University of Hawai‘i, Board of Regents, 2444 Dole Street, Bachman 209, Honolulu, HI 96822
Telephone No. (808) 956-8213; Fax No. (808) 956-5156

Notice of Meeting

UNIVERSITY OF HAWAI‘I

BOARD OF REGENTS COMMITTEE ON BUDGET AND FINANCE

Members: Regent Higaki (Chair), Regent Kudo (Vice-Chair), and Regents Acoba, Doctor Sparks, McEnerney, Shinsato, and Tagorda

Date: Wednesday, November 1, 2017

Time: 9:00 a.m.

Place: University of Hawai‘i at Mānoa
Information Technology Building
1st Floor Conference Room 105A/B
2520 Correa Road
Honolulu, Hawai‘i 96822

AGENDA

I. Call Meeting to Order

II. Approval of Minutes of the September 7, 2017 Meeting

III. Public Comment Period for Agenda Items: All written testimony on agenda items received after posting of this agenda and up to 24 hours in advance of the meeting will be distributed to the board. Late testimony on agenda items will be distributed to the board within 24 hours of receipt. Written testimony may be submitted via US mail, email at bor@hawaii.edu, or facsimile at 956-5156. Individuals submitting written testimony are not automatically signed up for oral testimony. Registration for oral testimony on agenda items will be provided at the meeting location 15 minutes prior to the meeting and closed once the meeting begins. Oral testimony is limited to three (3) minutes. All written testimony submitted are public documents. Therefore, any testimony that is submitted verbally or in writing, electronically or in person, for use in the public meeting process is public information.

IV. Agenda Items

A. Recommend Board Approval

1. ASUH selected Investment Managers and Fund Investments for the ASUH stadium stock fund
2. UBS Contract Revision – Institutional Consulting Services Agreement
3. FY19 Supplemental Budget Request

   Link to FY19 Supplemental Budget Request
4. Tax Exempt Lease-to-Purchase (TELP) Resolution
5. 2017-18 UH Revenue Bond Resolution

B. For Information

1. FY18 First Quarter Financial Report
2. FY16 Bond Compliance Report

V. Adjournment

Accommodation required by law for Persons with Disabilities requires at least (5) five days prior notice to the board office at 956-8213 or bor@hawaii.edu.

DT 7902
DTS 18532

Associated Students of the University of Hawai'i at Mānoa
2465 Campus Rd, Campus Center Room 211A
Honolulu, Hawai'i 96822
Phone: (808) 956-4822

UNIVERSITY OF HAWAII
BOARD OF REGENTS
17 OCT 26 A11:20

ASUH
Associated Students of the University of Hawai'i
YOUR STUDENT GOVERNMENT

October 5, 2017

MEMORANDUM

TO: Jan Naoe Sullivan
Chairperson, University of Hawai'i Board of Regents

Wayne S. Higaki
Chairperson, BOR Committee on Budget and Finance

Benjamin Asa Kudo
Vice Chairperson, BOR Committee on Budget and Finance

VIA: David Lassner
President, University of Hawai'i System

VIA: Kalbert Young
Vice President for Budget and Finance/ Chief Financial Officer
University of Hawai'i System

VIA: David Lassner
Interim Chancellor
University of Hawai'i at Mānoa

VIA: Lori Ideta
Interim Vice Chancellor for Students
University of Hawai'i at Mānoa

FROM: Jannah Lyn Dela Cruz
President, 105th Senate
Associated Students of the University of Hawai'i at Mānoa (ASUH)

Maggie Hinshaw
Treasurer, 105th Senate
Associated Students of the University of Hawai'i at Mānoa (ASUH)

Clinton Ng
Chairperson, Committee on Investments and Long Range Planning, 105th Senate
Associated Students of the University of Hawai'i at Mānoa (ASUH)

UNIVERSITY OF HAWAII
PRESIDENT'S OFFICE
'17 OCT 11 A9:22
RECEIVED

SUBJECT: Approve the Hiring of Investments Managers and Investing in Index Funds

SPECIFIC ACTION REQUESTED

It is requested that the Board of Regents approve the ASUH request to hire Investment Managers and invest in Index Funds for the ASUH Stadium Stock Fund.

This action would approve Investment Managers and Index Fund investments from the categories: Large Cap Equity, Small-Mid Cap Equity, Small Cap Equity, Developed, and Core Fixed.

The proposed Investment Managers are:

Small-Mid Cap Equity:	Golden Capital Small Mid Cap;
Developed:	Cambiar International;
Core Fixed:	Boyd Watterson Ultra Enhanced Core;

The proposed Index Fund Investments are:

Large Cap Equity	iShares Core S&P 500 ETF;
Small Cap Equity:	Vanguard Small Cap ETF;
Developed:	iShares Core MSCI EAFE ETF;

RECOMMENDED ACTION DATE

Upon approval of the Board of Regents.

PURPOSE FOR ACTION

The purpose of this request is gain approval for ASUH to hire Investment Managers and to invest in Index Funds.

ASUH highly values having Investment Managers to assist the organization with the management of its investments. The health of the ASUH Stadium Stock Fund is very important to ASUH since in line with BORP 8.207E (8C) up to 5% of the fund's value can be used to provide programs and services for students. This 5% represents approximately 80% of ASUH's annual operating budget. The value of the fund as of September 19, 2017 is $8,891,593. In addition, BORP 8.207E (3) requires ASUH have Investment Managers.

BACKGROUND INFORMATION

The ASUH Stadium Stock Fund represents proceeds from the sale of 1,481 shares in the old Honolulu Stadium that the ASUH acquired during the period 1936 through 1944. Of the total 1,481 shares acquired, 1,089 shares were purchased by ASUH, 260 were gifts from James Cockburn, George I. Brown, Otto Klum, J. Waterhouse, the Von Holts, Alice and J.P. Cooke, Charles Reed Hemenway, and R.P. Borthwick; and 132 were stock dividends.

Prior to the sale, ASUH and the University administration were engaged in determining ASUH's legal ownership of, and its authority over the disposal of said stocks. Attorney General (AG) Opinion 60-126, dated December 8, 1960, concluded that ASUH is an "unincorporated association acting independently of the Regents, under the powers granted by the Regents" and therefore, the disposal of the stadium stock held by ASUH should "be decided on by the ASUH Senate." Four years later on December 4, 1964, AG Opinion 64-56 was issued indicating that the ASUH was "free to sell the stock of Honolulu Stadium, Limited, which it holds if the proper officers thereof, in the exercise of sound fiduciary judgment, determine that such disposition is in the best interest of the ASUH." After the stocks were liquidated and distributed, a check was issued in the name of the "Associated Students of the University of Hawaii" dated October 1, 1976 for the amount of $839,258.77. For the next two years, 1976-77 and 1977-78, ASUH and the University administration worked out interim procedures allowing ASUH use of capital receipts from the purchased shares. By January 1979, agreement on more permanent protocols for the use of the capital receipts was reached between the BOR and ASUH and embodied as BORP 8.211 (Resolution on Use of New Income, Principal, and Investment of ASUH-Mānoa Stadium Stock Fund). Finally, by June 1979, the BOR adopted a new policy related to the ASUH Stadium Stock and Investment Policy Objectives & Guidelines.

The ASUH Stadium Stock Fund investment policy, BORP 8.207E was revised in its content by the BOR on July 22, 1983. Recognizing its longstanding responsibility to ensure that overall ASUH Stadium Stock Fund should be managed in a well-diversified manner to avoid significant impairment of capital, the ASUH Committee on Investments and Long Range Planning sought to update the investment policy and the current policy was revised in content by the BOR at its regular meeting on April 12, 2012.

Following BOR approval on May 21, 1999, Merrill Lynch was appointed as the Third-Party Monitor to assist ASUH with the management of the ASUH Stadium Stock Fund. The change of BOR policy on April 12, 2012 renamed the Third-Party Monitor to the Investment Consultant/Financial Advisor. From June 1999 through Spring 2015 ASUH worked with Merrill Lynch. In Spring 2015, Merrill Lynch formally resigned as the ASUH Investment Consultant/Financial Advisor.

In late Spring 2015 the Board of Regents approved the hiring of Graystone Consulting, a Morgan Stanley Company, to become the ASUH Investment Consultant/Financial Advisor. Following this decision by the Board of Regents, Merrill Lynch, ASUH's former Investment Consultant/Financial Advisor that was leaving the realm of public fund investing, requested transition of securities before an agreement could be drafted and agreed upon with Graystone Consulting. During this transition period, the ASUH Committee on Investments and Long Range Planning worked with Susan Lin, UH Director of Financial Management and Controller as well as Wendell Ho, former UH Treasury Officer to house the securities. The securities of the ASUH Stadium Stock Fund was housed with Bank of Hawai'i during the transition from Merrill Lynch to Graystone Consulting.

From Fall 2015 through June 2017, the ASUH Committee on Investments and Long Range Planning reviewed the initial draft of the agreement with Graystone Consulting. The Committee Chairperson, consulted with Duff Zwald, Director of Office of Procurement and Real Property Management, and Kalbert Young, UH Vice President for Budget and Finance and Chief Financial Officer in the review process. Subsequent drafts of the agreement were reviewed by the Committee Chair, ASUH President, ASUH Treasurer, and also sent for review and approval by the aforementioned. VP Young also consulted with Carrie Okinaga, Vice President of Legal Affairs and General Counsel in the stage before the agreement with Graystone Consulting was finalized. ASUH acknowledges that transitions of members of the ASUH Committee on Investments and Long Range Planning as well as ASUH Executive Officers during this timeframe made this process a bit longer than ideal. However, it was important to take the time necessary for key ASUH representatives to have sound understanding of and reach consensus on the terms of the agreement with Graystone Consulting. Fortunately, during this timeframe the market was healthy and the Fund grew from $8,281,805 to $8,891,593, an increase in value of $609,788. This does not include the total payouts of $575,000 withdrawn during this same time frame.

From July 2017 through August 2017, the current members of the ASUH Committee on Investments and Long Range Planning worked in conjunction with Graystone Consulting to set-up a new account to move the securities being held at Bank of Hawai'i into the new account at Graystone Consulting. Whenever appropriate, ASUH works with the authorized University representatives with signing authority for the account, the Director of Financial Management/Controller, and the Vice President for Budget and Finance/CFO.

Graystone Consulting contractually became the ASUH Investment Consultant/Financial Advisor on September 1, 2017. Graystone Consulting provided ASUH with recommendations on Investment Managers and Index Fund Investments. At a meeting on September 19, 2017, the ASUH Committee on Investments and Long Range Planning unanimously approved the hiring of

Investment Managers and investing in Index Funds as recommended by Graystone Consulting. The process used by Graystone Consulting in developing the proposal is in line with BORP 8.207E(10d), to screen and classify all investment managers, compare all investment managers against their peers to find top performers who ranked in the top 33rd percentile over trailing 3, 5, and 10-year periods, to determine consistency of the returns, and to determine the level of risk the Investment Managers take to achieve returns.

The ASUH Senate unanimously approved the proposed hiring of Investment Managers and investing in Index Funds at its General Senate meeting on October 4, 2017.

ACTION RECOMMENDED

It is recommended that the Board of Regents approve ASUH's request to hire Investment Managers and invest in Index Funds for the ASUH Stadium Stock Fund.

Attachment:
ASUH Senate Resolution 03-18: APPROVE THE HIRING OF INVESTMENT MANAGERS AND INVESTING IN INDEX FUNDS FOR THE ASUH STADIUM STOCK FUND

c: Melissa Matsuura, Executive Assistant to the Board of Regents
Susan Lin, Director, Financial Management and Controller
Bonnyjean Manini, ASUH Faculty Advisor
M. Healani Sonoda-Pale, ASUH Operations Manager
Davin Kubo, Graystone Consulting
Peter Backus, Graystone Consulting

ASSOCIATED STUDENTS OF THE UNIVERSITY OF HAWAI'I AT MĀNOA
2465 Campus Road, Campus Center 211A
Honolulu HI 96822

SENATE RESOLUTION 03-18

APPROVE THE HIRING OF INVESTMENT MANAGERS AND INVESTING IN INDEX FUNDS FOR THE ASUH STADIUM STOCK FUND

BE IT ENACTED BY THE UNDERGRADUATE SENATE:

WHEREAS, the Associated Students of the University of Hawai'i at Mānoa Senate is the elected body representing approximately 10,000 full-time classified undergraduate students; and,

WHEREAS, 1,481 shares of stock of Honolulu Stadium, Ltd., were held in the name of the ASUH; and,

WHEREAS, upon liquidation of said Honolulu Stadium, Ltd., proceeds of $839,258.77 were paid in respect of said 1,481 shares and used to constitute the "ASUH Stadium Stock Fund"; and,

WHEREAS, the Board of Regents of the University of Hawai'i and the ASUH agree upon an investment policy (BORP 8.207E) for the ASUH Stadium Stock Fund; and,

WHEREAS "the investment of the ASUH Mānoa Stadium Stock Fund's asset shall be for the exclusive purpose of providing benefits to ASUH and defraying reasonable expenses of administering the ASUH Mānoa Stadium Stock Fund" (BORP 8.207E); and,

WHEREAS, in late Spring 2015, ASUH's former Investment Consultant/Financial Advisor, Merrill Lynch, formally resigned and the Board of Regents approved the hiring of Graystone Consulting, a Morgan Stanley Company; and,

WHEREAS, following this action, former Investment Consultant/Financial Advisor, Merrill Lynch requested immediate transition of securities before an agreement could be drafted, reviewed, or formalized with Graystone Consulting; and,

WHEREAS, during this transition, the Committee on Investments and Long Range Planning worked with Susan Lin, UH Director of Financial

Management and Controller as well as Wendall Ho, former UH Treasury Officer to house the securities; and,

WHEREAS, during this transition, the securities of the ASUH Stadium Stock Fund was housed with Bank of Hawai'i; and,

WHEREAS, the Committee on Investments and Long Range Planning worked from Fall 2015 through June 2017 with the assistance of Duff Zwald, Director of Office of Procurement and Real Property Management and Kalbert Young, UH Vice President for Budget and Finance and Chief Financial Officer, in consultation with Carrie Okinaga, Vice President of Legal Affairs and General Counsel to reach a legal agreement with Graystone Consulting; and,

WHEREAS, from July 2017 through August 2017, the Committee on Investments and Long Range Planning worked with Graystone Consulting to open a new account and to have the ASUH securities being held at Bank of Hawai'i moved to said account; and,

WHEREAS, on September 1, 2017, Graystone Consulting officially became the new Investment Consultant/Financial Advisor for the ASUH Stadium Stock Fund; and,

WHEREAS, as specified by Board of Regents policy, ASUH may use up to 5% of the value of the portfolio each year to supplement its budget; and,

WHEREAS, the securities held in the portfolio have not been formally managed since the release of the Investment Managers by the former Investment Consultant/Financial Advisor, Merrill Lynch; and,

WHEREAS, although the securities were not formally managed during this period the value of the portfolio grew from $8,281,805 to $8,891,593; and,

WHEREAS, the current value of the ASUH Stadium Stock Fund, as of September 19, 2017 is $8,891,593; and,

WHEREAS, the Investment Consultant/Financial Advisor, Graystone Consulting, proposed a long-term strategic allocation as well as Investment Manager and Index Fund investments recommendations; and,

WHEREAS, Board of Regents Policy 8.207E(9) dictates that the range for asset allocation is: 5%-60% in Money Markets/Cash (maturities 1 year or less), 20%-70% in Fixed Income (bonds) and 20%-70% in Equities (stocks); and,

WHEREAS, on September 19, 2017, the Committee on Investment and Long Range Planning unanimously approved the recommended allocation of 65% Equities, 30% Fixed Income, and 5% Money Markets/Cash made by ASUH Investment Consultant/Financial Advisor, Graystone Consulting; and,

WHEREAS, the long-term strategic allocation is within the parameters set by Board of Regents policy; and,

WHEREAS, the process used by the Investment Consultant/Financial Advisor in developing the proposal is in line with BORP 8.207E(10d), to screen and classify all investment managers, compare all investment managers against their peers to find top performers who ranked in the top 33th percentile over trailing 3, 5, and 10 year periods, to determine consistency of the returns, and to determine the level of risk the investment managers take to achieve returns; and,

WHEREAS, the proposed combination of Investment Managers and Index Fund Investments comes from the following Asset Categories: Large Cap Equity, Small-Mid Cap Equity, Small Cap Equity, Developed, and Core Fixed; and,

WHEREAS, the proposed Investment Managers, by category, are as follows: Small-Mid Cap Equity: Golden Capital Small Mid Cap, Developed: Cambiar International, and Core Fixed: Boyd Watterson Ultra Enhanced Core; and,

WHEREAS, the proposed Index Fund Investments, by category, are as follows: Large Cap Equity: iShares Core S&P 500 ETF, Small Cap Equity: Vanguard Small Cap ETF, Developed: iShares Core MSCI EAFE ETF; and,

WHEREAS, on September 19, 2017, the Committee on Investments and Long Range Planning unanimously approved the proposal for Investment Managers and Index Fund Investments recommended by the Investment Consultant/Financial Advisor, Graystone Consulting; and,

BE IT RESOLVED, the ASUH Senate endorses the hiring of Investment Managers and Investing in Index Funds as proposed by the Investment Consultant/Financial Advisor, Graystone Consulting; and,

THIS DOCUMENT HAS BEEN APPROVED BY THE SENATE ON OCTOBER 4, 2017

BE IT FURTHER RESOLVED, in line with BORP 8.207B(2) the ASUH Senate requests the support and approval of the University of Hawai'i Vice-President for Budget and Finance/Chief Financial Officer, the BOR Committee on Budget and Finance, and the Board of Regents with the engagement/hiring of Investment Managers and investing in Index Funds; and;

NOW, THEREFORE, BE IT FINALLY RESOLVED, that copies of this resolution shall be sent to: the University of Hawai'i Board of Regents Chair Jan Naoe Sullivan, University of Hawai'i Vice-President for Budget and Finance/Chief Financial Officer Kalbert Young and UH President/UHM Interim Chancellor David Lassner, Vice Chancellor for Administration, Finance & Operations Kathy Cutshaw, and Interim Vice Chancellor for Students Lori Ideta.

ROLL CALL VOTE TO SPECIAL ORDER
Aye(s): Vice-President Urasaki, Treasurer Hinshaw, Senators-at-Large Chen, Honda, Lao, Leval, Senators Chun, Finau, Hortizuela, Lieu, Ng, Nishihara, Petersen, Willis, Utashiro **[15]**
Naye(s): [0]
Abstention(s): [0]

ROLL CALL VOTE TO ACCEPT WITH AMENDMENTS
Aye(s): Vice-President Urasaki, Treasurer Hinshaw, Senators-at-Large Chen, Honda, Lao, Leval, Senators Chun, Finau, Hortizuela, Lieu, Ng, Nishihara, Petersen, Willis, Utashiro **[15]**
Naye(s): [0]
Abstention(s): [0]

Introducers: Clinton Ng, Investment and Long Range Planning Chairperson, Senator, College of Engineering; Maggie Hinshaw, Treasurer

THIS DOCUMENT HAS BEEN APPROVED BY THE SENATE ON OCTOBER 4, 2017

ASUH STADIUM STOCK FUND

Proposed Hiring of Managers and Investing in Index Funds

ASUH
Associated Students of the University of Hawai'i
YOUR STUDENT GOVERNMENT

Jannah Lyn Dela Cruz
ASUH President

Maggie Hinshaw
Treasurer

Clinton Ng
Chairperson
ASUH Committee on Investments & Long Range Planning

Brief History

ASUH owned 1,481 shares in the old Honolulu Stadium which were liquidated into $839,258.77 in 1976

ASUH has invested the principal and interest over the past 41 years

The current value of the ASUH Stadium Stock Fund is $8,947,348 (as of September 30, 2017)

Who Benefits from the ASUH Stadium Stock Fund?

ASUH uses up to 5% of the value (FY18 $437,749.00) of the portfolio each year to benefit students (BORP 8-207c,(1)(a))

ASUH funds support student scholarships, graduate test preparation, undergraduate research, RIOs, campus events, campus initiatives, ASUH office operations and the ASUH senate

Investment Consultants/Financial Advisors

ASUH's Relationship with Graystone Consulting

Graystone Advisors- Davin Kubo and Peter Backus

Graystone Consulting Manager Recommendation Process

Graystone Consulting
A business of Morgan Stanley

Morgan Stanley Research Process

Due Diligence Process

QUANTITATIVE ANALYSIS

- Historical performance metrics
- Statistical measures
- Peer group comparisons

QUALITATIVE ANALYSIS

- Multiple points of contact with managers
- Review of manager documentation
- Manager capabilities and experience

BUSINESS & OPERATION REVIEW

- Business risk
- Infrastructure
- Compliance & controls
- Business continuity
- Quality of third party providers for Alternatives

APPROVAL OF NEW FUNDS

- GIMA reviews each proposed investment vehicle
- Formal governance process for all strategies available on the platform

ONGOING INVESTMENT & OPERATION MONITORING

- Analysts monitor open and closed end funds

Graystone Consulting Manager Recommendation Process

Graystone Consulting™
A business of Morgan Stanley

Morgan Stanley Research Process

What do we look for in a manager?

Although GIMA does not have one blueprint that we think each approved manager should adhere to, we do have preferred attributes that we like to see in an investment strategy.

INVESTMENT PROCESS & CHARACTERISTICS

- Talented and deep Investment team
- Clearly articulated, repeatable and consistent process
- Strong security selection
- High active share
- High conviction portfolio
- Additive top down process
- Strong risk management
- Duration and yield curve management
- Disciplined buy & sell process
- Strong relative & risk-adjusted performance
- Outperformance driven by security selection
- Style and performance pattern consistency

BUSINESS

- Equitable distribution of employee ownership
- Strong business leadership
- Strong investment culture
- Low personnel turnover
- Reasonable succession planning
- Diversified, stable asset base
- Extensive resources
- Investment professional incentives
- Investment professional contracts
- Alignment of interests with clients
- Incentives

OPERATIONS & COMPLIANCE

- Documented policies and procedures
- Clear and equitable trade rotation
- Representative composite performance
- Minimum composite dispersion
- Reasonable asset levels
- Reasonable fees
- Clean regulatory history
- Documented code of ethics
- Disaster recovery procedures
- Institutional quality infrastructure

Recommendations

Graystone Consulting Advisors recommended a combination of Investment Managers and Index Fund Investments.

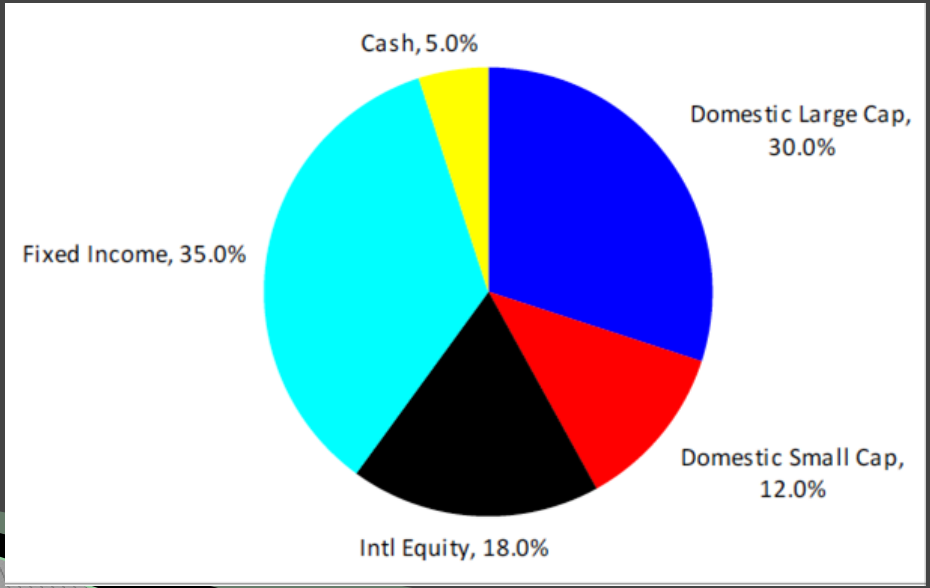
The ASUH Committee on Investments & Long Range Planning considered those recommendations and supported them.

The ASUH Senate approved the recommended changes unanimously on October 4, 2017

ASUH Stadium Stock Fund Recommendations

(as of September 30, 2017)

Proposed Allocation						
Managers	Asset Class	Asset Category	Vehicle	Type	Market Value	% of Total
iShares Core S&P 500 ETF	Domestic Equity	Large Cap Equity	ETF	Passive	$2,684,204	30.0%
Golden Capital Small Mid Cap	Domestic Equity	Small-Mid Cap Equity	SMA	Active	$ 536,841	6.0%
Vanguard Small Cap ETF	Domestic Equity	Small Cap Equity	ETF	Passive	$ 536,841	6.0%
Cambiar International	International Equity	Developed	SMA	Active	$ 805,261	9.0%
iShares Core MSCI EAFE ETF	International Equity	Developed	ETF	Passive	$ 805,261	9.0%
Boyd Watterson Ultra Enhanced Core	Fixed Income	Core Fixed	SMA	Active	$3,131,572	35.0%
	Cash and Equivalents				$ 447,367	5.0%
					$8,947,348	100.0%



Thank You

&

Questions

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AUGUST 1, 2017

2017 PROSPECTUS

iShares® by BLACKROCK®

▶ iShares Core S&P 500 ETF | IVV | NYSE ARCA

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iSHARES® CORE S&P 500 ETF

Ticker: IVV Stock Exchange: NYSE Arca

Investment Objective

The iShares Core S&P 500 ETF (the "Fund") seeks to track the investment results of an index composed of large-capitalization U.S. equities.

Fees and Expenses

The following table describes the fees and expenses that you will incur if you own shares of the Fund. The investment advisory agreement between iShares Trust (the "Trust") and BlackRock Fund Advisors ("BFA") (the "Investment Advisory Agreement") provides that BFA will pay all operating expenses of the Fund, except the management fees, interest expenses, taxes, expenses incurred with respect to the acquisition and disposition of portfolio securities and the execution of portfolio transactions, including brokerage commissions, distribution fees or expenses, litigation expenses and any extraordinary expenses.

You may also incur usual and customary brokerage commissions and other charges when buying or selling shares of the Fund, which are not reflected in the Example that follows:

Annual Fund Operating Expenses (ongoing expenses that you pay each year as a percentage of the value of your investments)[1]			
Management Fees	**Distribution and Service (12b-1) Fees**	**Other Expenses**	**Total Annual Fund Operating Expenses**
0.04%	None	None	0.04%

[1] The expense information in the table has been restated to reflect current management fees.

Example. This Example is intended to help you compare the cost of owning shares of the Fund with the cost of investing in other funds. The Example assumes that you invest $10,000 in the Fund for the time periods indicated and then sell all of your shares at the end of those periods. The Example also assumes that your investment has a 5% return each year and that the Fund's operating expenses remain the same. Although your actual costs may be higher or lower, based on these assumptions, your costs would be:

1 Year	3 Years	5 Years	10 Years
$4	$13	$23	$51

Portfolio Turnover. The Fund may pay transaction costs, such as commissions, when it buys and sells securities (or "turns over" its portfolio). A higher portfolio turnover rate may indicate higher transaction costs and may result in higher taxes when Fund shares are held in a taxable account. These costs, which are not reflected in Annual Fund Operating Expenses or in the Example, affect the Fund's performance. During the most recent fiscal year, the Fund's portfolio turnover rate was 5% of the average value of its portfolio.

Principal Investment Strategies

The Fund seeks to track the investment results of the S&P 500 (the "Underlying Index"), which measures the performance of the large-capitalization sector of the U.S. equity market, as determined by S&P Dow Jones Indices LLC (the "Index Provider" or "SPDJI"). As of March 31, 2017, the Underlying Index included approximately 82.04% of the market capitalization of all publicly-traded U.S. equity securities. The securities in the Underlying Index are weighted based on the float-adjusted market value of their outstanding shares. The Underlying Index consists of securities from a broad range of industries. As of March 31, 2017, a significant portion of the Underlying Index is represented by securities of information technology companies. The components of the Underlying Index, and the degree to which these components represent certain industries, are likely to change over time.

BFA uses a "passive" or indexing approach to try to achieve the Fund's investment objective. Unlike many investment companies, the Fund does not try to "beat" the index it tracks and does not seek temporary defensive positions when markets decline or appear overvalued.

Indexing may eliminate the chance that the Fund will substantially outperform the Underlying Index but also may reduce some of the risks of active management, such as poor security selection. Indexing seeks to achieve lower costs and better after-tax performance by keeping portfolio turnover low in comparison to actively managed investment companies.

BFA uses a representative sampling indexing strategy to manage the Fund. "Representative sampling" is an indexing strategy that involves investing in a representative sample of securities that collectively has an investment profile similar to that of the Underlying Index. The securities selected are expected to have, in the aggregate, investment characteristics (based on factors such as market capitalization and industry weightings), fundamental characteristics (such as return variability and yield) and liquidity measures similar to those of the Underlying Index. The Fund may or may not hold all of the securities in an applicable underlying index.

The Fund generally invests at least 90% of its assets in securities of the Underlying Index and in depositary receipts representing securities of the Underlying Index. The Fund may invest the remainder of its assets in certain futures, options and swap contracts, cash and cash equivalents, including shares of money market funds advised by BFA or its affiliates, as well as in securities not included in the Underlying Index, but which BFA believes will help the Fund track the Underlying Index. The Fund seeks to track the investment results of the Underlying Index before fees and expenses of the Fund.

The Fund may lend securities representing up to one-third of the value of the Fund's total assets

(including the value of any collateral received).

The Underlying Index is a product of SPDJI which is independent of the Fund and BFA. The Index Provider determines the composition and relative weightings of the securities in the Underlying Index and publishes information regarding the market value of the Underlying Index.

Industry Concentration Policy. The Fund will concentrate its investments (*i.e.*, hold 25% or more of its total assets) in a particular industry or group of industries to approximately the same extent that the Underlying Index is concentrated. For purposes of this limitation, securities of the U.S. government (including its agencies and instrumentalities) and repurchase agreements collateralized by U.S. government securities are not considered to be issued by members of any industry.

Summary of Principal Risks

As with any investment, you could lose all or part of your investment in the Fund, and the Fund's performance could trail that of other investments. The Fund is subject to certain risks, including the principal risks noted below, any of which may adversely affect the Fund's net asset value per share ("NAV"), trading price, yield, total return and ability to meet its investment objective.

Asset Class Risk. Securities and other assets in the Underlying Index or in the Fund's portfolio may underperform in comparison to the general financial markets, a particular financial market or other asset classes.

Assets Under Management (AUM) Risk. From time to time, an Authorized Participant (as defined in the *Creations and Redemptions* section of this prospectus (the "Prospectus")), a third-party investor, the Fund's adviser or an affiliate of the Fund's adviser, or a fund may invest in the Fund and hold its investment for a specific period of time in order to facilitate commencement of the Fund's operations or for the Fund to achieve size or scale. There can be no assurance that any such entity would not redeem its investment or that the size of the Fund would be maintained at such levels, which could negatively impact the Fund.

Authorized Participant Concentration Risk. Only an Authorized Participant may engage in creation or redemption transactions directly with the Fund. The Fund has a limited number of institutions that may act as Authorized Participants on an agency basis (*i.e.,* on behalf of other market participants). To the extent that Authorized Participants exit the business or are unable to proceed with creation and/or redemption orders with respect to the Fund and no other Authorized Participant is able to step forward to create or redeem Creation Units (as defined in the *Purchase and Sale of Fund Shares* section of the Prospectus), Fund shares may be more likely to trade at a premium or discount to NAV and possibly face trading halts and/or delisting.

Concentration Risk. The Fund may be susceptible to an increased risk of loss, including losses due to adverse events that affect the Fund's investments more than the market as a whole, to the extent that the Fund's investments are concentrated in the securities of a particular issuer or issuers, country, group of countries, region, market, industry, group of industries, sector or asset class.

Cyber Security Risk. Failures or breaches of the electronic systems of the Fund, the Fund's adviser, distributor, and other service providers, market makers, Authorized Participants or the issuers of securities in which the Fund invests have the ability to cause disruptions and negatively impact the Fund's business operations, potentially

resulting in financial losses to the Fund and its shareholders. While the Fund has established business continuity plans and risk management systems seeking to address system breaches or failures, there are inherent limitations in such plans and systems. Furthermore, the Fund cannot control the cyber security plans and systems of the Fund's service providers, the Index Provider, market makers, Authorized Participants or issuers of securities in which the Fund invests.

Equity Securities Risk. Equity securities are subject to changes in value, and their values may be more volatile than those of other asset classes. The Underlying Index is comprised of common stocks, which generally subject their holders to more risks than holders of preferred stock and debt securities because common stockholders' claims are subordinated to holders of preferred stock and debt securities upon the bankruptcy of the issuer.

Index-Related Risk. There is no guarantee that the Fund will achieve a high degree of correlation to the Underlying Index and therefore achieve its investment objective. Market disruptions and regulatory restrictions could have an adverse effect on the Fund's ability to adjust its exposure to the required levels in order to track the Underlying Index. Errors in index data, index computations and/or the construction of the Underlying Index in accordance with its methodology may occur from time to time and may not be identified and corrected by the Index Provider for a period of time or at all, which may have an adverse impact on the Fund and its shareholders.

Information Technology Sector Risk. Information technology companies face intense competition and potentially rapid product obsolescence. They are also heavily dependent on intellectual property rights and may be adversely affected by the loss or impairment of those rights.

Issuer Risk. The performance of the Fund depends on the performance of individual securities to which the Fund has exposure. Changes in the financial condition or credit rating of an issuer of those securities may cause the value of the securities to decline.

Large-Capitalization Companies Risk. Large-capitalization companies may be less able than smaller capitalization companies to adapt to changing market conditions. Large-capitalization companies may be more mature and subject to more limited growth potential compared with smaller capitalization companies. During different market cycles, the performance of large-capitalization companies has trailed the overall performance of the broader securities markets.

Management Risk. As the Fund may not fully replicate the Underlying Index, it is subject to the risk that BFA's investment strategy may not produce the intended results.

Market Risk. The Fund could lose money over short periods due to short-term market movements and over longer periods during more prolonged market downturns.

Market Trading Risk. The Fund faces numerous market trading risks, including the potential lack of an active market for Fund shares, losses from trading in secondary markets, periods of high volatility and disruptions in the creation/redemption process. ANY OF THESE FACTORS, AMONG OTHERS, MAY LEAD TO THE FUND'S SHARES TRADING AT A PREMIUM OR DISCOUNT TO NAV.

Operational Risk. The Fund is exposed to operational risks arising from a number of factors, including, but not limited to, human error, processing and communication errors, errors of the Fund's service providers, counterparties

or other third-parties, failed or inadequate processes and technology or systems failures. The Fund and BFA seek to reduce these operational risks through controls and procedures. However, these measures do not address every possible risk and may be inadequate to address these risks.

Passive Investment Risk. The Fund is not actively managed, and BFA generally does not attempt to take defensive positions under any market conditions, including declining markets.

Risk of Investing in the United States. The Fund has significant exposure to U.S. issuers. Certain changes in the U.S. economy, such as when the U.S. economy weakens or when its financial markets decline, may have an adverse effect on the securities to which the Fund has exposure.

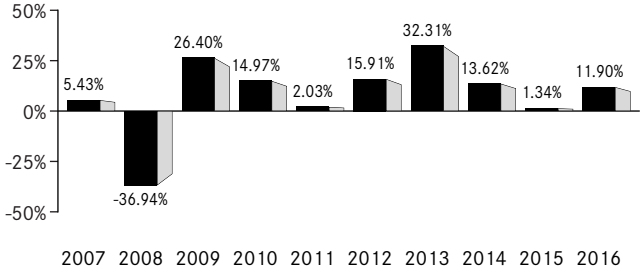
Securities Lending Risk. The Fund may engage in securities lending. Securities lending involves the risk that the Fund may lose money because the borrower of the loaned securities fails to return the securities in a timely manner or at all. The Fund could also lose money in the event of a decline in the value of collateral provided for loaned securities or a decline in the value of any investments made with cash collateral. These events could also trigger adverse tax consequences for the Fund.

Tracking Error Risk. Tracking error is the divergence of a fund's performance from that of the applicable underlying index. Tracking error may occur because of differences between the securities and other instruments held in a fund's portfolio and those included in the applicable underlying index, pricing differences, differences in transaction costs, the fund's holding of uninvested cash, differences in timing of the accrual of or the valuation of dividends or interest, tax gains or losses, changes to the applicable underlying index or the costs to the fund of complying with various new or existing regulatory requirements. This risk may be heightened during times of increased market volatility or other unusual market conditions. Tracking error also may result because a fund incurs fees and expenses, while the applicable underlying index does not.

Performance Information

The bar chart and table that follow show how the Fund has performed on a calendar year basis and provide an indication of the risks of investing in the Fund. Both assume that all dividends and distributions have been reinvested in the Fund. Past performance (before and after taxes) does not necessarily indicate how the Fund will perform in the future. Supplemental information about the Fund's performance is shown under the heading *Total Return Information* in the *Supplemental Information* section of the Prospectus.

Year-by-Year Returns[1] (Years Ended December 31)



[1] The Fund's year-to-date return as of June 30, 2017 was 9.32%.

The best calendar quarter return during the periods shown above was 15.92% in the 2nd quarter of 2009; the worst was -21.89% in the 4th quarter of 2008.

Updated performance information is available at www.iShares.com or by calling 1-800-iShares (1-800-474-2737) (toll free).

Average Annual Total Returns
(for the periods ended December 31, 2016)

	One Year	Five Years	Ten Years
(Inception Date: 5/15/2000)			
Return Before Taxes	11.90%	14.59%	6.89%
Return After Taxes on Distributions[1]	11.34%	14.07%	6.49%
Return After Taxes on Distributions and Sale of Fund Shares[1]	7.15%	11.70%	5.53%
S&P 500 (Index returns do not reflect deductions for fees, expenses, or taxes)	11.96%	14.66%	6.95%

[1] After-tax returns in the table above are calculated using the historical highest individual U.S. federal marginal income tax rates and do not reflect the impact of state or local taxes. Actual after-tax returns depend on an investor's tax situation and may differ from those shown, and after-tax returns shown are not relevant to tax-exempt investors or investors who hold shares through tax-deferred arrangements, such as 401(k) plans or individual retirement accounts ("IRAs"). Fund returns after taxes on distributions and sales of Fund shares are calculated assuming that an investor has sufficient capital gains of the same character from other investments to offset any capital losses from the sale of Fund shares. As a result, Fund returns after taxes on distributions and sales of Fund shares may exceed Fund returns before taxes and/or returns after taxes on distributions.

Management

Investment Adviser. BlackRock Fund Advisors.

Portfolio Managers. Diane Hsiung, Jennifer Hsui, Alan Mason and Greg Savage (the "Portfolio Managers") are primarily responsible for the day-to-day management of the Fund. Each Portfolio Manager supervises a portfolio management team. Ms. Hsiung, Ms. Hsui, Mr. Mason and Mr. Savage have been Portfolio Managers of the Fund since 2008, 2012, 2016 and 2008, respectively.

Purchase and Sale of Fund Shares

The Fund is an exchange-traded fund (commonly referred to as an "ETF"). Individual shares of the Fund are listed on a national securities exchange. Most investors will buy and sell shares of the Fund through a broker-dealer. The price of Fund shares is based on market price, and because ETF shares trade at market prices rather than at NAV, shares may trade at a price greater than NAV (a premium) or less than NAV (a discount). The Fund will only issue or redeem shares that have been aggregated into blocks of 50,000 shares or multiples thereof ("Creation Units") to Authorized Participants who have entered into agreements with the Fund's distributor. The Fund generally will issue or redeem Creation Units in return for a designated portfolio of securities (and an amount of cash) that the Fund specifies each day.

Tax Information

The Fund intends to make distributions that may be taxable to you as ordinary income or capital gains, unless you are investing through a tax-deferred arrangement such as a 401(k) plan or an IRA, in which case, your distributions generally will be taxed when withdrawn.

Payments to Broker-Dealers and other Financial Intermediaries

If you purchase shares of the Fund through a broker-dealer or other financial intermediary (such as a bank), BFA or other related companies may pay the intermediary for marketing activities and presentations, educational training programs, conferences, the development of technology platforms and reporting systems or other services related to the sale or promotion of the Fund. These payments may create a conflict of interest by influencing the broker-dealer or other intermediary and your salesperson to recommend the Fund over another investment. Ask your salesperson or visit your financial intermediary's website for more information.

More Information About the Fund

This Prospectus contains important information about investing in the Fund. Please read this Prospectus carefully before you make any investment decisions. Additional information regarding the Fund is available at www.iShares.com.

BFA is the investment adviser to the Fund. Shares of the Fund are listed for trading on NYSE Arca, Inc. ("NYSE Arca"). The market price for a share of the Fund may be different from the Fund's most recent NAV.

ETFs are funds that trade like other publicly-traded securities. The Fund is designed to track an index. Similar to shares of an index mutual fund, each share of the Fund represents an ownership interest in an underlying portfolio of securities and other instruments intended to track a market index. Unlike shares of a mutual fund, which can be bought and redeemed from the issuing fund by all shareholders at a price based on NAV, shares of the Fund may be purchased or redeemed directly from the Fund at NAV solely by Authorized Participants. Also unlike shares of a mutual fund, shares of the Fund are listed on a national securities exchange and trade in the secondary market at market prices that change throughout the day.

The Fund invests in a particular segment of the securities markets and seeks to track the performance of a securities index that generally is not representative of the market as a whole. The Fund is designed to be used as part of broader asset allocation strategies. Accordingly, an investment in the Fund should not constitute a complete investment program.

An index is a financial calculation, based on a grouping of financial instruments, and is not an investment product, while the Fund is an actual investment portfolio. The performance of the Fund and the Underlying Index may vary for a number of reasons, including transaction costs, non-U.S. currency valuations, asset valuations, corporate actions (such as mergers and spin-offs), timing variances and differences between the Fund's portfolio and the Underlying Index resulting from the Fund's use of representative sampling or from legal restrictions (such as diversification requirements) that apply to the Fund but not to the Underlying Index. From time to time, the Index Provider may make changes to the methodology or other adjustments to the Underlying Index. Unless otherwise determined by BFA, any such change or adjustment will be reflected in the calculation of the Underlying Index performance on a going-forward basis after the effective date of such change or adjustment. Therefore, the Underlying Index performance shown for periods prior to the effective date of any such change or adjustment will generally not be recalculated or restated to reflect such change or adjustment. "Tracking error" is the divergence of the performance (return) of the Fund's portfolio from that of the Underlying Index. BFA expects that, over time, the Fund's tracking error will not exceed 5%. Because the Fund uses a representative sampling indexing strategy, it can be expected to have a larger tracking error than if it used a replication indexing strategy. "Replication" is an indexing strategy in which a fund invests in substantially all of the securities in its underlying index in approximately the same proportions as in the underlying index.

An investment in the Fund is not a bank deposit and it is not insured or guaranteed by the Federal Deposit Insurance Corporation or any other government agency, BFA or any of its affiliates.

The Fund's investment objective and the Underlying Index may be changed without shareholder approval.

A Further Discussion of Principal Risks

The Fund is subject to various risks, including the principal risks noted below, any of which may adversely affect the Fund's NAV, trading price, yield, total return and ability to meet its investment objective. You could lose all or part of your investment in the Fund, and the Fund could underperform other investments.

Asset Class Risk. The securities and other assets in the Underlying Index or in the Fund's portfolio may underperform in comparison to other securities or indexes that track other countries, groups of countries, regions, industries, groups of industries, markets, asset classes or sectors. Various types of securities, currencies and indexes may experience cycles of outperformance and underperformance in comparison to the general financial markets depending upon a number of factors including, among other things, inflation, interest rates, productivity, global demand for local products or resources, and regulation and governmental controls. This may cause the Fund to underperform other investment vehicles that invest in different asset classes.

Assets Under Management (AUM) Risk. From time to time, an Authorized Participant, a third-party investor, the Fund's adviser or an affiliate of the Fund's adviser, or a fund may invest in the Fund and hold its investment for a specific period of time in order to facilitate commencement of the Fund's operations or for the Fund to achieve size or scale. There can be no assurance that any such entity would not redeem its investment or that the size of the Fund would be maintained at such levels, which could negatively impact the Fund.

Authorized Participant Concentration Risk. Only an Authorized Participant may engage in creation or redemption transactions directly with the Fund. The Fund has a limited number of institutions that may act as Authorized Participants on an agency basis (*i.e.*, on behalf of other market participants). To the extent that Authorized Participants exit the business or are unable to proceed with creation and/or redemption orders with respect to the Fund and no other Authorized Participant is able to step forward to create or redeem Creation Units, Fund shares may be more likely to trade at a premium or discount to NAV and possibly face trading halts and/or delisting.

Concentration Risk. The Fund may be susceptible to an increased risk of loss, including losses due to adverse events that affect the Fund's investments more than the market as a whole, to the extent that the Fund's investments are concentrated in the securities of a particular issuer or issuers, country, region, market, industry, group of industries, sector or asset class. The Fund may be more adversely affected by the underperformance of those securities, may experience increased price volatility and may be more susceptible to adverse economic, market, political or regulatory occurrences affecting those securities than a fund that does not concentrate its investments.

Cyber Security Risk. With the increased use of technologies such as the internet to conduct business, the Fund, Authorized Participants, service providers and the relevant listing exchange are susceptible to operational, information security and related "cyber" risks both directly and through their service providers. Similar types of cyber security risks are also present for issuers of securities in which the Fund invests, which could result in material adverse consequences for such issuers and may cause the Fund's investment in such portfolio companies to lose value. Unlike many other types of risks faced by the Fund, these risks typically are not covered by insurance. In general, cyber incidents can result from deliberate attacks or unintentional events. Cyber incidents include, but are not limited to, gaining unauthorized access to digital systems (*e.g.*, through "hacking" or malicious software coding) for purposes of misappropriating assets or sensitive information, corrupting data, or causing operational disruption. Cyber attacks may also be carried out in a manner that does not require gaining unauthorized access, such as causing denial-of-service attacks on websites (*i.e.*, efforts to make network services unavailable to intended users). Cyber security failures by or breaches of the systems of the Fund's adviser, distributor and other service providers (including, but not limited to, index providers, fund accountants, custodians, transfer agents and administrators), market makers, Authorized Participants or the issuers of securities in which the Fund invests, have the ability to cause disruptions and impact business operations, potentially resulting in: financial losses, interference with the Fund's ability to calculate its NAV, disclosure of confidential trading information, impediments to trading, submission of erroneous trades or erroneous creation or redemption orders, the inability of the Fund or its service providers to transact business, violations of applicable privacy and other laws, regulatory fines, penalties, reputational damage, reimbursement or other compensation costs, or additional compliance costs. In addition, cyber attacks may render records of Fund assets and transactions, shareholder ownership of Fund shares, and other data integral to the functioning of the Fund inaccessible or inaccurate or incomplete. Substantial costs may be incurred by the Fund in order to resolve or prevent cyber incidents in the future. While the Fund has established business continuity plans in the event of, and risk management systems to prevent, such cyber attacks, there are inherent limitations in such plans and systems, including the possibility that certain risks have not been identified and that prevention and remediation efforts will not be successful. Furthermore, the Fund cannot control the cyber security plans and systems put in place by service providers to the Fund, issuers in which the Fund invests, the Index Provider, market makers or Authorized Participants. The Fund and its shareholders could be negatively impacted as a result.

Equity Securities Risk. The Fund invests in equity securities, which are subject to changes in value that may be attributable to market perception of a particular issuer or to general stock market fluctuations that affect all issuers. Investments in equity securities may be more volatile than investments in other asset classes. The Underlying Index is comprised of common stocks, which generally subject their holders to more risks than holders of preferred stock and debt securities because common stockholders' claims are subordinated to holders of preferred stock and debt securities upon the bankruptcy of the issuer.

Index-Related Risk. The Fund seeks to achieve a return that corresponds generally to the price and yield performance, before fees and expenses, of the Underlying Index as published by the Index Provider. There is no assurance that the Index Provider or any agents that may act on its behalf will compile the Underlying Index accurately, or that the Underlying Index will be determined, composed or calculated accurately. While the Index Provider provides descriptions of what the Underlying Index is designed to achieve, neither the Index Provider nor its agents provide any warranty or accept any liability in relation to the quality, accuracy or completeness of the Underlying Index or its related data, and they do not guarantee that the Underlying Index will be in line with the Index Provider's methodology. BFA's mandate as described in this Prospectus is to manage the Fund consistently with the Underlying Index provided by the Index Provider to BFA. Consequently, BFA does not provide any warranty or guarantee against the Index Provider's or any agent's errors. Errors in respect of the quality, accuracy and completeness of the data used to compile the Underlying Index may occur from time to time and may not be identified and corrected by the Index Provider for a period of time or at all, particularly where the indices are less commonly used as benchmarks by funds or managers. Therefore, gains, losses or costs associated with errors of the Index Provider or its agents will generally be borne by the Fund and its shareholders. For example, during a period where the Underlying Index contains incorrect constituents, the Fund would have market exposure to such constituents and would be underexposed to the Underlying Index's other constituents. Such errors may negatively or positively impact the Fund and its shareholders.

Apart from scheduled rebalances, the Index Provider or its agents may carry out additional ad hoc rebalances to the Underlying Index in order, for example, to correct an error in the selection of index constituents. When the Underlying Index is rebalanced and the Fund in turn rebalances its portfolio to attempt to increase the correlation between the Fund's portfolio and the Underlying Index, any transaction costs and market exposure arising from such portfolio rebalancing will be borne directly by the Fund and its shareholders. Unscheduled rebalances to the Underlying Index may expose the Fund to additional tracking error risk, which is the risk that the Fund's returns may not track those of the Underlying Index. Therefore, errors and additional ad hoc rebalances carried out by the Index Provider or its agents to the Underlying Index may increase the costs to and the tracking error risk of the Fund.

Information Technology Sector Risk. Information technology companies face intense competition, both domestically and internationally, which may have an adverse effect on their profit margins. Like other technology companies, information technology companies may have limited product lines, markets, financial resources or personnel. The products of information technology companies may face obsolescence due to rapid technological developments, frequent new product introduction, unpredictable changes in growth rates and competition for the services of qualified personnel. Companies in the information technology sector are heavily dependent on patent and intellectual property rights. The loss or impairment of these rights may adversely affect the profitability of these companies.

Issuer Risk. The performance of the Fund depends on the performance of individual securities to which the Fund has exposure. Any issuer of these securities may perform

poorly, causing the value of its securities to decline. Poor performance may be caused by poor management decisions, competitive pressures, changes in technology, expiration of patent protection, disruptions in supply, labor problems or shortages, corporate restructurings, fraudulent disclosures, credit deterioration of the issuer or other factors. Issuers may, in times of distress or at their own discretion, decide to reduce or eliminate dividends, which may also cause their stock prices to decline.

Large-Capitalization Companies Risk. Large-capitalization companies may be less able than smaller capitalization companies to adapt to changing market conditions. Large-capitalization companies may be more mature and subject to more limited growth potential compared with smaller capitalization companies. During different market cycles, the performance of large-capitalization companies has trailed the overall performance of the broader securities markets.

Management Risk. The Fund may not fully replicate the Underlying Index and may hold securities not included in the Underlying Index. As a result, the Fund is subject to the risk that BFA's investment strategy, the implementation of which is subject to a number of constraints, may not produce the intended results.

Market Risk. The Fund could lose money over short periods due to short-term market movements and over longer periods during more prolonged market downturns. Securities or other assets may decline in value due to factors affecting financial markets generally or particular asset classes or industries represented in the markets. The value of a security or other asset may also decline due to general market conditions, economic trends or events that are not specifically related to the issuer of the security or other asset, or due to factors that affect a particular issuer or issuers, country, group of countries, region, market, industry, group of industries, sector or asset class. During a general market downturn, multiple asset classes may be negatively affected. Changes in market conditions and interest rates will not have the same impact on all types of securities.

Market Trading Risk

Absence of Active Market. Although shares of the Fund are listed for trading on one or more stock exchanges, there can be no assurance that an active trading market for such shares will develop or be maintained by market makers or Authorized Participants.

Risk of Secondary Listings. The Fund's shares may be listed or traded on U.S. and non-U.S. stock exchanges other than the U.S. stock exchange where the Fund's primary listing is maintained, and may otherwise be made available to non-U.S. investors through funds or structured investment vehicles similar to depositary receipts. There can be no assurance that the Fund's shares will continue to trade on any such stock exchange or in any market or that the Fund's shares will continue to meet the requirements for listing or trading on any exchange or in any market. The Fund's shares may be less actively traded in certain markets than in others, and investors are subject to the execution and settlement risks and market standards of the market where they or their broker direct their trades for execution. Certain information available to investors who trade Fund shares on a U.S. stock exchange during regular U.S. market

hours may not be available to investors who trade in other markets, which may result in secondary market prices in such markets being less efficient.

Secondary Market Trading Risk. Shares of the Fund may trade in the secondary market at times when the Fund does not accept orders to purchase or redeem shares. At such times, shares may trade in the secondary market with more significant premiums or discounts than might be experienced at times when the Fund accepts purchase and redemption orders.

Secondary market trading in Fund shares may be halted by a stock exchange because of market conditions or for other reasons. In addition, trading in Fund shares on a stock exchange or in any market may be subject to trading halts caused by extraordinary market volatility pursuant to "circuit breaker" rules on the stock exchange or market.

Shares of the Fund, similar to shares of other issuers listed on a stock exchange, may be sold short and are therefore subject to the risk of increased volatility and price decreases associated with being sold short.

Shares of the Fund May Trade at Prices Other Than NAV. Shares of the Fund trade on stock exchanges at prices at, above or below the Fund's most recent NAV. The NAV of the Fund is calculated at the end of each business day and fluctuates with changes in the market value of the Fund's holdings. The trading price of the Fund's shares fluctuates continuously throughout trading hours based on both market supply of and demand for Fund shares and the underlying value of the Fund's portfolio holdings or NAV. As a result, the trading prices of the Fund's shares may deviate significantly from NAV during periods of market volatility. **ANY OF THESE FACTORS, AMONG OTHERS, MAY LEAD TO THE FUND'S SHARES TRADING AT A PREMIUM OR DISCOUNT TO NAV**. However, because shares can be created and redeemed in Creation Units at NAV, BFA believes that large discounts or premiums to the NAV of the Fund are not likely to be sustained over the long term (unlike shares of many closed-end funds, which frequently trade at appreciable discounts from, and sometimes at premiums to, their NAVs). While the creation/redemption feature is designed to make it more likely that the Fund's shares normally will trade on stock exchanges at prices close to the Fund's next calculated NAV, exchange prices are not expected to correlate exactly with the Fund's NAV due to timing reasons, supply and demand imbalances and other factors. In addition, disruptions to creations and redemptions, including disruptions at market makers, Authorized Participants, or other market participants, and during periods of significant market volatility, may result in trading prices for shares of the Fund that differ significantly from its NAV. Authorized Participants may be less willing to create or redeem Fund shares if there is a lack of an active market for such shares or its underlying investments, which may contribute to the Fund's shares trading at a premium or discount to NAV.

Costs of Buying or Selling Fund Shares. Buying or selling Fund shares on an exchange involves two types of costs that apply to all securities transactions. When buying or selling shares of the Fund through a broker, you will likely incur a brokerage commission and other charges. In addition, you may incur the cost of the "spread"; that is, the difference between what investors are willing to pay for Fund shares (the "bid" price) and the price at which they are willing to sell Fund shares (the "ask"

price). The spread, which varies over time for shares of the Fund based on trading volume and market liquidity, is generally narrower if the Fund has more trading volume and market liquidity and wider if the Fund has less trading volume and market liquidity. In addition, increased market volatility may cause wider spreads. There may also be regulatory and other charges that are incurred as a result of trading activity. Because of the costs inherent in buying or selling Fund shares, frequent trading may detract significantly from investment results and an investment in Fund shares may not be advisable for investors who anticipate regularly making small investments through a brokerage account.

Operational Risk. The Fund is exposed to operational risks arising from a number of factors, including, but not limited to, human error, processing and communication errors, errors of the Fund's service providers, counterparties or other third-parties, failed or inadequate processes and technology or systems failures. The Fund and BFA seek to reduce these operational risks through controls and procedures. However, these measures do not address every possible risk and may be inadequate to address these risks.

Passive Investment Risk. The Fund is not actively managed and may be affected by a general decline in market segments related to the Underlying Index. The Fund invests in securities included in, or representative of, the Underlying Index, regardless of their investment merits. BFA generally does not attempt to invest the Fund's assets in defensive positions under any market conditions, including declining markets.

Risk of Investing in the United States. The Fund has significant exposure to U.S. issuers. A decrease in imports or exports, changes in trade regulations and/or an economic recession in the United States may have a material adverse effect on the U.S. economy and the securities listed on U.S. exchanges. Proposed and adopted policy and legislative changes in the United States are changing many aspects of financial and other regulation and may have a significant effect on the U.S. markets generally, as well as the value of certain securities. In addition, a continued rise in the U.S. public debt level or U.S. austerity measures may adversely affect U.S. economic growth and the securities to which the Fund has exposure.

Securities Lending Risk. The Fund may engage in securities lending. Securities lending involves the risk that the Fund may lose money because the borrower of the loaned securities fails to return the securities in a timely manner or at all. The Fund could also lose money in the event of a decline in the value of collateral provided for loaned securities or a decline in the value of any investments made with cash collateral. These events could also trigger adverse tax consequences for the Fund. BlackRock Institutional Trust Company, N.A., the Fund's securities lending agent, will take into account the tax impact to shareholders of substitute payments for dividends when managing the Fund's securities lending program.

Tracking Error Risk. Tracking error is the divergence of a fund's performance from that of the applicable underlying index. Tracking error may occur because of differences between the securities and other instruments held in a fund's portfolio and those included in the applicable underlying index, pricing differences, differences in transaction costs, the fund's holding of uninvested cash, differences in timing of the accrual of or the valuation of dividends or interest, tax gains or losses, changes to the

applicable underlying index or the costs to the fund of complying with various new or existing regulatory requirements. This risk may be heightened during times of increased market volatility or other unusual market conditions. Tracking error also may result because a fund incurs fees and expenses, while the applicable underlying index does not.

A Further Discussion of Other Risks

The Fund may also be subject to certain other risks associated with its investments and investment strategies.

Consumer Discretionary Sector Risk. The success of consumer product manufacturers and retailers is tied closely to the performance of domestic and international economies, interest rates, exchange rates, competition, consumer confidence, changes in demographics and consumer preferences. Companies in the consumer discretionary sector depend heavily on disposable household income and consumer spending, and may be strongly affected by social trends and marketing campaigns. These companies may be subject to severe competition, which may have an adverse impact on their profitability.

Consumer Staples Sector Risk. The consumer staples sector may be affected by the regulation of various product components and production methods, marketing campaigns and changes in consumer demand. Tobacco companies, in particular, may be adversely affected by new laws, regulations and litigation. The consumer staples sector may also be adversely affected by changes or trends in commodity prices, which may be influenced by unpredictable factors.

Dividend Risk. There is no guarantee that issuers of the stocks held by the Fund will declare dividends in the future or that, if declared, such dividends will remain at current levels or increase over time.

Energy Sector Risk. The energy sector of an economy is cyclical and highly dependent on energy prices. The market value of securities issued by companies in the energy sector may decline for many reasons, including, among other things, changes in the levels and volatility of global energy prices, energy supply and demand, capital expenditures on exploration and production of energy sources, exchange rates, interest rates, economic conditions, and tax treatment; energy conservation efforts, increased competition; and technological advances. Companies in this sector may be subject to substantial government regulation and contractual fixed pricing, which may increase the cost of doing business and limit the earnings of these companies. A significant portion of the revenues of these companies may depend on a relatively small number of customers, including governmental entities and utilities. As a result, governmental budget constraints may have a material adverse effect on the stock prices of companies in this sector. Energy companies may also operate in, or engage in, transactions involving countries with less developed regulatory regimes or a history of expropriation, nationalization or other adverse policies. Energy companies also face a significant risk of liability from accidents resulting in injury or loss of life or property, pollution or other environmental problems, equipment malfunctions or mishandling of materials and a risk of loss from terrorism, political strife or natural disasters. Any such event could have serious consequences for the general population of the affected area

and could have an adverse impact on the Fund's portfolio and the performance of the Fund. Energy companies can be significantly affected by the supply of, and demand for, specific products (*e.g.*, oil and natural gas) and services, exploration and production spending, government subsidization, world events and general economic conditions. Energy companies may have relatively high levels of debt and may be more likely than other companies to restructure their businesses if there are downturns in energy markets or in the global economy.

Financials Sector Risk. Companies in the financials sector of an economy are subject to extensive governmental regulation and intervention, which may adversely affect the scope of their activities, the prices they can charge, the amount of capital they must maintain and, potentially, their size. Governmental regulation may change frequently and may have significant adverse consequences for companies in the financials sector, including effects not intended by such regulation. The impact of more stringent capital requirements, or recent or future regulation in various countries, on any individual financial company or of the financials sector as a whole cannot be predicted. Certain risks may impact the value of investments in the financials sector more severely than those of investments outside this sector, including the risks associated with companies that operate with substantial financial leverage. Companies in the financials sector may also be adversely affected by increases in interest rates and loan losses, decreases in the availability of money or asset valuations, credit rating downgrades and adverse conditions in other related markets. Insurance companies, in particular, may be subject to severe price competition and/or rate regulation, which may have an adverse impact on their profitability. The financials sector is particularly sensitive to fluctuations in interest rates. The financials sector is also a target for cyber attacks, and may experience technology malfunctions and disruptions. In recent years, cyber attacks and technology malfunctions and failures have become increasingly frequent in this sector and have reportedly caused losses to companies in this sector, which may negatively impact the Fund.

Healthcare Sector Risk. The profitability of companies in the healthcare sector may be adversely affected by the following factors, among others: extensive government regulations, restrictions on government reimbursement for medical expenses, rising costs of medical products and services, pricing pressure, an increased emphasis on outpatient services, a limited number of products, industry innovation, changes in technologies and other market developments. A number of issuers in the healthcare sector have recently merged or otherwise experienced consolidation. The effects of this trend toward consolidation are unknown and may be far-reaching. Many healthcare companies are heavily dependent on patent protection. The expiration of a company's patents may adversely affect that company's profitability. Many healthcare companies are subject to extensive litigation based on product liability and similar claims. Healthcare companies are subject to competitive forces that may make it difficult to raise prices and, in fact, may result in price discounting. Many new products in the healthcare sector may be subject to regulatory approvals. The process of obtaining such approvals may be long and costly, and such efforts ultimately may be unsuccessful. Companies in the healthcare sector may be thinly capitalized and may be susceptible to product obsolescence.

Industrials Sector Risk. The value of securities issued by companies in the industrials sector may be adversely affected by supply and demand related to their specific products or services and industrials sector products in general. The products of manufacturing companies may face obsolescence due to rapid technological developments and frequent new product introduction. World events and changes in government regulations, economic conditions and exchange rates may adversely affect the performance of companies in the industrials sector. Companies in the industrials sector may be adversely affected by liability for environmental damage and product liability claims. The industrials sector may also be adversely affected by changes or trends in commodity prices, which may be influenced by unpredictable factors. Companies in the industrials sector, particularly aerospace and defense companies, may also be adversely affected by government spending policies because companies in this sector tend to rely to a significant extent on government demand for their products and services.

Portfolio Holdings Information

A description of the Trust's policies and procedures with respect to the disclosure of the Fund's portfolio securities is available in the Fund's Statement of Additional Information ("SAI"). The top holdings of the Fund can be found at www.iShares.com. Fund fact sheets provide information regarding the Fund's top holdings and may be requested by calling 1-800-iShares (1-800-474-2737).

Management

Investment Adviser. As investment adviser, BFA has overall responsibility for the general management and administration of the Fund. BFA provides an investment program for the Fund and manages the investment of the Fund's assets. In managing the Fund, BFA may draw upon the research and expertise of its asset management affiliates with respect to certain portfolio securities. In seeking to achieve the Fund's investment objective, BFA uses teams of portfolio managers, investment strategists and other investment specialists. This team approach brings together many disciplines and leverages BFA's extensive resources.

Pursuant to the Investment Advisory Agreement between BFA and the Trust (entered into on behalf of the Fund), BFA is responsible for substantially all expenses of the Fund, except the management fees, interest expenses, taxes, expenses incurred with respect to the acquisition and disposition of portfolio securities and the execution of portfolio transactions, including brokerage commissions, distribution fees or expenses, litigation expenses and any extraordinary expenses (as determined by a majority of the Trustees who are not "interested persons" of the Trust).

For its investment advisory services to the Fund, BFA is paid a management fee from the Fund based on a percentage of the Fund's average daily net assets, at the annual rate of 0.04%. BFA may from time to time voluntarily waive and/or reimburse fees or expenses in order to limit total annual fund operating expenses (excluding acquired fund fees and expenses, if any). Any such voluntary waiver or reimbursement may be eliminated by BFA at any time.

BFA is located at 400 Howard Street, San Francisco, CA 94105. It is an indirect wholly-owned subsidiary of BlackRock, Inc. ("BlackRock"). As of June 30, 2017, BFA and its affiliates provided investment advisory services for assets in excess of $5.6 trillion. BFA and its affiliates trade and invest for their own accounts in the actual securities and types of securities in which the Fund may also invest, which may affect the price of such securities.

A discussion regarding the basis for the approval by the Trust's Board of Trustees (the "Board") of the Investment Advisory Agreement with BFA is available in the Fund's semi-annual report for the period ended September 30.

Portfolio Managers. Diane Hsiung, Jennifer Hsui, Alan Mason and Greg Savage are primarily responsible for the day-to-day management of the Fund. Each Portfolio Manager is responsible for various functions related to portfolio management, including, but not limited to, investing cash inflows, coordinating with members of his or her portfolio management team to focus on certain asset classes, implementing investment strategy, researching and reviewing investment strategy and overseeing members of his or her portfolio management team that have more limited responsibilities.

Diane Hsiung has been employed by BFA as a senior portfolio manager since 2007. Prior to that, Ms. Hsiung was a portfolio manager from 2002 to 2006 for Barclays Global Fund Advisors ("BGFA"). Ms. Hsiung has been a Portfolio Manager of the Fund since 2008.

Jennifer Hsui has been employed by BFA as a senior portfolio manager since 2007. Prior to that, Ms. Hsui was a portfolio manager from 2006 to 2007 for BGFA. Ms. Hsui has been a Portfolio Manager of the Fund since 2012.

Alan Mason has been employed by BFA as a portfolio manager since 1991. Mr. Mason has been a Portfolio Manager of the Fund since 2016.

Greg Savage has been employed by BFA as a senior portfolio manager since 2006. Prior to that, Mr. Savage was a portfolio manager from 2001 to 2006 for BGFA. Mr. Savage has been a Portfolio Manager of the Fund since 2008.

The Fund's SAI provides additional information about the Portfolio Managers' compensation, other accounts managed by the Portfolio Managers and the Portfolio Managers' ownership (if any) of shares in the Fund.

Administrator, Custodian and Transfer Agent. State Street Bank and Trust Company ("State Street") is the administrator, custodian and transfer agent for the Fund.

Conflicts of Interest. The investment activities of BFA and its affiliates (including BlackRock and The PNC Financial Services Group, Inc., and their affiliates, directors, partners, trustees, managing members, officers and employees (collectively, the "Affiliates")) in the management of, or their interest in, their own accounts and other accounts they manage, may present conflicts of interest that could disadvantage the Fund and its shareholders. BFA and the other Affiliates provide investment management services to other funds and discretionary managed accounts that may follow investment programs similar to that of the Fund. BFA and the other Affiliates are

involved worldwide with a broad spectrum of financial services and asset management activities and may engage in the ordinary course of business in activities in which their interests or the interests of their clients may conflict with those of the Fund. BFA or one or more of the other Affiliates acts, or may act, as an investor, investment banker, research provider, investment manager, commodity pool operator, commodity trading advisor, financier, underwriter, adviser, market maker, trader, prime broker, lender, agent or principal, and have other direct and indirect interests in securities, currencies, commodities, derivatives and other instruments in which the Fund may directly or indirectly invest. Thus, it is likely that the Fund will have multiple business relationships with and will invest in, engage in transactions with, make voting decisions with respect to, or obtain services from, entities for which BFA or an Affiliate performs or seeks to perform investment banking or other services. Specifically, the Fund may invest in securities of, or engage in other transactions with, companies with which an Affiliate has developed or is trying to develop investment banking relationships or in which an Affiliate has significant debt or equity investments or other interests. The Fund also may invest in securities of, or engage in other transactions with, companies for which an Affiliate provides or may in the future provide research coverage. An Affiliate may have business relationships with, and purchase, distribute or sell services or products from or to, distributors, consultants or others who recommend the Fund or who engage in transactions with or for the Fund, and may receive compensation for such services. The Fund may also make brokerage and other payments to Affiliates in connection with the Fund's portfolio investment transactions.

BFA or an Affiliate may engage in proprietary trading and advise accounts and funds that have investment objectives similar to those of the Fund and/or that engage in and compete for transactions in the same types of securities, currencies and other instruments as the Fund, including securities issued by other open-end and closed-end investment companies (which may include investment companies that are affiliated with the Fund and BFA, to the extent permitted under the Investment Company Act of 1940, as amended (the "1940 Act")). The trading activities of BFA and these Affiliates are carried out without reference to positions held directly or indirectly by the Fund and may result in BFA or an Affiliate having positions in certain securities that are senior or junior to, or having interests different from or adverse to, the securities that are owned by the Fund.

No Affiliate is under any obligation to share any investment opportunity, idea or strategy with the Fund. As a result, an Affiliate may compete with the Fund for appropriate investment opportunities. The results of the Fund's investment activities, therefore, may differ from those of an Affiliate and of other accounts managed by an Affiliate, and it is possible that the Fund could sustain losses during periods in which one or more Affiliates and other accounts achieve profits on their trading for proprietary or other accounts. The opposite result is also possible.

In addition, the Fund may, from time to time, enter into transactions in which BFA's or an Affiliate's other clients have an adverse interest. Furthermore, transactions undertaken by Affiliate-advised clients may adversely impact the Fund. Transactions by one or more Affiliate-advised clients or by BFA may have the effect of diluting or otherwise disadvantaging the values, prices or investment strategies of the Fund.

The Fund's activities may be limited because of regulatory restrictions applicable to one or more Affiliates and/or their internal policies designed to comply with such restrictions.

Under a securities lending program approved by the Board, the Fund has retained an Affiliate of BFA to serve as the securities lending agent for the Fund to the extent that the Fund participates in the securities lending program. For these services, the securities lending agent will retain a share of the securities lending revenues. BFA or an Affiliate will also receive compensation for managing the reinvestment of cash collateral. In addition, one or more Affiliates may be among the entities to which the Fund may lend its portfolio securities under the securities lending program.

The activities of BFA or the Affiliates may give rise to other conflicts of interest that could disadvantage the Fund and its shareholders. BFA has adopted policies and procedures designed to address these potential conflicts of interest. See the Fund's SAI for further information.

Shareholder Information

Additional shareholder information, including how to buy and sell shares of the Fund, is available free of charge by calling toll-free: 1-800-iShares (1-800-474-2737) or visiting our website at www.iShares.com.

Buying and Selling Shares. Shares of the Fund may be acquired or redeemed directly from the Fund only in Creation Units or multiples thereof, as discussed in the *Creations and Redemptions* section of this Prospectus. Only an Authorized Participant (as defined in the *Creations and Redemptions* section below) may engage in creation or redemption transactions directly with the Fund. Once created, shares of the Fund generally trade in the secondary market in amounts less than a Creation Unit.

Shares of the Fund are listed on a national securities exchange for trading during the trading day. Shares can be bought and sold throughout the trading day like shares of other publicly-traded companies. The Trust does not impose any minimum investment for shares of the Fund purchased on an exchange or otherwise in the secondary market. The Fund's shares trade under the trading symbol "IVV."

Buying or selling Fund shares on an exchange or other secondary market involves two types of costs that may apply to all securities transactions. When buying or selling shares of the Fund through a broker, you may incur a brokerage commission and other charges. The commission is frequently a fixed amount and may be a significant proportional cost for investors seeking to buy or sell small amounts of shares. In addition, you may incur the cost of the "spread," that is, any difference between the bid price and the ask price. The spread varies over time for shares of the Fund based on the Fund's trading volume and market liquidity, and is generally lower if the Fund has high trading volume and market liquidity, and higher if the Fund has little trading volume and market liquidity (which is often the case for funds that are newly launched or small in size). The Fund's spread may also be impacted by the liquidity of the underlying securities held by the Fund, particularly for newly launched or smaller funds or in instances of significant volatility of the underlying securities.

The Board has adopted a policy of not monitoring for frequent purchases and redemptions of Fund shares ("frequent trading") that appear to attempt to take advantage of a potential arbitrage opportunity presented by a lag between a change in the value of the Fund's portfolio securities after the close of the primary markets for the Fund's portfolio securities and the reflection of that change in the Fund's NAV ("market timing"), because the Fund sells and redeems its shares directly through transactions that are in-kind and/or for cash, subject to the conditions described below under *Creations and Redemptions*. The Board has not adopted a policy of monitoring for other frequent trading activity because shares of the Fund are listed for trading on a national securities exchange.

The national securities exchange on which the Fund's shares are listed is open for trading Monday through Friday and is closed on weekends and the following holidays (or the days on which they are observed): New Year's Day, Martin Luther King, Jr. Day, Presidents' Day, Good Friday, Memorial Day, Independence Day, Labor Day, Thanksgiving Day and Christmas Day. The Fund's primary listing exchange is NYSE Arca.

Section 12(d)(1) of the 1940 Act restricts investments by investment companies in the securities of other investment companies. Registered investment companies are permitted to invest in the Fund beyond the limits set forth in Section 12(d)(1), subject to certain terms and conditions set forth in SEC rules or in an SEC exemptive order issued to the Trust. In order for a registered investment company to invest in shares of the Fund beyond the limitations of Section 12(d)(1) pursuant to the exemptive relief obtained by the Trust, the registered investment company must enter into an agreement with the Trust.

Book Entry. Shares of the Fund are held in book-entry form, which means that no stock certificates are issued. The Depository Trust Company ("DTC") or its nominee is the record owner of all outstanding shares of the Fund and is recognized as the owner of all shares for all purposes.

Investors owning shares of the Fund are beneficial owners as shown on the records of DTC or its participants. DTC serves as the securities depository for shares of the Fund. DTC participants include securities brokers and dealers, banks, trust companies, clearing corporations and other institutions that directly or indirectly maintain a custodial relationship with DTC. As a beneficial owner of shares, you are not entitled to receive physical delivery of stock certificates or to have shares registered in your name, and you are not considered a registered owner of shares. Therefore, to exercise any right as an owner of shares, you must rely upon the procedures of DTC and its participants. These procedures are the same as those that apply to any other registered investment company securities that you hold in book-entry or "street name" form.

Share Prices. The trading prices of the Fund's shares in the secondary market generally differ from the Fund's daily NAV and are affected by market forces such as the supply of and demand for ETF shares and shares of underlying securities held by the Fund, economic conditions and other factors. Information regarding the intraday value of shares of the Fund, also known as the "indicative optimized portfolio value" ("IOPV"), is disseminated every 15 seconds throughout each trading day by the

national securities exchange on which the Fund's shares are listed or by market data vendors or other information providers. The IOPV is based on the current market value of the securities or other assets and/or cash required to be deposited in exchange for a Creation Unit. The IOPV does not necessarily reflect the precise composition of the current portfolio of securities or other assets held by the Fund at a particular point in time or the best possible valuation of the current portfolio. Therefore, the IOPV should not be viewed as a "real-time" update of the Fund's NAV, which is computed only once a day. The IOPV is generally determined by using both current market quotations and/or price quotations obtained from broker-dealers and other market intermediaries that may trade in the portfolio securities or other assets held by the Fund. The quotations of certain Fund holdings may not be updated during U.S. trading hours if such holdings do not trade in the United States. The Fund is not involved in, or responsible for, the calculation or dissemination of the IOPV and makes no representation or warranty as to its accuracy.

Determination of Net Asset Value. The NAV of the Fund normally is determined once daily Monday through Friday, generally as of the regularly scheduled close of business of the New York Stock Exchange ("NYSE") (normally 4:00 p.m., Eastern time) on each day that the NYSE is open for trading, based on prices at the time of closing, provided that (i) any Fund assets or liabilities denominated in currencies other than the U.S. dollar are translated into U.S. dollars at the prevailing market rates on the date of valuation as quoted by one or more data service providers and (ii) U.S. fixed-income assets may be valued as of the announced closing time for trading in fixed-income instruments in a particular market or exchange. The NAV of the Fund is calculated by dividing the value of the net assets of the Fund (*i.e.*, the value of its total assets less total liabilities) by the total number of outstanding shares of the Fund, generally rounded to the nearest cent.

The value of the securities and other assets and liabilities held by the Fund are determined pursuant to valuation policies and procedures approved by the Board.

Equity investments and other instruments for which market quotations are readily available, as well as investments in an underlying fund, if any, are valued at market value, which is generally determined using the last reported official closing price or, if a reported closing price is not available, the last traded price on the exchange or market on which the security is primarily traded at the time of valuation.

Generally, trading in non-U.S. securities, U.S. government securities, money market instruments and certain fixed-income securities is substantially completed each day at various times prior to the close of business on the NYSE. The values of such securities used in computing the NAV of the Fund are determined as of such times.

When market quotations are not readily available or are believed by BFA to be unreliable, the Fund's investments are valued at fair value. Fair value determinations are made by BFA in accordance with policies and procedures approved by the Board. BFA may conclude that a market quotation is not readily available or is unreliable if a security or other asset or liability does not have a price source due to its lack of liquidity or other reasons, if a market quotation differs significantly from recent price quotations or otherwise no longer appears to reflect fair value, where the security or other asset or liability is thinly traded, when there is a significant event subsequent to

the most recent market quotation, or if the trading market on which a security is listed is suspended or closed and no appropriate alternative trading market is available. A "significant event" is deemed to occur if BFA determines, in its reasonable business judgment prior to or at the time of pricing the Fund's assets or liabilities, that the event is likely to cause a material change to the closing market price of one or more assets or liabilities held by the Fund.

