

Agenda

Retiree Healthcare Benefits Plan & Trust Board Meeting

September 11, 2013 at 1:00 PM
Conference Room C

Troy City Hall
500 West Big Beaver
Troy, Michigan 48084
(248) 524-3330

ROLL CALL

ABSENT MEMBERS

MINUTES FROM THE JULY 10, 2013 MEETING

INVESTMENTS

OTHER BUSINESS

UBS Agreement

PUBLIC COMMENT

ADJOURN

A meeting of the Retiree Health Care Benefits Plan & Trust Board of Trustees was held on Wednesday, July 10, 2013, at Troy City Hall, 500 W. Big Beaver Road, Troy, MI 48084.

The meeting was called to order at 2:23 p.m.

Trustees Present: Mark Calice
Thomas J. Gordon, II
Milton Stansbury
Thomas Darling, CPA
William R. Need (Ex-Officio)
Dave Henderson
Steve Pallotta

Trustees Absent: Brian Kischnick

Also Present: Sehrish Salah-Ud-Din
Lori Bluhm

Minutes

Resolution # ER – 2013-07-05

Moved by Gordon

Seconded by Stansbury

RESOLVED, That the Minutes of the April 10, 2013 meeting be approved.

Yeas: All- 6

Absent: Kischnick

Investments

The System Administrator reviewed the System Asset report with the Board. Total System Assets as of June 30, 2013 were \$34,299,460.

OTHER BUSINESS – REVIEW INVESTMENTS

OTHER BUSINESS – RFI FOR INVESTMENT CONSULTANT

The Board discussed results of the RFI for an Investment Consultant.

The Boards consensus along with recommendations from the Employee Retirement System Board was to further discussions with UBS Financial Services.

Board Chairman, Calice brought up concerns regarding the UBS member Phil Fiore based on FINRA reportable litigation.

Board directed System Administrator to begin discussions with Grant/Sorenson of UBS financial services to provide a letter of understanding to provide Investment Consulting Services as outlined in the UBS proposal dated October 23, 2012.

OTHER BUSINESS – SPECIAL MEETING

A request was made for special meeting on September 11 at 1:00 pm.

Public Comment

None

The next meeting is September 11, 2013 at 1:00 p.m. at Troy City Hall, Conference Room C, 500 W. Big Beaver Road, Troy, MI 48084.

The meeting adjourned at 3:00 p.m.

Mark Calice, Chairman

Tom Darling, Pension Administrator



**City of Troy Retiree Health Care Plan
Engagement Overview**

September 2013



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City of Troy Retiree Health Care Plan
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**City of Troy
Retiree Health Care Plan
August 2013**

UBS is pleased to be selected to oversee the management of the City's Retiree Health Care Plan Funds. Our understanding is the City desires we serve as Institutional Consultants for our work with this plan. For purposes of this engagement, UBS Institutional Consultants Louise Emerson and Craig Brass, both of whom are located in the UBS Birmingham MI office, will serve with me in this regard.

As such, we will assist in the review and study of The City of Troy's Investment Policy Statement (IPS) and Cash Flow analysis for the Retiree Health Care Plan. We will adhere to the rules defined by the IPS in our role as Investment Consultant/Advisor. Our investment recommendations and suggested asset allocation will be based on our understanding of the IPS and the cash flow study for the Retiree Health Care Plan.

For funds custodied at UBS, we propose an all-inclusive asset based fee that encompasses consulting, management oversight, and trading and custody all under a single graded fee stated as a percentage of assets under advisement. Our consulting fee for oversight of the management of the funds is as follows:

Graded Fee Schedule:

Plan assets less than \$50,000,000: Annual fee of 20 basis points of plan assets as calculated quarterly in advance.

Additional plan assets between \$50,000,000 and \$100,000,000: Annual fee of 16 basis points on additional plan assets as calculated quarterly in advance plus above fee on assets up to \$50,000,000.

The above fee covers our consulting/advisor fee. Payment for our consulting fee can be made in arrears. There will be additional costs related to the management of these funds, which may include trading costs, internal expenses related to mutual funds and exchange traded funds, and/or fees charged by investment managers hired on behalf of the City. Institutional pricing for investment managers will be utilized whenever possible. Any and all additional costs will be discussed with The City in advance of any investment decision.

We look forward to working with you on the investment of The City of Troy Retiree Health Care Plan and to continuing our long-term relationship with The City of Troy.

Respectfully submitted,

Rebecca S. Sorensen

Rebecca S. Sorensen, CFP[®], CIMA[®]
Senior Vice President – Wealth Management
Wealth Advisor



City of Troy, Retiree Health Care Plan

September 2013

John Grant and I are pleased to propose consulting and investment management services for the City of Troy Retiree Health Care Plan. With a deep and talented group of professionals and staff located in Birmingham, MI, we provide an unmatched level of service to clients. All of our relationships are supported on a team basis, with the mission of ensuring continuity and excellence. Our philosophy is that the process must come before the product. It is essential that a prudent process must be in place to objectively manage assets in a professional manner.

UBS AG is one of the world's leading financial firms, serving a discerning global client base. As an integrated firm, UBS creates added value for clients by drawing on the combined resources and expertise of all its businesses. UBS is a leading global manager and investment banking and securities firm with a strong institutional and corporate client franchise and is a key asset manager. UBS employs over 65,000 people. With headquarters in Zurich and Basel Switzerland, UBS operates in over 50 countries and all major international centers. UBS is managed through four Business Groups: Wealth Management & Swiss Bank, Wealth Management Americas, Global Asset Management, and Investment Bank.

UBS has a strong presence in all major financial centers worldwide. Approximately 37% of our employees work in the Americas, 37% are in Switzerland, 16% are housed throughout the rest of Europe, and the balance are in the Asia/Pacific region. UBS currently has approximately \$1.6 Trillion in assets under management. We service more than 800 institutional clients in the US.

John Grant, Rebecca Sorensen, Darin McBride, Louise Emerson, and Craig Brass are the UBS advisors who will service your account. Their biographies, along with those of their support team, follow.

BIOGRAPHIES

Rebecca Sorensen

Rebecca is a Senior Vice President – Wealth Management with UBS. She joined the firm in June of 2001 and has over 25 years investment industry experience. Rebecca is a CPA, Certified Financial Planner, Certified Investment Management Analyst (CIMA designation through the Investment Management Consultants Association at Wharton) and Wealth Advisor. She has also completed the Wharton School's IMCA program on Alternative Investments.

Rebecca is a graduate of Walsh College with a Bachelor's Degree in Accountancy. She is a 1994 graduate of Leadership Oakland and a member of the UBS Defined Contribution (DC) Advisory program, eligible to advisors who demonstrate extensive experience and knowledge related to Defined Contribution Retirement Plans. Rebecca is a member of the Investment Management Consultants' Association, the Financial Planning Association, and the MACPAs and the AICPAs.

A specialist in Financial and Retirement Planning, Rebecca assists clients with asset allocation, investment selection, and performance monitoring. Clients include individuals, foundations, endowments, and corporate and municipal retirement plans. Rebecca lectures frequently on the subject of asset allocation and retirement planning, giving presentations to numerous corporations, business groups and non-profits throughout Michigan.

