio we are replacing Brazil with Russia. There are no changes to our other House View tactical asset allocation models.

This is an intra-month update
See our regular, monthly issue for additional detail and guidance.

Downgrading Brazil to neutral within EM equities

Despite more appealing valuations after the recent selloff, the risk-reward of our overweight position on MSCI Brazil has deteriorated. We introduced it in February based on the following factors: 1) a reform agenda that would support long-term growth; 2) improved growth-inflation dynamics; 3) aggressive monetary easing that would support consumption and growth; and 4) corporate earnings growth.

Recent developments increased the volatility in the Brazilian equity market. After the general prosecutor decided to split the charges against President Michel Temer, the probability of a president with low governability has increased, blocking any progress on the economic agenda in the Congress.

It is still too early to assess the economic impact of the political crisis but we expect volatility to increase and see no catalyst for outperformance in the near term.

The risk-reward of being overweight MSCI Brazil has therefore deteriorated sharply and we advise investors to downgrade MSCI Brazil to neutral. Please see our publication, *Emerging market equities Update: Downgrade Brazil to neutral*, 3 July 2017, for further details.

Russia replaces Brazil in our House View All Equity portfolio

As a result of the downgrade, in our House View All Equity portfolio we are replacing Brazil with Russia, one of our most preferred countries within emerging market equities. The revised portfolio is shown on page 2. There are no changes to our other House View tactical asset allocation models.

Erratum: This replaces the version published on 3 July 2017. The detailed asset allocation table on pg. 2 has been updated to reflect the correct WMR tactical deviation (+2.0) and Current allocation (8.0) for US High Yield Corporate Bonds.

Detailed asset allocation: all equity and all fixed income models

Investor Risk Profile	All Equity				All Fixed Income Taxable				All Fixed Income Tax-exempt			
All figures in %	Strategic asset allocation	WMR tactical deviation	Change[1]	Current allocation[2]	Strategic asset allocation	WMR tactical deviation	Change[1]	Current allocation[2]	Strategic asset allocation	WMR tactical deviation	Change[1]	Current allocation[2]
Cash	**5.0**	-3.0		**2.0**	**5.0**	+0.0		**5.0**	**5.0**	+0.0		**5.0**
Fixed Income	**0.0**	+0.0		**0.0**	**95.0**	+0.0		**95.0**	**95.0**	+0.0		**95.0**
US Fixed Income	**0.0**	+0.0		**0.0**	**92.5**	+0.0		**92.5**	**89.0**	+0.0		**89.0**
US Government	0.0	+0.0		0.0	19.0	-2.0		17.0	33.0	-2.0		31.0
US Mortgage Backed Securities	0.0	+0.0		0.0	0.0	+0.0		0.0	9.0	+0.0		9.0
US Municipal Bonds	0.0	+0.0		0.0	71.0	+0.0		71.0	0.0	+0.0		0.0
US Investment Grade Corporate Bonds	0.0	+0.0		0.0	0.0	+0.0		0.0	41.0	+0.0		41.0
US High Yield Corporate Bonds	0.0	+0.0		0.0	2.5	+2.0		4.5	6.0	+2.0		8.0
International Fixed Income	**0.0**	+0.0		**0.0**	**2.5**	+0.0		**2.5**	**6.0**	+0.0		**6.0**
International Developed Markets	0.0	+0.0		0.0	0.0	+0.0		0.0	0.0	+0.0		0.0
Emerging Markets	0.0	+0.0		0.0	2.5	+0.0		2.5	6.0	+0.0		6.0
Equity	**95.0**	+3.0		**98.0**	**0.0**	+0.0		**0.0**	**0.0**	+0.0		**0.0**
Global Equity[3]	**0.0**	+3.0		**3.0**	**0.0**	+0.0		**0.0**	**0.0**	+0.0		**0.0**
US Equity	**53.0**	+0.0		**53.0**	**0.0**	+0.0		**0.0**	**0.0**	+0.0		**0.0**
US Large-cap Growth	7.0	-1.0		6.0	0.0	+0.0		0.0	0.0	+0.0		0.0
US Large-cap Value	7.0	+1.0		8.0	0.0	+0.0		0.0	0.0	+0.0		0.0
US Large-cap Total Market	23.0	-3.0		20.0	0.0	+0.0		0.0	0.0	+0.0		0.0
Energy sector	0.0	+3.0		3.0	0.0	+0.0		0.0	0.0	+0.0		0.0
US Mid-cap	10.0	+0.0		10.0	0.0	+0.0		0.0	0.0	+0.0		0.0
US Small-cap	6.0	+0.0		6.0	0.0	+0.0		0.0	0.0	+0.0		0.0
International Equity	**42.0**	+0.0		**42.0**	**0.0**	+0.0		**0.0**	**0.0**	+0.0		**0.0**
Internationall Developed Markets	30.0	+0.0		30.0	0.0	+0.0		0.0	0.0	+0.0		0.0
Emerging Markets	12.0	-6.0		6.0	0.0	+0.0		0.0	0.0	+0.0		0.0
China	0.0	+3.0		3.0	0.0	+0.0		0.0	0.0	+0.0		0.0
Brazil	0.0	+0.0	-3.0	0.0	0.0	+0.0		0.0	0.0	+0.0		0.0
Russia	0.0	+3.0	+3.0	3.0	0.0	+0.0		0.0	0.0	+0.0		0.0