Fair value represents a good faith approximation of the value of an asset or liability. The fair value of an asset or liability held by the Fund is the amount the Fund might reasonably expect to receive from the current sale of that asset or the cost to extinguish that liability in an arm's-length transaction. Valuing the Fund's investments using fair value pricing will result in prices that may differ from current market valuations and that may not be the prices at which those investments could have been sold during the period in which the particular fair values were used. Use of fair value prices and certain current market valuations could result in a difference between the prices used to calculate the Fund's NAV and the prices used by the Underlying Index, which, in turn, could result in a difference between the Fund's performance and the performance of the Underlying Index.

Dividends and Distributions

General Policies. Dividends from net investment income, if any, generally are declared and paid at least once a year by the Fund. Distributions of net realized securities gains, if any, generally are declared and paid once a year, but the Trust may make distributions on a more frequent basis for the Fund. The Trust reserves the right to declare special distributions if, in its reasonable discretion, such action is necessary or advisable to preserve its status as a regulated investment company ("RIC") or to avoid imposition of income or excise taxes on undistributed income or realized gains.

Dividends and other distributions on shares of the Fund are distributed on a *pro rata* basis to beneficial owners of such shares. Dividend payments are made through DTC participants and indirect participants to beneficial owners then of record with proceeds received from the Fund.

Dividend Reinvestment Service. No dividend reinvestment service is provided by the Trust. Broker-dealers may make available the DTC book-entry Dividend Reinvestment Service for use by beneficial owners of the Fund for reinvestment of their dividend distributions. Beneficial owners should contact their broker to determine the availability and costs of the service and the details of participation therein. Brokers may require beneficial owners to adhere to specific procedures and timetables. If this service is available and used, dividend distributions of both income and realized gains will be automatically reinvested in additional whole shares of the Fund purchased in the secondary market.

Taxes. As with any investment, you should consider how your investment in shares of the Fund will be taxed. The tax information in this Prospectus is provided as general information, based on current law. You should consult your own tax professional about the tax consequences of an investment in shares of the Fund.

Unless your investment in Fund shares is made through a tax-exempt entity or tax-deferred retirement account, such as an IRA, in which case your distributions generally

will be taxable when withdrawn, you need to be aware of the possible tax consequences when the Fund makes distributions or you sell Fund shares.

Taxes on Distributions. Distributions from the Fund's net investment income (other than qualified dividend income), including distributions of income from securities lending and distributions out of the Fund's net short-term capital gains, if any, are taxable to you as ordinary income. Distributions by the Fund of net long-term capital gains, if any, in excess of net short-term capital losses (capital gain dividends) are taxable to you as long-term capital gains, regardless of how long you have held the Fund's shares. Distributions by the Fund that qualify as qualified dividend income are taxable to you at long-term capital gain rates. Long-term capital gains and qualified dividend income are generally eligible for taxation at a maximum rate of 15% for non-corporate shareholders with incomes below approximately $418,000 ($471,000 if married and filing jointly), adjusted annually for inflation, and 20% for individuals with any income above these amounts that is net long-term capital gain or qualified dividend income. In addition, a 3.8% U.S. federal Medicare contribution tax is imposed on "net investment income," including, but not limited to, interest, dividends, and net gain, of U.S. individuals with income exceeding $200,000 (or $250,000 if married and filing jointly) and of estates and trusts.

Dividends will be qualified dividend income to you if they are attributable to qualified dividend income received by the Fund. Generally, qualified dividend income includes dividend income from taxable U.S. corporations and qualified non-U.S. corporations, provided that the Fund satisfies certain holding period requirements in respect of the stock of such corporations and has not hedged its position in the stock in certain ways. Substitute dividends received by the Fund with respect to dividends paid on securities lent out will not be qualified dividend income. For this purpose, a qualified non-U.S. corporation means any non-U.S. corporation that is eligible for benefits under a comprehensive income tax treaty with the United States, which includes an exchange of information program, or if the stock with respect to which the dividend was paid is readily tradable on an established United States securities market. The term excludes a corporation that is a passive foreign investment company.

Dividends received by the Fund from a RIC generally are qualified dividend income only to the extent such dividend distributions are made out of qualified dividend income received by such RIC.

For a dividend to be treated as qualified dividend income, the dividend must be received with respect to a share of stock held without being hedged by the Fund, and with respect to a share of the Fund held without being hedged by you, for 61 days during the 121-day period beginning at the date which is 60 days before the date on which such share becomes ex-dividend with respect to such dividend or, in the case of certain preferred stock, 91 days during the 181-day period beginning 90 days before such date.

Fund distributions, to the extent attributable to dividends from U.S. corporations, will be eligible for the dividends received deduction for Fund shareholders that are corporations, subject to certain hedging and holding requirements.

In general, your distributions are subject to U.S. federal income tax for the year when they are paid. Certain distributions paid in January, however, may be treated as paid on December 31 of the prior year.

If the Fund's distributions exceed current and accumulated earnings and profits, all or a portion of the distributions made in the taxable year may be recharacterized as a return of capital to shareholders. Distributions in excess of the Fund's minimum distribution requirements, but not in excess of the Fund's earnings and profits, will be taxable to shareholders and will not constitute nontaxable returns of capital. The Fund's capital loss carryforwards, if any, carried from taxable years beginning before 2011 do not reduce current earnings and profits, even if such carryforwards offset current year realized gains. A return of capital distribution generally will not be taxable but will reduce the shareholder's cost basis and result in a higher capital gain or lower capital loss when those shares on which the distribution was received are sold. Once a shareholder's cost basis is reduced to zero, further distributions will be treated as capital gain, if the shareholder holds shares of the Fund as capital assets.

If you are neither a resident nor a citizen of the United States or if you are a non-U.S. entity, the Fund's ordinary income dividends (which include distributions of net short-term capital gains) will generally be subject to a 30% U.S. withholding tax, unless a lower treaty rate applies, provided that withholding tax will generally not apply to any gain or income realized by a non-U.S. shareholder in respect of any distributions of long-term capital gains or upon the sale or other disposition of shares of the Fund.

A 30% withholding tax is currently imposed on U.S.-source dividends, interest and other income items and will be imposed on proceeds from the sale, redemption or other disposition of property producing U.S.-source dividends and interest paid after December 31, 2018, to (i) foreign financial institutions, including non-U.S. investment funds, unless they agree to collect and disclose to the Internal Revenue Service ("IRS") information regarding their direct and indirect U.S. account holders and (ii) certain other foreign entities, unless they certify certain information regarding their direct and indirect U.S. owners. To avoid withholding, foreign financial institutions will need to (i) enter into agreements with the IRS that state that they will provide the IRS information, including the names, addresses and taxpayer identification numbers of direct and indirect U.S. account holders, comply with due diligence procedures with respect to the identification of U.S. accounts, report to the IRS certain information with respect to U.S. accounts maintained, agree to withhold tax on certain payments made to non-compliant foreign financial institutions or to account holders who fail to provide the required information, and determine certain other information concerning their account holders, or (ii) in the event that an applicable intergovernmental agreement and implementing legislation are adopted, provide local revenue authorities with similar account holder information. Other foreign entities may need to report the name, address, and taxpayer identification number of each substantial U.S. owner or provide certifications of no substantial U.S. ownership unless certain exceptions apply.

If your Fund shares are loaned out pursuant to a securities lending arrangement, you may lose the ability to treat Fund dividends paid while the shares are held by the borrower as qualified dividend income.

If you are a resident or a citizen of the United States, by law, back-up withholding at a 28% rate will apply to your distributions and proceeds if you have not provided a taxpayer identification number or social security number and made other required certifications.

Taxes When Shares are Sold. Currently, any capital gain or loss realized upon a sale of Fund shares is generally treated as a long-term gain or loss if the shares have been held for more than one year. Any capital gain or loss realized upon a sale of Fund shares held for one year or less is generally treated as short-term gain or loss, except that any capital loss on the sale of shares held for six months or less is treated as long-term capital loss to the extent that capital gain dividends were paid with respect to such shares. Any such capital gains, including from sales of Fund shares or from capital gain dividends, are included in "net investment income" for purposes of the 3.8% U.S. federal Medicare contribution tax mentioned above.

The foregoing discussion summarizes some of the consequences under current U.S. federal tax law of an investment in the Fund. It is not a substitute for personal tax advice. You may also be subject to state and local taxation on Fund distributions and sales of shares. Consult your personal tax advisor about the potential tax consequences of an investment in shares of the Fund under all applicable tax laws.

Creations and Redemptions. Prior to trading in the secondary market, shares of the Fund are "created" at NAV by market makers, large investors and institutions only in block-size Creation Units of 50,000 shares or multiples thereof. Each "creator" or authorized participant (an "Authorized Participant") has entered into an agreement with the Fund's distributor, BlackRock Investments, LLC (the "Distributor"), an affiliate of BFA.

A creation transaction, which is subject to acceptance by the Distributor and the Fund, generally takes place when an Authorized Participant deposits into the Fund a designated portfolio of securities (including any portion of such securities for which cash may be substituted) and a specified amount of cash approximating the holdings of the Fund in exchange for a specified number of Creation Units. To the extent practicable, the composition of such portfolio generally corresponds *pro rata* to the holdings of the Fund. However, creation and redemption baskets may differ. The Fund may, in certain circumstances, offer Creation Units partially or solely for cash.

Similarly, shares can be redeemed only in Creation Units, generally for a designated portfolio of securities (including any portion of such securities for which cash may be substituted) held by the Fund and a specified amount of cash. *Except when aggregated in Creation Units, shares are not redeemable by the Fund.*

The prices at which creations and redemptions occur are based on the next calculation of NAV after a creation or redemption order is received in an acceptable form under the authorized participant agreement.

Only an Authorized Participant may create or redeem Creation Units with the Fund. Authorized Participants may create or redeem Creation Units for their own accounts or for customers, including, without limitation, affiliates of the Fund.

In the event of a system failure or other interruption, including disruptions at market makers or Authorized Participants, orders to purchase or redeem Creation Units either

may not be executed according to the Fund's instructions or may not be executed at all, or the Fund may not be able to place or change orders.

To the extent the Fund engages in in-kind transactions, the Fund intends to comply with the U.S. federal securities laws in accepting securities for deposit and satisfying redemptions with redemption securities by, among other means, assuring that any securities accepted for deposit and any securities used to satisfy redemption requests will be sold in transactions that would be exempt from registration under the Securities Act of 1933, as amended (the "1933 Act"). Further, an Authorized Participant that is not a "qualified institutional buyer," as such term is defined in Rule 144A under the 1933 Act, will not be able to receive restricted securities eligible for resale under Rule 144A.

Creations and redemptions must be made through a firm that is either a member of the Continuous Net Settlement System of the National Securities Clearing Corporation or a DTC participant that has executed an agreement with the Distributor with respect to creations and redemptions of Creation Unit aggregations. Information about the procedures regarding creation and redemption of Creation Units (including the cut-off times for receipt of creation and redemption orders) is included in the Fund's SAI.

Because new shares may be created and issued on an ongoing basis, at any point during the life of the Fund a "distribution," as such term is used in the 1933 Act, may be occurring. Broker-dealers and other persons are cautioned that some activities on their part may, depending on the circumstances, result in their being deemed participants in a distribution in a manner that could render them statutory underwriters subject to the prospectus delivery and liability provisions of the 1933 Act. Any determination of whether one is an underwriter must take into account all the relevant facts and circumstances of each particular case.

Broker-dealers should also note that dealers who are not "underwriters" but are participating in a distribution (as contrasted to ordinary secondary transactions), and thus dealing with shares that are part of an "unsold allotment" within the meaning of Section 4(a)(3)(C) of the 1933 Act, would be unable to take advantage of the prospectus delivery exemption provided by Section 4(a)(3) of the 1933 Act. For delivery of prospectuses to exchange members, the prospectus delivery mechanism of Rule 153 under the 1933 Act is available only with respect to transactions on a national securities exchange.

Costs Associated with Creations and Redemptions. Authorized Participants are charged standard creation and redemption transaction fees to offset transfer and other transaction costs associated with the issuance and redemption of Creation Units. The standard creation and redemption transaction fees are set forth in the table below. The standard creation transaction fee is charged to the Authorized Participant on the day such Authorized Participant creates a Creation Unit, and is the same regardless of the number of Creation Units purchased by the Authorized Participant on the applicable business day. Similarly, the standard redemption transaction fee is charged to the Authorized Participant on the day such Authorized Participant redeems a Creation Unit, and is the same regardless of the number of Creation Units redeemed by the Authorized Participant on the applicable business day. Creations and redemptions for cash (when cash creations and redemptions (in whole or in part) are

available or specified) are also subject to an additional charge (up to the maximum amounts shown in the table below). This charge is intended to compensate for brokerage, tax, foreign exchange, execution, price movement and other costs and expenses related to cash transactions (which may, in certain instances, be based on a good faith estimate of transaction costs). Investors who use the services of a broker or other financial intermediary to acquire or dispose of Fund shares may pay fees for such services.

The following table shows, as of April 30, 2017, the approximate value of one Creation Unit, standard fees and maximum additional charges for creations and redemptions (as described above):

Approximate Value of a Creation Unit	Creation Unit Size	Standard Creation/ Redemption Transaction Fee	Maximum Additional Charge for Creations*	Maximum Additional Charge for Redemptions*
$11,982,000	50,000	$1,250	3.0%	2.0%

* As a percentage of the net asset value per Creation Unit, inclusive, in the case of redemptions, of the standard redemption transaction fee.

Householding. Householding is an option available to certain Fund investors. Householding is a method of delivery, based on the preference of the individual investor, in which a single copy of certain shareholder documents can be delivered to investors who share the same address, even if their accounts are registered under different names. Please contact your broker-dealer if you are interested in enrolling in householding and receiving a single copy of prospectuses and other shareholder documents, or if you are currently enrolled in householding and wish to change your householding status.

Distribution

The Distributor or its agent distributes Creation Units for the Fund on an agency basis. The Distributor does not maintain a secondary market in shares of the Fund. The Distributor has no role in determining the policies of the Fund or the securities that are purchased or sold by the Fund. The Distributor's principal address is 1 University Square Drive, Princeton, NJ 08540.

BFA or its affiliates make payments to broker-dealers, registered investment advisers, banks or other intermediaries (together, "intermediaries") related to marketing activities and presentations, educational training programs, conferences, the development of technology platforms and reporting systems, data provision services, or their making shares of the Fund and certain other iShares funds available to their customers generally and in certain investment programs. Such payments, which may be significant to the intermediary, are not made by the Fund. Rather, such payments are made by BFA or its affiliates from their own resources, which come directly or indirectly in part from fees paid by the iShares funds complex. Payments of this type are sometimes referred to as revenue-sharing payments. A financial intermediary may make decisions about which investment options it recommends or makes available, or the level of services provided, to its customers based on the payments or other financial incentives it is eligible to receive. Therefore, such payments or other financial incentives offered or made to an intermediary create conflicts of interest between the intermediary and its customers and may cause the intermediary to recommend the Fund or other iShares funds over another investment. More information regarding these payments is contained in the Fund's SAI. **Please contact your salesperson or other investment professional for more information regarding any such payments his or her firm may receive from BFA or its affiliates.**

Financial Highlights

The financial highlights table is intended to help investors understand the Fund's financial performance for the past five years. Certain information reflects financial results for a single share of the Fund. The total returns in the table represent the rate that an investor would have earned (or lost) on an investment in the Fund, assuming reinvestment of all dividends and distributions. This information has been audited by PricewaterhouseCoopers LLP, whose report is included, along with the Fund's financial statements, in the Fund's Annual Report (available upon request).

Financial Highlights
(For a share outstanding throughout each period)

	Year ended Mar. 31, 2017	Year ended Mar. 31, 2016	Year ended Mar. 31, 2015	Year ended Mar. 31, 2014	Year ended Mar. 31, 2013
Net asset value, beginning of year	$ 206.63	$ 207.87	$ 188.12	$ 157.51	$ 141.28
Income from investment operations:					
Net investment income[a]	4.53	4.28	4.01	3.51	3.20
Net realized and unrealized gain (loss)[b]	30.49	(0.76)	19.69	30.53	16.14
Total from investment operations	35.02	3.52	23.70	34.04	19.34
Less distributions from:					
Net investment income	(4.44)	(4.76)	(3.95)	(3.43)	(3.11)
Total distributions	(4.44)	(4.76)	(3.95)	(3.43)	(3.11)
Net asset value, end of year	$ 237.21	$ 206.63	$ 207.87	$ 188.12	$ 157.51
Total return	17.12%	1.74%[c]	12.66%	21.79%	13.90%
Ratios/Supplemental data:					
Net assets, end of year (000s)	$101,821,909	$71,101,255	$68,743,107	$54,366,052	$41,031,303
Ratio of expenses to average net assets	0.05%	0.07%	0.07%	0.07%	0.08%
Ratio of net investment income to average net assets	2.05%	2.09%	2.00%	2.02%	2.23%
Portfolio turnover rate[d]	5%	4%	4%	5%	4%

[a] Based on average shares outstanding throughout each period.
[b] The amounts reported for a share outstanding may not accord with the change in aggregate gains and losses in securities for the fiscal period due to the timing of capital share transactions in relation to the fluctuating market values of the Fund's underlying securities.
[c] Includes payment from an affiliate. Not including these proceeds, the Fund's total return would have been 1.73%.
[d] Portfolio turnover rates exclude portfolio securities received or delivered as a result of processing capital share transactions in Creation Units.

Index Provider

SPDJI is the Index Provider for the Underlying Index and is not affiliated with the Trust, BFA, State Street, the Distributor or any of their respective affiliates.

SPDJI is a resource for index-based concepts, data and research. The Index Provider provides financial, economic and investment information and analytical services to the financial community. The Index Provider calculates and maintains the S&P Global 1200™, which includes the S&P 500® for the United States, the S&P Europe 350™ for Continental Europe, Ireland and the United Kingdom, the S&P/TOPIX 150™ for Japan, the S&P Asia 50™, the S&P/TSX 60™ for Canada, the S&P/ASX 50™ and the S&P Latin America 40™. The Index Provider also publishes the S&P MidCap 400®, S&P SmallCap 600®, S&P Total Market Index™ and S&P U.S. REIT™ for the United States. The Index Provider calculates and maintains the S&P Global Broad Market Index (BMI) Series, a set of rules-based equity benchmarks covering developed and emerging countries around the world. Company additions to and deletions from an S&P equity index do not in any way reflect an opinion on the investment merits of the company.

BFA or its affiliates have entered into a license agreement with the Index Provider to use the Underlying Index. BFA or its affiliates sublicense rights in the Underlying Index to the Trust at no charge.

Disclaimers

The Underlying Index is a product of SPDJI, and has been licensed for use by BFA or its affiliates. Standard & Poor's® and S&P® are registered trademarks of Standard & Poor's Financial Services LLC, a division of S&P Global ("S&P"); Dow Jones® is a registered trademark of Dow Jones Trademark Holdings LLC ("Dow Jones"); iShares® and BlackRock® are registered trademarks of BFA and its affiliates, and these trademarks have been licensed for use by SPDJI and sublicensed for certain purposes by the Trust. The Fund is not sponsored, endorsed, sold or promoted by SPDJI, Dow Jones, S&P, any of their respective affiliates (collectively, "S&P Dow Jones Indices"). S&P Dow Jones Indices makes no representation or warranty, express or implied, to the owners of shares of the Fund or any member of the public regarding the advisability of investing in securities generally or in the Fund in particular or the ability of the Underlying Index to track general market performance. S&P Dow Jones Indices' only relationship to the Trust and BFA and their affiliates with respect to the Underlying Index is the licensing of the Underlying Index and certain trademarks, service marks and/or trade names of S&P Dow Jones Indices and/or its licensors. The Underlying Index is determined, composed and calculated by S&P Dow Jones Indices without regard to the Trust, BFA or its affiliates or the Fund. S&P Dow Jones Indices have no obligation to take the needs of BFA or its affiliates or the owners of shares of the Fund into consideration in determining, composing or calculating the Underlying Index. S&P Dow Jones Indices are not responsible for and have not participated in the determination of the prices, and amount of shares of the Fund or the timing of the issuance or sale of such shares or in the determination or calculation of the equation by which shares of the Fund are to be converted into cash, surrendered or redeemed, as the case may be. S&P Dow Jones Indices have no obligation or liability in connection with the administration, marketing or trading of shares

of the Fund. There is no assurance that investment products based on the Underlying Index will accurately track the Underlying Index's performance or provide positive investment returns. SPDJI is not an investment adviser. Inclusion of a security within an index is not a recommendation by S&P Dow Jones Indices to buy, sell, or hold such security, nor is it considered to be investment advice.

S&P DOW JONES INDICES DO NOT GUARANTEE THE ADEQUACY, ACCURACY, TIMELINESS AND/OR THE COMPLETENESS OF THE UNDERLYING INDEX OR ANY DATA RELATED THERETO OR ANY COMMUNICATION, INCLUDING BUT NOT LIMITED TO, ORAL OR WRITTEN COMMUNICATION (INCLUDING ELECTRONIC COMMUNICATIONS) WITH RESPECT THERETO. S&P DOW JONES INDICES SHALL NOT BE SUBJECT TO ANY DAMAGES OR LIABILITY FOR ANY ERRORS, OMISSIONS, OR DELAYS THEREIN. S&P DOW JONES INDICES MAKE NO EXPRESS OR IMPLIED WARRANTIES, AND EXPRESSLY DISCLAIMS ALL WARRANTIES, OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE OR AS TO RESULTS TO BE OBTAINED BY BFA OR ITS AFFILIATES, OWNERS OF SHARES OF THE FUND, OR ANY OTHER PERSON OR ENTITY FROM THE USE OF THE UNDERLYING INDEX OR WITH RESPECT TO ANY DATA RELATED THERETO. WITHOUT LIMITING ANY OF THE FOREGOING, IN NO EVENT WHATSOEVER SHALL S&P DOW JONES INDICES BE LIABLE FOR ANY INDIRECT, SPECIAL, INCIDENTAL, PUNITIVE, OR CONSEQUENTIAL DAMAGES INCLUDING BUT NOT LIMITED TO, LOSS OF PROFITS, TRADING LOSSES, LOST TIME OR GOODWILL, EVEN IF THEY HAVE BEEN ADVISED OF THE POSSIBLITY OF SUCH DAMAGES, WHETHER IN CONTRACT, TORT, STRICT LIABILITY, OR OTHERWISE. THERE ARE NO THIRD PARTY BENEFICIARIES OF ANY AGREEMENTS OR ARRANGEMENTS BETWEEN S&P DOW JONES INDICES AND BFA OR ITS AFFILIATES, OTHER THAN THE LICENSORS OF S&P DOW JONES INDICES.

Shares of the Fund are not sponsored, endorsed or promoted by NYSE Arca. NYSE Arca makes no representation or warranty, express or implied, to the owners of the shares of the Fund or any member of the public regarding the ability of the Fund to track the total return performance of the Underlying Index or the ability of the Underlying Index to track stock market performance. NYSE Arca is not responsible for, nor has it participated in, the determination of the compilation or the calculation of the Underlying Index, nor in the determination of the timing of, prices of, or quantities of shares of the Fund to be issued, nor in the determination or calculation of the equation by which the shares are redeemable. NYSE Arca has no obligation or liability to owners of the shares of the Fund in connection with the administration, marketing or trading of the shares of the Fund.

NYSE Arca does not guarantee the accuracy and/or the completeness of the Underlying Index or any data included therein. NYSE Arca makes no warranty, express or implied, as to results to be obtained by the Trust on behalf of the Fund as licensee, licensee's customers and counterparties, owners of the shares of the Fund, or any other person or entity from the use of the Underlying Index or any data included therein in connection with the rights licensed as described herein or for any other use. NYSE Arca makes no express or implied warranties and hereby expressly disclaims all warranties of merchantability or fitness for a particular purpose with respect to the Underlying Index or any data included therein. Without limiting any of the

foregoing, in no event shall NYSE Arca have any liability for any direct, indirect, special, punitive, consequential or any other damages (including lost profits) even if notified of the possibility of such damages.

The past performance of the Underlying Index is not a guide to future performance. BFA and its affiliates do not guarantee the accuracy or the completeness of the Underlying Index or any data included therein and BFA and its affiliates shall have no liability for any errors, omissions or interruptions therein. BFA and its affiliates make no warranty, express or implied, to the owners of shares of the Fund or to any other person or entity, as to results to be obtained by the Fund from the use of the Underlying Index or any data included therein. Without limiting any of the foregoing, in no event shall BFA or its affiliates have any liability for any special, punitive, direct, indirect or consequential damages (including lost profits), even if notified of the possibility of such damages.

Supplemental Information

I. Premium/Discount Information

The table that follows presents information about the differences between the daily market price on secondary markets for shares of the Fund and the Fund's NAV. NAV is the price at which the Fund issues and redeems shares. It is calculated in accordance with the standard formula for valuing mutual fund shares. The price used to calculate market returns ("Market Price") of the Fund generally is determined using the midpoint between the highest bid and the lowest ask on the primary securities exchange on which shares of the Fund are listed for trading, as of the time that the Fund's NAV is calculated. The Fund's Market Price may be at, above or below its NAV. The NAV of the Fund will fluctuate with changes in the value of its portfolio holdings. The Market Price of the Fund will fluctuate in accordance with changes in its NAV, as well as market supply and demand.

Premiums or discounts are the differences (expressed as a percentage) between the NAV and Market Price of the Fund on a given day, generally at the time the NAV is calculated. A premium is the amount that the Fund is trading above the reported NAV, expressed as a percentage of the NAV. A discount is the amount that the Fund is trading below the reported NAV, expressed as a percentage of the NAV.

The following information shows the frequency of distributions of premiums and discounts for the Fund for each full calendar quarter of 2016 and the first two calendar quarters of 2017.

Each line in the table shows the number of trading days in which the Fund traded within the premium/discount range indicated. The number of trading days in each premium/discount range is also shown as a percentage of the total number of trading days in the period covered by the table. All data presented here represents past performance, which cannot be used to predict future results.

Premium/Discount Range	*Number of Days*	*Percentage of Total Days*
Greater than 0.0% and Less than 0.5%	161	42.71%
At NAV	80	21.22
Less than 0.0% and Greater than -0.5%	136	36.07
	377	100.00%

II. Total Return Information

The table that follows presents information about the total returns of the Fund and the Underlying Index as of the fiscal year ended March 31, 2017.

"Average Annual Total Returns" represents the average annual change in value of an investment over the periods indicated. "Cumulative Total Returns" represents the total change in value of an investment over the periods indicated.

The Fund's NAV is the value of one share of the Fund as calculated in accordance with the standard formula for valuing mutual fund shares. The NAV return is based on the NAV of the Fund and the market return is based on the Market Price of the Fund. Market Price generally is determined by using the midpoint between the highest bid and the lowest ask on the primary stock exchange on which shares of the Fund are listed for trading, as of the time that the Fund's NAV is calculated. Market and NAV returns assume that dividends and capital gain distributions have been reinvested in the Fund at Market Price and NAV, respectively.

An index is a financial calculation, based on a grouping of financial instruments, that is not an investment product and that tracks a specified financial market or sector. Unlike the Fund, the Underlying Index does not actually hold a portfolio of securities and therefore does not incur the expenses incurred by the Fund. These expenses negatively impact the performance of the Fund. Also, market returns do not include brokerage commissions and other charges that may be payable on secondary market transactions. If brokerage commissions were included, market returns would be lower. The returns shown in the following table do not reflect the deduction of taxes that a shareholder would pay on Fund distributions or the redemption or sale of Fund shares. The investment return and principal value of shares of the Fund will vary with changes in market conditions. Shares of the Fund may be worth more or less than their original cost when they are redeemed or sold in the market. The Fund's past performance is no guarantee of future results.

Performance as of March 31, 2017

	Average Annual Total Returns			Cumulative Total Returns		
	NAV	MARKET	INDEX	NAV	MARKET	INDEX
1 Year	17.12%	17.11%	17.17%	17.12%	17.11%	17.17%
5 Years	13.24%	13.25%	13.30%	86.20%	86.26%	86.71%
10 Years	7.46%	7.46%	7.51%	105.31%	105.25%	106.27%

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For more information visit www.iShares.com or call 1-800-474-2737

Copies of the Prospectus, SAI and recent shareholder reports can be found on our website at www.iShares.com. For more information about the Fund, you may request a copy of the SAI. The SAI provides detailed information about the Fund and is incorporated by reference into this Prospectus. This means that the SAI, for legal purposes, is a part of this Prospectus.

Additional information about the Fund's investments is available in the Fund's Annual and Semi-Annual Reports to shareholders. In the Fund's Annual Report, you will find a discussion of the market conditions and investment strategies that significantly affected the Fund's performance during the last fiscal year.

If you have any questions about the Trust or shares of the Fund or you wish to obtain the SAI, Semi-Annual or Annual Report free of charge, please:

Call:	1-800-iShares or 1-800-474-2737 (toll free) Monday through Friday, 8:30 a.m. to 6:30 p.m. (Eastern time)
Email:	iSharesETFs@blackrock.com
Write:	c/o BlackRock Investments, LLC 1 University Square Drive, Princeton, NJ 08540

Information about the Fund (including the SAI) can be reviewed and copied at the SEC's Public Reference Room in Washington, D.C., and information on the operation of the Public Reference Room may be obtained by calling the SEC at 1-202-551-8090. Reports and other information about the Fund are available on the EDGAR database on the SEC's website at www.sec.gov, and copies of this information may be obtained, after paying a duplicating fee, by electronic request at the following e-mail address: publicinfo@sec.gov, or by writing to the SEC's Public Reference Room, Washington, D.C. 20549-1520.

No person is authorized to give any information or to make any representations about the Fund and its shares not contained in this Prospectus and you should not rely on any other information. Read and keep this Prospectus for future reference.

Investment Company Act File No.: 811-09729

IS-P-IVV-0817

BLACKROCK®

Golden Capital Management, LLC

10715 David Taylor Drive - Suite 150
Charlotte, North Carolina 28262

Style:	US Small Cap
Sub-Style:	Blend
Firm AUM:	$9.8 billion
Firm Strategy AUM:	$126.5 million^

Year Founded:	1999
GIMA Status:	Approved
Firm Ownership:	Majority Owned Wells Fargo Bank, N.A., & Minority Employee Owned
Professional-Staff:	13^^

PRODUCT OVERVIEW

The overall objective of the SMID Cap Core ("SMID") strategy is to construct an actively managed, risk controlled, core portfolio of companies that they believe are undervalued and exhibit the likelihood to meet or exceed earnings expectations. Their performance objective is to provide long-term capital appreciation by outperforming the Russell 2500 Index. The SMID target portfolio consists of 50 stocks that are equally weighted at the time of funding.

MANAGER'S INVESTMENT STRATEGY

- ☐ Top-down / portfolio structures based on economic trends
- ☑ Bottom-up / portfolio structure based on individual securities

TARGET PORTFOLIO CHARACTERISTICS

Number of stock holdings:	50
Average dividend yield:	Below the Russell 2500
P/E ratio:	Below the Russell 2500
Cash level over market cycle:	—
Risk (standard deviation):	Above the Russell 2500
Average turnover rate:	60 to 60%
Use ADRs:	No
Capitalization:	—

PORTFOLIO'S EQUITY SECTOR WEIGHTINGS +

	----------06/17---------		12/16
Sector	Golden	Index***	Golden
Energy	3.70	4.30	6.88
Materials	4.15	5.85	3.67
Industrials	14.54	15.48	18.13
Consumer Discretionary	11.23	12.93	12.13
Consumer Staples	7.34	2.89	5.99
Health Care	12.38	11.94	12.96
Financials	16.36	16.43	14.33
Information Technology	17.13	15.93	15.45
Telecomm Services	0.00	0.58	0.00
Utilities	4.02	3.75	2.04
REIT'S	7.24	9.92	6.71
Cash/Cash Equivalents	1.91	0.00	1.71

PORTFOLIO STATISTICS

	----------06/17------		12/16
	Golden	Index***	Golden
Number of stock holdings	50	2,509	50
Wtd avg dividend yield	1.5%	1.5%	1.2%
Wtd avg P/E ratio [1]	18.54x	19.10x	18.13x
Wtd avg portfolio beta	0.83	—	0.83
Mega capitalization +	0.0%	0.0%	0.0%
Large capitalization +	0.0%	0.5%	0.0%
Medium capitalization +	0.0%	68.7%	0.0%
Small capitalization +	0.0%	27.0%	0.0%
Micro capitalization +	0.0%	3.7%	0.0%

PORTFOLIO'S TOP FIVE EQUITY HOLDINGS

	%
wabash national	2.7
hologic inc	2.6
spirit aerosystems holdings	2.6
cdw corp	2.5
teradyne	2.5

% PROCESS BASED ON

- 0 Asset allocation - cash vs. stock
- 0 Industry or sector weighting
- 0 Stock Selection

^As of 12/31/2016. Information as of 06/30/2017 is not yet available.

^^As of 03/31/2017. Information as of 06/30/2017 is not yet available.

[1]The P/E used here is calculated by the harmonic mean.

+Total may not equal 100% due to rounding.

****Index : Russell 2500*

MANAGER'S INVESTMENT PROCESS

- Proprietary multifactor models
- Objective and disciplined execution
- Risk-controlled strategy

RISK CONSIDERATIONS

Equity securities prices may fluctuate in response to specific situations for each company, industry, market conditions and general economic environment. Companies paying dividends can reduce or cut payouts at any time. Strategies that invest a large percentage of assets in only one industry sector (or in only a few sectors) are more vulnerable to price fluctuation than portfolios that diversify among a broad range of sectors. Investing in securities entails risks, including: Small-cap stocks may be subject to a higher degree of risk than more established companies' securities, including higher volatility. The illiquidity of the small-cap market may adversely affect the value of these investments. Growth investing does not guarantee a profit or eliminate risk. The stocks of these companies can have relatively high valuations. Because of these high valuations, an investment in a growth stock can be more risky than an investment in a company with more modest growth expectations. Value investing does not guarantee a profit or eliminate risk. Not all companies whose stocks are considered to be value stocks are able to turn their business around or successfully employ corrective strategies which would result in stock prices that do not rise as initially expected.

PORTFOLIO'S ALLOCATION HISTORY (%) +

	06/17	03/17	12/16	09/16
U.S. Stocks	91	91	92	89
REITs	7	7	7	9
Cash/Cash Equivalents	2	2	2	2

^As of 12/31/2016. Information as of 06/30/2017 is not yet available.

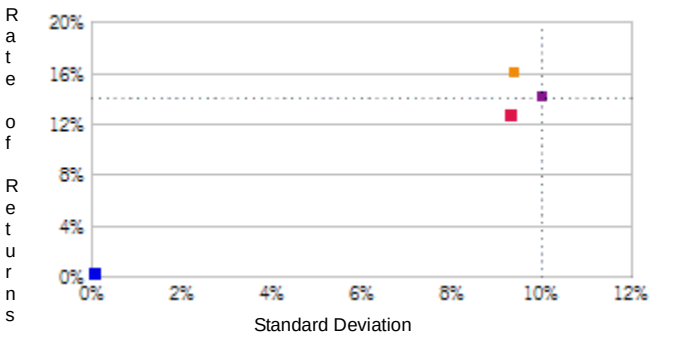
^^As of 03/31/2017. Information as of 06/30/2017 is not yet available.

[1]The P/E used here is calculated by the harmonic mean.

+Total may not equal 100% due to rounding.

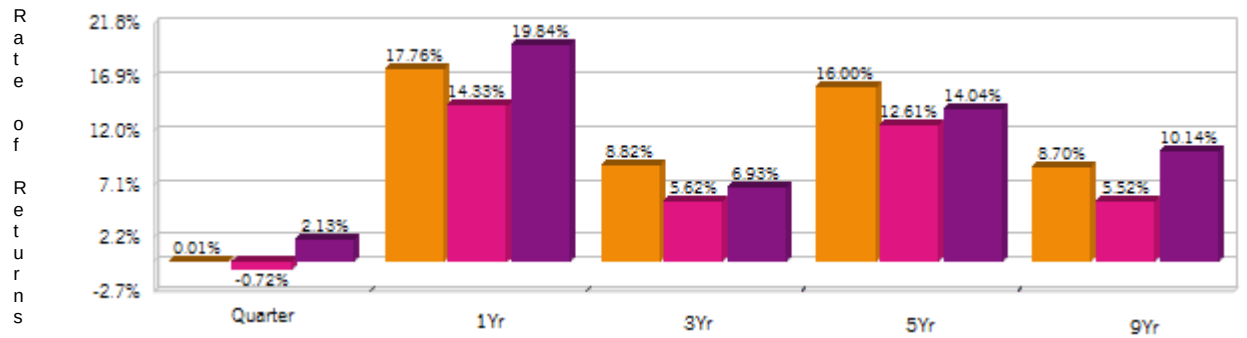
****Index : Russell 2500*

RISK/RETURN ANALYSIS - 5 YEARS ENDING 06/30/17



	STD	ROR
Golden (Gross)	9.40	16.00
Golden (Net)	9.35	12.61
Russell 2500	10.03	14.04
90-Day T-Bills	0.09	0.15

AVERAGE ANNUAL TOTAL RETURN (%) - PERIODS ENDING 06/30/17

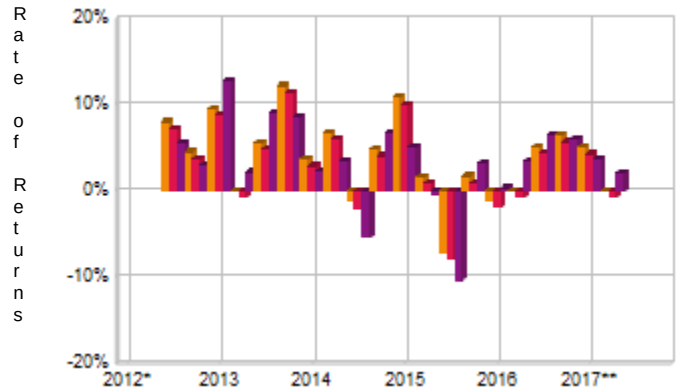


INVESTMENT RESULTS

	Annual Rates of Return (%)										9 Year - Ending 06/30/17	
	2007*	2008	2009	2010	2011	2012	2013	2014	2015	2016	Annual	Std. Dev.
Golden (Gross)	-5.00	-43.73	32.10	28.98	-1.75	15.64	30.10	14.99	6.53	10.98	8.70	20.17
Golden (Net)	-5.70	-45.54	28.32	25.27	-4.54	12.28	26.40	11.60	3.44	7.65	5.52	20.09
Russell 2500	-4.32	-36.79	34.39	26.71	-2.51	17.87	36.81	7.07	-2.90	17.58	10.14	20.23

*10/01/2007-12/31/2007

RISK VOLATALITY (%)



*07/01/12-12/31/12 **01/01/17-06/30/17

	Number Of	Up Qtrs.	Down Qtrs.
Golden (Gross)		17	3
Golden (Net)		14	6
Russell 2500		17	3

PORTFOLIO'S QUARTERLY RETURNS (%)

	Quarter1		Quarter2		Quarter3		Quarter4	
	Gross	Net	Gross	Net	Gross	Net	Gross	Net
2007							-5.00	-5.70
2008	-11.30	-12.01	7.72	6.97	-15.53	-16.18	-30.28	-30.96
2009	-6.89	-7.61	14.96	14.19	16.32	15.52	6.09	5.28
2010	5.94	5.11	-5.88	-6.56	13.95	13.16	13.52	12.71
2011	12.10	11.29	-0.93	-1.65	-21.80	-22.41	13.14	12.40
2012	8.90	8.12	-6.00	-6.71	8.05	7.25	4.56	3.78
2013	9.62	8.85	0.02	-0.73	5.67	4.93	12.28	11.49
2014	3.79	2.99	6.85	6.07	-1.16	-1.91	4.90	4.14
2015	10.91	10.09	1.71	0.95	-7.20	-7.88	1.76	1.04
2016	-1.02	-1.81	0.07	-0.67	5.15	4.39	6.55	5.74
2017	5.10	4.33	0.01	-0.72				

Related Select UMA

PORTFOLIO'S RISK STATISTICS - ENDING 06/30/17 [1] [2]

	PERIODS	
	3 Year	5 Year
Standard Deviation	9.32%	9.40%
Standard Deviation of Primary Benchmark	10.28%	10.03%
Sharpe Ratio	0.92	1.69
Sharpe Ratio of Primary Benchmark	0.65	1.39
Alpha	3.44%	4.75%
Beta	0.76	0.78
Downside Risk	3.10%	3.36%
R-Squared	0.69	0.69
Tracking Error	5.75%	5.63%
Information Ratio	0.33	0.35

PORTFOLIO DIVERSIFICATION - R^2(INCEPTION THROUGH 12/14)+

	R^2
Golden vs. Russell 2500	0.90

+Statistics are calculated using gross of fee performance only.

1. Statistics are calculated using gross of fee performance only.
2. Russell 2500 was used as the primary benchmark and the 90-Day T-Bills Index as the risk-free benchmark.

See important notes and disclosures pages for a discussion of the sources of the performance data used to calculate the performance results and related analyses shown above.

Past performance is no guarantee of future results. *This profile is not complete without the pages, which contain important notes, including disclosures about the composite, index descriptions and a glossary of terms. Information shown is as of June 30, 2017, unless otherwise noted. All data are subject to change.*

IMPORTANT NOTES AND DISCLOSURES

COMPOSITE DISCLOSURES

Past performance is no guarantee of future results. Actual individual account results may differ from the performance shown in this profile. There is no guarantee that this investment strategy will work under all market conditions. Do not use this profile as the sole basis for your investment decisions.

Performance results in this profile are calculated assuming reinvestment of dividends and income. Returns for more than one year are annualized and based on quarterly data. Returns for periods of less than a calendar year show the total return for the period and are not annualized.

Sources of Performance Results and Other Data: The performance data and certain other information for this strategy (including the data on page 1 of this profile) reflect the investment manager's results in managing Morgan Stanley program accounts, or the investment manager's results in managing accounts and investment products, in the same or a substantially similar investment discipline. (For periods through June 2012, the Fiduciary Services program operated through two channels - Morgan Stanley channel and the Smith Barney channel - and any performance and other data relating to Fiduciary Services accounts shown here for these periods is calculated using accounts in only one of the these channels.) This information for the investment manager is presented solely to provide information about accounts that were managed according to investment objectives and strategies the same or substantially similar to the corresponding investment discipline in the Select UMA program. Although the Fiduciary Services and Select UMA programs are both Morgan Stanley managed account programs, the performance results and other features of similar investment disciplines in the two programs may differ due to investment and operational differences. For example, the individual investment disciplines in the Select UMA accounts may contain fewer securities, which would lead to a more concentrated portfolio. The automatic rebalancing, wash sale loss and tax-harvesting features of the Select UMA program, which are not available in Fiduciary Services, also could cause differences in performance. Accordingly, the performance of the accounts in the Fiduciary Services program is not, and may differ significantly from, the performance of the accounts in the Select UMA program and should not be considered indicative of or a substitute for Select UMA performance. Similarly, performance results of the investment manager's composites may differ from those of Select UMA accounts managed in the same or a substantially similar investment discipline.

Related Performance:
The SMID Cap Core Equity composite is comprised of fully discretionary, equity only separate accounts and includes cash. The SMID Cap Core portfolio is an actively managed value-biased portfolio of companies that exhibit the likelihood to meet or exceed earnings expectations. The dispersion of annual returns is measured by the standard deviation of the asset-weighted portfolio of returns represented with the composite for the full year. Portfolios are valued monthly on a trade date basis including accrued interest and dividends, returns are calculated gross of taxes withheld on foreign dividends. Composite returns are dollar weighted on a monthly basis. Gross of fees performance results are net of brokerage commissions and transaction costs but do not reflect the deduction of investment advisory fees and any other expenses that a client would have paid or actually paid.

Morgan Stanley Performance:

The composite consists of **59** account(s) with a market value of **$14.7 million** as of **06/30/2017**. In this profile, the performance from September 1,2007 through June 30, 2012 consists of accounts managed by the investment manager in this strategy in either the Morgan Stanley or the Smith Barney form of the Fiduciary Services program. From July 1, 2012 through December 31, 2015, performance consists of all Fiduciary Services (FS) accounts managed by the investment manager in this strategy, subject to any other limitations stated in this profile. From January 1, 2016, performance consists of the performance of all FS accounts (as described in the previous sentence) as well as the performance of all single style Select UMA accounts managed by the investment manager in this strategy, subject to any other limitations stated in this profile. Performance composites calculated by Morgan Stanley include all fee-paying portfolios with no investment restrictions. New accounts are included beginning with the second full calendar month of performance. Terminated accounts are removed in the month in which they terminate (but prior performance of terminated accounts is retained). Performance is calculated on a total return basis and by asset weighting the individual portfolio returns using the beginning of period values.

Gross Performance: Golden's gross results do not reflect a deduction of any investment advisory fees or program fees, charged by Golden or Morgan Stanley, but are net of commissions charged on securities transactions.

Net Performance for all Periods: Net performance results reflect a deduction of 0.7425% quarterly. This consists of three components: 0.625% maximum quarterly MS Advisory Fee and 0.0175% maximum quarterly Program Overlay Fee (which, together cover the services provided by Morgan Stanley), plus 0.1% quarterly SMA Manager Fees (being the fee currently charged by Golden to new clients for managing their assets in the Personal Portfolio program). The SMA Manager Fees may differ from manager to manager, and managers may change their fee to new clients from time to time. If you select this manager for your account, check the SMA Manager Fees specified in the written client agreement, in case these have changed since you received this profile. Historical net fees reflect the Advisory Fee Schedule as of March 31, 2014.

Morgan Stanley program fees are usually deducted quarterly, and have a compounding effect on performance. The Morgan Stanley program fee, which differs among programs and clients, is described in the applicable Morgan Stanley ADV brochure, which is available at www.morganstanley.com/ADV or on request from your Financial Advisor or Private Wealth Advisor.

Focus List, Approved List, and Watch Status:
Global Investment Manager Analysis ("GIMA") uses two methods to evaluate investment products in applicable advisory programs. In general, strategies that have passed a more thorough evaluation may be placed on the "Focus List", while strategies that have passed through a different and less comprehensive evaluation process may be placed on the "Approved List". Sometimes an investment product may be evaluated using the Focus List process but then placed on the Approved List instead of the Focus List.
Investment products may move from the Focus List to the Approved List, or vice versa. GIMA may also determine that an investment product no longer meets the criteria under either evaluation process and will no longer be recommended in investment advisory programs (in which case the investment product is given a "Not Approved" status).

GIMA has a "Watch" policy and may describe a Focus List or Approved List investment product as being on "Watch" if GIMA identifies specific areas that (a) merit further evaluation by GIMA and (b) may, but are not certain to, result in the investment product becoming "Not Approved". The Watch period depends on the length of time needed for GIMA to conduct its evaluation and for the investment manager to address any concerns. GIMA may, but is not obligated to, note the Watch status in this report with a "W" or "Watch" on the cover page.
For more information on the Focus List, Approved List, and Watch processes, please see the applicable Morgan Stanley ADV brochure (www.ms.com/adv). Your Financial Advisor or Private Wealth Advisor can provide on request a copy of a paper entitled "GIMA: At A Glance ".

ADDITIONAL DISCLOSURES

The information about a representative account is for illustrative purposes only. Actual account holdings, performance and other data will vary depending on the size of an account, cash flows within an account, and restrictions on an account. Holdings are subject to change daily. The information in this profile is not a recommendation to buy, hold or sell securities.

Actual portfolio statistics may vary from target portfolio characteristics.

The investment manager may use the same or substantially similar investment strategies, and may hold similar portfolios of investments, in other portfolios or products it manages (including mutual funds). These may be available at Morgan Stanley or elsewhere, and may cost an investor more or less than this strategy in Morgan Stanley's Select UMA program.

The portfolio may, at times, invest in exchange-traded funds (ETFs), which are a form of equity security in seeking to maintain continued full exposure to the broad equity market.

Morgan Stanley investment advisory programs may require a minimum asset level and, depending on your specific investment objectives and financial position, may not be suitable for you. Investment advisory program accounts are opened pursuant to a written client agreement.

The investment manager acts independently of, and is not an affiliate of, Morgan Stanley Smith Barney LLC.

Diversification does not guarantee a profit or protect against a loss.

No obligation to notify
Morgan Stanley has no obligation to notify you when information in this profile changes.

Sources of information
Material in this profile has been obtained from sources that we believe to be reliable, but we do not guarantee its accuracy, completeness or timeliness. Third party data providers make no warranties or representations relating to the accuracy, completeness or timeliness of the data they provide and are not liable for any damages relating to this data.

No tax advice
Morgan Stanley and its affiliates do not render advice on legal, tax and/or tax accounting matters to clients. Each client should consult his/her personal tax and/or legal advisor to learn about any potential tax or other implications that may result from acting on a particular recommendation.

Not an ERISA fiduciary
Morgan Stanley is not acting as a fiduciary under either the Employee Retirement Income Security Act of 1974, as amended, or under section 4975 of the Internal Revenue Code of 1986, as amended, in providing the information in this profile.

INDEX DESCRIPTIONS

90-Day T-Bills

The 90-Day Treasury Bill is a short-term obligation issued by the United States government. T-bills are purchased at a discount to the full face value, and the investor receives the full value when they mature. The difference of discount is the interested earned. T-bills are issued in denominations of $10,000 auction and $1,000 increments thereafter.

Russell 2500

The Russell 2500 Index measures the performance of the 2,500 smallest companies in the Russell 3000 Index, which represents approximately 16% of the total market capitalization of the Russell 3000 Index.

S&P 500

The S&P 500 Total Return has been widely regarded as the best single gauge of the large cap U.S. equities market since the index was first published in 1957. The index has over $5.58 trillion benchmarked, with index assets comprising approximately $1.31 trillion of this total. The index includes 500 leading companies in leading industries of the U.S. economy, capturing 75% coverage of U.S. equities. This index includes dividend reinvestment.

Indices are unmanaged and have no expenses. You cannot invest directly in an index.

GLOSSARY OF TERMS

Alpha is a mathematical estimate of risk-adjusted return expected from a portfolio above and beyond the benchmark return at any point in time.

American Depositary Receipts (ADRs) are receipts for shares of a foreign-based corporation held in the vault of a U.S. bank.

Average Portfolio Beta is a measure of the sensitivity of a benchmark or portfolio's rates of return to changes against a market return. The market return is the S&P 500 Index. It is the coefficient measuring a stock or a portfolio's relative volatility.

Beta is a measure of the sensitivity of a portfolio's rates of return to changes in the market return. It is the coeffecient measuring a stock or a portfolio's relative volatility.

Bottom-Up Stock Selection Emphasis primarily on individual stock selection. Considerations of economic and industry factors are of secondary importance in the investment decision-making process.

Capitalization is defined as the following: Mega (Above $100 billion), Large ($12 to $100 billion), Medium ($2.5 - $12 billion), Small ($.50 - $2.5 billion) and Micro (below $.50 billion).

Dividend a portion of a company's profit paid to common and preferred shareholders.

Downside Risk is a measure of the risk associated with achieving a specific target return. This statistic separates portfolio volatility into downside risk and upside uncertainty. The downside considers all returns below the target return, while the upside considers all returns equal to or above the target return.

Duration is a measure of price sensitivity expressed in years.

High Grade Corporate Bonds corporate bonds from issuers with credit ratings of AA or AAA.

Information Ratio is a measure of the investment manager's skill to add active value against a given benchmark relative to how stable that active return has been. Essentially, the information ratio explains how significant a manager's alpha is. Therefore, the higher the information ratio, the more significant the alpha.

Investment Grade Bonds are those rated by Standard & Poor's AAA (highest rated), AA, A or BBB (or equivalent rating by other rating agencies or, in the case of securities not rated, by the investment manager).

Price/Book Ratio (P/B) weighted average of the stocks' price divided by book value per share. Book value per share is defined as common equity, including intangibles, divided by shares outstanding times the adjustment factor.

Price/Cash Flow Ratio a ratio used to compare a company's market value to its cash flow. It is calculated by dividing the company's market cap by the company' operating cash flow in the most recent fiscal year (or the most recent four fiscal quarters); or, equivalently, divide the per-share stock price by the per-share operating cash flow.

Price/Earnings Ratio (P/E Ratio) shows the multiple of earnings at which a stock sells. Determined by dividing current stock price by current earnings per share (adjusted for stock splits). Earnings per share for the P/E ratio are determined by dividing earnings for past 12 months by the number of common shares outstanding. The P/E ratio shown here is calculated by the harmonic mean.

Price/Sales Ratio determined by dividing current stock price by revenue per share (adjusted for stock splits). Revenue per share for the P/S ratio is determined by dividing revenue for past 12 months by number of shares outstanding.

R2 (R-Squared)/Portfolio Diversification indicates the proportion of a security's total variance that is benchmark-related or is explained by variations in the benchmark.

Sharpe Ratio measures the efficiency, or excess return per unit of volatility, of a manager's returns. It evaluates managers' performance on a volatility-adjusted basis.

Standard Deviation is a statistical measure of historical variability or spread of returns around a mathematical average return that was produced by the investment manager over a given measurement period. The higher the standard deviation, the greater the variability in the investment manager's returns relative to its average return.

Top-Down/Economic Analysis Emphasis primarily on macroeconomic trends as opposed to bottom-up stock selection.

Tracking Error represents the standard deviation of the difference between the performance of the investment strategy and the benchmark. This provides a historical measure of the variability of the investment strategy's returns relative to its benchmark.

U.S. Treasury Bonds a marketable, fixed interest U.S. government debt security with a maturity of more than 10 years. Treasury bonds make interest payments semi-annually and the income that holders receive is only taxed at the federal level.

Volatility a measure of risk based on the standard deviation of the asset return. Volatility is a variable that appears in option pricing formulas, where it denotes the volatility of the underlying asset return from now to the expiration of the option. There are volatility indexes. Such as a scale of 1-9; a higher rating means higher risk.

Vanguard U.S. Stock ETFs Prospectus

April 27, 2017

Exchange-traded fund shares that are not individually redeemable and are listed on NYSE Arca

Vanguard Total Stock Market Index Fund ETF Shares (VTI)

Vanguard Extended Market Index Fund ETF Shares (VXF)

Vanguard Large-Cap Index Fund ETF Shares (VV)

Vanguard Mid-Cap Index Fund ETF Shares (VO)

Vanguard Small-Cap Index Fund ETF Shares (VB)

Vanguard Value Index Fund ETF Shares (VTV)

Vanguard Mid-Cap Value Index Fund ETF Shares (VOE)

Vanguard Small-Cap Value Index Fund ETF Shares (VBR)

Vanguard Growth Index Fund ETF Shares (VUG)

Vanguard Mid-Cap Growth Index Fund ETF Shares (VOT)

Vanguard Small-Cap Growth Index Fund ETF Shares (VBK)

This prospectus contains financial data for the Funds through the fiscal year ended December 31, 2016.

Contents

Vanguard Total Stock Market ETF

Investment Objective

The Fund seeks to track the performance of a benchmark index that measures the investment return of the overall stock market.

Fees and Expenses

The following table describes the fees and expenses you may pay if you buy and hold ETF Shares of the Fund.

Shareholder Fees
(Fees paid directly from your investment)

Transaction Fee on Purchases and Sales	None through Vanguard (Broker fees vary)
Transaction Fee on Reinvested Dividends	None through Vanguard (Broker fees vary)
Transaction Fee on Conversion to ETF Shares	None through Vanguard (Broker fees vary)

Annual Fund Operating Expenses
(Expenses that you pay each year as a percentage of the value of your investment)

Management Fees	0.04%
12b-1 Distribution Fee	None
Other Expenses	0.00%
Total Annual Fund Operating Expenses	0.04%

Example

The following example is intended to help you compare the cost of investing in the Fund's ETF Shares with the cost of investing in other funds. It illustrates the hypothetical expenses that you would incur over various periods if you were to invest $10,000 in the Fund's shares. This example assumes that the shares provide a return of 5% each year and that total annual fund operating expenses remain as stated in the preceding table. You would incur these hypothetical expenses whether or not you redeem your investment at the end of the given period. Although your actual costs may be higher or lower, based on these assumptions your costs would be:

1 Year	3 Years	5 Years	10 Years
$4	$13	$23	$51

This example does not include the brokerage commissions that you may pay to buy and sell ETF Shares of the Fund.

Portfolio Turnover

The Fund pays transaction costs, such as commissions, when it buys and sells securities (or "turns over" its portfolio). A higher portfolio turnover rate may indicate higher transaction costs and may result in more taxes when Fund shares are held in a taxable account. These costs, which are not reflected in annual fund operating expenses or in the previous expense example, reduce the Fund's performance. During the most recent fiscal year, the Fund's portfolio turnover rate was 4% of the average value of its portfolio.

Principal Investment Strategies

The Fund employs an indexing investment approach designed to track the performance of the CRSP US Total Market Index, which represents approximately 100% of the investable U.S. stock market and includes large-, mid-, small-, and micro-cap stocks regularly traded on the New York Stock Exchange and Nasdaq. The Fund invests by sampling the Index, meaning that it holds a broadly diversified collection of securities that, in the aggregate, approximates the full Index in terms of key characteristics. These key characteristics include industry weightings and market capitalization, as well as certain financial measures, such as price/earnings ratio and dividend yield.

Principal Risks

An investment in the Fund could lose money over short or even long periods. You should expect the Fund's share price and total return to fluctuate within a wide range. The Fund is subject to the following risks, which could affect the Fund's performance:

- *Stock market risk*, which is the chance that stock prices overall will decline. Stock markets tend to move in cycles, with periods of rising prices and periods of falling prices. In addition, the Fund's target index may, at times, become focused in stocks of a particular market sector, which would subject the Fund to proportionately higher exposure to the risks of that sector.
- *Index sampling risk,* which is the chance that the securities selected for the Fund, in the aggregate, will not provide investment performance matching that of the Fund's target index. Index sampling risk for the Fund should be low.

Because ETF Shares are traded on an exchange, they are subject to additional risks:

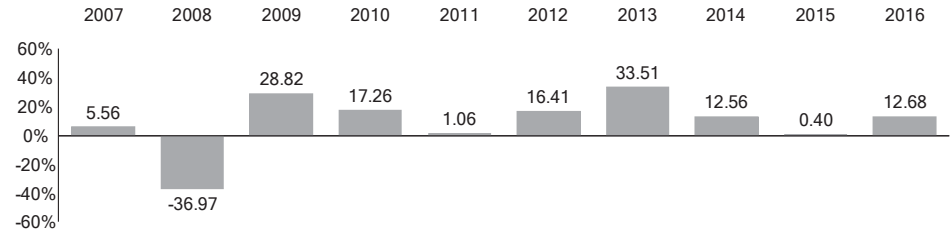
- The Fund's ETF Shares are listed for trading on NYSE Arca and are bought and sold on the secondary market at market prices. Although it is expected that the market price of an ETF Share typically will approximate its net asset value (NAV), there may be times when the market price and the NAV differ significantly. Thus, you may pay more or less than NAV when you buy ETF Shares on the secondary market, and you may receive more or less than NAV when you sell those shares.
- Although the Fund's ETF Shares are listed for trading on NYSE Arca, it is possible that an active trading market may not be maintained.
- Trading of the Fund's ETF Shares may be halted by the activation of individual or marketwide trading halts (which halt trading for a specific period of time when the price of a particular security or overall market prices decline by a specified percentage). Trading of the Fund's ETF Shares may also be halted if (1) the shares are delisted from NYSE Arca without first being listed on another exchange or (2) NYSE Arca officials determine that such action is appropriate in the interest of a fair and orderly market or for the protection of investors.

An investment in the Fund is not a deposit of a bank and is not insured or guaranteed by the Federal Deposit Insurance Corporation or any other government agency.

Annual Total Returns

The following bar chart and table are intended to help you understand the risks of investing in the Fund. The bar chart shows how the performance of the Fund's ETF Shares (based on NAV) has varied from one calendar year to another over the periods shown. The table shows how the average annual total returns of the ETF Shares compare with those of the Fund's target index and other comparative indexes, which have investment characteristics similar to those of the Fund. Keep in mind that the Fund's past performance (before and after taxes) does not indicate how the Fund will perform in the future. Updated performance information is available on our website at *vanguard.com/performance* or by calling Vanguard toll-free at 800-662-7447.

Annual Total Returns — Vanguard Total Stock Market Index Fund ETF Shares



During the periods shown in the bar chart, the highest return for a calendar quarter was 16.96% (quarter ended June 30, 2009), and the lowest return for a quarter was –22.71% (quarter ended December 31, 2008).

Average Annual Total Returns for Periods Ended December 31, 2016

	1 Year	5 Years	10 Years
Vanguard Total Stock Market Index Fund ETF Shares *Based on NAV*			
Return Before Taxes	12.68%	14.63%	7.23%
Return After Taxes on Distributions	12.10	14.12	6.83
Return After Taxes on Distributions and Sale of Fund Shares	7.54	11.72	5.81
Based on Market Price			
Return Before Taxes	12.74	14.64	7.23
Comparative Indexes (reflect no deduction for fees, expenses, or taxes)			
MSCI US Broad Market Index	12.67%	14.71%	7.26%
Spliced Total Stock Market Index	12.68	14.64	7.23
CRSP US Total Market Index	12.68	14.62	—

Actual after-tax returns depend on your tax situation and may differ from those shown in the preceding table. When after-tax returns are calculated, it is assumed that the shareholder was in the highest individual federal marginal income tax bracket at the time of each distribution of income or capital gains or upon redemption. State and local income taxes are not reflected in the calculations. Please note that after-tax returns are not relevant for a shareholder who holds fund shares in a tax-deferred account, such as an individual retirement account or a 401(k) plan. Also, figures captioned *Return After Taxes on Distributions and Sale of Fund Shares* may be higher than other figures for the same period if a capital loss occurs upon redemption and results in an assumed tax deduction for the shareholder.

Investment Advisor
The Vanguard Group, Inc. (Vanguard)

Portfolio Managers

Walter Nejman, Portfolio Manager at Vanguard. He has co-managed the Fund since 2016.

Gerard C. O'Reilly, Principal of Vanguard. He has managed the Fund since 1994 (co-managed since 2016).

Purchase and Sale of Fund Shares
You can buy and sell ETF Shares of the Fund through a brokerage firm. The price you pay or receive for ETF Shares will be the prevailing market price, which may be more or less than the NAV of the shares. The brokerage firm may charge you a commission to execute the transaction. Unless imposed by your brokerage firm, there is no minimum dollar amount you must invest and no minimum number of shares you must buy. ETF Shares of the Fund cannot be directly purchased from or redeemed with the Fund, except by certain authorized broker-dealers. These broker-dealers may purchase and redeem ETF Shares only in large blocks (Creation Units) worth several million dollars, typically in exchange for baskets of securities. For this Fund, the number of ETF Shares in a Creation Unit is 100,000.

Tax Information
The Fund's distributions may be taxable as ordinary income or capital gain. If you are investing through a tax-advantaged account, such as an IRA or an employer-sponsored retirement or savings plan, special tax rules apply.

Payments to Financial Intermediaries
The Fund and its investment advisor do not pay financial intermediaries for sales of Fund shares.

Vanguard Extended Market ETF

Investment Objective

The Fund seeks to track the performance of a benchmark index that measures the investment return of small- and mid-capitalization stocks.

Fees and Expenses

The following table describes the fees and expenses you may pay if you buy and hold ETF Shares of the Fund.

Shareholder Fees
(Fees paid directly from your investment)

Transaction Fee on Purchases and Sales	None through Vanguard (Broker fees vary)
Transaction Fee on Reinvested Dividends	None through Vanguard (Broker fees vary)
Transaction Fee on Conversion to ETF Shares	None through Vanguard (Broker fees vary)

Annual Fund Operating Expenses
(Expenses that you pay each year as a percentage of the value of your investment)

Management Fees	0.07%
12b-1 Distribution Fee	None
Other Expenses	0.01%
Total Annual Fund Operating Expenses	0.08%

Example

The following example is intended to help you compare the cost of investing in the Fund's ETF Shares with the cost of investing in other funds. It illustrates the hypothetical expenses that you would incur over various periods if you were to invest $10,000 in the Fund's shares. This example assumes that the shares provide a return of 5% each year and that total annual fund operating expenses remain as stated in the preceding table. You would incur these hypothetical expenses whether or not you redeem your investment at the end of the given period. Although your actual costs may be higher or lower, based on these assumptions your costs would be:

1 Year	3 Years	5 Years	10 Years
$8	$26	$45	$103

This example does not include the brokerage commissions that you may pay to buy and sell ETF Shares of the Fund.

Portfolio Turnover

The Fund pays transaction costs, such as commissions, when it buys and sells securities (or "turns over" its portfolio). A higher portfolio turnover rate may indicate higher transaction costs and may result in more taxes when Fund shares are held in a taxable account. These costs, which are not reflected in annual fund operating expenses or in the previous expense example, reduce the Fund's performance. During the most recent fiscal year, the Fund's portfolio turnover rate was 12% of the average value of its portfolio.

Principal Investment Strategies

The Fund employs an indexing investment approach designed to track the performance of the Standard & Poor's Completion Index, a broadly diversified index of stocks of small and mid-size U.S. companies. The S&P Completion Index contains all of the U.S. common stocks regularly traded on the New York Stock Exchange and the Nasdaq over-the-counter market, except those stocks included in the S&P 500 Index. The Fund invests by sampling the Index, meaning that it holds a broadly diversified collection of securities that, in the aggregate, approximates the full Index in terms of key characteristics. These characteristics include industry weightings and market capitalization, as well as certain financial measures, such as price/earnings ratio and dividend yield.

Principal Risks

An investment in the Fund could lose money over short or even long periods. You should expect the Fund's share price and total return to fluctuate within a wide range. The Fund is subject to the following risks, which could affect the Fund's performance:

- *Stock market risk*, which is the chance that stock prices overall will decline. Stock markets tend to move in cycles, with periods of rising prices and periods of falling prices. The Fund's target index tracks a subset of the U.S. stock market, which could cause the Fund to perform differently from the overall stock market. In addition, the Fund's target index may, at times, become focused in stocks of a particular market sector, which would subject the Fund to proportionately higher exposure to the risks of that sector.
- *Investment style risk*, which is the chance that returns from small- and mid-capitalization stocks will trail returns from the overall stock market. Historically, small- and mid-cap stocks have been more volatile in price than the large-cap stocks that dominate the overall market, and they often perform quite differently. Small and mid-size companies tend to have greater stock volatility because, among other things, these companies are more sensitive to changing economic conditions.
- *Index sampling risk,* which is the chance that the securities selected for the Fund, in the aggregate, will not provide investment performance matching that of the Fund's target index. Index sampling risk for the Fund should be low.

Because ETF Shares are traded on an exchange, they are subject to additional risks:

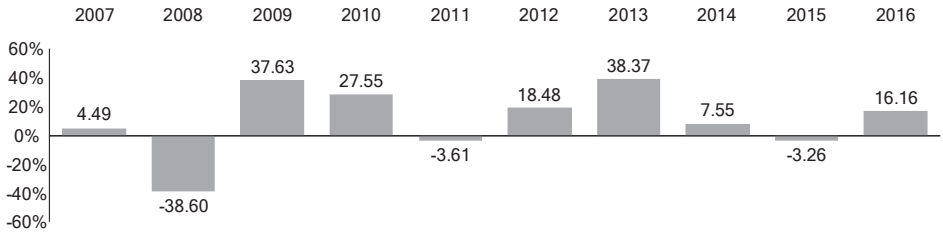
- The Fund's ETF Shares are listed for trading on NYSE Arca and are bought and sold on the secondary market at market prices. Although it is expected that the market price of an ETF Share typically will approximate its net asset value (NAV), there may be times when the market price and the NAV differ significantly. Thus, you may pay more or less than NAV when you buy ETF Shares on the secondary market, and you may receive more or less than NAV when you sell those shares.
- Although the Fund's ETF Shares are listed for trading on NYSE Arca, it is possible that an active trading market may not be maintained.
- Trading of the Fund's ETF Shares may be halted by the activation of individual or marketwide trading halts (which halt trading for a specific period of time when the price of a particular security or overall market prices decline by a specified percentage). Trading of the Fund's ETF Shares may also be halted if (1) the shares are delisted from NYSE Arca without first being listed on another exchange or (2) NYSE Arca officials determine that such action is appropriate in the interest of a fair and orderly market or for the protection of investors.

An investment in the Fund is not a deposit of a bank and is not insured or guaranteed by the Federal Deposit Insurance Corporation or any other government agency.

Annual Total Returns

The following bar chart and table are intended to help you understand the risks of investing in the Fund. The bar chart shows how the performance of the Fund's ETF Shares (based on NAV) has varied from one calendar year to another over the periods shown. The table shows how the average annual total returns of the ETF Shares compare with those of the Fund's target index and a comparative index, which have investment characteristics similar to those of the Fund. Keep in mind that the Fund's past performance (before and after taxes) does not indicate how the Fund will perform in the future. Updated performance information is available on our website at *vanguard.com/performance* or by calling Vanguard toll-free at 800-662-7447.

Annual Total Returns — Vanguard Extended Market Index Fund ETF Shares



During the periods shown in the bar chart, the highest return for a calendar quarter was 21.73% (quarter ended June 30, 2009), and the lowest return for a quarter was –26.54% (quarter ended December 31, 2008).

Average Annual Total Returns for Periods Ended December 31, 2016

	1 Year	5 Years	10 Years
Vanguard Extended Market Index Fund ETF Shares *Based on NAV*			
Return Before Taxes	16.16%	14.65%	7.96%
Return After Taxes on Distributions	15.62	14.22	7.61
Return After Taxes on Distributions and Sale of Fund Shares	9.34	11.68	6.38
Based on Market Price			
Return Before Taxes	16.22	14.68	7.97
Comparative Indexes (reflect no deduction for fees, expenses, or taxes)			
Standard & Poor's Completion Index	15.95%	14.55%	7.84%
Spliced Dow Jones U.S. Completion Total Stock Market Index	15.75	14.38	7.87

Actual after-tax returns depend on your tax situation and may differ from those shown in the preceding table. When after-tax returns are calculated, it is assumed that the shareholder was in the highest individual federal marginal income tax bracket at the time of each distribution of income or capital gains or upon redemption. State and local income taxes are not reflected in the calculations. Please note that after-tax returns are not relevant for a shareholder who holds fund shares in a tax-deferred account, such as an individual retirement account or a 401(k) plan. Also, figures captioned *Return After Taxes on Distributions and Sale of Fund Shares* may be higher than other figures for the same period if a capital loss occurs upon redemption and results in an assumed tax deduction for the shareholder.

Investment Advisor

The Vanguard Group, Inc. (Vanguard)

Portfolio Managers

Donald M. Butler, CFA, Principal of Vanguard. He has managed the Fund since 1997 (co-managed since 2016).

Scott E. Geiger, CFA, Portfolio Manager at Vanguard. He has co-managed the Fund since 2016.

Purchase and Sale of Fund Shares

You can buy and sell ETF Shares of the Fund through a brokerage firm. The price you pay or receive for ETF Shares will be the prevailing market price, which may be more or less than the NAV of the shares. The brokerage firm may charge you a commission to execute the transaction. Unless imposed by your brokerage firm, there is no minimum dollar amount you must invest and no minimum number of shares you must buy. ETF Shares of the Fund cannot be directly purchased from or redeemed with the Fund, except by certain authorized broker-dealers. These broker-dealers may purchase and redeem ETF Shares only in large blocks (Creation Units) worth several million dollars, typically in exchange for baskets of securities. For this Fund, the number of ETF Shares in a Creation Unit is 200,000.

Tax Information

The Fund's distributions may be taxable as ordinary income or capital gain. If you are investing through a tax-advantaged account, such as an IRA or an employer-sponsored retirement or savings plan, special tax rules apply.

Payments to Financial Intermediaries

The Fund and its investment advisor do not pay financial intermediaries for sales of Fund shares.

Vanguard Large-Cap ETF

Investment Objective

The Fund seeks to track the performance of a benchmark index that measures the investment return of large-capitalization stocks.

Fees and Expenses

The following table describes the fees and expenses you may pay if you buy and hold ETF Shares of the Fund.

Shareholder Fees
(Fees paid directly from your investment)

Transaction Fee on Purchases and Sales	None through Vanguard (Broker fees vary)
Transaction Fee on Reinvested Dividends	None through Vanguard (Broker fees vary)
Transaction Fee on Conversion to ETF Shares	None through Vanguard (Broker fees vary)

Annual Fund Operating Expenses
(Expenses that you pay each year as a percentage of the value of your investment)

Management Fees	0.05%
12b-1 Distribution Fee	None
Other Expenses	0.01%
Total Annual Fund Operating Expenses	0.06%

Example

The following example is intended to help you compare the cost of investing in the Fund's ETF Shares with the cost of investing in other funds. It illustrates the hypothetical expenses that you would incur over various periods if you were to invest $10,000 in the Fund's shares. This example assumes that the shares provide a return of 5% each year and that total annual fund operating expenses remain as stated in the preceding table. You would incur these hypothetical expenses whether or not you redeem your investment at the end of the given period. Although your actual costs may be higher or lower, based on these assumptions your costs would be:

1 Year	3 Years	5 Years	10 Years
$6	$19	$34	$77

This example does not include the brokerage commissions that you may pay to buy and sell ETF Shares of the Fund.

Portfolio Turnover

The Fund pays transaction costs, such as commissions, when it buys and sells securities (or "turns over" its portfolio). A higher portfolio turnover rate may indicate higher transaction costs and may result in more taxes when Fund shares are held in a taxable account. These costs, which are not reflected in annual fund operating expenses or in the previous expense example, reduce the Fund's performance. During the most recent fiscal year, the Fund's portfolio turnover rate was 5% of the average value of its portfolio.

Principal Investment Strategies

The Fund employs an indexing investment approach designed to track the performance of the CRSP US Large Cap Index, a broadly diversified index of large U.S. companies representing approximately the top 85% of the U.S. market capitalization. The Fund attempts to replicate the target index by investing all, or substantially all, of its assets in the stocks that make up the Index, holding each stock in approximately the same proportion as its weighting in the Index.

Principal Risks

An investment in the Fund could lose money over short or even long periods. You should expect the Fund's share price and total return to fluctuate within a wide range. The Fund is subject to the following risks, which could affect the Fund's performance:

- *Stock market risk*, which is the chance that stock prices overall will decline. Stock markets tend to move in cycles, with periods of rising prices and periods of falling prices. The Fund's target index tracks a subset of the U.S. stock market, which could cause the Fund to perform differently from the overall stock market. In addition, the Fund's target index may, at times, become focused in stocks of a particular market sector, which would subject the Fund to proportionately higher exposure to the risks of that sector.
- *Investment style risk*, which is the chance that returns from large-capitalization stocks will trail returns from the overall stock market. Large-cap stocks tend to go through cycles of doing better—or worse—than other segments of the stock market or the stock market in general. These periods have, in the past, lasted for as long as several years.

Because ETF Shares are traded on an exchange, they are subject to additional risks:

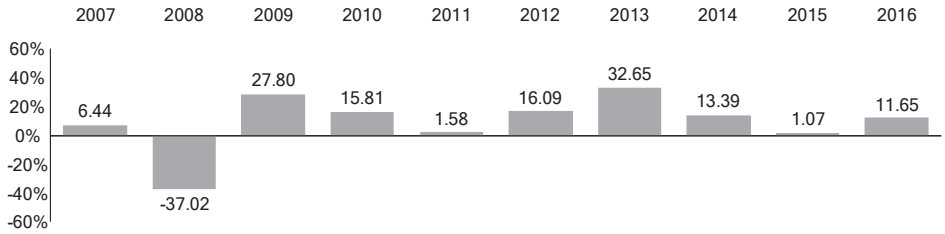
- The Fund's ETF Shares are listed for trading on NYSE Arca and are bought and sold on the secondary market at market prices. Although it is expected that the market price of an ETF Share typically will approximate its net asset value (NAV), there may be times when the market price and the NAV differ significantly. Thus, you may pay more or less than NAV when you buy ETF Shares on the secondary market, and you may receive more or less than NAV when you sell those shares.
- Although the Fund's ETF Shares are listed for trading on NYSE Arca, it is possible that an active trading market may not be maintained.
- Trading of the Fund's ETF Shares may be halted by the activation of individual or marketwide trading halts (which halt trading for a specific period of time when the price of a particular security or overall market prices decline by a specified percentage). Trading of the Fund's ETF Shares may also be halted if (1) the shares are delisted from NYSE Arca without first being listed on another exchange or (2) NYSE Arca officials determine that such action is appropriate in the interest of a fair and orderly market or for the protection of investors.

An investment in the Fund is not a deposit of a bank and is not insured or guaranteed by the Federal Deposit Insurance Corporation or any other government agency.

Annual Total Returns

The following bar chart and table are intended to help you understand the risks of investing in the Fund. The bar chart shows how the performance of the Fund's ETF Shares (based on NAV) has varied from one calendar year to another over the periods shown. The table shows how the average annual total returns of the ETF Shares compare with those of the Fund's target index and other comparative indexes, which have investment characteristics similar to those of the Fund. Keep in mind that the Fund's past performance (before and after taxes) does not indicate how the Fund will perform in the future. Updated performance information is available on our website at *vanguard.com/performance* or by calling Vanguard toll-free at 800-662-7447.

Annual Total Returns — Vanguard Large-Cap Index Fund ETF Shares



During the periods shown in the bar chart, the highest return for a calendar quarter was 16.04% (quarter ended June 30, 2009), and the lowest return for a quarter was –22.12% (quarter ended December 31, 2008).

Average Annual Total Returns for Periods Ended December 31, 2016

	1 Year	5 Years	10 Years
Vanguard Large-Cap Index Fund ETF Shares *Based on NAV*			
Return Before Taxes	11.65%	14.53%	7.10%
Return After Taxes on Distributions	11.10	14.03	6.71
Return After Taxes on Distributions and Sale of Fund Shares	7.00	11.65	5.71
Based on Market Price			
Return Before Taxes	11.73	14.55	7.11
Comparative Indexes (reflect no deduction for fees, expenses, or taxes)			
MSCI US Prime Market 750 Index	11.72%	14.66%	7.17%
Spliced Large Cap Index	11.75	14.61	7.14
CRSP US Large Cap Index	11.75	14.54	—

Actual after-tax returns depend on your tax situation and may differ from those shown in the preceding table. When after-tax returns are calculated, it is assumed that the shareholder was in the highest individual federal marginal income tax bracket at the time of each distribution of income or capital gains or upon redemption. State and local income taxes are not reflected in the calculations. Please note that after-tax returns are not relevant for a shareholder who holds fund shares in a tax-deferred account, such as an individual retirement account or a 401(k) plan. Also, figures captioned *Return After Taxes on Distributions and Sale of Fund Shares* may be higher than other figures for the same period if a capital loss occurs upon redemption and results in an assumed tax deduction for the shareholder.