Rebecca served on the Foundation Board of Walsh College, is past Chair and current Board Member of the Oakland County Economic Development Corporation, is past Chair and past Board Member of Lighthouse PATH of Oakland County, and served on the Board and Planned Giving Committee for the Community House in Birmingham, MI. Rebecca received the State of Michigan Governor's Award for Volunteerism for her work with Lighthouse PATH in 2003. She is a current member of the Distinguished Clown Corps supporting The Parade Company and was the 2012 Grand Jester for America's Thanksgiving Parade.

John Grant

John Grant is a Senior Vice President – Investments of UBS Financial Services, having joined the firm in June of 2001. John has over 52 years' investment experience and is considered a specialist in the area of fixed income. John holds a BBA and MBA from the University of Michigan.

John is Past President of the Financial Analysts' Society of Detroit and the Bond Club of Detroit; Past Chairman and Member of the Board of Trustees of the Municipal Advisory Council of Michigan; Past Member of the City of Birmingham Pension Fund Investment Committee; and is Past Chair of the Village of Beverly Hills Public Safety Officers' Retirement System.

Prior to joining UBS, John was a Managing Director of McDonald Investments in Birmingham, MI from 1989-2001; was Senior Vice President-Investments of Thomson McKinnon from 1983-1989; and was Chairman of the Board of Manley Bennett McDonald from 1980-1983.

Louise Emerson

Louise is a Senior Vice President and Senior Institutional Consultant with UBS and has been in the field of investment consulting for more than twenty years. She is a member of the select UBS Institutional Consulting Group and is a UBS Retirement Plan Consultant. Over the past 15 years she has focused on all aspects of Defined Contribution Plan Management. Louise holds the CIMA designation from the internationally recognized Investment Management Consultants Association. She also sits on the Corporate Development Advisory Board at UBS. She has a Bachelors of Science Degree from Oakland University in Business Management.

Craig Brass

Craig Brass has worked in investment consulting for 23 years. Craig is a member of the select UBS Institutional Consulting Group and is a UBS Retirement Plan Consultant. Craig is a specialist in Defined Contribution Plan Management. Craig holds the CIMA designation from the internationally recognized Investment Management Consultants Association. Craig has a Bachelors of Science Degree from Bowling Green University and a Master of Art degree from Michigan State University.

Together Craig and Louise consult to more than 17 Defined Contribution/401(k) Plans, including Wayne County's Defined Contribution Plans, representing approximately \$670 million in assets as of December 2012. Louise and Craig will bring added depth to The City of Troy, each with 15+ years' experience working with and consulting to qualified plan sponsors.

Darin McBride

Darin is a Vice President – Wealth Management with UBS and specializes in working with businesses, foundations, not-for-profit organizations and individuals. Prior to joining UBS, Darin was a Senior Portfolio Manager with Munder Capital Management and Comerica Bank. He served as lead manager for all Domestic Quantitative Equity

Strategies. With respect to Comerica Bank, he managed several collective funds for employee benefits funds and 584 endowment funds. He served as sub-adviser to 6 mutual fund groups for their index mutual funds. In total he managed over \$12 billion in employee benefit, endowment, mutual fund and separately managed assets. During his tenure at Munder Capital, Darin's team received a 5 star rating from Morningstar for the Munder 500 Index fund in 1998. Mr. McBride was awarded The Leaders Circle Award – MVP in 2007 from UBS.

Prior to his association with UBS, Darin was a Portfolio Research Analyst with Flexible Plan Investments LTD, Bloomfield Hills, Michigan. He also worked as an Engineer for Rockwell Collins formerly known as Rockwell International for 5 years in their automotive unit.

Darin served on the First United Methodist Church Investment Committee. Darin received a B.S. in Engineering from Michigan State University in 1989 and an M.S. in Finance from the University of Wisconsin in 1995.

Mollie Proctor

Mollie joined UBS in March 2012. She began her financial services career in retail banking with Home Federal Savings and Loan of San Diego, California where she was an intra-divisional coordination officer for technical and personnel development while managing a retail brand with assets of \$47 million. Mollie continued her professional development as a bank consultant with Bank Earnings International recommending and implementing best practices for organizational structure, product delivery systems and pricing strategies within financial institutions around the country. Mollie was Assistant Vice President within the licensed corporate finance division at SunTrust Bank in Atlanta Georgia from 1989 to 1994.

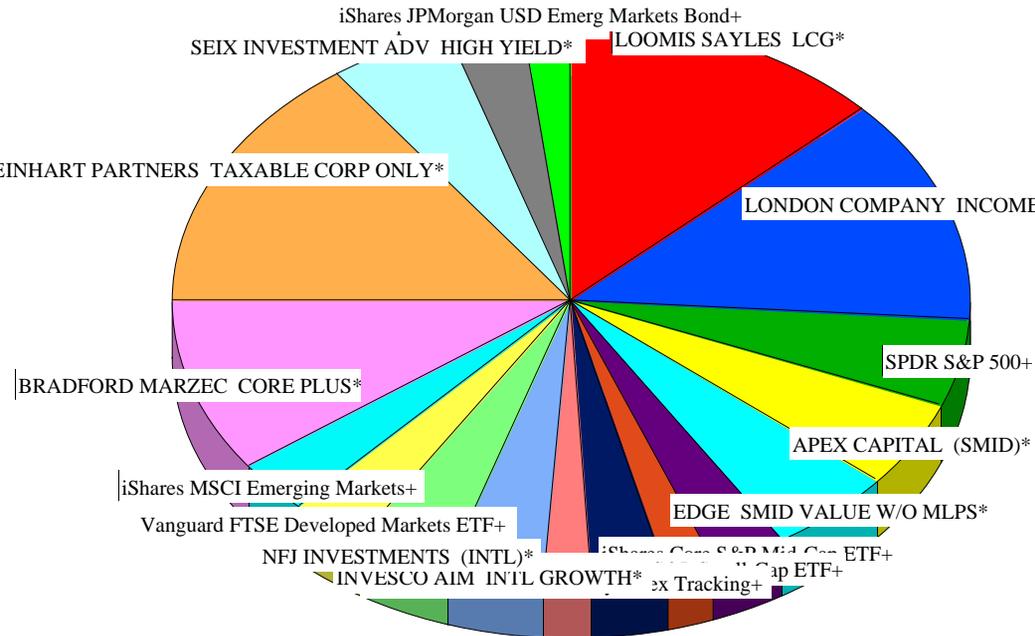
Prior to joining UBS, Mollie was a Wealth Advisor in The PrivateWealth Group at The PrivateBank in Bloomfield Hills, Michigan responsible for investment management and relationships. Mollie has been very involved in her community through Parent Teacher Associations, The Birmingham Community House, The Junior League, The Village Club Foundation and Christ Church Cranbrook. Mollie holds a BS from Denison University and MBA from Michigan State University.