"CIO WMR tactical deviation" legend: Overweight Underweight Neutral

[1] Change is the difference between the tactical deviation column in the previous month and the current month.

[2] The current allocation column is the sum of the strategic asset allocation and the tactical deviation column.

[3] The MSCI All Country World Index is used as the benchmark for global equity.

The All Equity and All Fixed Income portfolios complement our balanced portfolios and offer more granular implementation of our House View. While we generally do not recommend that investors hold portfolios consisting of only stocks or only bonds, the All Equity and All Fixed Income portfolios can be used by investors who want to complement their existing holdings.

In the All Equity portfolio, tactical tilts will be based on the corresponding tilts to the Equity asset classes in our balanced portfolio (moderate risk profile, taxable without alternative investments). The amount of cash in the All Equity portfolio will vary one-for-one with the overall overweight/underweight on equities in the balanced portfolio, subject to a 3% maximum tilt from the 5% cash allocation. This allows us to use the cash allocation to express a tactical preference between stocks and fixed income. A special feature of the All Equity portfolio is that it includes "carveouts": 3% allocations to our preferred sectors within US large-caps as well as our preferred countries within both international developed markets and the emerging markets. A maximum of two sectors/countries of each type may be selected for carve-outs.

The All Fixed Income portfolios include both taxable and non-taxable versions. In addition to the fixed income asset classes in the balanced portfolios, the non-taxable version incorporates an additional allocation to Mortgage Backed Securities. Tactical tilts will be based on the corresponding tilts to the Fixed Income asset classes in our balanced portfolios (moderate risk profile without alternative investments, taxable or non-taxable respectively), but only when there is a preference between the fixed income asset classes. For example, an overweight on high yield corporate bonds offset by an underweight on government bonds in the balanced portfolio would be applied to the All Fixed Income portfolios. However, an overweight on US equities versus US government bonds in the balanced portfolio would not be reflected in the All Fixed Income portfolios. Further, the tilts in the All Fixed Income portfolios will typically be scaled up to twice the size of the tilts in the balanced portfolio.

Source: UBS CIO WMR and WMA AAC, 3 July 2017. See appendix information for information regarding sources of strategic asset allocations and their suitability, investor risk profiles, and the interpretation of the suggested tactical deviations from the strategic asset allocations.

Investment Committee

Global Investment Process and Committee Description
The UBS investment process is designed to achieve replicable, high quality results through applying intellectual rigor, strong process governance, clear responsibility and a culture of challenge.

Based on the analyses and assessments conducted and vetted throughout the investment process, the Chief Investment Officer (CIO) formulates the UBS Wealth Management Investment House View (e.g., overweight, neutral, underweight stance for asset classes and market segments relative to their benchmark allocation) at the Global Investment Committee (GIC). Senior investment professionals from across UBS, complemented by selected external experts, debate and rigorously challenge the investment strategy to ensure consistency and risk control.

Global Investment Committee Composition
The GIC is comprised of ten members, representing top market and investment expertise from across all divisions of UBS:

Mark Haefele (Chair, CIO)	Mark Andersen	Jorge Mariscal	Mike Ryan
Simon Smiles	Tan Min Lan	Themis Themistocleus	Paul Donovan
Bruno Marxer (*)	Andreas Koester		

(*) *Business areas distinct from Chief Investment Office Americas, Wealth Management*

WMA Asset Allocation Committee Description
We recognize that a globally derived house view is most effective when complemented by local perspective and application. As such, UBS has formed a Wealth Management Americas Asset Allocation Committee (WMA AAC). WMA AAC is responsible for the development and monitoring of UBS WMA's strategic asset allocation models and capital market assumptions. The WMA AAC sets parameters for the CIO Wealth Management Research Americas Investment Strategy Group to follow during the translation process of the GIC's House Views and the incorporation of US-specific asset class views WMR-A into the US-specific tactical asset allocation models.