Investment Advisor
The Vanguard Group, Inc. (Vanguard)

Portfolio Managers

Michael A. Johnson, Portfolio Manager at Vanguard. He has co-managed the Fund since 2016.

Walter Nejman, Portfolio Manager at Vanguard. He has co-managed the Fund since 2016.

Purchase and Sale of Fund Shares
You can buy and sell ETF Shares of the Fund through a brokerage firm. The price you pay or receive for ETF Shares will be the prevailing market price, which may be more or less than the NAV of the shares. The brokerage firm may charge you a commission to execute the transaction. Unless imposed by your brokerage firm, there is no minimum dollar amount you must invest and no minimum number of shares you must buy. ETF Shares of the Fund cannot be directly purchased from or redeemed with the Fund, except by certain authorized broker-dealers. These broker-dealers may purchase and redeem ETF Shares only in large blocks (Creation Units) worth several million dollars, typically in exchange for baskets of securities. For this Fund, the number of ETF Shares in a Creation Unit is 25,000.

Tax Information
The Fund's distributions may be taxable as ordinary income or capital gain. If you are investing through a tax-advantaged account, such as an IRA or an employer-sponsored retirement or savings plan, special tax rules apply.

Payments to Financial Intermediaries
The Fund and its investment advisor do not pay financial intermediaries for sales of Fund shares.

Vanguard Mid-Cap ETF

Investment Objective

The Fund seeks to track the performance of a benchmark index that measures the investment return of mid-capitalization stocks.

Fees and Expenses

The following table describes the fees and expenses you may pay if you buy and hold ETF Shares of the Fund.

Shareholder Fees
(Fees paid directly from your investment)

Transaction Fee on Purchases and Sales	None through Vanguard (Broker fees vary)
Transaction Fee on Reinvested Dividends	None through Vanguard (Broker fees vary)
Transaction Fee on Conversion to ETF Shares	None through Vanguard (Broker fees vary)

Annual Fund Operating Expenses
(Expenses that you pay each year as a percentage of the value of your investment)

Management Fees	0.05%
12b-1 Distribution Fee	None
Other Expenses	0.01%
Total Annual Fund Operating Expenses	0.06%

Example

The following example is intended to help you compare the cost of investing in the Fund's ETF Shares with the cost of investing in other funds. It illustrates the hypothetical expenses that you would incur over various periods if you were to invest $10,000 in the Fund's shares. This example assumes that the shares provide a return of 5% each year and that total annual fund operating expenses remain as stated in the preceding table. You would incur these hypothetical expenses whether or not you redeem your investment at the end of the given period. Although your actual costs may be higher or lower, based on these assumptions your costs would be:

1 Year	3 Years	5 Years	10 Years
$6	$19	$34	$77

This example does not include the brokerage commissions that you may pay to buy and sell ETF Shares of the Fund.

Portfolio Turnover

The Fund pays transaction costs, such as commissions, when it buys and sells securities (or "turns over" its portfolio). A higher portfolio turnover rate may indicate higher transaction costs and may result in more taxes when Fund shares are held in a taxable account. These costs, which are not reflected in annual fund operating expenses or in the previous expense example, reduce the Fund's performance. During the most recent fiscal year, the Fund's portfolio turnover rate was 15% of the average value of its portfolio.

Principal Investment Strategies

The Fund employs an indexing investment approach designed to track the performance of the CRSP US Mid Cap Index, a broadly diversified index of stocks of mid-size U.S. companies. The Fund attempts to replicate the target index by investing all, or substantially all, of its assets in the stocks that make up the Index, holding each stock in approximately the same proportion as its weighting in the Index.

Principal Risks

An investment in the Fund could lose money over short or even long periods. You should expect the Fund's share price and total return to fluctuate within a wide range. The Fund is subject to the following risks, which could affect the Fund's performance:

- *Stock market risk*, which is the chance that stock prices overall will decline. Stock markets tend to move in cycles, with periods of rising prices and periods of falling prices. The Fund's target index tracks a subset of the U.S. stock market, which could cause the Fund to perform differently from the overall stock market. In addition, the Fund's target index may, at times, become focused in stocks of a particular market sector, which would subject the Fund to proportionately higher exposure to the risks of that sector.
- *Investment style risk*, which is the chance that returns from mid-capitalization stocks will trail returns from the overall stock market. Historically, mid-cap stocks have been more volatile in price than the large-cap stocks that dominate the overall market, and they often perform quite differently. Mid-size companies tend to have greater stock volatility because, among other things, these companies are more sensitive to changing economic conditions.

Because ETF Shares are traded on an exchange, they are subject to additional risks:

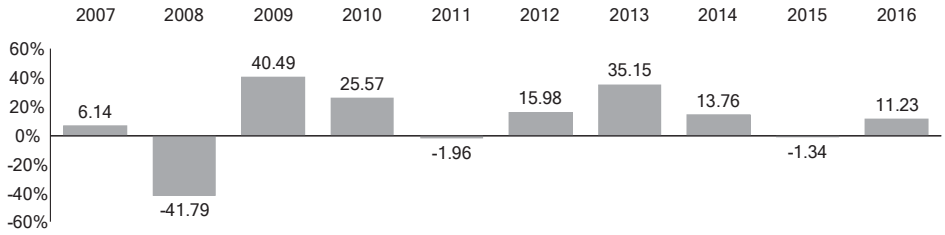
- The Fund's ETF Shares are listed for trading on NYSE Arca and are bought and sold on the secondary market at market prices. Although it is expected that the market price of an ETF Share typically will approximate its net asset value (NAV), there may be times when the market price and the NAV differ significantly. Thus, you may pay more or less than NAV when you buy ETF Shares on the secondary market, and you may receive more or less than NAV when you sell those shares.
- Although the Fund's ETF Shares are listed for trading on NYSE Arca, it is possible that an active trading market may not be maintained.
- Trading of the Fund's ETF Shares may be halted by the activation of individual or marketwide trading halts (which halt trading for a specific period of time when the price of a particular security or overall market prices decline by a specified percentage). Trading of the Fund's ETF Shares may also be halted if (1) the shares are delisted from NYSE Arca without first being listed on another exchange or (2) NYSE Arca officials determine that such action is appropriate in the interest of a fair and orderly market or for the protection of investors.

An investment in the Fund is not a deposit of a bank and is not insured or guaranteed by the Federal Deposit Insurance Corporation or any other government agency.

Annual Total Returns

The following bar chart and table are intended to help you understand the risks of investing in the Fund. The bar chart shows how the performance of the Fund's ETF Shares (based on NAV) has varied from one calendar year to another over the periods shown. The table shows how the average annual total returns of the ETF Shares compare with those of the Fund's target index and other comparative indexes, which have investment characteristics similar to those of the Fund. Keep in mind that the Fund's past performance (before and after taxes) does not indicate how the Fund will perform in the future. Updated performance information is available on our website at *vanguard.com/performance* or by calling Vanguard toll-free at 800-662-7447.

Annual Total Returns — Vanguard Mid-Cap Index Fund ETF Shares



During the periods shown in the bar chart, the highest return for a calendar quarter was 21.53% (quarter ended September 30, 2009), and the lowest return for a quarter was –25.62% (quarter ended December 31, 2008).

Average Annual Total Returns for Periods Ended December 31, 2016

	1 Year	5 Years	10 Years
Vanguard Mid-Cap Index Fund ETF Shares *Based on NAV*			
Return Before Taxes	11.23%	14.37%	7.66%
Return After Taxes on Distributions	10.79	13.99	7.35
Return After Taxes on Distributions and Sale of Fund Shares	6.62	11.51	6.17
Based on Market Price			
Return Before Taxes	11.25	14.37	7.66
Comparative Indexes (reflect no deduction for fees, expenses, or taxes)			
MSCI US Mid Cap 450 Index	12.62%	14.98%	7.96%
Spliced Mid Cap Index	11.25	14.42	7.70
CRSP US Mid Cap Index	11.25	14.56	—

Actual after-tax returns depend on your tax situation and may differ from those shown in the preceding table. When after-tax returns are calculated, it is assumed that the shareholder was in the highest individual federal marginal income tax bracket at the time of each distribution of income or capital gains or upon redemption. State and local income taxes are not reflected in the calculations. Please note that after-tax returns are not relevant for a shareholder who holds fund shares in a tax-deferred account, such as an individual retirement account or a 401(k) plan. Also, figures captioned *Return After Taxes on Distributions and Sale of Fund Shares* may be higher than other figures for the same period if a capital loss occurs upon redemption and results in an assumed tax deduction for the shareholder.

Investment Advisor

The Vanguard Group, Inc. (Vanguard)

Portfolio Managers

Donald M. Butler, CFA, Principal of Vanguard. He has managed the Fund since its inception in 1998 (co-managed since 2016).

Michael A. Johnson, Portfolio Manager at Vanguard. He has co-managed the Fund since 2016.

Purchase and Sale of Fund Shares

You can buy and sell ETF Shares of the Fund through a brokerage firm. The price you pay or receive for ETF Shares will be the prevailing market price, which may be more or less than the NAV of the shares. The brokerage firm may charge you a commission to execute the transaction. Unless imposed by your brokerage firm, there is no minimum dollar amount you must invest and no minimum number of shares you must buy. ETF Shares of the Fund cannot be directly purchased from or redeemed with the Fund, except by certain authorized broker-dealers. These broker-dealers may purchase and redeem ETF Shares only in large blocks (Creation Units) worth several million dollars, typically in exchange for baskets of securities. For this Fund, the number of ETF Shares in a Creation Unit is 25,000.

Tax Information

The Fund's distributions may be taxable as ordinary income or capital gain. If you are investing through a tax-advantaged account, such as an IRA or an employer-sponsored retirement or savings plan, special tax rules apply.

Payments to Financial Intermediaries

The Fund and its investment advisor do not pay financial intermediaries for sales of Fund shares.

Vanguard Small-Cap ETF

Investment Objective

The Fund seeks to track the performance of a benchmark index that measures the investment return of small-capitalization stocks.

Fees and Expenses

The following table describes the fees and expenses you may pay if you buy and hold ETF Shares of the Fund.

Shareholder Fees
(Fees paid directly from your investment)

Transaction Fee on Purchases and Sales	None through Vanguard (Broker fees vary)
Transaction Fee on Reinvested Dividends	None through Vanguard (Broker fees vary)
Transaction Fee on Conversion to ETF Shares	None through Vanguard (Broker fees vary)

Annual Fund Operating Expenses
(Expenses that you pay each year as a percentage of the value of your investment)

Management Fees	0.05%
12b-1 Distribution Fee	None
Other Expenses	0.01%
Total Annual Fund Operating Expenses	0.06%

Example

The following example is intended to help you compare the cost of investing in the Fund's ETF Shares with the cost of investing in other funds. It illustrates the hypothetical expenses that you would incur over various periods if you were to invest $10,000 in the Fund's shares. This example assumes that the shares provide a return of 5% each year and that total annual fund operating expenses remain as stated in the preceding table. You would incur these hypothetical expenses whether or not you redeem your investment at the end of the given period. Although your actual costs may be higher or lower, based on these assumptions your costs would be:

1 Year	3 Years	5 Years	10 Years
$6	$19	$34	$77

This example does not include the brokerage commissions that you may pay to buy and sell ETF Shares of the Fund.

Portfolio Turnover

The Fund pays transaction costs, such as commissions, when it buys and sells securities (or "turns over" its portfolio). A higher portfolio turnover rate may indicate higher transaction costs and may result in more taxes when Fund shares are held in a taxable account. These costs, which are not reflected in annual fund operating expenses or in the previous expense example, reduce the Fund's performance. During the most recent fiscal year, the Fund's portfolio turnover rate was 14% of the average value of its portfolio.

Principal Investment Strategies

The Fund employs an indexing investment approach designed to track the performance of the CRSP US Small Cap Index, a broadly diversified index of stocks of small U.S. companies. The Fund attempts to replicate the target index by investing all, or substantially all, of its assets in the stocks that make up the Index, holding each stock in approximately the same proportion as its weighting in the Index.

Principal Risks

An investment in the Fund could lose money over short or even long periods. You should expect the Fund's share price and total return to fluctuate within a wide range. The Fund is subject to the following risks, which could affect the Fund's performance:

- *Stock market risk*, which is the chance that stock prices overall will decline. Stock markets tend to move in cycles, with periods of rising prices and periods of falling prices. The Fund's target index tracks a subset of the U.S. stock market, which could cause the Fund to perform differently from the overall stock market. In addition, the Fund's target index may, at times, become focused in stocks of a particular market sector, which would subject the Fund to proportionately higher exposure to the risks of that sector.
- *Investment style risk*, which is the chance that returns from small-capitalization stocks will trail returns from the overall stock market. Historically, small-cap stocks have been more volatile in price than the large-cap stocks that dominate the overall market, and they often perform quite differently. Small companies tend to have greater stock volatility because, among other things, these companies are more sensitive to changing economic conditions.

Because ETF Shares are traded on an exchange, they are subject to additional risks:

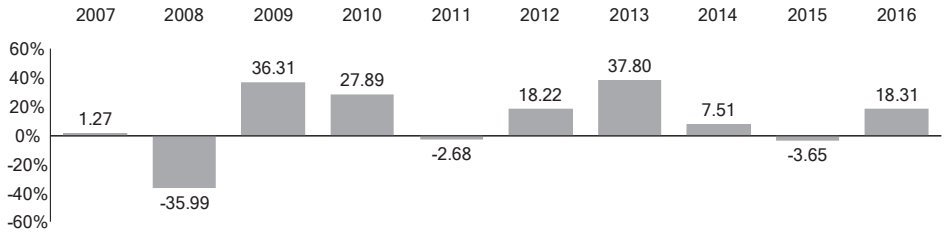
- The Fund's ETF Shares are listed for trading on NYSE Arca and are bought and sold on the secondary market at market prices. Although it is expected that the market price of an ETF Share typically will approximate its net asset value (NAV), there may be times when the market price and the NAV differ significantly. Thus, you may pay more or less than NAV when you buy ETF Shares on the secondary market, and you may receive more or less than NAV when you sell those shares.
- Although the Fund's ETF Shares are listed for trading on NYSE Arca, it is possible that an active trading market may not be maintained.
- Trading of the Fund's ETF Shares may be halted by the activation of individual or marketwide trading halts (which halt trading for a specific period of time when the price of a particular security or overall market prices decline by a specified percentage). Trading of the Fund's ETF Shares may also be halted if (1) the shares are delisted from NYSE Arca without first being listed on another exchange or (2) NYSE Arca officials determine that such action is appropriate in the interest of a fair and orderly market or for the protection of investors.

An investment in the Fund is not a deposit of a bank and is not insured or guaranteed by the Federal Deposit Insurance Corporation or any other government agency.

Annual Total Returns

The following bar chart and table are intended to help you understand the risks of investing in the Fund. The bar chart shows how the performance of the Fund's ETF Shares (based on NAV) has varied from one calendar year to another over the periods shown. The table shows how the average annual total returns of the ETF Shares compare with those of the Fund's target index and other comparative indexes, which have investment characteristics similar to those of the Fund. Keep in mind that the Fund's past performance (before and after taxes) does not indicate how the Fund will perform in the future. Updated performance information is available on our website at *vanguard.com/performance* or by calling Vanguard toll-free at 800-662-7447.

Annual Total Returns — Vanguard Small-Cap Index Fund ETF Shares



During the periods shown in the bar chart, the highest return for a calendar quarter was 24.19% (quarter ended June 30, 2009), and the lowest return for a quarter was –26.63% (quarter ended December 31, 2008).

Average Annual Total Returns for Periods Ended December 31, 2016

	1 Year	5 Years	10 Years
Vanguard Small-Cap Index Fund ETF Shares *Based on NAV*			
Return Before Taxes	18.31%	14.83%	8.18%
Return After Taxes on Distributions	17.74	14.34	7.79
Return After Taxes on Distributions and Sale of Fund Shares	10.57	11.81	6.55
Based on Market Price			
Return Before Taxes	18.35	14.85	8.20
Comparative Indexes (reflect no deduction for fees, expenses, or taxes)			
MSCI US Small Cap 1750 Index	20.41%	15.04%	8.21%
Spliced Small Cap Index	18.26	14.81	8.10
CRSP US Small Cap Index	18.26	15.00	—

Actual after-tax returns depend on your tax situation and may differ from those shown in the preceding table. When after-tax returns are calculated, it is assumed that the shareholder was in the highest individual federal marginal income tax bracket at the time of each distribution of income or capital gains or upon redemption. State and local income taxes are not reflected in the calculations. Please note that after-tax returns are not relevant for a shareholder who holds fund shares in a tax-deferred account, such as an individual retirement account or a 401(k) plan. Also, figures captioned *Return After Taxes on Distributions and Sale of Fund Shares* may be higher than other figures for the same period if a capital loss occurs upon redemption and results in an assumed tax deduction for the shareholder.

Investment Advisor
The Vanguard Group, Inc. (Vanguard)

Portfolio Managers

William Coleman, CFA, Portfolio Manager at Vanguard. He has co-managed the Fund since 2016.

Gerard C. O'Reilly, Principal of Vanguard. He has co-managed the Fund since 2016.

Purchase and Sale of Fund Shares
You can buy and sell ETF Shares of the Fund through a brokerage firm. The price you pay or receive for ETF Shares will be the prevailing market price, which may be more or less than the NAV of the shares. The brokerage firm may charge you a commission to execute the transaction. Unless imposed by your brokerage firm, there is no minimum dollar amount you must invest and no minimum number of shares you must buy. ETF Shares of the Fund cannot be directly purchased from or redeemed with the Fund, except by certain authorized broker-dealers. These broker-dealers may purchase and redeem ETF Shares only in large blocks (Creation Units) worth several million dollars, typically in exchange for baskets of securities. For this Fund, the number of ETF Shares in a Creation Unit is 25,000.

Tax Information
The Fund's distributions may be taxable as ordinary income or capital gain. If you are investing through a tax-advantaged account, such as an IRA or an employer-sponsored retirement or savings plan, special tax rules apply.

Payments to Financial Intermediaries
The Fund and its investment advisor do not pay financial intermediaries for sales of Fund shares.

Vanguard Value ETF

Investment Objective

The Fund seeks to track the performance of a benchmark index that measures the investment return of large-capitalization value stocks.

Fees and Expenses

The following table describes the fees and expenses you may pay if you buy and hold ETF Shares of the Fund.

Shareholder Fees
(Fees paid directly from your investment)

Transaction Fee on Purchases and Sales	None through Vanguard (Broker fees vary)
Transaction Fee on Reinvested Dividends	None through Vanguard (Broker fees vary)
Transaction Fee on Conversion to ETF Shares	None through Vanguard (Broker fees vary)

Annual Fund Operating Expenses
(Expenses that you pay each year as a percentage of the value of your investment)

Management Fees	0.05%
12b-1 Distribution Fee	None
Other Expenses	0.01%
Total Annual Fund Operating Expenses	0.06%

Example

The following example is intended to help you compare the cost of investing in the Fund's ETF Shares with the cost of investing in other funds. It illustrates the hypothetical expenses that you would incur over various periods if you were to invest $10,000 in the Fund's shares. This example assumes that the shares provide a return of 5% each year and that total annual fund operating expenses remain as stated in the preceding table. You would incur these hypothetical expenses whether or not you redeem your investment at the end of the given period. Although your actual costs may be higher or lower, based on these assumptions your costs would be:

1 Year	3 Years	5 Years	10 Years
$6	$19	$34	$77

This example does not include the brokerage commissions that you may pay to buy and sell ETF Shares of the Fund.

Portfolio Turnover

The Fund pays transaction costs, such as commissions, when it buys and sells securities (or "turns over" its portfolio). A higher portfolio turnover rate may indicate higher transaction costs and may result in more taxes when Fund shares are held in a taxable account. These costs, which are not reflected in annual fund operating expenses or in the previous expense example, reduce the Fund's performance. During the most recent fiscal year, the Fund's portfolio turnover rate was 7% of the average value of its portfolio.

Principal Investment Strategies

The Fund employs an indexing investment approach designed to track the performance of the CRSP US Large Cap Value Index, a broadly diversified index predominantly made up of value stocks of large U.S. companies. The Fund attempts to replicate the target index by investing all, or substantially all, of its assets in the stocks that make up the Index, holding each stock in approximately the same proportion as its weighting in the Index.

Principal Risks

An investment in the Fund could lose money over short or even long periods. You should expect the Fund's share price and total return to fluctuate within a wide range. The Fund is subject to the following risks, which could affect the Fund's performance:

- *Stock market risk*, which is the chance that stock prices overall will decline. Stock markets tend to move in cycles, with periods of rising prices and periods of falling prices. The Fund's target index tracks a subset of the U.S. stock market, which could cause the Fund to perform differently from the overall stock market. In addition, the Fund's target index may, at times, become focused in stocks of a particular market sector, which would subject the Fund to proportionately higher exposure to the risks of that sector.
- *Investment style risk*, which is the chance that returns from large-capitalization value stocks will trail returns from the overall stock market. Large-cap value stocks tend to go through cycles of doing better—or worse—than other segments of the stock market or the stock market in general. These periods have, in the past, lasted for as long as several years.

Because ETF Shares are traded on an exchange, they are subject to additional risks:

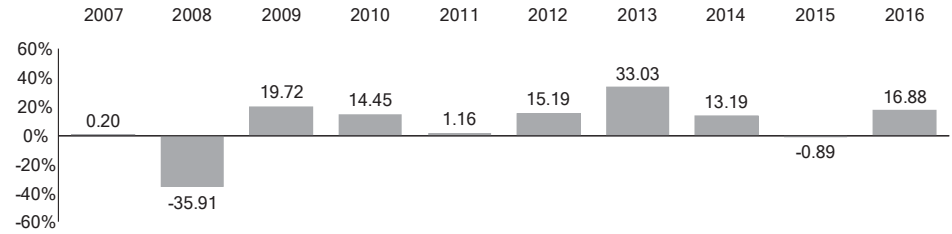
- The Fund's ETF Shares are listed for trading on NYSE Arca and are bought and sold on the secondary market at market prices. Although it is expected that the market price of an ETF Share typically will approximate its net asset value (NAV), there may be times when the market price and the NAV differ significantly. Thus, you may pay more or less than NAV when you buy ETF Shares on the secondary market, and you may receive more or less than NAV when you sell those shares.
- Although the Fund's ETF Shares are listed for trading on NYSE Arca, it is possible that an active trading market may not be maintained.
- Trading of the Fund's ETF Shares may be halted by the activation of individual or marketwide trading halts (which halt trading for a specific period of time when the price of a particular security or overall market prices decline by a specified percentage). Trading of the Fund's ETF Shares may also be halted if (1) the shares are delisted from NYSE Arca without first being listed on another exchange or (2) NYSE Arca officials determine that such action is appropriate in the interest of a fair and orderly market or for the protection of investors.

An investment in the Fund is not a deposit of a bank and is not insured or guaranteed by the Federal Deposit Insurance Corporation or any other government agency.

Annual Total Returns

The following bar chart and table are intended to help you understand the risks of investing in the Fund. The bar chart shows how the performance of the Fund's ETF Shares (based on NAV) has varied from one calendar year to another over the periods shown. The table shows how the average annual total returns of the ETF Shares compare with those of the Fund's target index and other comparative indexes, which have investment characteristics similar to those of the Fund. Keep in mind that the Fund's past performance (before and after taxes) does not indicate how the Fund will perform in the future. Updated performance information is available on our website at *vanguard.com/performance* or by calling Vanguard toll-free at 800-662-7447.

Annual Total Returns — Vanguard Value Index Fund ETF Shares



During the periods shown in the bar chart, the highest return for a calendar quarter was 17.43% (quarter ended September 30, 2009), and the lowest return for a quarter was –20.42% (quarter ended December 31, 2008).

Average Annual Total Returns for Periods Ended December 31, 2016

	1 Year	5 Years	10 Years
Vanguard Value Index Fund ETF Shares *Based on NAV*			
Return Before Taxes	16.88%	14.98%	5.99%
Return After Taxes on Distributions	16.16	14.34	5.47
Return After Taxes on Distributions and Sale of Fund Shares	10.08	12.00	4.74
Based on Market Price			
Return Before Taxes	16.95	14.99	5.99
Comparative Indexes (reflect no deduction for fees, expenses, or taxes)			
MSCI US Prime Market Value Index	17.70%	14.60%	5.80%
Spliced Value Index	16.93	15.04	6.00
CRSP US Large Cap Value Index	16.93	—	—

Actual after-tax returns depend on your tax situation and may differ from those shown in the preceding table. When after-tax returns are calculated, it is assumed that the shareholder was in the highest individual federal marginal income tax bracket at the time of each distribution of income or capital gains or upon redemption. State and local income taxes are not reflected in the calculations. Please note that after-tax returns are not relevant for a shareholder who holds fund shares in a tax-deferred account, such as an individual retirement account or a 401(k) plan. Also, figures captioned *Return After Taxes on Distributions and Sale of Fund Shares* may be higher than other figures for the same period if a capital loss occurs upon redemption and results in an assumed tax deduction for the shareholder.

Investment Advisor
The Vanguard Group, Inc. (Vanguard)

Portfolio Managers

Walter Nejman, Portfolio Manager at Vanguard. He has co-managed the Fund since 2016.

Gerard C. O'Reilly, Principal of Vanguard. He has managed the Fund since 1994 (co-managed since 2016).

Purchase and Sale of Fund Shares
You can buy and sell ETF Shares of the Fund through a brokerage firm. The price you pay or receive for ETF Shares will be the prevailing market price, which may be more or less than the NAV of the shares. The brokerage firm may charge you a commission to execute the transaction. Unless imposed by your brokerage firm, there is no minimum dollar amount you must invest and no minimum number of shares you must buy. ETF Shares of the Fund cannot be directly purchased from or redeemed with the Fund, except by certain authorized broker-dealers. These broker-dealers may purchase and redeem ETF Shares only in large blocks (Creation Units) worth several million dollars, typically in exchange for baskets of securities. For this Fund, the number of ETF Shares in a Creation Unit is 25,000.

Tax Information
The Fund's distributions may be taxable as ordinary income or capital gain. If you are investing through a tax-advantaged account, such as an IRA or an employer-sponsored retirement or savings plan, special tax rules apply.

Payments to Financial Intermediaries
The Fund and its investment advisor do not pay financial intermediaries for sales of Fund shares.

Vanguard Mid-Cap Value ETF

Investment Objective

The Fund seeks to track the performance of a benchmark index that measures the investment return of mid-capitalization value stocks.

Fees and Expenses

The following table describes the fees and expenses you may pay if you buy and hold ETF Shares of the Fund.

Shareholder Fees
(Fees paid directly from your investment)

Transaction Fee on Purchases and Sales	None through Vanguard (Broker fees vary)
Transaction Fee on Reinvested Dividends	None through Vanguard (Broker fees vary)
Transaction Fee on Conversion to ETF Shares	None through Vanguard (Broker fees vary)

Annual Fund Operating Expenses
(Expenses that you pay each year as a percentage of the value of your investment)

Management Fees	0.05%
12b-1 Distribution Fee	None
Other Expenses	0.02%
Total Annual Fund Operating Expenses	0.07%

Example

The following example is intended to help you compare the cost of investing in the Fund's ETF Shares with the cost of investing in other funds. It illustrates the hypothetical expenses that you would incur over various periods if you were to invest $10,000 in the Fund's shares. This example assumes that the shares provide a return of 5% each year and that total annual fund operating expenses remain as stated in the preceding table. You would incur these hypothetical expenses whether or not you redeem your investment at the end of the given period. Although your actual costs may be higher or lower, based on these assumptions your costs would be:

1 Year	3 Years	5 Years	10 Years
$7	$23	$40	$90

This example does not include the brokerage commissions that you may pay to buy and sell ETF Shares of the Fund.

Portfolio Turnover

The Fund pays transaction costs, such as commissions, when it buys and sells securities (or "turns over" its portfolio). A higher portfolio turnover rate may indicate higher transaction costs and may result in more taxes when Fund shares are held in a taxable account. These costs, which are not reflected in annual fund operating expenses or in the previous expense example, reduce the Fund's performance. During the most recent fiscal year, the Fund's portfolio turnover rate was 20% of the average value of its portfolio.

Principal Investment Strategies

The Fund employs an indexing investment approach designed to track the performance of the CRSP US Mid Cap Value Index, a broadly diversified index of value stocks of mid-size U.S. companies. The Fund attempts to replicate the target index by investing all, or substantially all, of its assets in the stocks that make up the Index, holding each stock in approximately the same proportion as its weighting in the Index.

Principal Risks

An investment in the Fund could lose money over short or even long periods. You should expect the Fund's share price and total return to fluctuate within a wide range. The Fund is subject to the following risks, which could affect the Fund's performance:

- *Stock market risk*, which is the chance that stock prices overall will decline. Stock markets tend to move in cycles, with periods of rising prices and periods of falling prices. The Fund's target index tracks a subset of the U.S. stock market, which could cause the Fund to perform differently from the overall stock market. In addition, the Fund's target index may, at times, become focused in stocks of a particular market sector, which would subject the Fund to proportionately higher exposure to the risks of that sector.
- *Investment style risk*, which is the chance that returns from mid-capitalization value stocks will trail returns from the overall stock market. Historically, mid-cap stocks have been more volatile in price than the large-cap stocks that dominate the overall market, and they often perform quite differently. Mid-size companies tend to have greater stock volatility because, among other things, these companies are more sensitive to changing economic conditions.

Because ETF Shares are traded on an exchange, they are subject to additional risks:

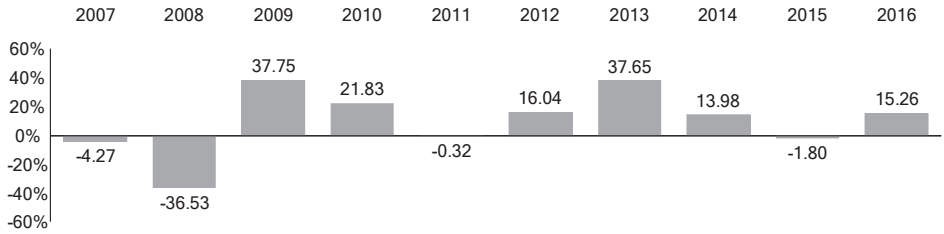
- The Fund's ETF Shares are listed for trading on NYSE Arca and are bought and sold on the secondary market at market prices. Although it is expected that the market price of an ETF Share typically will approximate its net asset value (NAV), there may be times when the market price and the NAV differ significantly. Thus, you may pay more or less than NAV when you buy ETF Shares on the secondary market, and you may receive more or less than NAV when you sell those shares.
- Although the Fund's ETF Shares are listed for trading on NYSE Arca, it is possible that an active trading market may not be maintained.
- Trading of the Fund's ETF Shares may be halted by the activation of individual or marketwide trading halts (which halt trading for a specific period of time when the price of a particular security or overall market prices decline by a specified percentage). Trading of the Fund's ETF Shares may also be halted if (1) the shares are delisted from NYSE Arca without first being listed on another exchange or (2) NYSE Arca officials determine that such action is appropriate in the interest of a fair and orderly market or for the protection of investors.

An investment in the Fund is not a deposit of a bank and is not insured or guaranteed by the Federal Deposit Insurance Corporation or any other government agency.

Annual Total Returns

The following bar chart and table are intended to help you understand the risks of investing in the Fund. The bar chart shows how the performance of the Fund's ETF Shares (based on NAV) has varied from one calendar year to another over the periods shown. The table shows how the average annual total returns of the ETF Shares compare with those of the Fund's target index and other comparative indexes, which have investment characteristics similar to those of the Fund. Keep in mind that the Fund's past performance (before and after taxes) does not indicate how the Fund will perform in the future. Updated performance information is available on our website at *vanguard.com/performance* or by calling Vanguard toll-free at 800-662-7447.

Annual Total Returns — Vanguard Mid-Cap Value Index Fund ETF Shares



During the periods shown in the bar chart, the highest return for a calendar quarter was 25.04% (quarter ended September 30, 2009), and the lowest return for a quarter was –24.07% (quarter ended December 31, 2008).

Average Annual Total Returns for Periods Ended December 31, 2016

	1 Year	5 Years	10 Years
Vanguard Mid-Cap Value Index Fund ETF Shares *Based on NAV*			
Return Before Taxes	15.26%	15.56%	7.67%
Return After Taxes on Distributions	14.67	15.05	7.23
Return After Taxes on Distributions and Sale of Fund Shares	9.01	12.49	6.13
Based on Market Price			
Return Before Taxes	15.29	15.56	7.67
Comparative Indexes (reflect no deduction for fees, expenses, or taxes)			
MSCI US Mid Cap Value Index	20.24%	15.88%	7.84%
Spliced Mid Cap Value Index	15.28	15.62	7.72
CRSP US Mid Cap Value Index	15.28	—	—

Actual after-tax returns depend on your tax situation and may differ from those shown in the preceding table. When after-tax returns are calculated, it is assumed that the shareholder was in the highest individual federal marginal income tax bracket at the time of each distribution of income or capital gains or upon redemption. State and local income taxes are not reflected in the calculations. Please note that after-tax returns are not relevant for a shareholder who holds fund shares in a tax-deferred account, such as an individual retirement account or a 401(k) plan. Also, figures captioned *Return After Taxes on Distributions and Sale of Fund Shares* may be higher than other figures for the same period if a capital loss occurs upon redemption and results in an assumed tax deduction for the shareholder.

Investment Advisor

The Vanguard Group, Inc. (Vanguard)

Portfolio Managers

Donald M. Butler, CFA, Principal of Vanguard. He has managed the Fund since its inception in 2006 (co-managed since 2016).

Michael A. Johnson, Portfolio Manager at Vanguard. He has co-managed the Fund since 2016.

Purchase and Sale of Fund Shares

You can buy and sell ETF Shares of the Fund through a brokerage firm. The price you pay or receive for ETF Shares will be the prevailing market price, which may be more or less than the NAV of the shares. The brokerage firm may charge you a commission to execute the transaction. Unless imposed by your brokerage firm, there is no minimum dollar amount you must invest and no minimum number of shares you must buy. ETF Shares of the Fund cannot be directly purchased from or redeemed with the Fund, except by certain authorized broker-dealers. These broker-dealers may purchase and redeem ETF Shares only in large blocks (Creation Units) worth several million dollars, typically in exchange for baskets of securities. For this Fund, the number of ETF Shares in a Creation Unit is 25,000.

Tax Information

The Fund's distributions may be taxable as ordinary income or capital gain. If you are investing through a tax-advantaged account, such as an IRA or an employer-sponsored retirement or savings plan, special tax rules apply.

Payments to Financial Intermediaries

The Fund and its investment advisor do not pay financial intermediaries for sales of Fund shares.

Vanguard Small-Cap Value ETF

Investment Objective

The Fund seeks to track the performance of a benchmark index that measures the investment return of small-capitalization value stocks.

Fees and Expenses

The following table describes the fees and expenses you may pay if you buy and hold ETF Shares of the Fund.

Shareholder Fees
(Fees paid directly from your investment)

Transaction Fee on Purchases and Sales	None through Vanguard (Broker fees vary)
Transaction Fee on Reinvested Dividends	None through Vanguard (Broker fees vary)
Transaction Fee on Conversion to ETF Shares	None through Vanguard (Broker fees vary)

Annual Fund Operating Expenses
(Expenses that you pay each year as a percentage of the value of your investment)

Management Fees	0.06%
12b-1 Distribution Fee	None
Other Expenses	0.01%
Total Annual Fund Operating Expenses	0.07%

Example

The following example is intended to help you compare the cost of investing in the Fund's ETF Shares with the cost of investing in other funds. It illustrates the hypothetical expenses that you would incur over various periods if you were to invest $10,000 in the Fund's shares. This example assumes that the shares provide a return of 5% each year and that total annual fund operating expenses remain as stated in the preceding table. You would incur these hypothetical expenses whether or not you redeem your investment at the end of the given period. Although your actual costs may be higher or lower, based on these assumptions your costs would be:

1 Year	3 Years	5 Years	10 Years
$7	$23	$40	$90

This example does not include the brokerage commissions that you may pay to buy and sell ETF Shares of the Fund.

Portfolio Turnover

The Fund pays transaction costs, such as commissions, when it buys and sells securities (or "turns over" its portfolio). A higher portfolio turnover rate may indicate higher transaction costs and may result in more taxes when Fund shares are held in a taxable account. These costs, which are not reflected in annual fund operating expenses or in the previous expense example, reduce the Fund's performance. During the most recent fiscal year, the Fund's portfolio turnover rate was 18% of the average value of its portfolio.

Principal Investment Strategies

The Fund employs an indexing investment approach designed to track the performance of the CRSP US Small Cap Value Index, a broadly diversified index of value stocks of small U.S. companies. The Fund attempts to replicate the target index by investing all, or substantially all, of its assets in the stocks that make up the Index, holding each stock in approximately the same proportion as its weighting in the Index.

Principal Risks

An investment in the Fund could lose money over short or even long periods. You should expect the Fund's share price and total return to fluctuate within a wide range. The Fund is subject to the following risks, which could affect the Fund's performance:

- *Stock market risk*, which is the chance that stock prices overall will decline. Stock markets tend to move in cycles, with periods of rising prices and periods of falling prices. The Fund's target index tracks a subset of the U.S. stock market, which could cause the Fund to perform differently from the overall stock market. In addition, the Fund's target index may, at times, become focused in stocks of a particular market sector, which would subject the Fund to proportionately higher exposure to the risks of that sector.
- *Investment style risk,* which is the chance that returns from small-capitalization value stocks will trail returns from the overall stock market. Historically, small-cap stocks have been more volatile in price than the large-cap stocks that dominate the overall market, and they often perform quite differently. Small companies tend to have greater stock volatility because, among other things, these companies are more sensitive to changing economic conditions.

Because ETF Shares are traded on an exchange, they are subject to additional risks:

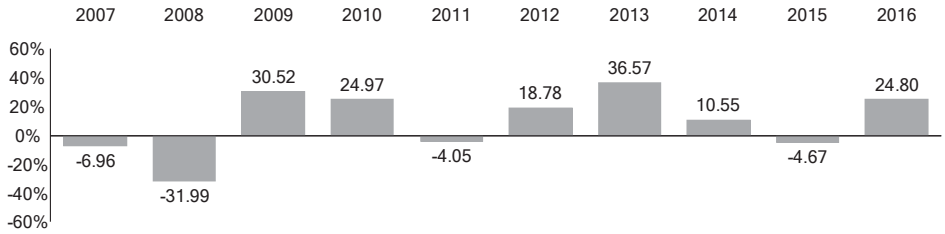
- The Fund's ETF Shares are listed for trading on NYSE Arca and are bought and sold on the secondary market at market prices. Although it is expected that the market price of an ETF Share typically will approximate its net asset value (NAV), there may be times when the market price and the NAV differ significantly. Thus, you may pay more or less than NAV when you buy ETF Shares on the secondary market, and you may receive more or less than NAV when you sell those shares.
- Although the Fund's ETF Shares are listed for trading on NYSE Arca, it is possible that an active trading market may not be maintained.
- Trading of the Fund's ETF Shares may be halted by the activation of individual or marketwide trading halts (which halt trading for a specific period of time when the price of a particular security or overall market prices decline by a specified percentage). Trading of the Fund's ETF Shares may also be halted if (1) the shares are delisted from NYSE Arca without first being listed on another exchange or (2) NYSE Arca officials determine that such action is appropriate in the interest of a fair and orderly market or for the protection of investors.

An investment in the Fund is not a deposit of a bank and is not insured or guaranteed by the Federal Deposit Insurance Corporation or any other government agency.

Annual Total Returns

The following bar chart and table are intended to help you understand the risks of investing in the Fund. The bar chart shows how the performance of the Fund's ETF Shares (based on NAV) has varied from one calendar year to another over the periods shown. The table shows how the average annual total returns of the ETF Shares compare with those of the Fund's target index and other comparative indexes, which have investment characteristics similar to those of the Fund. Keep in mind that the Fund's past performance (before and after taxes) does not indicate how the Fund will perform in the future. Updated performance information is available on our website at *vanguard.com/performance* or by calling Vanguard toll-free at 800-662-7447.

Annual Total Returns — Vanguard Small-Cap Value Index Fund ETF Shares



During the periods shown in the bar chart, the highest return for a calendar quarter was 23.99% (quarter ended September 30, 2009), and the lowest return for a quarter was –25.53% (quarter ended December 31, 2008).

Average Annual Total Returns for Periods Ended December 31, 2016

	1 Year	5 Years	10 Years
Vanguard Small-Cap Value Index Fund ETF Shares *Based on NAV*			
Return Before Taxes	24.80%	16.37%	7.77%
Return After Taxes on Distributions	24.11	15.74	7.22
Return After Taxes on Distributions and Sale of Fund Shares	14.32	13.06	6.13
Based on Market Price			
Return Before Taxes	24.80	16.36	7.77
Comparative Indexes (reflect no deduction for fees, expenses, or taxes)			
MSCI US Small Cap Value Index	27.64%	15.62%	7.39%
Spliced Small Cap Value Index	24.82	16.41	7.76
CRSP US Small Cap Value Index	24.82	—	—

Actual after-tax returns depend on your tax situation and may differ from those shown in the preceding table. When after-tax returns are calculated, it is assumed that the shareholder was in the highest individual federal marginal income tax bracket at the time of each distribution of income or capital gains or upon redemption. State and local income taxes are not reflected in the calculations. Please note that after-tax returns are not relevant for a shareholder who holds fund shares in a tax-deferred account, such as an individual retirement account or a 401(k) plan. Also, figures captioned *Return After Taxes on Distributions and Sale of Fund Shares* may be higher than other figures for the same period if a capital loss occurs upon redemption and results in an assumed tax deduction for the shareholder.

Investment Advisor
The Vanguard Group, Inc. (Vanguard)

Portfolio Managers

William Coleman, CFA, Portfolio Manager at Vanguard. He has co-managed the Fund since 2016.

Gerard C. O'Reilly, Principal of Vanguard. He has co-managed the Fund since 2016.

Purchase and Sale of Fund Shares
You can buy and sell ETF Shares of the Fund through a brokerage firm. The price you pay or receive for ETF Shares will be the prevailing market price, which may be more or less than the NAV of the shares. The brokerage firm may charge you a commission to execute the transaction. Unless imposed by your brokerage firm, there is no minimum dollar amount you must invest and no minimum number of shares you must buy. ETF Shares of the Fund cannot be directly purchased from or redeemed with the Fund, except by certain authorized broker-dealers. These broker-dealers may purchase and redeem ETF Shares only in large blocks (Creation Units) worth several million dollars, typically in exchange for baskets of securities. For this Fund, the number of ETF Shares in a Creation Unit is 25,000.

Tax Information
The Fund's distributions may be taxable as ordinary income or capital gain. If you are investing through a tax-advantaged account, such as an IRA or an employer-sponsored retirement or savings plan, special tax rules apply.

Payments to Financial Intermediaries
The Fund and its investment advisor do not pay financial intermediaries for sales of Fund shares.

Vanguard Growth ETF

Investment Objective

The Fund seeks to track the performance of a benchmark index that measures the investment return of large-capitalization growth stocks.

Fees and Expenses

The following table describes the fees and expenses you may pay if you buy and hold ETF Shares of the Fund.

Shareholder Fees
(Fees paid directly from your investment)

Transaction Fee on Purchases and Sales	None through Vanguard (Broker fees vary)
Transaction Fee on Reinvested Dividends	None through Vanguard (Broker fees vary)
Transaction Fee on Conversion to ETF Shares	None through Vanguard (Broker fees vary)

Annual Fund Operating Expenses
(Expenses that you pay each year as a percentage of the value of your investment)

Management Fees	0.05%
12b-1 Distribution Fee	None
Other Expenses	0.01%
Total Annual Fund Operating Expenses	0.06%

Example

The following example is intended to help you compare the cost of investing in the Fund's ETF Shares with the cost of investing in other funds. It illustrates the hypothetical expenses that you would incur over various periods if you were to invest $10,000 in the Fund's shares. This example assumes that the shares provide a return of 5% each year and that total annual fund operating expenses remain as stated in the preceding table. You would incur these hypothetical expenses whether or not you redeem your investment at the end of the given period. Although your actual costs may be higher or lower, based on these assumptions your costs would be:

1 Year	3 Years	5 Years	10 Years
$6	$19	$34	$77

This example does not include the brokerage commissions that you may pay to buy and sell ETF Shares of the Fund.

Portfolio Turnover

The Fund pays transaction costs, such as commissions, when it buys and sells securities (or "turns over" its portfolio). A higher portfolio turnover rate may indicate higher transaction costs and may result in more taxes when Fund shares are held in a taxable account. These costs, which are not reflected in annual fund operating expenses or in the previous expense example, reduce the Fund's performance. During the most recent fiscal year, the Fund's portfolio turnover rate was 11% of the average value of its portfolio.

Principal Investment Strategies

The Fund employs an indexing investment approach designed to track the performance of the CRSP US Large Cap Growth Index, a broadly diversified index predominantly made up of growth stocks of large U.S. companies. The Fund attempts to replicate the target index by investing all, or substantially all, of its assets in the stocks that make up the Index, holding each stock in approximately the same proportion as its weighting in the Index.

Principal Risks

An investment in the Fund could lose money over short or even long periods. You should expect the Fund's share price and total return to fluctuate within a wide range. The Fund is subject to the following risks, which could affect the Fund's performance:

- *Stock market risk*, which is the chance that stock prices overall will decline. Stock markets tend to move in cycles, with periods of rising prices and periods of falling prices. The Fund's target index tracks a subset of the U.S. stock market, which could cause the Fund to perform differently from the overall stock market. In addition, the Fund's target index may, at times, become focused in stocks of a particular market sector, which would subject the Fund to proportionately higher exposure to the risks of that sector.
- *Investment style risk*, which is the chance that returns from large-capitalization growth stocks will trail returns from the overall stock market. Large-cap growth stocks tend to go through cycles of doing better—or worse—than other segments of the stock market or the stock market in general. These periods have, in the past, lasted for as long as several years.

Because ETF Shares are traded on an exchange, they are subject to additional risks:

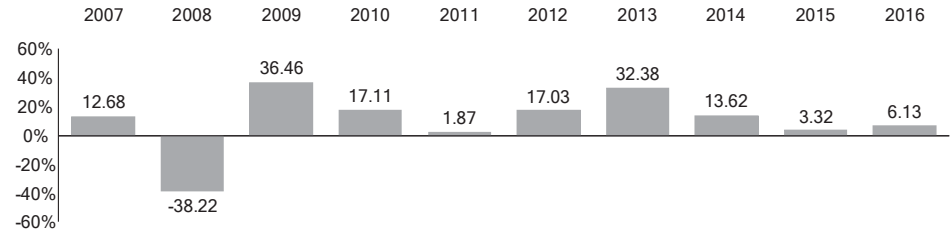
- The Fund's ETF Shares are listed for trading on NYSE Arca and are bought and sold on the secondary market at market prices. Although it is expected that the market price of an ETF Share typically will approximate its net asset value (NAV), there may be times when the market price and the NAV differ significantly. Thus, you may pay more or less than NAV when you buy ETF Shares on the secondary market, and you may receive more or less than NAV when you sell those shares.
- Although the Fund's ETF Shares are listed for trading on NYSE Arca, it is possible that an active trading market may not be maintained.
- Trading of the Fund's ETF Shares may be halted by the activation of individual or marketwide trading halts (which halt trading for a specific period of time when the price of a particular security or overall market prices decline by a specified percentage). Trading of the Fund's ETF Shares may also be halted if (1) the shares are delisted from NYSE Arca without first being listed on another exchange or (2) NYSE Arca officials determine that such action is appropriate in the interest of a fair and orderly market or for the protection of investors.

An investment in the Fund is not a deposit of a bank and is not insured or guaranteed by the Federal Deposit Insurance Corporation or any other government agency.

Annual Total Returns

The following bar chart and table are intended to help you understand the risks of investing in the Fund. The bar chart shows how the performance of the Fund's ETF Shares (based on NAV) has varied from one calendar year to another over the periods shown. The table shows how the average annual total returns of the ETF Shares compare with those of the Fund's target index and other comparative indexes, which have investment characteristics similar to those of the Fund. Keep in mind that the Fund's past performance (before and after taxes) does not indicate how the Fund will perform in the future. Updated performance information is available on our website at *vanguard.com/performance* or by calling Vanguard toll-free at 800-662-7447.

Annual Total Returns — Vanguard Growth Index Fund ETF Shares



During the periods shown in the bar chart, the highest return for a calendar quarter was 15.60% (quarter ended June 30, 2009), and the lowest return for a quarter was –23.83% (quarter ended December 31, 2008).

Average Annual Total Returns for Periods Ended December 31, 2016

	1 Year	5 Years	10 Years
Vanguard Growth Index Fund ETF Shares *Based on NAV*			
Return Before Taxes	6.13%	14.05%	8.14%
Return After Taxes on Distributions	5.74	13.70	7.88
Return After Taxes on Distributions and Sale of Fund Shares	3.72	11.27	6.62
Based on Market Price			
Return Before Taxes	6.17	14.06	8.15
Comparative Indexes (reflect no deduction for fees, expenses, or taxes)			
MSCI US Prime Market Growth Index	5.93%	14.65%	8.45%
Spliced Growth Index	6.16	14.13	8.20
CRSP US Large Cap Growth Index	6.16	—	—

Actual after-tax returns depend on your tax situation and may differ from those shown in the preceding table. When after-tax returns are calculated, it is assumed that the shareholder was in the highest individual federal marginal income tax bracket at the time of each distribution of income or capital gains or upon redemption. State and local income taxes are not reflected in the calculations. Please note that after-tax returns are not relevant for a shareholder who holds fund shares in a tax-deferred account, such as an individual retirement account or a 401(k) plan. Also, figures captioned *Return After Taxes on Distributions and Sale of Fund Shares* may be higher than other figures for the same period if a capital loss occurs upon redemption and results in an assumed tax deduction for the shareholder.

Investment Advisor
The Vanguard Group, Inc. (Vanguard)

Portfolio Managers

Walter Nejman, Portfolio Manager at Vanguard. He has co-managed the Fund since 2016.

Gerard C. O'Reilly, Principal of Vanguard. He has managed the Fund since 1994 (co-managed since 2016).

Purchase and Sale of Fund Shares
You can buy and sell ETF Shares of the Fund through a brokerage firm. The price you pay or receive for ETF Shares will be the prevailing market price, which may be more or less than the NAV of the shares. The brokerage firm may charge you a commission to execute the transaction. Unless imposed by your brokerage firm, there is no minimum dollar amount you must invest and no minimum number of shares you must buy. ETF Shares of the Fund cannot be directly purchased from or redeemed with the Fund, except by certain authorized broker-dealers. These broker-dealers may purchase and redeem ETF Shares only in large blocks (Creation Units) worth several million dollars, typically in exchange for baskets of securities. For this Fund, the number of ETF Shares in a Creation Unit is 25,000.

Tax Information
The Fund's distributions may be taxable as ordinary income or capital gain. If you are investing through a tax-advantaged account, such as an IRA or an employer-sponsored retirement or savings plan, special tax rules apply.

Payments to Financial Intermediaries
The Fund and its investment advisor do not pay financial intermediaries for sales of Fund shares.

Vanguard Mid-Cap Growth ETF

Investment Objective

The Fund seeks to track the performance of a benchmark index that measures the investment return of mid-capitalization growth stocks.

Fees and Expenses

The following table describes the fees and expenses you may pay if you buy and hold ETF Shares of the Fund.

Shareholder Fees
(Fees paid directly from your investment)

Transaction Fee on Purchases and Sales	None through Vanguard (Broker fees vary)
Transaction Fee on Reinvested Dividends	None through Vanguard (Broker fees vary)
Transaction Fee on Conversion to ETF Shares	None through Vanguard (Broker fees vary)

Annual Fund Operating Expenses
(Expenses that you pay each year as a percentage of the value of your investment)

Management Fees	0.06%
12b-1 Distribution Fee	None
Other Expenses	0.01%
Total Annual Fund Operating Expenses	0.07%

Example

The following example is intended to help you compare the cost of investing in the Fund's ETF Shares with the cost of investing in other funds. It illustrates the hypothetical expenses that you would incur over various periods if you were to invest $10,000 in the Fund's shares. This example assumes that the shares provide a return of 5% each year and that total annual fund operating expenses remain as stated in the preceding table. You would incur these hypothetical expenses whether or not you redeem your investment at the end of the given period. Although your actual costs may be higher or lower, based on these assumptions your costs would be:

1 Year	3 Years	5 Years	10 Years
$7	$23	$40	$90

This example does not include the brokerage commissions that you may pay to buy and sell ETF Shares of the Fund.

Portfolio Turnover

The Fund pays transaction costs, such as commissions, when it buys and sells securities (or "turns over" its portfolio). A higher portfolio turnover rate may indicate higher transaction costs and may result in more taxes when Fund shares are held in a taxable account. These costs, which are not reflected in annual fund operating expenses or in the previous expense example, reduce the Fund's performance. During the most recent fiscal year, the Fund's portfolio turnover rate was 21% of the average value of its portfolio.

Principal Investment Strategies

The Fund employs an indexing investment approach designed to track the performance of the CRSP US Mid Cap Growth Index, a broadly diversified index of growth stocks of mid-size U.S. companies. The Fund attempts to replicate the target index by investing all, or substantially all, of its assets in the stocks that make up the Index, holding each stock in approximately the same proportion as its weighting in the Index.

Principal Risks

An investment in the Fund could lose money over short or even long periods. You should expect the Fund's share price and total return to fluctuate within a wide range. The Fund is subject to the following risks, which could affect the Fund's performance:

- *Stock market risk*, which is the chance that stock prices overall will decline. Stock markets tend to move in cycles, with periods of rising prices and periods of falling prices. The Fund's target index tracks a subset of the U.S. stock market, which could cause the Fund to perform differently from the overall stock market. In addition, the Fund's target index may, at times, become focused in stocks of a particular market sector, which would subject the Fund to proportionately higher exposure to the risks of that sector.
- *Investment style risk*, which is the chance that returns from mid-capitalization growth stocks will trail returns from the overall stock market. Historically, mid-cap stocks have been more volatile in price than the large-cap stocks that dominate the overall market, and they often perform quite differently. Mid-size companies tend to have greater stock volatility because, among other things, these companies are more sensitive to changing economic conditions.

Because ETF Shares are traded on an exchange, they are subject to additional risks:

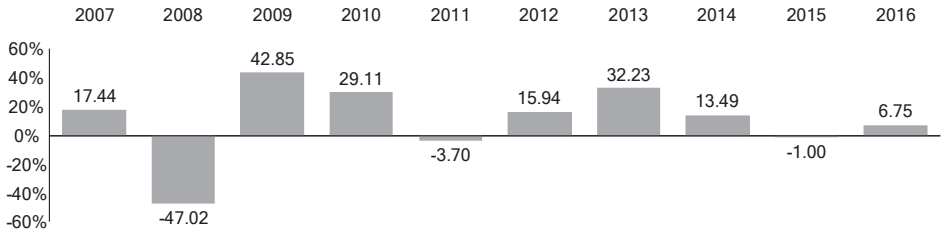
- The Fund's ETF Shares are listed for trading on NYSE Arca and are bought and sold on the secondary market at market prices. Although it is expected that the market price of an ETF Share typically will approximate its net asset value (NAV), there may be times when the market price and the NAV differ significantly. Thus, you may pay more or less than NAV when you buy ETF Shares on the secondary market, and you may receive more or less than NAV when you sell those shares.
- Although the Fund's ETF Shares are listed for trading on NYSE Arca, it is possible that an active trading market may not be maintained.
- Trading of the Fund's ETF Shares may be halted by the activation of individual or marketwide trading halts (which halt trading for a specific period of time when the price of a particular security or overall market prices decline by a specified percentage). Trading of the Fund's ETF Shares may also be halted if (1) the shares are delisted from NYSE Arca without first being listed on another exchange or (2) NYSE Arca officials determine that such action is appropriate in the interest of a fair and orderly market or for the protection of investors.

An investment in the Fund is not a deposit of a bank and is not insured or guaranteed by the Federal Deposit Insurance Corporation or any other government agency.

Annual Total Returns

The following bar chart and table are intended to help you understand the risks of investing in the Fund. The bar chart shows how the performance of the Fund's ETF Shares (based on NAV) has varied from one calendar year to another over the periods shown. The table shows how the average annual total returns of the ETF Shares compare with those of the Fund's target index and other comparative indexes, which have investment characteristics similar to those of the Fund. Keep in mind that the Fund's past performance (before and after taxes) does not indicate how the Fund will perform in the future. Updated performance information is available on our website at *vanguard.com/performance* or by calling Vanguard toll-free at 800-662-7447.

Annual Total Returns — Vanguard Mid-Cap Growth Index Fund ETF Shares



During the periods shown in the bar chart, the highest return for a calendar quarter was 18.04% (quarter ended September 30, 2009), and the lowest return for a quarter was –27.31% (quarter ended December 31, 2008).

Average Annual Total Returns for Periods Ended December 31, 2016

	1 Year	5 Years	10 Years
Vanguard Mid-Cap Growth Index Fund ETF Shares *Based on NAV*			
Return Before Taxes	6.75%	12.96%	7.35%
Return After Taxes on Distributions	6.50	12.75	7.21
Return After Taxes on Distributions and Sale of Fund Shares	3.95	10.35	5.95
Based on Market Price			
Return Before Taxes	6.79	12.97	7.34
Comparative Indexes (reflect no deduction for fees, expenses, or taxes)			
MSCI US Mid Cap Growth Index	5.43%	14.04%	7.88%
Spliced Mid Cap Growth Index	6.78	12.98	7.38
CRSP US Mid Cap Growth Index	6.78	—	—

Actual after-tax returns depend on your tax situation and may differ from those shown in the preceding table. When after-tax returns are calculated, it is assumed that the shareholder was in the highest individual federal marginal income tax bracket at the time of each distribution of income or capital gains or upon redemption. State and local income taxes are not reflected in the calculations. Please note that after-tax returns are not relevant for a shareholder who holds fund shares in a tax-deferred account, such as an individual retirement account or a 401(k) plan. Also, figures captioned *Return After Taxes on Distributions and Sale of Fund Shares* may be higher than other figures for the same period if a capital loss occurs upon redemption and results in an assumed tax deduction for the shareholder.

Investment Advisor

The Vanguard Group, Inc. (Vanguard)

Portfolio Managers

Donald M. Butler, CFA, Principal of Vanguard. He has managed the Fund since 2013 (co-managed since 2016).

Michael A. Johnson, Portfolio Manager at Vanguard. He has co-managed the Fund since 2016.

Purchase and Sale of Fund Shares

You can buy and sell ETF Shares of the Fund through a brokerage firm. The price you pay or receive for ETF Shares will be the prevailing market price, which may be more or less than the NAV of the shares. The brokerage firm may charge you a commission to execute the transaction. Unless imposed by your brokerage firm, there is no minimum dollar amount you must invest and no minimum number of shares you must buy. ETF Shares of the Fund cannot be directly purchased from or redeemed with the Fund, except by certain authorized broker-dealers. These broker-dealers may purchase and redeem ETF Shares only in large blocks (Creation Units) worth several million dollars, typically in exchange for baskets of securities. For this Fund, the number of ETF Shares in a Creation Unit is 25,000.

Tax Information

The Fund's distributions may be taxable as ordinary income or capital gain. If you are investing through a tax-advantaged account, such as an IRA or an employer-sponsored retirement or savings plan, special tax rules apply.

Payments to Financial Intermediaries

The Fund and its investment advisor do not pay financial intermediaries for sales of Fund shares.

Vanguard Small-Cap Growth ETF

Investment Objective

The Fund seeks to track the performance of a benchmark index that measures the investment return of small-capitalization growth stocks.

Fees and Expenses

The following table describes the fees and expenses you may pay if you buy and hold ETF Shares of the Fund.

Shareholder Fees
(Fees paid directly from your investment)

Transaction Fee on Purchases and Sales	None through Vanguard (Broker fees vary)
Transaction Fee on Reinvested Dividends	None through Vanguard (Broker fees vary)
Transaction Fee on Conversion to ETF Shares	None through Vanguard (Broker fees vary)

Annual Fund Operating Expenses
(Expenses that you pay each year as a percentage of the value of your investment)

Management Fees	0.06%
12b-1 Distribution Fee	None
Other Expenses	0.01%
Total Annual Fund Operating Expenses	0.07%

Example

The following example is intended to help you compare the cost of investing in the Fund's ETF Shares with the cost of investing in other funds. It illustrates the hypothetical expenses that you would incur over various periods if you were to invest $10,000 in the Fund's shares. This example assumes that the shares provide a return of 5% each year and that total annual fund operating expenses remain as stated in the preceding table. You would incur these hypothetical expenses whether or not you redeem your investment at the end of the given period. Although your actual costs may be higher or lower, based on these assumptions your costs would be:

1 Year	3 Years	5 Years	10 Years
$7	$23	$40	$90

This example does not include the brokerage commissions that you may pay to buy and sell ETF Shares of the Fund.

Portfolio Turnover

The Fund pays transaction costs, such as commissions, when it buys and sells securities (or "turns over" its portfolio). A higher portfolio turnover rate may indicate higher transaction costs and may result in more taxes when Fund shares are held in a taxable account. These costs, which are not reflected in annual fund operating expenses or in the previous expense example, reduce the Fund's performance. During the most recent fiscal year, the Fund's portfolio turnover rate was 27% of the average value of its portfolio.

Principal Investment Strategies

The Fund employs an indexing investment approach designed to track the performance of the CRSP US Small Cap Growth Index, a broadly diversified index of growth stocks of small U.S. companies. The Fund attempts to replicate the target index by investing all, or substantially all, of its assets in the stocks that make up the Index, holding each stock in approximately the same proportion as its weighting in the Index.

Principal Risks

An investment in the Fund could lose money over short or even long periods. You should expect the Fund's share price and total return to fluctuate within a wide range. The Fund is subject to the following risks, which could affect the Fund's performance:

- *Stock market risk*, which is the chance that stock prices overall will decline. Stock markets tend to move in cycles, with periods of rising prices and periods of falling prices. The Fund's target index tracks a subset of the U.S. stock market, which could cause the Fund to perform differently from the overall stock market. In addition, the Fund's target index may, at times, become focused in stocks of a particular market sector, which would subject the Fund to proportionately higher exposure to the risks of that sector.
- *Investment style risk*, which is the chance that returns from small-capitalization growth stocks will trail returns from the overall stock market. Historically, small-cap stocks have been more volatile in price than the large-cap stocks that dominate the overall market, and they often perform quite differently. Small companies tend to have greater stock volatility because, among other things, these companies are more sensitive to changing economic conditions.

Because ETF Shares are traded on an exchange, they are subject to additional risks:

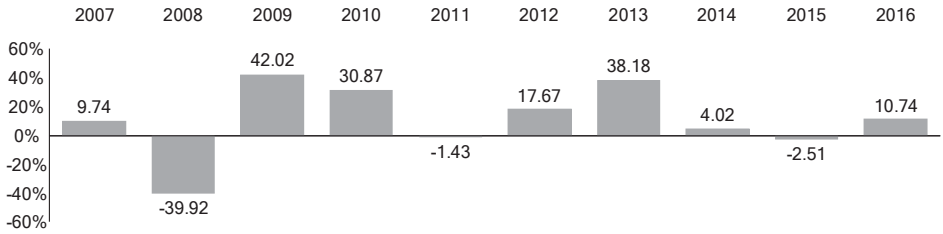
- The Fund's ETF Shares are listed for trading on NYSE Arca and are bought and sold on the secondary market at market prices. Although it is expected that the market price of an ETF Share typically will approximate its net asset value (NAV), there may be times when the market price and the NAV differ significantly. Thus, you may pay more or less than NAV when you buy ETF Shares on the secondary market, and you may receive more or less than NAV when you sell those shares.
- Although the Fund's ETF Shares are listed for trading on NYSE Arca, it is possible that an active trading market may not be maintained.
- Trading of the Fund's ETF Shares may be halted by the activation of individual or marketwide trading halts (which halt trading for a specific period of time when the price of a particular security or overall market prices decline by a specified percentage). Trading of the Fund's ETF Shares may also be halted if (1) the shares are delisted from NYSE Arca without first being listed on another exchange or (2) NYSE Arca officials determine that such action is appropriate in the interest of a fair and orderly market or for the protection of investors.

An investment in the Fund is not a deposit of a bank and is not insured or guaranteed by the Federal Deposit Insurance Corporation or any other government agency.

Annual Total Returns

The following bar chart and table are intended to help you understand the risks of investing in the Fund. The bar chart shows how the performance of the Fund's ETF Shares (based on NAV) has varied from one calendar year to another over the periods shown. The table shows how the average annual total returns of the ETF Shares compare with those of the Fund's target index and other comparative indexes, which have investment characteristics similar to those of the Fund. Keep in mind that the Fund's past performance (before and after taxes) does not indicate how the Fund will perform in the future. Updated performance information is available on our website at *vanguard.com/performance* or by calling Vanguard toll-free at 800-662-7447.

Annual Total Returns — Vanguard Small-Cap Growth Index Fund ETF Shares



During the periods shown in the bar chart, the highest return for a calendar quarter was 24.60% (quarter ended June 30, 2009), and the lowest return for a quarter was –27.91% (quarter ended December 31, 2008).

Average Annual Total Returns for Periods Ended December 31, 2016

	1 Year	5 Years	10 Years
Vanguard Small-Cap Growth Index Fund ETF Shares *Based on NAV*			
Return Before Taxes	10.74%	12.80%	8.23%
Return After Taxes on Distributions	10.32	12.48	8.01
Return After Taxes on Distributions and Sale of Fund Shares	6.18	10.15	6.66
Based on Market Price			
Return Before Taxes	10.79	12.80	8.24
Comparative Indexes (reflect no deduction for fees, expenses, or taxes)			
MSCI US Small Cap Growth Index	13.44%	14.36%	8.91%
Spliced Small Cap Growth Index	10.62	12.68	8.11
CRSP US Small Cap Growth Index	10.62	—	—

Actual after-tax returns depend on your tax situation and may differ from those shown in the preceding table. When after-tax returns are calculated, it is assumed that the shareholder was in the highest individual federal marginal income tax bracket at the time of each distribution of income or capital gains or upon redemption. State and local income taxes are not reflected in the calculations. Please note that after-tax returns are not relevant for a shareholder who holds fund shares in a tax-deferred account, such as an individual retirement account or a 401(k) plan. Also, figures captioned *Return After Taxes on Distributions and Sale of Fund Shares* may be higher than other figures for the same period if a capital loss occurs upon redemption and results in an assumed tax deduction for the shareholder.

Investment Advisor

The Vanguard Group, Inc. (Vanguard)

Portfolio Managers

William Coleman, CFA, Portfolio Manager at Vanguard. He has co-managed the Fund since 2016.

Gerard C. O'Reilly, Principal of Vanguard. He has managed the Fund since 2004 (co-managed since 2016).

Purchase and Sale of Fund Shares

You can buy and sell ETF Shares of the Fund through a brokerage firm. The price you pay or receive for ETF Shares will be the prevailing market price, which may be more or less than the NAV of the shares. The brokerage firm may charge you a commission to execute the transaction. Unless imposed by your brokerage firm, there is no minimum dollar amount you must invest and no minimum number of shares you must buy. ETF Shares of the Fund cannot be directly purchased from or redeemed with the Fund, except by certain authorized broker-dealers. These broker-dealers may purchase and redeem ETF Shares only in large blocks (Creation Units) worth several million dollars, typically in exchange for baskets of securities. For this Fund, the number of ETF Shares in a Creation Unit is 25,000.

Tax Information

The Fund's distributions may be taxable as ordinary income or capital gain. If you are investing through a tax-advantaged account, such as an IRA or an employer-sponsored retirement or savings plan, special tax rules apply.

Payments to Financial Intermediaries

The Fund and its investment advisor do not pay financial intermediaries for sales of Fund shares.

Investing in Vanguard ETF® Shares

What Are Vanguard ETF Shares?

Vanguard ETF Shares are an exchange-traded class of shares issued by certain Vanguard mutual funds. ETF Shares represent an interest in the portfolio of stocks or bonds held by the issuing fund. The following ETF Shares are offered through this prospectus:

Vanguard Fund	Vanguard ETF Shares	Seeks to Track
Total Stock Market Index Fund	Total Stock Market ETF	The overall stock market
Extended Market Index Fund	Extended Market ETF	Mid- and small-cap stocks
Large-Cap Index Fund	Large-Cap ETF	Large-cap stocks
Mid-Cap Index Fund	Mid-Cap ETF	Mid-cap stocks
Small-Cap Index Fund	Small-Cap ETF	Small-cap stocks
Value Index Fund	Value ETF	Large-cap value stocks
Mid-Cap Value Index Fund	Mid-Cap Value ETF	Mid-cap value stocks
Small-Cap Value Index Fund	Small-Cap Value ETF	Small-cap value stocks
Growth Index Fund	Growth ETF	Large-cap growth stocks
Mid-Cap Growth Index Fund	Mid-Cap Growth ETF	Mid-cap growth stocks
Small-Cap Growth Index Fund	Small-Cap Growth ETF	Small-cap growth stocks

In addition to ETF Shares, each Fund offers one or more conventional (not exchange-traded) classes of shares. This prospectus, however, relates only to ETF Shares.

How Are Vanguard ETF Shares Different From Conventional Mutual Fund Shares?

Conventional mutual fund shares can be directly purchased from and redeemed with the issuing fund for cash at the net asset value (NAV), typically calculated once a day. ETF Shares, by contrast, cannot be purchased directly from or redeemed directly with the issuing fund by an individual investor. Rather, ETF Shares can only be purchased or redeemed directly from the issuing fund by certain authorized broker-dealers. These broker-dealers may purchase and redeem ETF Shares only in large blocks (Creation Units) worth several million dollars, usually in exchange for baskets of securities and not for cash (although some funds issue and redeem Creation Units in exchange for cash or a combination of cash and securities).

An organized secondary trading market is expected to exist for ETF Shares, unlike conventional mutual fund shares, because ETF Shares are listed for trading on a national securities exchange. Individual investors can purchase and sell ETF Shares on the secondary market through a broker. Secondary-market transactions occur not at NAV, but at market prices that change throughout the day based on the supply of and demand for ETF Shares and on changes in the prices of the fund's portfolio holdings.

The market price of a fund's ETF Shares typically will differ somewhat from the NAV of those shares. The difference between market price and NAV is expected to be small most of the time, but in times of market disruption or extreme market volatility, the difference may become significant.

How Do I Buy and Sell Vanguard ETF Shares?

ETF Shares of the Funds are listed for trading on NYSE Arca. You can buy and sell ETF Shares on the secondary market in the same way you buy and sell any other exchange-traded security—through a broker. Your broker may charge a commission to execute a transaction. You will also incur the cost of the "bid-ask spread," which is the difference between the price a dealer will pay for a security and the somewhat higher price at which the dealer will sell the same security. Because secondary-market transactions occur at market prices, you may pay more (premium) or less (discount) than NAV when you buy ETF Shares and receive more or less than NAV when you sell those shares. In times of severe market disruption, the bid-ask spread and premiums/discounts can increase significantly. Unless imposed by your broker, there is no minimum dollar amount you must invest and no minimum number of ETF Shares you must buy.

Your ownership of ETF Shares will be shown on the records of the broker through which you hold the shares. Vanguard will not have any record of your ownership. Your account information will be maintained by your broker, which will provide you with account statements, confirmations of your purchases and sales of ETF Shares, and tax information. Your broker also will be responsible for ensuring that you receive income and capital gains distributions, as well as shareholder reports and other communications from the fund whose ETF Shares you own. You will receive other services (e.g., dividend reinvestment and average cost information) only if your broker offers these services.

Investing in Index Funds

What Is Indexing?

Indexing is an investment strategy for tracking the performance of a specified market benchmark, or "index." An index is a group of securities whose overall performance is used as a standard to measure the investment performance of a particular market. There are many types of indexes. Some represent entire markets—such as the U.S. stock market or the U.S. bond market. Other indexes cover market segments—such as small-capitalization stocks or short-term bonds. The index sponsor determines the securities to include in the index, the weighting of each security in the index, and the appropriate time to make changes to the composition of the index. One cannot invest directly in an index.

An index fund holds all, or a representative sample, of the securities that make up its target index. Index funds attempt to mirror the performance of the target index, for better or worse. However, an index fund generally does not perform *exactly* like its target index. For example, like all mutual funds, index funds have operating expenses and transaction costs. Market indexes do not, and therefore they will usually have a slight performance advantage over funds that track them.

Index funds typically have the following characteristics:

- *Variety of investments.* Most Vanguard index funds generally invest in the securities of a variety of companies and industries.
- *Relative performance consistency.* Because they seek to track market benchmarks, index funds usually do not perform dramatically better or worse than their benchmarks.
- *Low cost.* Index funds are inexpensive to run compared with actively managed funds. They have low or no research costs and typically keep trading activity—and thus brokerage commissions and other transaction costs—to a minimum compared with actively managed funds.

More on the Funds and ETF Shares

This prospectus describes the principal risks you would face as a Fund shareholder. It is important to keep in mind one of the main axioms of investing: generally, the higher the risk of losing money, the higher the potential reward. The reverse, also, is generally true: the lower the risk, the lower the potential reward. As you consider an investment in any mutual fund, you should take into account your personal tolerance for fluctuations in the securities markets. Look for this symbol throughout the prospectus. It is used to mark detailed information about the more significant risks that you would confront as a Fund shareholder. To highlight terms and concepts important to mutual fund investors, we have provided Plain Talk® explanations along the way. Reading the prospectus will help you decide whether a Fund is the right investment for you. We suggest that you keep this prospectus for future reference.

Share Class Overview

This prospectus offers the Funds' ETF Shares, an exchange-traded class of shares. Separate prospectuses offer the Funds' Investor Shares and Admiral™ Shares, which generally have investment minimums of $3,000 and $10,000, respectively. Additional prospectuses offer the Funds' Institutional Shares and Institutional Plus Shares (if available), which are generally for investors who invest a minimum of $5 million or $100 million, respectively. Other prospectuses for the Extended Market Index Fund and the Total Stock Market Index Fund offer Institutional Select Shares, which are generally for investors who invest a minimum of $3 billion or $5 billion, respectively.

All share classes offered by a Fund have the same investment objective, strategies, and policies. However, different share classes have different expenses; as a result, their investment performances will differ.

A Note to Investors

Vanguard ETF Shares can be purchased directly from the issuing Fund only by authorized broker-dealers in exchange for a basket of securities (or, in some cases, for cash or a combination of cash and securities) that is expected to be worth several million dollars. Most individual investors, therefore, will not be able to purchase ETF Shares directly from the Fund. Instead, these investors will purchase ETF Shares on the secondary market with the assistance of a broker.

Plain Talk About Costs of Investing

Costs are an important consideration in choosing a mutual fund. That is because you, as a shareholder, pay a proportionate share of the costs of operating a fund, plus any transaction costs incurred when the fund buys or sells securities. These costs can erode a substantial portion of the gross income or the capital appreciation a fund achieves. Even seemingly small differences in expenses can, over time, have a dramatic effect on a fund's performance.

The following sections explain the principal investment strategies and policies that each Fund uses in pursuit of its objective. The Funds' board of trustees, which oversees each Fund's management, may change investment strategies or policies in the interest of shareholders without a shareholder vote, unless those strategies or policies are designated as fundamental. Under normal circumstances, each Fund will invest at least 80% of its assets in the stocks that make up its target index. A Fund may change its 80% policy only upon 60 days' notice to shareholders.

Market Exposure

Each Fund is subject to stock market risk, which is the chance that stock prices overall will decline. Stock markets tend to move in cycles, with periods of rising prices and periods of falling prices. Excluding the Total Stock Market Index Fund (which seeks to track the overall stock market), each Fund's target index tracks a subset of the U.S. stock market, which could cause the Fund to perform differently from the overall stock market. In addition, each Fund's target index may, at times, become focused in stocks of a particular market sector, which would subject the Fund to proportionately higher exposure to the risks of that sector.

To illustrate the volatility of stock prices, the following table shows the best, worst, and average annual total returns for the U.S. stock market over various periods as measured by the S&P 500 Index, a widely used barometer of U.S. stock market activity. Total returns consist of dividend income plus change in market price. Note that the returns shown do not include the costs of buying and selling stocks or other expenses that a real-world investment portfolio would incur.

U.S. Stock Market Returns
(1926–2016)

	1 Year	5 Years	10 Years	20 Years
Best	54.2%	28.6%	19.9%	17.8%
Worst	–43.1	–12.4	–1.4	3.1
Average	11.9	10.1	10.3	11.0

The table covers all of the rolling 1-, 5-, 10-, and 20-year periods from 1926 through 2016. You can see, for example, that although the average annual return on common stocks for *all* of the 5-year periods was 10.1%, average annual returns for *individual* 5-year periods ranged from –12.4% (from 1928 through 1932) to 28.6% (from 1995 through 1999). These average annual returns reflect *past* performance of common stocks; you should not regard them as an indication of *future* performance of either the stock market as a whole or the Funds in particular.

Keep in mind that the S&P 500 Index tracks mainly large-cap stocks. Historically, small- and mid-cap stocks have been more volatile than—and at times have performed quite differently from—the large-cap stocks of the S&P 500 Index.

Similarly, indexes that focus on growth stocks or value stocks will not necessarily perform in the same way as the broader S&P 500 Index. Both growth and value stocks have the potential at times to be more volatile than the broader markets.

Stocks of publicly traded companies and funds that invest in stocks are often classified according to market value, or market capitalization. These classifications typically include small-cap, mid-cap, and large-cap. It is important to understand that market capitalization ranges change over time. Also, interpretations of size vary, and there are no "official" definitions of small-, mid-, and large-cap, even among Vanguard fund advisors.

The asset-weighted median market capitalization of each Fund's stock holdings as of December 31, 2016, was:

Vanguard Fund	Asset-Weighted Median Market Capitalization
Total Stock Market Index	$54.1 billion
Extended Market Index	3.9
Large-Cap Index	75.9
Mid-Cap Index	11.7
Small-Cap Index	3.5
Value Index	88.3
Mid-Cap Value Index	11.2
Small-Cap Value Index	3.4
Growth Index	70.3
Mid-Cap Growth Index	12.5
Small-Cap Growth Index	3.6

Each Fund (other than the Total Stock Market Index Fund) is subject to investment style risk, which is the chance that returns from the types of stocks in which the Fund invests will trail returns from the overall stock market. Specific types of stocks tend to go through cycles of doing better—or worse—than other segments of the stock market or the stock market in general. These periods have, in the past, lasted for as long as several years.