Gail Pope-Rashid

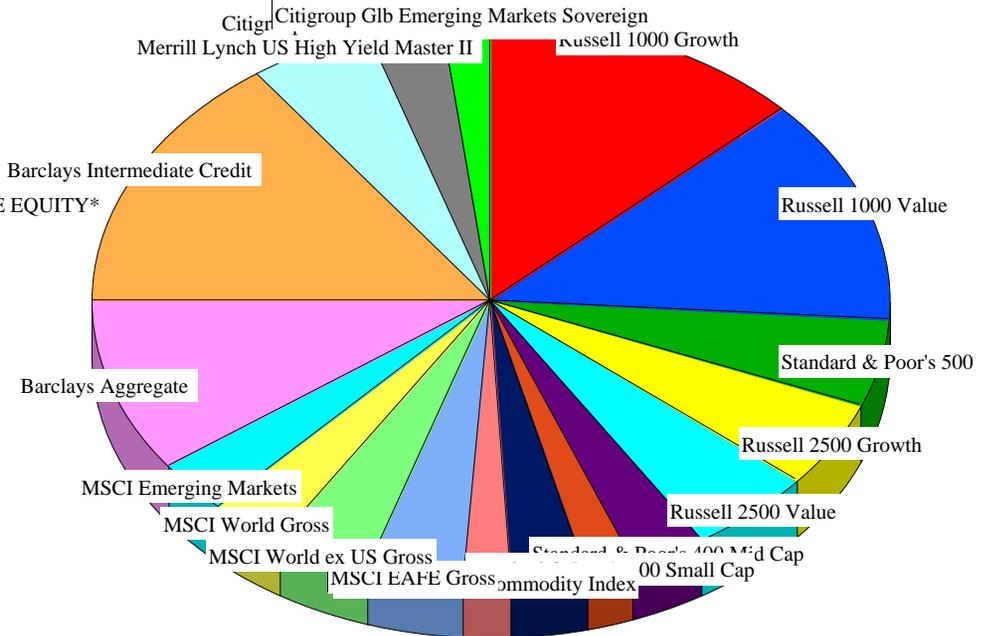
Gail joined UBS in June 2001 as a Client Service Associate. She previously worked at McDonald Investments for five years in the same capacity. Prior to joining McDonald Investments, Gail was Office Manager for the public accounting firm Plante & Moran PLLC's Troy, Michigan office. Gail handles the administrative work for the team relating to all aspects of client service. She holds a BS degree in Human Resources from Oakland University, specializing in Training and Development.



INDEX BLEND VS MANAGER BLEND



	PERCENT
LOOMIS SAYLES LCG*	13.00
LONDON COMPANY INCOME EQUITY*	13.00
SPDR S&P 500+	5.00
APEX CAPITAL (SMID)*	5.00
EDGE SMID VALUE W/O MLPS*	5.00
iShares Core S&P Mid-Cap ETF+	3.00
iShares Core S&P Small-Cap ETF+	2.00
UNIPLAN REIT*	3.00



	PERCENT
Russell 1000 Growth	13.00
Russell 1000 Value	13.00
Standard & Poor's 500	5.00
Russell 2500 Growth	5.00
Russell 2500 Value	5.00
Standard & Poor's 400 Mid Cap	3.00
Standard & Poor's 600 Small Cap	2.00
NAREIT All Equity	3.00



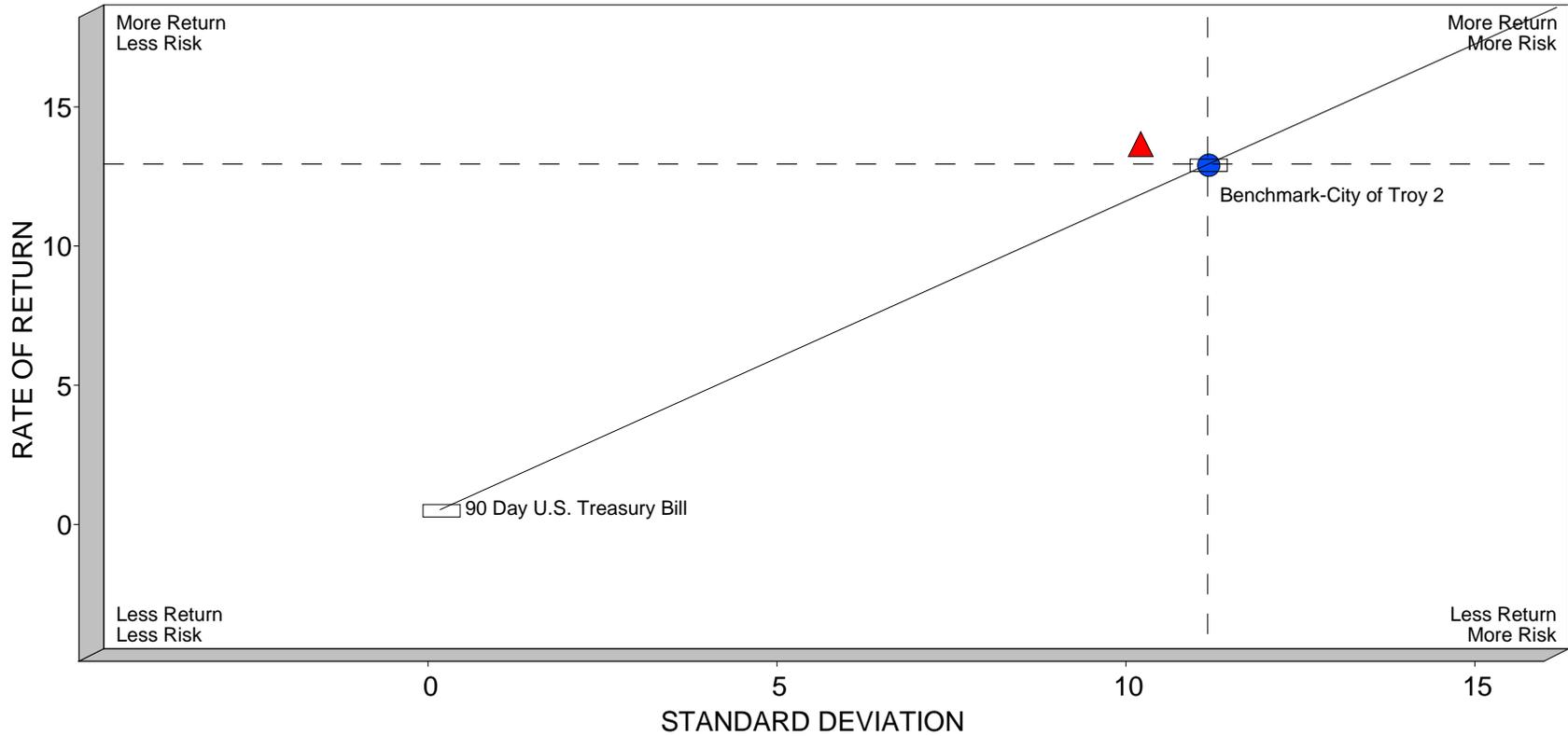
**INDEX BLEND
VS
MANAGER BLEND**

	PERCENT
PowerShares DB Commodity Index Tracking	2.00
INVESCO AIM INTL GROWTH	4.00
NFJ INVESTMENTS (INTL)	4.00
Vanguard FTSE Developed Markets ETF	3.00
iShares MSCI Emerging Markets	3.00
BRADFORD MARZEC CORE PLUS	10.00
REINHART PARTNERS TAXABLE CORP ONLY	15.00
SEIX INVESTMENT ADV HIGH YIELD	5.00
Templeton Global Bond A	3.00
iShares JPMorgan USD Emerg Markets Bond	2.00

	PERCENT
Dow Jones UBS Commodity Index	2.00
MSCI EAFE Gross	4.00
MSCI World ex US Gross	4.00
MSCI World Gross	3.00
MSCI Emerging Markets	3.00
Barclays Aggregate	10.00
Barclays Intermediate Credit	15.00
Merrill Lynch US High Yield Master II	5.00
Citigroup World Broad Investment Grade	3.00
Citigroup Glb Emerging Markets Sovereign	2.00



