# A guide to investing in unit investment trusts

*What you should know before you buy*

***Wells Fargo Advisors wants to ensure that you are investing in the products that best suit your financial situation, investment objectives, risk tolerance, time horizon, diversification, and liquidity needs. This guide will help you better understand the features, costs, and risks associated with unit investment trusts (UITs), as well as how your Financial Advisor and Wells Fargo Advisors are compensated when you invest in UITs. It will also help you take advantage of all available discounts as you work with your Financial Advisor. As always, if you have any questions about investing in UITs, please contact your Financial Advisor.***

## What is a unit investment trust (UIT)?

A unit investment trust is an investment company, registered with the Securities and Exchange Commission and primarily regulated under the Investment Company Act of 1940, that generally purchases a portfolio of stocks, bonds, or other securities. The portfolio is typically fixed and not actively managed or traded; the portfolio's securities are held relatively unchanged for the life of the UIT.

A UIT sponsor typically makes a "public offering" of "units" of the trust that represent an undivided ownership in the entire portfolio. When investors, called "unitholders," purchase units, they typically pay initial and deferred sales charges; these charges are discussed in more detail below.

A UIT will usually have a fixed termination date (a date when the trust will terminate and dissolve) that is established when the UIT is created, ranging from 13 months to as much as 30 years, depending on the type of holdings in the portfolio.

Unitholders have different options when the trust terminates, the most common of which include depositing their proceeds in cash into their Wells Fargo Advisors accounts or reinvesting in another trust, if available, at a reduced sales charge. UIT sponsors generally offer successive "series" of each UIT. The offering period for each new series coincides with the time that a prior series terminates. This method allows an investor to reinvest or purchase successive series of a UIT with the same objective or strategy but with a new portfolio of securities. Other options and the costs associated with each are described in more detail below.

There are primarily two categories of UITs: equity (stock) trusts and fixed-income (bond) trusts, which are described below. Within these categories, many trusts are available to suit a variety of investment objectives and risk levels, ranging from conservative to aggressive.

Some UITs use complex and specialized investment strategies. The sponsors of these trusts have the flexibility to invest widely across asset classes and may invest in alternative investments, such as commodities, foreign currencies, and derivatives; or the trusts are narrowly focused, with portfolios of nontraditional equity baskets.

**Read the prospectus**

*UITs are sold by prospectus. The prospectus contains information you should consider, including the UIT's investment objectives, risk, charges and expenses, and other information about the investment company. Your Financial Advisor can provide you with a prospectus for any UIT you may be considering. You should read it carefully before investing.*

The level and type of risk associated with UITs may vary significantly from one trust to another. It is important to have a complete understanding of the underlying products from which a UIT derives its value to evaluate the risks. In general, complex UITs are subject to a number of risks that include increased volatility and greater potential for loss, and are not suitable for all investors. The investment strategies and risks of each UIT are fully outlined in its prospectus.

## Types of UITs

### Equity UITs

Equity UITs are portfolios of preselected domestic and/or international stocks chosen for their potential to provide total return (the full amount an investment earns over time, which includes income from dividends and interest, as well as capital gains distributions and the increase or decrease in investment's net asset value). These trusts generally follow a buy-and-hold strategy and typically have stated termination dates that range from 13 months to five years. The three most common types of equity UITs are strategy trusts, sector trusts, and index trusts.

**Strategy trusts** — A strategy trust follows a predetermined investment strategy. The strategies seek to outperform relevant indexes by selecting portfolios using sound stock-selection strategies that reflect the historical behavior of the securities. There is no assurance that this objective will be met. The strategies may show back-tested (or historical market) results; however, an investment's past performance is not indicative of its future performance. The strategy dictates which stocks are chosen for the portfolio and remains the same for the life of the UIT portfolio.

Other strategy portfolios offer specific approaches, such as contrarian, growth and income, and emerging markets. An investor should consider his or her ability to participate in successive trust series because most strategies depend on a long-term investment horizon. Also, global/international investing involves risks not typically associated with U.S. investing, including currency fluctuations, political instability, uncertain economic conditions, and different accounting standards. These risks are heightened in emerging markets.

