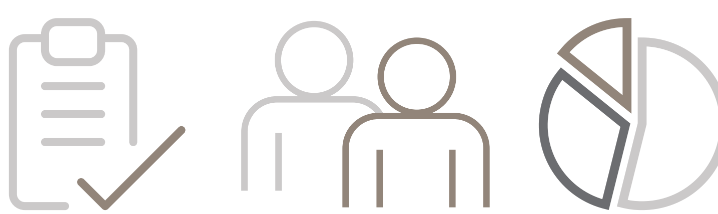
UBS Participant Voice

Employee attitudes and behaviors about equity plans

Issue 3

The multiplier effect

Why planning, advice and diversification increase the impact of equity awards



UBS

The UBS Equity Award Value Index

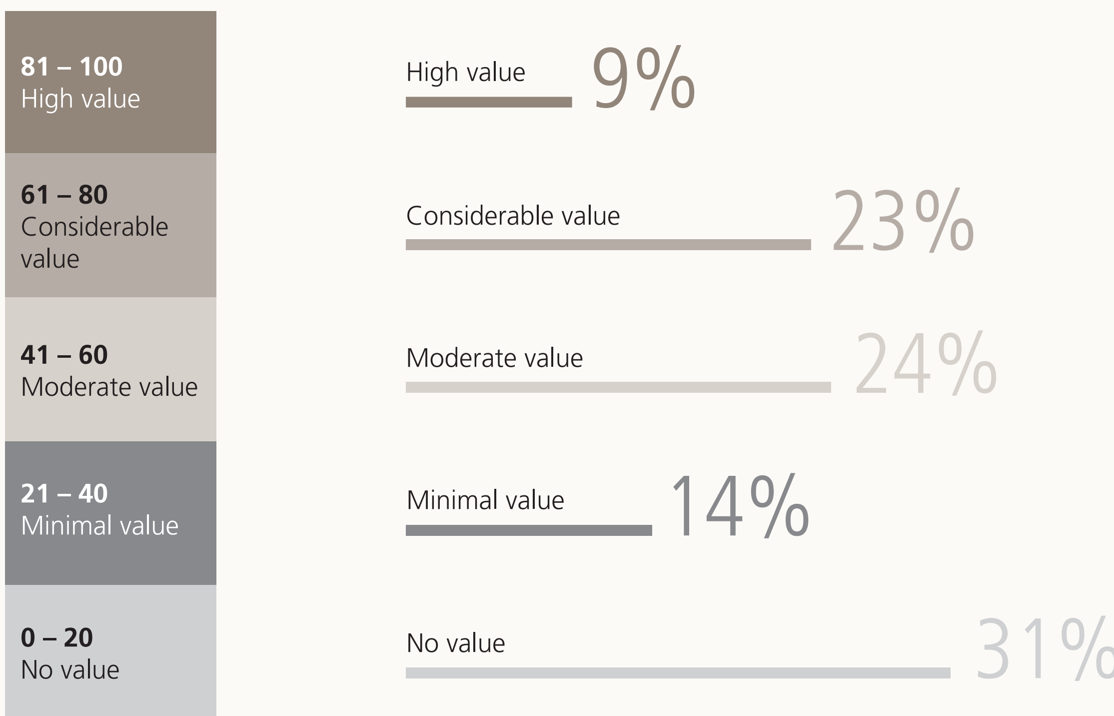
The UBS Equity Award Value Index incorporates **five critical variables** to measure the value plan participants place on their equity awards on a scale of 0 – 100. These variables are:

1. View of equity compensation: way to build wealth, paycheck supplement or lottery ticket
2. Importance in taking current job
3. Importance for staying at current job
4. Importance in accumulating wealth/savings
5. Incorporating equity compensation into long-term financial planning

While 32% of participants across industries and service providers see their awards as having high or considerable value, 45% perceive little or no value in their awards.