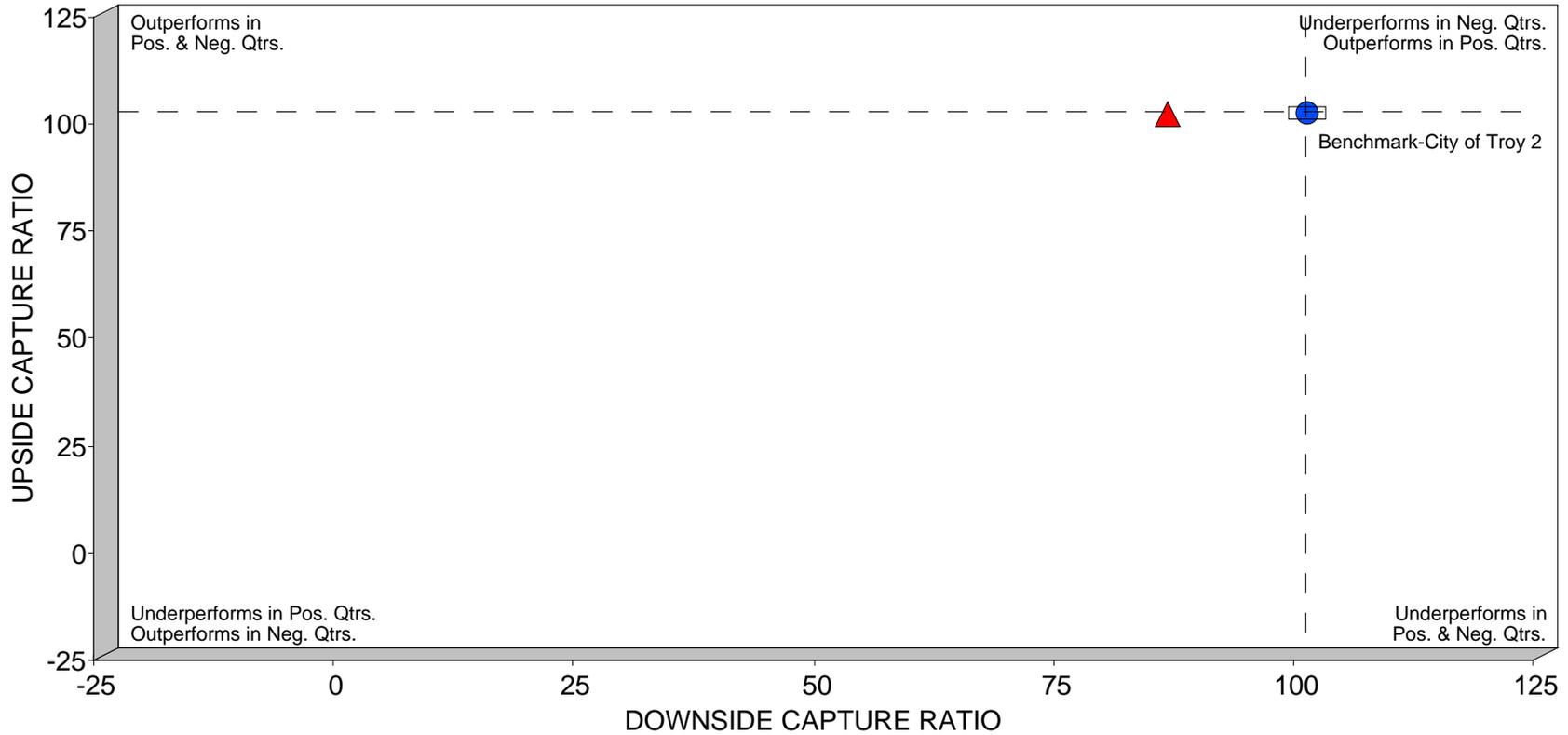
TOTAL RISK REWARD
CAPITAL MARKET LINE ANALYSIS - GROSS RETURNS
3 YEAR PERIOD
JUNE 30, 2010 TO JUNE 30, 2013



	ROR	Std Dev Pop	Alpha	Beta	R-Squared
▲ City of Troy 2+	13.21	10.05	1.68	0.91	0.99
● Benchmark-City of Troy 2+	12.49	10.98	0.00	1.00	1.00



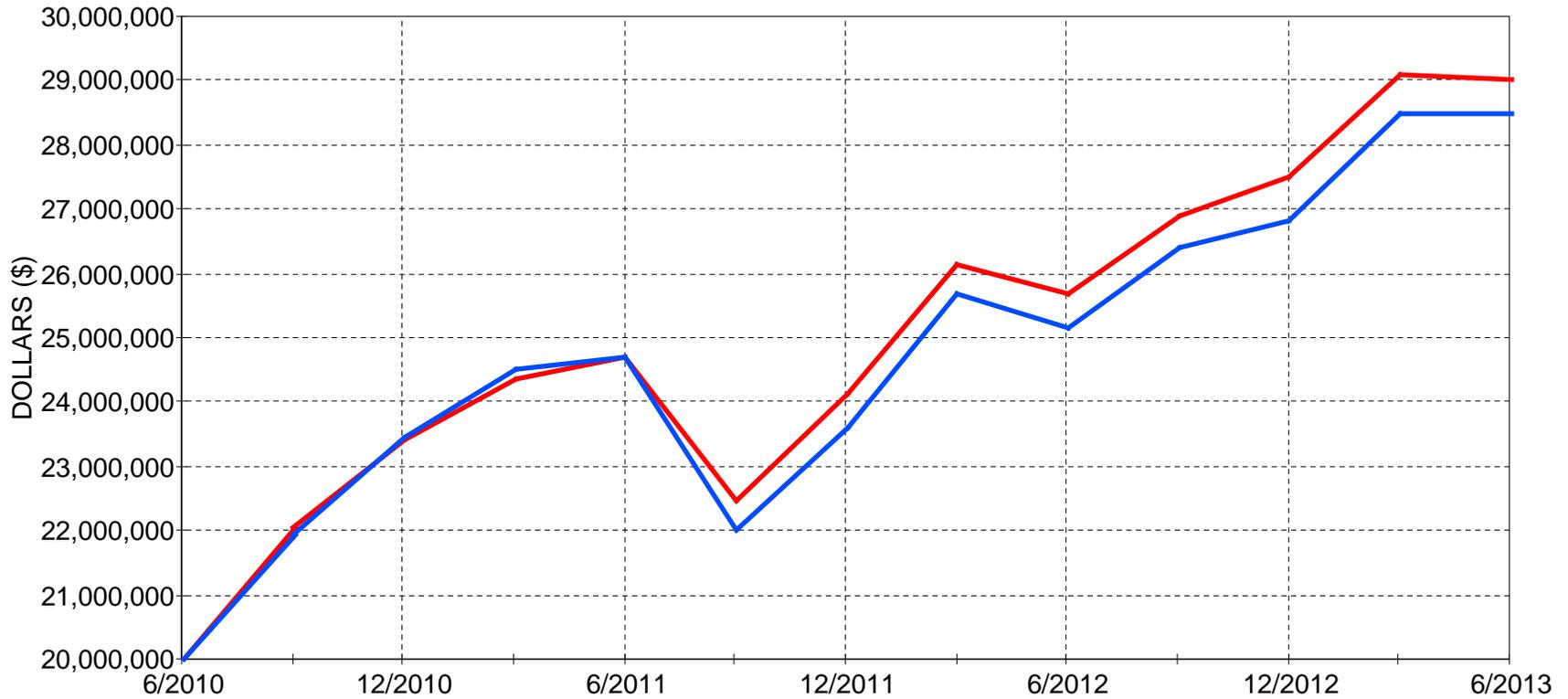
MARKET CAPTURE ANALYSIS
GROSS RETURNS
3 YEAR PERIOD
JUNE 30, 2010 TO JUNE 30, 2013