**Sector trusts** — Sector portfolios are primarily composed of investments in companies that are involved in a specific industry, such as pharmaceuticals, energy, technology, financial services, or health care. Sector portfolios seek to provide capital appreciation by identifying market trends in specific areas and investing in the companies that are best-positioned to potentially benefit from those trends. Sector UITs generally have stated termination dates that range from 13 months to five years. This type of UIT enables you to own a diversified portfolio of stocks within an industry without committing a substantial amount of capital or time. Sector trust's concentration in one industry may foster greater risks due to its lack of diversification. In addition, it is important to note that sector trusts focused on the stocks of smaller, less-seasoned companies, tend to be more volatile than the overall market.

**Index trusts** — These trusts are portfolios of stocks based on certain market indexes (such as the Nasdaq 100, the S&P 500, or the Dow 30). They are generally more suitable for investors with a long-term investment horizon.

### Fixed-income UITs

Many fixed-income UITs consist of a single category or pool of bonds that may have the same maturity date as the termination date of the trust. Common portfolio choices for these UITs include corporate bonds, international bonds, state municipal bonds, national municipal bonds, government securities, and mortgage-backed securities. The prospectus provides information about the stated maturities, quality ratings, and call dates (time frame that may allow the issue to call back the UIT) for all bonds held in a UIT.

## Features and characteristics

Some of the key features and characteristics associated with investing in UITs include the following:

**Professionally selected portfolios** — Unlike mutual funds, UITs are not professionally managed; however, UITs provide specific portfolios that are professionally selected by the UIT sponsor to pursue a stated investment objective. A team of experienced professionals conducts research and chooses securities they believe will best meet the goals established for each portfolio.

Once the portfolio is chosen, its holdings are typically constant. Investors also benefit from knowing (more or less) what they are investing in for the duration of their investment. The portfolio securities held by the UIT are listed in its prospectus.

**Diversification** — UIT portfolios can be diversified across many different securities, offering a set of portfolios for almost every asset-allocation need. This diversification can help reduce an investor's risk by offsetting potential losses from some securities with potential gains in others. Of course, the individual securities in the UIT portfolios and the net asset value of the portfolios will fluctuate in price. Also, bear in mind, diversification does not guarantee a profit or protect against a loss in a declining market.

**Daily liquidity** — Although many investors purchase units with the intention of holding them until the trust's termination date, units may be redeemed on any business day at the established redemption price, which — on the specified date — may be more or less than your original purchase price. Trusts are required by law to redeem units at their net asset value, which is based on the current market value of the underlying securities. Upon redemption, any outstanding deferred sales charges will also be deducted. For more information, please see the section on "Costs of Investing in UITs".

**Ease of ownership** — With one low minimum purchase, investors can own a diversified portfolio of securities without making a substantial commitment of capital or time. The minimum investment requirement is outlined in the UIT prospectus.

**Secondary market** — Although there is no regular secondary market for UITs, investors can redeem their units minus applicable sales charges as noted above. Also, most UIT sponsors maintain a secondary market in units which allows owners of UIT units to sell their units back to the sponsors and allows other investors to buy UIT units from such sponsors before maturity.

**Defined Portfolio** — Unlike actively managed funds that continually buy and sell securities, thereby changing their investment mix, the stocks or bonds held in a UIT remain fixed. Except in certain limited circumstances, securities will not be sold and new securities will not be added to the trust.

## Risks

UITs are not actively managed, and so securities in the trust will not be sold to take advantage of changing market conditions. The trust may continue to hold securities even if their market value and dividend yields may have changed. A UIT generally carries the same investment risk(s) as the portfolio of securities within it. Securities in a trust may depreciate, and the trust may not achieve its intended objective. In addition, each trust is subject to specific risks that vary depending on the trust's investment objectives and portfolio composition.