The UBS Equity Award Value Index

Employee perception

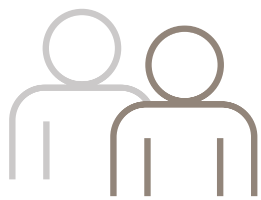


Planning, advice and diversification help employees appreciate equity awards

Companies who offer equity awards are seeking to reward their employees and build loyalty at the same time. But as the UBS Equity Award Value Index highlights, many employees who receive awards don't truly value their equity compensation. In this issue, we uncover what participants can do to get the most out of their equity.

In our industry-wide survey of more than 1,000 equity plan participants, we found that employees derive dramatically **more value** from their equity awards when they take three key steps:

Planning
Incorporating equity awards into overall financial planning helps employees value them more



Advice
The more participants discuss their equity awards with their Financial Advisors, the more value they see in them

Diversification
Participants who diversify their equity holdings place significantly more value on their equity awards

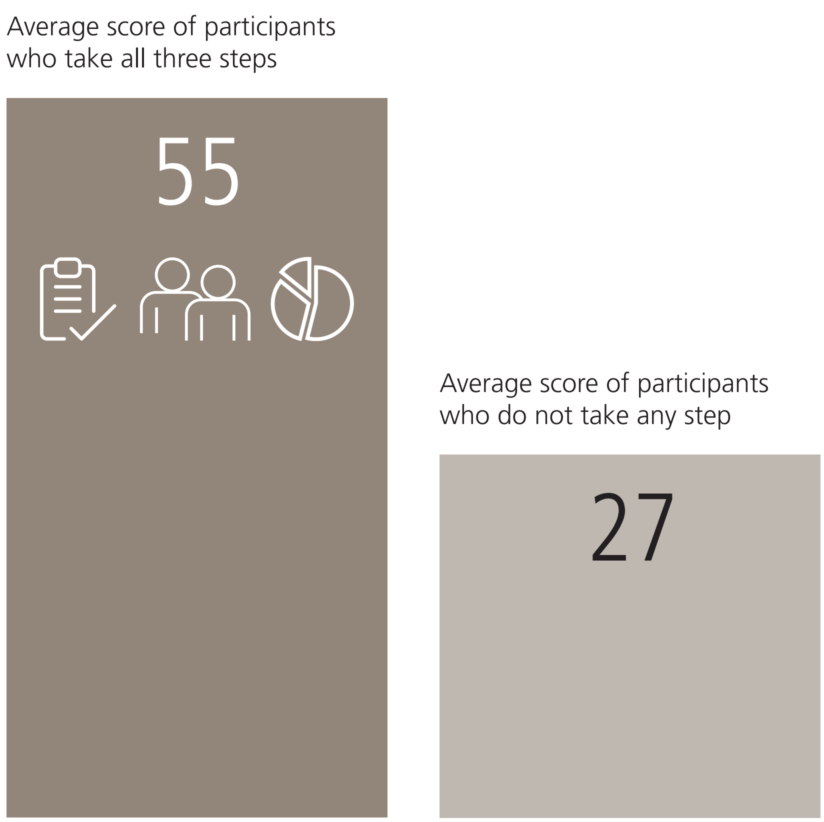
While each step makes a difference on its own, they are much **more powerful** in conjunction with each other. Plan participants who have taken all three steps score twice as high on the UBS Equity Award Value Index as those who have not. Moreover, these participants feel **more confident** in achieving their financial goals, including being able to retire on their own terms.

Plan participants who follow three key steps value their equity twice as much…

Each year companies grant more than $110 billion in equity to their employees, clearly a sizeable expense.* However, in our research among participants from a cross section of companies, industries and service providers, we've found that employers are right to have concerns about how much their employees value these awards. Only one out of three plan participants place significant value on the equity awards they receive, leaving two out of three who do not.

Our research also uncovered three keys steps that employees can take to derive more value from their equity awards. The three steps are: integrating equity awards into financial planning, receiving advice on managing equity holdings and diversifying some of their holdings. While each step makes a difference on its own, they are most effective together. In fact, participants who have taken all three steps place twice as much value on their equity awards as those who have taken none.