	Up Cap Ratio	Dnside Cap Ratio
▲ City of Troy 2+	99.56	85.52
● Benchmark-City of Troy 2+	100.00	100.00



GROWTH OF AN INVESTMENT JUNE 30, 2010 TO JUNE 30, 2013



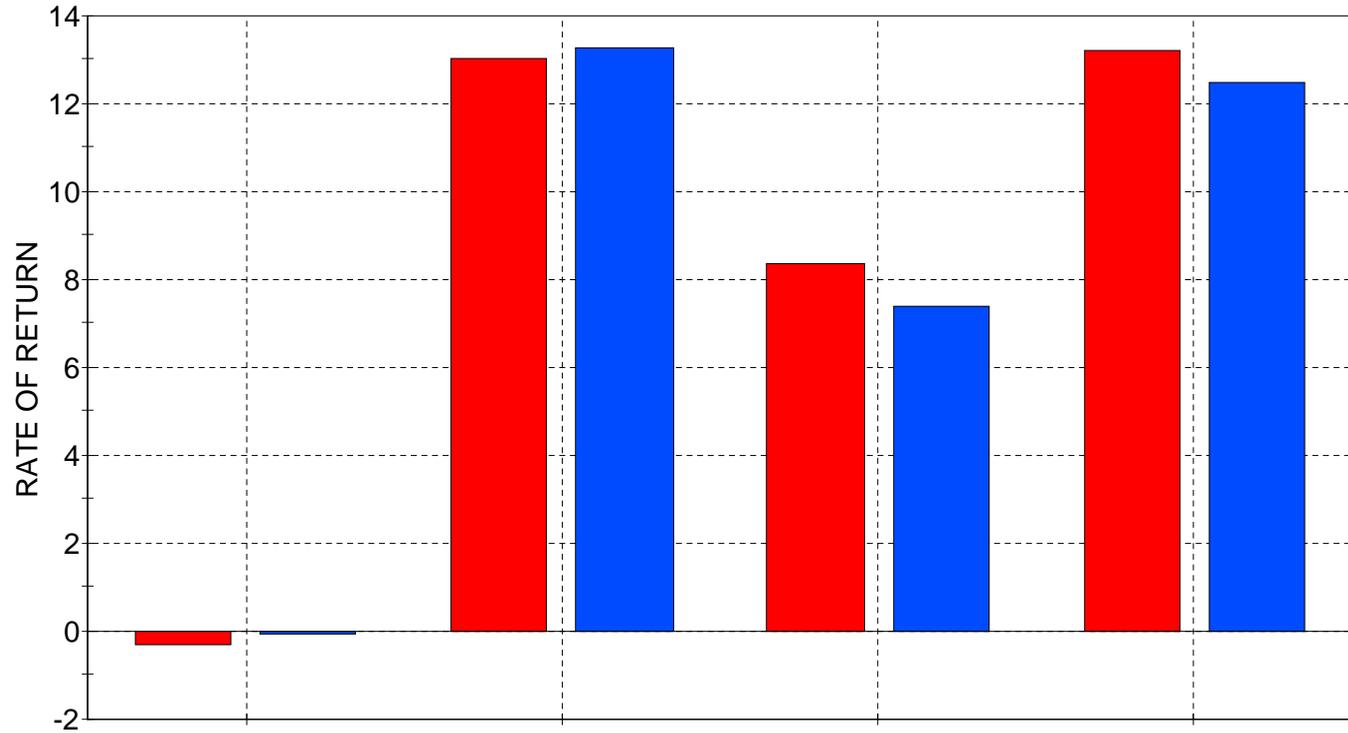
	3/2013-6/2013	6/2012-6/2013	6/2011-6/2013	6/2010-6/2013
City of Troy 2+	19,941,229	22,606,950	23,489,761	29,020,194
Benchmark-City of Troy 2+	19,986,700	22,651,845	23,063,791	28,472,102



ANNUAL PERFORMANCE BAR ANALYSIS

GROSS RETURNS

JUNE 30, 2010 TO JUNE 30, 2013



	3/2013-6/2013	6/2012-6/2013	6/2011-6/2013	6/2010-6/2013
City of Troy 2+	-0.29	13.03	8.37	13.21
Benchmark-City of Troy 2+	-0.07	13.26	7.39	12.49



CITY OF TROY 2 DATA PROFILE

Name: City of Troy 2
Description: City of Troy 2
Period Type: Quarterly
Initial Amount : 20,000,000.00

Hybrid Members	3/2008
LOOMIS SAYLES LCG	13.00
LONDON COMPANY INCOME EQUITY	13.00
SPDR S&P 500	5.00
APEX CAPITAL (SMID)	5.00
EDGE SMID VALUE W/O MLPS	5.00
iShares Core S&P Mid-Cap ETF	3.00
iShares Core S&P Small-Cap ETF	2.00
UNIPLAN REIT	3.00
PowerShares DB Commodity Index Tracking	2.00
INVESCO AIM INTL GROWTH	4.00
NFJ INVESTMENTS (INTL)	4.00
Vanguard FTSE Developed Markets ETF	3.00
iShares MSCI Emerging Markets	3.00
BRADFORD MARZEC CORE PLUS	10.00
REINHART PARTNERS TAXABLE CORP ONLY	15.00
SEIX INVESTMENT ADV HIGH YIELD	5.00
Templeton Global Bond A	3.00
iShares JPMorgan USD Emerg Markets Bond	2.00
Rebalancing Frequency	Yearly

TOTAL PERFORMANCE																	
Year	JAN	FEB	MAR	QTR 1	APR	MAY	JUNE	QTR 2	JULY	AUG	SEPT	QTR 3	OCT	NOV	DEC	QTR 4	YTD
2008				-4.08				-0.29				-5.73				-12.57	-21.17
2009				-5.07				13.02				12.60				5.93	27.97
2010				3.57				-5.45				10.20				6.19	14.59
2011				4.00				1.52				-9.11				7.40	3.06
2012				8.29				-1.71				4.69				2.29	13.98
2013				5.87				-0.29				--				--	5.56



BENCHMARK-CITY OF TROY 2 DATA PROFILE

Name: Benchmark-City of Troy 2
Description: Benchmark-City of Troy 2
Period Type: Quarterly
Initial Amount : 20,000,000.00

Hybrid Members	3/2008
Russell 1000 Growth	13.00
Russell 1000 Value	13.00
Standard & Poor's 500	5.00
Russell 2500 Growth	5.00
Russell 2500 Value	5.00
Standard & Poor's 400 Mid Cap	3.00
Standard & Poor's 600 Small Cap	2.00
NAREIT All Equity	3.00
Dow Jones UBS Commodity Index	2.00
MSCI EAFE Gross	4.00
MSCI World ex US Gross	4.00
MSCI World Gross	3.00
MSCI Emerging Markets	3.00
Barclays Aggregate	10.00
Barclays Intermediate Credit	15.00
Merrill Lynch US High Yield Master II	5.00
Citigroup World Broad Investment Grade	3.00
Citigroup Glb Emerging Markets Sovereign	2.00
Rebalancing Frequency	Yearly