Plain Talk About Growth Funds and Value Funds

Growth investing and value investing are two styles employed by stock-fund managers. Growth funds generally focus on stocks of companies believed to have above-average potential for growth in revenue, earnings, cash flow, or other similar criteria. These stocks typically have low dividend yields and above-average prices in relation to measures such as earnings and book value. Value funds typically emphasize stocks whose prices are below average in relation to those measures; these stocks often have above-average dividend yields. Value stocks also may remain undervalued by the market for long periods of time. Growth and value stocks have historically produced similar long-term returns, though each style has periods when it outperforms the other.

Security Selection

Each Fund attempts to track the investment performance of a benchmark index that measures the return of a particular market segment. The Total Stock Market Index Fund and Extended Market Index Fund use the *sampling method* of indexing, meaning that each Fund's advisor, using computer programs, generally selects from the target index a representative sample of securities that will resemble the target index in terms of key risk factors and other characteristics. These include industry weightings, market capitalization, and other financial characteristics of stocks.

The Total Stock Market Index Fund and Extended Market Index Fund are subject to index sampling risk, which is the chance that the securities selected for each Fund, in the aggregate, will not provide investment performance matching that of the Fund's target index. Index sampling risk for each Fund should be low.

The remaining Funds use the *replication method* of indexing, meaning that each Fund generally holds the same stocks as its target index and in approximately the same proportions.

Other Investment Policies and Risks

Each Fund reserves the right to substitute a different index for the index it currently tracks if the current index is discontinued, if the Fund's agreement with the sponsor of its target index is terminated, or for any other reason determined in good faith by the Fund's board of trustees. In any such instance, the substitute index would represent the same market segment as the current index.

Each Fund may invest in foreign securities to the extent necessary to carry out its investment strategy of holding all, substantially all, or a representative sample of the stocks that make up the index it tracks. It is not expected that any Fund will invest more than 5% of its assets in foreign securities.

To track their target indexes as closely as possible, the Funds attempt to remain fully invested in stocks. To help stay fully invested and to reduce transaction costs, the Funds may invest, to a limited extent, in derivatives, including equity futures. The Funds may also use derivatives such as total return swaps to obtain exposure to a stock, a basket of stocks, or an index. Generally speaking, a derivative is a financial contract whose value is based on the value of a financial asset (such as a stock, a bond, or a currency), a physical asset (such as gold, oil, or wheat), a market index (such as the S&P 500 Index), or a reference rate (such as LIBOR). Investments in derivatives may subject the Funds to risks different from, and possibly greater than, those of investments directly in the underlying securities or assets. The Funds will not use derivatives for speculation or for the purpose of leveraging (magnifying) investment returns.

Cash Management

Each Fund's daily cash balance may be invested in one or more Vanguard CMT Funds, which are very low-cost money market funds. When investing in a Vanguard CMT Fund, each Fund bears its proportionate share of the expenses of the CMT Fund in which it invests. Vanguard receives no additional revenue from Fund assets invested in a Vanguard CMT Fund.

Temporary Investment Measures

Each Fund may temporarily depart from its normal investment policies and strategies when the advisor believes that doing so is in the Fund's best interest, so long as the alternative is consistent with the Fund's investment objective. For instance, the Fund may invest beyond its normal limits in derivatives or exchange-traded funds that are consistent with the Fund's objective when those instruments are more favorably priced or provide needed liquidity, as might be the case when the Fund receives large cash flows that it cannot prudently invest immediately.

Special Risks of Exchange-Traded Shares

ETF Shares are not individually redeemable. *They can be redeemed with the issuing Fund at NAV only by authorized broker-dealers and only in large blocks known as Creation Units, which would cost millions of dollars to assemble. Consequently, if you want to liquidate some or all of your ETF Shares, you must sell them on the secondary market at prevailing market prices.*

The market price of ETF Shares may differ from NAV. *Although it is expected that the market price of an ETF Share typically will approximate its NAV, there may be times when the market price and the NAV differ significantly. Thus, you may pay more (premium) or less (discount) than NAV when you buy ETF Shares on the secondary market, and you may receive more or less than NAV when you sell those shares. These discounts and premiums are likely to be greatest during times of market disruption or extreme market volatility.*

Vanguard's website at *vanguard.com* shows the previous day's closing NAV and closing market price for each Fund's ETF Shares. The website also discloses, in the **Premium/Discount Analysis** section of the ETF Shares' Price & Performance page, how frequently each Fund's ETF Shares traded at a premium or discount to NAV (based on closing NAVs and market prices) and the magnitudes of such premiums and discounts.

An active trading market may not exist. *Although Vanguard ETF Shares are listed on a national securities exchange, it is possible that an active trading market may not be maintained. Although this could happen at any time, it is more likely to occur during times of severe market disruption. If you attempt to sell your ETF Shares when an active trading market is not functioning, you may have to sell at a significant discount to NAV. In extreme cases, you may not be able to sell your shares at all.*

Trading may be halted. *Trading of Vanguard ETF Shares on an exchange may be halted by the activation of individual or marketwide trading halts (which halt trading for a specific period of time when the price of a particular security or overall market prices decline by a specified percentage). Trading of ETF Shares may also be halted if (1) the shares are delisted from the listing exchange without first being listed on another exchange or (2) exchange officials determine that such action is appropriate in the interest of a fair and orderly market or for the protection of investors.*

Conversion Privilege

Owners of conventional shares issued by a Fund may convert those shares to ETF Shares of equivalent value of the same fund. Please note that investors who own conventional shares through a 401(k) plan or other employer-sponsored retirement or benefit plan generally may not convert those shares to ETF Shares and should check with their plan sponsor or recordkeeper. ETF Shares, whether acquired through a conversion or purchased on the secondary market, cannot be converted to conventional shares. Also, ETF Shares of one fund cannot be exchanged for ETF Shares of another fund.

Note to investors in Vanguard Institutional Total Stock Market Index Fund: Owners of shares issued by Vanguard Institutional Total Stock Market Index Fund **cannot** convert their shares to ETF Shares of Vanguard Total Stock Market Index Fund because the Funds are separate and distinct. Vanguard Institutional Total Stock Market Index Fund currently does not issue ETF Shares.

You must hold ETF Shares in a brokerage account. Thus, before converting conventional shares to ETF Shares, you must have an existing, or open a new, brokerage account. This account may be with Vanguard Brokerage Services® (Vanguard Brokerage) or with any other brokerage firm. To initiate a conversion of conventional shares to ETF Shares, please contact your broker.

Vanguard Brokerage does not impose a fee on conversions from Vanguard conventional shares to Vanguard ETF Shares. However, other brokerage firms may charge a fee to process a conversion. Vanguard reserves the right, in the future, to impose a transaction fee on conversions or to limit or terminate the conversion privilege.

Converting conventional shares to ETF Shares is generally accomplished as follows. First, after your broker notifies Vanguard of your request to convert, Vanguard will transfer your conventional shares from your account to the broker's omnibus account with Vanguard (an account maintained by the broker on behalf of all its customers who hold conventional Vanguard fund shares through the broker). After the transfer, Vanguard's records will reflect your broker, not you, as the owner of the shares. Next, your broker will instruct Vanguard to convert the appropriate number or dollar amount of conventional shares in its omnibus account to ETF Shares of equivalent value, based on the respective NAVs of the two share classes.

Your Fund's transfer agent will reflect ownership of all ETF Shares in the name of the Depository Trust Company (DTC). The DTC will keep track of which ETF Shares belong to your broker, and your broker, in turn, will keep track of which ETF Shares belong to you.

Because the DTC is unable to handle fractional shares, only whole shares can be converted. For example, if you owned 300.250 conventional shares, and this was equivalent in value to 90.750 ETF Shares, the DTC account would receive 90 ETF Shares. Conventional shares with a value equal to 0.750 ETF Shares (in this example, that would be 2.481 conventional shares) would remain in the broker's omnibus account with Vanguard. Your broker then could either (1) credit your account with 0.750 ETF Shares or (2) redeem the 2.481 conventional shares for cash at NAV and deliver that cash to your account. If your broker chose to redeem your conventional shares, you would realize a gain or loss on the redemption that must be reported on your tax return (unless you hold the shares in an IRA or other tax-deferred account). Please consult your broker for information on how it will handle the conversion process, including whether it will impose a fee to process a conversion.

If you convert your conventional shares to ETF Shares through Vanguard Brokerage, *all* conventional shares for which you request conversion will be converted to ETF Shares of equivalent value. Because no fractional shares will have to be sold, the transaction will not be taxable.

Here are some important points to keep in mind when converting conventional shares of a Vanguard fund to ETF Shares:

- The conversion process can take anywhere from several days to several weeks, depending on your broker. Vanguard generally will process conversion requests either on the day they are received or on the next business day. Vanguard imposes conversion blackout windows around the dates when a fund with ETF Shares declares dividends. This is necessary to prevent a shareholder from collecting a dividend from both the conventional share class currently held and also from the ETF share class to which the shares will be converted.

- Until the conversion process is complete, you will remain fully invested in a fund's conventional shares, and your investment will increase or decrease in value in tandem with the NAV of those shares.
- The conversion transaction is nontaxable except, if applicable, to the very limited extent previously described.

A precautionary note to investment companies: Vanguard ETF Shares are issued by registered investment companies, and therefore the acquisition of such shares by other investment companies is subject to the restrictions of Section 12(d)(1) of the Investment Company Act of 1940. Vanguard has obtained an SEC exemptive order that allows registered investment companies to invest in the issuing funds beyond the limits of Section 12(d)(1), subject to certain terms and conditions, including the requirement to enter into a participation agreement with Vanguard.

Frequent Trading and Market-Timing

Unlike frequent trading of a Vanguard fund's conventional (i.e., not exchange-traded) classes of shares, frequent trading of ETF Shares does not disrupt portfolio management, increase the fund's trading costs, lead to realization of capital gains by the fund, or otherwise harm fund shareholders. The vast majority of trading in ETF Shares occurs on the secondary market. Because these trades do not involve the issuing fund, they do not harm the fund or its shareholders. A few institutional investors are authorized to purchase and redeem ETF Shares directly with the issuing fund. Because these trades typically are effected in kind (i.e., for securities and not for cash), they do not cause any of the harmful effects to the issuing fund (as previously noted) that may result from frequent cash trades. For these reasons, the board of trustees of each fund that issues ETF Shares has determined that it is not necessary to adopt policies and procedures to detect and deter frequent trading and market-timing of ETF Shares.

Portfolio Holdings

Please consult the Funds' *Statement of Additional Information* or our website for a description of the policies and procedures that govern disclosure of a Fund's portfolio holdings.

Turnover Rate

Although the Funds generally seek to invest for the long term, each Fund may sell securities regardless of how long they have been held. Generally, an index fund sells securities in response to redemption requests from shareholders of conventional (not exchange-traded) shares or to changes in the composition of its target index. Turnover rates for large-cap stock index funds tend to be low because large-cap indexes typically do not change significantly from year to year. Turnover rates for mid-cap and

small-cap stock index funds tend to be higher than for large-cap stock index funds (although still relatively low, compared with actively managed stock funds) because the indexes they track are more likely to change as a result of companies merging, growing, or failing. The **Financial Highlights** section of this prospectus shows historical turnover rates for each Fund. A turnover rate of 100%, for example, would mean that a Fund had sold and replaced securities valued at 100% of its net assets within a one-year period.

Plain Talk About Turnover Rate

Before investing in a mutual fund, you should review its turnover rate. This gives an indication of how transaction costs, which are not included in the fund's expense ratio, could affect the fund's future returns. In general, the greater the volume of buying and selling by the fund, the greater the impact that brokerage commissions and other transaction costs will have on its return. Also, funds with high turnover rates may be more likely to generate capital gains, including short-term capital gains, that must be distributed to shareholders and will be taxable to shareholders investing through a taxable account.

The Funds and Vanguard

Each Fund is a member of The Vanguard Group, a family of more than 190 mutual funds holding assets of approximately $3.6 trillion. All of the funds that are members of The Vanguard Group (other than funds of funds) share in the expenses associated with administrative services and business operations, such as personnel, office space, and equipment.

Vanguard Marketing Corporation provides marketing services to the funds. Although shareholders do not pay sales commissions or 12b-1 distribution fees, each fund (other than a fund of funds) or each share class of a fund (in the case of a fund with multiple share classes) pays its allocated share of the Vanguard funds' marketing costs.

Plain Talk About Vanguard's Unique Corporate Structure

The Vanguard Group is truly a ***mutual*** mutual fund company. It is owned jointly by the funds it oversees and thus indirectly by the shareholders in those funds. Most other mutual funds are operated by management companies that may be owned by one person, by a private group of individuals, or by public investors who own the management company's stock. The management fees charged by these companies include a profit component over and above the companies' cost of providing services. By contrast, Vanguard provides services to its member funds on an at-cost basis, with no profit component, which helps to keep the funds' expenses low.

Investment Advisor

The Vanguard Group, Inc. (Vanguard), P.O. Box 2600, Valley Forge, PA 19482, which began operations in 1975, serves as advisor to the Funds through its Equity Index Group. As of December 31, 2016, Vanguard served as advisor for approximately $3.1 trillion in assets. Vanguard provides investment advisory services to the Funds on an at-cost basis, subject to the supervision and oversight of the trustees and officers of the Funds.

For the fiscal year ended December 31, 2016, the advisory expenses represented an effective annual rate of 0.01% of each Fund's average net assets.

For a discussion of why the board of trustees approved each Fund's investment advisory arrangement, see the most recent semiannual reports to shareholders covering the fiscal period ended June 30.

The managers primarily responsible for the day-to-day management of the Funds are:

Donald M. Butler, CFA, Principal of Vanguard. He has been with Vanguard since 1992; has managed investment portfolios since 1997; has managed the Extended Market Index Fund since 1997 (co-managed since 2016); has managed the Mid-Cap Index and Mid-Cap Value Index Funds since their inceptions in 1998 and 2006, respectively (co-managed since 2016); and has managed the Mid-Cap Growth Index Fund since 2013 (co-managed since 2016). Education: B.S.B.A., Shippensburg University.

William Coleman, CFA, Portfolio Manager at Vanguard. He has worked in investment management since joining Vanguard in 2006 and has co-managed the Small-Cap Index, Small-Cap Value Index, and Small-Cap Growth Index Funds since 2016. Education: B.S., King's College; M.S., Saint Joseph's University.

Scott E. Geiger, CFA, Portfolio Manager at Vanguard. He has been with Vanguard since 2006, has worked in investment management since 2008, has managed investment portfolios since 2013, and has co-managed the Extended Market Index Fund since 2016. Education: B.S., Millersville University.

Michael A. Johnson, Portfolio Manager at Vanguard. He has been with Vanguard since 1999; has worked in investment management since 2007; has managed investment portfolios since 2010; and has co-managed the Mid-Cap Index, Mid-Cap Value Index, Mid-Cap Growth Index, and Large-Cap Index Funds since 2016. Education: B.S.B.A., Shippensburg University.

Walter Nejman, Portfolio Manager at Vanguard. He has been with Vanguard since 2005; has worked in investment management since 2008; and has co-managed the Total Stock Market Index, Large-Cap Index, Value Index, and Growth Index Funds since 2016. Education: B.A., Arcadia University; M.B.A., Villanova University.

Gerard C. O'Reilly, Principal of Vanguard. He has been with Vanguard since 1992; has managed investment portfolios since 1994; has managed the Total Stock Market Index, Value Index, and Growth Index Funds since 1994 (co-managed since 2016); has managed the Small-Cap Growth Index Fund since 2004 (co-managed since 2016); and has co-managed the Small-Cap Index and Small-Cap Value Index Funds since 2016. Education: B.S., Villanova University.

The *Statement of Additional Information* provides information about each portfolio manager's compensation, other accounts under management, and ownership of shares of the Funds.

Dividends, Capital Gains, and Taxes

Fund Distributions

Each Fund distributes to shareholders virtually all of its net income (interest and dividends, less expenses) as well as any net short-term or long-term capital gains realized from the sale of its holdings. Income dividends for the Funds generally are distributed quarterly in March, June, September, and December. Capital gains distributions, if any, generally occur annually in December. In addition, the Funds may occasionally make a supplemental distribution at some other time during the year.

Plain Talk About Distributions

As a shareholder, you are entitled to your portion of a fund's income from interest and dividends as well as capital gains from the fund's sale of investments. Income consists of both the dividends that the fund earns from any stock holdings and the interest it receives from any money market and bond investments. Capital gains are realized whenever the fund sells securities for higher prices than it paid for them. These capital gains are either short-term or long-term, depending on whether the fund held the securities for one year or less or for more than one year.

Reinvestment of Distributions

In order to reinvest dividend and capital gains distributions, investors in a Fund's ETF Shares must hold their shares at a broker that offers a reinvestment service. This can be the broker's own service or a service made available by a third party, such as the broker's outside clearing firm or the Depository Trust Company (DTC). If a reinvestment service is available, distributions of income and capital gains can automatically be reinvested in additional whole and fractional ETF Shares of the Fund. If a reinvestment service is not available, investors will receive their distributions in cash. To determine whether a reinvestment service is available and whether there is a commission or other charge for using this service, consult your broker.

As with all exchange-traded funds, reinvestment of dividend and capital gains distributions in additional ETF Shares will occur four business days or more after the ex-dividend date (the date when a distribution of dividends or capital gains is deducted from the price of a Fund's shares). The exact number of days depends on your broker. During that time, the amount of your distribution will not be invested in the Fund and therefore will not share in the Fund's income, gains, and losses.

Basic Tax Points

Investors in taxable accounts should be aware of the following basic federal income tax points:

- Distributions are taxable to you whether or not you reinvest these amounts in additional ETF Shares.
- Distributions declared in December—if paid to you by the end of January—are taxable as if received in December.
- Any dividend distribution or short-term capital gains distribution that you receive is taxable to you as ordinary income. If you are an individual and meet certain holding-period requirements with respect to your ETF Shares, you may be eligible for reduced tax rates on "qualified dividend income," if any, distributed by the Fund.

- Any distribution of net long-term capital gains is taxable to you as long-term capital gains, no matter how long you have owned ETF Shares.
- Capital gains distributions may vary considerably from year to year as a result of the Funds' normal investment activities and cash flows.
- A sale of ETF Shares is a taxable event. This means that you may have a capital gain to report as income, or a capital loss to report as a deduction, when you complete your tax return.

Individuals, trusts, and estates whose income exceeds certain threshold amounts are subject to a 3.8% Medicare contribution tax on "net investment income." Net investment income takes into account distributions paid by the Fund and capital gains from any sale of ETF Shares.

Dividend distributions and capital gains distributions that you receive, as well as your gains or losses from any sale of ETF Shares, may be subject to state and local income taxes.

This prospectus provides general tax information only. If you are investing through a tax-advantaged account, such as an IRA or an employer-sponsored retirement or savings plan, special tax rules apply. Please consult your tax advisor for detailed information about any tax consequences for you.

Share Price and Market Price

Share price, also known as *net asset value* (NAV), is calculated each business day as of the close of regular trading on the New York Stock Exchange (NYSE), generally 4 p.m., Eastern time. Each share class has its own NAV, which is computed by dividing the total assets, minus liabilities, allocated to the share class by the number of Fund shares outstanding for that class. On U.S. holidays or other days when the NYSE is closed, the NAV is not calculated, and the Funds do not sell or redeem shares. However, on those days the value of a Fund's assets may be affected to the extent that the Fund holds securities that change in value on those days (such as foreign securities that trade on foreign markets that are open).

Remember: If you buy or sell ETF Shares on the secondary market, you will pay or receive the market price, which may be higher or lower than NAV. Your transaction will be priced at NAV only if you purchase or redeem your ETF Shares in Creation Unit blocks (an option available only to certain authorized broker-dealers) or if you convert your conventional fund shares to ETF Shares.

Stocks held by a Vanguard fund are valued at their *market value* when reliable market quotations are readily available from the principal exchange or market on which they are traded. Such securities are generally valued at their official closing price, the last reported sales price, or if there were no sales that day, the mean between the closing

bid and asking prices. When a fund determines that market quotations either are not readily available or do not accurately reflect the value of a security, the security is priced at its *fair value* (the amount that the owner might reasonably expect to receive upon the current sale of the security).

The values of any foreign securities held by a fund are converted into U.S. dollars using an exchange rate obtained from an independent third party as of the close of regular trading on the NYSE. The values of any mutual fund shares, including institutional money market fund shares, held by a fund are based on the NAVs of the shares. The values of any ETF shares or closed-end fund shares held by a fund are based on the market value of the shares.

A fund also will use fair-value pricing if the value of a security it holds has been materially affected by events occurring before the fund's pricing time but after the close of the principal exchange or market on which the security is traded. This most commonly occurs with foreign securities, which may trade on foreign exchanges that close many hours before the fund's pricing time. Intervening events might be company-specific (e.g., earnings report, merger announcement) or country-specific or regional/global (e.g., natural disaster, economic or political news, act of terrorism, interest rate change). Intervening events include price movements in U.S. markets that exceed a specified threshold or that are otherwise deemed to affect the value of foreign securities.

Fair-value pricing may be used for domestic securities—for example, if (1) trading in a security is halted and does not resume before the fund's pricing time or a security does not trade in the course of a day and (2) the fund holds enough of the security that its price could affect the NAV.

Fair-value prices are determined by Vanguard according to procedures adopted by the board of trustees. When fair-value pricing is employed, the prices of securities used by a fund to calculate the NAV may differ from quoted or published prices for the same securities.

Vanguard's website will show the previous day's closing NAV and closing market price for each Fund's ETF Shares.

Additional Information

	Inception Date	Vanguard Fund Number	CUSIP Number
Total Stock Market Index Fund			
ETF Shares	5/24/2001 (Investor Shares—4/27/1992)	970	922908769
Extended Market Index Fund			
ETF Shares	12/27/2001 (Investor Shares—12/21/1987)	965	922908652
Large-Cap Index Fund			
ETF Shares	1/27/2004 (Investor Shares—1/30/2004)	961	922908637
Mid-Cap Index Fund			
ETF Shares	1/26/2004 (Investor Shares—5/21/1998)	939	922908629
Small-Cap Index Fund			
ETF Shares	1/26/2004 (Investor Shares—10/3/1960)	969	922908751
Value Index Fund			
ETF Shares	1/26/2004 (Investor Shares—11/2/1992)	966	922908744
Mid-Cap Value Index Fund			
ETF Shares	8/17/2006 (Investor Shares—8/24/2006)	935	922908512
Small-Cap Value Index Fund			
ETF Shares	1/26/2004 (Investor Shares—5/21/1998)	937	922908611
Growth Index Fund			
ETF Shares	1/26/2004 (Investor Shares—11/2/1992)	967	922908736
Mid-Cap Growth Index Fund			
ETF Shares	8/17/2006 (Investor Shares—8/24/2006)	932	922908538
Small-Cap Growth Index Fund			
ETF Shares	1/26/2004 (Investor Shares—5/21/1998)	938	922908595

Financial Highlights

The following financial highlights tables are intended to help you understand each Fund's financial performance for the periods shown, and certain information reflects financial results for a single Fund share. The total returns in each table represent the rate that an investor would have earned or lost each period on an investment in the Fund (assuming reinvestment of all distributions). This information has been obtained from the financial statements audited by PricewaterhouseCoopers LLP, an independent registered public accounting firm, whose reports—along with each Fund's financial statements—are included in the Funds' most recent annual reports to shareholders. You may obtain a free copy of the latest annual or semiannual reports by visiting *vanguard.com* or by contacting Vanguard by telephone or mail.

Plain Talk About How to Read the Financial Highlights Tables

This explanation uses the Total Stock Market Index Fund's ETF Shares as an example. The ETF Shares began fiscal year 2016 with a net asset value (share price) of $104.34 per share. During the year, each ETF Share earned $2.214 from investment income (interest and dividends) and $10.871 from investments that had appreciated in value or that were sold for higher prices than the Fund paid for them.

Shareholders received $2.215 per share in the form of dividend distributions. A portion of each year's distributions may come from the prior year's income or capital gains.

The share price at the end of the year was $115.21, reflecting earnings of $13.085 per share and distributions of $2.215 per share. This was an increase of $10.87 per share (from $104.34 at the beginning of the year to $115.21 at the end of the year). For a shareholder who reinvested the distributions in the purchase of more shares, the total return was 12.68% for the year.

As of December 31, 2016, the ETF Shares had approximately $69.9 billion in net assets. For the year, the expense ratio was 0.04% ($0.40 per $1,000 of net assets), and the net investment income amounted to 2.09% of average net assets. The Fund sold and replaced securities valued at 4% of its net assets.

Total Stock Market Index Fund ETF Shares

For a Share Outstanding Throughout Each Period	Year Ended December 31, 2016	2015	2014	2013	2012
Net Asset Value, Beginning of Period	**$104.34**	**$106.00**	**$95.91**	**$73.24**	**$64.29**
Investment Operations					
Net Investment Income	2.214	2.082	1.874	1.657	1.564
Net Realized and Unrealized Gain (Loss) on Investments	10.871	(1.675)	10.085	22.686	8.949
Total from Investment Operations	13.085	.407	11.959	24.343	10.513
Distributions					
Dividends from Net Investment Income	(2.215)	(2.067)	(1.869)	(1.673)	(1.563)
Distributions from Realized Capital Gains	—	—	—	—	—
Total Distributions	(2.215)	(2.067)	(1.869)	(1.673)	(1.563)
Net Asset Value, End of Period	**$115.21**	**$104.34**	**$106.00**	**$95.91**	**$73.24**
Total Return	**12.68%**	**0.40%**	**12.56%**	**33.51%**	**16.41%**
Ratios/Supplemental Data					
Net Assets, End of Period (Millions)	$69,889	$57,434	$50,886	$39,165	$24,270
Ratio of Total Expenses to Average Net Assets	0.04%	0.05%	0.05%	0.05%	0.05%
Ratio of Net Investment Income to Average Net Assets	2.09%	1.96%	1.89%	1.96%	2.23%
Portfolio Turnover Rate[1]	4%	3%	3%	4%	3%

1 Excludes the value of portfolio securities received or delivered as a result of in-kind purchases or redemptions of the Fund's capital shares, including ETF Creation Units.

Extended Market Index Fund ETF Shares

For a Share Outstanding Throughout Each Period	Year Ended December 31, 2016	2015	2014	2013	2012
Net Asset Value, Beginning of Period	**$83.80**	**$87.79**	**$82.71**	**$60.46**	**$51.87**
Investment Operations					
Net Investment Income	1.324	1.171	1.178	.934	1.000
Net Realized and Unrealized Gain (Loss) on Investments	12.107	(4.033)	5.061	22.256	8.582
Total from Investment Operations	13.431	(2.862)	6.239	23.190	9.582
Distributions					
Dividends from Net Investment Income	(1.371)	(1.128)	(1.159)	(.940)	(.992)
Distributions from Realized Capital Gains	—	—	—	—	—
Total Distributions	(1.371)	(1.128)	(1.159)	(.940)	(.992)
Net Asset Value, End of Period	**$95.86**	**$83.80**	**$87.79**	**$82.71**	**$60.46**
Total Return	**16.16%**	**–3.26%**	**7.55%**	**38.37%**	**18.48%**
Ratios/Supplemental Data					
Net Assets, End of Period (Millions)	$4,387	$4,272	$3,659	$3,105	$1,477
Ratio of Total Expenses to Average Net Assets	0.08%	0.09%	0.10%	0.10%	0.10%
Ratio of Net Investment Income to Average Net Assets	1.61%	1.33%	1.40%	1.33%	1.76%
Portfolio Turnover Rate[1]	12%	6%	9%	11%	12%

1 Excludes the value of portfolio securities received or delivered as a result of in-kind purchases or redemptions of the Fund's capital shares, including ETF Creation Units.

Large-Cap Index Fund ETF Shares

For a Share Outstanding Throughout Each Period	Year Ended December 31, 2016	2015	2014	2013	2012
Net Asset Value, Beginning of Period	**$93.52**	**$94.36**	**$84.76**	**$65.15**	**$57.34**
Investment Operations					
Net Investment Income	2.018	1.850	1.672	1.488	1.383
Net Realized and Unrealized Gain (Loss) on Investments	8.754	(.859)	9.599	19.610	7.807
Total from Investment Operations	10.772	.991	11.271	21.098	9.190
Distributions					
Dividends from Net Investment Income	(2.022)	(1.831)	(1.671)	(1.488)	(1.380)
Distributions from Realized Capital Gains	—	—	—	—	—
Total Distributions	(2.022)	(1.831)	(1.671)	(1.488)	(1.380)
Net Asset Value, End of Period	**$102.27**	**$93.52**	**$94.36**	**$84.76**	**$65.15**
Total Return	**11.65%**	**1.07%**	**13.39%**	**32.65%**	**16.09%**
Ratios/Supplemental Data					
Net Assets, End of Period (Millions)	$8,468	$6,469	$5,619	$4,707	$3,577
Ratio of Total Expenses to Average Net Assets	0.06%	0.08%	0.09%	0.09%	0.10%
Ratio of Net Investment Income to Average Net Assets	2.14%	1.98%	1.90%	1.97%	2.22%
Portfolio Turnover Rate[1]	5%	4%	3%	9%	8%

1 Excludes the value of portfolio securities received or delivered as a result of in-kind purchases or redemptions of the Fund's capital shares, including ETF Creation Units.

Mid-Cap Index Fund ETF Shares

For a Share Outstanding Throughout Each Period	Year Ended December 31, 2016	2015	2014	2013	2012
Net Asset Value, Beginning of Period	**$120.07**	**$123.50**	**$109.96**	**$82.33**	**$71.99**
Investment Operations					
Net Investment Income	1.877	1.793	1.609	1.255	1.173
Net Realized and Unrealized Gain (Loss) on Investments	11.510	(3.457)	13.524	27.668	10.329
Total from Investment Operations	13.387	(1.664)	15.133	28.923	11.502
Distributions					
Dividends from Net Investment Income	(1.907)	(1.766)	(1.593)	(1.293)	(1.162)
Distributions from Realized Capital Gains	—	—	—	—	—
Total Distributions	(1.907)	(1.766)	(1.593)	(1.293)	(1.162)
Net Asset Value, End of Period	**$131.55**	**$120.07**	**$123.50**	**$109.96**	**$82.33**
Total Return	**11.23%**	**–1.34%**	**13.76%**	**35.15%**	**15.98%**
Ratios/Supplemental Data					
Net Assets, End of Period (Millions)	$16,544	$12,984	$9,879	$6,728	$3,926
Ratio of Total Expenses to Average Net Assets	0.06%	0.08%	0.09%	0.09%	0.10%
Ratio of Net Investment Income to Average Net Assets	1.54%	1.47%	1.44%	1.31%	1.50%
Portfolio Turnover Rate[1]	15%	15%	11%	32%	17%

1 Excludes the value of portfolio securities received or delivered as a result of in-kind purchases or redemptions of the Fund's capital shares, including ETF Creation Units.

Small-Cap Index Fund ETF Shares

For a Share Outstanding Throughout Each Period	Year Ended December 31, 2016	2015	2014	2013	2012
Net Asset Value, Beginning of Period	**$110.71**	**$116.61**	**$110.02**	**$80.89**	**$69.70**
Investment Operations					
Net Investment Income	1.899	1.668	1.707	1.424	1.500
Net Realized and Unrealized Gain (Loss) on Investments	18.221	(5.931)	6.556	29.145	11.194
Total from Investment Operations	20.120	(4.263)	8.263	30.569	12.694
Distributions					
Dividends from Net Investment Income	(1.930)	(1.637)	(1.673)	(1.439)	(1.504)
Distributions from Realized Capital Gains	—	—	—	—	—
Total Distributions	(1.930)	(1.637)	(1.673)	(1.439)	(1.504)
Net Asset Value, End of Period	**$128.90**	**$110.71**	**$116.61**	**$110.02**	**$80.89**
Total Return	**18.31%**	**–3.65%**	**7.51%**	**37.80%**	**18.22%**
Ratios/Supplemental Data					
Net Assets, End of Period (Millions)	$16,153	$11,478	$9,833	$8,217	$4,691
Ratio of Total Expenses to Average Net Assets	0.06%	0.08%	0.09%	0.09%	0.10%
Ratio of Net Investment Income to Average Net Assets	1.67%	1.45%	1.54%	1.54%	1.96%
Portfolio Turnover Rate[1]	14%	11%	10%	29%	14%

1 Excludes the value of portfolio securities received or delivered as a result of in-kind purchases or redemptions of the Fund's capital shares, including ETF Creation Units.

Value Index Fund ETF Shares

For a Share Outstanding Throughout Each Period	Year Ended December 31, 2016	2015	2014	2013	2012
Net Asset Value, Beginning of Period	**$81.56**	**$84.45**	**$76.34**	**$58.79**	**$52.48**
Investment Operations					
Net Investment Income	2.282	2.123	1.888	1.700	1.613
Net Realized and Unrealized Gain (Loss) on Investments	11.301	(2.890)	8.095	17.538	6.305
Total from Investment Operations	13.583	(.767)	9.983	19.238	7.918
Distributions					
Dividends from Net Investment Income	(2.273)	(2.123)	(1.873)	(1.688)	(1.608)
Distributions from Realized Capital Gains	—	—	—	—	—
Total Distributions	(2.273)	(2.123)	(1.873)	(1.688)	(1.608)
Net Asset Value, End of Period	**$92.87**	**$81.56**	**$84.45**	**$76.34**	**$58.79**
Total Return	**16.88%**	**–0.89%**	**13.19%**	**33.03%**	**15.19%**
Ratios/Supplemental Data					
Net Assets, End of Period (Millions)	$27,126	$18,648	$17,277	$12,461	$7,027
Ratio of Total Expenses to Average Net Assets	0.06%	0.08%	0.09%	0.09%	0.10%
Ratio of Net Investment Income to Average Net Assets	2.76%	2.58%	2.39%	2.50%	2.85%
Portfolio Turnover Rate[1]	7%	8%	6%	25%	22%

1 Excludes the value of portfolio securities received or delivered as a result of in-kind purchases or redemptions of the Fund's capital shares, including ETF Creation Units.

Mid-Cap Value Index Fund ETF Shares

For a Share Outstanding Throughout Each Period	Year Ended December 31, 2016	2015	2014	2013	2012
Net Asset Value, Beginning of Period	**$85.99**	**$89.39**	**$79.73**	**$58.82**	**$51.67**
Investment Operations					
Net Investment Income	1.822	1.785	1.504	1.232	1.156
Net Realized and Unrealized Gain (Loss) on Investments	11.170	(3.427)	9.647	20.901	7.130
Total from Investment Operations	12.992	(1.642)	11.151	22.133	8.286
Distributions					
Dividends from Net Investment Income	(1.862)	(1.758)	(1.491)	(1.223)	(1.136)
Distributions from Realized Capital Gains	—	—	—	—	—
Total Distributions	(1.862)	(1.758)	(1.491)	(1.223)	(1.136)
Net Asset Value, End of Period	**$97.12**	**$85.99**	**$89.39**	**$79.73**	**$58.82**
Total Return	**15.26%**	**–1.80%**	**13.98%**	**37.65%**	**16.04%**
Ratios/Supplemental Data					
Net Assets, End of Period (Millions)	$6,383	$4,351	$3,407	$2,256	$1,147
Ratio of Total Expenses to Average Net Assets	0.07%	0.08%	0.09%	0.09%	0.10%
Ratio of Net Investment Income to Average Net Assets	2.14%	2.13%	2.00%	1.95%	2.35%
Portfolio Turnover Rate[1]	20%	20%	14%	46%	33%

1 Excludes the value of portfolio securities received or delivered as a result of in-kind purchases or redemptions of the Fund's capital shares, including ETF Creation Units.

Small-Cap Value Index Fund ETF Shares

For a Share Outstanding Throughout Each Period	Year Ended December 31, 2016	2015	2014	2013	2012
Net Asset Value, Beginning of Period	**$98.81**	**$105.71**	**$97.32**	**$72.60**	**$62.73**
Investment Operations					
Net Investment Income	2.119	1.933	1.933	1.796	1.896
Net Realized and Unrealized Gain (Loss) on Investments	22.159	(6.870)	8.326	24.742	9.877
Total from Investment Operations	24.278	(4.937)	10.259	26.538	11.773
Distributions					
Dividends from Net Investment Income	(2.138)	(1.963)	(1.869)	(1.818)	(1.903)
Distributions from Realized Capital Gains	—	—	—	—	—
Total Distributions	(2.138)	(1.963)	(1.869)	(1.818)	(1.903)
Net Asset Value, End of Period	**$120.95**	**$98.81**	**$105.71**	**$97.32**	**$72.60**
Total Return	**24.80%**	**–4.67%**	**10.55%**	**36.57%**	**18.78%**
Ratios/Supplemental Data					
Net Assets, End of Period (Millions)	$10,042	$5,679	$4,874	$3,908	$2,281
Ratio of Total Expenses to Average Net Assets	0.07%	0.08%	0.09%	0.09%	0.10%
Ratio of Net Investment Income to Average Net Assets	2.08%	1.90%	1.98%	2.18%	2.80%
Portfolio Turnover Rate[1]	18%	16%	12%	47%	25%

1 Excludes the value of portfolio securities received or delivered as a result of in-kind purchases or redemptions of the Fund's capital shares, including ETF Creation Units.

Growth Index Fund ETF Shares

For a Share Outstanding Throughout Each Period	Year Ended December 31, 2016	2015	2014	2013	2012
Net Asset Value, Beginning of Period	**$106.40**	**$104.33**	**$92.99**	**$71.19**	**$61.76**
Investment Operations					
Net Investment Income	1.528	1.420	1.268	1.112	1.087
Net Realized and Unrealized Gain (Loss) on Investments	4.949	2.038	11.332	21.798	9.416
Total from Investment Operations	6.477	3.458	12.600	22.910	10.503
Distributions					
Dividends from Net Investment Income	(1.547)	(1.388)	(1.260)	(1.110)	(1.073)
Distributions from Realized Capital Gains	—	—	—	—	—
Total Distributions	(1.547)	(1.388)	(1.260)	(1.110)	(1.073)
Net Asset Value, End of Period	**$111.33**	**$106.40**	**$104.33**	**$92.99**	**$71.19**
Total Return	**6.13%**	**3.32%**	**13.62%**	**32.38%**	**17.03%**
Ratios/Supplemental Data					
Net Assets, End of Period (Millions)	$23,040	$20,706	$17,340	$13,265	$8,467
Ratio of Total Expenses to Average Net Assets	0.06%	0.08%	0.09%	0.09%	0.10%
Ratio of Net Investment Income to Average Net Assets	1.43%	1.34%	1.31%	1.37%	1.59%
Portfolio Turnover Rate[1]	11%	9%	9%	32%	21%

1 Excludes the value of portfolio securities received or delivered as a result of in-kind purchases or redemptions of the Fund's capital shares, including ETF Creation Units.

Mid-Cap Growth Index Fund ETF Shares

For a Share Outstanding Throughout Each Period	Year Ended December 31, 2016	2015	2014	2013	2012
Net Asset Value, Beginning of Period	**$99.75**	**$101.57**	**$90.20**	**$68.64**	**$59.61**
Investment Operations					
Net Investment Income	.863	.805	.816	.556	.474
Net Realized and Unrealized Gain (Loss) on Investments	5.848	(1.815)	11.359	21.558	9.029
Total from Investment Operations	6.711	(1.010)	12.175	22.114	9.503
Distributions					
Dividends from Net Investment Income	(.861)	(.810)	(.805)	(.554)	(.473)
Distributions from Realized Capital Gains	—	—	—	—	—
Total Distributions	(.861)	(.810)	(.805)	(.554)	(.473)
Net Asset Value, End of Period	**$105.60**	**$99.75**	**$101.57**	**$90.20**	**$68.64**
Total Return	**6.75%**	**–1.00%**	**13.49%**	**32.23%**	**15.94%**
Ratios/Supplemental Data					
Net Assets, End of Period (Millions)	$3,576	$3,302	$2,716	$1,896	$1,200
Ratio of Total Expenses to Average Net Assets	0.07%	0.08%	0.09%	0.09%	0.10%
Ratio of Net Investment Income to Average Net Assets	0.86%	0.82%	0.93%	0.72%	0.72%
Portfolio Turnover Rate[1]	21%	23%	17%	64%	38%

1 Excludes the value of portfolio securities received or delivered as a result of in-kind purchases or redemptions of the Fund's capital shares, including ETF Creation Units.

Small-Cap Growth Index Fund ETF Shares

For a Share Outstanding Throughout Each Period	Year Ended December 31, 2016	2015	2014	2013	2012
Net Asset Value, Beginning of Period	**$121.53**	**$125.88**	**$122.23**	**$89.03**	**$76.45**
Investment Operations					
Net Investment Income	1.416	1.202	1.277	.802	.925
Net Realized and Unrealized Gain (Loss) on Investments	11.563	(4.362)	3.643	33.188	12.578
Total from Investment Operations	12.979	(3.160)	4.920	33.990	13.503
Distributions					
Dividends from Net Investment Income	(1.439)	(1.190)	(1.270)	(.790)	(.923)
Distributions from Realized Capital Gains	—	—	—	—	—
Total Distributions	(1.439)	(1.190)	(1.270)	(.790)	(.923)
Net Asset Value, End of Period	**$133.07**	**$121.53**	**$125.88**	**$122.23**	**$89.03**
Total Return	**10.74%**	**–2.51%**	**4.02%**	**38.18%**	**17.67%**
Ratios/Supplemental Data					
Net Assets, End of Period (Millions)	$5,328	$4,422	$3,900	$3,637	$2,209
Ratio of Total Expenses to Average Net Assets	0.07%	0.08%	0.09%	0.09%	0.10%
Ratio of Net Investment Income to Average Net Assets	1.15%	0.94%	1.01%	0.78%	1.11%
Portfolio Turnover Rate[1]	27%	23%	26%	50%	37%

1 Excludes the value of portfolio securities received or delivered as a result of in-kind purchases or redemptions of the Fund's capital shares, including ETF Creation Units.

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Glossary of Investment Terms

Active Management. An investment approach that seeks to exceed the average returns of a particular financial market or market segment. In selecting securities to buy and sell, active managers may rely on, among other things, research, market forecasts, quantitative models, and their own judgment and experience.

Authorized Participant. Institutional investors that are permitted to purchase Creation Units directly from, and redeem Creation Units directly with, the issuing fund. To be an Authorized Participant, an entity must be a participant in the Depository Trust Company and must enter into an agreement with the fund's Distributor.

Bid-Ask Spread. The difference between the price a dealer is willing to pay for a security (the bid price) and the somewhat higher price at which the dealer is willing to sell the same security (the ask price).

Capital Gains Distribution. Payment to mutual fund shareholders of gains realized on securities that a fund has sold at a profit, minus any realized losses.

Common Stock. A security representing ownership rights in a corporation.

Creation Unit. A large block of a specified number of ETF Shares. Certain broker-dealers known as "Authorized Participants" may purchase and redeem ETF Shares from the issuing fund in Creation Unit size blocks.

Dividend Distribution. Payment to mutual fund shareholders of income from interest or dividends generated by a fund's investments.

Ex-Dividend Date. The date when a distribution of dividends and/or capital gains is deducted from the share price of a mutual fund or stock. On the ex-dividend date, the share price drops by the amount of the distribution per share (plus or minus any market activity).

Expense Ratio. A fund's total annual operating expenses expressed as a percentage of the fund's average net assets. The expense ratio includes management and administrative expenses, but it does not include the transaction costs of buying and selling portfolio securities.

Inception Date. The date on which the assets of a fund (or one of its share classes) are first invested in accordance with the fund's investment objective. For funds with a subscription period, the inception date is the day after that period ends. Investment performance is generally measured from the inception date.

Indexing. A low-cost investment strategy in which a mutual fund attempts to track—rather than outperform—a specified market benchmark, or "index."

Median Market Capitalization. An indicator of the size of companies in which a fund invests; the midpoint of market capitalization (market price x shares outstanding) of a fund's stocks, weighted by the proportion of the fund's assets invested in each stock. Stocks representing half of the fund's assets have market capitalizations above the median, and the rest are below it.

MSCI US Broad Market Index. An index that tracks virtually all stocks that trade in the U.S. stock market.

MSCI US Mid Cap 450 Index. An index that tracks the stocks of approximately 450 mid-capitalization companies in the U.S. market.

MSCI US Mid Cap Growth Index. An index that tracks the growth companies of the MSCI US Mid Cap 450 Index as identified by factors such as historical sales growth and expected earnings growth.

MSCI US Mid Cap Value Index. An index that tracks the value companies of the MSCI US Mid Cap 450 Index as identified by factors such as book value to price ratio, earnings to price ratio, and dividend yield.

MSCI US Prime Market 750 Index. An index that tracks the stocks of approximately 750 large- and mid-capitalization companies representing the vast majority of U.S. stock market capitalization.

MSCI US Prime Market Growth Index. An index that tracks the growth companies of the MSCI US Prime Market 750 Index as identified by factors such as historical sales growth and expected earnings growth.

MSCI US Prime Market Value Index. An index that tracks the value companies of the MSCI US Prime Market 750 Index as identified by factors such as book value to price ratio, earnings to price ratio, and dividend yield.

MSCI US Small Cap 1750 Index. An index that tracks the stocks of approximately 1,750 small-capitalization companies in the U.S. market.

MSCI US Small Cap Growth Index. An index that tracks the growth companies of the MSCI US Small Cap 1750 Index as identified by factors such as historical sales growth and expected earnings growth.

MSCI US Small Cap Value Index. An index that tracks the value companies of the MSCI US Small Cap 1750 Index as identified by factors such as book value to price ratio, earnings to price ratio, and dividend yield.

Mutual Fund. An investment company that pools the money of many people and invests it in a variety of securities in an effort to achieve a specific objective over time.

New York Stock Exchange (NYSE). A stock exchange based in New York City that is open for regular trading on business days, Monday through Friday, from 9:30 a.m. to 4 p.m., Eastern time. Net asset values (NAVs) are calculated each business day as of the close of regular trading on the NYSE. In the rare event the NYSE experiences unanticipated trade disruptions and is unavailable at the close of the trading day, NAVs will be calculated as of the close of regular trading on the Nasdaq (or another alternate exchange if the Nasdaq is unavailable), generally 4 p.m., Eastern time.

Price/Earnings (P/E) Ratio. The current share price of a stock, divided by its per-share earnings (profits). A stock selling for $20, with earnings of $2 per share, has a price/earnings ratio of 10.

Securities. Stocks, bonds, money market instruments, and other investments.

Spliced Dow Jones U.S. Completion Total Stock Market Index. An index that reflects performance of the Dow Jones Wilshire 4500 Index through June 30, 2008, and the Dow Jones U.S. Completion Total Stock Market Index thereafter.

Spliced Growth Index. An index that reflects performance of the MSCI US Prime Market Growth Index through April 16, 2013, and the CRSP US Large Cap Growth Index thereafter.

Spliced Large Cap Index. An index that reflects performance of the MSCI US Prime Market 750 Index through January 30, 2013, and the CRSP US Large Cap Index thereafter.

Spliced Mid Cap Growth Index. An index that reflects performance of the MSCI US Mid Cap Growth Index through April 16, 2013, and the CRSP US Mid Cap Growth Index thereafter.

Spliced Mid Cap Index. An index that reflects performance of the MSCI US Mid Cap 450 Index through January 30, 2013, and the CRSP US Mid Cap Index thereafter.

Spliced Mid Cap Value Index. An index that reflects performance of the MSCI US Mid Cap Value Index through April 16, 2013, and the CRSP US Mid Cap Value Index thereafter.

Spliced Small Cap Growth Index. An index that reflects performance of the MSCI US Small Cap Growth Index through April 16, 2013, and the CRSP US Small Cap Growth Index thereafter.

Spliced Small Cap Index. An index that reflects performance of the MSCI US Small Cap 1750 Index through January 30, 2013, and the CRSP US Small Cap Index thereafter.

Spliced Small Cap Value Index. An index that reflects performance of the MSCI US Small Cap Value Index through April 16, 2013, and the CRSP US Small Cap Value Index thereafter.

Spliced Total Stock Market Index. An index that reflects performance of the MSCI US Broad Market Index through June 2, 2013, and the CRSP US Total Market Index thereafter.

Spliced Value Index. An index that reflects performance of the MSCI US Prime Market Value Index through April 16, 2013, and the CRSP US Large Cap Value Index thereafter.

Total Return. A percentage change, over a specified time period, in a mutual fund's net asset value, assuming the reinvestment of all distributions of dividends and capital gains.

Volatility. The fluctuations in value of a mutual fund or other security. The greater a fund's volatility, the wider the fluctuations in its returns.

Yield. Income (interest or dividends) earned by an investment, expressed as a percentage of the investment's price.

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For More Information
If you would like more information about Vanguard U.S. Stock ETFs, the following documents are available free upon request:

Annual/Semiannual Reports to Shareholders
Additional information about the Funds' investments is available in the Funds' annual and semiannual reports to shareholders. In the annual reports, you will find a discussion of the market conditions and investment strategies that significantly affected the Funds' performance during their last fiscal year.

Statement of Additional Information (SAI)
The SAI provides more detailed information about the Funds' ETF Shares and is incorporated by reference into (and thus legally a part of) this prospectus.

To receive a free copy of the latest annual or semiannual reports or the SAI, or to request additional information about Vanguard ETF Shares, please visit *vanguard.com* or contact us as follows:

The Vanguard Group
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Information Provided by the Securities and Exchange Commission (SEC)
You can review and copy information about the Funds (including the SAI) at the SEC's Public Reference Room in Washington, DC. To find out more about this public service, call the SEC at 202-551-8090. Reports and other information about the Funds are also available in the EDGAR database on the SEC's website at www.sec.gov, or you can receive copies of this information, for a fee, by electronic request at the following email address: publicinfo@sec.gov, or by writing the Public Reference Section, Securities and Exchange Commission, Washington, DC 20549-1520.

Funds' Investment Company Act file number: 811-02652

Vanguard Marketing Corporation, Distributor.
P 961 042017

Cambiar Investors LLC

200 Columbine Street, Suite 800
Denver, Colorado 80206

Style:	International Equities
Sub-Style:	Value-oriented
Firm AUM:	$13.4 billion
Firm Strategy AUM:	$6.0 billion

Year Founded:	1973
GIMA Status:	Focus
Firm Ownership:	Employee-Owned
Professional-Staff:	12

PRODUCT OVERVIEW

Cambiar Investors LLC ("Cambiar") International Equity ADR strategy utilizes a relative value investment philosophy that incorporates bottom-up fundamentals and relevant macro conditions to construct a portfolio of 40-50 non-US companies. Cambiar's research-focused investment process attempts to identify companies that the manager believes are experiencing a 'perception gap' by the broader market. The manager believes that such perception gaps occur when: 1) the market fails to recognize a positive fundamental change, or 2) a transitory negative event is incorrectly extrapolated by the market far into the future. Margin normalization can lead to multiple expansions, creating the potential for strong appreciation over a forward 1-2 year time horizon.

MANAGER'S INVESTMENT STRATEGY

- ☐ Top-down / portfolio structures based on economic trends
- ☑ Bottom-up / portfolio structure based on individual securities

TARGET PORTFOLIO CHARACTERISTICS

Number of stock holdings:	40 to 50
Average dividend yield:	Similar to/Above the S&P 500
Cash level over market cycle:	0 to 10%
Risk (standard deviation):	Similar to/Above the S&P 500
Average turnover rate:	40 to 50%
Capitalization:	Mega, Large and Medium companies
Emerging markets exposure:	0 to 25%

PORTFOLIO'S EQUITY SECTOR WEIGHTINGS +

	----------06/17---------		12/16
Sector	Cambiar	Index***	Cambiar
Energy	9.20	6.29	9.40
Materials	6.30	7.56	3.70
Industrials	14.90	12.01	17.20
Consumer Discretionary	5.90	11.26	6.10
Consumer Staples	5.90	9.92	7.10
Health Care	11.00	8.14	10.90
Financials	23.20	23.33	24.50
Information Technology	7.00	10.76	6.00
Telecomm Services	6.30	4.40	6.30
Utilities	4.00	3.13	4.00
REIT'S	1.70	3.20	2.10
Cash/Cash Equivalents	4.60	0.00	2.70

PORTFOLIO STATISTICS

	----------06/17------		12/16
	Cambiar	Index***	Cambiar
Number of stock holdings	46	1,866	46
Wtd avg dividend yield	3.2%	2.9%	3.7%
Wtd avg portfolio beta	—	—	1.05
Mega capitalization +	0.0%	17.7%	0.0%
Large capitalization +	0.0%	58.5%	0.0%
Medium capitalization +	0.0%	22.7%	0.0%
Small capitalization +	0.0%	1.1%	0.0%
Micro capitalization +	0.0%	0.0%	0.0%

PORTFOLIO'S TOP FIVE EQUITY HOLDINGS	%
Roche	3.1
Sumitomo Mitsui Financial	3.1
Baidu	2.9
Schlumberger	2.9
AerCap	2.8

% PROCESS BASED ON

10	Country Weightings
0	Currency Decision
0	Currency Hedge
10	Industry/Sector Selection
0	Asset Allocation
80	Issue Selection

+Total may not equal 100% due to rounding.
****Index : MSCI AC Wld xUS Nt*

MANAGER'S INVESTMENT PROCESS

• Relative value investing - Cambiar attempts to identify investment opportunities with what the manager believes are attractive risk/return profiles – where the probability for loss of capital is modest, while the potential for outsized return is high.
• Rigorous in-house research - Cambiar tries to identify companies that possess the following characteristics: quality franchise, attractive valuation, an identifiable performance catalyst(s) and material upside potential.
• Quality - Desirable characteristics include strong balance sheet, low debt/equity levels, and a consistent pattern of free cash flow generation.
• Valuation - the Cambiar investment team uses conventional financial measures, such as P/E, P/B, etc. Although attractive valuations are important to the process, there is also the recognition that you 'get what you pay for', and that certain companies are deserving of their low valuation due to impaired fundamentals.
• High return hurdle - All new purchases into the portfolio must possess what the manager believes is the potential for a 50% return over a 1-2 year time horizon

RISK CONSIDERATIONS

Equity securities prices may fluctuate in response to specific situations for each company, industry, market conditions and general economic environment. Companies paying dividends can reduce or cut payouts at any time. Strategies that invest a large percentage of assets in only one industry sector (or in only a few sectors) are more vulnerable to price fluctuation than portfolios that diversify among a broad range of sectors. Investing in securities entails risks, including: International investing should be considered one component of a complete and diversified investment program. Investing in foreign markets entails greater risks than those normally associated with domestic markets such as foreign political, currency, economic and market risks. Growth investing does not guarantee a profit or eliminate risk. The stocks of these companies can have relatively high valuations. Because of these high valuations, an investment in a growth stock can be more risky than an investment in a company with more modest growth expectations. Value investing does not guarantee a profit or eliminate risk. Not all companies whose stocks are considered to be value stocks are able to turn their business around or successfully employ corrective strategies which would result in stock prices that do not rise as initially expected.

PORTFOLIO'S ALLOCATION HISTORY (%) +

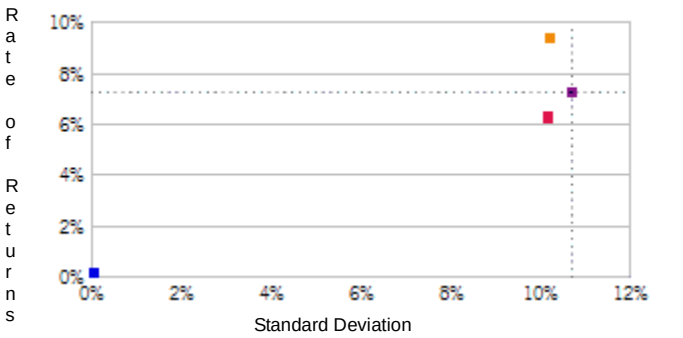
	06/17	03/17	12/16	09/16
Non-U.S. Stocks	7	7	6	0
ADRs	88	89	92	85
ADRs/Non-U.S. Stocks	0	0	0	7
Cash/Cash Equivalents	5	4	3	7

PORTFOLIOS COUNTRY WEIGHTINGS % +

	----------06/17----------		12/16
Country	Cambiar	Index***	Cambiar
Japan	18.90	0.00	20.00
France	15.60	0.00	16.40
Netherlands	14.30	0.00	21.60
Switzerland	7.60	0.00	7.20
China	5.40	0.00	2.50
Cash/Cash Equivalents	4.60	0.00	2.70
Spain	4.40	0.00	4.30
Hong Kong	4.20	0.00	2.00
United Kingdom	4.10	0.00	6.80
Germany	3.90	0.00	6.00

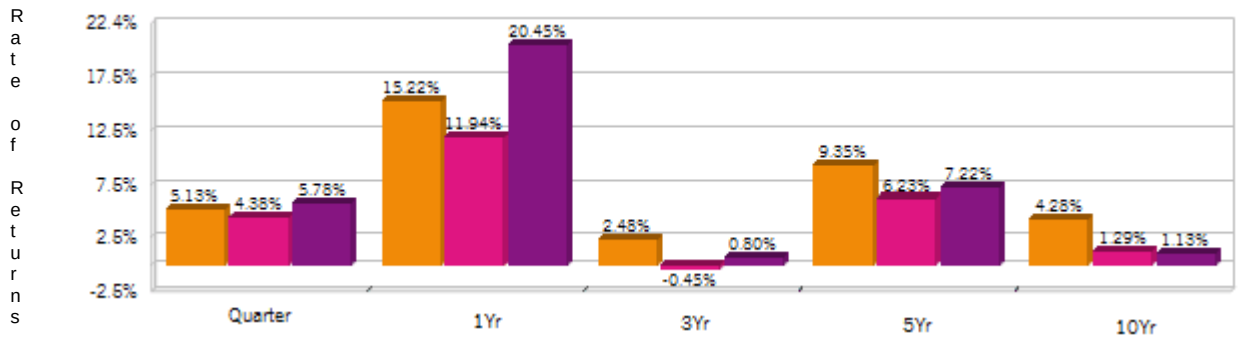
+Total may not equal 100% due to rounding.
****Index : MSCI AC Wld xUS Nt*

RISK/RETURN ANALYSIS - 5 YEARS ENDING 06/30/17



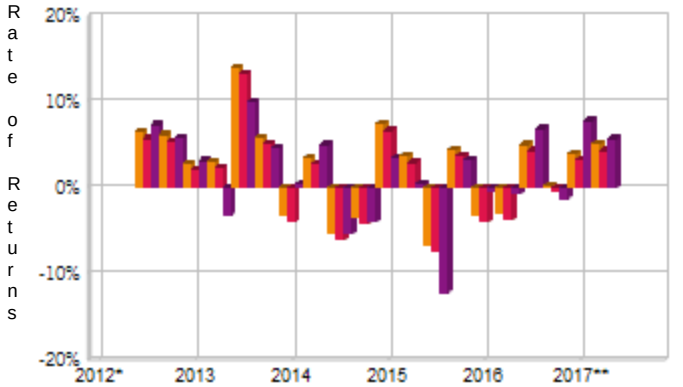
	STD	ROR
Cambiar (Gross)	10.25	9.35
Cambiar (Net)	10.20	6.23
MSCI AC Wld xUS Nt	10.72	7.22
90-Day T-Bills	0.09	0.15

AVERAGE ANNUAL TOTAL RETURN (%) - PERIODS ENDING 06/30/17



INVESTMENT RESULTS	Annual Rates of Return (%)										10 Year - Ending 06/30/17	
	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	Annual	Std. Dev.
Cambiar (Gross)	16.29	-40.14	38.56	15.95	-6.85	18.89	28.09	-8.20	8.59	-0.94	4.28	18.48
Cambiar (Net)	13.01	-42.01	34.62	12.64	-9.43	15.53	24.53	-10.90	5.55	-3.81	1.29	18.41
MSCI AC Wld xUS Nt	16.65	-45.53	41.45	11.15	-13.71	16.84	15.29	-3.87	-5.67	4.50	1.13	20.37

RISK VOLATALITY (%)



*07/01/12-12/31/12 **01/01/17-06/30/17

	Number Of	Up Qtrs.	Down Qtrs.
Cambiar (Gross)		14	6
Cambiar (Net)		13	7
MSCI AC Wld xUS Nt		13	7

PORTFOLIO'S QUARTERLY RETURNS (%)

	Quarter1		Quarter2		Quarter3		Quarter4	
	Gross	Net	Gross	Net	Gross	Net	Gross	Net
2007	4.07	3.32	8.24	7.48	2.45	1.70	0.76	0.07
2008	-8.25	-8.97	2.26	1.57	-22.66	-23.27	-17.51	-18.25
2009	-7.50	-8.23	21.19	20.37	17.98	17.19	4.77	3.99
2010	2.81	2.02	-10.54	-11.21	14.67	13.90	9.94	9.17
2011	5.92	5.17	0.77	0.07	-18.82	-19.42	7.50	6.79
2012	11.79	11.02	-5.93	-6.62	6.49	5.72	6.17	5.41
2013	2.88	2.15	3.12	2.40	14.06	13.28	5.85	5.10
2014	-3.10	-3.85	3.52	2.77	-5.23	-5.95	-3.43	-4.13
2015	7.42	6.64	3.70	2.98	-6.72	-7.39	4.51	3.78
2016	-3.13	-3.88	-2.96	-3.66	5.06	4.33	0.30	-0.44
2017	4.00	3.26	5.13	4.38				

Related Select UMA

PORTFOLIO'S RISK STATISTICS - ENDING 06/30/17 [1] [2]

	PERIODS	
	3 Year	5 Year
Standard Deviation	9.61%	10.25%
Standard Deviation of Primary Benchmark	11.40%	10.72%
Sharpe Ratio	0.24	0.90
Sharpe Ratio of Primary Benchmark	0.05	0.66
Alpha	1.81%	3.37%
Beta	0.73	0.81
Downside Risk	3.40%	3.18%
R-Squared	0.75	0.72
Tracking Error	5.71%	5.78%
Information Ratio	0.29	0.37

PORTFOLIO DIVERSIFICATION - R^2(INCEPTION THROUGH 12/14)+

	R^2
Cambiar vs. MSCI AC Wld xUS Nt	0.93

+Statistics are calculated using gross of fee performance only.

1. Statistics are calculated using gross of fee performance only.
2. MSCI AC Wld xUS Nt was used as the primary benchmark and the 90-Day T-Bills Index as the risk-free benchmark.

See important notes and disclosures pages for a discussion of the sources of the performance data used to calculate the performance results and related analyses shown above.

Past performance is no guarantee of future results. *This profile is not complete without the pages, which contain important notes, including disclosures about the composite, index descriptions and a glossary of terms. Information shown is as of June 30, 2017, unless otherwise noted. All data are subject to change.*

IMPORTANT NOTES AND DISCLOSURES

COMPOSITE DISCLOSURES

Past performance is no guarantee of future results. Actual individual account results may differ from the performance shown in this profile. There is no guarantee that this investment strategy will work under all market conditions. Do not use this profile as the sole basis for your investment decisions.

Performance results in this profile are calculated assuming reinvestment of dividends and income. Returns for more than one year are annualized and based on quarterly data. Returns for periods of less than a calendar year show the total return for the period and are not annualized.

Sources of Performance Results and Other Data: The performance data and certain other information for this strategy (including the data on page 1 of this profile) reflect the investment manager's results in managing Morgan Stanley program accounts, or the investment manager's results in managing accounts and investment products, in the same or a substantially similar investment discipline. (For periods through June 2012, the Fiduciary Services program operated through two channels - Morgan Stanley channel and the Smith Barney channel - and any performance and other data relating to Fiduciary Services accounts shown here for these periods is calculated using accounts in only one of the these channels.) This information for the investment manager is presented solely to provide information about accounts that were managed according to investment objectives and strategies the same or substantially similar to the corresponding investment discipline in the Select UMA program. Although the Fiduciary Services and Select UMA programs are both Morgan Stanley managed account programs, the performance results and other features of similar investment disciplines in the two programs may differ due to investment and operational differences. For example, the individual investment disciplines in the Select UMA accounts may contain fewer securities, which would lead to a more concentrated portfolio. The automatic rebalancing, wash sale loss and tax-harvesting features of the Select UMA program, which are not available in Fiduciary Services, also could cause differences in performance. Accordingly, the performance of the accounts in the Fiduciary Services program is not, and may differ significantly from, the performance of the accounts in the Select UMA program and should not be considered indicative of or a substitute for Select UMA performance. Similarly, performance results of the investment manager's composites may differ from those of Select UMA accounts managed in the same or a substantially similar investment discipline.

Related Performance:
Contains fully discretionary taxable and tax-exempt accounts with an International ADR mandate and a value of $100,000 and greater. Cambiar's International Equity ADR Composite targets a weighted average market capitalization greater than $15 billion. The typical number of securities in the International Equity ADR portfolio is 35-45 holdings.

Morgan Stanley Performance:

The composite consists of **1,272** account(s) with a market value of **$777.2 million** as of **06/30/2017**. In this profile, the performance from October 1, 2011 through June 30, 2012 consists of accounts managed by the investment manager in this strategy in either the Morgan Stanley or the Smith Barney form of the Fiduciary Services program. From July 1, 2012 through December 31, 2015, performance consists of all Fiduciary Services (FS) accounts managed by the investment manager in this strategy, subject to any other limitations stated in this profile. From January 1, 2016, performance consists of the performance of all FS accounts (as described in the previous sentence) as well as the performance of all single style Select UMA accounts managed by the investment manager in this strategy, subject to any other limitations stated in this profile. Performance composites calculated by Morgan Stanley include all fee-paying portfolios with no investment restrictions. New accounts are included beginning with the second full calendar month of performance. Terminated accounts are removed in the month in which they terminate (but prior performance of terminated accounts is retained). Performance is calculated on a total return basis and by asset weighting the individual portfolio returns using the beginning of period values.

Gross Performance: Cambiar's gross results do not reflect a deduction of any investment advisory fees or program fees, charged by Cambiar or Morgan Stanley, but are net of commissions charged on securities transactions.

Net Performance for all Periods: Net performance results reflect a deduction of 0.73% quarterly. This consists of three components: 0.625% maximum quarterly MS Advisory Fee and 0.0175% maximum quarterly Program Overlay Fee (which, together cover the services provided by Morgan Stanley), plus 0.0875% quarterly SMA Manager Fees (being the fee currently charged by Cambiar to new clients for managing their assets in the Select UMA program). The SMA Manager Fees may differ from manager to manager, and managers may change their fee to new clients from time to time. If you select this manager for your account, check the SMA Manager Fees specified in the written client agreement, in case these have changed since you received this profile. Historical net fees reflect the Advisory Fee Schedule as of March 31, 2014.

Morgan Stanley program fees are usually deducted quarterly, and have a compounding effect on performance. The Morgan Stanley program fee, which differs among programs and clients, is described in the applicable Morgan Stanley ADV brochure, which is available at www.morganstanley.com/ADV or on request from your Financial Advisor or Private Wealth Advisor.

Document approval date February 2013.

Focus List, Approved List, and Watch Status:
Global Investment Manager Analysis ("GIMA") uses two methods to evaluate investment products in applicable advisory programs. In general, strategies that have passed a more thorough evaluation may be placed on the "Focus List", while strategies that have passed through a different and less comprehensive evaluation process may be placed on the "Approved List". Sometimes an investment product may be evaluated using the Focus List process but then placed on the Approved List instead of the Focus List.
Investment products may move from the Focus List to the Approved List, or vice versa. GIMA may also determine that an investment product no longer meets the criteria under either evaluation process and will no longer be recommended in investment advisory programs (in which case the investment product is given a "Not Approved" status).

GIMA has a "Watch" policy and may describe a Focus List or Approved List investment product as being on "Watch" if GIMA identifies specific areas that (a) merit further evaluation by GIMA and (b) may, but are not certain to, result in the investment product becoming "Not Approved". The Watch period depends on the length of time needed for GIMA to conduct its evaluation and for the investment manager to address any concerns. GIMA may, but is not obligated to, note the Watch status in this report with a "W" or "Watch" on the cover page.

For more information on the Focus List, Approved List, and Watch processes, please see the applicable Morgan Stanley ADV brochure (www.ms.com/adv). Your Financial Advisor or Private Wealth Advisor can provide on request a copy of a paper entitled "GIMA: At A Glance ".

ADDITIONAL DISCLOSURES

The information about a representative account is for illustrative purposes only. Actual account holdings, performance and other data will vary depending on the size of an account, cash flows within an account, and restrictions on an account. Holdings are subject to change daily. The information in this profile is not a recommendation to buy, hold or sell securities.

Actual portfolio statistics may vary from target portfolio characteristics.

The investment manager may use the same or substantially similar investment strategies, and may hold similar portfolios of investments, in other portfolios or products it manages (including mutual funds). These may be available at Morgan Stanley or elsewhere, and may cost an investor more or less than this strategy in Morgan Stanley's Select UMA program.

The portfolio may, at times, invest in exchange-traded funds (ETFs), which are a form of equity security in seeking to maintain continued full exposure to the broad equity market.

Morgan Stanley investment advisory programs may require a minimum asset level and, depending on your specific investment objectives and financial position, may not be suitable for you. Investment advisory program accounts are opened pursuant to a written client agreement.

The investment manager acts independently of, and is not an affiliate of, Morgan Stanley Smith Barney LLC.

Diversification does not guarantee a profit or protect against a loss.

No obligation to notify

Morgan Stanley has no obligation to notify you when information in this profile changes.

Sources of information

Material in this profile has been obtained from sources that we believe to be reliable, but we do not guarantee its accuracy, completeness or timeliness. Third party data providers make no warranties or representations relating to the accuracy, completeness or timeliness of the data they provide and are not liable for any damages relating to this data.

No tax advice

Morgan Stanley and its affiliates do not render advice on legal, tax and/or tax accounting matters to clients. Each client should consult his/her personal tax and/or legal advisor to learn about any potential tax or other implications that may result from acting on a particular recommendation.

Not an ERISA fiduciary

Morgan Stanley is not acting as a fiduciary under either the Employee Retirement Income Security Act of 1974, as amended, or under section 4975 of the Internal Revenue Code of 1986, as amended, in providing the information in this profile.

INDEX DESCRIPTIONS

90-Day T-Bills

The 90-Day Treasury Bill is a short-term obligation issued by the United States government. T-bills are purchased at a discount to the full face value, and the investor receives the full value when they mature. The difference of discount is the interested earned. T-bills are issued in denominations of $10,000 auction and $1,000 increments thereafter.

MSCI AC Wld xUS Nt

The MSCI ACWI Index is a free float-adjusted market capitalization weighted index that is designed to measure the equity market performance of developed and emerging markets. The MSCI ACWI consists of 46 country indexes comprising 23 developed and 23 emerging market country indexes. The developed market country indexes included are: Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Hong Kong, Ireland, Israel, Italy, Japan, Netherlands, New Zealand, Norway, Portugal, Singapore, Spain, Sweden, Switzerland, the United Kingdom and the United States. The emerging market country indexes included are: Brazil, Chile, China, Colombia, Czech Republic, Egypt, Greece, Hungary, India, Indonesia, Korea, Malaysia, Mexico, Peru, Philippines, Poland, Qatar, Russia, South Africa, Taiwan, Thailand, Turkey, and United Arab Emirates (as of June 2014). This index is excluding the United States. Performance is showing net withholding tax. Net total return indices reinvest dividends after the deduction of withholding taxes, using (for international indices) a tax rate applicable to non-resident institutional investors who do not benefit from double taxation treaties.

S&P 500

The S&P 500 Total Return has been widely regarded as the best single gauge of the large cap U.S. equities market since the index was first published in 1957. The index has over $5.58 trillion benchmarked, with index assets comprising approximately $1.31 trillion of this total. The index includes 500 leading companies in leading industries of the U.S. economy, capturing 75% coverage of U.S. equities. This index includes dividend reinvestment.

Indices are unmanaged and have no expenses. You cannot invest directly in an index.

GLOSSARY OF TERMS

Alpha is a mathematical estimate of risk-adjusted return expected from a portfolio above and beyond the benchmark return at any point in time.

American Depositary Receipts (ADRs) are receipts for shares of a foreign-based corporation held in the vault of a U.S. bank.

Average Portfolio Beta is a measure of the sensitivity of a benchmark or portfolio's rates of return to changes against a market return. The market return is the S&P 500 Index. It is the coefficient measuring a stock or a portfolio's relative volatility.

Beta is a measure of the sensitivity of a portfolio's rates of return to changes in the market return. It is the coeffecient measuring a stock or a portfolio's relative volatility.

Bottom-Up Stock Selection Emphasis primarily on individual stock selection. Considerations of economic and industry factors are of secondary importance in the investment decision-making process.

Capitalization is defined as the following: Mega (Above $100 billion), Large ($12 to $100 billion), Medium ($2.5 - $12 billion), Small ($.50 - $2.5 billion) and Micro (below $.50 billion).

Dividend a portion of a company's profit paid to common and preferred shareholders.

Downside Risk is a measure of the risk associated with achieving a specific target return. This statistic separates portfolio volatility into downside risk and upside uncertainty. The downside considers all returns below the target return, while the upside considers all returns equal to or above the target return.

Duration is a measure of price sensitivity expressed in years.

High Grade Corporate Bonds corporate bonds from issuers with credit ratings of AA or AAA.

Information Ratio is a measure of the investment manager's skill to add active value against a given benchmark relative to how stable that active return has been. Essentially, the information ratio explains how significant a manager's alpha is. Therefore, the higher the information ratio, the more significant the alpha.

Investment Grade Bonds are those rated by Standard & Poor's AAA (highest rated), AA, A or BBB (or equivalent rating by other rating agencies or, in the case of securities not rated, by the investment manager).

Price/Book Ratio (P/B) weighted average of the stocks' price divided by book value per share. Book value per share is defined as common equity, including intangibles, divided by shares outstanding times the adjustment factor.

Price/Cash Flow Ratio a ratio used to compare a company's market value to its cash flow. It is calculated by dividing the company's market cap by the company' operating cash flow in the most recent fiscal year (or the most recent four fiscal quarters); or, equivalently, divide the per-share stock price by the per-share operating cash flow.

Price/Earnings Ratio (P/E Ratio) shows the multiple of earnings at which a stock sells. Determined by dividing current stock price by current earnings per share (adjusted for stock splits). Earnings per share for the P/E ratio are determined by dividing earnings for past 12 months by the number of common shares outstanding. The P/E ratio shown here is calculated by the harmonic mean.

Price/Sales Ratio determined by dividing current stock price by revenue per share (adjusted for stock splits). Revenue per share for the P/S ratio is determined by dividing revenue for past 12 months by number of shares outstanding.

R2 (R-Squared)/Portfolio Diversification indicates the proportion of a security's total variance that is benchmark-related or is explained by variations in the benchmark.

Sharpe Ratio measures the efficiency, or excess return per unit of volatility, of a manager's returns. It evaluates managers' performance on a volatility-adjusted basis.

Standard Deviation is a statistical measure of historical variability or spread of returns around a mathematical average return that was produced by the investment manager over a given measurement period. The higher the standard deviation, the greater the variability in the investment manager's returns relative to its average return.

Top-Down/Economic Analysis Emphasis primarily on macroeconomic trends as opposed to bottom-up stock selection.

Tracking Error represents the standard deviation of the difference between the performance of the investment strategy and the benchmark. This provides a historical measure of the variability of the investment strategy's returns relative to its benchmark.

U.S. Treasury Bonds a marketable, fixed interest U.S. government debt security with a maturity of more than 10 years. Treasury bonds make interest payments semi-annually and the income that holders receive is only taxed at the federal level.

Volatility a measure of risk based on the standard deviation of the asset return. Volatility is a variable that appears in option pricing formulas, where it denotes the volatility of the underlying asset return from now to the expiration of the option. There are volatility indexes. Such as a scale of 1-9; a higher rating means higher risk.

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DECEMBER 1, 2016

2016 PROSPECTUS

iShares® by BLACKROCK®

▶ iShares Core MSCI EAFE ETF | IEFA | NYSE ARCA

iShares®

iShares Trust
iShares, Inc.
Supplement dated August 2, 2017
to the Summary Prospectuses, Prospectuses and
Statements of Additional Information ("SAI"s) for the
iShares 1-3 Year Credit Bond ETF (CSJ),
iShares 1-3 Year Treasury Bond ETF (SHY),
iShares 3-7 Year Treasury Bond ETF (IEI),
iShares 7-10 Year Treasury Bond ETF (IEF),
iShares Cohen & Steers REIT ETF (ICF),
iShares Core 1-5 Year USD Bond ETF (ISTB),
iShares Core MSCI EAFE ETF (IEFA),
iShares Core S&P U.S. Growth ETF (IUSG),
iShares Core S&P U.S. Value ETF (IUSV),
iShares Core Total USD Bond Market ETF (IUSB),
iShares Currency Hedged MSCI EAFE ETF (HEFA),
iShares Currency Hedged MSCI Emerging Markets ETF (HEEM),
iShares Currency Hedged MSCI Germany ETF (HEWG),
iShares Edge MSCI Min Vol EAFE ETF (EFAV),
iShares Edge MSCI Min Vol Emerging Markets ETF (EEMV),
iShares Edge MSCI Min Vol Global ETF (ACWV),
iShares Edge MSCI Min Vol USA ETF (USMV),
iShares Edge MSCI USA Momentum Factor ETF (MTUM),
iShares Edge MSCI USA Quality Factor ETF (QUAL),
iShares Edge MSCI USA Value Factor ETF (VLUE),
iShares Exponential Technologies ETF (XT),
iShares Floating Rate Bond ETF (FLOT),
iShares Intermediate Credit Bond ETF (CIU),
iShares Intermediate Government/Credit Bond ETF (GVI),
iShares International Preferred Stock ETF (IPFF),
iShares International Select Dividend ETF (IDV),
iShares J.P. Morgan USD Emerging Markets Bond ETF (EMB),
iShares MBS ETF (MBB),
iShares Mortgage Real Estate Capped ETF (REM),
iShares MSCI Chile Capped ETF (ECH),
iShares MSCI EAFE Growth ETF (EFG),
iShares MSCI EAFE Value ETF (EFV),
iShares MSCI Global Gold Miners ETF (RING),
iShares MSCI Global Metals & Mining Producers ETF (PICK),
iShares MSCI Global Silver Miners ETF (SLVP),
iShares MSCI Turkey ETF (TUR),

iShares North American Natural Resources ETF (IGE),
iShares North American Tech-Software ETF (IGV),
iShares S&P Small-Cap 600 Growth ETF (IJT),
iShares Select Dividend ETF (DVY),
iShares Short Treasury Bond ETF (SHV),
iShares Transportation Average ETF (IYT),
iShares U.S. Aerospace & Defense ETF (ITA),
iShares U.S. Credit Bond ETF (CRED),
iShares U.S. Home Construction ETF (ITB),
iShares U.S. Industrials ETF (IYJ),
iShares U.S. Oil & Gas Exploration & Production ETF (IEO),
iShares U.S. Preferred Stock ETF (PFF),
iShares U.S. Telecommunications ETF (IYZ),
iShares U.S. Treasury Bond ETF (GOVT)
(each, a "Fund" and together, the "Funds")

The information in this Supplement updates information in, and should be read in conjunction with, the Summary Prospectus, the Prospectus and the SAI for each Fund.