Index score doubles when plan participants take the three key steps



* Equilar, Inc. Based on 2,885 companies in the Russell 3000 that have fiscal year-ends of July 31, 2012, or more recent, and valued the grant-date fair value of options, stock appreciation rights, restricted stock and stock unit awards granted by companies during the most recent fiscal year. All information was pulled from the 10-K and was calculated using company-disclosed figures for grant-date fair value.

…and have greater confidence in achieving their goals

These steps have benefits beyond how much participants value their awards. Those who engage in planning, receive advice and diversify some of their equity holdings feel dramatically better about their finances. They are more confident about achieving goals and their financial wellness.

The three steps have a major impact on participant confidence

Percentage who agree with each statement.

" My advisors have been able to help me plan for the future after considering all aspects of my financial situation, including my stock distributions."

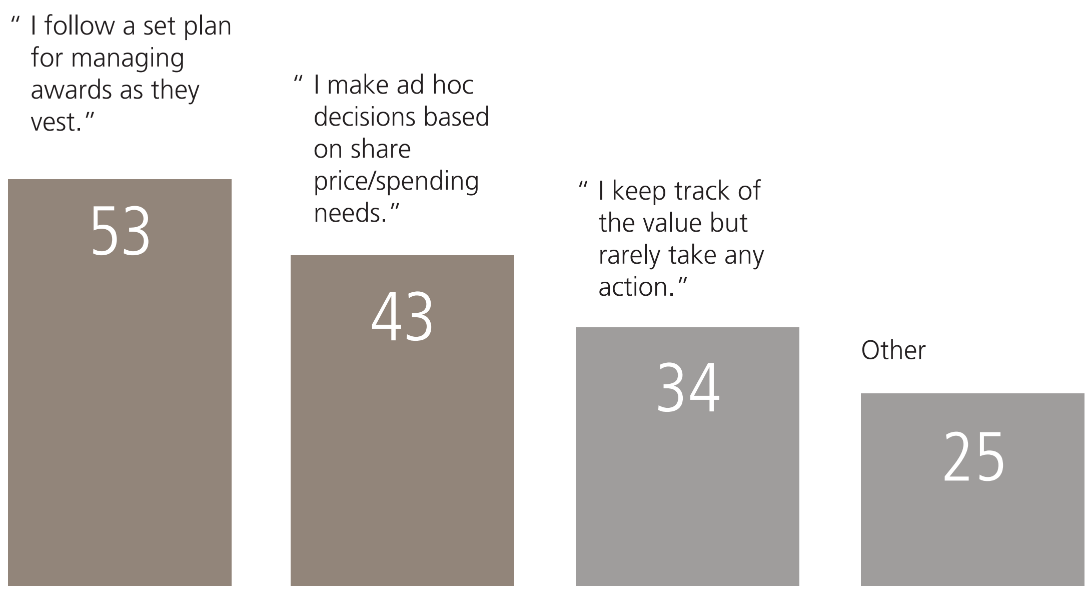
– *Male, 64*

Step 1: Building equity compensation into long-term financial planning...

The first step employees can take to derive more value from their equity compensation is to build it into their financial planning activities. Plan participants value their awards more when they have built financial plans that incorporate existing holdings as well as plans for managing future vestings. Additionally, participants who incorporate equity awards into their financial plans find the plans themselves to be much more useful than those with less comprehensive plans that don't take equity awards into account.

Equity awards most valued when participants follow a plan to manage them

Question: *"Which of the following best describes how you make decisions about your equity awards?" (Average index scores).*



" Planning helps me look at awards as part of my investments and retirement savings, not as part of my disposable income. This mentality that they're untouchable helps accelerate my savings."

– *Male, 28*

...leads to a more positive financial outlook

Employees who have built equity compensation into their financial plans are also more optimistic and confident regarding their finances. They are significantly more optimistic about their current financial situation as well as more confident about achieving their long-term financial goals.