TOTAL PERFORMANCE																	
Year	JAN	FEB	MAR	QTR 1	APR	MAY	JUNE	QTR 2	JULY	AUG	SEPT	QTR 3	OCT	NOV	DEC	QTR 4	YTD
2008				-4.83				-0.62				-8.61				-14.76	-26.33
2009				-7.22				15.42				14.09				4.46	27.63
2010				4.42				-6.28				9.61				6.96	14.73
2011				4.49				0.77				-10.88				7.33	0.71
2012				8.68				-2.05				5.08				1.56	13.60
2013				6.20				-0.07				--				--	6.13

Important Information about this Report

This report includes presentations of managers' performance on a gross fee basis. Since the effects of management fees reduce performance, this report is intended only for one-on-one presentations to institutional and high net worth individuals who understand how the payment of fees, compounded over time, will reduce performance results and have indicated such accreditation in the MEPS questionnaire.

This report is intended as a general guide for your investment plans and is for your use only. This report provides, among other things, a preliminary comparison to various market indexes of the hypothetical investment performance that might have been achieved if the investment managers identified had managed an investor's account in accordance with the asset allocations and investment styles specified. It is not intended to provide and should not be construed as providing tax or legal advice.

The information contained in this report reflects a collaborative process between you and your Financial Advisor. Any recommendations are based upon our understanding of your responses to the profile questions and are current only as of the date printed on the front cover. Unless you make a specific request for an update, this report will not be updated to reflect any changes in any of the accounts covered, your investment objectives, risk tolerances or market conditions.

You should note that UBS Financial Services ("the Firm") has a variety of products and services that provide portfolio review and analysis. The recommendations and types of analyses provided (including recommended asset allocation strategies) may vary depending on the asset allocation model and program used.

This report may cover a number of your existing portfolio, each with potentially different investment objectives and risk parameters. As you instructed, the assets in these accounts have been considered as a whole in developing an overall asset allocation strategy that addresses your specific investment goal.

Investment Manager Performance

Performance results for investment managers that are included in our ACCESS program, which are indicated throughout the report, are based upon the ACCESS manager's time weighted rates of return of fully discretionary ACCESS accounts managed for at least one full calendar quarter. Performance results for non-ACCESS participating investment managers are obtained from Informa Investment Solutions' Plan Sponsor Network (PSN) as reported by each investment manager and do not reflect actual UBS Financial Services account performance. Your returns may vary from these results shown due to timing and other individual account factors. These

results are generally net of commissions on securities transactions but do not reflect the deduction of the investment manager's fee or UBS Financial Services' fee. The payment of these fees and expenses will reduce your return. The net effect of the deduction of fees on annualized performance, including the compounded effect over time, is determined by the relative size of the fee and the account's investment performance. For example, for an account with a 2.8% annual fee deducted quarterly, if the gross performance is 10% on an annual basis, the quarterly compounding effect of the fees will result in a final performance of approximately 7.1% per year, a reduction of 2.9% per year. Compounding will similarly affect the account's performance on a cumulative basis. It should also be noted that where your gross returns are compared to an index, the index performance also does not reflect any transaction costs or management fees.

Some investment managers presented in the strategies may have individual performance track records that are longer than the period shown in the report. Individual investment managers' performance records for longer time periods, if applicable, are available through your Financial Advisor. For complete information regarding these investment managers, their fees and performance, contact your UBSIC Consultant and see the manager's Form ADV, Part II.

Important Information Regarding Simulated Performance

The strategy is a new strategy and does not have a track record. The performance information presented is simulated, backtested and was created by applying the same investment perspectives and quantitative analysis of valuation, quality and sentiment that are employed in existing strategies managed by the investment manager, though differences exist in portfolio construction. Any improvements that were incorporated into the current investment process and quantitative models were assumed to exist for the entire simulation period. Implementation of the live strategy versus the simulated strategy will be virtually identical with the exception of intramonth trading. The hypothetical performance results for the model shown reflect the investment returns that an investor might have achieved by investing in the strategy for the entire period indicated. It assumes that, since inception, no cash was added to or assets withdrawn from the account and that all dividends, gains and other earnings in the account were reinvested. The simulation assumed once a month trading but trading for the live strategy will likely occur more frequently. Returns are simulated for the entire period and assume 1.0% transaction costs. The testing methodology used both internally and Factset provided data and applications to generate simulated historical portfolios. The results shown do not represent the results of actual trading using client assets, but were achieved by means of the

retroactive application of a model that was designed with the benefit of hindsight. The simulated performance was compiled after the end of the period depicted and does not represent the actual investment decisions of the advisor. These results do not reflect the effect of material economic and market factors on decision-making. As a result, there is no reason to believe that your portfolio will perform in a similar manner or that the investment manager would have made the same investment recommendations or achieved the same level of performance if it had been managing the strategy for the entire period for actual clients and charging fees for the advice, with the knowledge that clients would rely on the advice and in light of then-current market conditions. The strategy did not exist during the period presented. In addition, if investors had actually invested based on the strategy, their results would have differed from those shown because of differences in the timing and amounts of their investments. Past performance is never an indicator of future results.

Index Information

An actual investment in the securities included in the index would require an investor to incur transaction costs, which would lower the performance results. Please keep in mind that index information is for illustrative purposes and relates to historical performance of market indexes and not the performance of actual strategies or managers presented. The past performance of the indexes is not a guarantee of future results because each index reflects an unmanaged universe of securities and does not include any deduction for advisory fees or other expenses that would reduce actual returns. The performance shown should not be considered indicative of the performance of an actively managed portfolio for the same time period. Most managers are not restricted to investment in the same securities or security weightings as the corresponding indexes, so performance will vary. Finally, the performance of the indexes reflects the reinvestment of all income and dividends. A description of each index can be found in the Definitions section at the end of this report.

Recommended Strategies

The Manager Recommendations included in this Report are limited to those managers and strategies in our ACCESS, MAC Researched, and UBSIC Reviewed programs. While the due diligence process encompasses managers in each program, the frequency and depth of our due diligence reviews varies depending on which program the manager participates in. The level of due diligence encompasses a quantitative review of composite and actual performance data and portfolio analytics (including responses to a detailed questionnaire) and may also include on-site visits by one or more of our Investment Manager Research Analysts to each manager. For ACCESS managers, on-site visits occur on average at least once every 12 months. On-site visits to MAC Researched managers occur on average at least every 2 years. UBSIC Reviewed managers are subject to in-depth review on average at least every 2 years, but no on-site visits are conducted. The evaluation criteria covered in on-

site visits are the same for managers in both programs. In addition, for ACCESS managers, a detailed review of portfolio performance and attribution is performed on a quarterly basis to ensure that portfolios continue to be invested consistent with the manager's stated investment style. Portfolio attribution analysis is performed prior to on-site visits and may be done during periods of poor relative performance, but is not systematically performed on a quarterly basis. T

he strategies presented are hypothetical portfolios, and have not been tracked by UBS Financial Services. They were created as of the date of this report with the benefit of hindsight. The past performance of each recommended investment manager was known to UBS Financial Services when it developed the strategies and was a key factor in the Firm's decision to include each investment manager in a recommended strategy. There is no reason to believe that UBS Financial Services would have been able to develop this same strategy without knowing in advance how the recommended investment managers and the markets would perform, and these results are not an indicator that UBS Financial Services will be able to do so in the future.