**Fixed Income UITs** — It is possible to lose money by investing in a bond UIT, especially during periods of rising interest rates. Bond prices are negatively correlated to interest rates, so as general market interest rates rise, the price of a bond could decrease. The greater the movement in interest rates, the greater impact potential on a bond's price. The opposite is true as well; if rates fall, bond prices could rise. Bond UITs are subject to the same risks as their underlying investments which may include but are not limited to; credit quality, duration, liquidity, and security structure. Fixed Income UITs are not cash alternatives or money market fund equivalents. It is also important to note that fixed-income UITs that invest in U.S. Treasury obligations are not completely backed by the full faith and credit of the United States. For these UITs, the U.S. government's guarantee applies only to the underlying securities in the trust's portfolio if held to maturity and not to the value of the trust's units.

**Municipal Bond UITs** — Investments in municipal securities are subject to the creditworthiness of their issuers. Muni UITs are subject to the same risks as their underlying municipal securities. Economic issues may impact the performance of the municipal bond issuer, as a result, principal is at risk or subject to fluctuation. For instance, if the underlying muni issuer defaults or the security is downgraded, then the value of your portfolio may also decrease. Some single state municipal bond funds may offer tax benefits but lack the diversification of a national UIT. Single state muncipal UITs can, and often do, hold securities from outside that state — including U.S. territories.

**Senior Loan UITs (also called floating rate UITs)** — Senior Loan UITs invest in high-yield securities (sometimes called junk bonds). These securities are rated below investment grade by one or more of the nationally recognized rating agencies or may not be rated by a rating agency. They are considered speculative and carry increased risks of price volatility, underlying issuer creditworthiness, illiquidity, and the possibility of default in the timely payment of interest and principal, which may impact the value of your portfolio.

**Complex Unit Investment Trust** — Some unit investment trusts employ complex and specialized investment strategies. These trusts may be given the flexibility to invest widely across asset classes and are more commonly investing in alternative investments such as commodities, foreign currencies, and derivatives or narrowly focused portfolios of nontraditional equity baskets. The level and type of risk associated with UITs may vary significantly from one trust to another. It is important to have a complete understanding of the underlying products from which a UIT derives its value in order to evaluate risks. These risks are outlined in full in the trust's prospectus. Complex UITs are subject to a number of risks including increased volatility and greater potential for loss and are not suitable for all investors. These and other risks are described in the UIT's prospectus.

**Alternative Unit Investment Trusts** — Alternative unit investment trusts (alt UITs) seek to accomplish the trust's objectives through nontraditional investments and trading strategies. Alt UITs might invest in assets, such as global real estate, commodities, leveraged loans, start-up companies, and unlisted securities that offer exposure beyond traditional stocks, bonds, and cash. Real estate investments have special risks, including possible illiquidity of the underlying properties, credit risk, interest rate fluctuations, and the impact of varied economic conditions. Investing in commodities is not suitable for all investors. Exposure to the commodities markets may subject an investment to greater share price volatility than an investment in traditional equity or debt securities. Investments in commodities may be affected by changes in overall market movements, commodity index volatility, changes in interest rates, or factors affecting a particular industry or commodity.

The strategies alternative UITs employ may be complex. Examples include hedging and leveraging through derivatives, short selling, and "opportunistic" strategies that change with market conditions as various opportunities present themselves. Some alt UITs employ single strategy (single-strategy funds), while other trusts may utilize multiple strategies within the same trust.

Alt UITs are managed to a wide range of investment objectives. In some cases, the trust's primary objective may be to generate above-market returns. In other cases, a trust's main goal may be to help investors better manage risk with strategies designed to smooth out volatility or offer greater diversification. Alt UITs are not suitable for all investors, and it's important to understand the strategy of the trust you are purchasing.

In addition to the aforementioned characteristics, alt UITs may have relatively higher expense ratios when compared to traditional trusts. Please see the trust's prospectus for details, as well as other characteristics and potential risks.