Planning leads to increased optimism and confidence

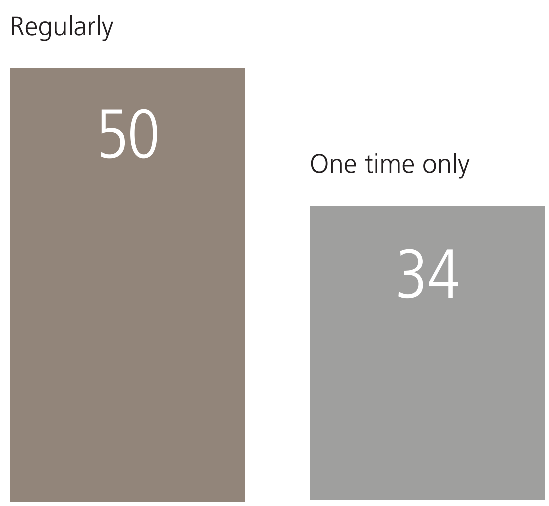
> "By making equity awards a piece of the larger puzzle, I have awareness of and ability to manage the particulars of my equity holdings in concert with my overall needs and other sources of income."
>
> – *Male, 60*

Step 2: Receiving advice on company stock holdings…

With a financial plan as the foundation, the next step for plan participants is to receive advice on their company stock holdings. Participants who discuss their equity awards with their advisor value these holdings more than those who do not, particularly when participants discuss the topic on a regular basis. The types of advice participants value the most are recommendations on how to diversify holdings, education on the risks of concentrated stock holdings and advice on a target price for selling shares.

Equity awards merit more than one conversation with an advisor

Question: "How often do you discuss your company stock holdings with your advisor?" (Average index scores.)



" My advisor gives solid guidance and recommendations based on market conditions. I converted a substantial part of my holdings using a structured approach he recommended. The timing was nearly ideal."

– *Male, 59*

...helps participants stay on the right track

The benefits of advice on equity compensation extend beyond helping employees derive more value from their equity awards. Receiving this type of advice helps plan participants feel better about their finances today and more confident in their ability to achieve their goals in the future, including being able to retire when and how they would like.

Advice is critical to confidence

Percentage who agree with each statement.

" My advisor knows what we need to have available to support our standard of living in retirement. This is a huge benefit as he has a big picture of all our finances and where we need to make tweaks to achieve our goal."