The past performance results for the recommended strategy are hypothetical. They reflect the theoretical investment returns that an investor might have achieved by investing the amount and on the dates indicated on the investment profile section of this report, and by following the recommendation for initially allocating, and then reallocating from time to time, the account's assets among the different recommended investment managers. It assumes that, after establishing the account, the investor would not have added any cash to or withdrawn assets from the account and that all dividends, gains and other earnings in the account would have been reinvested in accordance with the Firm's recommendations. The recommended strategy in this format may not have existed as of the dates for which performance is shown. In addition, some of the investment managers recommended may not have been part of any UBS Financial Services sponsored program at that time. Actual assets of actual clients may not have been invested in accordance with these strategies during the time periods shown.

Past performance can never guarantee future results.

Assets Held at Other Financial Institutions

At your direction, we may also have considered assets that you hold at other financial institutions. Information about these assets is based solely on the information you have provided to us. We have not verified, and are not responsible for, the accuracy or completeness of this information.

You have provided the names of investment managers managing your assets at other financial institutions. This report provides performance information derived from a third party database, which is believed to be reliable, but which UBS Financial Services has not verified. The managers listed are in comparative portfolios and are for illustrative purposes. You may not have received the performance returns

presented here because they are gross of any management fees and other charges that have been assessed to your account. Therefore, any evaluation or analysis provided in this report regarding separate account managers, which includes assets

Please note that any discrepancies between the information you provided and the actual value of those assets at the time you choose to implement the strategy may also affect the outcome of the asset allocation strategy we discuss with you. As such, the results may differ from any illustrations shown on this report.

Taxes Implementing any strategy presented, including changing any strategy may result in incurring gains or losses for income tax purposes. UBS Financial Services does not provide tax advice. We recommend that you evaluate this report with your legal and/or tax advisor before taking any action because of the significance and complexity of tax considerations.

Periodic Reviews Since this report is based on information provided as of the date indicated on the cover, assumptions and estimates may change. For this reason, with your Financial Advisor, you should periodically revisit your current financial situation, your current strategy, and the assumptions it contains.

Definitions

General Definitions

Alpha – A measure of the difference between a fund's actual returns and its expected performance, given its level of risk as measured by beta. A positive alpha figure indicates the fund has performed better than its beta would predict. In contrast, a negative alpha indicates the fund's underperformance, given the expectations established by the fund's beta. All MPT statistics (alpha, beta, and R-squared) are based on a least-squared regression of the fund's return over Treasury bills.

Beta – A measure of a fund's sensitivity to market movements. The beta of the market is 1.00 by definition. Morningstar calculates beta by comparing a fund's excess return over T-bills to the market's excess return over T-bills, so a beta of 1.10 shows that the fund has performed 10% better than its benchmark index in up markets and 10% worse in down markets, assuming all other factors remain constant. Conversely, a beta of 0.85 indicates that the fund's excess return is expected to perform 15% worse than the market's excess return during up markets and 15% better during down markets.

Blend – A Blend is several managers allocated to percentages of a whole. The performance of the managers is weighted to create the blended performance.

Downside Risk – Downside Risk, or Semi-variance is the standard deviation (see Standard Deviation) of the portfolio's negative returns. Many consultants find the statistic extremely useful since it measures volatility in undesirable situations. The higher the value, the greater the historical Downside Risk.

Down Market Capture Ratio – A measure of managers' performance in down markets relative to the market itself. A down market is one in which the market's quarterly return is less than zero. The lower the manager's down-market capture ratio, the better the manager protected capital during a market decline. A value of 90 suggests that a manager's losses were 90% of the market loss when the market was down.

Information Ratio – The ratio of annualized expected residual return to residual risk. To calculate the IR the active return and tracking error must be annualized.

R-Squared – Reflects the percentage of a strategy's movements that can be explained by movements in its benchmark index. An R-squared of 100 indicates that all movements of a fund can be explained by movements in the index. Thus, portfolios invested in S&P 500 stocks will typically have an R-squared close to 100. Conversely, a low R-squared indicates that very few of the fund's movements can be explained by movements in its benchmark index. An R-squared measure of 35, for example, means that movements in the benchmark index can explain only 35% of the portfolio's movements.

Sharpe-Ratio – A risk-adjusted measure developed by Nobel Laureate William Sharpe. It is calculated by using standard deviation and excess return to determine reward per unit of risk. The higher the Sharpe Ratio, the better the portfolio's historical risk-adjusted performance is. The Sharpe Ratio is calculated for the past 36-month period by dividing a portfolio's annualized excess returns by its annualized standard deviation. Since this ratio uses standard deviation as its risk measure, it is most appropriately applied when analyzing a portfolio that is an investor's sole holding. The Sharpe Ratio can be used to compare two portfolios directly on how much risk a fund has to bear to earn excess return over the risk-free rate.

Standard Deviation – A measure of risk. A statistical measurement of dispersion about an average, which, for a portfolio, depicts how widely the returns varied over a certain period of time. Investors use the standard deviation of historical performance to try to predict the range of returns that are most likely for a given portfolio. When a portfolio has a high standard deviation, the predicted range of performance is wide, implying greater risk and volatility.

Tracking Error – Measures the divergence between the price behavior of a portfolio to the price behavior of a benchmark.

Up Market Capture Ratio – Up-market capture ratio is a measure of managers' performance in up markets relative to the market itself. An up market is one in which the market's quarterly return is greater than or equal to zero. The higher the manager's up-market capture ratio, the better the manager capitalized on a rising market. For example, a value of 110 suggests that the manager captured 110% of the up market (performed ten percent better than the market) when the market was up.

Index Definitions

First Boston Convertible Securities (FBCB) This is a performance benchmark for convertible accounts. This index generally includes 250 to 300 issues. To be included, convertible bonds and preferreds must be rated B- or better by Standard & Poor's (quality-related adjustments are made at the end of each calendar year), convertibles must have a minimum issue size of \$50 million (new issues are added in the month following their issuance), and preferreds must have a minimum of 500,000 shares outstanding. Eurobonds are also included if they are issued by US-domiciled companies, rated B- or higher by Standard & Poor's, and have an issue size greater than \$100 million.

Barclays Capital Aggregate Bond Index (BCAG) Composed of securities from Barclays Capital Brothers government/corporate bond index, mortgage-backed securities index, and the asset-backed securities index. Total return comprises price appreciation/depreciation and income as a percentage of the original investment. Indexes are rebalanced monthly by market capitalization.

Barclays Capital Corporate Int (BCIC) A subset of the Barclays Capital Corporate Bond Index covering all corporate, publicly issued, fixed-rate, nonconvertible US debt issues rated at least Baa with at least \$50 million principal outstanding and maturity less than 10 years.

Barclays Capital Corporate Long Term (BCLTC) A subset of the Barclays Capital Corporate Bond Index covering all corporate, publicly issued, fixed-rate, nonconvertible US debt issues rated at least Baa with at least \$50 million principal outstanding and maturity greater than 10 years.