Effective on or around August 2, 2017, the iShares 1-3 Year Credit Bond ETF, iShares 1-3 Year Treasury Bond ETF, iShares 3-7 Year Treasury Bond ETF, iShares 7-10 Year Treasury Bond ETF, iShares Core 1-5 Year USD Bond ETF, iShares Core S&P U.S. Growth ETF, iShares Core S&P U.S. Value ETF, iShares Core Total USD Bond Market ETF, iShares Currency Hedged MSCI Germany ETF, iShares Exponential Technologies ETF, iShares Intermediate Credit Bond ETF, iShares J.P. Morgan USD Emerging Markets Bond ETF, iShares MBS ETF, iShares MSCI Global Gold Miners ETF, iShares MSCI Turkey ETF, iShares S&P Small-Cap 600 Growth ETF, iShares Select Dividend ETF, iShares Short Treasury Bond ETF, iShares U.S. Credit Bond ETF and iShares U.S. Preferred Stock ETF will transfer their primary listings to The NASDAQ Stock Market and will no longer be listed on the NYSE Arca, Inc. Also effective as of such date, all references in such Funds' Summary Prospectuses, Prospectuses and SAIs to NYSE Arca, Inc. and NYSE Arca specific to the listing exchange for the Funds are hereby changed to The NASDAQ Stock Market and NASDAQ, respectively.

Effective on or around August 2, 2017, the iShares Cohen & Steers REIT ETF, iShares Core MSCI EAFE ETF, iShares Currency Hedged MSCI EAFE ETF, iShares Currency Hedged MSCI Emerging Markets ETF, iShares Edge MSCI Min Vol EAFE ETF, iShares Edge MSCI Min Vol Emerging Markets ETF, iShares Edge MSCI Min Vol Global ETF, iShares Edge MSCI

Min Vol USA ETF, iShares Edge MSCI USA Momentum Factor ETF, iShares Edge MSCI USA Quality Factor ETF, iShares Edge MSCI USA Value Factor ETF, iShares Floating Rate Bond ETF, iShares Intermediate Government/Credit Bond ETF, iShares International Preferred Stock ETF, iShares International Select Dividend ETF, iShares Mortgage Real Estate Capped ETF, iShares MSCI Chile Capped ETF, iShares MSCI EAFE Growth ETF, iShares MSCI EAFE Value ETF, iShares MSCI Global Metals & Mining Producers ETF, iShares MSCI Global Silver Miners ETF, iShares North American Natural Resources ETF, iShares North American Tech-Software ETF, iShares Transportation Average ETF, iShares U.S. Aerospace & Defense ETF, iShares U.S. Home Construction ETF, iShares U.S. Industrials ETF, iShares U.S. Oil & Gas Exploration & Production ETF, iShares U.S. Telecommunications ETF and iShares U.S. Treasury Bond ETF will transfer their primary listings to BATS Exchange, Inc. and will no longer be listed on the NYSE Arca, Inc. Also effective as of such date, all references in such Funds' Summary Prospectuses, Prospectuses and SAIs to NYSE Arca, Inc. and NYSE Arca specific to the listing exchange for the Funds are hereby changed to BATS Exchange, Inc. and BATS, respectively.

IS-A-SUPP-080117

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iSHARES® CORE MSCI EAFE ETF

Ticker: IEFA Stock Exchange: NYSE Arca

Investment Objective

The iShares Core MSCI EAFE ETF (the "Fund") seeks to track the investment results of an index composed of large-, mid- and small-capitalization developed market equities, excluding the U.S. and Canada.

Fees and Expenses

The following table describes the fees and expenses that you will incur if you own shares of the Fund. The investment advisory agreement between iShares Trust (the "Trust") and BlackRock Fund Advisors ("BFA") (the "Investment Advisory Agreement") provides that BFA will pay all operating expenses of the Fund, except interest expenses, taxes, brokerage expenses, distribution fees or expenses, and extraordinary expenses.

You may also incur usual and customary brokerage commissions and other charges when buying or selling shares of the Fund, which are not reflected in the Example that follows:

Annual Fund Operating Expenses (ongoing expenses that you pay each year as a percentage of the value of your investments)[1]			
Management Fees	**Distribution and Service (12b-1) Fees**	**Other Expenses**	**Total Annual Fund Operating Expenses**
0.08%	None	None	0.08%

[1] The expense information in the table has been restated to reflect current management fees.

Example. This Example is intended to help you compare the cost of owning shares of the Fund with the cost of investing in other funds. The Example assumes that you invest $10,000 in the Fund for the time periods indicated and then sell all of your shares at the end of those periods. The Example also assumes that your investment has a 5% return each year and that the Fund's operating expenses remain the same. Although your actual costs may be higher or lower, based on these assumptions, your costs would be:

1 Year	3 Years	5 Years	10 Years
$8	$26	$45	$103

Portfolio Turnover. The Fund may pay transaction costs, such as commissions, when it buys and sells securities (or "turns over" its portfolio). A higher portfolio turnover rate may indicate higher transaction costs and may result in higher taxes when Fund shares are held in a taxable account. These costs, which are not reflected in Annual Fund Operating Expenses or in the Example, affect the Fund's performance. During the most recent fiscal year, the Fund's portfolio turnover rate was 2% of the average value of its portfolio.

Principal Investment Strategies

The Fund seeks to track the investment results of the MSCI EAFE IMI (the "Underlying Index"), which has been developed by MSCI Inc. (the "Index Provider" or "MSCI") as an equity benchmark for international stock performance. The Underlying Index is designed to measure large-, mid- and small-capitalization equity market performance and includes stocks from Europe, Australasia and the Far East and, as of June 30, 2016, consisted of securities from the following 21 developed market countries or regions: Australia, Austria, Belgium, Denmark, Finland, France, Germany, Hong Kong, Ireland, Israel, Italy, Japan, the Netherlands, New Zealand, Norway, Portugal, Singapore, Spain, Sweden, Switzerland and the United Kingdom. Components of the Underlying Index primarily include consumer discretionary, consumer staples, financials and industrials companies. The components of the Underlying Index, and the degree to which these components represent certain industries, are likely to change over time.

BFA uses a "passive" or indexing approach to try to achieve the Fund's investment objective. Unlike many investment companies, the Fund does not try to "beat" the index it tracks and does not seek temporary defensive positions when markets decline or appear overvalued.

Indexing may eliminate the chance that the Fund will substantially outperform the Underlying Index but also may reduce some of the risks of active management, such as poor security selection. Indexing seeks to achieve lower costs and better after-tax performance by keeping portfolio turnover low in comparison to actively managed investment companies.

BFA uses a representative sampling indexing strategy to manage the Fund. "Representative sampling" is an indexing strategy that involves investing in a representative sample of securities that collectively has an investment profile similar to that of an applicable underlying index. The securities selected are expected to have, in the aggregate, investment characteristics (based on factors such as market capitalization and industry weightings), fundamental characteristics (such as return variability and yield) and liquidity measures similar to those of an applicable underlying index. The Fund may or may not hold all of the securities in the Underlying Index.

The Fund generally will invest at least 90% of its assets in the component securities of the Underlying Index and in investments that have economic characteristics that are substantially identical to the component securities of

the Underlying Index (*i.e.*, depositary receipts representing securities of the Underlying Index) and may invest up to 10% of its assets in certain futures, options and swap contracts, cash and cash equivalents, including shares of money market funds advised by BFA or its affiliates, as well as in securities not included in the Underlying Index, but which BFA believes will help the Fund track the Underlying Index. The Fund seeks to track the investment results of the Underlying Index before fees and expenses of the Fund.

The Fund may lend securities representing up to one-third of the value of the Fund's total assets (including the value of any collateral received).

The Underlying Index is sponsored by MSCI, which is independent of the Fund and BFA. The Index Provider determines the composition and relative weightings of the securities in the Underlying Index and publishes information regarding the market value of the Underlying Index.

Industry Concentration Policy. The Fund will concentrate its investments (*i.e.*, hold 25% or more of its total assets) in a particular industry or group of industries to approximately the same extent that the Underlying Index is concentrated. For purposes of this limitation, securities of the U.S. government (including its agencies and instrumentalities) and repurchase agreements collateralized by U.S. government securities are not considered to be issued by members of any industry.

Summary of Principal Risks

As with any investment, you could lose all or part of your investment in the Fund, and the Fund's performance could trail that of other investments. The Fund is subject to certain risks, including the principal risks noted below, any of which may adversely affect the Fund's net asset value per share ("NAV"), trading price, yield, total return and ability to meet its investment objective.

Asset Class Risk. Securities and other assets in the Underlying Index or in the Fund's portfolio may underperform in comparison to the general financial markets, a particular financial market or other asset classes.

Assets Under Management (AUM) Risk. From time to time an authorized participant, a third party investor, the Fund's adviser or another affiliate of the Fund's adviser or the Fund may invest in the Fund and hold its investment for a specific period of time in order to facilitate commencement of the Fund's operations or for the Fund to achieve size or scale. There can be no assurance that any such entity would not redeem its investment or that the size of the Fund would be maintained at such levels which could negatively impact the Fund.

Authorized Participant Concentration Risk. Only an Authorized Participant (as defined in the *Creations and Redemptions* section of the Fund's prospectus (the "Prospectus")) may engage in creation or redemption transactions directly with the Fund. The Fund has a limited number of institutions that may act as Authorized Participants on an agency basis (*i.e.,* on behalf of other market participants). To the extent that Authorized Participants exit the business or are unable to proceed with creation and/or redemption orders with respect to the Fund and no other Authorized Participant is able to step forward to

create or redeem Creation Units (as defined in the *Purchase and Sale of Fund Shares* section of the Prospectus), Fund shares may be more likely to trade at a premium or discount to NAV and possibly face trading halts and/or delisting. The Authorized Participant concentration risk may be heightened on the Fund for exchange-traded funds ("ETFs") that invest in non-U.S. securities.

Concentration Risk. The Fund may be susceptible to an increased risk of loss, including losses due to adverse events that affect the Fund's investments more than the market as a whole, to the extent that the Fund's investments are concentrated in the securities of a particular issuer or issuers, country, group of countries, region, market, industry, group of industries, sector or asset class.

Consumer Discretionary Sector Risk. The consumer discretionary sector may be affected by changes in domestic and international economies, exchange and interest rates, competition, consumers' disposable income, consumer preferences, social trends and marketing campaigns.

Consumer Staples Sector Risk. The consumer staples sector may be affected by, among other things, marketing campaigns, changes in consumer demands, government regulations and changes in commodity prices.

Currency Risk. Because the Fund's NAV is determined in U.S. dollars, the Fund's NAV could decline if the currency of a non-U.S. market in which the Fund invests depreciates against the U.S. dollar or if there are delays or limits on repatriation of such currency. Currency exchange rates can be very volatile and can change quickly and unpredictably. As a result, the Fund's NAV may change quickly and without warning.

Cyber Security Risk. Failures or breaches of the electronic systems of the Fund, the Fund's adviser, the Fund's distributor, and the Fund's other service providers, market makers, Authorized Participants or the issuers of securities in which the Fund invests have the ability to cause disruptions and negatively impact the Fund's business operations, potentially resulting in financial losses to the Fund and its shareholders. While the Fund has established business continuity plans and risk management systems seeking to address system breaches or failures, there are inherent limitations in such plans and systems. Furthermore, the Fund cannot control the cyber security plans and systems of the Fund's service providers, the Index Provider, market makers, Authorized Participants or issuers of securities in which the Fund invests.

Equity Securities Risk. Equity securities are subject to changes in value, and their values may be more volatile than those of other asset classes. Holders of common stock generally are subject to more risks than holders of preferred stock and debt securities because the right to repayment of common stockholders' claims are subordinated to that of holders of preferred stock and debt securities upon the bankruptcy of the issuer.

Financials Sector Risk. Performance of companies in the financials sector may be adversely impacted by many factors, including, among others, government regulations, economic conditions, credit rating downgrades, changes in interest

rates, and decreased liquidity in credit markets. The impact of more stringent capital requirements, recent or future regulation of any individual financial company, or recent or future regulation of the financials sector as a whole cannot be predicted. In recent years, cyber attacks and technology malfunctions have become increasingly frequent in this sector and have caused significant losses to companies in this sector, which may negatively impact the Fund.

Geographic Risk. A natural or other disaster could occur in a geographic region in which the Fund invests, which could adversely affect the economy or the business operations of companies in the specific geographic region, causing an adverse impact on the Fund's investments in the affected region.

Index-Related Risk. There is no guarantee that the Fund will achieve a high degree of correlation to the Underlying Index and therefore achieve its investment objective. Market disruptions and regulatory restrictions could have an adverse effect on the Fund's ability to adjust its exposure to the required levels in order to track the Underlying Index. Errors in index data, index computations and/or the construction of the Underlying Index in accordance with its methodology may occur from time to time and may not be identified and corrected by the Index Provider for a period of time or at all, which may have an adverse impact on the Fund and its shareholders.

Industrials Sector Risk. The industrials sector may be adversely affected by changes in the supply of and demand for products and services, product obsolescence, claims for environmental damage or product liability and general economic conditions, among other factors.

Issuer Risk. The performance of the Fund depends on the performance of individual securities to which the Fund has exposure. Changes in the financial condition or credit rating of an issuer of those securities may cause the value of the securities to decline.

Large-Capitalization Companies Risk. Large-capitalization companies may be less able than smaller capitalization companies to adapt to changing market conditions. Large-capitalization companies may be more mature and subject to more limited growth potential compared with smaller capitalization companies. Over certain periods, the performance of large-capitalization companies has trailed the overall performance of the broader securities markets.

Management Risk. As the Fund may not fully replicate the Underlying Index, it is subject to the risk that BFA's investment strategy may not produce the intended results.

Market Risk. The Fund could lose money over short periods due to short-term market movements and over longer periods during more prolonged market downturns.

Market Trading Risk. The Fund faces numerous market trading risks, including the potential lack of an active market for Fund shares, losses from trading in secondary markets, periods of high volatility and disruptions in the creation/redemption process. ANY OF THESE FACTORS, AMONG OTHERS, MAY LEAD TO THE FUND'S SHARES TRADING AT A PREMIUM OR DISCOUNT TO NAV.

National Closed Market Trading Risk. To the extent that the underlying securities held by the Fund trade on foreign exchanges that may be closed when the securities exchange on which the Fund's shares trade is open, there are likely to be deviations between the current price of such an underlying security and the last quoted price for the underlying security (*i.e.*, the Fund's quote from the closed foreign market). These deviations could result in premiums or discounts to the Fund's NAV that may be greater than those experienced by other ETFs.

Non-U.S. Securities Risk. Investments in the securities of non-U.S. issuers are subject to the risks associated with investing in those non-U.S. markets, such as heightened risks of inflation or nationalization. The Fund may lose money due to political, economic and geographic events affecting issuers of non-U.S. securities or non-U.S. markets. In addition, non-U.S. securities markets may trade a small number of securities and may be unable to respond effectively to increases in trading volume, potentially making prompt liquidation of holdings difficult or impossible at times. The Fund is specifically exposed to **Asian Economic Risk** and **European Economic Risk**.

Operational Risk. The Fund is exposed to operational risks arising from a number of factors, including, but not limited to, human error, processing and communication errors, errors of the Fund's service providers, counterparties or other third-parties, failed or inadequate processes and technology or systems failures. The Fund and BFA seek to reduce these operational risks through controls and procedures. However, these measures do not address every possible risk and may be inadequate to address these risks.

Passive Investment Risk. The Fund is not actively managed and BFA generally does not attempt to take defensive positions under any market conditions, including declining markets.

Privatization Risk. Some countries in which the Fund invests have privatized, or have begun the process of privatizing, certain entities and industries. Privatized entities may lose money or be re-nationalized.

Reliance on Trading Partners Risk. The Fund invests in countries or regions whose economies are heavily dependent upon trading with key partners. Any reduction in this trading may have an adverse impact on the Fund's investments. Through its portfolio companies' trading partners, the Fund is specifically exposed to **Asian Economic Risk, European Economic Risk** and **U.S. Economic Risk**.

Risk of Investing in Developed Countries. The Fund's investment in developed country issuers may subject the Fund to regulatory, political, currency, security, economic and other risks associated with developed countries. Developed countries tend to represent a significant portion of the global economy and have generally experienced slower economic growth than some less developed countries. In addition, developed countries may be adversely impacted by changes to the economic conditions of certain key trading partners, regulatory burdens, debt burdens and the price or availability of certain commodities.

Risk of Investing in Japan. The Japanese economy may be subject to considerable degrees of economic,

political and social instability, which could have a negative impact on Japanese securities. Since the year 2000, Japan's economic growth rate has remained relatively low, and it may remain low in the future. In addition, Japan is subject to the risk of natural disasters, such as earthquakes, volcanic eruptions, typhoons and tsunamis, which could negatively affect the Fund.

Securities Lending Risk. The Fund may engage in securities lending. Securities lending involves the risk that the Fund may lose money because the borrower of the loaned securities fails to return the securities in a timely manner or at all. The Fund could also lose money in the event of a decline in the value of collateral provided for loaned securities or a decline in the value of any investments made with cash collateral. These events could also trigger adverse tax consequences for the Fund.

Security Risk. Some countries and regions in which the Fund invests have experienced security concerns, such as terrorism and strained international relations. Incidents involving a country's or region's security may cause uncertainty in these markets and may adversely affect their economies and the Fund's investments.

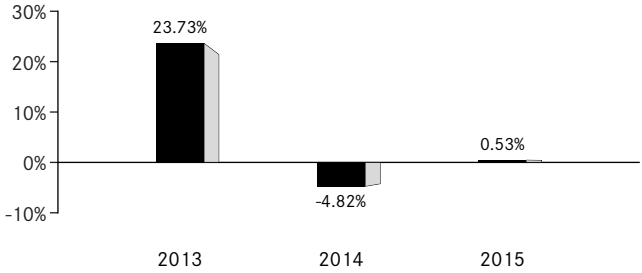
Tracking Error Risk. Tracking error is the divergence of the Fund's performance from that of the Underlying Index. Tracking error may occur because of differences between the securities and other instruments held in the Fund's portfolio and those included in the Underlying Index, pricing differences (including differences between a security's price at the local market close and the Fund's valuation of a security at the time of calculation of the Fund's NAV), differences in transaction costs, the Fund's holding of uninvested cash, differences in timing of the accrual of or the valuation of dividends or interest, tax gains or losses, changes to the Underlying Index or the costs to the Fund of complying with various new or existing regulatory requirements. This risk may be heightened during times of increased market volatility or other unusual market conditions. Tracking error also may result because the Fund incurs fees and expenses, while the Underlying Index does not. A fund that seeks to track an index that contains a large number of securities may experience a higher level of tracking error than a more narrow index.

Valuation Risk. The sale price the Fund could receive for a security or other asset may differ from the Fund's valuation of the security or other asset and from the value used by the Underlying Index, particularly for securities or other assets that trade in low volume or volatile markets or that are valued using a fair value methodology. In addition, the value of the securities or other assets in the Fund's portfolio may change on days or during time periods when shareholders will not be able to purchase or sell the Fund's shares.

Performance Information

The bar chart and table that follow show how the Fund has performed on a calendar year basis and provide an indication of the risks of investing in the Fund. Both assume that all dividends and distributions have been reinvested in the Fund. Past performance (before and after taxes) does not necessarily indicate how the Fund will perform in the future. Supplemental information about the Fund's performance is shown under the heading *Total Return Information* in the *Supplemental Information* section of the Prospectus. If BFA had not waived certain Fund fees during certain periods, the Fund's returns would have been lower.

Year by Year Returns[1] (Years Ended December 31)



[1] The Fund's year-to-date return as of September 30, 2016 was 2.41%.

The best calendar quarter return during the periods shown above was 12.04% in the 3rd quarter of 2013; the worst was -9.79% in the 3rd quarter of 2015.

Updated performance information is available at www.iShares.com or by calling 1-800-iShares (1-800-474-2737) (toll free).

Average Annual Total Returns
(for the periods ended December 31, 2015)

	One Year	Since Fund Inception
(Inception Date: 10/18/2012)		
Return Before Taxes	0.53%	6.38%
Return After Taxes on Distributions[2]	0.05%	5.85%
Return After Taxes on Distributions and Sale of Fund Shares[2]	0.93%	5.05%
MSCI EAFE IMI (Index returns do not reflect deductions for fees, expenses, or taxes)	0.49%	6.29%

[2] After-tax returns in the table above are calculated using the historical highest individual U.S. federal marginal income tax rates and do not reflect the impact of state or local taxes. Actual after-tax returns depend on an investor's tax situation and may differ from those shown, and after-tax returns shown are not relevant to tax-exempt investors or investors who hold shares through tax-deferred arrangements, such as 401(k) plans or individual retirement accounts ("IRAs"). Fund returns after taxes on distributions and sales of Fund shares are calculated assuming that an investor has sufficient capital gains of the same character from other investments to offset any capital losses from the sale of Fund shares. As a result, Fund returns after taxes on distributions and sales of Fund shares may exceed Fund returns before taxes and/or returns after taxes on distributions.

Management

Investment Adviser. BlackRock Fund Advisors.

Portfolio Managers. Diane Hsiung, Jennifer Hsui, Alan Mason and Greg Savage (the "Portfolio Managers") are primarily responsible for the day-to-day management of the Fund. Each Portfolio Manager supervises a portfolio management team. Ms. Hsiung, Ms. Hsui and Mr. Savage have been Portfolio Managers of the Fund since 2012. Mr. Mason has been a Portfolio Manager of the Fund since 2016.

Purchase and Sale of Fund Shares

The Fund is an ETF. Individual shares of the Fund are listed on a national securities exchange. Most investors will buy and sell shares of the Fund through a broker-dealer. The price of Fund shares is based on market price, and because ETF shares trade at market prices rather than at NAV, shares may trade at a price greater than NAV (a premium) or less than NAV (a discount). The Fund will only issue or redeem shares that have been aggregated into blocks of 200,000 shares or multiples thereof ("Creation Units") to Authorized Participants who have entered into agreements with the Fund's distributor. The Fund generally will issue or redeem Creation Units in return for a designated portfolio of securities (and an amount of cash) that the Fund specifies each day.

Tax Information

The Fund intends to make distributions that may be taxable to you as ordinary income or capital gains, unless you are investing through a tax-deferred arrangement such as a 401(k) plan or an IRA, in which case, your distributions generally will be taxed when withdrawn.

Payments to Broker-Dealers and other Financial Intermediaries

If you purchase shares of the Fund through a broker-dealer or other financial intermediary (such as a bank), BFA or other related companies may pay the intermediary for marketing activities and presentations, educational training programs, conferences, the development of technology platforms and reporting systems or other services related to the sale or promotion of the Fund. These payments may create a conflict of interest by influencing the broker-dealer or other intermediary and your salesperson to recommend the Fund over another investment. Ask your salesperson or visit your financial intermediary's website for more information.

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More Information About the Fund

This Prospectus contains important information about investing in the Fund. Please read this Prospectus carefully before you make any investment decisions. Additional information regarding the Fund is available at www.iShares.com.

BFA is the investment adviser to the Fund. Shares of the Fund are listed for trading on NYSE Arca, Inc. ("NYSE Arca"). The market price for a share of the Fund may be different from the Fund's most recent NAV.

ETFs are funds that trade like other publicly traded securities. The Fund is designed to track an index. Similar to shares of an index mutual fund, each share of the Fund represents an ownership interest in an underlying portfolio of securities and other instruments intended to track a market index. Unlike shares of a mutual fund, which can be bought and redeemed from the issuing fund by all shareholders at a price based on NAV, shares of the Fund may be purchased or redeemed directly from the Fund at NAV solely by Authorized Participants. Also unlike shares of a mutual fund, shares of the Fund are listed on a national securities exchange and trade in the secondary market at market prices that change throughout the day.

The Fund invests in a particular segment of the securities markets and seeks to track the performance of a securities index that generally is not representative of the market as a whole. The Fund is designed to be used as part of broader asset allocation strategies. Accordingly, an investment in the Fund should not constitute a complete investment program.

An index is a financial calculation, based on a grouping of financial instruments, that is not an investment product, while the Fund is an actual investment portfolio. The performance of the Fund and the Underlying Index may vary for a number of reasons, including transaction costs, non-U.S. currency valuations, asset valuations, corporate actions (such as mergers and spin-offs), timing variances and differences between the Fund's portfolio and the Underlying Index resulting from the Fund's use of representative sampling or from legal restrictions (such as diversification requirements) that apply to the Fund but not to the Underlying Index. "Tracking error" is the divergence of the performance (return) of the Fund's portfolio from that of the Underlying Index. BFA expects that, over time, the Fund's tracking error will not exceed 5%. Because the Fund uses a representative sampling indexing strategy, it can be expected to have a larger tracking error than if it used a replication indexing strategy. "Replication" is an indexing strategy in which a fund invests in substantially all of the securities in its underlying index in approximately the same proportions as in the underlying index.

An investment in the Fund is not a bank deposit and it is not insured or guaranteed by the Federal Deposit Insurance Corporation or any other government agency, BFA or any of its affiliates.

The Fund's investment objective and the Underlying Index may be changed without shareholder approval.

A Further Discussion of Principal Risks

The Fund is subject to various risks, including the principal risks noted below, any of which may adversely affect the Fund's NAV, trading price, yield, total return and ability to meet its investment objective. You could lose all or part of your investment in the Fund, and the Fund could underperform other investments.

Asian Economic Risk. Many Asian economies have experienced rapid growth and industrialization in recent years, but there is no assurance that this growth rate will be maintained. Other Asian economies, however, have experienced high inflation, high unemployment, currency devaluations and restrictions, and over-extension of credit. Economic events in any one Asian country may have a significant economic effect on the entire Asian region, as well as on major trading partners outside Asia. Any adverse event in the Asian markets may have a significant adverse effect on some or all of the economies of the countries in which the Fund invests. Many Asian countries are subject to political risk, including political instability, corruption and regional conflict with neighboring countries. In addition, many Asian countries are subject to social and labor risks associated with demands for improved political, economic and social conditions. These risks, among others, may adversely affect the value of the Fund's investments.

Asset Class Risk. The securities and other assets in the Underlying Index or in the Fund's portfolio may underperform in comparison to other securities or indexes that track other countries, groups of countries, regions, industries, groups of industries, markets, asset classes or sectors. Various types of securities, currencies and indexes may experience cycles of outperformance and underperformance in comparison to the general financial markets depending upon a number of factors including, among other things, inflation, interest rates, productivity, global demand for local products or resources, and regulation and governmental controls. This may cause the Fund to underperform other investment vehicles that invest in different asset classes.

Assets Under Management (AUM) Risk. From time to time an authorized participant, a third party investor, the Fund's adviser or another affiliate of the Fund's adviser or the Fund may invest in the Fund and hold its investment for a specific period of time in order to facilitate commencement of the Fund's operations or for the Fund to achieve size or scale. There can be no assurance that any such entity would not redeem its investment or that the size of the Fund would be maintained at such levels which could negatively impact the Fund.

Authorized Participant Concentration Risk. Only an Authorized Participant may engage in creation or redemption transactions directly with the Fund. The Fund has a limited number of institutions that may act as Authorized Participants on an agency basis (*i.e.*, on behalf of other market participants). To the extent that Authorized Participants exit the business or are unable to proceed with creation and/or redemption orders with respect to the Fund and no other Authorized Participant is able to step forward to create or redeem Creation Units, Fund shares may be more likely to trade at a premium or discount to NAV and possibly face trading halts and/or delisting. The Authorized Participant concentration risk may be heightened for the Fund because

ETFs that invest in non-U.S. securities often involve greater settlement and operational issues for Authorized Participants that may limit the availability of Authorized Participants.

Concentration Risk. The Fund may be susceptible to an increased risk of loss, including losses due to adverse events that affect the Fund's investments more than the market as a whole, to the extent that the Fund's investments are concentrated in the securities of a particular issuer or issuers, country, group of countries, region, market, industry, group of industries, sector or asset class. The Fund may be more adversely affected by the underperformance of those securities, may experience increased price volatility and may be more susceptible to adverse economic, market, political or regulatory occurrences affecting those securities than a fund that does not concentrate its investments.

Consumer Discretionary Sector Risk. The success of consumer product manufacturers and retailers is tied closely to the performance of domestic and international economies, interest rates, exchange rates, competition, consumer confidence, changes in demographics and consumer preferences. Companies in the consumer discretionary sector depend heavily on disposable household income and consumer spending, and may be strongly affected by social trends and marketing campaigns. These companies may be subject to severe competition, which may have an adverse impact on their profitability.

Consumer Staples Sector Risk. The consumer staples sector may be affected by the regulation of various product components and production methods, marketing campaigns and changes in consumer demand. Tobacco companies, in particular, may be adversely affected by new laws, regulations and litigation. The consumer staples sector may also be adversely affected by changes or trends in commodity prices, which may be influenced by unpredictable factors.

Currency Risk. Because the Fund's NAV is determined on the basis of the U.S. dollar, investors may lose money if the currency of a non-U.S. market in which the Fund invests depreciates against the U.S. dollar or if there are delays or limits on repatriation of the local currency, even if the local currency value of the Fund's holdings in that market increases. Currency exchange rates can be very volatile and can change quickly and unpredictably. As a result, the Fund's NAV may change quickly and without warning.

Cyber Security Risk. With the increased use of technologies such as the internet to conduct business, the Fund, Authorized Participants, service providers and the relevant listing exchange are susceptible to operational, information security and related "cyber" risks both directly and through their service providers. Similar types of cyber security risks are also present for issuers of securities in which the Fund invests, which could result in material adverse consequences for such issuers and may cause the Fund's investment in such portfolio companies to lose value. Unlike many other types of risks faced by the Fund, these risks typically are not covered by insurance. In general, cyber incidents can result from deliberate attacks or unintentional events. Cyber attacks include, but are not limited to, gaining unauthorized access to digital systems (*e.g.*, through "hacking" or malicious software coding) for purposes of misappropriating assets or sensitive information, corrupting data, or causing

operational disruption. Cyber attacks may also be carried out in a manner that does not require gaining unauthorized access, such as causing denial-of-service attacks on websites (*i.e.*, efforts to make network services unavailable to intended users). Cyber security failures by or breaches of the systems of the Fund's adviser, distributor and other service providers (including, but not limited to, index providers, fund accountants, custodians, transfer agents and administrators), market makers, Authorized Participants or the issuers of securities in which the Fund invests, have the ability to cause disruptions and impact business operations, potentially resulting in: financial losses, interference with the Fund's ability to calculate its NAV, disclosure of confidential trading information, impediments to trading, submission of erroneous trades or erroneous creation or redemption orders, the inability of the Fund or its service providers to transact business, violations of applicable privacy and other laws, regulatory fines, penalties, reputational damage, reimbursement or other compensation costs, or additional compliance costs. In addition, cyber attacks may render records of Fund assets and transactions, shareholder ownership of Fund shares, and other data integral to the functioning of the Fund inaccessible or inaccurate or incomplete. Substantial costs may be incurred by the Fund in order to resolve or prevent cyber incidents in the future. While the Fund has established business continuity plans in the event of, and risk management systems to prevent, such cyber attacks, there are inherent limitations in such plans and systems, including the possibility that certain risks have not been identified and that prevention and remediation efforts will not be successful. Furthermore, the Fund cannot control the cyber security plans and systems put in place by service providers to the Fund, issuers in which the Fund invests, the Index Provider, market makers or Authorized Participants. The Fund and its shareholders could be negatively impacted as a result.

Equity Securities Risk. The Fund invests in equity securities, which are subject to changes in value that may be attributable to market perception of a particular issuer or to general stock market fluctuations that affect all issuers. Investments in equity securities may be more volatile than investments in other asset classes. Holders of common stock generally are subject to more risks than holders of preferred stock and debt securities because the right to repayment of common stockholders' claims are subordinated to that of holders of preferred stock and debt securities upon the bankruptcy of the issuer.

European Economic Risk. The Economic and Monetary Union of the European Union (the "EU") requires compliance with restrictions on inflation rates, deficits, interest rates and debt levels, as well as fiscal and monetary controls, each of which may significantly affect every country in Europe. Decreasing imports or exports, changes in governmental or EU regulations on trade, changes in the exchange rate of the euro (the common currency of certain EU countries), the default or threat of default by an EU member country on its sovereign debt (including, without limitation, the default by Greece) and/or an economic recession in an EU member country may have a significant adverse effect on the economies of EU member countries and their trading partners. The European financial markets have experienced volatility and adverse trends in recent years due to concerns about economic downturns or rising government debt levels in several European countries, including, but not limited to, Cyprus, Greece, Ireland, Italy, Portugal, Spain and Ukraine. These events have

adversely affected the exchange rate of the euro and may continue to significantly affect European countries.

Responses to financial problems by European governments, central banks and others, including austerity measures and reforms, may not produce the desired results, may result in social unrest and may limit future growth and economic recovery or have other unintended consequences. Further defaults or restructurings by governments and other entities of their debt could have additional adverse effects on economies, financial markets and asset valuations around the world. In addition, one or more countries may abandon the euro and/or withdraw from the EU. In a referendum held on June 23, 2016, the United Kingdom, which is a significant global economy, resolved to leave the EU. The referendum may introduce significant uncertainties and instability in the financial markets as the United Kingdom negotiates its exit from the EU.

The occurrence of terrorist incidents throughout Europe also could impact financial markets. The impact of these events is not clear but could be significant and far-reaching and adversely affect the value of the Fund.

Financials Sector Risk. Companies in the financials sector of an economy are subject to extensive governmental regulation and intervention, which may adversely affect the scope of their activities, the prices they can charge, the amount of capital they must maintain and, potentially, their size. Governmental regulation may change frequently and may have significant adverse consequences for companies in the financials sector, including effects not intended by such regulation. The impact of more stringent capital requirements, or recent or future regulation in various countries of any individual financial company or of the financials sector as a whole cannot be predicted. Certain risks may impact the value of investments in the financials sector more severely than those of investments outside this sector, including the risks associated with companies that operate with substantial financial leverage. Companies in the financials sector may also be adversely affected by increases in interest rates and loan losses, decreases in the availability of money or asset valuations, credit rating downgrades and adverse conditions in other related markets. Insurance companies, in particular, may be subject to severe price competition and/or rate regulation, which may have an adverse impact on their profitability. The financials sector is particularly sensitive to fluctuations in interest rates. The financials sector is also a target for cyber attacks, and may experience technology malfunctions and disruptions. In recent years, cyber attacks, and technology malfunctions and failures have become increasingly frequent in this sector and have reportedly caused losses to companies in this sector, which may negatively impact the Fund.

Geographic Risk. Some of the companies in which the Fund invests are located in parts of the world that have historically been prone to natural disasters, such as earthquakes, tornadoes, volcanic eruptions, droughts, floods, hurricanes or tsunamis, and are economically sensitive to environmental events. Any such event may adversely impact the economies of these geographic areas or business operations of companies in these geographic areas, causing an adverse impact on the value of the Fund.

Index-Related Risk. The Fund seeks to achieve a return which corresponds generally to the price and yield performance, before fees and expenses, of the Underlying Index as published by the Index Provider. There is no assurance that the Index Provider or

any agents that may act on its behalf will compile the Underlying Index accurately, or that the Underlying Index will be determined, composed or calculated accurately. While the Index Provider provides descriptions of what the Underlying Index is designed to achieve, neither the Index Provider nor its agents provide any warranty or accept any liability in relation to the quality, accuracy or completeness of the Underlying Index or its related data, and they do not guarantee that the Underlying Index will be in line with the Index Provider's methodology. BFA's mandate as described in this Prospectus is to manage the Fund consistently with the Underlying Index provided by the Index Provider to BFA. Consequently, BFA does not provide any warranty or guarantee against the Index Provider's or any agent's errors. Errors in respect of the quality, accuracy and completeness of the data used to compile the Underlying Index may occur from time to time and may not be identified and corrected by the Index Provider for a period of time or at all, particularly where the indices are less commonly used as benchmarks by funds or managers. Therefore, gains, losses or costs associated with errors of the Index Provider or its agents will generally be borne by the Fund and its shareholders. For example, during a period where the Underlying Index contains incorrect constituents, the Fund would have market exposure to such constituents and would be underexposed to the Underlying Index's other constituents. Such errors may negatively or positively impact the Fund and its shareholders. Any gains due to the Index Provider's or any agent's errors will be kept by the Fund and its shareholders and any losses resulting from the Index Provider's or any agent's errors will be borne by the Fund and its shareholders.

Apart from scheduled rebalances, the Index Provider or its agents may carry out additional ad hoc rebalances to the Underlying Index in order, for example, to correct an error in the selection of index constituents. When the Underlying Index is rebalanced and the Fund in turn rebalances its portfolio to attempt to increase the correlation between the Fund's portfolio and the Underlying Index, any transaction costs and market exposure arising from such portfolio rebalancing will be borne directly by the Fund and its shareholders. Unscheduled rebalances to the Underlying Index may expose the Fund to additional tracking error risk, which is the risk that the Fund's returns may not track those of the Underlying Index. Therefore, errors and additional ad hoc rebalances carried out by the Index Provider or its agents to the Underlying Index may increase the costs to and the tracking error risk of the Fund.

Industrials Sector Risk. The value of securities issued by companies in the industrials sector may be adversely affected by supply and demand related to their specific products or services and industrials sector products in general. The products of manufacturing companies may face obsolescence due to rapid technological developments and frequent new product introduction. Government regulations, world events, economic conditions and exchange rates may adversely affect the performance of companies in the industrials sector. Companies in the industrials sector may be adversely affected by liability for environmental damage and product liability claims. The industrials sector may also be adversely affected by changes or trends in commodity prices, which may be influenced by unpredictable factors. Companies in the industrials sector, particularly aerospace and defense companies, may also be adversely affected by government spending policies because companies

in this sector tend to rely to a significant extent on government demand for their products and services.

Issuer Risk. The performance of the Fund depends on the performance of individual securities to which the Fund has exposure. Any issuer of these securities may perform poorly, causing the value of its securities to decline. Poor performance may be caused by poor management decisions, competitive pressures, changes in technology, expiration of patent protection, disruptions in supply, labor problems or shortages, corporate restructurings, fraudulent disclosures, credit deterioration of the issuer or other factors. Issuers may, in times of distress or at their own discretion, decide to reduce or eliminate dividends, which may also cause their stock prices to decline.

Large-Capitalization Companies Risk. Large-capitalization companies may be less able than smaller capitalization companies to adapt to changing market conditions. Large-capitalization companies may be more mature and subject to more limited growth potential compared with smaller capitalization companies. Over certain periods, the performance of large-capitalization companies has trailed the performance of overall markets.

Management Risk. The Fund may not fully replicate the Underlying Index and may hold securities not included in the Underlying Index. As a result, the Fund is subject to the risk that BFA's investment strategy, the implementation of which is subject to a number of constraints, may not produce the intended results.

Market Risk. The Fund could lose money over short periods due to short-term market movements and over longer periods during more prolonged market downturns. Securities or other assets may decline in value due to factors affecting financial markets generally or particular asset classes or industries represented in the markets. The value of a security or other asset may also decline due to general market conditions, economic trends or events that are not specifically related to the issuer of the security or other asset, or due to factors that affect a particular issuer or issuers, country, group of countries, region, market, industry, group of industries, sector or asset class. During a general market downturn, multiple asset classes may be negatively affected.

Market Trading Risk

Absence of Active Market. Although shares of the Fund are listed for trading on one or more stock exchanges, there can be no assurance that an active trading market for such shares will develop or be maintained by market makers or Authorized Participants.

Risk of Secondary Listings. The Fund's shares may be listed or traded on U.S. and non-U.S. stock exchanges other than the U.S. stock exchange where the Fund's primary listing is maintained, and may otherwise be made available to non-U.S. investors through funds or structured investment vehicles similar to depositary receipts. There can be no assurance that the Fund's shares will continue to trade on any such stock exchange or in any market or that the Fund's shares will continue to meet the requirements for listing or trading on any exchange or in any market. The Fund's shares may be less actively traded in certain markets than in others, and investors are subject to the execution and settlement risks and market standards of the market where they

or their broker direct their trades for execution. Certain information available to investors who trade Fund shares on a U.S. stock exchange during regular U.S. market hours may not be available to investors who trade in other markets, which may result in secondary market prices in such markets being less efficient.

Secondary Market Trading Risk. Shares of the Fund may trade in the secondary market at times when the Fund does not accept orders to purchase or redeem shares. At such times, shares may trade in the secondary market with more significant premiums or discounts than might be experienced at times when the Fund accepts purchase and redemption orders.

Secondary market trading in Fund shares may be halted by a stock exchange because of market conditions or for other reasons. In addition, trading in Fund shares on a stock exchange or in any market may be subject to trading halts caused by extraordinary market volatility pursuant to "circuit breaker" rules on the stock exchange or market.

Shares of the Fund, similar to shares of other issuers listed on a stock exchange, may be sold short and are therefore subject to the risk of increased volatility and price decreases associated with being sold short.

Shares of the Fund May Trade at Prices Other Than NAV. Shares of the Fund trade on stock exchanges at prices at, above or below the Fund's most recent NAV. The NAV of the Fund is calculated at the end of each business day and fluctuates with changes in the market value of the Fund's holdings. The trading price of the Fund's shares fluctuates continuously throughout trading hours based on both market supply of and demand for Fund shares and the underlying value of the Fund's portfolio holdings or NAV. As a result, the trading prices of the Fund's shares may deviate significantly from NAV during periods of market volatility. **ANY OF THESE FACTORS, AMONG OTHERS, MAY LEAD TO THE FUND'S SHARES TRADING AT A PREMIUM OR DISCOUNT TO NAV**. However, because shares can be created and redeemed in Creation Units at NAV, BFA believes that large discounts or premiums to the NAV of the Fund are not likely to be sustained over the long term (unlike shares of many closed-end funds, which frequently trade at appreciable discounts from, and sometimes at premiums to, their NAVs). While the creation/redemption feature is designed to make it more likely that the Fund's shares normally will trade on stock exchanges at prices close to the Fund's next calculated NAV, exchange prices are not expected to correlate exactly with the Fund's NAV due to timing reasons, supply and demand imbalances and other factors. In addition, disruptions to creations and redemptions, including disruptions at market makers, Authorized Participants, or other market participants, and during periods of significant market volatility, may result in trading prices for shares of the Fund that differ significantly from its NAV. Authorized Participants may be less willing to create or redeem Fund shares if there is a lack of an active market for such shares or its underlying investments, which may contribute to the Fund's shares trading at a premium or discount to NAV.

Costs of Buying or Selling Fund Shares. Buying or selling Fund shares on an exchange involves two types of costs that apply to all securities transactions. When buying or selling shares of the Fund through a broker, you will likely incur a brokerage commission and other charges. In addition, you may incur the cost of the "spread";

that is, the difference between what investors are willing to pay for Fund shares (the "bid" price) and the price at which they are willing to sell Fund shares (the "ask" price). The spread, which varies over time for shares of the Fund based on trading volume and market liquidity, is generally narrower if the Fund has more trading volume and market liquidity and wider if the Fund has less trading volume and market liquidity. In addition, increased market volatility may cause wider spreads. There may also be regulatory and other charges that are incurred as a result of trading activity. Because of the costs inherent in buying or selling Fund shares, frequent trading may detract significantly from investment results and an investment in Fund shares may not be advisable for investors who anticipate regularly making small investments through a brokerage account.

National Closed Market Trading Risk. To the extent that the underlying securities held by the Fund trade on foreign exchanges that may be closed when the securities exchange on which the Fund's shares trade is open, there are likely to be deviations between the current price of an underlying security and the last quoted price for the underlying security (*i.e.*, the Fund's quote from the closed foreign market). These deviations could result in premiums or discounts to the Fund's NAV that may be greater than those experienced by other ETFs.

Non-U.S. Securities Risk. Investments in the securities of non-U.S. issuers are subject to the risks of investing in the markets where such issuers are located, including heightened risks of inflation or nationalization and market fluctuations caused by economic and political developments. As a result of investing in non-U.S. securities, the Fund may be subject to increased risk of loss caused by any of the factors listed below:

- Lower levels of liquidity and market efficiency;
- Greater securities price volatility;
- Exchange rate fluctuations and exchange controls;
- Less availability of public information about issuers;
- Limitations on foreign ownership of securities;
- Imposition of withholding or other taxes;
- Imposition of restrictions on the expatriation of the funds or other assets of the Fund;
- Higher transaction and custody costs and delays in settlement procedures;
- Difficulties in enforcing contractual obligations;
- Lower levels of regulation of the securities markets;
- Weaker accounting, disclosure and reporting requirements; and
- Legal principles relating to corporate governance, directors' fiduciary duties and liabilities and stockholders' rights in markets in which the Fund invests may differ and/or may not be as extensive or protective as those that apply in the United States.

Operational Risk. The Fund is exposed to operational risks arising from a number of factors, including, but not limited to, human error, processing and communication

errors, errors of the Fund's service providers, counterparties or other third-parties, failed or inadequate processes and technology or systems failures. The Fund and BFA seek to reduce these operational risks through controls and procedures. However, these measures do not address every possible risk and may be inadequate to address these risks.

Passive Investment Risk. The Fund is not actively managed and may be affected by a general decline in market segments related to the Underlying Index. The Fund invests in securities included in, or representative of, the Underlying Index, regardless of their investment merits. BFA generally does not attempt to take defensive positions under any market conditions, including declining markets.

Privatization Risk. Some countries in which the Fund invests have privatized, or have begun the process of privatizing, certain entities and industries. Newly privatized companies may face strong competition from government-sponsored competitors that have not been privatized. In some instances, investors in newly privatized entities have suffered losses due to the inability of the newly privatized entities to adjust quickly to a competitive environment or changing regulatory and legal standards or, in some cases, due to re-nationalization of such privatized entities. There is no assurance that such losses will not recur.

Reliance on Trading Partners Risk. The economies of some countries or regions in which the Fund invests are dependent on trade with certain key trading partners. Reduction in spending on the products and services of these countries, institution of tariffs or other trade barriers by any of their key trading partners or a slowdown in the economies of any of their key trading partners may cause an adverse impact on the economies of such countries.

Risk of Investing in Developed Countries. Investment in developed country issuers may subject the Fund to regulatory, political, currency, security, economic and other risks associated with developed countries. Developed countries generally tend to rely on services sectors (*e.g.,* the financial services sector) as the primary means of economic growth. A prolonged slowdown in one or more services sectors is likely to have a negative impact on economies of certain developed countries. In the past, certain developed countries have been targets of terrorism. Acts of terrorism in developed countries or against their interests may cause uncertainty in the financial markets and adversely affect the performance of the issuers to which the Fund has exposure. Heavy regulation of certain markets, including labor and product markets, may have an adverse effect on certain issuers. Such regulations may negatively affect economic growth or cause prolonged periods of recession. Many developed countries are heavily indebted and face rising healthcare and retirement expenses. In addition, price fluctuations of certain commodities and regulations impacting the import of commodities may negatively affect developed country economies.

Risk of Investing in Japan. Japan may be subject to political, economic, nuclear, and labor risks, among others. Any of these risks, individually or in the aggregate, can impact an investment made in Japan.

Economic Risk. The growth of Japan's economy has recently lagged that of its Asian neighbors and other major developed economies. Since the year 2000, Japan's

economic growth rate has remained relatively low, and it may remain low in the future. The Japanese economy is heavily dependent on international trade and has been adversely affected in the past by trade tariffs, other protectionist measures, competition from emerging economies and the economic conditions of its trading partners. Japan is also heavily dependent on oil imports, and higher commodity prices could therefore have a negative impact on the Japanese economy.

Political Risk. Historically, Japan has had unpredictable national politics and may experience frequent political turnover. Future political developments may lead to changes in policy that might adversely affect the Fund's investments. In addition, China has become an important trading partner with Japan. Japan's political relationship with China, however, is strained and delicate. Should political tension increase, it could adversely affect the Japanese economy and destabilize the region as a whole.

Large Government Debt Risk. The Japanese economy faces several concerns, including a financial system with large levels of nonperforming loans, over-leveraged corporate balance sheets, extensive cross-ownership by major corporations, a changing corporate governance structure, and large government deficits. These issues may cause a slowdown of the Japanese economy.

Currency Risk. The Japanese yen has fluctuated widely at times and any increase in its value may cause a decline in exports that could weaken the Japanese economy. The Japanese government has, in the past, intervened in the currency markets to attempt to maintain or reduce the value of the yen. Japanese intervention in the currency markets could cause the value of the yen to fluctuate sharply and unpredictably and could cause losses to investors.

Nuclear Energy Risk. The nuclear power plant catastrophe in Japan in March 2011 may have long-term effects on the Japanese economy and its nuclear energy industry, the extent of which are currently unknown.

Labor Risk. Japan has an aging workforce and has experienced a significant population decline in recent years. Japan's labor market appears to be undergoing fundamental structural changes, as a labor market traditionally accustomed to lifetime employment adjusts to meet the need for increased labor mobility, which may adversely affect Japan's economic competitiveness.

Securities Lending Risk. The Fund may engage in securities lending. Securities lending involves the risk that the Fund may lose money because the borrower of the loaned securities fails to return the securities in a timely manner or at all. The Fund could also lose money in the event of a decline in the value of collateral provided for loaned securities or a decline in the value of any investments made with cash collateral. These events could also trigger adverse tax consequences for the Fund. BlackRock Institutional Trust Company, N.A., the Fund's securities lending agent, will take into account the tax impact to shareholders of substitute payments for dividends when managing the Fund's securities lending program.

Security Risk. Some geographic areas in which the Fund invests have experienced acts of terrorism and strained international relations due to territorial disputes, historical animosities, defense concerns and other security concerns. These situations

may cause uncertainty in the markets of these geographic areas and may adversely affect their economies.

Tracking Error Risk. Tracking error is the divergence of the Fund's performance from that of the Underlying Index. Tracking error may occur because of differences between the securities and other instruments held in the Fund's portfolio and those included in the Underlying Index, pricing differences (including differences between a security's price at the local market close and the Fund's valuation of a security at the time of calculation of the Fund's NAV), differences in transaction costs, the Fund's holding of uninvested cash, differences in timing of the accrual of or the valuation of dividends or interest, tax gains or losses, changes to the Underlying Index or the costs to the Fund of complying with various new or existing regulatory requirements. This risk may be heightened during times of increased market volatility or other unusual market conditions. Tracking error also may result because the Fund incurs fees and expenses, while the Underlying Index does not. A fund that seeks to track an index that contains a large number of securities may experience a higher level of tracking error than a more narrow index.

U.S. Economic Risk. The United States is a significant, and in some cases the most significant, trading partner of, or foreign investor in, certain markets, and the economies of these countries may be particularly affected by adverse changes in the U.S. economy. A decrease in U.S. imports, new trade regulations, changes in the U.S. dollar exchange rate or an economic slowdown in the United States may have a material adverse effect on the economies of these countries and, as a result, securities to which the Fund has exposure.

Valuation Risk. The sale price the Fund could receive for a security or other asset may differ from the Fund's valuation of the security or other asset and from the value used by the Underlying Index, particularly for securities or other assets that trade in low volume or volatile markets, or that are valued using a fair value methodology. Because non-U.S. exchanges may be open on days when the Fund does not price its shares, the value of the securities or other assets in the Fund's portfolio may change on days or during time periods when shareholders will not be able to purchase or sell the Fund's shares. In addition, for purposes of calculating the Fund's NAV, the value of assets denominated in non-U.S. currencies is converted into U.S. dollars using prevailing market rates on the date of valuation as quoted by one or more data service providers. This conversion may result in a difference between the prices used to calculate the Fund's NAV and the prices used by the Underlying Index, which, in turn, could result in a difference between the Fund's performance and the performance of the Underlying Index.

A Further Discussion of Other Risks

The Fund may also be subject to certain other risks associated with its investments and investment strategies.

Australasian Economic Risk. The economies of Australasia, which include Australia and New Zealand, are dependent on exports from the energy, agricultural and mining sectors. This makes Australasian economies susceptible to fluctuations in the commodity markets. Australasian economies are also increasingly dependent on their

growing service industries. Because the economies of Australasia are dependent on the economies of Asia, Europe and the United States as key trading partners and investors, reduction in spending by any of these trading partners on Australasian products and services, or negative changes in any of these economies, may cause an adverse impact on some or all of the Australasian economies.

Healthcare Sector Risk. The profitability of companies in the healthcare sector may be adversely affected by the following factors, among others: extensive government regulations, restrictions on government reimbursement for medical expenses, rising costs of medical products and services, pricing pressure, an increased emphasis on outpatient services, a limited number of products, industry innovation, changes in technologies and other market developments. A number of issuers in the healthcare sector have recently merged or otherwise experienced consolidation. The effects of this trend toward consolidation are unknown and may be far-reaching. Many healthcare companies are heavily dependent on patent protection. The expiration of a company's patents may adversely affect that company's profitability. Many healthcare companies are subject to extensive litigation based on product liability and similar claims. Healthcare companies are subject to competitive forces that may make it difficult to raise prices and, in fact, may result in price discounting. Many new products in the healthcare sector may be subject to regulatory approvals. The process of obtaining such approvals may be long and costly, and such efforts ultimately may be unsuccessful. Companies in the healthcare sector may be thinly capitalized and may be susceptible to product obsolescence.

Information Technology Sector Risk. Information technology companies face intense competition, both domestically and internationally, which may have an adverse effect on their profit margins. Like other technology companies, information technology companies may have limited product lines, markets, financial resources or personnel. The products of information technology companies may face obsolescence due to rapid technological developments, frequent new product introduction, unpredictable changes in growth rates and competition for the services of qualified personnel. Companies in the information technology sector are heavily dependent on patent and intellectual property rights. The loss or impairment of these rights may adversely affect the profitability of these companies.

Materials Sector Risk. Companies in the materials sector may be adversely affected by commodity price volatility, exchange rates, import controls, increased competition, depletion of resources, technical advances, labor relations, over-production, litigation and government regulations, among other factors. Companies in the materials sector are also at risk of liability for environmental damage and product liability claims. Production of materials may exceed demand as a result of market imbalances or economic downturns, leading to poor investment returns.

Mid-Capitalization Companies Risk. Stock prices of mid-capitalization companies may be more volatile than those of large-capitalization companies and, therefore, the Fund's share price may be more volatile than those of funds that invest a larger percentage of their assets in stocks issued by large-capitalization companies. Stock prices of mid-capitalization companies are also more vulnerable than those of large-capitalization companies to adverse business or economic developments, and the

stocks of mid-capitalization companies may be less liquid, making it difficult for the Fund to buy and sell shares of mid-capitalization companies. In addition, mid-capitalization companies generally have less diverse product lines than large-capitalization companies and are more susceptible to adverse developments related to their products.

Small-Capitalization Companies Risk. Stock prices of small-capitalization companies may be more volatile than those of larger companies and, therefore, the Fund's share price may be more volatile than those of funds that invest a larger percentage of their assets in stocks issued by mid- or large-capitalization companies. Stock prices of small-capitalization companies are generally more vulnerable than those of mid- or large-capitalization companies to adverse business and economic developments. Securities of small-capitalization companies may be thinly traded, making it difficult for the Fund to buy and sell them. In addition, small-capitalization companies are typically less financially stable than larger, more established companies and may depend on a small number of essential personnel, making these companies more vulnerable to experiencing adverse effects due to the loss of personnel. Small-capitalization companies also normally have less diverse product lines than those of mid- or large-capitalization companies and are more susceptible to adverse developments concerning their products.

Portfolio Holdings Information

A description of the Trust's policies and procedures with respect to the disclosure of the Fund's portfolio securities is available in the Fund's Statement of Additional Information ("SAI"). The top holdings of the Fund can be found at www.iShares.com. Fund fact sheets provide information regarding the Fund's top holdings and may be requested by calling 1-800-iShares (1-800-474-2737).

Management

Investment Adviser. As investment adviser, BFA has overall responsibility for the general management and administration of the Fund. BFA provides an investment program for the Fund and manages the investment of the Fund's assets. In managing the Fund, BFA may draw upon the research and expertise of its asset management affiliates with respect to certain portfolio securities. In seeking to achieve the Fund's investment objective, BFA uses teams of portfolio managers, investment strategists and other investment specialists. This team approach brings together many disciplines and leverages BFA's extensive resources.

Pursuant to the Investment Advisory Agreement between BFA and the Trust (entered into on behalf of the Fund), BFA is responsible for substantially all expenses of the Fund, except interest expenses, taxes, brokerage expenses, distribution fees or expenses and extraordinary expenses.

For its investment advisory services to the Fund, BFA is paid a management fee from the Fund based on a percentage of the Fund's average daily net assets, at the annual rate of 0.08%. BFA may from time to time voluntarily waive and/or reimburse fees or expenses in order to limit Total Annual Fund Operating Expenses (excluding Acquired

Fund Fees and Expenses, if any). Any such voluntary waiver or reimbursement may be eliminated by BFA at any time.

BFA is located at 400 Howard Street, San Francisco, CA 94105. It is an indirect wholly-owned subsidiary of BlackRock, Inc. ("BlackRock"). As of September 30, 2016, BFA and its affiliates provided investment advisory services for assets in excess of $5.11 trillion. BFA and its affiliates trade and invest for their own accounts in the types of securities in which the Fund may also invest.

A discussion regarding the basis for the Trust's Board of Trustees' (the "Board") approval of the Investment Advisory Agreement with BFA is available in the Fund's annual report for the period ended July 31.

Portfolio Managers. Diane Hsiung, Jennifer Hsui, Alan Mason and Greg Savage are primarily responsible for the day-to-day management of the Fund. Each Portfolio Manager is responsible for various functions related to portfolio management, including, but not limited to, investing cash inflows, coordinating with members of his or her portfolio management team to focus on certain asset classes, implementing investment strategy, researching and reviewing investment strategy and overseeing members of his or her portfolio management team that have more limited responsibilities.

Diane Hsiung has been employed by BFA as a senior portfolio manager since 2007. Prior to that, Ms. Hsiung was a portfolio manager from 2002 to 2006 for Barclays Global Fund Advisors ("BGFA"). Ms. Hsiung has been a Portfolio Manager of the Fund since 2012.

Jennifer Hsui has been employed by BFA as a senior portfolio manager since 2007. Prior to that, Ms. Hsui was a portfolio manager from 2006 to 2007 for BGFA. Ms. Hsui has been a Portfolio Manager of the Fund since 2012.

Alan Mason has been employed by BFA as a portfolio manager since 1991. Mr. Mason has been a Portfolio Manager of the Fund since 2016.

Greg Savage has been employed by BFA as a senior portfolio manager since 2006. Prior to that, Mr. Savage was a portfolio manager from 2001 to 2006 for BGFA. Mr. Savage has been a Portfolio Manager of the Fund since 2012.

The Fund's SAI provides additional information about the Portfolio Managers' compensation, other accounts managed by the Portfolio Managers and the Portfolio Managers' ownership (if any) of shares in the Fund.

Administrator, Custodian and Transfer Agent. State Street Bank and Trust Company ("State Street") is the administrator, custodian and transfer agent for the Fund.

Conflicts of Interest. The investment activities of BFA and its affiliates (including BlackRock and The PNC Financial Services Group, Inc., and their affiliates, directors, partners, trustees, managing members, officers and employees (collectively, the "Affiliates")) in the management of, or their interest in, their own accounts and other accounts they manage, may present conflicts of interest that could disadvantage the Fund and its shareholders. BFA and the other Affiliates provide investment management services to other funds and discretionary managed accounts that may

follow investment programs similar to that of the Fund. BFA and the other Affiliates are involved worldwide with a broad spectrum of financial services and asset management activities and may engage in the ordinary course of business in activities in which their interests or the interests of their clients may conflict with those of the Fund. BFA or one or more of the other Affiliates acts, or may act, as an investor, investment banker, research provider, investment manager, commodity pool operator, commodity trading advisor, financier, underwriter, adviser, market maker, trader, prime broker, lender, agent or principal, and have other direct and indirect interests in securities, currencies, commodities, derivatives and other instruments in which the Fund may directly or indirectly invest. Thus, it is likely that the Fund will have multiple business relationships with and will invest in, engage in transactions with, make voting decisions with respect to, or obtain services from, entities for which BFA or an Affiliate performs or seeks to perform investment banking or other services. Specifically, the Fund may invest in securities of, or engage in other transactions with, companies with which an Affiliate has developed or is trying to develop investment banking relationships or in which an Affiliate has significant debt or equity investments or other interests. The Fund also may invest in securities of, or engage in other transactions with, companies for which an Affiliate provides or may in the future provide research coverage. An Affiliate may have business relationships with, and purchase, distribute or sell services or products from or to, distributors, consultants or others who recommend the Fund or who engage in transactions with or for the Fund, and may receive compensation for such services. The Fund may also make brokerage and other payments to Affiliates in connection with the Fund's portfolio investment transactions.

BFA or an Affiliate may engage in proprietary trading and advise accounts and funds that have investment objectives similar to those of the Fund and/or that engage in and compete for transactions in the same types of securities, currencies and other instruments as the Fund, including securities issued by other open-end and closed-end investment companies (which may include investment companies that are affiliated with the Fund and BFA, to the extent permitted under the Investment Company Act of 1940, as amended (the "1940 Act")). The trading activities of BFA and these Affiliates are carried out without reference to positions held directly or indirectly by the Fund and may result in BFA or an Affiliate having positions in certain securities that are senior or junior to, or having interests different from or adverse to, the securities that are owned by the Fund.

No Affiliate is under any obligation to share any investment opportunity, idea or strategy with the Fund. As a result, an Affiliate may compete with the Fund for appropriate investment opportunities. The results of the Fund's investment activities, therefore, may differ from those of an Affiliate and of other accounts managed by an Affiliate, and it is possible that the Fund could sustain losses during periods in which one or more Affiliates and other accounts achieve profits on their trading for proprietary or other accounts. The opposite result is also possible.

In addition, the Fund may, from time to time, enter into transactions in which BFA's or an Affiliate's other clients have an adverse interest. Furthermore, transactions undertaken by Affiliate-advised clients may adversely impact the Fund. Transactions by

one or more Affiliate-advised clients or by BFA may have the effect of diluting or otherwise disadvantaging the values, prices or investment strategies of the Fund.

The Fund's activities may be limited because of regulatory restrictions applicable to one or more Affiliates and/or their internal policies designed to comply with such restrictions.

Under a securities lending program approved by the Board, the Fund has retained an Affiliate of BFA to serve as the securities lending agent for the Fund to the extent that the Fund participates in the securities lending program. For these services, the lending agent will retain a share of the securities lending revenues. BFA or an Affiliate will also receive compensation for managing the reinvestment of cash collateral. In addition, one or more Affiliates may be among the entities to which the Fund may lend its portfolio securities under the securities lending program.

The activities of BFA or the Affiliates may give rise to other conflicts of interest that could disadvantage the Fund and its shareholders. BFA has adopted policies and procedures designed to address these potential conflicts of interest. See the Fund's SAI for further information.

Shareholder Information

Additional shareholder information, including how to buy and sell shares of the Fund, is available free of charge by calling toll-free: 1-800-iShares (1-800-474-2737) or visiting our website at www.iShares.com.

Buying and Selling Shares. Shares of the Fund may be acquired or redeemed directly from the Fund only in Creation Units or multiples thereof, as discussed in the *Creations and Redemptions* section of this Prospectus. Only an Authorized Participant (as defined in the *Creations and Redemptions* section below) may engage in creation or redemption transactions directly with the Fund. Once created, shares of the Fund generally trade in the secondary market in amounts less than a Creation Unit.

Shares of the Fund are listed on a national securities exchange for trading during the trading day. Shares can be bought and sold throughout the trading day like shares of other publicly traded companies. The Trust does not impose any minimum investment for shares of the Fund purchased on an exchange or otherwise in the secondary market. The Fund's shares trade under the trading symbol "IEFA."

Buying or selling Fund shares on an exchange or other secondary market involves two types of costs that may apply to all securities transactions. When buying or selling shares of the Fund through a broker, you may incur a brokerage commission and other charges. The commission is frequently a fixed amount and may be a significant proportional cost for investors seeking to buy or sell small amounts of shares. In addition, you may incur the cost of the "spread," that is, any difference between the bid price and the ask price. The spread varies over time for shares of the Fund based on the Fund's trading volume and market liquidity, and is generally lower if the Fund has high trading volume and market liquidity, and higher if the Fund has little trading volume and market liquidity (which is often the case for funds that are newly launched or small in size). The Fund's spread may also be impacted by the liquidity of the

underlying securities held by the Fund, particularly for newly launched or smaller funds or in instances of significant volatility of the underlying securities.

The Board has adopted a policy of not monitoring for frequent purchases and redemptions of Fund shares ("frequent trading") that appear to attempt to take advantage of a potential arbitrage opportunity presented by a lag between a change in the value of the Fund's portfolio securities after the close of the primary markets for the Fund's portfolio securities and the reflection of that change in the Fund's NAV ("market timing"), because the Fund sells and redeems its shares directly through transactions that are in-kind and/or for cash, subject to the conditions described below under *Creations and Redemptions*. The Board has not adopted a policy of monitoring for other frequent trading activity because shares of the Fund are listed for trading on a national securities exchange.

The national securities exchange on which the Fund's shares are listed is open for trading Monday through Friday and is closed on weekends and the following holidays: New Year's Day, Martin Luther King, Jr. Day, Presidents' Day, Good Friday, Memorial Day, Independence Day, Labor Day, Thanksgiving Day and Christmas Day. The Fund's primary listing exchange is NYSE Arca.

Section 12(d)(1) of the 1940 Act restricts investments by investment companies in the securities of other investment companies. Registered investment companies are permitted to invest in the Fund beyond the limits set forth in Section 12(d)(1), subject to certain terms and conditions set forth in SEC rules or in an SEC exemptive order issued to the Trust. In order for a registered investment company to invest in shares of the Fund beyond the limitations of Section 12(d)(1) pursuant to the exemptive relief obtained by the Trust, the registered investment company must enter into an agreement with the Trust.

Book Entry. Shares of the Fund are held in book-entry form, which means that no stock certificates are issued. The Depository Trust Company ("DTC") or its nominee is the record owner of all outstanding shares of the Fund and is recognized as the owner of all shares for all purposes.

Investors owning shares of the Fund are beneficial owners as shown on the records of DTC or its participants. DTC serves as the securities depository for shares of the Fund. DTC participants include securities brokers and dealers, banks, trust companies, clearing corporations and other institutions that directly or indirectly maintain a custodial relationship with DTC. As a beneficial owner of shares, you are not entitled to receive physical delivery of stock certificates or to have shares registered in your name, and you are not considered a registered owner of shares. Therefore, to exercise any right as an owner of shares, you must rely upon the procedures of DTC and its participants. These procedures are the same as those that apply to any other securities that you hold in book-entry or "street name" form.

Share Prices. The trading prices of the Fund's shares in the secondary market generally differ from the Fund's daily NAV and are affected by market forces such as the supply of and demand for ETF shares and shares of underlying securities held by the Fund, economic conditions and other factors. Information regarding the intraday value of shares of the Fund, also known as the "indicative optimized portfolio value"

("IOPV"), is disseminated every 15 seconds throughout each trading day by the national securities exchange on which the Fund's shares are listed or by market data vendors or other information providers. The IOPV is based on the current market value of the securities or other assets and/or cash required to be deposited in exchange for a Creation Unit. The IOPV does not necessarily reflect the precise composition of the current portfolio of securities or other assets held by the Fund at a particular point in time or the best possible valuation of the current portfolio. Therefore, the IOPV should not be viewed as a "real-time" update of the Fund's NAV, which is computed only once a day. The IOPV is generally determined by using both current market quotations and/or price quotations obtained from broker-dealers and other market intermediaries that may trade in the portfolio securities or other assets held by the Fund. The quotations of certain Fund holdings may not be updated during U.S. trading hours if such holdings do not trade in the United States. The Fund is not involved in, or responsible for, the calculation or dissemination of the IOPV and makes no representation or warranty as to its accuracy.

Determination of Net Asset Value. The NAV of the Fund normally is determined once daily Monday through Friday, generally as of the regularly scheduled close of business of the New York Stock Exchange ("NYSE") (normally 4:00 p.m., Eastern time) on each day that the NYSE is open for trading, based on prices at the time of closing, provided that (a) any Fund assets or liabilities denominated in currencies other than the U.S. dollar are translated into U.S. dollars at the prevailing market rates on the date of valuation as quoted by one or more data service providers (as detailed below) and (b) U.S. fixed-income assets may be valued as of the announced closing time for trading in fixed-income instruments in a particular market or exchange. The NAV of the Fund is calculated by dividing the value of the net assets of the Fund (*i.e.*, the value of its total assets less total liabilities) by the total number of outstanding shares of the Fund, generally rounded to the nearest cent.

The value of the securities and other assets and liabilities held by the Fund are determined pursuant to valuation policies and procedures approved by the Board.

Equity investments and other instruments for which market quotations are readily available, as well as investments in an underlying fund, if any, are valued at market value, which is generally determined using the last reported official closing price or, if a reported closing price is not available, the last traded price on the exchange or market on which the security is primarily traded at the time of valuation.

The Fund invests in non-U.S. securities. Foreign currency exchange rates with respect to the underlying securities are generally determined as of 4:00 p.m., London time. Non-U.S. securities held by the Fund may trade on weekends or other days when the Fund does not price its shares. As a result, the Fund's NAV may change on days when Authorized Participants (as defined in the *Creations and Redemptions* section of this Prospectus) will not be able to purchase or redeem Fund shares.

Generally, trading in non-U.S. securities, U.S. government securities, money market instruments and certain fixed-income securities is substantially completed each day at various times prior to the close of business on the NYSE. The values of such securities used in computing the NAV of the Fund are determined as of such times.

When market quotations are not readily available or are believed by BFA to be unreliable, the Fund's investments are valued at fair value. Fair value determinations are made by BFA in accordance with policies and procedures approved by the Board. BFA may conclude that a market quotation is not readily available or is unreliable if a security or other asset or liability does not have a price source due to its lack of liquidity or other reasons, if a market quotation differs significantly from recent price quotations or otherwise no longer appears to reflect fair value, where the security or other asset or liability is thinly traded, when there is a significant event subsequent to the most recent market quotation, or if the trading market on which a security is listed is suspended or closed and no appropriate alternative trading market is available. A "significant event" is deemed to occur if BFA determines, in its reasonable business judgment prior to or at the time of pricing the Fund's assets or liabilities, that the event is likely to cause a material change to the closing market price of one or more assets or liabilities held by the Fund. Non-U.S. securities whose values are affected by volatility that occurs in the local markets or in related or highly correlated assets (*e.g.,* American Depositary Receipts, Global Depositary Receipts or substantially identical ETFs) on a trading day after the close of non-U.S. securities markets may be fair valued.

Fair value represents a good faith approximation of the value of an asset or liability. The fair value of an asset or liability held by the Fund is the amount the Fund might reasonably expect to receive from the current sale of that asset or the cost to extinguish that liability in an arm's-length transaction. Valuing the Fund's investments using fair value pricing will result in prices that may differ from current market valuations and that may not be the prices at which those investments could have been sold during the period in which the particular fair values were used. Use of fair value prices and certain current market valuations could result in a difference between the prices used to calculate the Fund's NAV and the prices used by the Underlying Index, which, in turn, could result in a difference between the Fund's performance and the performance of the Underlying Index.

The value of assets or liabilities denominated in non-U.S. currencies will be converted into U.S. dollars using prevailing market rates on the date of valuation as quoted by one or more data service providers. Use of a rate different from the rate used by the Index Provider may adversely affect the Fund's ability to track the Underlying Index.

Dividends and Distributions

General Policies. Dividends from net investment income, if any, generally are declared and paid at least once a year by the Fund. Distributions of net realized securities gains, if any, generally are declared and paid once a year, but the Trust may make distributions on a more frequent basis for the Fund. The Trust reserves the right to declare special distributions if, in its reasonable discretion, such action is necessary or advisable to preserve its status as a regulated investment company ("RIC") or to avoid imposition of income or excise taxes on undistributed income or realized gains.

Dividends and other distributions on shares of the Fund are distributed on a *pro rata* basis to beneficial owners of such shares. Dividend payments are made through DTC participants and indirect participants to beneficial owners then of record with proceeds received from the Fund.

Dividend Reinvestment Service. No dividend reinvestment service is provided by the Trust. Broker-dealers may make available the DTC book-entry Dividend Reinvestment Service for use by beneficial owners of the Fund for reinvestment of their dividend distributions. Beneficial owners should contact their broker to determine the availability and costs of the service and the details of participation therein. Brokers may require beneficial owners to adhere to specific procedures and timetables. If this service is available and used, dividend distributions of both income and realized gains will be automatically reinvested in additional whole shares of the Fund purchased in the secondary market.

Taxes. As with any investment, you should consider how your investment in shares of the Fund will be taxed. The tax information in this Prospectus is provided as general information, based on current law. You should consult your own tax professional about the tax consequences of an investment in shares of the Fund.

Unless your investment in Fund shares is made through a tax-exempt entity or tax-deferred retirement account, such as an IRA, you need to be aware of the possible tax consequences when the Fund makes distributions or you sell Fund shares.

Taxes on Distributions. Distributions from the Fund's net investment income (other than qualified dividend income), including distributions of income from securities lending and distributions out of the Fund's net short-term capital gains, if any, are taxable to you as ordinary income. Distributions by the Fund of net long-term capital gains in excess of net short-term capital losses (capital gain dividends) are taxable to you as long-term capital gains, regardless of how long you have held the Fund's shares. Distributions by the Fund that qualify as qualified dividend income are taxable to you at long-term capital gain rates. Long-term capital gains and qualified dividend income are generally eligible for taxation at a maximum rate of 15% for non-corporate shareholders with incomes below approximately $415,000 ($465,000 if married and filing jointly), adjusted annually for inflation, and 20% for individuals with any income above these amounts that is net long-term capital gain or qualified dividend income. In addition, a 3.8% U.S. federal Medicare contribution tax is imposed on "net investment income," including, but not limited to, interest, dividends, and net gain, of U.S. individuals with income exceeding $200,000 (or $250,000 if married and filing jointly) and of estates and trusts.

Dividends will be qualified dividend income to you if they are attributable to qualified dividend income received by the Fund. Generally, qualified dividend income includes dividend income from taxable U.S. corporations and qualified non-U.S. corporations, provided that the Fund satisfies certain holding period requirements in respect of the stock of such corporations and has not hedged its position in the stock in certain ways. Substitute dividends received by the Fund with respect to dividends paid on securities lent out will not be qualified dividend income. For this purpose, a qualified non-U.S. corporation means any non-U.S. corporation that is eligible for benefits under a comprehensive income tax treaty with the United States, which includes an exchange of information program, or if the stock with respect to which the dividend was paid is readily tradable on an established United States securities market. The term excludes a corporation that is a passive foreign investment company.

Dividends received by the Fund from a real estate investment trust ("REIT") or another RIC generally are qualified dividend income only to the extent such dividend distributions are made out of qualified dividend income received by such REIT or RIC. It is expected that dividends received by the Fund from a REIT and distributed to a shareholder generally will be taxable to the shareholder as ordinary income.

For a dividend to be treated as qualified dividend income, the dividend must be received with respect to a share of stock held without being hedged by the Fund, and with respect to a share of the Fund held without being hedged by you, for 61 days during the 121-day period beginning at the date which is 60 days before the date on which such share becomes ex-dividend with respect to such dividend or, in the case of certain preferred stock, 91 days during the 181-day period beginning 90 days before such date.

In general, your distributions are subject to U.S. federal income tax for the year when they are paid. Certain distributions paid in January, however, may be treated as paid on December 31 of the prior year.

If the Fund's distributions exceed current and accumulated earnings and profits, all or a portion of the distributions made in the taxable year may be recharacterized as a return of capital to shareholders. Distributions in excess of the Fund's minimum distribution requirements, but not in excess of the Fund's earnings and profits, will be taxable to shareholders and will not constitute nontaxable returns of capital. A return of capital distribution generally will not be taxable but will reduce the shareholder's cost basis and result in a higher capital gain or lower capital loss when those shares on which the distribution was received are sold. Once a shareholder's cost basis is reduced to zero, further distributions will be treated as capital gain, if the shareholder holds shares of the Fund as capital assets.

Dividends, interest and capital gains earned by the Fund with respect to non-U.S. securities may give rise to withholding, capital gains and other taxes imposed by non-U.S. countries. Tax conventions between certain countries and the United States may reduce or eliminate such taxes. If more than 50% of the total assets of the Fund at the close of a year consists of non-U.S. stocks or securities, generally the Fund may "pass through" to you certain non-U.S. income taxes (including withholding taxes) paid by the Fund. This means that you would be considered to have received as an additional dividend your share of such non-U.S. taxes, but you may be entitled to either a corresponding tax deduction in calculating your taxable income, or, subject to certain limitations, a credit in calculating your U.S. federal income tax.

For purposes of foreign tax credits for U.S. shareholders of the Fund, foreign capital gains taxes may not produce associated foreign source income, limiting the availability of such credits for U.S. persons.

If you are neither a resident nor a citizen of the United States or if you are a non-U.S. entity, the Fund's ordinary income dividends (which include distributions of net short-term capital gains) will generally be subject to a 30% U.S. withholding tax, unless a lower treaty rate applies, provided that withholding tax will generally not apply to any gain or income realized by a non-U.S. shareholder in respect of any distributions of long-term capital gains or upon the sale or other disposition of shares of the Fund.