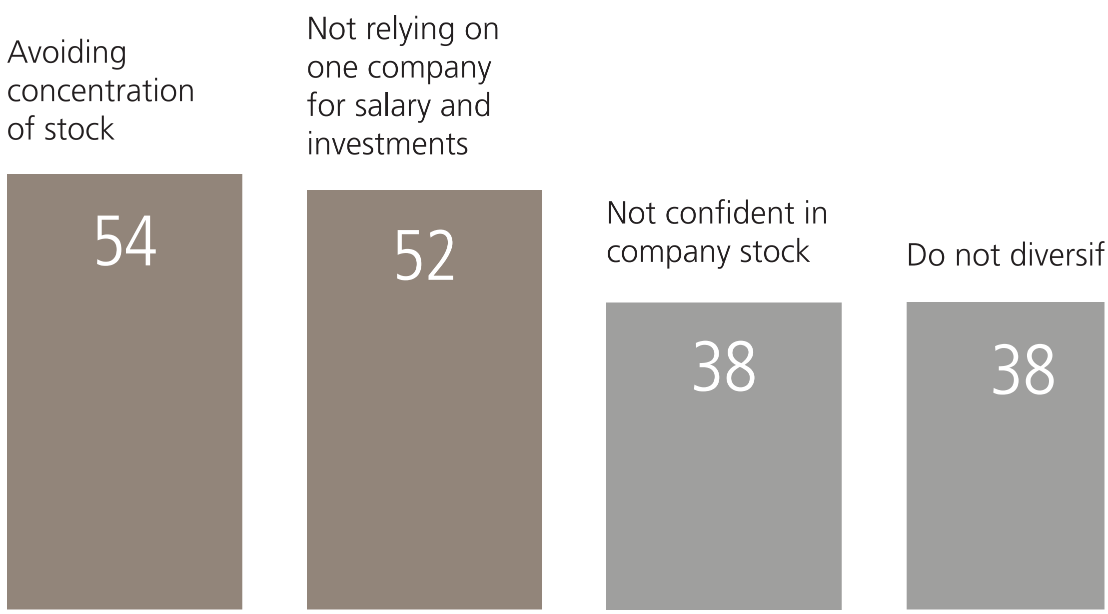
– Female, 48

Step 3: Diversifying company stock holdings…

One might think that when participants sell their company equity holdings, it means they don't value them. But actually the opposite is true. Those who diversify their equity holdings intoother investments value their equity compensation significantly more than those who don't. However, all reasons for diversifying are not equal. Those who diversify their holdings to avoid having too much wealth concentrated in one stock value their awards much more than those who diversify because they are not confident in the company stock. Additionally, those who diversify a portion of their holdings tend to value their awards more than those who sell all their vested shares.

All reasons for diversifying are not equal

Question: *What is the key reason you diversify your company stock into other investments? (Average index scores).*



" I don't want to have too much stock in the company I work for. While I expect both the company and its stock to thrive, if it doesn't, I would lose both my job and my investment."

– *Female, 52*

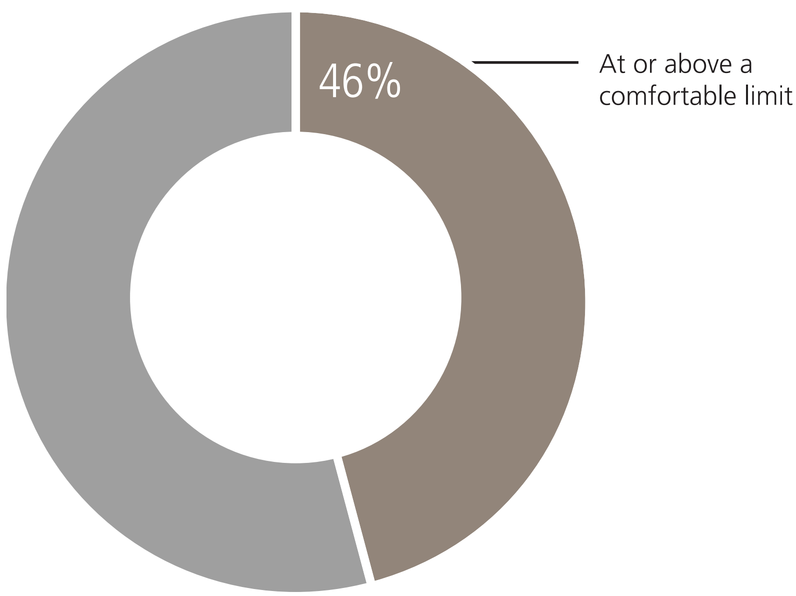
…helps participants avoid stock concentration

On average, company stock holdings represent 20% of participants' investable assets. Many employees have a limit in mind for what portion of their assets they are comfortable holding in their company stock. This self-defined limit helps them balance the growth opportunity without becoming too heavily concentrated in one stock. Among these employees, nearly half are either right at their self-defined limit or over it.

For many senior executives, there are also share ownership requirements, which means that having a diversification strategy across their entire portfolio is critical. For these executives, the value of following the three key steps of planning, advice and diversification may be even greater.

Many participants hold more company stock than they would like

Question: *"How much company stock do you hold vs. your self-defined limit of how much you feel comfortable holding?"*



" As I move closer to retirement, I don't need the growth potential as much asI need diversification in my investment portfolio."

– *Male, 50*

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** 2015, 2014, 2013, 2012 Group Five Stock Plan Satisfaction Survey.

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