**Concentrated Products** — Some UITs may be concentrated by the number of holdings or within a particular industry or sector. Such concentration may make the value of a UIT more susceptible to portfolio fluctuation. The number of holdings in a trust may be obtained from the trust's prospectus.

**Foreign Securities** — Certain trusts invest in securities (equity and fixed income) of foreign companies. Investing in securities of developed, emerging market, and frontier market countries involves certain risks not typically associated with investing solely in the United States. Investments in foreign securities may magnify volatility due to changes in foreign exchange rates, the political and economic uncertainties in foreign countries, and the potential lack of liquidity, government supervision, and regulation. Changes in the exchange rates of the foreign currencies of the securities relative to the U.S. dollar will affect the value of the trust's income and assets. These changes could be material and will affect the amount of your distribution.

**Before you invest**

*Please ask your Financial Advisor about the product features, discounts, and associate rules before investing in or rolling over proceeds of any UIT. A prospectus for any unit investment trust contains this and other information, and can be obtained by contacting your Financial Advisor. Read it carefully before you invest.*

## Tax treatment

Generally, unitholders are subject to income taxes on the interest, dividends, and/or capital gains distributed to them from the UIT portfolio. However, in retirement accounts like IRAs, taxes are deferred until distributions are taken from the account. Also, when an investor sells, exchanges, or rolls over units of the portfolio, he or she will generally realize a taxable gain or loss that should be reported on his or her income tax returns. Nonresident aliens may be subject to special tax withholding and reporting requirements as a result of a UIT distribution. Unitholders should review the prospectus for further details.

You should be aware that there may be complex tax-reporting requirements and consequences if you roll over, sell, or exchange your UIT. If you have questions about tax matters associated with investment decisions regarding your UIT, you should consult with your tax advisor or attorney.

## Costs of investing in UITs

The UIT prospectus includes a fee table that lists the charges you pay. UIT investors generally pay an initial sales charge, a deferred sales charge, a creation and development fee, organizational costs, and an annual trust-operating expense. The application of these charges may vary, depending on the sponsor, the length of the trust, and whether the UIT is an equity trust or a fixed-income trust. In addition to the fees outlined in the prospectus, you may be assessed a ticket charge or an administration fee for purchases and sales of unit investment trusts through Wells Fargo Advisors. Your Financial Advisor does not receive compensation from the ticket charge or administration fee. Costs of investing in UITs within fee-based accounts are also described below.

**Sales charges** — These charges provide compensation for the UIT sponsor, Wells Fargo Advisors, and your Financial Advisor, who help you select UITs that suit your investment objectives. Sales charges are classified as "initial" and "deferred." The initial sales charge is paid at the time of purchase. The deferred sales charge is paid monthly from the trust assets. The amount and timing of the deferred sales charge, if applicable, varies by trust and sponsor. For example, some equity trusts will charge the trust assets a certain amount of deferred sales charge for three consecutive months, whereas others will charge the trust assets a certain amount for six consecutive months.

Upon redemption prior to the trust maturing, any outstanding deferred sales charges will be deducted. Please consult the fee table within the prospectus for specific information on sales charges.

**Creation, development, and organization fees** — The trust sponsor receives these fees from the trust for creating and developing the trust, and organizing and offering the portfolio. These fees are generally charged at the end of the initial offering period and is paid directly from trust assets.

**Estimated annual trust-operating expenses** — These charges typically pay for portfolio supervision, bookkeeping, administration, evaluation, and various other operating expenses. They are paid from the trust assets.

**Fee-based accounts** — UITs may also be available for purchase through select fee-based, or advisory accounts offered by Wells Fargo Advisors. Instead of paying the initial and deferred sales charges, clients pay an annual fee that is billed quarterly in advance and based on a percentage of the total value of the account's eligible securities. Clients in such an account will continue to pay the creation and development fees, organizational costs, and annual trust operating expenses. Please ask your Financial Advisor about the availability of UITs in fee-based accounts.

## Considerations at trust termination

Most UITs have a mandatory termination date, which is described in the prospectus. Upon termination, you have the following choices regarding their proceeds.