A 30% withholding tax is currently imposed on U.S.-source dividends, interest and other income items and will be imposed on proceeds from the sale, redemption or other disposition of property producing U.S.-source dividends and interest paid after December 31, 2018, to (i) foreign financial institutions, including non-U.S. investment funds, unless they agree to collect and disclose to the Internal Revenue Service ("IRS") information regarding their direct and indirect U.S. account holders and (ii) certain other foreign entities, unless they certify certain information regarding their direct and indirect U.S. owners. To avoid withholding, foreign financial institutions will need to (i) enter into agreements with the IRS that state that they will provide the IRS information, including the names, addresses and taxpayer identification numbers of direct and indirect U.S. account holders, comply with due diligence procedures with respect to the identification of U.S. accounts, report to the IRS certain information with respect to U.S. accounts maintained, agree to withhold tax on certain payments made to non-compliant foreign financial institutions or to account holders who fail to provide the required information, and determine certain other information concerning their account holders, or (ii) in the event that an applicable intergovernmental agreement and implementing legislation are adopted, provide local revenue authorities with similar account holder information. Other foreign entities may need to report the name, address, and taxpayer identification number of each substantial U.S. owner or provide certifications of no substantial U.S. ownership unless certain exceptions apply.

If your Fund shares are loaned out pursuant to a securities lending arrangement, you may lose the ability to treat Fund dividends paid while the shares are held by the borrower as qualified dividend income. In addition, you may lose the ability to use foreign tax credits passed through by the Fund if your Fund shares are loaned out pursuant to a securities lending agreement.

If you are a resident or a citizen of the United States, by law, back-up withholding at a 28% rate will apply to your distributions and proceeds if you have not provided a taxpayer identification number or social security number and made other required certifications.

Taxes When Shares are Sold. Currently, any capital gain or loss realized upon a sale of Fund shares is generally treated as a long-term gain or loss if the shares have been held for more than one year. Any capital gain or loss realized upon a sale of Fund shares held for one year or less is generally treated as short-term gain or loss, except that any capital loss on the sale of shares held for six months or less is treated as long-term capital loss to the extent that capital gain dividends were paid with respect to such shares. Any such capital gains, including from sales of Fund shares or from capital gain dividends, are included in "net investment income" for purposes of the 3.8% U.S. federal Medicare contribution tax mentioned above.

The foregoing discussion summarizes some of the consequences under current U.S. federal tax law of an investment in the Fund. It is not a substitute for personal tax advice. You may also be subject to state and local taxation on Fund distributions and sales of shares. Consult your personal tax advisor about the potential tax consequences of an investment in shares of the Fund under all applicable tax laws.

Creations and Redemptions. Prior to trading in the secondary market, shares of the Fund are "created" at NAV by market makers, large investors and institutions only in

block-size Creation Units of 200,000 shares or multiples thereof. Each "creator" or authorized participant (an "Authorized Participant") has entered into an agreement with the Fund's distributor, BlackRock Investments, LLC (the "Distributor"), an affiliate of BFA.

A creation transaction, which is subject to acceptance by the Distributor and the Fund, generally takes place when an Authorized Participant deposits into the Fund a designated portfolio of securities (including any portion of such securities for which cash may be substituted) and a specified amount of cash approximating the holdings of the Fund in exchange for a specified number of Creation Units. To the extent practicable, the composition of such portfolio generally corresponds *pro rata* to the holdings of the Fund. However, creation and redemption baskets may differ.

Similarly, shares can be redeemed only in Creation Units, generally for a designated portfolio of securities (including any portion of such securities for which cash may be substituted) held by the Fund and a specified amount of cash. The Fund generally offers Creation Units partially for cash, but may, in certain circumstances, offer Creation Units solely for cash. *Except when aggregated in Creation Units, shares are not redeemable by the Fund.*

The prices at which creations and redemptions occur are based on the next calculation of NAV after a creation or redemption order is received in an acceptable form under the authorized participant agreement.

Only an Authorized Participant may create or redeem Creation Units with the Fund. Authorized Participants may create or redeem Creation Units for their own accounts or for customers, including, without limitation, affiliates of the Fund.

In the event of a system failure or other interruption, including disruptions at market makers or Authorized Participants, orders to purchase or redeem Creation Units either may not be executed according to the Fund's instructions or may not be executed at all, or the Fund may not be able to place or change orders.

To the extent the Fund engages in in-kind transactions, the Fund intends to comply with the U.S. federal securities laws in accepting securities for deposit and satisfying redemptions with redemption securities by, among other means, assuring that any securities accepted for deposit and any securities used to satisfy redemption requests will be sold in transactions that would be exempt from registration under the Securities Act of 1933, as amended (the "1933 Act"). Further, an Authorized Participant that is not a "qualified institutional buyer," as such term is defined in Rule 144A under the 1933 Act, will not be able to receive restricted securities eligible for resale under Rule 144A.

Creations and redemptions must be made through a firm that is either a member of the Continuous Net Settlement System of the National Securities Clearing Corporation or a DTC participant that has executed an agreement with the Distributor with respect to creations and redemptions of Creation Unit aggregations. Information about the procedures regarding creation and redemption of Creation Units (including the cut-off times for receipt of creation and redemption orders) is included in the Fund's SAI.

Because new shares may be created and issued on an ongoing basis, at any point during the life of the Fund a "distribution," as such term is used in the 1933 Act, may

be occurring. Broker-dealers and other persons are cautioned that some activities on their part may, depending on the circumstances, result in their being deemed participants in a distribution in a manner that could render them statutory underwriters subject to the prospectus delivery and liability provisions of the 1933 Act. Any determination of whether one is an underwriter must take into account all the relevant facts and circumstances of each particular case.

Broker-dealers should also note that dealers who are not "underwriters" but are participating in a distribution (as contrasted to ordinary secondary transactions), and thus dealing with shares that are part of an "unsold allotment" within the meaning of Section 4(a)(3)(C) of the 1933 Act, would be unable to take advantage of the prospectus delivery exemption provided by Section 4(a)(3) of the 1933 Act. For delivery of prospectuses to exchange members, the prospectus delivery mechanism of Rule 153 under the 1933 Act is available only with respect to transactions on a national securities exchange.

Costs Associated with Creations and Redemptions. Authorized Participants are charged standard creation and redemption transaction fees to offset transfer, processing and other transaction costs associated with the issuance and redemption of Creation Units. The standard creation and redemption transaction fees are set forth in the table below. The standard creation and redemption transaction fees are charged on each Creation Unit created or redeemed, as applicable, by an Authorized Participant on the day of the transaction. The standard transaction fee is generally fixed at the amount shown in the table regardless of the number of Creation Units being purchased or redeemed, but may be reduced by the Fund if transfer and processing expenses associated with the creation or redemption are anticipated to be lower than the stated fee. If a purchase or redemption consists solely or partially of cash, the Authorized Participant may also be required to pay an additional transaction charge (up to the maximum amounts shown in the table below) to cover brokerage and certain other costs related to a creation or redemption transaction. Investors who use the services of a broker or other financial intermediary to acquire or dispose of Fund shares may pay fees for such services.

The following table shows, as of August 31, 2016, the approximate value of one Creation Unit, standard fees and maximum additional charges for creations and redemptions (as described above):

Approximate Value of a Creation Unit	Creation Unit Size	Standard Creation/ Redemption Transaction Fee	Maximum Additional Charge for Creations*	Maximum Additional Charge for Redemptions*
$10,832,000	200,000	$15,000	7.0%	2.0%

* As a percentage of the net asset value per Creation Unit, inclusive, in the case of redemptions, of the standard redemption transaction fee.

If a purchase or redemption consists solely or partially of cash and the Fund places a brokerage transaction for portfolio securities with the Authorized Participant or its affiliated broker-dealer, the Authorized Participant (or an affiliated broker-dealer of the Authorized Participant) may be required, in its capacity as broker-dealer with respect

to that transaction, to cover certain brokerage, tax, foreign exchange, execution, and price movement costs through a brokerage execution guarantee, as further described in the Fund's SAI.

Householding. Householding is an option available to certain Fund investors. Householding is a method of delivery, based on the preference of the individual investor, in which a single copy of certain shareholder documents can be delivered to investors who share the same address, even if their accounts are registered under different names. Please contact your broker-dealer if you are interested in enrolling in householding and receiving a single copy of prospectuses and other shareholder documents, or if you are currently enrolled in householding and wish to change your householding status.

Distribution

The Distributor or its agent distributes Creation Units for the Fund on an agency basis. The Distributor does not maintain a secondary market in shares of the Fund. The Distributor has no role in determining the policies of the Fund or the securities that are purchased or sold by the Fund. The Distributor's principal address is 1 University Square Drive, Princeton, NJ 08540.

BFA or its affiliates make payments to broker-dealers, registered investment advisers, banks or other intermediaries (together, "intermediaries") related to marketing activities and presentations, educational training programs, conferences, the development of technology platforms and reporting systems, data provision services, or their making shares of the Fund and certain other iShares funds available to their customers generally and in certain investment programs. Such payments, which may be significant to the intermediary, are not made by the Fund. Rather, such payments are made by BFA or its affiliates from their own resources, which come directly or indirectly in part from fees paid by the iShares funds complex. Payments of this type are sometimes referred to as revenue-sharing payments. A financial intermediary may make decisions about which investment options it recommends or makes available, or the level of services provided, to its customers based on the payments or other financial incentives it is eligible to receive. Therefore, such payments or other financial incentives offered or made to an intermediary create conflicts of interest between the intermediary and its customers and may cause the intermediary to recommend the Fund or other iShares funds over another investment. More information regarding these payments is contained in the Fund's SAI. **Please contact your salesperson or other investment professional for more information regarding any such payments his or her firm may receive from BFA or its affiliates.**

Financial Highlights

The financial highlights table is intended to help investors understand the Fund's financial performance since inception. Certain information reflects financial results for a single share of the Fund. The total returns in the table represent the rate that an investor would have earned (or lost) on an investment in the Fund, assuming reinvestment of all dividends and distributions. This information has been audited by PricewaterhouseCoopers LLP, whose report is included, along with the Fund's financial statements, in the Fund's Annual Report (available upon request).

Financial Highlights
(For a share outstanding throughout each period)

	Year ended Jul. 31, 2016	Year ended Jul. 31, 2015	Year ended Jul. 31, 2014	Period from Oct. 18, 2012[a] to Jul. 31, 2013
Net asset value, beginning of period	$ 59.33	$ 60.82	$ 54.10	$ 48.62
Income from investment operations:				
Net investment income[b]	1.72	1.83	2.21	1.51
Net realized and unrealized gain (loss)[c]	(5.46)	(1.77)	6.22	4.92
Total from investment operations	(3.74)	0.06	8.43	6.43
Less distributions from:				
Net investment income	(1.43)	(1.55)	(1.71)	(0.95)
Total distributions	(1.43)	(1.55)	(1.71)	(0.95)
Net asset value, end of period	$ 54.16	$ 59.33	$ 60.82	$ 54.10
Total return	(6.24)%	0.16%	15.62%	13.34%[d]
Ratios/Supplemental data:				
Net assets, end of period (000s)	$11,959,585	$6,389,447	$2,475,223	$881,841
Ratio of expenses to average net assets[e]	0.12%	0.12%	0.13%	0.05%
Ratio of expenses to average net assets prior to waived fees[e]	n/a	0.12%	0.14%	0.14%
Ratio of net investment income to average net assets[e]	3.22%	3.12%	3.67%	3.63%
Portfolio turnover rate[f]	2%	5%	3%	1%

[a] Commencement of operations.
[b] Based on average shares outstanding throughout each period.
[c] The amounts reported for a share outstanding may not accord with the change in aggregate gains and losses in securities for the fiscal period due to the timing of capital share transactions in relation to the fluctuating market values of the Fund's underlying securities.
[d] Not annualized.
[e] Annualized for periods of less than one year.
[f] Portfolio turnover rates exclude portfolio securities received or delivered as a result of processing capital share transactions in Creation Units.

Index Provider

MSCI is a provider of investment decision support tools to investors globally. MSCI products and services include indices, portfolio risk and performance analytics, and governance tools. MSCI is not affiliated with the Trust, BFA, State Street, the Distributor or any of their respective affiliates.

BFA or its affiliates have entered into a license agreement with the Index Provider to use the Underlying Index. BFA or its affiliates sublicense rights in the Underlying Index to the Trust at no charge.

Disclaimers

The Fund is not sponsored, endorsed, sold or promoted by MSCI or any affiliate of MSCI. Neither MSCI nor any other party makes any representation or warranty, express or implied, to the owners of the Fund or any member of the public regarding the advisability of investing in funds generally or in the Fund particularly or the ability of the Underlying Index to track general stock market performance. MSCI is the licensor of certain trademarks, service marks and trade names of MSCI and of the Underlying Index, which is determined, composed and calculated by MSCI without regard to the issuer of the Fund or the Fund. MSCI has no obligation to take the needs of the issuer of the Fund or the owners of the Fund into consideration in determining, composing or calculating the Underlying Index. MSCI is not responsible for and has not participated in the determination of the timing of, prices at, or quantities of the Fund to be issued or in the determination or calculation of the equation by which the Fund is redeemable for cash. Neither MSCI nor any other party has any obligation or liability to owners of the Fund in connection with the administration, marketing or trading of the Fund.

ALTHOUGH MSCI SHALL OBTAIN INFORMATION FOR INCLUSION IN OR FOR USE IN THE CALCULATION OF THE INDEXES FROM SOURCES WHICH MSCI CONSIDERS RELIABLE, NEITHER MSCI NOR ANY OTHER PARTY GUARANTEES THE ACCURACY AND/OR THE COMPLETENESS OF THE INDEXES OR ANY DATA INCLUDED THEREIN. NEITHER MSCI NOR ANY OTHER PARTY MAKES ANY WARRANTY, EXPRESS OR IMPLIED, AS TO RESULTS TO BE OBTAINED BY LICENSEE, LICENSEE'S CUSTOMERS AND COUNTERPARTIES, OWNERS OF THE FUND, OR ANY OTHER PERSON OR ENTITY FROM THE USE OF THE INDEXES OR ANY DATA INCLUDED THEREIN IN CONNECTION WITH THE RIGHTS LICENSED HEREUNDER OR FOR ANY OTHER USE. NEITHER MSCI NOR ANY OTHER PARTY MAKES ANY EXPRESS OR IMPLIED WARRANTIES, AND MSCI HEREBY EXPRESSLY DISCLAIMS ALL WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE WITH RESPECT TO THE INDEXES OR ANY DATA INCLUDED THEREIN. WITHOUT LIMITING ANY OF THE FOREGOING, IN NO EVENT SHALL MSCI OR ANY OTHER PARTY HAVE ANY LIABILITY FOR ANY DIRECT, INDIRECT, SPECIAL, PUNITIVE, CONSEQUENTIAL OR ANY OTHER DAMAGES (INCLUDING LOST PROFITS) EVEN IF NOTIFIED OF THE POSSIBILITY OF SUCH DAMAGES.

Shares of the Fund are not sponsored, endorsed or promoted by NYSE Arca. NYSE Arca makes no representation or warranty, express or implied, to the owners of the shares of the Fund or any member of the public regarding the ability of the Fund to track the total return performance of the Underlying Index or the ability of the Underlying Index to track stock market performance. NYSE Arca is not responsible for, nor has it participated in, the determination of the compilation or the calculation of the Underlying Index, nor in the determination of the timing of, prices of, or quantities of shares of the Fund to be issued, nor in the determination or calculation of the equation by which the shares are redeemable. NYSE Arca has no obligation or liability to owners of the shares of the Fund in connection with the administration, marketing or trading of the shares of the Fund.

NYSE Arca does not guarantee the accuracy and/or the completeness of the Underlying Index or any data included therein. NYSE Arca makes no warranty, express or implied, as to results to be obtained by the Trust on behalf of the Fund as licensee, licensee's customers and counterparties, owners of the shares of the Fund, or any other person or entity from the use of the Underlying Index or any data included therein in connection with the rights licensed as described herein or for any other use. NYSE Arca makes no express or implied warranties and hereby expressly disclaims all warranties of merchantability or fitness for a particular purpose with respect to the Underlying Index or any data included therein. Without limiting any of the foregoing, in no event shall NYSE Arca have any liability for any direct, indirect, special, punitive, consequential or any other damages (including lost profits) even if notified of the possibility of such damages.

The past performance of the Underlying Index is not a guide to future performance. BFA and its affiliates do not guarantee the accuracy or the completeness of the Underlying Index or any data included therein and BFA and its affiliates shall have no liability for any errors, omissions or interruptions therein. BFA and its affiliates make no warranty, express or implied, to the owners of shares of the Fund or to any other person or entity, as to results to be obtained by the Fund from the use of the Underlying Index or any data included therein. Without limiting any of the foregoing, in no event shall BFA or its affiliates have any liability for any special, punitive, direct, indirect or consequential damages (including lost profits), even if notified of the possibility of such damages.

Supplemental Information

I. Premium/Discount Information

The table that follows presents information about the differences between the daily market price on secondary markets for shares of the Fund and the Fund's NAV. NAV is the price at which the Fund issues and redeems shares. It is calculated in accordance with the standard formula for valuing mutual fund shares. The price used to calculate market returns ("Market Price") of the Fund generally is determined using the midpoint between the highest bid and the lowest ask on the primary securities exchange on which shares of the Fund are listed for trading, as of the time that the Fund's NAV is calculated. The Fund's Market Price may be at, above or below its NAV. The NAV of the Fund will fluctuate with changes in the value of its portfolio holdings. The Market Price of the Fund will fluctuate in accordance with changes in its NAV, as well as market supply and demand.

Premiums or discounts are the differences (expressed as a percentage) between the NAV and Market Price of the Fund on a given day, generally at the time the NAV is calculated. A premium is the amount that the Fund is trading above the reported NAV, expressed as a percentage of the NAV. A discount is the amount that the Fund is trading below the reported NAV, expressed as a percentage of the NAV.

The following information shows the frequency of distributions of premiums and discounts for the Fund for each full calendar quarter of 2015 through September 30, 2016.

Each line in the table shows the number of trading days in which the Fund traded within the premium/discount range indicated. The number of trading days in each premium/discount range is also shown as a percentage of the total number of trading days in the period covered by the table. All data presented here represents past performance, which cannot be used to predict future results.

Premium/Discount Range	*Number of Days*	*Percentage of Total Days*
Greater than 1.5% and Less than 2.0%	4	0.91%
Greater than 1.0% and Less than 1.5%	26	5.90
Greater than 0.5% and Less than 1.0%	84	19.05
Between 0.5% and -0.5%	296	67.11
Less than -0.5% and Greater than -1.0%	24	5.44
Less than -1.0% and Greater than -1.5%	6	1.36
Less than -1.5% and Greater than -2.0%	1	0.23
	441	100.00%

II. Total Return Information

The table that follows presents information about the total returns of the Fund and the Underlying Index as of the fiscal year ended July 31, 2016.

"Average Annual Total Returns" represent the average annual change in value of an investment over the periods indicated. "Cumulative Total Returns" represent the total change in value of an investment over the periods indicated.

The Fund's NAV is the value of one share of the Fund as calculated in accordance with the standard formula for valuing mutual fund shares. The NAV return is based on the NAV of the Fund and the market return is based on the Market Price of the Fund. Market Price generally is determined by using the midpoint between the highest bid and the lowest ask on the primary stock exchange on which shares of the Fund are listed for trading, as of the time that the Fund's NAV is calculated. Since shares of the Fund did not trade in the secondary market until after the Fund's inception, for the period from inception to the first day of secondary market trading in shares of the Fund, the NAV of the Fund is used as a proxy for the Market Price to calculate market returns. Market and NAV returns assume that dividends and capital gain distributions have been reinvested in the Fund at Market Price and NAV, respectively.

An index is a financial calculation, based on a grouping of financial instruments, that is not an investment product and that tracks a specified financial market or sector. Unlike the Fund, the Underlying Index does not actually hold a portfolio of securities and therefore does not incur the expenses incurred by the Fund. These expenses negatively impact the performance of the Fund. Also, market returns do not include brokerage commissions and other charges that may be payable on secondary market transactions. If brokerage commissions were included, market returns would be lower. The returns shown in the following table do not reflect the deduction of taxes that a shareholder would pay on Fund distributions or the redemption or sale of Fund shares. The investment return and principal value of shares of the Fund will vary with changes in market conditions. Shares of the Fund may be worth more or less than their original cost when they are redeemed or sold in the market. The Fund's past performance is no guarantee of future results.

Performance as of July 31, 2016

	Average Annual Total Returns			Cumulative Total Returns		
	NAV	MARKET	INDEX	NAV	MARKET	INDEX
1 Year	(6.24)%	(6.32)%	(6.39)%	(6.24)%	(6.32)%	(6.39)%
Since Inception*	5.63%	5.57%	5.50%	23.06%	22.76%	22.47%

* Total returns for the period since inception are calculated from the inception date of the Fund (10/18/12). The first day of secondary market trading in shares of the Fund was 10/22/12.

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For more information visit www.iShares.com or call 1-800-474-2737

Copies of the Prospectus, SAI and recent shareholder reports can be found on our website at www.iShares.com. For more information about the Fund, you may request a copy of the SAI. The SAI provides detailed information about the Fund and is incorporated by reference into this Prospectus. This means that the SAI, for legal purposes, is a part of this Prospectus.

Additional information about the Fund's investments is available in the Fund's Annual and Semi-Annual Reports to shareholders. In the Fund's Annual Report, you will find a discussion of the market conditions and investment strategies that significantly affected the Fund's performance during the last fiscal year.

If you have any questions about the Trust or shares of the Fund or you wish to obtain the SAI, Semi-Annual or Annual Report free of charge, please:

Call:	1-800-iShares or 1-800-474-2737 (toll free) Monday through Friday, 8:30 a.m. to 6:30 p.m. (Eastern time)
Email:	iSharesETFs@blackrock.com
Write:	c/o BlackRock Investments, LLC 1 University Square Drive, Princeton, NJ 08540

Information about the Fund (including the SAI) can be reviewed and copied at the SEC's Public Reference Room in Washington, D.C., and information on the operation of the Public Reference Room may be obtained by calling the SEC at 1-202-551-8090. Reports and other information about the Fund are available on the EDGAR database on the SEC's website at www.sec.gov, and copies of this information may be obtained, after paying a duplicating fee, by electronic request at the following e-mail address: publicinfo@sec.gov, or by writing to the SEC's Public Reference Room, Washington, D.C. 20549-1520.

No person is authorized to give any information or to make any representations about the Fund and its shares not contained in this Prospectus and you should not rely on any other information. Read and keep this Prospectus for future reference.

Investment Company Act File No.: 811-09729

IS-P-IEFA-1216

BLACKROCK®

Boyd Watterson Asset Management, LLC

1801 East 9th Street, Suite 1400
Cleveland, Ohio 44114

Style:	US Taxable Core
Sub-Style:	Taxable Core
Firm AUM:	$7.7 billion
Firm Strategy AUM:	$444.9 million^

Year Founded:	1928
GIMA Status:	Approved
Firm Ownership:	Titanium Asset Management
Professional-Staff:	39^^

PRODUCT OVERVIEW

Boyd Watterson Asset Management, LLC ("Boyd Watterson") seeks to achieve fixed income results in excess of its benchmarks through active portfolio management. The foundation of the firm's investment philosophy is based on fundamental economic and credit research conducted by highly experienced investment professionals. It is Boyd Watterson's belief that above average returns can be achieved through duration management, exploiting changes in spread relationships and identifying undervalued sectors. First, the strategy assumptions create a bias with respect to relative duration management. Second, quantitative interest rate models provide analysis into the direction of interest rates. The strategy team reconciles the biases into a specific duration target. The resulting portfolio duration will range between +/- 25% of the prescribed benchmark, unless otherwise specified by the client. The eligible securities include investment grade, high yield rated B- or B3 at time of purchase, and non-U.S. dollar denominated securities rated B- or B3 at time of purchase. The underlying strategy assumptions normally lead to biases with regard to sector allocation. Historical spread relationships are then referenced to clarify and enhance the specifics of the sector allocation decision. Boyd Watterson designs the portfolio for the Market Duration Fixed Income strategy by building on core portfolio holdings such as treasuries, agencies and investment grade corporate bonds, then investing up to a 30% weighting of below investment grade securities and/or non-U.S. dollar denominated bonds.

TARGET PORTFOLIO CHARACTERISTICS

Number of bond holdings:	25 to 35
Average credit quality:	A
Average maturity:	5.5 to 6.4 years
Average duration:	3.4 to 5.6 years
Average coupon:	5.5 to 5.8%
Average turnover rate:	0 to 50%

PORTFOLIO STATISTICS

	----------06/17------		12/16
	Boyd Watterson	Index***	Boyd Watterson
Number of bond holdings	53	—	49
SEC Yield	3.6	—	3.7
Avg credit quality	A	—	AA
Avg maturity	7.67 yrs.	—	8.45 yrs.
Avg duration	5.92 yrs.	—	6.45 yrs.
Avg coupon	3.8%	—	3.8%

FIXED INCOME SECTOR DISTRIBUTION (%) +

	06/17	03/17	12/16	09/16
Mortgage-Backed Securities	26.00	27.00	28.98	31.35
Industrials [1]	29.00		27.13	26.09
U.S. Treasury	17.00	17.00	18.11	19.62
Financials [1]	23.00	23.00	19.30	18.12
Medium capitalization [1]	3.00	3.00	3.36	3.24
Cash/Cash Equivalents	2.00		3.12	1.58

^As of 12/31/2016. Information as of 06/30/2017 is not yet available.

^^As of 06/30/2016. Information as of 06/30/2017 is not yet available.

[1]High Grade Corporates

+Total may not equal 100% due to rounding.

****Index : BC Aggregate*

MANAGER'S INVESTMENT PROCESS

- Top-down investment process formulates economic outlook that leads to strategy assumptions
- Assumptions outline the likely behavior of interest rates and trends in volatility
- Economic outlook is formed
- Consistent examination of historical spread relationships leads to sector allocation decision
- Strategy assumptions create a bias with respect to relative duration management

RISK CONSIDERATIONS

Investing in securities entails risks, including: Fixed Income securities may be sensitive to changes in prevailing interest rates. When rates rise the value generally declines. There is no assurance that the private guarantors or insurers will meet their obligations. U.S. Treasuries are guaranteed by the U.S. government and, if held to maturity, offer a fixed rate of return and fixed principal value. Growth investing does not guarantee a profit or eliminate risk. The stocks of these companies can have relatively high valuations. Because of these high valuations, an investment in a growth stock can be more risky than an investment in a company with more modest growth expectations. Value investing does not guarantee a profit or eliminate risk. Not all companies whose stocks are considered to be value stocks are able to turn their business around or successfully employ corrective strategies which would result in stock prices that do not rise as initially expected.

PORTFOLIO'S MATURITY STRUCTURE (%) +

	06/17	03/17	12/16	09/16
0 to 2 Years	18.00	19.20	18.40	25.40
2 to 4 Years	14.00	13.00	11.50	8.90
4 to 6 Years	25.00	15.70	14.10	33.40
6 to 8 Years	24.00	32.90	27.40	8.30
8 to 12 Years	6.00	5.80	11.30	6.60
12 to 17 Years	0.00	0.00	0.00	0.00
Over 17 Years	13.00	13.40	17.30	17.40
Cash/Cash Equivalents	0.00	0.00	0.00	0.00

PORTFOLIO'S CREDIT QUALITY STRUCTURE (%) +

Investment Grade	06/17	03/17	12/16	09/16
AAA	44.74	46.63	50.21	52.56
AA	0.00	0.00	0.00	0.00
A	12.36	10.53	10.59	8.94
BBB	24.95	28.16	21.02	21.57

Below Investment Grade				
BB	17.95	14.68	18.18	15.27
B	0.00	0.00	0.00	1.66
Below B	0.00	0.00	0.00	0.00
Not Rated	0.00	0.00	0.00	0.00
Cash/Cash Equivalents	0.00	0.00	0.00	0.00

^As of 12/31/2016. Information as of 06/30/2017 is not yet available.

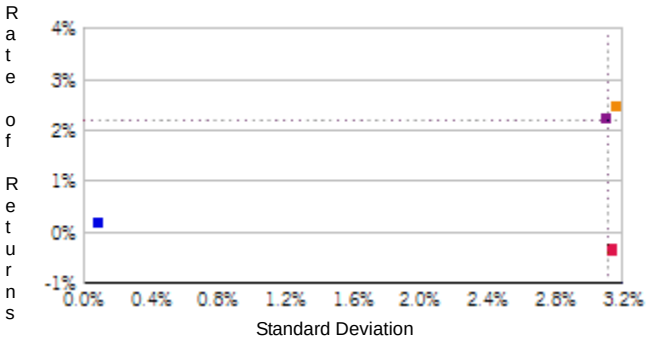
^^As of 06/30/2016. Information as of 06/30/2017 is not yet available.

[1]High Grade Corporates

+Total may not equal 100% due to rounding.

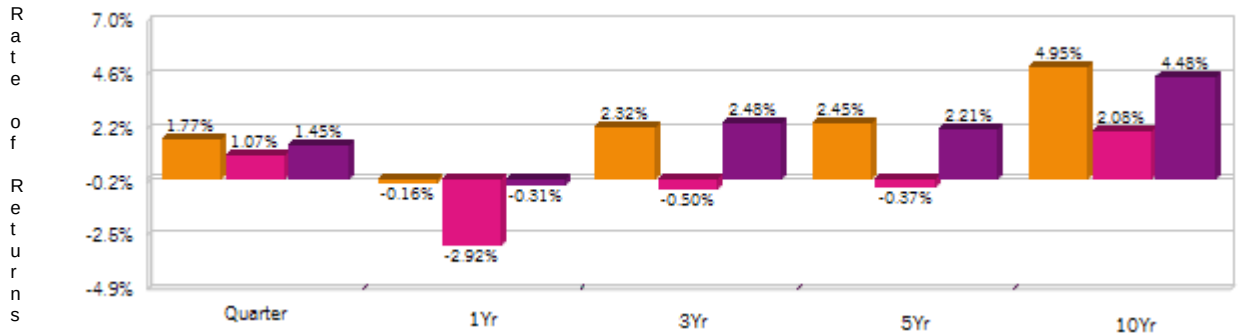
****Index : BC Aggregate*

RISK/RETURN ANALYSIS - 5 YEARS ENDING 06/30/17



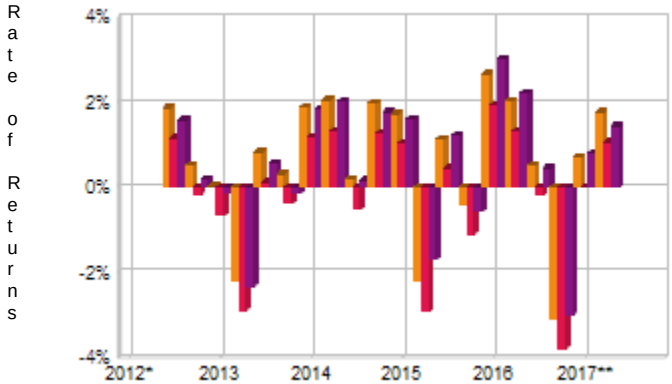
	STD	ROR
Boyd Watterson (Gross)	3.17	2.45
Boyd Watterson (Net)	3.15	-0.37
BC Aggregate	3.11	2.21
90-Day T-Bills	0.09	0.15

AVERAGE ANNUAL TOTAL RETURN (%) - PERIODS ENDING 06/30/17



INVESTMENT RESULTS	Annual Rates of Return (%)										10 Year - Ending 06/30/17	
	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	Annual	Std. Dev.
Boyd Watterson (Gross)	6.72	6.98	7.11	7.38	7.03	5.64	-1.04	6.28	0.22	2.04	4.95	3.62
Boyd Watterson (Net)	3.81	4.07	4.20	4.45	4.10	2.74	-3.77	3.35	-2.54	-0.78	2.08	3.61
BC Aggregate	6.97	5.24	5.93	6.54	7.84	4.22	-2.02	5.96	0.55	2.65	4.48	3.40

RISK VOLATALITY (%)



*07/01/12-12/31/12 **01/01/17-06/30/17

	Number Of	Up Qtrs.	Down
Boyd Watterson (Gross)		16	4
Boyd Watterson (Net)		11	9
BC Aggregate		14	6

PORTFOLIO'S QUARTERLY RETURNS (%)

	Quarter1		Quarter2		Quarter3		Quarter4	
	Gross	Net	Gross	Net	Gross	Net	Gross	Net
2007	1.58	0.88	-0.65	-1.35	2.98	2.28	2.69	1.99
2008	1.85	1.15	-1.32	-2.02	-0.52	-1.22	7.00	6.30
2009	-0.26	-0.96	2.74	2.04	3.77	3.07	0.73	0.03
2010	1.94	1.24	2.75	2.05	3.18	2.48	-0.64	-1.34
2011	1.04	0.34	1.91	1.21	1.94	1.24	1.96	1.25
2012	0.85	0.15	2.29	1.58	1.86	1.16	0.54	-0.16
2013	0.04	-0.66	-2.21	-2.89	0.83	0.13	0.32	-0.37
2014	1.89	1.19	2.05	1.34	0.21	-0.50	2.00	1.29
2015	1.73	1.03	-2.22	-2.90	1.15	0.45	-0.40	-1.10
2016	2.66	1.95	2.04	1.33	0.53	-0.17	-3.10	-3.78
2017	0.71	0.00	1.77	1.07				

Related Select UMA

PORTFOLIO'S RISK STATISTICS - ENDING 06/30/17 [1] [2]

	PERIODS	
	3 Year	5 Year
Standard Deviation	3.52%	3.17%
Standard Deviation of Primary Benchmark	3.39%	3.11%
Sharpe Ratio	0.60	0.73
Sharpe Ratio of Primary Benchmark	0.67	0.66
Alpha	-0.21%	0.23%
Beta	1.03	1.01
Downside Risk	0.42%	0.32%
R-Squared	0.98	0.98
Tracking Error	0.50%	0.49%
Information Ratio	-0.32	0.50

PORTFOLIO DIVERSIFICATION - R^2(INCEPTION THROUGH 12/14)+

	R^2
Boyd Watterson vs. BC Aggregate	0.88

+Statistics are calculated using gross of fee performance only.

1. Statistics are calculated using gross of fee performance only.
2. BC Aggregate was used as the primary benchmark and the 90-Day T-Bills Index as the risk-free benchmark.

See important notes and disclosures pages for a discussion of the sources of the performance data used to calculate the performance results and related analyses shown above.

Past performance is no guarantee of future results. *This profile is not complete without the pages, which contain important notes, including disclosures about the composite, index descriptions and a glossary of terms. Information shown is as of June 30, 2017, unless otherwise noted. All data are subject to change.*

IMPORTANT NOTES AND DISCLOSURES

COMPOSITE DISCLOSURES

Past performance is no guarantee of future results. Actual individual account results may differ from the performance shown in this profile. There is no guarantee that this investment strategy will work under all market conditions. Do not use this profile as the sole basis for your investment decisions.

Performance results in this profile are calculated assuming reinvestment of dividends and income. Returns for more than one year are annualized and based on quarterly data. Returns for periods of less than a calendar year show the total return for the period and are not annualized.

Sources of Performance Results and Other Data: The performance data and certain other information for this strategy (including the data on page 1 of this profile) reflect the investment manager's results in managing Morgan Stanley program accounts, or the investment manager's results in managing accounts and investment products, in the same or a substantially similar investment discipline. (For periods through June 2012, the Fiduciary Services program operated through two channels - Morgan Stanley channel and the Smith Barney channel - and any performance and other data relating to Fiduciary Services accounts shown here for these periods is calculated using accounts in only one of the these channels.) This information for the investment manager is presented solely to provide information about accounts that were managed according to investment objectives and strategies the same or substantially similar to the corresponding investment discipline in the Select UMA program. Although the Fiduciary Services and Select UMA programs are both Morgan Stanley managed account programs, the performance results and other features of similar investment disciplines in the two programs may differ due to investment and operational differences. For example, the individual investment disciplines in the Select UMA accounts may contain fewer securities, which would lead to a more concentrated portfolio. The automatic rebalancing, wash sale loss and tax-harvesting features of the Select UMA program, which are not available in Fiduciary Services, also could cause differences in performance. Accordingly, the performance of the accounts in the Fiduciary Services program is not, and may differ significantly from, the performance of the accounts in the Select UMA program and should not be considered indicative of or a substitute for Select UMA performance. Similarly, performance results of the investment manager's composites may differ from those of Select UMA accounts managed in the same or a substantially similar investment discipline.

Related Performance:
Boyd Watterson Asset Management, LLC's (Boyd Watterson) Ultra Enhanced Core SMA Fixed Income performance represents a composite of all fully discretionary market duration institutional fixed income accounts managed by Boyd Watterson. The composite was size-weighted and consisted of 2 accounts with a market value of $1.1 million as of 9/30/2006. Subsequent to 9/30/2006, the performance represents a composite of all fully discretionary retail market duration fixed income accounts managed by Boyd Watterson in an outside wrap fee platform (not the Morgan Stanley Fiduciary Services program). The composite is size-weighted and consists of 76 accounts with a market value of $150.1 million as of 06/30/17.

Morgan Stanley Performance:

The composite consists of **76** account(s) with a market value of **$150.1 million** as of **06/30/2017**. In this profile, the performance from January 1, 2011 through June 30, 2012 consists of accounts managed by the investment manager in this strategy in either the Morgan Stanley or the Smith Barney form of the Fiduciary Services program. From July 1, 2012 through December 31, 2015, performance consists of all Fiduciary Services (FS) accounts managed by the investment manager in this strategy, subject to any other limitations stated in this profile. From January 1, 2016, performance consists of the performance of all FS accounts (as described in the previous sentence) as well as the performance of all single style Select UMA accounts managed by the investment manager in this strategy, subject to any other limitations stated in this profile. Performance composites calculated by Morgan Stanley include all fee-paying portfolios with no investment restrictions. New accounts are included beginning with the second full calendar month of performance. Terminated accounts are removed in the month in which they terminate (but prior performance of terminated accounts is retained). Performance is calculated on a total return basis and by asset weighting the individual portfolio returns using the beginning of period values.

Fixed Income Account (Gross): Boyd Watterson's gross results do not reflect a deduction of the investment advisory fees charged by Boyd Watterson, or program fees, if any, but are net of commissions charged on securities transactions.

Net Performance for all Periods: Net performance results reflect a deduction of 0.7% quarterly. This consists of three components: 0.625% maximum quarterly MSSB Advisory Fee and 0.0175% maximum quarterly Program Overlay Fee (which, together cover the services provided by Morgan Stanley), plus 0.0575% quarterly SMA Manager Fees (being the fee currently charged by Boyd Watterson to new clients for managing their assets in the Personal Portfolio program). The SMA Manager Fees may differ from manager to manager, and managers may change their fee to new clients from time to time. If you select this manager for your account, check the SMA Manager Fees specified in the written client agreement, in case these have changed since you received this profile. Historical net fees reflect the Advisory Fee Schedule as of March 31, 2014.

Morgan Stanley program fees are usually deducted quarterly, and have a compounding effect on performance. The Morgan Stanley program fee, which differs among programs and clients, is described in the applicable Morgan Stanley ADV brochure, which is available at www.morganstanley.com/ADV or on request from your Financial Advisor or Private Wealth Advisor.

Document approval date June 2015.
CRC 1227029 06/2015

Focus List, Approved List, and Watch Status:
Global Investment Manager Analysis ("GIMA") uses two methods to evaluate investment products in applicable advisory programs. In general, strategies that have passed a more thorough evaluation may be placed on the "Focus List", while strategies that have passed through a different and less comprehensive evaluation process may be placed on the "Approved List". Sometimes an investment product may be evaluated using the Focus List process but then placed on the Approved List instead of the Focus List.

Investment products may move from the Focus List to the Approved List, or vice versa. GIMA may also determine that an investment product no longer meets the criteria under either evaluation process and will no longer be recommended in investment advisory programs (in which case the investment product is given a "Not Approved" status).

GIMA has a "Watch" policy and may describe a Focus List or Approved List investment product as being on "Watch" if GIMA identifies specific areas that (a) merit further evaluation by GIMA and (b) may, but are not certain to, result in the investment product becoming "Not Approved". The Watch period depends on the length of time needed for GIMA to conduct its evaluation and for the investment manager to address any concerns. GIMA may, but is not obligated to, note the Watch status in this report with a "W" or "Watch" on the cover page.

For more information on the Focus List, Approved List, and Watch processes, please see the applicable Morgan Stanley ADV brochure (www.ms.com/adv). Your Financial Advisor or Private Wealth Advisor can provide on request a copy of a paper entitled "GIMA: At A Glance ".

ADDITIONAL DISCLOSURES

The information about a representative account is for illustrative purposes only. Actual account holdings, performance and other data will vary depending on the size of an account, cash flows within an account, and restrictions on an account. Holdings are subject to change daily. The information in this profile is not a recommendation to buy, hold or sell securities.

Actual portfolio statistics may vary from target portfolio characteristics.

The investment manager may use the same or substantially similar investment strategies, and may hold similar portfolios of investments, in other portfolios or products it manages (including mutual funds). These may be available at Morgan Stanley or elsewhere, and may cost an investor more or less than this strategy in Morgan Stanley's Select UMA program.

The portfolio may, at times, invest in exchange-traded funds (ETFs), which are a form of equity security in seeking to maintain continued full exposure to the broad equity market.

Morgan Stanley investment advisory programs may require a minimum asset level and, depending on your specific investment objectives and financial position, may not be suitable for you. Investment advisory program accounts are opened pursuant to a written client agreement.

The investment manager acts independently of, and is not an affiliate of, Morgan Stanley Smith Barney LLC.

Diversification does not guarantee a profit or protect against a loss.

No obligation to notify

Morgan Stanley has no obligation to notify you when information in this profile changes.

Sources of information

Material in this profile has been obtained from sources that we believe to be reliable, but we do not guarantee its accuracy, completeness or timeliness. Third party data providers make no warranties or representations relating to the accuracy, completeness or timeliness of the data they provide and are not liable for any damages relating to this data.

No tax advice

Morgan Stanley and its affiliates do not render advice on legal, tax and/or tax accounting matters to clients. Each client should consult his/her personal tax and/or legal advisor to learn about any potential tax or other implications that may result from acting on a particular recommendation.

Not an ERISA fiduciary

Morgan Stanley is not acting as a fiduciary under either the Employee Retirement Income Security Act of 1974, as amended, or under section 4975 of the Internal Revenue Code of 1986, as amended, in providing the information in this profile.

INDEX DESCRIPTIONS

90-Day T-Bills

The 90-Day Treasury Bill is a short-term obligation issued by the United States government. T-bills are purchased at a discount to the full face value, and the investor receives the full value when they mature. The difference of discount is the interested earned. T-bills are issued in denominations of $10,000 auction and $1,000 increments thereafter.

BC Aggregate

The Barclays Aggregate Index is composed of securities from the Barclays Government/Corporate Bond Index, Mortgage-Backed Securities Index and Asset-Backed Securities Index.

S&P 500

The S&P 500 Total Return has been widely regarded as the best single gauge of the large cap U.S. equities market since the index was first published in 1957. The index has over $5.58 trillion benchmarked, with index assets comprising approximately $1.31 trillion of this total. The index includes 500 leading companies in leading industries of the U.S. economy, capturing 75% coverage of U.S. equities. This index includes dividend reinvestment.

Indices are unmanaged and have no expenses. You cannot invest directly in an index.

GLOSSARY OF TERMS

Alpha is a mathematical estimate of risk-adjusted return expected from a portfolio above and beyond the benchmark return at any point in time.

American Depositary Receipts (ADRs) are receipts for shares of a foreign-based corporation held in the vault of a U.S. bank.

Average Portfolio Beta is a measure of the sensitivity of a benchmark or portfolio's rates of return to changes against a market return. The market return is the S&P 500 Index. It is the coefficient measuring a stock or a portfolio's relative volatility.

Beta is a measure of the sensitivity of a portfolio's rates of return to changes in the market return. It is the coeffecient measuring a stock or a portfolio's relative volatility.

Bottom-Up Stock Selection Emphasis primarily on individual stock selection. Considerations of economic and industry factors are of secondary importance in the investment decision-making process.

Capitalization is defined as the following: Mega (Above $100 billion), Large ($12 to $100 billion), Medium ($2.5 - $12 billion), Small ($.50 - $2.5 billion) and Micro (below $.50 billion).

Dividend a portion of a company's profit paid to common and preferred shareholders.

Downside Risk is a measure of the risk associated with achieving a specific target return. This statistic separates portfolio volatility into downside risk and upside uncertainty. The downside considers all returns below the target return, while the upside considers all returns equal to or above the target return.

Duration is a measure of price sensitivity expressed in years.

High Grade Corporate Bonds corporate bonds from issuers with credit ratings of AA or AAA.

Information Ratio is a measure of the investment manager's skill to add active value against a given benchmark relative to how stable that active return has been. Essentially, the information ratio explains how significant a manager's alpha is. Therefore, the higher the information ratio, the more significant the alpha.

Investment Grade Bonds are those rated by Standard & Poor's AAA (highest rated), AA, A or BBB (or equivalent rating by other rating agencies or, in the case of securities not rated, by the investment manager).

Price/Book Ratio (P/B) weighted average of the stocks' price divided by book value per share. Book value per share is defined as common equity, including intangibles, divided by shares outstanding times the adjustment factor.

Price/Cash Flow Ratio a ratio used to compare a company's market value to its cash flow. It is calculated by dividing the company's market cap by the company' operating cash flow in the most recent fiscal year (or the most recent four fiscal quarters); or, equivalently, divide the per-share stock price by the per-share operating cash flow.

Price/Earnings Ratio (P/E Ratio) shows the multiple of earnings at which a stock sells. Determined by dividing current stock price by current earnings per share (adjusted for stock splits). Earnings per share for the P/E ratio are determined by dividing earnings for past 12 months by the number of common shares outstanding. The P/E ratio shown here is calculated by the harmonic mean.

Price/Sales Ratio determined by dividing current stock price by revenue per share (adjusted for stock splits). Revenue per share for the P/S ratio is determined by dividing revenue for past 12 months by number of shares outstanding.

R2 (R-Squared)/Portfolio Diversification indicates the proportion of a security's total variance that is benchmark-related or is explained by variations in the benchmark.

Sharpe Ratio measures the efficiency, or excess return per unit of volatility, of a manager's returns. It evaluates managers' performance on a volatility-adjusted basis.

Standard Deviation is a statistical measure of historical variability or spread of returns around a mathematical average return that was produced by the investment manager over a given measurement period. The higher the standard deviation, the greater the variability in the investment manager's returns relative to its average return.

Top-Down/Economic Analysis Emphasis primarily on macroeconomic trends as opposed to bottom-up stock selection.

Tracking Error represents the standard deviation of the difference between the performance of the investment strategy and the benchmark. This provides a historical measure of the variability of the investment strategy's returns relative to its benchmark.

U.S. Treasury Bonds a marketable, fixed interest U.S. government debt security with a maturity of more than 10 years. Treasury bonds make interest payments semi-annually and the income that holders receive is only taxed at the federal level.

Volatility a measure of risk based on the standard deviation of the asset return. Volatility is a variable that appears in option pricing formulas, where it denotes the volatility of the underlying asset return from now to the expiration of the option. There are volatility indexes. Such as a scale of 1-9; a higher rating means higher risk.

UNIVERSITY OF HAWAI'I SYSTEM

UNIVERSITY OF HAWAII
BOARD OF REGENTS

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KALBERT K. YOUNG
VICE PRESIDENT FOR BUDGET & FINANCE
CHIEF FINANCIAL OFFICER

October 25, 2017

RECEIVED

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UNIVERSITY OF HAWAII
PRESIDENT'S OFFICE

TO: Jan N. Sullivan
Chairperson, Board of Regents

Wayne Higaki
Chair, Committee on Budget and Finance, Board of Regents

VIA: David Lassner
President

FROM: Kalbert K. Young
Vice President for Budget and Finance/Chief Financial Officer

SUBJECT: UBS Financial Services, Inc. - Consulting Services Agreement

SPECIFIC ACTION REQUESTED:

The Administration hereby requests the Board of Regents (BOR) and its Committee on Budget and Finance approve a new contract with UBS Financial Services, Inc. (UBS) establishing an institutional consulting contract arrangement. The new contract, which is to supersede and replace the existing agreement, is desired to augment the trading platform and portfolio management structure available from UBS. The platform revision will enhance reporting on compliance with the Investment Policy and allow the Legacy Endowment to more efficiently achieve the fossil fuel free mandate.

RECOMMENDED EFFECTIVE DATE:

Upon approval of the Board of Regents.

BACKGROUND:

The Legacy Endowment is comprised of funds and assets established prior to the formation of the UH Foundation in 1955. The University of Hawai'i contracted with UBS to manage and administer its Legacy Endowment in 2013. The UBS contract is for discretionary investment management services and was submitted for review to the BOR Committee on Budget and Finance on August 21, 2013 and approved by the BOR at its meeting on August 22, 2013. Materials and minutes relating to the agreement can be found on the BOR website.

2444 Dole Street, Bachman Hall
Honolulu, Hawai'i 96822
Telephone: (808) 956-8903
Fax: (808) 956-5286

UBS provides quarterly performance reports to the Board of Regents Committee on Budget and Finance. The portfolio value as of June 30, 2017 was reported as approximately $69,053,495.

In May 2015, the Board of Regents amended the investment policy (RP8.07,C.2) by directing that the portfolio of the Legacy Endowment will divest of companies that produce fossil fuels by June 30, 2018, and that the portfolio will be maintained where not more than 1% of the portfolio holdings will entail fossil fuel producing investments. Since 2015, UBS has been slowly migrating investments in the portfolio into funds that would satisfy this mandate.

The June 30, 2017, UBS portfolio performance report indicated 2.24% of the portfolio was invested in energy-related assets (as a surrogate indicator for fossil fuel exposure). Migration of the portfolio to fossil-fuel free investments has been challenged and slow due to the portfolio's strategy to utilize exchange traded index funds (ETF's) and mutual funds as the primary investment vehicles for the portfolio because they provided the lowest cost approach while also providing an efficiency of diversification. However, a drawback to this approach is that ETF's and mutual funds are large pools of investments, and therefore, do not allow individual investors to surgically select or remove independent stocks or companies from the larger fund. As applied to the fossil fuel free mandate, ETF's and Index Funds are not optimal to achieve the mandate objectives, since there are companies included in the ETF and mutual funds that do not specifically conform to the fossil fuel free mandate.

Additionally, UBS has been challenged to find funds that are specifically fossil fuel free. Such funds are not plentiful in the marketplace, tend to have higher expense ratios, and/or have short history of existence. The latter of which requires at least three years of experience per Regent Policy 8.207. The fossil fuel free mandate has implications for portfolio performance and investment returns. Since the university cannot choose to selectively invest in only a portion of an ETF or mutual funds, the Legacy Endowment cannot truly be divested of fossil fuel investments without outright elimination of the current selection of ETF's and mutual funds. The alternative is to explore specific individual (stock) investments or to contract with managers specifically hired to conform to the mandate.

Repositioning the investment choices in the Legacy Endowment portfolio while engaging a different investment consultant platform and approach will better position the portfolio for improved returns, make the portfolio more efficient, and more readily achieve university policy directives.

APPLICABLE REGENTS POLICY:

Regent Policy 8.207, "Investments" provides the policy guidance on the investment of funds including investment management, authority, portfolio parameters, investment goals, and responsibilities. Regent Policy 8.207.A.1. does allow for the "president or president's designee authority to "take any action and to execute and deliver on behalf of the board such documents and certificates as may be necessary or desirable in connection with the acceptance, sale or transfer of investment securities issued to the university." The policy further directs the Committee on Budget and Finance with the responsibility to review matters related to the endowment funds and to recommend to the Board "the engagement, evaluation, and termination of investment consultants, managers, custodial firms, and other investment professionals."

Pursuant to Regent Policy 8.207, this matter is hereby brought to the Committee on Budget and Finance and the Board of Regents for approval of the contract with UBS as the contracted investment consultant.

DISCUSSION:

In June 2017, the UBS personnel who had been assigned and managing the UH Legacy Endowment portfolio announced that they would be leaving the firm. A new team was immediately assigned by UBS. In reviewing the portfolio and developing a new strategy to meet the fossil fuel free mandate as well as repositioning the portfolio for better investment returns, UBS is recommending a different investment platform and UBS service arrangement.

The arrangement for which the services were originally contracted needs to be amended as the types of investment vehicles and the way UBS will be managing the portfolio will be evolving. The Administration and UBS are recommending that the investment approach and management platform be changed to a UBS Institutional Consulting Services arrangement. This will add increased services to the portfolio. For example, this arrangement will make available the inclusion of separately managed accounts (SMA) while will allow customization of investments to achieve the fossil fuel mandate with the least amount of disruption to performance capabilities. It will also enable UBS to provide more robust compliance, consulting, and investment reporting services than are provided under the current agreement.

This matter has been briefly touched upon in other discussions with the Committee. Members should already be aware that the UBS team representing the university has recently changed and that the portfolio was already in the process of being modified for the specific investment funds included in the portfolio. There is anticipated to be continued migration of funds within the portfolio over the near future as UBS works with prospective investment managers and

portfolio allocations. Conformance to the investment parameters specified in Regent Policy 8.07 is expected and required.

This new contract will introduce new investment approaches to the portfolio, and as such, there could be an impact on the fee and expense structure within the portfolio. Administration is working with UBS to ensure that UBS can negotiate or arrange new investment managers that are sensitive to keeping costs low. As of June 30, 2017, UBS reported that the portfolio had a total expense ratio of 0.51% (which included 0.31% of ETF and mutual fund cost as well as 0.20% of UBS advisory fee). As of this writing, UBS is still developing the inventory of managers and their associated fees. Administration is very optimistic that UBS can achieve the additional capabilities of the new strategy without a significant increase to the portfolio's expense ratio.

ACTION RECOMMENDED:

The Administration recommends that the following actions be approved:

1. Committee approval recommendation. The Committee on Budget and Finance review and recommend to the full Board of Regents approval of the UBS institutional consulting arrangement substantially in compliance with the terms contained in the latest draft of the UBS Consulting Services Agreement ("UBS Agreement").
2. Board of Regents approval. The Board of Regents approve the UBS institutional consulting arrangement as described herein substantially in compliance with the terms contained in the UBS Agreement.
3. Authorization. Authorize the President and/or the Vice President for Budget and Finance/Chief Financial Officer to negotiate, finalize, and execute the UBS Agreement, consistent with the terms contained in the attached UBS Agreement, and execute such other documents and take any further action as they deem necessary to consummate the UBS Agreement, with such delegation of authority to include, without limitation, the authority to make the representations required under the UBS Agreement, including that the University's Board of Regents, which constitutes the governing board of the University has: (a) approved the UBS Agreement, (b) authorized the individuals signing the UBS Agreement to execute and deliver the UBS Agreement for and on behalf of the University, (c) authorized and directed each individual signing the UBS Agreement to act on the University's behalf in connection with opening the University's accounts with UBS, obtaining services from UBS, and in directing investment for the University's accounts with UBS, (d) determined that the retention of UBS for the provision of consulting services is prudent, (e) acknowledged that the University has received sufficient information about the UBS program fees and the compensation that UBS will receive to determine that the fees payable by the Legacy Endowment for such UBS services are reasonable, (f) authorized the University's signatory to represent that any

expenses that the University directs to be charged to the Legacy Endowment are necessary for the operation of the Legacy Endowment and are or will be properly payable from the Legacy Endowment under the Legacy Endowment documents and applicable law, and (g) acknowledged that the University has retained, and will exercise, final decision making authority and responsibility for the selection of any record keeper, custodian, trustee, investments, investment managers, and the implementation of any investment plan or strategy resulting from the services provided under the UBS Agreement.

Attachments

1. UBS Consulting Services Agreement
2. UBS Institutional Consulting Program – Summary of Material Changes

SUMMARY OF MATERIAL CHANGES

UBS Financial Services Inc.
1000 Harbor Boulevard
Weehawken, NJ 07086
(201)352-3000
http://financialservicesinc.ubs.com

SEC File Number 801-7163
June 30, 2017

Summary of Material Changes to Form ADV Disclosure Brochure

UBS INSTITUTIONAL CONSULTING PROGRAM
OUTSOURCED CHIEF INVESTMENT OFFICER PROGRAM

This Summary of Material Changes applies to the Form ADV Disclosure Brochure for our UBS Institutional Consulting and Outsourced Chief Investment Officer Programs.

If you have any questions about the content of this brochure, please contact us at 888-526-7454. The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission or by any state securities authority.

Additional information about UBS Financial Services Inc. is also available on the SEC's website at www.adviserinfo.sec.gov.

Please note that registration as an investment adviser does not imply a certain level of skill or training.

You may obtain a copy of our updated Form ADV Disclosure Brochure by contacting us at the number listed above to make your request. The Brochure is available to you free of charge. You may also access the document at our website:

http://www.ubs.com/us/en/wealth/misc/AccountDisclosures.html

Please retain this document for future reference as it contains important information regarding our UBS Institutional Consulting and Outsourced Chief Investment Officer Programs.

ITEM 2. MATERIAL CHANGES

This section describes the material changes to our UBS Institutional Consulting Services and OCIO Programs since the last amendment of our Form ADV on March 31, 2017.

Item 4 (Services Fees and Compensations), Section D (Compensation to Financial Advisors Who Recommend Advisory Programs)

This section has been revised to include a description of the revised 2017 Financial Advisor Compensation Plan. Material changes from the prior plan include:

- Effective June 9, 2017 , the production payout our Financial Advisors receive on retirement accounts (both brokerage retirement accounts and investment advisory retirement accounts) held at UBS will not be affected by any recommendations or transactions for securities held in those accounts.
- With respect to retirement clients enrolled in the Institutional Consulting ("IC") or Outsourced Chief Investment Officer ("OCIO") programs, this means that in situations where those clients also have brokerage accounts at UBS or accounts opened in another investment advisory program at UBS, including those that may have been included in IC Program services only as an accommodation, the production payout rate for the Financial Advisor related to the IC or OCIO relationship will generally be applied to all retirement assets and accounts the client has at UBS. However, on an exception basis, the production payout rate for the Financial Advisor may be the weighted average production rate generated by that client's retirement accounts at UBS during the period January 1, 2016 to December 31, 2016.
- For a description of the revised 2017 Financial Advisor Compensation Plan applicable to other UBS programs, please ask your Financial Advisor.

We reserve the right, at our discretion and without prior notice, to change the methods by which we compensate our Financial Advisors and employees, including reducing and/or denying production payout and/or awards at our discretion for any reason.

UBS Institutional Consulting Group
UBS Financial Services Inc.

CONSULTING SERVICES AGREEMENT

Client Name: University of Hawaii

Client Type: University

Plan Type: University of Hawaii Endowment

UBS Financial Services Inc. (the "Firm", "we" or "us") and University of Hawaii on behalf of University of Hawaii Endowment (the "Plan') (together "Client" "Client" or "you") agree that the following terms and conditions apply to the services provided to the Plan through the UBS Institutional Consulting Program ("UBS-IC") and shall be effective as of the date the Firm executes this UBS-IC Agreement ("Agreement").

1. Services

The Firm, through UBS-IC, will provide the following service(s) as reasonably requested by Client:

(a) **Investment Policy Statement.** Assistance in the development and preparation of a document that describes your overall investment objectives and guidelines. We will review the investment policy statement with you on a periodic basis. Until such time as an IPS or other investment guideline document is developed and/or provided to the Firm, the Firm will use the asset allocation of Client as stated in the initial UBS performance report provided to you as indicative of the intended IPS guidelines and asset allocation targets of the Client.

(b) **Asset Allocation Analysis.** Periodic studies and analysis of your asset allocation strategy, based on, among other things, your liquidity requirements, performance goals and risk tolerance.

(c) **Investment Searches.** As appropriate, we will recommend and present for your consideration investment manager(s), mutual funds, exchange traded investments, collective trusts, and/or alternative investments ("Investments") that align with your investment policy statement and asset allocation strategy and which are offered by the Firm and/or for which the Firm has conducted due diligence or has otherwise reviewed. We cannot assure you that we will continue to offer or review any of the Investments identified through our searches.

(d) **Portfolio Review, Evaluation and Reporting.** We will provide quarterly portfolio evaluation, and review, including reviewing performance on an absolute and relative basis. Based on your overall objectives and performance of your Investments, we will assist you in evaluating potential adjustments and if appropriate we will assist you in conducting a search for new Investments as identified in paragraph 1(c). We can also provide reports which include performance information, comparisons and other information for a variety of investment strategies. For assets not custodied at the Firm, information provided by your custodian will be used to provide the performance of your Investments and the firm does not guarantee the accuracy of the performance information.

(e) **Trustee Education.** We will provide investment education seminars as requested by Client. Services may include providing general seminars focused on topics such as asset allocation, the definition of various asset classes, potential risks and rewards and similar subject matter.

(f) **Additional Consulting Services.** We may also provide consultation on matters related to financial news and developments regarding capital markets, sectors and industries based on information generally available from various UBS investment research groups, or more specifically prepared for Client based on publicly available information.

2. Fiduciary Representations

We represent that we are a registered investment adviser under the Investment Advisers Act of 1940 and that we will act as a fiduciary when providing the investment services described in Section 1 of the Agreement. We will not be a fiduciary with respect to any other functions, programs or services rendered to you including those provided by investment managers, other entities or persons. You acknowledge that we, in providing the services described in this Agreement, will not exercise any discretionary authority over the management or disposition of your assets. UBS will not act as a municipal advisor as defined under Section 15B of the Securities Exchange Act of 1934, Rule 15Ba1 et seg (the "Municipal Advisor Rule"). As a registered investment adviser, UBS and its associated persons are exempt from the Municipal Advisor Rule if we provide investment advice regarding the investment of the proceeds of municipal securities or municipal escrow investments. However, this exemption does not apply to advice on the structure, timing, and terms of issues of municipal securities or derivatives, which is beyond the scope of this agreement and the Investment Advisers Act.

We hereby represent that we will act as a fiduciary as the term is defined in Section 3(21) of ERISA with respect to any investment advice we provide under Section 1(c) and 1(d) of this Agreement. We further represent we will provide the services described in Section 1 in accordance with applicable law and, to the extent applicable, ERISA fiduciary standard of care.

You acknowledge that we will not (i) exercise any discretionary authority over the management or disposition of Plan assets or otherwise act as an 'investment manager' as such term is defined in Section 3(38) of ERISA; or (ii) have discretionary authority over the administration of the Plan.

3. Identification of Affiliated Money Managers/Funds

We will not present for your consideration any investment or managers that are affiliated with us.

4. Limitations of Consulting Services

(a) Implementation

Our services do not include advice with respect to how to implement the results of the investment searches or whether to hold an account at the Firm. You may decide to implement the results of our investment searches through: (i) a UBS Institutional Consulting Account ("IC Account"); or (ii) an account held at another financial institution.

Implementation through an IC Account. You may decide to implement the results of investment searches performed as part of this Agreement through an asset-based fee arrangement that includes both the agreed upon Institutional Consulting services as well as custody and trade execution for managers who trade through UBS.

Implementation Outside of an IC Account. Alternatively, you may decide to implement the results of investment searches through an account held at another financial institution or through another investment advisory program offered by the Firm (i.e., ACCESS, Managed Account Consulting (MAC), Strategic Advisor, Portfolio Management Program (PMP), PACE, SWP, etc.) or through a brokerage account. It is important that you understand that these Firm programs are separate and distinct from UBS-IC and assets included in these programs will not be included in the assets upon which UBS-IC services will be performed or fees billed. You will be charged a separate fee for these other programs, which may be greater or lesser than the fee you pay for UBS-IC services, and the terms and conditions of the respective contracts and disclosure statements for these other programs will be applicable.

Retaining Investment Managers. This Agreement does not cover the asset management services provided by the manager(s) you elect to retain. You will need to execute separate agreements and you will incur additional fees for those services. You are responsible for negotiating the terms, fees and

conditions of your agreement with such manager. When requested by the investment manager(s) and authorized by you, the investment manager(s) fee will be deducted directly from your account. Otherwise, the manager(s) will bill you directly.

Investment managers you retain through a Firm program may request that we provide them with an electronic data download of all transactions they effected on your behalf in order to reconcile your account. By executing this Agreement you authorize us to provide your investment manager(s) such requested data and copies of your account statements. You may revoke this authorization at any time by notifying us in writing. Where you have retained the services of an investment manager who elects to utilize the Firm to effect transactions in securities upon that manager's instructions, we and our affiliates will be acting solely as a broker or dealer in connection with such transactions and not as an investment adviser or fiduciary.

(b) **Investment Policy Statements**

Our services identified in Section (1) include periodic meetings to review your investment policy statement (IPS) and asset allocation, as well as the alignment of your investment portfolio to the IPS and allocation. However, we will not monitor the accounts that comprise your Institutional Consulting portfolio and the transactions made in these accounts for compliance with your IPS. In addition, it is your responsibility to provide any investment manager you may retain with a copy of your IPS.

(c) **Inclusion of other investments in asset allocation and portfolio review.**

For assets custodied at another financial firm and for assets custodied at UBS, our asset allocation studies and analysis and our portfolio review may include Investments which are not offered, reviewed or undergone due diligence by the Firm. We may include these Investments at your specific request. Such inclusion does not constitute an endorsement that you continue to hold those Investments and we will ask that you acknowledge, in writing, that the Investment has not been offered, reviewed or undergone due diligence by our Firm. (See Exhibit A, Sample Client Acknowledgement for Non-Researched Investments).

At your request we may also include in our asset allocation studies and our portfolio review, assets that are not subject to this Agreement including assets held at another financial firm and assets held in other UBS advisory programs or brokerage accounts. These assets are included for informational purposes only and are not part of the assets for which Institutional Consulting services are provided.

Important Information About Certain Investments

Mutual Funds, Exchange Traded Investments, Collective Trusts and Alternative Investments.

Mutual funds, exchange traded investments, collective trusts and alternative investments are subject to the fees, expenses, terms and conditions contained in the respective prospectus or offering document. You should carefully review the offering documents for these types of securities to ensure that they are suitable for your circumstances prior to investing. While you should not name the Firm as broker of record, if the Firm receives a 12b-1 fee or other similar compensation for mutual funds, or trail for alternative investments in connection with the purchase or sale of these investments where we perform institutional consulting services, for mutual funds held at UBS in an IC Account, such amounts received will be credited directly to this account and for mutual funds held at another financial institution, such amounts received will be credited to your UBS-IC fee. For mutual funds, in addition to the compensation described above, the Firm may receive other compensation in connection with the sale of mutual funds in an IC Account (e.g. processing fees) and these amounts will not be credited to your UBS-IC fee.

Institutional and/or Advisory share classes are the primary eligible share classes for mutual funds available for purchase in IC Accounts. If you hold Institutional Shares in your Account and the Advisory share class becomes the share class eligible for purchase, your Institutional shares will become "hold only" (even if,

in the case of offshore funds, you elect not to convert your Class A shares to Advisory shares). That means you may sell but you cannot add to those positions in the IC Accounts.
Class A shares transferred to IC Accounts will be converted monthly on a tax-free basis to the Institutional or Advisory share class. Institutional and Advisory share classes do not pay a 12b-1 distribution fee

Class A shares are available for funds that do not offer Institutional or Advisory share classes or that declined to make those shares available and those clients will receive a credit of 12b-1 fees for Class A shares held in IC Accounts. If the 12b-1 fee remains in your account at the time of billing, it will be subject to the Program Fee.

With respect to Class A shares of mutual funds purchased through the Firm on a no-load or load-waived basis, note that in the future we may also offer Institutional, Advisor or Fee-Based share classes for some or all of these funds. These share classes also do not impose a load or sales charge or a 12b-1 fee. If you hold such Class A shares at the time we convert to a new share class, you will have the option to convert your Class A shares on a tax-free basis into the Institutional, Advisor or Fee-Based share class. Subsequent to the conversion, any additional Class A shares that are transferred to your account will be automatically converted, on a tax-free exchange basis, to the new share class available for the relevant fund. You hereby authorize and direct us to conduct such tax free exchanges on your behalf.

Class A shares of offshore funds are **not** automatically converted to the advisory share class. If you hold Class A shares of offshore mutual funds, you may elect (but you are not required) to convert those positions to advisory share classes upon reviewing your Account and providing an attestation regarding your understanding of tax consequences that may occur as a result of the conversion.

Class C shares transferred to IC Accounts will be converted monthly on a tax-free basis to the Institutional or Advisory share class so long as those shares are not subject to a contingent deferred sales charge ("CDSC").

Conversion of Class A or Class C shares will be reflected on quarterly Account statements.

Alternative Investments. If you adopt an IPS that permits privately-offered alternative investment funds, such as hedge funds, in your asset allocation, you acknowledge that you are an accredited investor as defined under Regulation D of the Securities Act of 1933. You also acknowledge that you understand the risks inherent with these investments. In general, alternative investments are speculative, subject to substantial risks (including the risks associated with limited liquidity, the use of leverage, short sales and concentrated investments), may involve complex tax structures and strategies, and may not be appropriate for all investors. You also understand that alternative investments may not provide periodic pricing or valuation information to investors, there may be delays in distributing tax information to investors, they are not subject to the same regulatory requirements as mutual funds, and they are subject to fees and expenses which will reduce profits. If you invest in an alternative investment that is not distributed by us, you must request offering documents, performance or other materials directly from the alternative investment managers.

Only funds that offer advisory/institutional share classes and permit conversion of the brokerage share class on a tax free basis are eligible and billable in the IC Program.

Unlike mutual funds where the conversion of share classes is automatic, the tax free conversion of alternative investment share classes is subject to additional documentation and may take up to 120 days to complete. These assets will not be approved for the IC Program until the Share Class Conversion is complete. UBS and our Financial Advisors will continue to receive a portion of the management fee and other compensation until the effective date of such conversion.

5. Custody (Applicable only if UBS holds or will hold Client assets)

UBS is eligible to accept, deposit and custody the Client's securities and related assets, and there are no further steps that UBS must take to assure this eligibility.

6. Client Information

The services we provide to you are based on the information you have shared with us. You agree to provide us with all material and pertinent information regarding your investment objectives, risk tolerance, asset allocation, historical performance of investments, income and liquidity requirements, as well as any other relevant matters that we may request from time to time. You understand that we will rely on the information without further independent verification and represent that such information is true, accurate and complete as of the date provided. You agree to notify us promptly of any material changes in your financial condition, risk tolerance, financial needs or investment objectives.

You acknowledge that UBS may, from time to time, need to disclose information about you or the Account to third parties if required by law or regulation, as requested by regulatory or taxing authorities, or in order for UBS to fulfill its obligations under this Agreement.

7. Third Party Sources of Information

The services we provide to you may be based on and/or include information obtained from third-party sources. We may also engage third-party providers to obtain and process information used to facilitate the services we provide to you. Any information we provide to you that has been obtained, computed, formatted or displayed by outside sources is believed accurate, but such third-party information, including information from your custodian, will not be independently verified by us and we cannot guarantee its accuracy or validity.

8. Fees

(a) Fees

In consideration of services provided under this Agreement, you agree to pay the Firm an annual fee as provided in Schedule A to this Agreement. Client understands that the fee is negotiable and a portion of the fee is paid to the UBS Financial Services Inc. Financial Advisor(s) assigned to provide the services outlined in the Consulting Services Agreement.

For assets held at UBS in an Institutional Consulting Account, this annual fee includes custody of securities and all brokerage and execution services for the purchase and sale of securities at our Firm with respect to those assets subject to this Agreement. (See Exhibit B, Sample Manager Letter of Direction for trading in an IC Account).

Our fees do not include: (i) the asset management fees charged by your investment manager(s); (ii) commission charges and mark-ups/mark-downs for transactions for your account that your manager(s) may effect through other broker-dealers; (iii) commission charges, mark-ups/mark-downs, sales credit or other compensation related to the purchase of securities not subject to this Agreement (i.e., alternative investments and individual securities purchased outside of a Firm managed account program); (iv) custody fees imposed by other financial institutions if you chose to custody your assets at other financial institutions; (v) internal trust fees; (vi) charges imposed by law; (vii) costs relating to trading in foreign securities (other than commissions otherwise payable to us); (viii) internal administrative and management fees that may be imposed by collective investment vehicles such as open-end and closed-end mutual funds, UITs, exchange-traded funds or real estate investment trusts; (ix) redemption fees imposed by mutual funds for active trading; and (x) other specialized charges, such as transfer taxes, exchange and/or regulatory agency transaction fees.

(b) Fee payment methods

In the event you direct that our fees be paid out of assets of or generated by the Plan, it shall be a representation that such payments are permissible under the Plan and applicable law.

i. **Assets held at another custodian.**

(1) **Invoice.** If you select payment by invoice, we will invoice you in arrears on a quarterly basis as calculated in Schedule A to the Agreement. These fees shall be due 30 days from the date of the invoice. If your fees are asset based and you are using a custodian or record keeper not approved by our firm, you must direct them to provide us with copies of quarterly statements for purposes of calculating fees.

(2) **Automatic Payment by Plan Provider.** If you select automatic payment by Plan provider, the fees shall be calculated and remitted by your custodian or record keeper in arrears no less frequently than quarterly. We will provide an annual statement to you detailing all fees we have received each year. We will not independently verify the fee calculation made by the custodian or record keeper.

ii. **Assets Held in an IC Account**.

You authorize us to deduct the fee from your IC Account, in advance, in quarterly installments at the start of each quarter, as described in Schedule A to this Agreement. The initial fee will be due in full as soon as your UBS Institutional Consulting Agreement is approved. This fee will be calculated based on the value of the eligible assets as of the date your Agreement is approved, pro-rated to cover the period from that date through the end of the initial calendar quarter. Thereafter, the fee will be based on the value of your account on the last business day of each calendar quarter and will cover the next calendar quarter.

We will provide a statement to you detailing the fees that were deducted from your account. If there are insufficient funds in your IC Account to cover the fees, you must deposit additional funds or instruct the money manager to liquidate assets to cover the fees. To determine the value of eligible assets in your account we will generally rely on third party quotation services we believe to be reliable. If prices are unavailable or believed to be unreliable, we may determine values in good faith, based on the last recorded transactions.

(c) Fee Offsets

Alternative Investment Compensation. For alternative investments that were included in an investment search, any trails received by the Firm after the commencement date of this Agreement will be credited to satisfy your fee on a dollar-for-dollar basis.

Additional Credits. If the annual fee identified above has been fully satisfied through Alternative Investment Compensation received by the Firm in the 12-month period covered by the annual fee, additional amounts received will be paid to the **Plan** as a credit against fees.

Statement of Fee Offsets. We will provide you at least annually with a statement showing the amounts of all Alternative Investment trails received during the period covered by the statement, all amounts credited against your fee for consulting services provided and any additional credits which may be due.

9. Client Representations

Client confirms it is the "plan sponsor," "plan administrator" and "named fiduciary" of the Plan as defined under ERISA. Client represents that it is authorized and empowered to enter into this

Agreement. If this Agreement is being signed on behalf of a corporation, trust, partnership or other business or legal entity, the person signing this Agreement represents that he or she is authorized to execute and enter into this Agreement and to act on behalf of the client in connection with all matters relating to the Agreement. It is further represented that applicable law and/or governing documents both authorize and permit this Agreement and provide for the authority of the person signing this Agreement. If this agreement is being signed on behalf of a government entity, the individuals signing below represent and certify that the Client's governing body has: (1) Approved this Agreement; (2) Authorized the individuals signing below to execute and deliver this Agreement for and on behalf of the Client; and (3) Authorized and directed each individual signing below to act on the Client's behalf in connection with opening the Client's account(s) with UBS, obtaining services from UBS, and in directing investment for the Client's account(s) with UBS.

Client further represents and warrants that the retention of the Firm for the provision of consulting services is prudent and that Client has received sufficient information about the Program fees and the compensation that the Firm will receive to determine (and has determined) that the fees payable by the Plan hereunder are reasonable. Client also represents that any expenses that Client directs to be charged to the Plan are necessary for the operation of the Plan and properly payable from the Plan under the Plan documents and applicable law.

Client understands that UBS requires that Plan information be provided by the Plan record-keeper or custodian to UBS either by quarterly custodial statements to UBS or through the UBS monthly Secure File Transfer Protocol.

10. Termination

You may terminate this Agreement within five business days of its signing and receive a full refund of all fees paid to us. Thereafter, either party may terminate this Agreement by notifying the other in writing and termination will become effective upon the receipt of this notice. However, termination will not affect your responsibilities under this Agreement for fees owed as a result of services rendered prior to termination. For fees paid in advance, upon termination during a calendar quarter, you may receive a pro rata refund of the fee paid. Upon termination, we will have no further obligation under this Agreement. Such termination will not, however, affect the provisions regarding arbitration, which shall be deemed to survive any expiration or termination of the Agreement.

11. Important Information about Program Fees, Program Selection and Conflicts of Interest:

(a) **Account and Investments Selection (Brokerage vs. Advisory):** Investment advisory fees, or other account charges which you can incur in connection with implementing an investment strategy will vary based on the program and account type (brokerage or advisory) you select. The portion of these fees and charges which will be paid to your Financial Advisor also varies based on the strategy, products, and programs and account type you select and create financial incentives for your Financial Advisor to recommend arrangements for which they receive higher compensation. **The initial, ongoing and total overall costs of purchasing and holding investments and receiving other available services in an advisory or brokerage account vary, in some cases significantly. For example, some products carry higher or lower fees, commissions, transaction or other charges depending on the program or account type in which the products are purchased or held. Your total costs will also vary, and may be higher, depending on the length of time in which the plan makes the security available to participants and fluctuations in its market value over time, especially if the plan holds them in a fee based account instead of a brokerage account.** You should discuss the investment advisory fees and/or brokerage commissions, transaction or other account charges that you may incur in connection with implementing an investment strategy with your Financial Advisor.

(b) **Compensation to SMA Managers in Other UBS Advisory Programs.** UBS offers additional advisory programs which offer some of the same SMA Managers for different SMA Manager fees.

The amount of the fee paid to each SMA Manager is a function of that SMA Manager's investment style and the fee negotiated with the SMA Manager either by UBS (in our ACCESS and SWP Programs) and by you (in our IC or MAC Programs). Depending on your asset level and ability to negotiate the investment management fee with the SMA Manager in the dual-contract structure of the IC and MAC programs, you may find that the single-manager structure in ACCESS and SWP provides a more cost-effective option or vice versa. In addition, based on the combination of our fees and your SMA Manager's fees, the overall fee for your SMA account in IC, ACCESS, MAC or SWP may exceed 3% of the account value. **You understand that certain strategies may be available to you on a more cost-efficient basis in other UBS programs.**

12. Additional Contractual Matters

You acknowledge that the Firm does not provide legal, tax or actuarial advice. We will not be responsible for ensuring that your investment policy statement asset allocation and/or plan documents comply with specific legal requirements that apply to you. That responsibility rests solely with you, and you should consult with your legal and tax advisors regarding those matters.