WMA Asset Allocation Committee Composition
The WMA Asset Allocation Committee is comprised of five members:

Mike Ryan	Michael Crook	Richard Hollmann (*)
Brian Rose	Jeremy Zirin	

(*) *Business areas distinct from Chief Investment Office Americas, Wealth Management*

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; (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.

Appendix

Emerging Market Investments
Investors should be aware that Emerging Market assets are subject to, amongst others, potential risks linked to currency volatility, abrupt changes in the cost of capital and the economic growth outlook, as well as regulatory and socio-political risk, interest rate risk and higher credit risk. Assets can sometimes be very illiquid and liquidity conditions can abruptly worsen. WMR generally recommends only those securities it believes have been registered under Federal U.S. registration rules (Section 12 of the Securities Exchange Act of 1934) and individual State registration rules (commonly known as "Blue Sky" laws). Prospective investors should be aware that to the extent permitted under US law, WMR may from time to time recommend bonds that are not registered under US or State securities laws. These bonds may be issued in jurisdictions where the level of required disclosures to be made by issuers is not as frequent or complete as that required by US laws.

For more background on emerging markets generally, see the WMR Education Notes "Investing in Emerging Markets (Part 1): Equities", 27 August 2007, "Emerging Market Bonds: Understanding Emerging Market Bonds," 12 August 2009 and "Emerging Markets Bonds: Understanding Sovereign Risk," 17 December 2009.

Investors interested in holding bonds for a longer period are advised to select the bonds of those sovereigns with the highest credit ratings (in the investment grade band). Such an approach should decrease the risk that an investor could end up holding bonds on which the sovereign has defaulted. Sub-investment grade bonds are recommended only for clients with a higher risk tolerance and who seek to hold higher yielding bonds for shorter periods only.

Explanations about asset allocations

Sources of strategic asset allocations and investor risk profiles
Strategic Strategic asset allocations represent the longer-term allocation of assets that is deemed suitable for a particular investor. The strategic asset allocation models discussed in this publication, and the capital market assumptions used for the strategic asset allocations, were developed and approved by the WMA AAC. The strategic asset allocations are provided for illustrative purposes only and were designed by the WMA AAC for hypothetical US investors with a total return objective under five different Investor Risk Profiles ranging from conservative to aggressive. In general, strategic asset allocations will differ among investors according to their individual circumstances, risk tolerance, return objectives and time horizon. Therefore, the strategic asset allocations in this publication may not be suitable for all investors or investment goals and should not be used as the sole basis of any investment decision. Minimum net worth requirements may apply to allocations to non-traditional assets. As always, please consult your UBS Financial Advisor to see how these weightings should be applied or modified according to your individual profile and investment goals. The process by which the strategic asset allocations were derived is described in detail in the publication entitled "Strategic Asset Allocation (SAA) Methodology and Portfolios." Your Financial Advisor can provide you with a copy.

Deviations from strategic asset allocation or benchmark allocation
The recommended tactical deviations from the strategic asset allocation or benchmark allocation are provided by the Global Investment Committee and the Investment Strategy Group within CIO Americas, Wealth Management. They reflect the short- to medium-term assessment of market opportunities and risks in the respective asset classes and market segments. Positive/zero/negative tactical deviations correspond to an overweight/neutral/underweight stance for each respective asset class and market segment relative to their strategic allocation. The current allocation is the sum of the strategic asset allocation and the tactical deviation. Note that the regional allocations on the Equities and Bonds pages in UBS House View are provided on an unhedged basis (i.e., it is assumed that investors carry the underlying currency risk of such investments) unless otherwise stated. Thus, the deviations from the strategic asset allocation reflect the views of the underlying equity and bond markets in combination with the assessment of the associated currencies. The detailed asset allocation tables integrate the country preferences within each asset class with the asset class preferences in UBS House View. Asset allocation does not assure profits or prevent against losses from an investment portfolio or accounts in a declining market.

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