**Rollover** — Use the proceeds from the maturing trust to purchase another UIT.

**Cash** — Generally, UIT sponsors automatically choose this option if no other instructions are received from the client by the termination date of the UIT.

**In-kind distribution** — UIT sponsors may allow eligible clients to receive a distribution of the shares of securities held within the UIT. This option may reduce the value of the distribution as a result of customer transfer and registration charges.

## How your Financial Advisor and Wells Fargo Advisors are compensated

For helping clients with their UIT choices, Wells Fargo Advisors and your Financial Advisor are compensated in ways that vary depending on the type and terms of the UIT selected. The UIT sponsor pays Wells Fargo Advisors from the fees paid by you. Part of that payment goes to your Financial Advisor.

For most purchases, a Financial Advisor's compensation is based on the sales concession that is set by the UIT sponsor and described in the prospectus. Wells Fargo Advisors may also be compensated for participating in the underwriting of a fixed income UIT. The concession paid by the sponsor to an underwriter is outlined in the prospectus, and will increase as the underwriter's initial agreement dictates.

In certain fee-based accounts, a Financial Advisor's compensation is based on a percentage of the assets in the account, rather than on the concession as mentioned above. For sales in the secondary market (after issue), a Financial Advisor is paid a percentage of the spread (the difference between the bid and ask prices) for the specific trust as priced within the market.

The compensation formula that determines the amount of payment to your Financial Advisor is generally the same for all UITs. However, some UITs may carry higher sales charges than others, which may create an incentive for Financial Advisors to sell these trusts. Typically, UITs with longer maturities pay higher sales concessions to Wells Fargo Advisors and its Financial Advisors.

Additionally, within the division that operates in some Wells Fargo branches, both Financial Advisors and Licensed Bankers can assist you with your UIT investment needs. A Licensed Banker is a Wells Fargo bank associate who is registered with Wells Fargo Advisors to sell only certain investment products.

## Additional compensation received by Wells Fargo Advisors from UIT sponsors

In addition to sales concessions, Wells Fargo Advisors receives payments from many of the financial-services firms whose UITs it sells. Additional sales-volume concessions may be paid to Wells Fargo Advisors as described in each financial-services firm's UIT prospectus. These contributions may be used for a number of purposes, including training and educational conferences and meetings for our Financial Advisors. For participating in the underwriting of a fixed-income UIT, the sponsor may also pay Wells Fargo Advisors a percentage of the accumulated profit that was made in purchasing the underlying bonds for the portfolio before the initial deposit date of the UIT.

UIT sponsors may direct securities transactions to Wells Fargo Advisors for which we receive compensation. This compensation is in no way related to the foregoing payment obligation and only reflects Wells Fargo Advisors selection by sponsor on the basis of best execution.

Four UIT sponsors — First Trust Portfolios, Invesco, LTD, Guggenheim Funds Distribution, and Advisors Asset Management — made such payments to Wells Fargo Advisors in 2015.

Wells Fargo believes that these financial arrangements do not compromise the service that your Financial Advisors offers to you. The payments received from the financial-services firms are not part of the compensation formula for your Financial Advisor, and these payments do not affect your sales charges for the UIT purchase.

### Training and education compensation

Wells Fargo Advisors offers multiple ways for UIT sponsors to provide training and education to our Financial Advisors. This training and education may be offered in local branch offices or in larger group settings, including at the national level. Certain UIT sponsors have agreed to dedicate resources and funding to provide this training and education at our nationally-organized events. This commitment could lead our Financial Advisors to focus on the UITs offered from these UIT sponsors versus the UITs offered by sponsors which are not represented during these training and education support sessions. Wells Fargo Advisors selects the UIT sponsors that participate in the training and education events based on a variety of qualitative and quantitative criteria. The subset of UIT sponsors that offer this support and participate in nationally-organized training and education events may change periodically.