You further acknowledge that you have retained, and will exercise, final decision-making authority and responsibility both for the selection of any record keeper, custodian, trustee, investments or investment manager(s) as well as for the implementation of any investment plan or strategy resulting from the services provided under this Agreement.

This Agreement represents the entire understanding with regard to the matters specified herein, and any changes must be in writing. If any part of this Agreement is found to be invalid or unenforceable, it will not affect the validity or enforceability of the remainder of the Agreement. This Agreement is made and will be interpreted under the laws of the State of New York provided that there is no inconsistency with the federal securities laws or ERISA. The Firm may not assign this Agreement or its rights and obligations hereunder without prior written Client consent.

Modifications to this Agreement by the Firm that affect your specific services or fees shall not be made without prior written consent by you. It is agreed, however, that where certain Firm-wide changes may affect the terms of this Agreement, the Firm may modify the Agreement subject to the mailing of prior written notice to you at least 30 days prior to the change; your continued acceptance of services after the effective date of the change shall be deemed consent to the change.

All written communication from Client regarding the matters covered by this Agreement shall be sent to Client's Institutional Consultant unless Client is specifically directed otherwise. All such written communication to Client shall be sent to the address contained in the Firm's records.

This Agreement only governs the services and fees specified herein, and it shall not affect or be applicable to any other services provided to Client or any related person or entity by the Firm pursuant to separate Agreement or understanding. Any other services provided to Client outside of this Agreement will be subject to separate fees or charges.

13. Trade Confirmations, Proxies and Other Legal Notices for IC Account

For assets held in an IC Account, you agree to have all trade confirmation information for trades placed by your investment manager(s) provided to you on your Firm account statement and also provided to your investment manager(s). Doing so will waive your right to receive immediate trade confirmations for transactions directed by your investment manager(s). You are not required to select this option in order to receive or continue to receive consulting services. In addition, you will not pay any additional fee for your election. You may change this instruction at any time by giving UBS Financial Services Inc. written notice.

By executing this agreement, you designate your investment manager(s) to receive and vote all proxy and related materials for securities held in your accounts. You may change or cancel these instructions at any time by giving us prior written notice. When you delegate proxy voting authority to your investment manager, they will vote on matters requiring a proxy vote for the securities held in accounts. Your manager will also vote on other corporate actions, like tender offers, which do not require a proxy or are not solicited via a proxy. The Firm will not be responsible for voting on proxies, tender offers or other corporate actions. Your proxy related preferences do not apply to legal proceedings, including bankruptcies and class actions, relating to securities in an IC Accounts, or their issuers, except to the extent required by law.

14. Arbitration

This Agreement contains a predispute arbitration clause. By signing an arbitration agreement the parties agree as follows:

- **All parties to this Agreement are giving up the right to sue each other in court, including the right to a trial by jury, except as provided by the rules of the arbitration forum in which a claim is filed.**

- **Arbitration awards are generally final and binding; a party's ability to have a court reverse or modify an arbitration award is very limited.**

- **The ability of the parties to obtain documents, witness statements and other discovery is generally more limited in arbitration than in court proceedings.**

- **The arbitrators do not have to explain the reason(s) for their award, unless, in an eligible case, a joint request for an explained decision has been submitted by all parties to the panel at least 20 days prior to the first scheduled hearing date.**

- **The panel of arbitrators will typically include a minority of arbitrators who were or are affiliated with the securities industry.**

- **The rules of some arbitration forums may impose time limits for bringing a claim in arbitration. In some cases, a claim that is ineligible for arbitration may be brought in court.**

- **The rules of the arbitration forum in which the claim is filed, and any amendments to them, shall be incorporated into this Agreement.**

By providing Institutional Consulting services to you and/or by opening an account at UBS, and by UBS Financial Services Inc. accepting your application and carrying your account, you, and UBS Financial Services Inc. agree as follows:

- **We agree to resolve any controversy, claim or issue in any controversy that may arise by arbitration, whether it happened before or after, or at the time this Agreement was executed, including but not limited to controversies, claims or issues in any controversy concerning any account, transaction, dispute or the construction, performance or breach of this Agreement or any other agreement**

- **Any arbitration under this Agreement shall be governed by the Federal Arbitration Act and shall be conducted before an arbitration panel convened by the Financial Industry Regulatory Authority (FINRA) or any other national securities exchange's arbitration forum, upon which UBS Financial Services Inc. is legally required to arbitrate the controversy with you, including, where applicable, the Municipal Securities Rulemaking Board.**

- **Such arbitration shall be governed by the rules of the organization convening the panel.**

- **All parties to this Agreement agree that the arbitrators shall resolve any controversy in accordance with applicable law.**

- **The arbitrators will apply state and federal statutes of limitation the same as if the claim were brought as a civil action in court.**

- **The award of the arbitration panel are generally final and binding; a party's ability to have a court to reverse and modify is very limited and judgment upon the award may be entered in any court of competent jurisdiction.**

- **No person shall bring a putative or certified class action to arbitration nor seek to enforce any pre-dispute arbitration Agreement against any person who has initiated in court a putative class action; or who is a member of a putative class who has not opted out of the class with respect to any claims encompassed by the putative class action until:**

  – **the class certification is denied; or**

  – **the class is decertified; or**

  – **the customer is excluded from the class by the court. Such forbearance to enforce an agreement to arbitrate shall not constitute a waiver of any rights under this Agreement except to the extent stated herein.**

- **Parties expressly agree that service of process in any action shall be sufficient if served by certified mail, return receipt requested, at your last address known to UBS.**

- **Parties expressly waive any defense to service of process as set forth above.**

15. References

If you would prefer not to have your name to be used on our client list, please circle "no" below: (we will not add you to our client list if you circle no)

no

If you would prefer not to have your name to be used as a reference, please circle "no" below: (no contact names or phones numbers will be given if you circle no)

no

[Signature Page Follows]

By signing below, you acknowledge receipt of a copy of this Agreement and Schedule A for Billing. You also acknowledge that you have received and reviewed a copy of UBS Financial Services Disclosure Wrap Fee Brochure Form ADV for the UBS-IC program, which includes important information regarding the program, including Fees and Compensation (Item 4) and Participation or Interest in Client Transactions (Item 11B). These documents together with this Agreement fulfill the disclosure requirements under the Department of Labor's regulations under Section 408(b)(2) of ERISA. To access the ADV Disclosure Brochure online, visit http://www.ubs.com/us/en/wealth/misc/AccountDisclosures.html

You also acknowledge that you have received and reviewed a copy of the Form ADV Supplement Brochure which immediately follows the signature page of this Agreement. This Form ADV Supplement provides important information about your Institutional Consultant[s] and their Financial Advisor team members (if applicable) and includes information regarding their education, professional experience, disciplinary history, other business activities and also provides information how UBS supervises them.

You acknowledge that this Agreement contains a pre-dispute arbitration clause in Section 13 above. By signing this Agreement you consent to electronic delivery of documents and notices related to the UBS-IC Program to the extent permitted by law.

AGREED TO: University of Hawaii on behalf of the University of Hawaii Endowment Plan

Important note regarding the effective date of this advisory agreement: This advisory agreement also requires review and acceptance by your Financial Advisor and his/her Branch Office Manager. Once fully executed, it will become effective only once it is accepted by the Investment Solutions department. Until such time, if you hold assets at UBS, your account remains a brokerage account and it is governed by the terms and conditions of your brokerage account agreement.

BY:

_____	_____	_____
Plan Fiduciary Signature *Print Name*	*Title*	*Date*
_____	_____	_____
Plan Fiduciary Signature *Print Name*	*Title*	*Date*
_____	_____	_____
Plan Fiduciary Signature *Print Name*	*Title*	*Date*

AGREED TO:

UBS Institutional Consulting Group
UBS Financial Services Inc.

BY

_____	_____	_____
Institutional Consultant Signature	*Institutional Consultant Print Name*	*Date*
_____	_____	_____
Branch Office Manager Signature	*Branch Manager Print Name*	*Date*
_____	_____	_____
IC Program Management Signature/Print	*Title*	*Date*

[Schedule A Requiring Signatures Follows]

Schedule A

Client Name: University of Hawaii
Full Plan Name: University of Hawaii Endowment
Client Address: University of Hawaii System. Bachman Hall,
244 Dole St, #120. Honolulu, HI 96822
Contact Name: Kalbert Young
Consultant(s) and FAID: Renee Fourcade/ Martha Spano – JP5L
Contract Number: IC4735
Ongoing Services or One-Time Project: Ongoing Services

Billing information if different from above
Contact Name:
Address:

For the services described in the Consulting Services Agreement, Client agrees to pay the Firm an annual fee, payable in quarterly installments, as indicated below:

UBS Institutional Consulting Fee

Asset based fee based on the number of days per calendar quarter: 0.20% of assets

Billing Period

Advance- (assets held at UBS)

Method of Payment

Direct Debit: UBS IC Account

AGREED TO Schedule A:

University of Hawaii

BY:

_____	_____	_____
Plan Fiduciary Signature	*Title*	*Date*
Print Name:		
_____	_____	_____
Plan Fiduciary Signature	*Title*	*Date*
Print Name:		

[Custodial Authorization Requiring Signatures Follows]

For Assets Held at Another Financial Institution
Authorization to Access Client Custodial Information

University of Hawaii hereby authorizes their Custodians to establish and maintain a secure data connection with or provide online access to UBS approved service provider, Rage Frameworks ("Rage"), and electronically make available statements, account transactions, position detail, market value and other account activity through that connection or screen until such time as University of Hawaii's accounts are closed or Custodian is instructed to terminate any transfers of information to Rage by University of Hawaii.

Client/Institution Name: University of Hawaii

Authorized Signature: _____

Printed Name: _____

Title: _____

Date: _____

Return Signed Document to: Renee Fourcade/ Martha Spano

UBS Financial Services, Inc.

2029 Century Park East, Suite 3000

Los Angeles, CA 90067-3015

For UBS Branch Office Use Only:

Contract ID IC4735_____ IC FA ID _JP5L_____

FOR BRANCH USE ONLY

Client Name: University of Hawaii
Full Plan Name: University of Hawaii Endowment
Tax ID Number: _____
Client ID Number**:** _____

For Plan assets held away: Recordkeeper on UBS Select Platform
Shadow Account Number: _____
AND
Non-Sweeping Tracking Account Number: _____

Other recordkeepers
Non-Sweeping Tracking Account Number:_____

For Plan assets held at UBS: UBS Account Number _____
Note: For FA partner relationships, the account must be opened in the IC branch.

Custody of Assets

☐ Assets held at UBS

☐ Assets held away: Custodian(s) name _____

Excluded Assets:_____
Provide: custodial statements via ServiceWorks
Include: send proof of 12b-1 credit information to DL-WMA-UBS-IC-Billing

_____	_____	_____
Institutional Consultant Signature	*Institutional Consultant Print Name*	*Date*
_____	_____	_____
Branch Office Manager Signature	*Branch Manager Print Name*	*Date*
_____	_____	_____
IC Program Manager Signature/Print	*Title*	*Date*

Exhibit A: Sample Client Acknowledgement for Non-Researched Investments

Dear University of Hawaii,

UBS Financial Services Inc and UBS Institutional Consulting make recommendations or perform ongoing due diligence on an extensive list of managed investments included in our Firm-sponsored programs or otherwise reviewed or screened by us.

As one of our UBS Institutional Consulting clients, you have decided to purchase/retain managers, mutual funds, ETFs, alternative investments and/or other managed investments that were selected unassisted by UBS Institutional Consulting as follows:

- [Manager/Fund /ETF /AI /Other Managed Investment #1]
- [Manager/Fund /ETF /AI /Other Managed Investment #2]
- [Manager/Fund /ETF /AI /Other Managed Investment #3]

This letter is to confirm, with your signature below where indicated, that these managed investments will be/were engaged without the assistance or recommendation of UBS. This letter is also to confirm that if, in providing the services under your consulting services agreement, UBS Institutional Consulting provides reports that include an asset allocation or an evaluation of the performance of these managed investments, such reports will not constitute a recommendation by us that you continue to retain these strategies. UBS will neither perform ongoing review of these strategies nor offer recommendations in the future regarding them.

We appreciate the opportunity to serve as your investment consultant.
Thank you for your assistance in this matter.

Sincerely,

[Consultant Name]
[Firm Title]
Institutional Consultant, UBS Institutional Consulting

With this understanding, I elect to retain the managed investments identified in this letter.

_____
Client Signature

_____
Client Name, Title and Date

Exhibit B: Sample Manager Letter of Direction for IC Account

Date

Investment Manager(s) Name(s)
Address
City, State Zip

Re: Letter of Direction

Our organization University of Hawaii has a consulting services agreement with the UBS Institutional Consulting Group (UBS-IC) of UBS Financial Services Inc. (UBS).

Under our agreement with UBS, our fees will include the costs of trade execution and custody. There are no separate or additional commission charges for transactions executed through UBS.

With that in mind, we request that you use UBS or its affiliate to execute transactions for our account, subject to best execution.

When placing trades for our account with UBS Wealth Management, you can place trades electronically or you can place trades through the UBS Wealth Management Block Trading Desk. Please also specify that the transaction is for a UBS-IC account relationship and that the transaction should be executed on an **agency** basis only.

If you instead place trades with another UBS affiliate, you must specify that it is a UBS-IC account that must be traded **agency without commission**.

To help facilitate these transactions, please use UBS's WM trading desks which can be contacted at the following numbers:

- WM Block Equity Trading Desk: (800) 537-2365 or (800) 627-3320
- WM Fixed Income Trading Desk: (201) 352-7190

This request is considered part of our investment management agreement with you unless you inform us otherwise. In addition, these instructions shall remain in effect until you are contacted by us in writing to modify or cancel.

Sincerely,

__University of Hawaii_____
(Client)

UBS Financial Services Inc.
1200 Harbor Boulevard
Weehawken, NJ 07086
(201) 352-3000

SEC File Number: 801-7163
Date: July 7, 2017

Form ADV Brochure Supplement for

Martha Spano
UBS Financial Services Inc.

2029 Century Park East
Suite 3000
Century City, CA 90067-3016

310-772-8058
martha.spano@ubs.com

This Form ADV Brochure Supplement provides information about Martha Spano that supplements the UBS Financial Services Inc. Form ADV Disclosure Brochure, which we previously provided to you. Please contact Ronald J. Meraz, at 310-772-7019 if you did not receive a copy of the UBS Financial Services Inc. Form ADV Disclosure Brochure, if you would like another copy of that Brochure, or if you have questions about the contents of this Supplement.

Additional information about Martha Spano is available on the Securities and Exchange Commission's website, located at *www.adviserinfo.sec.gov*, as well as the Financial Industry Regulatory Authority's website, *www.finra.org/brokercheck*.

Please retain this Form ADV Brochure Supplement for future reference, as it contains important information if you decide to add services or establish additional advisory accounts at UBS. We will provide you an updated copy of this Brochure if there are material changes to the information in Item 3 (Disciplinary Information).

Table of Contents

UBS

Form ADV Brochure Supplement for Martha Spano

The information in this Brochure Supplement is as of July 7, 2017, and is subject to change.

Item 2. Educational Background and Business Experience

The business background information provided below is for the last five years. **Please note:** Certain data displayed in this Brochure Supplement is supplied by third-party organizations. As a result, some information may seem unclear or inconsistent.

Your Financial Advisor[1]	Martha Spano
Year of Birth	1952
Education	Pepperdine University, Masters Diploma
Business Background	Financial Advisor, UBS Financial Services Inc, since 2015 Investment Consultant, Buck Consultants, 2011 – 2015

Item 3. Disciplinary Information

This section includes details about certain legal and disciplinary events reported to the Securities and Exchange Commission and the Financial Industry Regulatory Authority (FINRA). Examples include final disciplinary actions taken by regulators, certain criminal charges and/or convictions and civil litigations.

Martha Spano does not have any reportable legal or disciplinary events under the requirements applicable to investment advisers.

The disciplinary reporting requirements for broker-dealers and investment advisers differ significantly, with FINRA requiring broker-dealers to report on matters that are not required to be reported by investment advisers. As a result, this brochure excludes matters that are not required to be reported by investment advisers, such as pending complaints and arbitrations, including those settled in our favor, as well as bankruptcies, judgments, liens, bonds, investigations and terminations. We also exclude complaints and arbitrations related to industry-wide matters as well as any complaint settled for less than $15,000 if it is the only complaint settlement on the Financial Advisor's record within the last 10 years.

As our Financial Advisors operate as both broker-dealers and investment advisers, the legal and disciplinary information in this report is not the only resource you can consult. In addition to the information in this report, you can access information about Martha Spano on the SEC's website, *www.adviserinfo.sec.gov*, as well as the FINRA's website, *www.finra.org/brokercheck,* by entering Martha Spano's name into the corresponding search field.

Item 4. Other Business Activities

This section describes investment-related businesses or occupations in which Martha Spano is engaged in addition to their activities as investment adviser, including potential conflicts of interest that arise as a result of these other activities. This section does not include non-investment related activity that is exclusively charitable, civic, religious or fraternal and is recognized as tax exempt.

[1]This may include registered personnel who assist Financial Advisors in providing investment advisory services to you, such as Wealth Planning Analysts.

A. Investment Related Activities and Occupations

UBS Financial Services Inc. is one of the nation's leading securities firms, serving the investment and capital needs of individual, corporate and institutional clients. We are a member of all principal securities and commodities exchanges in the United States including the New York Stock Exchange (NYSE). Our parent company, UBS Group AG, is a global, integrated investment services firm and one of the world's leading banks. We are registered to act as a broker-dealer, investment adviser, and futures commission merchant. Currently, our principal business, in terms of its revenues and personnel, is that of a broker-dealer in securities.

As an employee of UBS, Martha Spano is licensed as an investment adviser representative and a broker-dealer representative, and may suggest or recommend that advisory clients use the firm's securities accounts, execution, banking and custody services, or those of UBS affiliates.

1. Financial Advisor Compensation

In general, we pay our Financial Advisors cash compensation consisting of two components: a guaranteed monthly minimum draw required by applicable law, and production payout if it exceeds the monthly minimum draw. The production payout is a percentage (called a payout or grid rate) of the product-related revenue (called production) that each Financial Advisor generates during that month with respect to the clients he or she serves, minus certain adjustments that are specified by our Financial Advisor Compensation Plan. The payout or grid rate is generally based on production levels and ranges from 28% to 50%, but may be reduced or eliminated in certain circumstances. Financial advisors working as part of a team that meets minimum production requirements can qualify for a higher grid rate (but not above 50%) than they would receive working as an individual.

For our Investment Advisory Programs (asset-based fee programs) the payout rate is applied to the program fees credited to the Financial Advisor by the Firm, but the payout may be reduced for accounts priced below certain thresholds. Advisory accounts in relationships with assets over certain thresholds may have customized pricing and payouts as approved by the Firm.

We reduce or terminate the payouts described above to Financial Advisors in connection with accounts they service that do not meet certain prescribed asset levels on a household basis or for transactions or fees below specified amounts.

The standard compensation structure creates financial incentives for Financial Advisors to encourage clients to purchase multiple products and services or to choose a method of payment for products and services that generate compensation in excess of that for other products.

Financial Advisors also may receive certain awards based on their production, length of service with UBS, and net new business. The Retirement Account Production will also apply to the annual awards. (See Item 5. *Additional Compensation.*)

Under certain circumstances (e.g., acquisitions and recruitment; or particular programs or designations, such as Wealth Advice Center, Wealth Planning Analyst, New Financial Advisors, Institutional Consulting and Retirement Plan Consulting Services), some Financial Advisors or producing Branch Managers may be compensated differently.

Production for ERISA and IRA Accounts Held at UBS after June 9, 2017

Effective after June 9, 2017, the production credits our Financial Advisors receive on retirement accounts (both brokerage retirement accounts and investment advisory retirement accounts) held at UBS will not be affected by any recommendations or transactions for securities held in those accounts.

Instead of calculating a Financial Advisor's compensation based on the current revenue generated by such accounts (for example, advisory fees, commissions and sales credits), the production for retirement accounts for each Financial Advisor will be subject to the following calculation (the "Retirement Account Production"):

- Subject to minimum and maximum thresholds, the Retirement Account Production rate for each Financial Advisor is based on the 2016 revenues and average assets of their retirement accounts as of December 31, 2016 that were still open as of May 1, 2017. IRA account fees are excluded from the calculation.
- The Financial Advisor's individual Retirement Account Production rate will apply to the retirement accounts held at UBS at the end of each month to determine the retirement account production.
- The calculations above may vary, at the Firm's discretion, for Financial Advisors new to the Firm. Retirement account production for Financial Advisors hired after June 9, 2017 will be based on the information as disclosed to UBS at time of hire.
- The Retirement Account Production described above will apply to the annual awards.

Depending on the activity and asset levels in retirement accounts during 2016, the production derived from this calculation and ultimately the compensation Financial Advisors receive in connection with retirement accounts after June 9th, may be higher or lower than Financial Advisors may otherwise be eligible to earn under our standard compensation calculations for taxable accounts.

Also, while a Financial Advisor's compensation will not be impacted by the transactions effected in retirement accounts after June 9th, a difference in compensation creates an incentive for Financial Advisors to recommend an increase in assets in retirement accounts. There is also an incentive for Financial Advisors to focus on increasing the transaction or fee based revenue in taxable accounts.

These changes do not apply to Financial Advisors in the Wealth Advice Center or to brokerage and advisory retirement accounts where assets are held away from UBS, and accounts in the Retirement Plan Consulting Services Program, and the Institutional Consulting and the Outsourced Chief Investment Officer (OCIO) Programs.

With respect to retirement clients enrolled in the Institutional Consulting ("IC") or Outsourced Chief Investment Officer ("OCIO") programs, where those clients also have brokerage accounts at UBS or accounts opened in another investment advisory program at UBS, including those that may have been included in IC Program services only as an accommodation, the production payout rate for the Financial Advisor related to the IC or OCIO relationship will generally be applied to all retirement assets and accounts the client has at UBS. However, on an exception basis, the production payout rate for the Financial Advisor may be the weighted average production rate generated by that client's retirement accounts at UBS during the period January 1, 2016 to December 31, 2016.

Recruitment Compensation: In general, if your Financial Advisor is joining UBS from another firm, you should discuss the reasons your Financial Advisor decided to change firms and any costs or changes in services you may incur if you transfer your accounts to UBS. In many cases, UBS pays Financial Advisors financial incentives when they join and on an ongoing basis as described below.

Many Financial Advisors who joined UBS prior to November 1, 2016 are eligible to receive incentives, including loans, bonuses and/or other compensation, if they reach certain asset and/or production levels or other

targets. The amount paid to Financial Advisors under these arrangements is largely based on the size of the business serviced by the Financial Advisor at their prior firm and the Financial Advisor achieving a minimum percentage of their prior firm production and asset levels within a specific time period after joining UBS.

These payments may be substantial and may take various forms, including salary guarantees, loans, transition bonus payments and various forms of compensation to encourage Financial Advisors to join UBS, and are contingent on your Financial Advisor's continued employment. Therefore, even if the fees you pay at UBS remain the same or may be reduced, the transfer of your assets to UBS may contribute to your Financial Advisor's ability to meet such targets and to receive additional loans and/or compensation even if not directly related to your account or the fees you pay to us.

Recruiting offer letters issued after November 1, 2016 do not include recruitment incentives triggered by production, asset levels or other targets at UBS regardless of account type. Effective after June 9th, for purposes of all existing arrangements including those entered into prior to November 1, 2016, production for retirement accounts will be calculated based on the Retirement Account Production described above.

These practices create an incentive and a conflict of interest for your Financial Advisor to recommend the transfer of your account assets to UBS since a significant part of the Financial Advisor's compensation is often contingent on the Financial Advisor achieving a pre-determined level of revenue and/or assets at UBS. You should carefully consider whether your Financial Advisor's advice is aligned with your investment strategy and goals.

Wealth Planning Analyst Compensation: Wealth Planning Analysts do not receive production payouts described above and do not qualify for awards or recognition programs described below in *Additional Compensation*. Wealth Planning Analysts receive base compensation and they are eligible for discretionary incentive compensation, which is based on the performance of the firm in general as well as their individual performance.

New Financial Advisor Compensation: New Financial Advisors in the Development Program ("NFA" or "Trainees") are eligible for a 48-month compensation structure that combines base compensation, production payout and potential awards. Production payout is based on a payout rate that is applied to the production credited to the NFA and there is a minimum grid rate of 45%.

Financial Advisors grandfathered as part of a UBS insurance program also receive a payout of 75% of amounts paid to UBS by the general agent for the sale of certain insurance products, currently, permanent and term insurance.

We reserve the right, at our discretion and without prior notice, to change the methods by which we compensate our Financial Advisors and employees, including reducing and/or denying production payout and/or awards at our discretion for any reason.

2. Compensation from the Sale of Investment Products

In general, our Financial Advisors are compensated from the following sources of revenue:

- Commissions charged to clients in connection with the purchase, or sale, of equities, fixed income products and other investments such as structured products
- Markups (i.e., an increase) and markdowns (i.e., a reduction) on the price of purchases and sales of equities and fixed-income products, where the firm acts as principal, which means the securities were purchased for, or sold from, UBS's inventory

- Underwriting concessions in connection with products sold in initial offerings; Financial Advisors generally earn more for products sold in initial offerings than for those purchased and sold in secondary offerings
- Asset-based fees and hard-dollar fees charged in connection with our investment advisory programs and financial planning services
- Interest on loan accounts
- Production credit for mortgage origination
- Sales loads, commissions and 12b-1 fees for various financial products, such as mutual funds, offshore funds, alternative investment funds, unit investment trusts, insurance and annuities
- Referral fees and/or production credits for referrals to UBS affiliates, other employees and third parties, including referrals and/or transfers to the UBS Financial Services Inc. Wealth Advice Center
- A portion of the management and performance fees the Firm receives in connection with the distribution of alternative investments

Non-cash compensation

Financial Advisors may receive non-cash compensation from mutual fund companies, investment managers, unit investment trust sponsors, annuity providers, insurance vendors, and sponsors of products (including ETFs and NextShares) that we distribute. This compensation may include the following:

- Occasional gifts up to $100 per vendor per year
- Occasional meals, tickets or other entertainment of reasonable and customary value
- Sponsorship support of educational or training events (which may include educational events Financial Advisors arrange for clients and prospects) and seminars and/or payment of expenses related to training and education of employees, which can (and often) include a non-training element of the event
- Various forms of marketing support and, in certain limited circumstances the development of tools used by the Firm for training or record-keeping purposes.

The receipt of cash and non-cash compensation from sources other than clients, and the differences in which we compensate Financial Advisors for the products we offer, create an incentive for Financial Advisors to recommend certain products over others. We address these conflicts of interest by maintaining policies and procedures on the suitability and supervision of the advisory programs and services we offer to you, and by disclosing our practices to ensure you make a fully informed decision.

B. Outside Business Activities

Martha Spano is not currently engaged in any investment-related business activities outside of his or her employment with UBS.

Item 5. Additional Compensation

Financial Advisors are generally eligible to qualify for strategic objective awards and recognition programs, which are based on production, length of service at the firm and net new business brought to the firm by the Financial Advisor. These awards are subject to various caps and deferrals. Additionally, we may reduce or deny any such awards for any reason at our discretion.

- Net New Business Award. This award is granted to a Financial Advisor based on his or her year-end result for net new business, subject to minimum requirements and overall caps, and can include assets in certain accounts referred by Financial Advisors to the Wealth Advice Center. The Net New Business Consulting Award for IC/RPCS consultants and contracts that meet certain qualifications may be higher than the Net New Business Award paid for non-IC/RPCS business. Consultants that do not qualify for the Consulting Net New Business Award will still be eligible to receive the Net New Business Award otherwise available to Financial Advisors. Consultants that do qualify for the Consulting Net New Business Award will **not** also receive the Net New Business Award otherwise available to Financial Advisors.
- UBS Length of Service Award. This award is based on a Financial Advisor's current year production and length of service with UBS. It is subject to minimum production and length of service requirements.

The payment structure of the awards generally consists of deferred cash awards paid annually over a specified time frame, and restricted equity/notional shares subject to the plan's vesting schedule, or some combination thereof. Total awards below a certain threshold will be paid in cash. Financial Advisors who meet minimum award thresholds may be eligible to receive a loan based upon a percentage of their total strategic objective awards. If the Financial Advisor leaves the Firm before the term of the loans ends, he or she must pay back any outstanding loan balance.

The Retirement Account Production described above will apply to the annual awards.

The recognition programs and awards include the following:

- Recognition Councils. At UBS, there are four Recognition Councils for top-performing Financial Advisors. They are Pinnacle Council, Chairman's Council, President's Council and Director's Council. Membership is based on a combination of production and net new business rankings and other eligibility factors set by the firm, including disciplinary history and compliance with firm rules, standards and policies. Recognition Council members participate in training and education events that may involve travel paid for by the firm.
- The Expense Allowance Program. Recognition Council members and other Financial Advisors with a minimum production level are generally eligible to participate in the Expense Allowance Program, which provides an expense allowance for the purpose of promoting business. The amount of the expense allowance awarded is based on production level and Recognition Council Membership.
- GrowthPlus program. Each year some Financial Advisors may be eligible to receive a grant based upon their length of service and annual eligible production. Financial Advisors may be able to receive a loan based upon the grant. If the Financial Advisor leaves the Firm before the term of the loans ends, he or she must pay back any outstanding balance.
- Aspiring Legacy FA Program. Subject to specific program requirements, Financial Advisors with minimum production and length of services requirements who are leaving the financial services industry and transition their client relationships to other UBS Financial Advisors can earn production on transitioned accounts over a specified period, and may qualify to receive an up-front cash loan and annual cash transition payments.

UBS

Item 6. Supervision

Martha Spano is supervised by Ronald J. Meraz, whose contact information is listed below. Please contact us at any time if we can be of assistance.

Ronald J. Meraz
UBS Financial Services Inc.

2029 Century Park East
Suite 3000
Century City, CA 90067-3016

310-772-7019
ron.meraz@ubs.com

We have policies and procedures for the review and supervision of our investment advisory programs and services. Those policies are designed to comply with the requirements of the Investment Advisers Act of 1940, the Employee Retirement Income Security Act, where applicable, and other applicable rules and regulations.

There are general policies applicable to all advisory programs and services as well as individually tailored guidelines for each program and service. Because our advisory programs and services have different features, the guidelines for supervision vary.

Advisory Programs: Generally, advisory accounts in wrap fee programs are reviewed quarterly. Certain guidelines for specific programs, however, are reviewed daily, including principal trades and trading errors.

Items reviewed generally include, but are not limited, to the following, based on the specific features and services of the program or service:

- Consistency of the client's investment profile with the selection of investment managers, asset allocation plans, and discretionary investment strategies
- Levels of security and cash concentration
- Compliance with principal trade restrictions where those trades are not permitted
- Compliance with principal trade requirements for programs that offer principal trade execution
- Levels of unsolicited trading and trading activity in certain programs
- Review of performance and style drift of researched investment managers

In addition, Financial Advisors are required to conduct an internal annual review of accounts enrolled in advisory programs, and failure to conduct the internal review after a pre-determined period of time may result in termination from the advisory program or other consequences.

Branch Managers are responsible for supervising and reviewing these accounts, while home office program managers are responsible for enforcing various program guidelines. Information is generated and provided to Financial Advisors and Branch Managers for follow-up and resolution.

The advice and services provided through the Institutional Consulting Program are subject to review twice a year by Branch Managers for consistency with parameters established by clients.

Financial Plans: Branch office managers or their delegates are responsible for confirming that the Financial Planning Services are timely delivered to clients in accordance with the terms of the services agreements. The level of review of a financial plan depends on the particular report being used.

Financial Goal Analysis (FGA)—The FGA reports consist of various pre-determined sections and can include additional sections selected based on discussion between the financial advisor and the client. Each section includes static text that cannot be changed or modified by the individual user. When a fee above a certain amount is charged, the completed table of contents for the plan is reviewed by the Financial Planning Group to confirm that appropriate plan sections or modules are included, or that any exclusions are documented or explained.

Preferred Plans—Preferred plan reports are generally reviewed and approved by the Financial Planning Group or a Wealth Management Consultant before they are delivered to clients. Certain pre-approved Financial Advisors are not required to submit their plans to the Financial Planning Group for review. However, the Financial Planning Group reviews a sample of those plans periodically, usually monthly.

Private Plans and Strategic Wealth Assessments—Private Plans and Strategic Wealth Assessments are complex, highly customized reports that are generated only by members of the Advanced Planning Group, or others who have been pre-approved to use the reports. All Private Plans and Strategic Wealth Assessments are subject to peer review by the Advanced Planning Group or another person approved by Advanced Planning.

Questions

If you have questions regarding your investment advisory accounts, advisory services or financial plans, please contact your Financial Advisor, Martha Spano, at 310-772-8058. If you have questions regarding the information in this Brochure Supplement, please contact your Financial Advisor or the Supervisor , Ronald J. Meraz, at 310-772-7019.

UBS

UBS Financial Services Inc.
1200 Harbor Boulevard
Weehawken, NJ 07086
(201) 352-3000

SEC File Number: 801-7163
Date: July 7, 2017

Form ADV Brochure Supplement for

Kyle Kenji Yoneshige
UBS Financial Services Inc.

733 Bishop Street
Suite 1600
Honolulu, HI 96813-4068

808-526-6970
kyle.yoneshige@ubs.com

This Form ADV Brochure Supplement provides information about Kyle Kenji Yoneshige that supplements the UBS Financial Services Inc. Form ADV Disclosure Brochure, which we previously provided to you. Please contact Daniel T. Shiu, at 808-526-6968 if you did not receive a copy of the UBS Financial Services Inc. Form ADV Disclosure Brochure, if you would like another copy of that Brochure, or if you have questions about the contents of this Supplement.

Additional information about Kyle Kenji Yoneshige is available on the Securities and Exchange Commission's website, located at *www.adviserinfo.sec.gov*, as well as the Financial Industry Regulatory Authority's website, *www.finra.org/brokercheck*.

Please retain this Form ADV Brochure Supplement for future reference, as it contains important information if you decide to add services or establish additional advisory accounts at UBS. We will provide you an updated copy of this Brochure if there are material changes to the information in Item 3 (Disciplinary Information).

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UBS

Form ADV Brochure Supplement for Kyle Kenji Yoneshige

The information in this Brochure Supplement is as of July 7, 2017, and is subject to change.

Item 2. Educational Background and Business Experience

The business background information provided below is for the last five years. **Please note:** Certain data displayed in this Brochure Supplement is supplied by third-party organizations. As a result, some information may seem unclear or inconsistent.

Your Financial Advisor[1]	Kyle Kenji Yoneshige
Year of Birth	1985
Education	University of Southern Califor, Master of Arts
Business Background	Financial Advisor, UBS Financial Services Inc, since 2014 FA Trainee, Morgan Stanley Smith Barney, 2010 – 2014

Item 3. Disciplinary Information

This section includes details about certain legal and disciplinary events reported to the Securities and Exchange Commission and the Financial Industry Regulatory Authority (FINRA). Examples include final disciplinary actions taken by regulators, certain criminal charges and/or convictions and civil litigations.

Kyle Kenji Yoneshige does not have any reportable legal or disciplinary events under the requirements applicable to investment advisers.

The disciplinary reporting requirements for broker-dealers and investment advisers differ significantly, with FINRA requiring broker-dealers to report on matters that are not required to be reported by investment advisers. As a result, this brochure excludes matters that are not required to be reported by investment advisers, such as pending complaints and arbitrations, including those settled in our favor, as well as bankruptcies, judgments, liens, bonds, investigations and terminations. We also exclude complaints and arbitrations related to industry-wide matters as well as any complaint settled for less than $15,000 if it is the only complaint settlement on the Financial Advisor's record within the last 10 years.

As our Financial Advisors operate as both broker-dealers and investment advisers, the legal and disciplinary information in this report is not the only resource you can consult. In addition to the information in this report, you can access information about Kyle Kenji Yoneshige on the SEC's website, *www.adviserinfo.sec.gov*, as well as the FINRA's website, *www.finra.org/brokercheck,* by entering Kyle Kenji Yoneshige's name into the corresponding search field.

Item 4. Other Business Activities

This section describes investment-related businesses or occupations in which Kyle Kenji Yoneshige is engaged in addition to their activities as investment adviser, including potential conflicts of interest that arise as a result of these other activities. This section does not include non-investment related activity that is exclusively charitable, civic, religious or fraternal and is recognized as tax exempt.

[1]This may include registered personnel who assist Financial Advisors in providing investment advisory services to you, such as Wealth Planning Analysts.

A. Investment Related Activities and Occupations

UBS Financial Services Inc. is one of the nation's leading securities firms, serving the investment and capital needs of individual, corporate and institutional clients. We are a member of all principal securities and commodities exchanges in the United States including the New York Stock Exchange (NYSE). Our parent company, UBS Group AG, is a global, integrated investment services firm and one of the world's leading banks. We are registered to act as a broker-dealer, investment adviser, and futures commission merchant. Currently, our principal business, in terms of its revenues and personnel, is that of a broker-dealer in securities.

As an employee of UBS, Kyle Kenji Yoneshige is licensed as an investment adviser representative and a broker-dealer representative, and may suggest or recommend that advisory clients use the firm's securities accounts, execution, banking and custody services, or those of UBS affiliates.

1. Financial Advisor Compensation

In general, we pay our Financial Advisors cash compensation consisting of two components: a guaranteed monthly minimum draw required by applicable law, and production payout if it exceeds the monthly minimum draw. The production payout is a percentage (called a payout or grid rate) of the product-related revenue (called production) that each Financial Advisor generates during that month with respect to the clients he or she serves, minus certain adjustments that are specified by our Financial Advisor Compensation Plan. The payout or grid rate is generally based on production levels and ranges from 28% to 50%, but may be reduced or eliminated in certain circumstances. Financial advisors working as part of a team that meets minimum production requirements can qualify for a higher grid rate (but not above 50%) than they would receive working as an individual.

For our Investment Advisory Programs (asset-based fee programs) the payout rate is applied to the program fees credited to the Financial Advisor by the Firm, but the payout may be reduced for accounts priced below certain thresholds. Advisory accounts in relationships with assets over certain thresholds may have customized pricing and payouts as approved by the Firm.

We reduce or terminate the payouts described above to Financial Advisors in connection with accounts they service that do not meet certain prescribed asset levels on a household basis or for transactions or fees below specified amounts.

The standard compensation structure creates financial incentives for Financial Advisors to encourage clients to purchase multiple products and services or to choose a method of payment for products and services that generate compensation in excess of that for other products.

Financial Advisors also may receive certain awards based on their production, length of service with UBS, and net new business. The Retirement Account Production will also apply to the annual awards. (See Item 5. *Additional Compensation.*)

Under certain circumstances (e.g., acquisitions and recruitment; or particular programs or designations, such as Wealth Advice Center, Wealth Planning Analyst, New Financial Advisors, Institutional Consulting and Retirement Plan Consulting Services), some Financial Advisors or producing Branch Managers may be compensated differently.

Production for ERISA and IRA Accounts Held at UBS after June 9, 2017

Effective after June 9, 2017, the production credits our Financial Advisors receive on retirement accounts (both brokerage retirement accounts and investment advisory retirement accounts) held at UBS will not be affected by any recommendations or transactions for securities held in those accounts.

Instead of calculating a Financial Advisor's compensation based on the current revenue generated by such accounts (for example, advisory fees, commissions and sales credits), the production for retirement accounts for each Financial Advisor will be subject to the following calculation (the "Retirement Account Production"):

- Subject to minimum and maximum thresholds, the Retirement Account Production rate for each Financial Advisor is based on the 2016 revenues and average assets of their retirement accounts as of December 31, 2016 that were still open as of May 1, 2017. IRA account fees are excluded from the calculation.
- The Financial Advisor's individual Retirement Account Production rate will apply to the retirement accounts held at UBS at the end of each month to determine the retirement account production.
- The calculations above may vary, at the Firm's discretion, for Financial Advisors new to the Firm. Retirement account production for Financial Advisors hired after June 9, 2017 will be based on the information as disclosed to UBS at time of hire.
- The Retirement Account Production described above will apply to the annual awards.

Depending on the activity and asset levels in retirement accounts during 2016, the production derived from this calculation and ultimately the compensation Financial Advisors receive in connection with retirement accounts after June 9th, may be higher or lower than Financial Advisors may otherwise be eligible to earn under our standard compensation calculations for taxable accounts.

Also, while a Financial Advisor's compensation will not be impacted by the transactions effected in retirement accounts after June 9th, a difference in compensation creates an incentive for Financial Advisors to recommend an increase in assets in retirement accounts. There is also an incentive for Financial Advisors to focus on increasing the transaction or fee based revenue in taxable accounts.

These changes do not apply to Financial Advisors in the Wealth Advice Center or to brokerage and advisory retirement accounts where assets are held away from UBS, and accounts in the Retirement Plan Consulting Services Program, and the Institutional Consulting and the Outsourced Chief Investment Officer (OCIO) Programs.

With respect to retirement clients enrolled in the Institutional Consulting ("IC") or Outsourced Chief Investment Officer ("OCIO") programs, where those clients also have brokerage accounts at UBS or accounts opened in another investment advisory program at UBS, including those that may have been included in IC Program services only as an accommodation, the production payout rate for the Financial Advisor related to the IC or OCIO relationship will generally be applied to all retirement assets and accounts the client has at UBS. However, on an exception basis, the production payout rate for the Financial Advisor may be the weighted average production rate generated by that client's retirement accounts at UBS during the period January 1, 2016 to December 31, 2016.

Recruitment Compensation: In general, if your Financial Advisor is joining UBS from another firm, you should discuss the reasons your Financial Advisor decided to change firms and any costs or changes in services you may incur if you transfer your accounts to UBS. In many cases, UBS pays Financial Advisors financial incentives when they join and on an ongoing basis as described below.

Many Financial Advisors who joined UBS prior to November 1, 2016 are eligible to receive incentives, including loans, bonuses and/or other compensation, if they reach certain asset and/or production levels or other

targets. The amount paid to Financial Advisors under these arrangements is largely based on the size of the business serviced by the Financial Advisor at their prior firm and the Financial Advisor achieving a minimum percentage of their prior firm production and asset levels within a specific time period after joining UBS.

These payments may be substantial and may take various forms, including salary guarantees, loans, transition bonus payments and various forms of compensation to encourage Financial Advisors to join UBS, and are contingent on your Financial Advisor's continued employment. Therefore, even if the fees you pay at UBS remain the same or may be reduced, the transfer of your assets to UBS may contribute to your Financial Advisor's ability to meet such targets and to receive additional loans and/or compensation even if not directly related to your account or the fees you pay to us.

Recruiting offer letters issued after November 1, 2016 do not include recruitment incentives triggered by production, asset levels or other targets at UBS regardless of account type. Effective after June 9th, for purposes of all existing arrangements including those entered into prior to November 1, 2016, production for retirement accounts will be calculated based on the Retirement Account Production described above.

These practices create an incentive and a conflict of interest for your Financial Advisor to recommend the transfer of your account assets to UBS since a significant part of the Financial Advisor's compensation is often contingent on the Financial Advisor achieving a pre-determined level of revenue and/or assets at UBS. You should carefully consider whether your Financial Advisor's advice is aligned with your investment strategy and goals.

Wealth Planning Analyst Compensation: Wealth Planning Analysts do not receive production payouts described above and do not qualify for awards or recognition programs described below in *Additional Compensation*. Wealth Planning Analysts receive base compensation and they are eligible for discretionary incentive compensation, which is based on the performance of the firm in general as well as their individual performance.

New Financial Advisor Compensation: New Financial Advisors in the Development Program ("NFA" or "Trainees") are eligible for a 48-month compensation structure that combines base compensation, production payout and potential awards. Production payout is based on a payout rate that is applied to the production credited to the NFA and there is a minimum grid rate of 45%.

Financial Advisors grandfathered as part of a UBS insurance program also receive a payout of 75% of amounts paid to UBS by the general agent for the sale of certain insurance products, currently, permanent and term insurance.

We reserve the right, at our discretion and without prior notice, to change the methods by which we compensate our Financial Advisors and employees, including reducing and/or denying production payout and/or awards at our discretion for any reason.

2. Compensation from the Sale of Investment Products

In general, our Financial Advisors are compensated from the following sources of revenue:

- Commissions charged to clients in connection with the purchase, or sale, of equities, fixed income products and other investments such as structured products
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B. Outside Business Activities

Kyle Kenji Yoneshige is not currently engaged in any investment-related business activities outside of his or her employment with UBS.

Item 5. Additional Compensation

Financial Advisors are generally eligible to qualify for strategic objective awards and recognition programs, which are based on production, length of service at the firm and net new business brought to the firm by the Financial Advisor. These awards are subject to various caps and deferrals. Additionally, we may reduce or deny any such awards for any reason at our discretion.

- Net New Business Award. This award is granted to a Financial Advisor based on his or her year-end result for net new business, subject to minimum requirements and overall caps, and can include assets in certain accounts referred by Financial Advisors to the Wealth Advice Center. The Net New Business Consulting Award for IC/RPCS consultants and contracts that meet certain qualifications may be higher than the Net New Business Award paid for non-IC/RPCS business. Consultants that do not qualify for the Consulting Net New Business Award will still be eligible to receive the Net New Business Award otherwise available to Financial Advisors. Consultants that do qualify for the Consulting Net New Business Award will **not** also receive the Net New Business Award otherwise available to Financial Advisors.
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UBS

Item 6. Supervision

Kyle Kenji Yoneshige is supervised by Daniel T. Shiu, whose contact information is listed below. Please contact us at any time if we can be of assistance.

Daniel T. Shiu
UBS Financial Services Inc.

733 Bishop Street
Suite 1600
Honolulu, HI 96813-4068

808-526-6968
daniel.shiu@ubs.com

We have policies and procedures for the review and supervision of our investment advisory programs and services. Those policies are designed to comply with the requirements of the Investment Advisers Act of 1940, the Employee Retirement Income Security Act, where applicable, and other applicable rules and regulations.

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Branch Managers are responsible for supervising and reviewing these accounts, while home office program managers are responsible for enforcing various program guidelines. Information is generated and provided to Financial Advisors and Branch Managers for follow-up and resolution.

The advice and services provided through the Institutional Consulting Program are subject to review twice a year by Branch Managers for consistency with parameters established by clients.

Financial Plans: Branch office managers or their delegates are responsible for confirming that the Financial Planning Services are timely delivered to clients in accordance with the terms of the services agreements. The level of review of a financial plan depends on the particular report being used.

Financial Goal Analysis (FGA)—The FGA reports consist of various pre-determined sections and can include additional sections selected based on discussion between the financial advisor and the client. Each section includes static text that cannot be changed or modified by the individual user. When a fee above a certain amount is charged, the completed table of contents for the plan is reviewed by the Financial Planning Group to confirm that appropriate plan sections or modules are included, or that any exclusions are documented or explained.

Preferred Plans—Preferred plan reports are generally reviewed and approved by the Financial Planning Group or a Wealth Management Consultant before they are delivered to clients. Certain pre-approved Financial Advisors are not required to submit their plans to the Financial Planning Group for review. However, the Financial Planning Group reviews a sample of those plans periodically, usually monthly.

Private Plans and Strategic Wealth Assessments—Private Plans and Strategic Wealth Assessments are complex, highly customized reports that are generated only by members of the Advanced Planning Group, or others who have been pre-approved to use the reports. All Private Plans and Strategic Wealth Assessments are subject to peer review by the Advanced Planning Group or another person approved by Advanced Planning.

Questions

If you have questions regarding your investment advisory accounts, advisory services or financial plans, please contact your Financial Advisor, Kyle Kenji Yoneshige, at 808-526-6970. If you have questions regarding the information in this Brochure Supplement, please contact your Financial Advisor or the Supervisor , Daniel T. Shiu, at 808-526-6968.

UBS

UBS Financial Services Inc.
1200 Harbor Boulevard
Weehawken, NJ 07086
(201) 352-3000

SEC File Number: 801-7163
Date: July 7, 2017

Form ADV Brochure Supplement for

Lori Ann Shizuko Nishimura
UBS Financial Services Inc.

733 Bishop Street
Suite 1600
Honolulu, HI 96813-4068

808-526-6971
lori.hamano@ubs.com

This Form ADV Brochure Supplement provides information about Lori Ann Shizuko Nishimura that supplements the UBS Financial Services Inc. Form ADV Disclosure Brochure, which we previously provided to you. Please contact Daniel T. Shiu, at 808-526-6968 if you did not receive a copy of the UBS Financial Services Inc. Form ADV Disclosure Brochure, if you would like another copy of that Brochure, or if you have questions about the contents of this Supplement.

Additional information about Lori Ann Shizuko Nishimura is available on the Securities and Exchange Commission's website, located at *www.adviserinfo.sec.gov*, as well as the Financial Industry Regulatory Authority's website, *www.finra.org/brokercheck*.

Please retain this Form ADV Brochure Supplement for future reference, as it contains important information if you decide to add services or establish additional advisory accounts at UBS. We will provide you an updated copy of this Brochure if there are material changes to the information in Item 3 (Disciplinary Information).

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UBS

Form ADV Brochure Supplement for Lori Ann Shizuko Nishimura

The information in this Brochure Supplement is as of July 7, 2017, and is subject to change.

Item 2. Educational Background and Business Experience

The business background information provided below is for the last five years. **Please note:** Certain data displayed in this Brochure Supplement is supplied by third-party organizations. As a result, some information may seem unclear or inconsistent.

Your Financial Advisor[1]	Lori Ann Shizuko Nishimura
Year of Birth	1982
Education	New York University, Bachelor of Arts
Business Background	Financial Advisor, UBS Financial Services Inc, since 2014 FA Trainee, Morgan Stanley Smith Barney, 2010 – 2014

Item 3. Disciplinary Information

This section includes details about certain legal and disciplinary events reported to the Securities and Exchange Commission and the Financial Industry Regulatory Authority (FINRA). Examples include final disciplinary actions taken by regulators, certain criminal charges and/or convictions and civil litigations.

Lori Ann Shizuko Nishimura does not have any reportable legal or disciplinary events under the requirements applicable to investment advisers.

The disciplinary reporting requirements for broker-dealers and investment advisers differ significantly, with FINRA requiring broker-dealers to report on matters that are not required to be reported by investment advisers. As a result, this brochure excludes matters that are not required to be reported by investment advisers, such as pending complaints and arbitrations, including those settled in our favor, as well as bankruptcies, judgments, liens, bonds, investigations and terminations. We also exclude complaints and arbitrations related to industry-wide matters as well as any complaint settled for less than $15,000 if it is the only complaint settlement on the Financial Advisor's record within the last 10 years.

As our Financial Advisors operate as both broker-dealers and investment advisers, the legal and disciplinary information in this report is not the only resource you can consult. In addition to the information in this report, you can access information about Lori Ann Shizuko Nishimura on the SEC's website, *www.adviserinfo.sec.gov*, as well as the FINRA's website, *www.finra.org/brokercheck,* by entering Lori Ann Shizuko Nishimura's name into the corresponding search field.

Item 4. Other Business Activities

This section describes investment-related businesses or occupations in which Lori Ann Shizuko Nishimura is engaged in addition to their activities as investment adviser, including potential conflicts of interest that arise as a result of these other activities. This section does not include non-investment related activity that is exclusively charitable, civic, religious or fraternal and is recognized as tax exempt.

[1]This may include registered personnel who assist Financial Advisors in providing investment advisory services to you, such as Wealth Planning Analysts.

A. Investment Related Activities and Occupations

UBS Financial Services Inc. is one of the nation's leading securities firms, serving the investment and capital needs of individual, corporate and institutional clients. We are a member of all principal securities and commodities exchanges in the United States including the New York Stock Exchange (NYSE). Our parent company, UBS Group AG, is a global, integrated investment services firm and one of the world's leading banks. We are registered to act as a broker-dealer, investment adviser, and futures commission merchant. Currently, our principal business, in terms of its revenues and personnel, is that of a broker-dealer in securities.

As an employee of UBS, Lori Ann Shizuko Nishimura is licensed as an investment adviser representative and a broker-dealer representative, and may suggest or recommend that advisory clients use the firm's securities accounts, execution, banking and custody services, or those of UBS affiliates.

1. Financial Advisor Compensation

In general, we pay our Financial Advisors cash compensation consisting of two components: a guaranteed monthly minimum draw required by applicable law, and production payout if it exceeds the monthly minimum draw. The production payout is a percentage (called a payout or grid rate) of the product-related revenue (called production) that each Financial Advisor generates during that month with respect to the clients he or she serves, minus certain adjustments that are specified by our Financial Advisor Compensation Plan. The payout or grid rate is generally based on production levels and ranges from 28% to 50%, but may be reduced or eliminated in certain circumstances. Financial advisors working as part of a team that meets minimum production requirements can qualify for a higher grid rate (but not above 50%) than they would receive working as an individual.

For our Investment Advisory Programs (asset-based fee programs) the payout rate is applied to the program fees credited to the Financial Advisor by the Firm, but the payout may be reduced for accounts priced below certain thresholds. Advisory accounts in relationships with assets over certain thresholds may have customized pricing and payouts as approved by the Firm.

We reduce or terminate the payouts described above to Financial Advisors in connection with accounts they service that do not meet certain prescribed asset levels on a household basis or for transactions or fees below specified amounts.

The standard compensation structure creates financial incentives for Financial Advisors to encourage clients to purchase multiple products and services or to choose a method of payment for products and services that generate compensation in excess of that for other products.

Financial Advisors also may receive certain awards based on their production, length of service with UBS, and net new business. The Retirement Account Production will also apply to the annual awards. (See Item 5. *Additional Compensation.*)

Under certain circumstances (e.g., acquisitions and recruitment; or particular programs or designations, such as Wealth Advice Center, Wealth Planning Analyst, New Financial Advisors, Institutional Consulting and Retirement Plan Consulting Services), some Financial Advisors or producing Branch Managers may be compensated differently.

Production for ERISA and IRA Accounts Held at UBS after June 9, 2017

Effective after June 9, 2017, the production credits our Financial Advisors receive on retirement accounts (both brokerage retirement accounts and investment advisory retirement accounts) held at UBS will not be affected by any recommendations or transactions for securities held in those accounts.

Instead of calculating a Financial Advisor's compensation based on the current revenue generated by such accounts (for example, advisory fees, commissions and sales credits), the production for retirement accounts for each Financial Advisor will be subject to the following calculation (the "Retirement Account Production"):

- Subject to minimum and maximum thresholds, the Retirement Account Production rate for each Financial Advisor is based on the 2016 revenues and average assets of their retirement accounts as of December 31, 2016 that were still open as of May 1, 2017. IRA account fees are excluded from the calculation.
- The Financial Advisor's individual Retirement Account Production rate will apply to the retirement accounts held at UBS at the end of each month to determine the retirement account production.
- The calculations above may vary, at the Firm's discretion, for Financial Advisors new to the Firm. Retirement account production for Financial Advisors hired after June 9, 2017 will be based on the information as disclosed to UBS at time of hire.
- The Retirement Account Production described above will apply to the annual awards.

Depending on the activity and asset levels in retirement accounts during 2016, the production derived from this calculation and ultimately the compensation Financial Advisors receive in connection with retirement accounts after June 9th, may be higher or lower than Financial Advisors may otherwise be eligible to earn under our standard compensation calculations for taxable accounts.

Also, while a Financial Advisor's compensation will not be impacted by the transactions effected in retirement accounts after June 9th, a difference in compensation creates an incentive for Financial Advisors to recommend an increase in assets in retirement accounts. There is also an incentive for Financial Advisors to focus on increasing the transaction or fee based revenue in taxable accounts.

These changes do not apply to Financial Advisors in the Wealth Advice Center or to brokerage and advisory retirement accounts where assets are held away from UBS, and accounts in the Retirement Plan Consulting Services Program, and the Institutional Consulting and the Outsourced Chief Investment Officer (OCIO) Programs.

With respect to retirement clients enrolled in the Institutional Consulting ("IC") or Outsourced Chief Investment Officer ("OCIO") programs, where those clients also have brokerage accounts at UBS or accounts opened in another investment advisory program at UBS, including those that may have been included in IC Program services only as an accommodation, the production payout rate for the Financial Advisor related to the IC or OCIO relationship will generally be applied to all retirement assets and accounts the client has at UBS. However, on an exception basis, the production payout rate for the Financial Advisor may be the weighted average production rate generated by that client's retirement accounts at UBS during the period January 1, 2016 to December 31, 2016.

Recruitment Compensation: In general, if your Financial Advisor is joining UBS from another firm, you should discuss the reasons your Financial Advisor decided to change firms and any costs or changes in services you may incur if you transfer your accounts to UBS. In many cases, UBS pays Financial Advisors financial incentives when they join and on an ongoing basis as described below.

Many Financial Advisors who joined UBS prior to November 1, 2016 are eligible to receive incentives, including loans, bonuses and/or other compensation, if they reach certain asset and/or production levels or other

targets. The amount paid to Financial Advisors under these arrangements is largely based on the size of the business serviced by the Financial Advisor at their prior firm and the Financial Advisor achieving a minimum percentage of their prior firm production and asset levels within a specific time period after joining UBS.

These payments may be substantial and may take various forms, including salary guarantees, loans, transition bonus payments and various forms of compensation to encourage Financial Advisors to join UBS, and are contingent on your Financial Advisor's continued employment. Therefore, even if the fees you pay at UBS remain the same or may be reduced, the transfer of your assets to UBS may contribute to your Financial Advisor's ability to meet such targets and to receive additional loans and/or compensation even if not directly related to your account or the fees you pay to us.

Recruiting offer letters issued after November 1, 2016 do not include recruitment incentives triggered by production, asset levels or other targets at UBS regardless of account type. Effective after June 9th, for purposes of all existing arrangements including those entered into prior to November 1, 2016, production for retirement accounts will be calculated based on the Retirement Account Production described above.

These practices create an incentive and a conflict of interest for your Financial Advisor to recommend the transfer of your account assets to UBS since a significant part of the Financial Advisor's compensation is often contingent on the Financial Advisor achieving a pre-determined level of revenue and/or assets at UBS. You should carefully consider whether your Financial Advisor's advice is aligned with your investment strategy and goals.

Wealth Planning Analyst Compensation: Wealth Planning Analysts do not receive production payouts described above and do not qualify for awards or recognition programs described below in *Additional Compensation*. Wealth Planning Analysts receive base compensation and they are eligible for discretionary incentive compensation, which is based on the performance of the firm in general as well as their individual performance.

New Financial Advisor Compensation: New Financial Advisors in the Development Program ("NFA" or "Trainees") are eligible for a 48-month compensation structure that combines base compensation, production payout and potential awards. Production payout is based on a payout rate that is applied to the production credited to the NFA and there is a minimum grid rate of 45%.

Financial Advisors grandfathered as part of a UBS insurance program also receive a payout of 75% of amounts paid to UBS by the general agent for the sale of certain insurance products, currently, permanent and term insurance.

We reserve the right, at our discretion and without prior notice, to change the methods by which we compensate our Financial Advisors and employees, including reducing and/or denying production payout and/or awards at our discretion for any reason.

2. Compensation from the Sale of Investment Products

In general, our Financial Advisors are compensated from the following sources of revenue:

- Commissions charged to clients in connection with the purchase, or sale, of equities, fixed income products and other investments such as structured products
- Markups (i.e., an increase) and markdowns (i.e., a reduction) on the price of purchases and sales of equities and fixed-income products, where the firm acts as principal, which means the securities were purchased for, or sold from, UBS's inventory

- Underwriting concessions in connection with products sold in initial offerings; Financial Advisors generally earn more for products sold in initial offerings than for those purchased and sold in secondary offerings
- Asset-based fees and hard-dollar fees charged in connection with our investment advisory programs and financial planning services
- Interest on loan accounts
- Production credit for mortgage origination
- Sales loads, commissions and 12b-1 fees for various financial products, such as mutual funds, offshore funds, alternative investment funds, unit investment trusts, insurance and annuities
- Referral fees and/or production credits for referrals to UBS affiliates, other employees and third parties, including referrals and/or transfers to the UBS Financial Services Inc. Wealth Advice Center
- A portion of the management and performance fees the Firm receives in connection with the distribution of alternative investments

Non-cash compensation

Financial Advisors may receive non-cash compensation from mutual fund companies, investment managers, unit investment trust sponsors, annuity providers, insurance vendors, and sponsors of products (including ETFs and NextShares) that we distribute. This compensation may include the following:

- Occasional gifts up to $100 per vendor per year
- Occasional meals, tickets or other entertainment of reasonable and customary value
- Sponsorship support of educational or training events (which may include educational events Financial Advisors arrange for clients and prospects) and seminars and/or payment of expenses related to training and education of employees, which can (and often) include a non-training element of the event
- Various forms of marketing support and, in certain limited circumstances the development of tools used by the Firm for training or record-keeping purposes.

The receipt of cash and non-cash compensation from sources other than clients, and the differences in which we compensate Financial Advisors for the products we offer, create an incentive for Financial Advisors to recommend certain products over others. We address these conflicts of interest by maintaining policies and procedures on the suitability and supervision of the advisory programs and services we offer to you, and by disclosing our practices to ensure you make a fully informed decision.

B. Outside Business Activities

Lori Ann Shizuko Nishimura is not currently engaged in any investment-related business activities outside of his or her employment with UBS.

Item 5. Additional Compensation

Financial Advisors are generally eligible to qualify for strategic objective awards and recognition programs, which are based on production, length of service at the firm and net new business brought to the firm by the Financial Advisor. These awards are subject to various caps and deferrals. Additionally, we may reduce or deny any such awards for any reason at our discretion.

- Net New Business Award. This award is granted to a Financial Advisor based on his or her year-end result for net new business, subject to minimum requirements and overall caps, and can include assets in certain accounts referred by Financial Advisors to the Wealth Advice Center. The Net New Business Consulting Award for IC/RPCS consultants and contracts that meet certain qualifications may be higher than the Net New Business Award paid for non-IC/RPCS business. Consultants that do not qualify for the Consulting Net New Business Award will still be eligible to receive the Net New Business Award otherwise available to Financial Advisors. Consultants that do qualify for the Consulting Net New Business Award will **not** also receive the Net New Business Award otherwise available to Financial Advisors.
- UBS Length of Service Award. This award is based on a Financial Advisor's current year production and length of service with UBS. It is subject to minimum production and length of service requirements.

The payment structure of the awards generally consists of deferred cash awards paid annually over a specified time frame, and restricted equity/notional shares subject to the plan's vesting schedule, or some combination thereof. Total awards below a certain threshold will be paid in cash. Financial Advisors who meet minimum award thresholds may be eligible to receive a loan based upon a percentage of their total strategic objective awards. If the Financial Advisor leaves the Firm before the term of the loans ends, he or she must pay back any outstanding loan balance.

The Retirement Account Production described above will apply to the annual awards.

The recognition programs and awards include the following:

- Recognition Councils. At UBS, there are four Recognition Councils for top-performing Financial Advisors. They are Pinnacle Council, Chairman's Council, President's Council and Director's Council. Membership is based on a combination of production and net new business rankings and other eligibility factors set by the firm, including disciplinary history and compliance with firm rules, standards and policies. Recognition Council members participate in training and education events that may involve travel paid for by the firm.
- The Expense Allowance Program. Recognition Council members and other Financial Advisors with a minimum production level are generally eligible to participate in the Expense Allowance Program, which provides an expense allowance for the purpose of promoting business. The amount of the expense allowance awarded is based on production level and Recognition Council Membership.
- GrowthPlus program. Each year some Financial Advisors may be eligible to receive a grant based upon their length of service and annual eligible production. Financial Advisors may be able to receive a loan based upon the grant. If the Financial Advisor leaves the Firm before the term of the loans ends, he or she must pay back any outstanding balance.
- Aspiring Legacy FA Program. Subject to specific program requirements, Financial Advisors with minimum production and length of services requirements who are leaving the financial services industry and transition their client relationships to other UBS Financial Advisors can earn production on transitioned accounts over a specified period, and may qualify to receive an up-front cash loan and annual cash transition payments.

UBS

Item 6. Supervision

Lori Ann Shizuko Nishimura is supervised by Daniel T. Shiu, whose contact information is listed below. Please contact us at any time if we can be of assistance.

Daniel T. Shiu
UBS Financial Services Inc.

733 Bishop Street
Suite 1600
Honolulu, HI 96813-4068

808-526-6968
daniel.shiu@ubs.com

We have policies and procedures for the review and supervision of our investment advisory programs and services. Those policies are designed to comply with the requirements of the Investment Advisers Act of 1940, the Employee Retirement Income Security Act, where applicable, and other applicable rules and regulations.

There are general policies applicable to all advisory programs and services as well as individually tailored guidelines for each program and service. Because our advisory programs and services have different features, the guidelines for supervision vary.

Advisory Programs: Generally, advisory accounts in wrap fee programs are reviewed quarterly. Certain guidelines for specific programs, however, are reviewed daily, including principal trades and trading errors.

Items reviewed generally include, but are not limited, to the following, based on the specific features and services of the program or service:

- Consistency of the client's investment profile with the selection of investment managers, asset allocation plans, and discretionary investment strategies
- Levels of security and cash concentration
- Compliance with principal trade restrictions where those trades are not permitted
- Compliance with principal trade requirements for programs that offer principal trade execution
- Levels of unsolicited trading and trading activity in certain programs
- Review of performance and style drift of researched investment managers

In addition, Financial Advisors are required to conduct an internal annual review of accounts enrolled in advisory programs, and failure to conduct the internal review after a pre-determined period of time may result in termination from the advisory program or other consequences.

Branch Managers are responsible for supervising and reviewing these accounts, while home office program managers are responsible for enforcing various program guidelines. Information is generated and provided to Financial Advisors and Branch Managers for follow-up and resolution.

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Questions

If you have questions regarding your investment advisory accounts, advisory services or financial plans, please contact your Financial Advisor, Lori Ann Shizuko Nishimura, at 808-526-6971. If you have questions regarding the information in this Brochure Supplement, please contact your Financial Advisor or the Supervisor, Daniel T. Shiu, at 808-526-6968.

UBS

UBS Financial Services Inc.
1200 Harbor Boulevard
Weehawken, NJ 07086
(201) 352-3000

SEC File Number: 801-7163
Date: July 7, 2017

Form ADV Brochure Supplement for

Michael Ward Miller
UBS Financial Services Inc.

733 Bishop Street
Suite 1600
Honolulu, HI 96813-4068

808-526-6905
michaelw.miller@ubs.com

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Your Financial Advisor[1]	Michael Ward Miller
Title	Sr Vice President--Wealth Mgmt
Year of Birth	1954
Education	Morehead State University, Bachelor of Arts
Business Background	Financial Advisor, UBS Financial Services Inc, since 1987

Professional Designations

Michael Ward Miller earned the UBS designation identified below. We do not identify external professional designations and we identify only two UBS internal designations; as such we do not identify all of the professional designations that may be held by our employees. Holding a UBS designation typically indicates that a Financial Advisor has completed certain courses or continuing education. Additional information, including the required coursework and general length of time to complete it, follows for your reference.

Designation Name	*Designation Description*
Wealth Advisor	Investment professionals who hold the Wealth Advisor designation have completed over 150 hours of advanced training in a comprehensive blended learning program of instructor-led training, in-branch activities, online education and coaching meetings with their managers to develop knowledge and skills that are essential for serving individuals with at least $2 million in investable assets. With online education modules and seven days of instructor-led workshop-style training, the program covers the following wealth management topics: investments, liabilities, insurance, executive compensation, protection strategies, qualified retirement plan and individual retirement account distributions, business succession planning, gifting to children and descendants, charitable gifting and distribution of wealth at death. The Program concludes with a live Performance Assessment that tests designee skills in discovering client needs and articulating solutions. This designation is conferred by UBS; designees receive ongoing development through the firm's business university.

Your Financial Advisor's use of this designation does not change UBS's obligations to you with respect to the advisory or brokerage products and services that we recommend or offer to you.

[1]This may include registered personnel who assist Financial Advisors in providing investment advisory services to you, such as Wealth Planning Analysts.

Item 3. Disciplinary Information

This section includes details about certain legal and disciplinary events reported to the Securities and Exchange Commission and the Financial Industry Regulatory Authority (FINRA). Examples include final disciplinary actions taken by regulators, certain criminal charges and/or convictions and civil litigations.

Michael Ward Miller does not have any reportable legal or disciplinary events under the requirements applicable to investment advisers.

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As our Financial Advisors operate as both broker-dealers and investment advisers, the legal and disciplinary information in this report is not the only resource you can consult. In addition to the information in this report, you can access information about Michael Ward Miller on the SEC's website, *www.adviserinfo.sec.gov*, as well as the FINRA's website, *www.finra.org/brokercheck,* by entering Michael Ward Miller's name into the corresponding search field.

Item 4. Other Business Activities

This section describes investment-related businesses or occupations in which Michael Ward Miller is engaged in addition to their activities as investment adviser, including potential conflicts of interest that arise as a result of these other activities. This section does not include non-investment related activity that is exclusively charitable, civic, religious or fraternal and is recognized as tax exempt.

A. Investment Related Activities and Occupations

UBS Financial Services Inc. is one of the nation's leading securities firms, serving the investment and capital needs of individual, corporate and institutional clients. We are a member of all principal securities and commodities exchanges in the United States including the New York Stock Exchange (NYSE). Our parent company, UBS Group AG, is a global, integrated investment services firm and one of the world's leading banks. We are registered to act as a broker-dealer, investment adviser, and futures commission merchant. Currently, our principal business, in terms of its revenues and personnel, is that of a broker-dealer in securities.

As an employee of UBS, Michael Ward Miller is licensed as an investment adviser representative and a broker-dealer representative, and may suggest or recommend that advisory clients use the firm's securities accounts, execution, banking and custody services, or those of UBS affiliates.

1. Financial Advisor Compensation

In general, we pay our Financial Advisors cash compensation consisting of two components: a guaranteed monthly minimum draw required by applicable law, and production payout if it exceeds the monthly minimum draw. The production payout is a percentage (called a payout or grid rate) of the product-related revenue (called production) that each Financial Advisor generates during that month with respect to the clients he or she serves, minus certain adjustments that are specified by our Financial Advisor Compensation Plan. The

payout or grid rate is generally based on production levels and ranges from 28% to 50%, but may be reduced or eliminated in certain circumstances. Financial advisors working as part of a team that meets minimum production requirements can qualify for a higher grid rate (but not above 50%) than they would receive working as an individual.

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Under certain circumstances (e.g., acquisitions and recruitment; or particular programs or designations, such as Wealth Advice Center, Wealth Planning Analyst, New Financial Advisors, Institutional Consulting and Retirement Plan Consulting Services), some Financial Advisors or producing Branch Managers may be compensated differently.

Production for ERISA and IRA Accounts Held at UBS after June 9, 2017

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Instead of calculating a Financial Advisor's compensation based on the current revenue generated by such accounts (for example, advisory fees, commissions and sales credits), the production for retirement accounts for each Financial Advisor will be subject to the following calculation (the "Retirement Account Production"):

- Subject to minimum and maximum thresholds, the Retirement Account Production rate for each Financial Advisor is based on the 2016 revenues and average assets of their retirement accounts as of December 31, 2016 that were still open as of May 1, 2017. IRA account fees are excluded from the calculation.
- The Financial Advisor's individual Retirement Account Production rate will apply to the retirement accounts held at UBS at the end of each month to determine the retirement account production.
- The calculations above may vary, at the Firm's discretion, for Financial Advisors new to the Firm. Retirement account production for Financial Advisors hired after June 9, 2017 will be based on the information as disclosed to UBS at time of hire.
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Depending on the activity and asset levels in retirement accounts during 2016, the production derived from this calculation and ultimately the compensation Financial Advisors receive in connection with retirement

accounts after June 9th, may be higher or lower than Financial Advisors may otherwise be eligible to earn under our standard compensation calculations for taxable accounts.

Also, while a Financial Advisor's compensation will not be impacted by the transactions effected in retirement accounts after June 9th, a difference in compensation creates an incentive for Financial Advisors to recommend an increase in assets in retirement accounts. There is also an incentive for Financial Advisors to focus on increasing the transaction or fee based revenue in taxable accounts.

These changes do not apply to Financial Advisors in the Wealth Advice Center or to brokerage and advisory retirement accounts where assets are held away from UBS, and accounts in the Retirement Plan Consulting Services Program, and the Institutional Consulting and the Outsourced Chief Investment Officer (OCIO) Programs.

With respect to retirement clients enrolled in the Institutional Consulting ("IC") or Outsourced Chief Investment Officer ("OCIO") programs, where those clients also have brokerage accounts at UBS or accounts opened in another investment advisory program at UBS, including those that may have been included in IC Program services only as an accommodation, the production payout rate for the Financial Advisor related to the IC or OCIO relationship will generally be applied to all retirement assets and accounts the client has at UBS. However, on an exception basis, the production payout rate for the Financial Advisor may be the weighted average production rate generated by that client's retirement accounts at UBS during the period January 1, 2016 to December 31, 2016.

Recruitment Compensation: In general, if your Financial Advisor is joining UBS from another firm, you should discuss the reasons your Financial Advisor decided to change firms and any costs or changes in services you may incur if you transfer your accounts to UBS. In many cases, UBS pays Financial Advisors financial incentives when they join and on an ongoing basis as described below.

Many Financial Advisors who joined UBS prior to November 1, 2016 are eligible to receive incentives, including loans, bonuses and/or other compensation, if they reach certain asset and/or production levels or other targets. The amount paid to Financial Advisors under these arrangements is largely based on the size of the business serviced by the Financial Advisor at their prior firm and the Financial Advisor achieving a minimum percentage of their prior firm production and asset levels within a specific time period after joining UBS.

These payments may be substantial and may take various forms, including salary guarantees, loans, transition bonus payments and various forms of compensation to encourage Financial Advisors to join UBS, and are contingent on your Financial Advisor's continued employment. Therefore, even if the fees you pay at UBS remain the same or may be reduced, the transfer of your assets to UBS may contribute to your Financial Advisor's ability to meet such targets and to receive additional loans and/or compensation even if not directly related to your account or the fees you pay to us.

Recruiting offer letters issued after November 1, 2016 do not include recruitment incentives triggered by production, asset levels or other targets at UBS regardless of account type. Effective after June 9th, for purposes of all existing arrangements including those entered into prior to November 1, 2016, production for retirement accounts will be calculated based on the Retirement Account Production described above.

These practices create an incentive and a conflict of interest for your Financial Advisor to recommend the transfer of your account assets to UBS since a significant part of the Financial Advisor's compensation is often contingent on the Financial Advisor achieving a pre-determined level of revenue and/or assets at UBS. You should carefully consider whether your Financial Advisor's advice is aligned with your investment strategy and goals.

Wealth Planning Analyst Compensation: Wealth Planning Analysts do not receive production payouts described above and do not qualify for awards or recognition programs described below in *Additional Compensation*. Wealth Planning Analysts receive base compensation and they are eligible for discretionary incentive compensation, which is based on the performance of the firm in general as well as their individual performance.

New Financial Advisor Compensation: New Financial Advisors in the Development Program ("NFA" or "Trainees") are eligible for a 48-month compensation structure that combines base compensation, production payout and potential awards. Production payout is based on a payout rate that is applied to the production credited to the NFA and there is a minimum grid rate of 45%.

Financial Advisors grandfathered as part of a UBS insurance program also receive a payout of 75% of amounts paid to UBS by the general agent for the sale of certain insurance products, currently, permanent and term insurance.

We reserve the right, at our discretion and without prior notice, to change the methods by which we compensate our Financial Advisors and employees, including reducing and/or denying production payout and/or awards at our discretion for any reason.

2. Compensation from the Sale of Investment Products

In general, our Financial Advisors are compensated from the following sources of revenue:

- Commissions charged to clients in connection with the purchase, or sale, of equities, fixed income products and other investments such as structured products
- Markups (i.e., an increase) and markdowns (i.e., a reduction) on the price of purchases and sales of equities and fixed-income products, where the firm acts as principal, which means the securities were purchased for, or sold from, UBS's inventory
- Underwriting concessions in connection with products sold in initial offerings; Financial Advisors generally earn more for products sold in initial offerings than for those purchased and sold in secondary offerings
- Asset-based fees and hard-dollar fees charged in connection with our investment advisory programs and financial planning services
- Interest on loan accounts
- Production credit for mortgage origination
- Sales loads, commissions and 12b-1 fees for various financial products, such as mutual funds, offshore funds, alternative investment funds, unit investment trusts, insurance and annuities
- Referral fees and/or production credits for referrals to UBS affiliates, other employees and third parties, including referrals and/or transfers to the UBS Financial Services Inc. Wealth Advice Center
- A portion of the management and performance fees the Firm receives in connection with the distribution of alternative investments

Non-cash compensation

Financial Advisors may receive non-cash compensation from mutual fund companies, investment managers, unit investment trust sponsors, annuity providers, insurance vendors, and sponsors of products (including ETFs and NextShares) that we distribute. This compensation may include the following:

- Occasional gifts up to $100 per vendor per year
- Occasional meals, tickets or other entertainment of reasonable and customary value
- Sponsorship support of educational or training events (which may include educational events Financial Advisors arrange for clients and prospects) and seminars and/or payment of expenses related to training and education of employees, which can (and often) include a non-training element of the event
- Various forms of marketing support and, in certain limited circumstances the development of tools used by the Firm for training or record-keeping purposes.

The receipt of cash and non-cash compensation from sources other than clients, and the differences in which we compensate Financial Advisors for the products we offer, create an incentive for Financial Advisors to recommend certain products over others. We address these conflicts of interest by maintaining policies and procedures on the suitability and supervision of the advisory programs and services we offer to you, and by disclosing our practices to ensure you make a fully informed decision.

B. Outside Business Activities

Michael Ward Miller is not currently engaged in any investment-related business activities outside of his or her employment with UBS.

Item 5. Additional Compensation

Financial Advisors are generally eligible to qualify for strategic objective awards and recognition programs, which are based on production, length of service at the firm and net new business brought to the firm by the Financial Advisor. These awards are subject to various caps and deferrals. Additionally, we may reduce or deny any such awards for any reason at our discretion.

- Net New Business Award. This award is granted to a Financial Advisor based on his or her year-end result for net new business, subject to minimum requirements and overall caps, and can include assets in certain accounts referred by Financial Advisors to the Wealth Advice Center. The Net New Business Consulting Award for IC/RPCS consultants and contracts that meet certain qualifications may be higher than the Net New Business Award paid for non-IC/RPCS business. Consultants that do not qualify for the Consulting Net New Business Award will still be eligible to receive the Net New Business Award otherwise available to Financial Advisors. Consultants that do qualify for the Consulting Net New Business Award will **not** also receive the Net New Business Award otherwise available to Financial Advisors.