Barclays Capital Government Corporate Bond Index (BCGC) Composed of all bonds that are investment grade (rated Baa or higher by Moody's or BBB or highest by S&P, if unrated by Moody's). Issues must have at least one year to maturity. Total return comprises price appreciation/depreciation and income as a percentage of the original investment. Indexes are rebalanced monthly by market capitalization.

Barclays Capital Government/Corporate Int (BCIGC) Composed of all bonds covered by the Barclays Capital Government/Corporate Bond Index with maturities between one and 9.99 years. Total return comprises price appreciation/depreciation and income as a percentage of the original investment. Indexes are rebalanced monthly by market capitalization.

Barclays Capital Government/Corporate Long Term (BCLTGC) Composed of all bonds covered by the Barclays Capital Government/Corporate Bond Index with maturities of 10 years or greater. Total return comprises price appreciation/depreciation and income as a percentage of the original investment. Indexes are rebalanced monthly by market capitalization.

Barclays Capital Mortgage Backed (BCMBS) Composed of all fixed-rate, securitized mortgage pools by GNMA, FNMA, and FHLMC, including GNMA graduated payment mortgages. The minimum principal amount required for inclusion is \$50 million. Total return comprises price appreciation/depreciation and income as a percentage of the original investment. Indexes are rebalanced monthly by market capitalization.

Barclays Capital Municipal Bond (BCM) Computed twice monthly from prices on approximately 1,100 bonds. Prices are supplied by Kenny Information Systems, Inc. The index is composed of approximately 60% revenue bonds and 40% state government obligations.

Barclays Capital Municipal 5 Year (BCMB) A subset of the Barclays Capital Municipal Bond Index where the average maturity of the bonds are five years.

MSCI (EAFE) An arithmetic, market value-weighted average of the performance of over 900 securities listed on the stock exchanges of the following countries in Europe, Australia and the Far East: Australia, Hong Kong, Norway, Austria, Ireland, Singapore, Belgium, Italy, Spain, Denmark, Japan, Sweden, Finland, Malaysia, Switzerland, France, Netherlands, United Kingdom, Germany, New Zealand.

MSCI Emerging Markets (EMF) The MSCI Emerging Markets (EMF) is a free float-adjusted market capitalization index that is designed to measure equity market performance in the global emerging markets. As of April 2002 the MSCI EMF Index consisted of the following 26 emerging market country indexes: Argentina, Brazil, Chile, China, Colombia, Czech Republic, Egypt, Hungary, India, Indonesia, Israel, Jordan, Korea, Malaysia, Mexico, Morocco, Pakistan, Peru, Philippines, Poland, Russia, South Africa, Taiwan, Thailand, Turkey and Venezuela.

MSCI World S/B Net (MSCIW) The MSCI World Index is a free float-adjusted market capitalization index that is designed to measure global developed market equity performance. As of April 2002 the MSCI World Index consisted of the following 23 developed market country indexes: Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Greece, Hong Kong, Ireland, Italy, Japan, Netherlands, New Zealand, Norway, Portugal, Singapore, Spain, Sweden, Switzerland, the United Kingdom and the United States.

S&P 500 (SWPI) Covers 500 industrial, utility, transportation, and financial companies of the US markets (mostly NYSE issues). The index represents about 75% of NYSE market capitalization and 30% of NYSE issues. It is a capitalization-weighted index calculated on a total return basis with dividends reinvested.

Russell 1000 (R1000) Consists of the 1,000 largest securities in the Russell 3000 index. This large cap (market-oriented) index represents the universe of stocks from which most active money managers typically select. The Russell 1000 is highly correlated with the S&P 500 index.

Russell 1000 Growth (R1000G) Contains those Russell 1000 securities with a greater-than-average growth orientation. Securities in this index tend to exhibit higher price-to-book and price-earnings ratios, lower dividend yields and higher forecasted growth values than the value universe.

Russell 1000 Value (R1000V) Contains those Russell 1000 securities with a less-than-average growth orientation. It represents the universe of stocks from which value managers typically select. Securities in this index tend to exhibit low price-to-book and price-earnings ratios, higher dividend yields and lower forecasted growth values than the growth universe.

Russell 2000 (R2000) Consists of the smallest 2,000 securities in the Russell 3000 index, representing approximately 11% of the Russell 3000 total market capitalization. This index is widely regarded in the industry as the premier measure of small cap stocks.

Russell 2000 Growth (R2000G) Contains those Russell 2000 securities with a greater-than-average growth orientation. Securities in this index tend to exhibit higher price-to-book and price-earnings ratios, lower dividend yields and higher forecasted growth values than the value universe.

Russell 2000 Value (R2000V) Contains those Russell 2000 securities with a less-than-average growth orientation. Securities in this index tend to exhibit lower price-to-book and price-earnings ratios, higher dividend yields and lower forecasted growth values than the growth universe.

Russell 2500 (R2500) Consists of the bottom 500 securities in the Russell 1000 index and all 2,000 securities in the Russell 2000 index, representing approximately 23% of the Russell 3000 total market capitalization. This index is a good measure of small to medium-small stock performance.

Russell 2500 Growth (R2500G) Measures the performance of those Russell 2500 companies with higher price-to-book ratios and higher forecasted growth values.

Russell 2500 Value (R2500V) Measures the performance of those Russell 2500 companies with lower price-to-book ratios and lower forecasted growth values.

Russell 3000 (R3000) Measures the performance of the 3,000 largest US companies based on total market capitalization, which represents approximately 98% of the investable US equity market.

Russell 3000 Growth (R3000G) Measures the performance of those Russell 3000® Index companies with higher price-to-book ratios and higher forecasted growth values. The stocks in this index are also members of either the Russell 1000® Growth or the Russell 2000® Growth indexes.

Russell 3000 Value (R3000V) Measures the performance of those Russell 3000® Index companies with lower price-to-book ratios and lower forecasted growth

values. The stocks in this index are also members of either the Russell 1000® Value or the Russell 2000® Value indexes.

Russell Midcap (RMID) Consists of the smallest 800 securities in the Russell 1000 index, as ranked by total market capitalization. This index accurately captures the medium-sized universe of securities and represents approximately 35% of the Russell 1000 total market capitalization.

Russell Midcap Growth (RMIDG) Contains those Russell Midcap securities with a greater-than-average growth orientation. Securities in this index tend to exhibit higher price-to-book and price-earnings ratios, lower dividend yields and higher forecasted growth values than the value universe. The stocks are also members of the Russell 1000 Growth Index.

Russell Midcap Value (RMIDV) Contains those Russell Midcap securities with a less-than-average growth orientation. Securities in this index tend to exhibit low price-to-book and price-earnings ratios, higher dividend yields and lower forecasted growth values than the growth universe. The stocks are also members of the Russell 1000 Value Index.

Salomon Brothers World Government Bond (SWGB) A market capitalization-weighted index consisting of government bond markets of the following countries: Australia, Austria, Belgium, Canada, Denmark, France, Germany, Italy, Japan, Netherlands, Spain, Sweden, United Kingdom, United States.

U.S. Treasury Bill (USTB): Represents 90-day return for Treasury Bills issued by the United States government.

Wilshire RE Securities Index (WRESI) A broad measure of the performance of publicly traded real estate securities, such as Real Estate Investment Trusts (REITs) and Real Estate Operating Companies (REOCs). The index is capitalization-weighted. The beginning date, January 1, 1978, was selected because it coincides with the Russell/NCREIF Property Index start date. The Index is rebalanced monthly, and returns are calculated on a buy and hold basis.