UIT sponsors may also provide compensation to offset or reimburse Wells Fargo Advisors for costs incurred in conducting comprehensive training and educational meetings for its Financial Advisors. These meetings or events are held to teach Financial Advisors about the product characteristics, sales materials, suitability, customer support services, and successful sales techniques as they relate to various UITs.

Likewise, from time to time, product sponsors will reimburse Wells Fargo Advisors for expenses incurred by individual branch offices in connection with conducting training and educational meetings, conferences or seminars for Financial Advisors and customers. Also, Financial Advisors may receive promotional items, meals or entertainment or other noncash compensation from product sponsors.

Although training and education compensation is not related to individual transactions or assets held in client accounts, it is important to understand that, due to the total number of product sponsors whose products are offered by Wells Fargo Advisors, it is not possible for all UIT sponsors to participate in a single meeting or event. Consequently, those product sponsors that do participate in training or educational meetings, seminars, or other events gain an opportunity to build relationships with Financial Advisors; these relationships could lead to additional sales of that particular fund company's products.

## Wells Fargo Advisors incentive programs

From time to time, Wells Fargo Advisors initiates incentive programs for all of its team members, including Financial Advisors. These programs include, but are not limited to, the following: programs that compensate associates for attracting new assets and clients to Wells Fargo Advisors or referring business to its affiliates (such as referrals for mortgages, trusts, or insurance products), programs that reward associates for promoting investment advisory services, preparing *Envision*SM investor reviews, participating in advanced training, improving client service, and programs that reward Financial Advisors who meet total production criteria.

Financial Advisors who participate in these incentive programs may be rewarded with cash and/or noncash compensation, such as deferred compensation, bonuses, training symposiums, or recognition trips. Portions of these programs may be subsidized by external vendors and Wells Fargo Advisors affiliates, such as mutual fund companies, insurance carriers, or money managers. Therefore, Financial Advisors and other associates have financial incentives to recommend the programs and services included in these firm-sponsored incentive programs rather than other available products and services offered by Wells Fargo Advisors.

## Your relationship with Wells Fargo & Company

Wells Fargo appreciates your confidence and wants to make your brokerage and banking relationships clear and convenient for you. Your Wells Fargo Advisors Financial Advisor may serve as your Relationship Manager not only for your brokerage accounts and services with Wells Fargo Advisors, but also for products and services with Wells Fargo Bank, N.A, including trust accounts of which you may be a beneficiary or agency accounts in which you may have an interest. Wells Fargo Bank, N.A. is a banking affiliate of Wells Fargo & Company.

## Additional information

To learn more about unit investment trusts, ask your Financial Advisor or visit the following Web sites:

Wells Fargo Advisors

wellsfargoadvisors.com

Financial Industry Regulatory Authority

finra.org

Securities and Exchange Commission

sec.gov

Securities Industry and Financial Markets Association

sifma.org

The responsibilities of Wells Fargo Advisors and your Financial Advisor, when acting in a brokerage or investment advisory capacity or in introducing you to a banking product or service, are different from the responsibilities of Wells Fargo Bank and your Financial Advisor when acting in a role as Relationship Manager for a Wells Fargo Bank trust or agency account. Your Financial Advisor, in a brokerage or investment advisory capacity, may recommend or assist you with a transaction that does not concern the Wells Fargo Bank trust or agency account for which he or she will be compensated. If you decide to enter into such a transaction, you will receive specific disclosures in connection with the transaction, including all relevant information and a description of the compensation that your Financial Advisor will receive. You will have the opportunity to ask for more information about the compensation to your Financial Advisor on such a transaction.

If you have questions about any product or service offered or what role your Financial Advisor or any other Wells Fargo team member is serving, or what compensation is being paid with respect to any product or service, please ask your Relationship Manager or Financial Advisor.

## Talk to your Financial Advisor

Determining whether UITs are an appropriate investment strategy for you requires an in-depth evaluation of your individual financial situation and the objectives you want to achieve. Talk to your Financial Advisor today about how UITs may help you work toward your investment goals.