- UBS Length of Service Award. This award is based on a Financial Advisor's current year production and length of service with UBS. It is subject to minimum production and length of service requirements.

The payment structure of the awards generally consists of deferred cash awards paid annually over a specified time frame, and restricted equity/notional shares subject to the plan's vesting schedule, or some combination thereof. Total awards below a certain threshold will be paid in cash. Financial Advisors who meet minimum award thresholds may be eligible to receive a loan based upon a percentage of their total strategic objective

awards. If the Financial Advisor leaves the Firm before the term of the loans ends, he or she must pay back any outstanding loan balance.

The Retirement Account Production described above will apply to the annual awards.

The recognition programs and awards include the following:

- Recognition Councils. At UBS, there are four Recognition Councils for top-performing Financial Advisors. They are Pinnacle Council, Chairman's Council, President's Council and Director's Council. Membership is based on a combination of production and net new business rankings and other eligibility factors set by the firm, including disciplinary history and compliance with firm rules, standards and policies. Recognition Council members participate in training and education events that may involve travel paid for by the firm.
- The Expense Allowance Program. Recognition Council members and other Financial Advisors with a minimum production level are generally eligible to participate in the Expense Allowance Program, which provides an expense allowance for the purpose of promoting business. The amount of the expense allowance awarded is based on production level and Recognition Council Membership.
- GrowthPlus program. Each year some Financial Advisors may be eligible to receive a grant based upon their length of service and annual eligible production. Financial Advisors may be able to receive a loan based upon the grant. If the Financial Advisor leaves the Firm before the term of the loans ends, he or she must pay back any outstanding balance.
- Aspiring Legacy FA Program. Subject to specific program requirements, Financial Advisors with minimum production and length of services requirements who are leaving the financial services industry and transition their client relationships to other UBS Financial Advisors can earn production on transitioned accounts over a specified period, and may qualify to receive an up-front cash loan and annual cash transition payments.

Item 6. Supervision

Michael Ward Miller is supervised by Daniel T. Shiu, whose contact information is listed below. Please contact us at any time if we can be of assistance.

Daniel T. Shiu
UBS Financial Services Inc.

733 Bishop Street
Suite 1600
Honolulu, HI 96813-4068

808-526-6968
daniel.shiu@ubs.com

We have policies and procedures for the review and supervision of our investment advisory programs and services. Those policies are designed to comply with the requirements of the Investment Advisers Act of 1940, the Employee Retirement Income Security Act, where applicable, and other applicable rules and regulations.

There are general policies applicable to all advisory programs and services as well as individually tailored guidelines for each program and service. Because our advisory programs and services have different features, the guidelines for supervision vary.

Advisory Programs: Generally, advisory accounts in wrap fee programs are reviewed quarterly. Certain guidelines for specific programs, however, are reviewed daily, including principal trades and trading errors.

Items reviewed generally include, but are not limited, to the following, based on the specific features and services of the program or service:

- Consistency of the client's investment profile with the selection of investment managers, asset allocation plans, and discretionary investment strategies
- Levels of security and cash concentration
- Compliance with principal trade restrictions where those trades are not permitted
- Compliance with principal trade requirements for programs that offer principal trade execution
- Levels of unsolicited trading and trading activity in certain programs
- Review of performance and style drift of researched investment managers

In addition, Financial Advisors are required to conduct an internal annual review of accounts enrolled in advisory programs, and failure to conduct the internal review after a pre-determined period of time may result in termination from the advisory program or other consequences.

Branch Managers are responsible for supervising and reviewing these accounts, while home office program managers are responsible for enforcing various program guidelines. Information is generated and provided to Financial Advisors and Branch Managers for follow-up and resolution.

The advice and services provided through the Institutional Consulting Program are subject to review twice a year by Branch Managers for consistency with parameters established by clients.

Financial Plans: Branch office managers or their delegates are responsible for confirming that the Financial Planning Services are timely delivered to clients in accordance with the terms of the services agreements. The level of review of a financial plan depends on the particular report being used.

Financial Goal Analysis (FGA)—The FGA reports consist of various pre-determined sections and can include additional sections selected based on discussion between the financial advisor and the client. Each section includes static text that cannot be changed or modified by the individual user. When a fee above a certain amount is charged, the completed table of contents for the plan is reviewed by the Financial Planning Group to confirm that appropriate plan sections or modules are included, or that any exclusions are documented or explained.

Preferred Plans—Preferred plan reports are generally reviewed and approved by the Financial Planning Group or a Wealth Management Consultant before they are delivered to clients. Certain pre-approved Financial Advisors are not required to submit their plans to the Financial Planning Group for review. However, the Financial Planning Group reviews a sample of those plans periodically, usually monthly.

Private Plans and Strategic Wealth Assessments—Private Plans and Strategic Wealth Assessments are complex, highly customized reports that are generated only by members of the Advanced Planning Group, or others who have been pre-approved to use the reports. All Private Plans and Strategic Wealth Assessments are subject to peer review by the Advanced Planning Group or another person approved by Advanced Planning.

Questions

If you have questions regarding your investment advisory accounts, advisory services or financial plans, please contact your Financial Advisor, Michael Ward Miller, at 808-526-6905. If you have questions regarding the information in this Brochure Supplement, please contact your Financial Advisor or the Supervisor , Daniel T. Shiu, at 808-526-6968.

UBS Financial Services Inc.
1200 Harbor Boulevard
Weehawken, NJ 07086
(201) 352-3000

SEC File Number: 801-7163
Date: July 7, 2017

Form ADV Brochure Supplement for

Renee Fourcade
UBS Financial Services Inc.

2029 Century Park East
Suite 3000
Century City, CA 90067-3016

310-772-7058
renee.fourcade@ubs.com

This Form ADV Brochure Supplement provides information about Renee Fourcade that supplements the UBS Financial Services Inc. Form ADV Disclosure Brochure, which we previously provided to you. Please contact Ronald J. Meraz, at 310-772-7019 if you did not receive a copy of the UBS Financial Services Inc. Form ADV Disclosure Brochure, if you would like another copy of that Brochure, or if you have questions about the contents of this Supplement.

Additional information about Renee Fourcade is available on the Securities and Exchange Commission's website, located at *www.adviserinfo.sec.gov*, as well as the Financial Industry Regulatory Authority's website, *www.finra.org/brokercheck*.

Please retain this Form ADV Brochure Supplement for future reference, as it contains important information if you decide to add services or establish additional advisory accounts at UBS. We will provide you an updated copy of this Brochure if there are material changes to the information in Item 3 (Disciplinary Information).

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UBS

Form ADV Brochure Supplement for Renee Fourcade

The information in this Brochure Supplement is as of July 7, 2017, and is subject to change.

Item 2. Educational Background and Business Experience

The business background information provided below is for the last five years. **Please note:** Certain data displayed in this Brochure Supplement is supplied by third-party organizations. As a result, some information may seem unclear or inconsistent.

Your Financial Advisor[1]	Renee Fourcade
Title	Sr Vice President--Investments
Year of Birth	1957
Education	High school education completed* *No record of formal education beyond high school
Business Background	FA, UBS Financial Services Inc, since 2010

Item 3. Disciplinary Information

This section includes details about certain legal and disciplinary events reported to the Securities and Exchange Commission and the Financial Industry Regulatory Authority (FINRA). Examples include final disciplinary actions taken by regulators, certain criminal charges and/or convictions and civil litigations.

The disciplinary reporting requirements for broker-dealers and investment advisers differ significantly, with FINRA requiring broker-dealers to report on matters that are not required to be reported by investment advisers. As a result, this brochure excludes matters that are not required to be reported by investment advisers, such as pending complaints and arbitrations, including those settled in our favor, as well as bankruptcies, judgments, liens, bonds, investigations and terminations. We also exclude complaints and arbitrations related to industry-wide matters as well as any complaint settled for less than $15,000 if it is the only complaint settlement on the Financial Advisor's record within the last 10 years.

As our Financial Advisors operate as both broker-dealers and investment advisers, the legal and disciplinary information in this report is not the only resource you can consult. In addition to the information in this report, you can access information about Renee Fourcade on the SEC's website, *www.adviserinfo.sec.gov*, as well as the FINRA's website, *www.finra.org/brokercheck,* by entering Renee Fourcade's name into the corresponding search field.

Before reaching a conclusion regarding any of the information contained in this report, we recommend that you speak with Ronald J. Meraz to clarify specific events listed, or to provide a response to any questions you may have.

Disciplinary history for Renee Fourcade for the last 10 years for items required to be disclosed by registered investment adviser representatives is described below.

Regulatory Actions

Employing Firm	Bear Stearns & Co. Inc. N/K/A J.p. Morgan Securities Inc.
Initiated by	Self Regulatory Organization

[1]This may include registered personnel who assist Financial Advisors in providing investment advisory services to you, such as Wealth Planning Analysts.

Reason	Without admitting or denying the findings, fourcade agreed to a letter of acceptance, waiver and consent whereby FINRA found that fourcade shared portfolio trading commissions received from a mutual fund company and that her conduct violated NASD rule 2110.	
Sanction(s) Sought	Censure;Civil and Administrative Penalty(ies)/Fine(s)	
Product Type	Mutual Fund	
Current Status	Final	
Resolution Date (*for Final or on Appeal only)*	08/05/2009	
Resolution	Acceptance, Waiver and Consent(AWC)	
	Censure;Civil and Administrative Penalty(ies)/Fine(s)	
	Sanction	Civil and Administra
	Total Amount	$15,000.00
	FA Contribution	$15,000.00
Comment	Without admitting or denying the findings, fourcade consented to the described sanctions and to the entry of findings; therefore, she is censured and fined $15,000. I determined that it was in my interest to settle this matter rather than litigating the merits of the case since my business partner and another key witness are deceased and the action's allegation was for business conducted in 2003 and earlier.	

Item 4. Other Business Activities

This section describes investment-related businesses or occupations in which Renee Fourcade is engaged in addition to their activities as investment adviser, including potential conflicts of interest that arise as a result of these other activities. This section does not include non-investment related activity that is exclusively charitable, civic, religious or fraternal and is recognized as tax exempt.

A. Investment Related Activities and Occupations

UBS Financial Services Inc. is one of the nation's leading securities firms, serving the investment and capital needs of individual, corporate and institutional clients. We are a member of all principal securities and commodities exchanges in the United States including the New York Stock Exchange (NYSE). Our parent company, UBS Group AG, is a global, integrated investment services firm and one of the world's leading banks. We are registered to act as a broker-dealer, investment adviser, and futures commission merchant. Currently, our principal business, in terms of its revenues and personnel, is that of a broker-dealer in securities.

As an employee of UBS, Renee Fourcade is licensed as an investment adviser representative and a broker-dealer representative, and may suggest or recommend that advisory clients use the firm's securities accounts, execution, banking and custody services, or those of UBS affiliates.

1. Financial Advisor Compensation

In general, we pay our Financial Advisors cash compensation consisting of two components: a guaranteed monthly minimum draw required by applicable law, and production payout if it exceeds the monthly minimum draw. The production payout is a percentage (called a payout or grid rate) of the product-related revenue (called production) that each Financial Advisor generates during that month with respect to the clients he or she serves, minus certain adjustments that are specified by our Financial Advisor Compensation Plan. The payout or grid rate is generally based on production levels and ranges from 28% to 50%, but may be reduced

or eliminated in certain circumstances. Financial advisors working as part of a team that meets minimum production requirements can qualify for a higher grid rate (but not above 50%) than they would receive working as an individual.

For our Investment Advisory Programs (asset-based fee programs) the payout rate is applied to the program fees credited to the Financial Advisor by the Firm, but the payout may be reduced for accounts priced below certain thresholds. Advisory accounts in relationships with assets over certain thresholds may have customized pricing and payouts as approved by the Firm.

We reduce or terminate the payouts described above to Financial Advisors in connection with accounts they service that do not meet certain prescribed asset levels on a household basis or for transactions or fees below specified amounts.

The standard compensation structure creates financial incentives for Financial Advisors to encourage clients to purchase multiple products and services or to choose a method of payment for products and services that generate compensation in excess of that for other products.

Financial Advisors also may receive certain awards based on their production, length of service with UBS, and net new business. The Retirement Account Production will also apply to the annual awards. (See Item 5. *Additional Compensation.*)

Under certain circumstances (e.g., acquisitions and recruitment; or particular programs or designations, such as Wealth Advice Center, Wealth Planning Analyst, New Financial Advisors, Institutional Consulting and Retirement Plan Consulting Services), some Financial Advisors or producing Branch Managers may be compensated differently.

Production for ERISA and IRA Accounts Held at UBS after June 9, 2017

Effective after June 9, 2017, the production credits our Financial Advisors receive on retirement accounts (both brokerage retirement accounts and investment advisory retirement accounts) held at UBS will not be affected by any recommendations or transactions for securities held in those accounts.

Instead of calculating a Financial Advisor's compensation based on the current revenue generated by such accounts (for example, advisory fees, commissions and sales credits), the production for retirement accounts for each Financial Advisor will be subject to the following calculation (the "Retirement Account Production"):

- Subject to minimum and maximum thresholds, the Retirement Account Production rate for each Financial Advisor is based on the 2016 revenues and average assets of their retirement accounts as of December 31, 2016 that were still open as of May 1, 2017. IRA account fees are excluded from the calculation.
- The Financial Advisor's individual Retirement Account Production rate will apply to the retirement accounts held at UBS at the end of each month to determine the retirement account production.
- The calculations above may vary, at the Firm's discretion, for Financial Advisors new to the Firm. Retirement account production for Financial Advisors hired after June 9, 2017 will be based on the information as disclosed to UBS at time of hire.
- The Retirement Account Production described above will apply to the annual awards.

Depending on the activity and asset levels in retirement accounts during 2016, the production derived from this calculation and ultimately the compensation Financial Advisors receive in connection with retirement

accounts after June 9th, may be higher or lower than Financial Advisors may otherwise be eligible to earn under our standard compensation calculations for taxable accounts.

Also, while a Financial Advisor's compensation will not be impacted by the transactions effected in retirement accounts after June 9th, a difference in compensation creates an incentive for Financial Advisors to recommend an increase in assets in retirement accounts. There is also an incentive for Financial Advisors to focus on increasing the transaction or fee based revenue in taxable accounts.

These changes do not apply to Financial Advisors in the Wealth Advice Center or to brokerage and advisory retirement accounts where assets are held away from UBS, and accounts in the Retirement Plan Consulting Services Program, and the Institutional Consulting and the Outsourced Chief Investment Officer (OCIO) Programs.

With respect to retirement clients enrolled in the Institutional Consulting ("IC") or Outsourced Chief Investment Officer ("OCIO") programs, where those clients also have brokerage accounts at UBS or accounts opened in another investment advisory program at UBS, including those that may have been included in IC Program services only as an accommodation, the production payout rate for the Financial Advisor related to the IC or OCIO relationship will generally be applied to all retirement assets and accounts the client has at UBS. However, on an exception basis, the production payout rate for the Financial Advisor may be the weighted average production rate generated by that client's retirement accounts at UBS during the period January 1, 2016 to December 31, 2016.

Recruitment Compensation: In general, if your Financial Advisor is joining UBS from another firm, you should discuss the reasons your Financial Advisor decided to change firms and any costs or changes in services you may incur if you transfer your accounts to UBS. In many cases, UBS pays Financial Advisors financial incentives when they join and on an ongoing basis as described below.

Many Financial Advisors who joined UBS prior to November 1, 2016 are eligible to receive incentives, including loans, bonuses and/or other compensation, if they reach certain asset and/or production levels or other targets. The amount paid to Financial Advisors under these arrangements is largely based on the size of the business serviced by the Financial Advisor at their prior firm and the Financial Advisor achieving a minimum percentage of their prior firm production and asset levels within a specific time period after joining UBS.

These payments may be substantial and may take various forms, including salary guarantees, loans, transition bonus payments and various forms of compensation to encourage Financial Advisors to join UBS, and are contingent on your Financial Advisor's continued employment. Therefore, even if the fees you pay at UBS remain the same or may be reduced, the transfer of your assets to UBS may contribute to your Financial Advisor's ability to meet such targets and to receive additional loans and/or compensation even if not directly related to your account or the fees you pay to us.

Recruiting offer letters issued after November 1, 2016 do not include recruitment incentives triggered by production, asset levels or other targets at UBS regardless of account type. Effective after June 9th, for purposes of all existing arrangements including those entered into prior to November 1, 2016, production for retirement accounts will be calculated based on the Retirement Account Production described above.

These practices create an incentive and a conflict of interest for your Financial Advisor to recommend the transfer of your account assets to UBS since a significant part of the Financial Advisor's compensation is often contingent on the Financial Advisor achieving a pre-determined level of revenue and/or assets at UBS. You should carefully consider whether your Financial Advisor's advice is aligned with your investment strategy and goals.

Wealth Planning Analyst Compensation: Wealth Planning Analysts do not receive production payouts described above and do not qualify for awards or recognition programs described below in *Additional Compensation*. Wealth Planning Analysts receive base compensation and they are eligible for discretionary incentive compensation, which is based on the performance of the firm in general as well as their individual performance.

New Financial Advisor Compensation: New Financial Advisors in the Development Program ("NFA" or "Trainees") are eligible for a 48-month compensation structure that combines base compensation, production payout and potential awards. Production payout is based on a payout rate that is applied to the production credited to the NFA and there is a minimum grid rate of 45%.

Financial Advisors grandfathered as part of a UBS insurance program also receive a payout of 75% of amounts paid to UBS by the general agent for the sale of certain insurance products, currently, permanent and term insurance.

We reserve the right, at our discretion and without prior notice, to change the methods by which we compensate our Financial Advisors and employees, including reducing and/or denying production payout and/or awards at our discretion for any reason.

2. Compensation from the Sale of Investment Products

In general, our Financial Advisors are compensated from the following sources of revenue:

- Commissions charged to clients in connection with the purchase, or sale, of equities, fixed income products and other investments such as structured products
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- Occasional meals, tickets or other entertainment of reasonable and customary value
- Sponsorship support of educational or training events (which may include educational events Financial Advisors arrange for clients and prospects) and seminars and/or payment of expenses related to training and education of employees, which can (and often) include a non-training element of the event
- Various forms of marketing support and, in certain limited circumstances the development of tools used by the Firm for training or record-keeping purposes.

The receipt of cash and non-cash compensation from sources other than clients, and the differences in which we compensate Financial Advisors for the products we offer, create an incentive for Financial Advisors to recommend certain products over others. We address these conflicts of interest by maintaining policies and procedures on the suitability and supervision of the advisory programs and services we offer to you, and by disclosing our practices to ensure you make a fully informed decision.

B. Outside Business Activities

Renee Fourcade is not currently engaged in any investment-related business activities outside of his or her employment with UBS.

Item 5. Additional Compensation

Financial Advisors are generally eligible to qualify for strategic objective awards and recognition programs, which are based on production, length of service at the firm and net new business brought to the firm by the Financial Advisor. These awards are subject to various caps and deferrals. Additionally, we may reduce or deny any such awards for any reason at our discretion.

- Net New Business Award. This award is granted to a Financial Advisor based on his or her year-end result for net new business, subject to minimum requirements and overall caps, and can include assets in certain accounts referred by Financial Advisors to the Wealth Advice Center. The Net New Business Consulting Award for IC/RPCS consultants and contracts that meet certain qualifications may be higher than the Net New Business Award paid for non-IC/RPCS business. Consultants that do not qualify for the Consulting Net New Business Award will still be eligible to receive the Net New Business Award otherwise available to Financial Advisors. Consultants that do qualify for the Consulting Net New Business Award will **not** also receive the Net New Business Award otherwise available to Financial Advisors.

- UBS Length of Service Award. This award is based on a Financial Advisor's current year production and length of service with UBS. It is subject to minimum production and length of service requirements.

The payment structure of the awards generally consists of deferred cash awards paid annually over a specified time frame, and restricted equity/notional shares subject to the plan's vesting schedule, or some combination thereof. Total awards below a certain threshold will be paid in cash. Financial Advisors who meet minimum award thresholds may be eligible to receive a loan based upon a percentage of their total strategic objective

awards. If the Financial Advisor leaves the Firm before the term of the loans ends, he or she must pay back any outstanding loan balance.

The Retirement Account Production described above will apply to the annual awards.

The recognition programs and awards include the following:

- Recognition Councils. At UBS, there are four Recognition Councils for top-performing Financial Advisors. They are Pinnacle Council, Chairman's Council, President's Council and Director's Council. Membership is based on a combination of production and net new business rankings and other eligibility factors set by the firm, including disciplinary history and compliance with firm rules, standards and policies. Recognition Council members participate in training and education events that may involve travel paid for by the firm.
- The Expense Allowance Program. Recognition Council members and other Financial Advisors with a minimum production level are generally eligible to participate in the Expense Allowance Program, which provides an expense allowance for the purpose of promoting business. The amount of the expense allowance awarded is based on production level and Recognition Council Membership.
- GrowthPlus program. Each year some Financial Advisors may be eligible to receive a grant based upon their length of service and annual eligible production. Financial Advisors may be able to receive a loan based upon the grant. If the Financial Advisor leaves the Firm before the term of the loans ends, he or she must pay back any outstanding balance.
- Aspiring Legacy FA Program. Subject to specific program requirements, Financial Advisors with minimum production and length of services requirements who are leaving the financial services industry and transition their client relationships to other UBS Financial Advisors can earn production on transitioned accounts over a specified period, and may qualify to receive an up-front cash loan and annual cash transition payments.

Item 6. Supervision

Renee Fourcade is supervised by Ronald J. Meraz, whose contact information is listed below. Please contact us at any time if we can be of assistance.

Ronald J. Meraz
UBS Financial Services Inc.

2029 Century Park East
Suite 3000
Century City, CA 90067-3016

310-772-7019
ron.meraz@ubs.com

We have policies and procedures for the review and supervision of our investment advisory programs and services. Those policies are designed to comply with the requirements of the Investment Advisers Act of 1940, the Employee Retirement Income Security Act, where applicable, and other applicable rules and regulations.

There are general policies applicable to all advisory programs and services as well as individually tailored guidelines for each program and service. Because our advisory programs and services have different features, the guidelines for supervision vary.

Advisory Programs: Generally, advisory accounts in wrap fee programs are reviewed quarterly. Certain guidelines for specific programs, however, are reviewed daily, including principal trades and trading errors.

Items reviewed generally include, but are not limited, to the following, based on the specific features and services of the program or service:

- Consistency of the client's investment profile with the selection of investment managers, asset allocation plans, and discretionary investment strategies
- Levels of security and cash concentration
- Compliance with principal trade restrictions where those trades are not permitted
- Compliance with principal trade requirements for programs that offer principal trade execution
- Levels of unsolicited trading and trading activity in certain programs
- Review of performance and style drift of researched investment managers

In addition, Financial Advisors are required to conduct an internal annual review of accounts enrolled in advisory programs, and failure to conduct the internal review after a pre-determined period of time may result in termination from the advisory program or other consequences.

Branch Managers are responsible for supervising and reviewing these accounts, while home office program managers are responsible for enforcing various program guidelines. Information is generated and provided to Financial Advisors and Branch Managers for follow-up and resolution.

The advice and services provided through the Institutional Consulting Program are subject to review twice a year by Branch Managers for consistency with parameters established by clients.

Financial Plans: Branch office managers or their delegates are responsible for confirming that the Financial Planning Services are timely delivered to clients in accordance with the terms of the services agreements. The level of review of a financial plan depends on the particular report being used.

Financial Goal Analysis (FGA)—The FGA reports consist of various pre-determined sections and can include additional sections selected based on discussion between the financial advisor and the client. Each section includes static text that cannot be changed or modified by the individual user. When a fee above a certain amount is charged, the completed table of contents for the plan is reviewed by the Financial Planning Group to confirm that appropriate plan sections or modules are included, or that any exclusions are documented or explained.

Preferred Plans—Preferred plan reports are generally reviewed and approved by the Financial Planning Group or a Wealth Management Consultant before they are delivered to clients. Certain pre-approved Financial Advisors are not required to submit their plans to the Financial Planning Group for review. However, the Financial Planning Group reviews a sample of those plans periodically, usually monthly.

Private Plans and Strategic Wealth Assessments—Private Plans and Strategic Wealth Assessments are complex, highly customized reports that are generated only by members of the Advanced Planning Group, or others who have been pre-approved to use the reports. All Private Plans and Strategic Wealth Assessments are subject to peer review by the Advanced Planning Group or another person approved by Advanced Planning.

Questions

If you have questions regarding your investment advisory accounts, advisory services or financial plans, please contact your Financial Advisor, Renee Fourcade, at 310-772-7058. If you have questions regarding the information in this Brochure Supplement, please contact your Financial Advisor or the Supervisor , Ronald J. Meraz, at 310-772-7019.

Item IV.A.3.
FY19 Supplemental Budget Request

Link to FY19 Supplemental Budget Request

Materials

DTD 18551

Kalbert K. Young
Vice President for Budget and Finance
Chief Financial Officer

UNIVERSITY of HAWAI'I SYSTEM

UNIVERSITY OF HAWAII
BOARD OF REGENTS

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October 25, 2017

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UNIVERSITY OF HAWAII
PRESIDENT'S OFFICE

TO: Jan N. Sullivan
Chairperson, Board of Regents

Wayne Higaki
Chair, Committee on Budget and Finance, Board of Regents

VIA: David Lassner
President

FROM: Kalbert K. Young
Vice President for Budget and Finance/Chief Financial Officer

SUBJECT: FISCAL YEAR 2018-2019 SUPPLEMENTAL OPERATING BUDGET REQUEST FOR THE UNIVERSITY OF HAWAII

SPECIFIC ACTION REQUESTED

It is recommended that the Board of Regents approve the submission of the Fiscal Year 2018-19 Supplemental Operating Budget Request of the University of Hawai'i ("University" or "UH") to the 2018 Legislature. With approval, this proposed FY2018-19 Supplemental Operating Budget Request for the UH will represent the official request for all operating programs of the UH System. The University will submit the proposal to the State Department of Budget and Finance ("State B&F") for consideration to be included as part of the Governor's budget proposal to the Legislature.

The proposed FY 2018-19 budget requests additional General Fund resources for the University to advance priority initiatives throughout the entire system of campuses. These priorities were outlined in the Budget Policy Paper approved by the Board of Regents at its September 21, 2017 meeting.

A proposed budget for funding of capital improvement projects (CIP) will also be submitted to comprise the total UH budget proposal. UH Regents will deliberate the CIP proposed budget request via separate transmittal.

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RECOMMENDED EFFECTIVE DATE

Pursuant to operational and logistical deadlines for gathering requests of all State departments by the State B&F, the UH must expeditiously communicate its budget requests. Therefore, in consideration of the procedural requirements of the Board of Regents, UH Administration will consider the "FY2018-19 Supplemental Operating Budget Request for the University of Hawai'i" effective immediately upon approval of the Board of Regents. Transmittal of the proposed budget requests to State B&F will occur immediately upon Board of Regents approval. UH Administration requests that Board of Regents process and approve this request as expeditiously as procedures and process will allow.

PURPOSE

In accordance with Regent Policy 8.204, the Administration requests that the Board of Regents approve a proposed budget request for additional operating funds (via general funds).[1] The process to allow State departments to request budget consideration into the proposed executive budget of the Governor is provided in Chapter 37, Hawaii Revised Statutes, and as determined by the State B&F.

BACKGROUND INFORMATION

Annually, State departments submit budget requests to the Executive Branch via State B&F for consideration of inclusion into the Proposed Executive Budget of the Governor to the upcoming Legislature. The University also submits its Board approved budget request directly to the Legislature. Every two years, the executive proposes a biennium budget and in the subsequent year proposes a supplemental budget. In 2017, State departments are constructing requests to be included in the proposed supplemental budget which will be deliberated at the convening of the 2018 Legislature.

The University has an internal process to solicit, vet, and comprise its specific budget requests. At its September 21, 2017 meeting, the Board of Regents approved a Biennium Budget Policy Paper in conformance with Regent Policy 8.204. The Policy Paper helped provide guidance and established a framework from which campuses would align their budget requests. Budget instructions were distributed to campuses after approval of the Policy Paper.

The Policy Paper outlined several initiatives for campuses to pursue with their budget requests, although campuses were allowed to submit other requests of their own volition. In crafting this budget request, Administration was mindful of the University's Integrated Academic and Facilities Plan and its four strategic directions:

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[1] Regent Policy 8.204, III.D.3. The UH Board of Regents shall approve a proposed biennial budget as the designated "Board of Regents' Budget."

- Hawai'i Graduation Initiative (HGI)
- Hawai'i Innovation Initiative (HI2)
- 21st Century Facilities
- High Performance Mission-Driven System (HPMDS)

Requests from units that were aligned with Budget Policy Paper directions and were supported by the unit head were evaluated by UH Administration along with all other requests. The items that are presented as part of this proposal represent those items that Administration believes would most significantly advance the University's strategic directions.

State departments were provided budget instructions from State B&F. These instructions also provided insight as to the landscape from which requests would be considered by the Executive. State B&F has highlighted a number of factors that would affect general fund requests in the supplemental budget. FY17 general fund tax revenue collections finished at only 2.0% more than FY16, which missed the Council on Revenues' projection of 2.5%. Additionally, State B&F notes that *"...the State's expenditures are expected to outpace revenues for the next few years until FY21."* Finally, State B&F provides guidance by stating that *"Due to the many ongoing and upcoming demands on the State's limited resources and in light of uncertain revenues, very limited funding will be available for FY19 supplemental budget requests."*

In this context, the request totals 151 FTE position counts and $16,120,439 in additional General Funds. In contrast, the biennium budget request totaled $28.7 million for FY18 and $29.6 million for FY19. The following table provides a breakout by campus:

Campus	FTE FY19	$$$ FY19
Mānoa	63.00	$ 8,698,848
Hilo	12.00	$ 864,427
UHWO	23.00	$ 1,907,364
CCs	63.00	$ 5,134,800
System	4.00	$ 500,000
Total	**165.00**	**$ 17,105,439**

BUDGET PROPOSAL

This request follows the major themes outlined in the Policy Paper. The following chart lists those themes and the FTE position count and funding requests associated with each item:

Theme	FTE FY19	$$$ FY19
Hawai'i's Promise	-	$ 700,000
"Insourcing" due to Konno	42.00	$ 1,487,691
Investment at UHWO	16.00	$ 1,126,364
Specific Student Populations	41.00	$ 4,612,936
Student Employment	2.00	$ 3,585,000
Facilities Maintenance	17.00	$ 5,093,448
Public-Private Partnership	4.00	$ 500,000
Mānoa Athletics	43.00	$ -
Total	**165.00**	**$ 17,105,439**

Hawai'i's Promise Program

	FTE FY19	$$$ FY19
Community Colleges	-	$ 700,000

This request would seek full funding in support of Hawai'i's Promise Program, which serves as a "last dollar" scholarship to students with financial need attending UH Community Colleges. The 2017 Legislature appropriated $1,829,000 for this program, although the original request was for $2,500,000. A total of $1,600,000 was issued for the Fall 2017 semester, and it is anticipated that this number will grow as awareness of the program grows and additional scholarships are issued in the future.

"Insourcing"

Description	FTE FY19	$$$ FY19
Security @ Hilo	8.00	$ 283,932
Grounds @ Hilo	3.00	$ 120,495
Security @ CCs	31.00	$ 1,083,264
Total	**42.00**	**$ 1,487,691**

As a result of *Konno v. County of Hawai'i,* State agencies, including UH, must seek to eliminate contracts with private providers who perform tasks that were traditionally handled by civil servants. In other words, UH must strive to "insource" those services that can no longer be provided by contractors.

UH has identified security services at the Hilo and Community Colleges campuses that will need to be "insourced." Two additional janitors and an additional groundskeeper are requested for UH Hilo for maintenance and upkeep of the new Daniel K. Inouye College of Pharmacy Building. Because of the *Konno* decision, these services must be performed by civil service employees.

Investment at UH-West O'ahu

Description	FTE FY19	$$$ FY19
Academic Affairs	10.00	$ 680,000
Student Affairs	6.00	$ 446,364
Total	**16.00**	**$ 1,126,364**

As the West O'ahu campus grows and evolves, various infrastructure and direct instructional needs grow as well and necessitate additional resources. Additional resources related to academic affairs and student affairs are requested, as well as equipment costs related to the movement of the Dental Hygiene program from Mānoa to West O'ahu. It should be noted that additional facilities-related resources for UHWO are requested in the Facilities Maintenance and Upkeep section below and are intended to maintain the new facilities in prime condition.

Support for Specific Student Populations

Description	FTE FY19	$$$ FY19
Student Success @ Mānoa	7.00	$ 575,000
Apprentice @ CCs	-	$ 260,000
Pamantasan @ CCs	6.00	$ 614,920
Veterans @ CCs	7.00	$ 473,108
NHA Action Plan @ Mānoa	4.00	$ 700,000
HPOKA @ Hilo	1.00	$ 260,000
Native Hawaiian @ CCs	16.00	$ 1,729,908
Total	**41.00**	**$ 4,612,936**

The Hawai'i Graduation Initiative seeks to increase the "participation and completion of students, particularly Native Hawaiians, low-income students, and those from underserved regions and populations." The University has identified several specific student populations that are not well-served due to lack of specialized services and is seeking additional resources are being requested to provide such support.

To assist underserved students, Mānoa is requesting additional resources for Student Services Specialists and Psychologists. These positions would provide support services for Filipino students, Pacific Island students, Veterans, and students with disabilities. Additionally, the psychologists would support the Counseling and Student Development Center in providing high demand mental health, developmental/wellness, and prevention services to Mānoa's diverse student population.

At the Community Colleges, additional resources are requested to help address the increasing lecturer cost for the Apprenticeship program, counselors to assist Filipino students, and counselors and support staff for Veterans.

In summer 2017, the inaugural Native Hawaiian Affairs Program Officer position was created and hired in the Office of the Chancellor at UH Mānoa, establishing the Office of

Native Hawaiian Affairs. Additional resources are requested to assist in enacting this Office's Action Plan which would seek to increase retention and graduation of Native Hawaiian students and strengthen the Hawaiian sense of place at Mānoa. Positions will be established to promote community and student-faculty engagement, campus environment, co-curricular programming, and graduate and faculty development.

Additionally, Hilo is requesting resources to assist in implementing its Hawai'i Papa O Ke Ao plan, which complements the UH system HPOKA plan. This request would seek to improve the recruitment, retention, and graduation of Native Hawaiians through student support services and high impact applied learning experiences such as internships, community-based/service learning, undergraduate research, and work-based learning.

Finally, the Community Colleges are requesting permanent sources of funding for successful programs funded by Title III grants from the U.S. Department of Education whose funding is expiring or may have already expired in addition to some funding for new requirements. Specifically, this request would fund support, coordinator, outreach, academic advancement, immersion, counseling, and instructional positions with the specific positions varying based on the needs of the specific campus.

Student Employment

Campus	FTE FY19	$$$ FY19
Hilo	-	$ 200,000
Mānoa Grad Asst	-	$ 2,850,000
Mānoa Undergrad	2.00	$ 535,000
Total	**2.00**	**$ 3,585,000**

Evidence shows that working on campus contributes to student success. To this end, Hilo is seeking additional funding to employ students as both students and advisors. Peer mentoring and advising are key components of Hilo's strategy to increase retention rates. This request would expand pilot projects that have already demonstrated positive outcomes.

The Legislature has previously shown support for graduate student employees who have not seen structural raises for many years. As a result, Mānoa is requesting an additional $2.85 million to raise the base salary for its graduate assistants.

Additional funding is also sought for Mānoa for student research and innovation projects and support and personnel services such as workshops and an undergraduate research showcase. This initiative will not only support Mānoa's research mission but also provide an opportunity for increased engagement by undergraduate students.

Facilities Maintenance and Upkeep

Campus	FTE FY19	$$$ FY19
Mānoa	7.00	$ 4,038,848
Community Colleges	3.00	$ 273,600
West O'ahu	7.00	$ 781,000
Total	**17.00**	**$ 5,093,448**

As a result of inadequate capital investment, Mānoa's facilities have been neglected and now faces a severe maintenance backlog. In addition to capital funding, however, staffing and funding for ongoing maintenance and upkeep has also been lacking. Therefore, $3 million is requested for ongoing special repair and maintenance projects at Mānoa that would not be appropriate in the capital portion of the budget. Seven positions are also requested to be facilities zone managers to oversee specific portions of the campus to be more responsive to facilities related issues. Finally, funding for an access control computerized card system to ensure the safety of students, faculty, and staff is included in Mānoa's request.

The Community Colleges are requesting three additional architectural/engineering positions to adequately staff their Facilities Office. Currently this office has only four FTE architectural/engineering positions to manage over three million gross square feet of classrooms, labs, shops, and office spaces located on seven major campuses and numerous satellite education centers statewide.

West O'ahu's portion of the facilities request is for additional positions related to security and janitorial duties. There is also some additional funding for utilities cost and equipment for 21st century classrooms. Although still a relatively new campus, providing a base level of funding for facilities and upkeep will maintain these new facilities in their current condition and avoid the maintenance backlog situation seen on other campuses.

Office for Strategic Development and Partnerships

	FTE FY19	$$$ FY19
Office @ Systemwide	4.00	$ 500,000

This request would establish a small office at the Systemwide Administration level which would oversee strategic development and partnerships for the University. The office is necessary to increase specialized expertise and resources of the University to develop public-private partnerships to more effectively deliver university services and to activate UH's objectives to increase utilization of real estate assets as prudently responsible and consistent with the Integrated Academic and Facilities Plan. This office and approach is also consistent with the objectives identified by the Regents' task group on real estate development and the recently established Regents' task group on public-private partnerships.

Position Counts for Mānoa Athletics

Forty-three (43) General Funded position counts are requested for Mānoa Athletics. This would convert positions that are currently funded by the Athletics Special Fund to the State General Fund, which would provide savings to the University in excess of $1.1 million in fringe costs.

Additional - The overall UH request will also include the addition of ten (10) temporary positions for UH-Hilo SBDC which are currently provided via RCUH. This conversion will allow for the positions and functions to be done by UH employees.

ACTION RECOMMENDED

University Administration recommends the Board of Regents approve the Administration's proposal for a FY2018-19 Supplemental Operating Budget Proposal for the University. Upon approval, the proposal will be transmitted to the State B&F as the approved Board of Regents' Budget request. The proposal is to be considered for inclusion as part of Governor's Executive Budget Proposal to the 2017 State Legislature. In accord with Chapter 37-68, HRS, the University will also submit the approved budget request directly to the Legislature.

Attachment

1. Presentation: Fiscal Year 2018-2019 Supplemental Operating Budget Request. For presentation to the Board of Regents Committee on Budget & Finance. November 1, 2017.

Fiscal Year 2018-2019 Supplemental Operating Budget Request

November 1, 2017

Committee on Budget and Finance

General Fund Situation

- Through September, General Fund revenues are up 9.3% compared to the same period in FY17.
- At its September 7 meeting, the Council on Revenues raised its forecast for FY18 from 4.0% to 4.3%.
- FY17 collections showed only a 2.0% growth over FY16.
- State B&F cautions that State expenditures are expected to outpace revenues until FY21.

Budget Request by Campus

Campus	FTE FY19	$$$ FY19
Mānoa	63.00	$ 8,698,848
Hilo	12.00	$ 864,427
UHWO	23.00	$ 1,907,364
CCs	63.00	$ 5,134,800
System	4.00	$ 500,000
Total	**165.00**	**$ 17,105,439**

Budget Request by Theme

Theme	FTE FY19	$$$ FY19
Hawai‘i's Promise	-	$ 700,000
"Insourcing" due to Konno	42.00	$ 1,487,691
Investment at UHWO	16.00	$ 1,126,364
Specific Student Populations	41.00	$ 4,612,936
Student Employment	-	$ 3,585,000
Facilities Maintenance	17.00	$ 5,093,448
Public-Private Partnership	4.00	$ 500,000
Mānoa Athletics	43.00	$ -
Total	**163.00**	**$ 17,105,439**

Hawai‘i’s Promise Program

- Provides “last dollar” scholarship for students with financial need attending Community Colleges
- $700,000 requested for full funding
- $1,829,000 was appropriated by 2017 Legislature, although request during 2017 Session was for $2,500,000
- Total of $1,600,000 was issued for Fall 2017

“Insourcing” due to Konno decision

- Konno decision requires State of Hawai‘i government entities to eliminate contracts with private providers who perform tasks that were traditionally handled by civil servants.
- 8 FTE and $283,932 for security at Hilo
- 3 FTE and $120,495 for janitorial and groundskeeping at Daniel K. Inouye College of Pharmacy Building at Hilo
- 31 FTE and $1,083,264 for security at the Community Colleges

Investment at UH-West O‘ahu

- Growth and evolution at UHWO campus necessitates additional infrastructure and instructional requirements
- 10 FTE and $680,000 for Academic Affairs
- 6 FTE and $446,364 for Student Affairs

Additional request in Facilities portion

Support for Specific Student Populations

- 7 FTE and $575,000 for support services for Filipino students, Pacific Islander students, Veteran students, and students with disabilities at UH Mānoa
- $260,000 for increased lecturer costs associated with the apprenticeship program at the Community Colleges
- 6 FTE and $614,920 for Pamantasan Council projects to assist Filipino students at the Community Colleges
- 7 FTE and $473,108 for support for Veteran students at the Community Colleges

Support for Native Hawaiian Students

- 4 FTE and $700,000 to assist with enacting the Native Hawaiian Affairs Action Plan at UH Mānoa
- 1 FTE and $260,000 at Hilo for its Hawai‘i Papa O Ke Ao (HPOKA) plan
- 16 FTE and $1,729,908 for additional positions for instruction, immersion, retention, outreach, and counseling for Native Hawaiian students at Community Colleges

Student Employment

- Student employment on campus contributes to student success
- $200,000 for additional student assistant hires at Hilo
- $2,850,000 at Mānoa for increased support for Graduate Assistants
- 2 FTE and $535,000 for student research and innovation projects to support undergraduate research and employment at Mānoa

Facilities Maintenance and Upkeep

- 7 FTE and $4,038,848 at Mānoa
  - Facilities Zone Managers and Access Manager
  - $3,000,000 for Special R&M (roofs, HVAC, electrical, etc.)
  - $500,000 for Access Security System
- 3 FTE and $273,600 at Community Colleges
  - Architect/Engineer positions to fully staff UHCC Facilities Office
- 7 FTE and $781,000 at UHWO
  - Security, Janitor, General Laborer, and Manager Positions
  - $200,000 for Utilities
  - $250,000 for 21st Century Classroom equipment

Office for Strategic Development and Partnerships

- 4 FTE and $500,000 to develop small office at System level to oversee, coordinate, and initiate strategic development and partnerships for the University.
- Monetization of real estate assets is consistent with Integrated Academic and Facilities Plan and Board of Regents' task group on real estate development and task group on public-private partnerships.

Position Counts

- 43 Position Counts for Mānoa Athletics to convert positions currently funded by special funds to General Fund
  - Will save approximately $1.1 million in fringe costs
- 10 Position Counts for Small Business Development Center at UH-Hilo

Next Steps

- Recommendation for B&F Committee to approve this operating budget request for subsequent approval by the full Board at its November 16, 2017 meeting.
- Following approval by the full Board of Regents, the budget request and associated forms will be transmitted to the Governor and Legislature, pursuant to Chapter 37-68, HRS

DTS 18551

Kalbert K. Young
Vice President for Budget and Finance
Chief Financial Officer

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October 25, 2017

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UNIVERSITY OF HAWAII
PRESIDENT'S OFFICE

MEMORANDUM

TO: Jan N. Sullivan
Chairperson, Board of Regents

Wayne Higaki
Chair, Committee on Budget and Finance, Board of Regents

VIA: David Lassner
President

FROM: Kalbert K. Young
Vice President for Budget and Finance/Chief Financial Officer

SUBJECT: **APPROVAL OF A RESOLUTION AUTHORIZING EQUIPMENT LEASE PURCHASE AGREEMENTS AND RELATED DOCUMENTATION REGARDING PHASE II ENERGY EFFICIENCY PROJECTS ON THE UNIVERSITY'S COMMUNITY COLLEGES**

SPECIFIC ACTION REQUESTED:

We request that the Board of Regents approve and adopt the Resolution authorizing the the University of Hawai'i to enter into certain tax exempt lease purchase arrangements entitled:

> **"RESOLUTION APPROVING ENTERING INTO EQUIPMENT LEASE PURCHASE AGREEMENTS AND RELATED DOCUMENTATION REGARDING PHASE II ENERGY EFFICIENCY PROJECTS ON THE UNIVERSITY'S COMMUNITY COLLEGES – O'AHU CAMPUSES AND THE UNIVERSITY'S MAUI COLLEGE CAMPUS."**

in substantially the same form as attached to this memorandum as Attachment 1 (collectively the "ESPC Phase II Project"). We also request certain delegations of

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authority to implement the intent and purposes of the Resolution. These requests are more specifically detailed in the section "Action Recommended" below.

ADDITIONAL COST:

All costs related to the transaction will be paid from the proceeds derived from the transaction itself. The estimated costs for this transaction are anticipated to be $120,000 which includes bond counsel services and other transactional fees.

RECOMMENDED TIMELINE:

Upon approval of the Board of Regents, the recommended closing date for the ESPC Phase II Project transaction would be mid-November 2017.

PURPOSE:

The University previously carried out a first phase of energy efficiency projects at the University's Community Colleges – O'ahu Campuses ("UHCCC O'ahu") and the University's Maui College ("Maui College") in partnership with Johnson Controls, Inc. (JCI) through a Performance Contract dated September 30, 2010, covering the energy efficiency projects at UHCC O'ahu, ("O'ahu EPC") and a Performance Contract dated as of June 30, 2011, covering energy efficiency and photovoltaic (PV) projects at Maui College ("Maui EPC"). The financing for Phase I under both the O'ahu EPC and the Maui EPC was obtained through utilizing a structure known as Energy Savings Performance Contracting ("ESPC"), pursuant to section 36-41,Hawai'i Revised Statutes ("HRS"), a budget-neutral approach to acquiring and installing building improvements that reduce energy use, increase operational efficiency and reduce deferred maintenance.

The purpose of the Resolution is to authorize a second phase of energy efficiency improvements at UHCC O'ahu and Maui College by entering into amendments or supplements to the existing O'ahu EPC and the Maui EPC. With the approval of the Board of Regents, the Phase II energy efficiency projects will be financed through a tax-exempt lease purchase structure with JCI and Banc of America Public Capital Corp.

The projects to be included in Phase II are anticipated to include:

O'ahu

Phase II of the O'ahu EPC for UHCC O'ahu and the University of Hawai'i System's Dole Street Offices includes a variety of measures to increase energy efficiency. Energy conservation measures ("ECM") include internal lighting LED retrofits and controls, exterior pole lighting LED retrofits, replacement of interior transformers and installation of window film. The University will be leasing from JCI the equipment

necessary to implement the ECMs for Phase II of the O'ahu EPC (collectively the "O'ahu Equipment").

- Replace certain internal lights with more efficient LED bulbs and install new LED light fixtures as needed with lighting controls to adjust lighting output;
- Replace certain light pole fixtures with intelligently controlled LED light fixtures;
- Replace existing dry-type transformers with higher efficiency transformers; and
- Install radiant barrier window film to reduce heat gain and UV transmission which will reduce interior temperatures.

Maui

The ESPC Phase II Project for Maui College includes a variety of measures to increase energy efficiency. ECMs include LED lighting retrofits and controls, exterior pole lighting retrofit to LED, replacement of interior transformers, installation of window film, modernization of heating, ventilating, and air conditioning ("HVAC") controls, installation of BTU sub-meters, installation of trash compactor and bottle crusher, HVAC modifications, and the addition of PV and battery storage. The University will be leasing from JCI the equipment necessary to implement the ECMs for Phase II of the Maui EPC (collectively the "Maui Equipment") (the O'ahu Equipment and the Maui Equipment are collectively the "Phase II Equipment").

- Replace certain internal lights with more efficient LED bulbs and install new LED light fixtures with lighting controls to adjust lighting output;
- Replace certain existing light pole fixtures with intelligently controlled LED light fixtures;
- Replace existing dry-type transformers with higher efficiency transformers;
- Install radiant barrier window film to reduce heat gain and UV transmission which will reduce interior temperatures;
- Modernize HVAC controls by connecting building HVAC systems to the Energy Control Management system for increased efficiency;
- Install BTU sub-meters in buildings that are part of the chilled water loop system to allow for monitoring and management of building efficiency and chiller programming;
- Install single trash compactor and bottle crusher to eliminate existing refuse containers;
- Install various HVAC modifications not addressed in the first phase of the Maui EPC that will improve HVAC efficiency; and

- Enter into an agreement to have a 1.587MW ground mounted PV array system installed with battery storage to move the campus close to net zero power consumption.

BACKGROUND INFORMATION:

The University will enter into amendments or supplements to the O'ahu EPC and the Maui EPC (colletively the "*Amended Performance Contracts*"). In connection with these Amended Performance Contracts the University will lease the Phase II equipment from JCI pursuant to two Equipment Lease Purchase Agreements (collectively the "Lease Agreements"). Under such Amended Performance Contracts, JCI will provide a guarantee to the University that all payments made by the University under the Amended Performance Contracts, including the payments under the Lease Agreements, will not exceed, on an annual basis, the energy savings received by the University pursuant to such Amended Performance Contracts. JCI will sell and assign its rights under each of the Lease Agreements to Banc of America Public Capital Corp in exchange for funds which will be used to acquire and install the Phase II Equipment.

APPLICABLE BOARD OF REGENTS POLICIES

Board of Regent Policles RP 8.201 and RP 8.205 pertain to the requirement of the Board of Regents to approve revenue bond resolution(s) to authorize the sale of bonds to finance university projects. The financing approach for this project will utilize a debt arrangement that is remotely similar to debt financing. Although tax-exempt lease purchase agreements are not explicitly described in Board of Regents Policies RP 8.201 and RP 8.205, Board of Regents approval of the financing resolution is consistent with the form of financing being proposed and the need for the Board to approve contracts that could result in significant institutional liability.

ACTION RECOMMENDED:

It is recommended the Committee on Budget and Finance and the Board of Regents:

1. Committee approval recommendation. The Committee on Budget and Finance review and recommend to the full Board of Regents approval of the Resolution authorizing the ESPC Phase II Project and the execution of the Financing Documents identified therein, including, without limitation, the Amended Performance Contracts, the Lease Agreements, Sale Agreements, Account Control Agreements, Power Purchase Agreements, Use and Occupancy Agreements, Assignment Agreements, Tax Compliance Certificates, and any Supplemental Documents (all as defined in the Resolution), all in substantially the same form and manner described herein and in the Resolution, and permitting such changes (including, but not limited to, typographical changes) that may be required to consummate the ESPC Phase II Project transaction and finalize the Financing Documents identified therein including, without limitation, the

Amended Performance Contracts, Lease Agreements, Sale Agreements, Account Control Agreements, Power Purchase Agreements, Use and Occupancy Agreements, Assignment Agreements, Tax Compliance Certificates, and any Supplemental Documents.

2. Board of Regents approval. The Board of Regents approve the Resolution authorizing the ESPC Phase II Project and the execution of the Financing Documents identified therein, including, without limitation, the Amended Performance Contracts, Lease Agreements, Sale Agreements, Account Control Agreements, Power Purchase Agreements, Use and Occupancy Agreements, Assignment Agreements, Tax Compliance Certificates, and any Supplemental Documents (all as defined in the Resolution), all in substantially the same form and manner described herein and in the Resolution, and permitting such changes (including, but not limited to, typographical changes) that may be required to consummate the ESPC Phase II Project transaction and finalize the Financing Documents identified therein including, without limitation, the Amended Performance Contracts, Lease Agreements, Sale Agreements, Account Control Agreements, Power Purchase Agreements, Use and Occupancy Agreements, Assignment Agreements, Tax Compliance Certificates, and any Supplemental Documents.

3. Approval of delegation of authority. Authorize the University's President and/or the Vice President for Budget and Finance/Chief Financial Officer, as needed, to perform all acts, make such determinations, execute such documents, apply and transfer such moneys, and do all things as may be necessary to implement, carry out, and effectuate the intent and purposes of the Resolution including, without limitation, the authority to: (1) to negotiate and approve the final terms and conditions of the Financing Documents in connection with the ESPC Phase II Project within the limits set forth in the Resolution, (2) to approve the final terms and forms of the Financing Documents to be entered into or approved by the University in connection with the foregoing within the limits set forth within said Resolution, and (3) to execute and deliver on behalf of the Board of Regents and the University any document, certification, or contract which may be required or deemed necessary to implement, carry out, and effectuate the intent and purposes of the Resolution, including, without limitation, the Resolution, the Amended Performanc Contracts, Lease Agreements, Sale Agreements, Account Control Agreements, Power Purchase Agreements, Use and Occupancy Agreements, Assignment Agreements, Tax Compliance Certificates, and any Supplemental Documents (all as defined in the Resolution).

Attachments
1. Resolution – Approving Entering Into Equipment Lease Purchase Agreements and Related Documentation Regarding Phase II Energy Efficiency Projects on the University's UHCC O'ahu and Maui College campuses.
2. ESPCs – Implemented and Planned.

c: Executive Administrator and Secretary to the Board

University of Hawai‘i Board of Regents

R E S O L U T I O N

Resolution Approving Entering Into Equipment Lease Purchase Agreements and Related Documentation Regarding Phase II Energy Efficiency Projects on the University’s Community Colleges – O‘ahu Campuses and the University’s Maui College Campus

WHEREAS, as part of the State of Hawai‘i’s (the “State’s”) initiatives for energy savings performance contracting programs to reduce the State’s dependency on imported fossil fuels and to reduce associated greenhouse gas emissions, Section 36-41 of the Hawaii Revised Statutes (“HRS”) authorizes the University of Hawai‘i (the “University”) to enter into multi-year energy performance contracts, including financing agreements, in order to implement energy conservation or alternate energy measures in University facilities;

WHEREAS, pursuant to Section 36-41 HRS, the University previously carried out a first phase of energy efficiency projects at each of (i) the University’s Community Colleges – O‘ahu Campuses (“UHOCC,” such first phase energy efficiency projects being referred to herein as the “UHOCC Phase I Project”) and (ii) the University’s Maui College (“UHMC,” such first phase energy efficiency projects being referred to herein as the “UHMC Phase I Project” and together with the UHOCC Phase I Project, the “Phase I Projects”);

WHEREAS, the UHOCC Phase I Project was carried out pursuant to the Performance Contract dated as of September 30, 2010, as amended to the date hereof (the “UHOCC Phase I Performance Contract”), between Johnson Controls, Inc. (“JCI”) and the University, and the UHMC Phase I Project was carried out pursuant to the Performance Contract dated as of June 30, 2011, as amended to the date hereof (the “UHMC Phase I Performance Contract” and together with the UHOCC Phase I Performance Contract, the “Phase I Performance Contracts”), between JCI and the University;

WHEREAS, pursuant to Section 36-41 HRS, the Board of Regents of the University desires to enter into a second phase of energy improvements at each the UHOCC (the “UHOCC Phase II Project”) and the UHMC (the “UHMC Phase II Project” and together with the UHOCC Phase II Project, the “Phase II Projects”) by entering into either amendments or supplements to the Phase I Performance Contracts (the “Phase II Performance Contracts”), each between JCI and the University;

WHEREAS, the University has determined that a tax exempt lease purchase (“TELP”) structure for the Phase II Projects will provide for the lowest costs of capital due to present low interest rates and low transaction costs;

WHEREAS, in order to accomplish the foregoing, it will be necessary for the University to execute and deliver or approve the following documents (such documents being collectively referred to herein as the “Financing Documents”):

a) the Phase II Performance Contracts, pursuant to which JCI will agree to provide and install the Phase II Projects and will guarantee certain annual energy costs savings to the University;

b) one or more Equipment Lease Purchase Agreements (the “Lease Agreements”) between the University and JCI related to the Phase II Projects, pursuant to which the University, as lessee, will agree to make rental payments thereunder;

c) one or more Sale, Lease and Assignment Agreements (the “Sale Agreements”) between JCI and Banc of America Public Capital Corp (“BAPCC”), related to the Phase II Projects, pursuant to which JCI will assign its rights to the Lease Agreements, including the receipt of rental payments from the University, to BAPCC;

d) one or more Acquisition Fund and Account Control Agreements (the “Account Control Agreements”) among BAPCC, the University and an acquisition fund custodian counterparty, related to the Phase II Projects, pursuant to which the proceeds of the Lease Agreements shall be deposited to be disbursed for payment of costs incurred by the University under the Phase II Performance Contracts;

e) one or more Power Purchase Agreements or one or more amendments to existing Power Purchase Agreements (the “Power Purchase Agreements”) between the University and JCI;

f) one or more Use and Occupancy Agreements or one or more amendments to existing Use and Occupancy Agreements (the “Use and Occupancy Agreements”) between the University and JCI;

g) one or more Assignment Agreements (the “Assignment Agreements”) between JCI and JCI’s assignee or assignees, under which JCI will assign its rights and obligations under the Power Purchase Agreements to JCI’s assignee or assignees, upon such terms and conditions as the University may approve;

h) Tax Compliance Certificate of the University (the “TC Certificate”);

i) Such supplemental and ancillary documents as the parties deem necessary to carry out, finalize, and consummate the TELP financing transactions (collectively the “Supplemental Documents”)

WHEREAS, it appears to the Board of Regents of the University that the execution and delivery or approval of the above-described Financing Documents by the respective parties therein named, the consummation of the transactions contemplated by the above-described Financing Documents and the other matters above recited are necessary and desirable and in the best interests of the University;

WHEREAS, the Board of Regents considers it necessary and desirable to delegate to the President, and Vice President for Budget and Finance Chief Financial Officer (each referred to herein as an “*Authorized Officer*”) of the University the authority to be exercised by any one of them acting alone (i) to negotiate and approve the final terms and conditions of the Financing Documents in connection with the Phase II Projects within the limits set forth below and (ii) to approve the final terms and forms of the Financing Documents to be entered into or approved by the University in connection with the foregoing within the limits set forth below; and the Board of Regents further desires to authorize each of the Authorized Officers of the University and any other proper officers, agents and

employees of the University, or any one or more of them, to do all such other acts and things as may be deemed necessary or desirable in their discretion in order to carry out and comply with the terms and provisions of these resolutions;

NOW, THEREFORE, BE IT RESOLVED, by the Board of Regents of the University of Hawai‘i as follows:

1. The transactions and documents described herein, such as the Financing Documents (which include, without limitation, the Phase II Performance Contracts, the Lease Agreements, the Sale Agreements, the Account Control Agreements, the Power Purchase Agreements, the Use and Occupancy Agreements, the Assignment Agreements, the TC Certificate, and the Supplemental Documents) are hereby approved. Each of the Authorized Officers of the University, acting individually, is hereby authorized, empowered and directed, for and in the name and on behalf of the University to enter into, execute and deliver the Financing Documents to which it is a party, such documents to be in such respective forms thereof as shall be approved by any Authorized Officer of the University executing the same, such execution to constitute conclusive evidence of such approval and the approval of the Board of Regents of the final forms of the Financing Documents and the terms and provisions thereof; provided, however, that without further approval from the Board of Regents hereof, (a) the borrowing rate shall not exceed %____; (b) the Phase II Performance Contracts and related Power Purchase Agreements and Use and Occupancy Agreements, where applicable, shall provide that total payments by the University shall not exceed total savings; and (c) the Phase II Performance Contracts and related Power Purchase Agreements and Use and Occupancy Agreements, where applicable, shall provide that JCI will guaranty that payment obligations of the University will be less than the annual energy cost savings attributable to the energy equipment and savings.

2. The Authorized Officers of the University and all other proper officers, agents and employees of the University are hereby authorized, empowered and directed to do all such acts and things and to approve, execute, acknowledge, deliver and file all such documents, agreements, certificates, instruments, notices and undertakings, including, without limitation, any amendments or supplements to, or replacements, extensions or renewals of, the documents described herein, as may in their respective discretion be deemed necessary or desirable to carry out and comply with, implement, further or facilitate the terms, provisions, intent and purposes of these resolutions and the Financing Documents and to consummate the transactions, events, happenings and actions and to discharge the duties and undertakings on the part of the University contemplated hereby or thereby and all of the acts and doings of any officer, agent or employee of the University which are in conformity with the intent and purposes of these resolutions, whether heretofore or hereafter taken or done, shall be and the same are hereby in all respects, ratified, confirmed and approved.

3. All previous resolutions of the Board of Regents which are inconsistent with these resolutions be, and the same hereby are, repealed, revoked and rescinded to the extent of such inconsistency.

Adopted by the Board of Regents
University of Hawai‘i
_____, 2017

Energy Saving Performance Contracts (ESPC's) Implemented and Planned

PERFORMANCE CONTRACT

EFFICIENCY + SOLAR + STORAGE = NET ZERO

UNIVERSITY of HAWAI'I®
COMMUNITY COLLEGES

Honolulu, Kapiolani, Leeward, Windward

UNIVERSITY of HAWAI'I®
MAUI COLLEGE

Maui Campus

UNIVERSITY of HAWAI'I®
COMMUNITY COLLEGES

Oahu Campuses

Kapiolani

Honolulu

Leeward

Windward

2012

(COMPLETED)

AC/ Thermal

Controls

Solar

2015

HRS 304-119 requires UH to become net zero by January 1, 2035

2017

(PROPOSED)

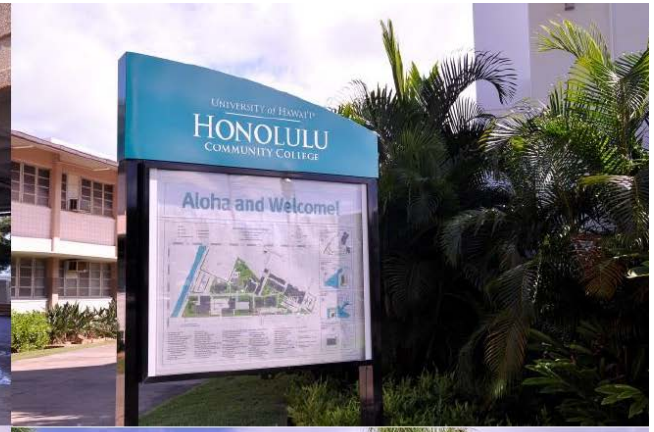
LED lighting

Chiller Controls

Solar + Storage

Oahu Campuses: 2012 (Implemented)

UNIVERSITY of HAWAI'I
COMMUNITY COLLEGES
Honolulu, Kapiolani, Leeward, Windward



Performance Contract
Efficiency financing by bond

Backed by Guaranteed Savings stream, 20 year Guarantee

New Air-conditioning, Lighting, Building Automation Controls

Automation with Smart Controls

More comfort, control, & reliability for areas of campus touched by project

Solar PV

Clean Solar Energy to the grid

Solar PPA Pricing

Electricity Pricing lower than Utility projections, 20 year term

Oahu Campuses: Exceeding Guarantee by $784,282

UNIVERSITY of HAWAI'I®
COMMUNITY COLLEGES
Honolulu, Kapiolani, Leeward, Windward

University of Hawaii Community Colleges Oahu District Energy Savings Performance Contract Summary							
Year	kWh Avoidance	kGal Avoidance	Trash Avoidance	Therm Avoidance	Guaranteed Savings	Verified Savings*	Actual Savings**
1	5,669,490	22,865	65,736	-	$1,910,156	$1,748,390	$2,125,975
2	6,723,135	23,549	67,708	-	$2,112,709	$2,055,894	$2,388,141
3	8,340,855	23,898	48,790	2,401	$2,312,896	$2,427,155	$2,642,743
4	8,667,977	23,435	59,606	1,865	$2,417,037	$2,598,756	$2,380,221

THE BASIS OF THE GUARANTEE IS IN THE SCIENTIFIC MEASUREMENTS:
KWH, KGAL, TRASH & THERMS (AVOIDANCE AMOUNT)

Guarantee is....promised amount X contract rate = $8,752,798

**Actual is.....measured amount X HECO rate = $9,537,080

Actual amount exceeding Guarantee = $784,282

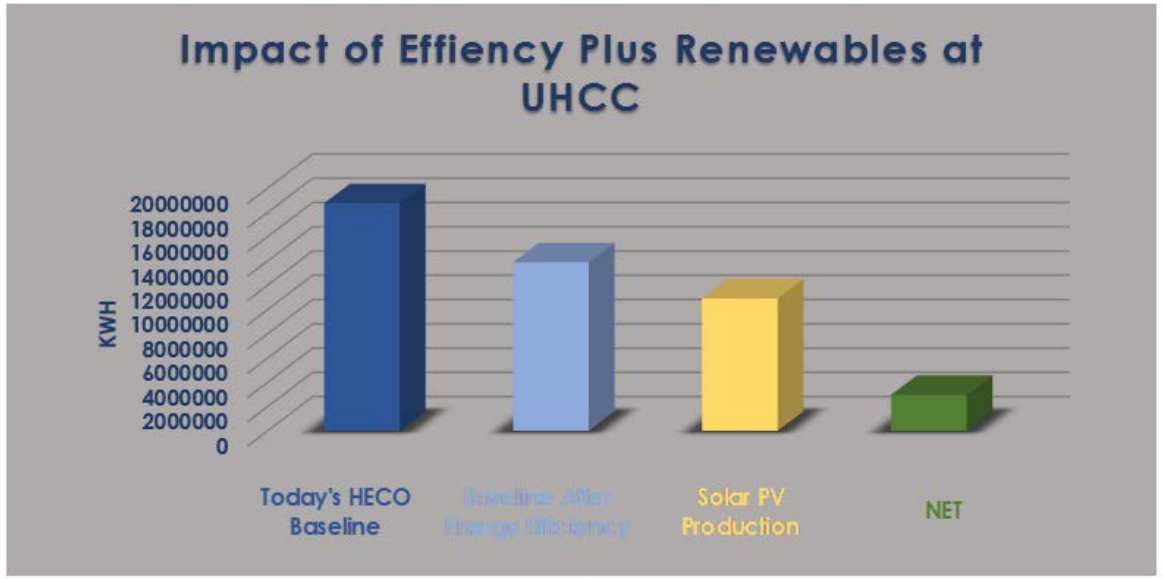
Oahu Campuses: 2017 (Proposed)

ECM #	Recommended Energy Conservation Measures (ECM)	Leeward Community College	Honolulu Community College	Windward Community College	Kapi'olani Community College
1	Interior LED Lighting and Controls	X	X	X	X
2	Exterior Pole Lighting Re-design	X			
3	Replace interior transformers	X	X	X	X
4	Replace exterior oil filled transformers		X		
5	Install Window Film	X	X	X	X
6	Chiller replacements			X	
7	Extend chilled water loop		X	X	
8	New Chilled Water Plant and Loop				
9	Install new pony chiller		X		
10	Roof Mount / Carport / Covered Walkway Solar PV+ Energy Storage	X	X	X	X

16% remains

The Impact of Solar plus Energy Storage

18,770,400 kWh	13,895,102 kWh	10,922,820 kWh	2,972,282 kWh
Existing Annual HECO Utility Consumption	HECO Consumption After Energy Efficiency Measures	New Solar PV Production	NET
Baseline	**26% efficiency**	**58% solar**	**84% total**



Honolulu: 2017

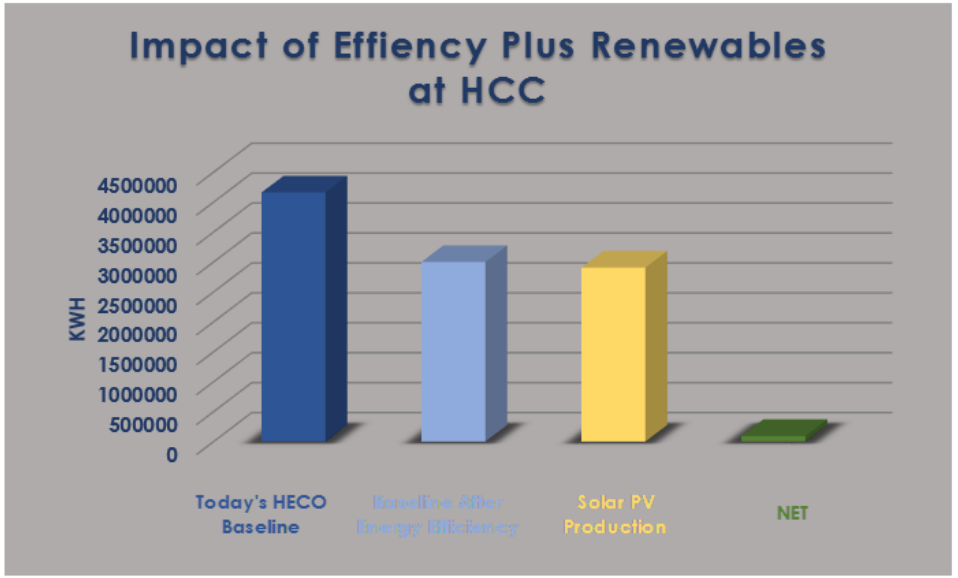
Honolulu Community College

The Efficiency Numbers

$341K	28%	$7.4M
Guaranteed savings in first year	Additional reduction in annual HECO utility consumption from efficiency measures	Total Guaranteed Energy & Operational Savings over 15-year Performance Period

The Impact of Solar plus Energy Storage

4,161,000 kWh	3,000,917 kWh	2,906,640 kWh	94,277 kWh
Existing Annual HECO Utility Consumption	HECO Consumption After Energy Efficiency Measures	New Solar PV Production	NET
Baseline	**28% efficiency**	**70% solar**	**98% total**



2% remains

UNIVERSITY of HAWAI'I COMMUNITY COLLEGES

Leeward: 2017

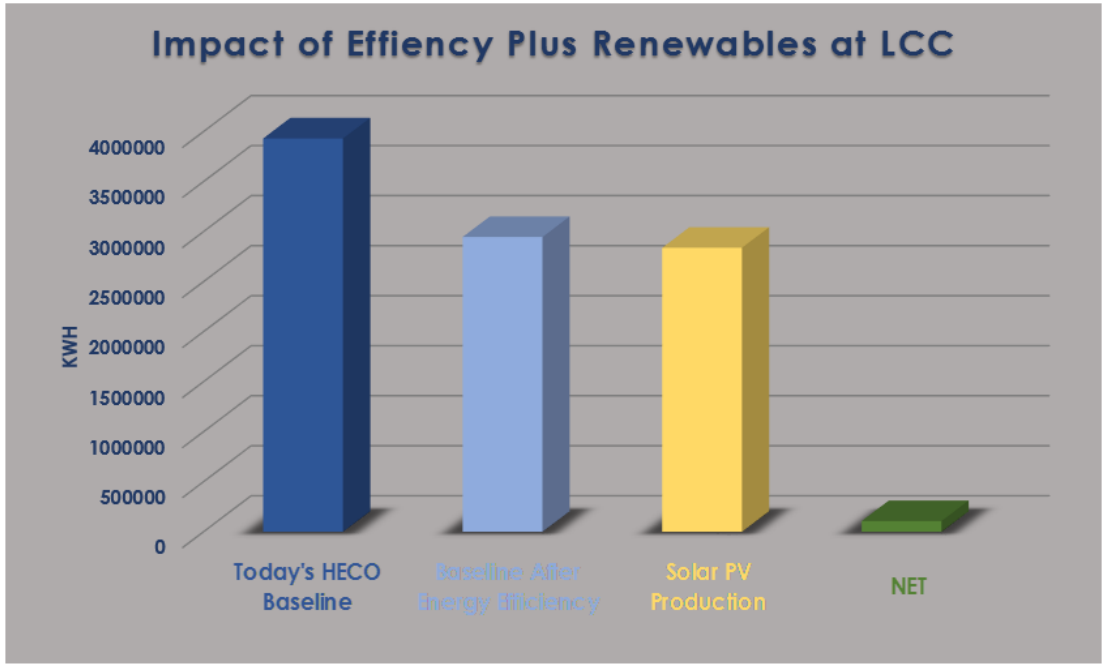
Leeward Community College

The Efficiency Numbers

$269K	25%	$5.4M
Guaranteed savings in first year	Additional reduction in annual HECO utility consumption from efficiency measures	Total Guaranteed Energy & Operational Savings over 15-year Performance Period

The Impact of Solar plus Energy Storage

3,932,400 kWh	2,946,988 kWh	2,839,407 kWh	107,581 kWh
Existing Annual HECO Utility Consumption	HECO Consumption After Energy Efficiency Measures	New Solar PV Production	NET
Baseline	25% efficiency	72% solar	97% total



3% remains

UNIVERSITY of HAWAI'I COMMUNITY COLLEGES

Kapiolani: 2017

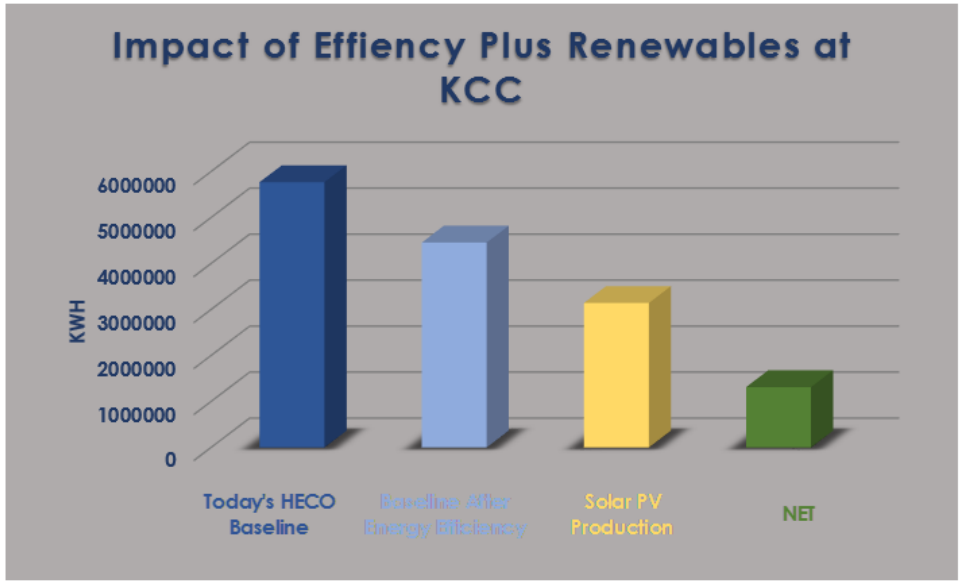
Kapi'olani Community College

The Efficiency Numbers

$292K	20%	$8.3M
Guaranteed savings in first year	Additional reduction in annual HECO utility consumption from efficiency measures	Total Guaranteed Energy & Operational Savings over 15-year Performance Period

The Impact of Solar plus Energy Storage

5,770,800 kWh	4,625,627 kWh	3,143,730 kWh	1,481,897 kWh
Existing Annual HECO Utility Consumption	HECO Consumption After Energy Efficiency Measures	New Solar PV Production	NET
Baseline	20% efficiency	54% solar	74% total



26% remains

UNIVERSITY of HAWAI'I COMMUNITY COLLEGES

Windward: 2017

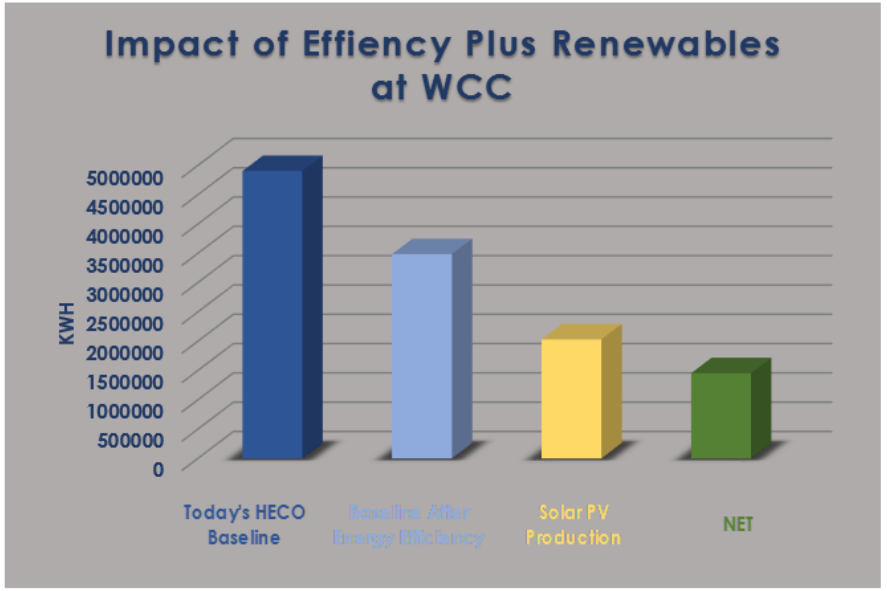
Windward Community College

The Efficiency Numbers

$405K	29%	$7.9M
Guaranteed savings in first year	Additional reduction in annual HECO utility consumption from efficiency measures	Total Guaranteed Energy & Operational Savings over 15-year Performance Period

The Impact of Solar plus Energy Storage

4,906,200 kWh	3,489,301kWh	2,033,043 kWh	1,456,258 kWh
Existing Annual HECO Utility Consumption	HECO Consumption After Energy Efficiency Measures	New Solar PV Production	NET
Baseline	**29% efficiency**	**41% solar**	**70% total**



30% remains

UNIVERSITY of HAWAI'I COMMUNITY COLLEGES

Oahu Campuses: ECM Financial Model

UNIVERSITY of HAWAI'I COMMUNITY COLLEGES
Honolulu, Kapiolani, Leeward, Windward

Additional

"ECM" Energy Conservation Measure

$ 27,753,351	**Total Utility Savings**
$ 522,105	**Hawaii Energy Rebate**
$ 1,201,773	**Total Operations Savings**
$ 29,477,229	**Total ECM Savings**

$ 24,183,428	Construction Price			
2.55%	Tax Exempt Lease Purchase "TELP" Interest Rate			
		Total Savings	**Bank Payment**	Equip. Maint Agreement
Construction	FY 2018	**$ -**		no change
Performance Years	FY 2019	**$ 2,156,510**	**$ 2,156,509**	$ -
	FY 2020	**$ 1,706,008**	**$ 1,706,007**	$ -
	FY 2021	**$ 1,781,008**	**$ 1,781,007**	$ -
	FY 2022	**$ 1,746,235**	**$ 1,746,234**	$ -
	FY 2023	**$ 1,828,523**	**$ 1,828,522**	$ -
	FY 2024	**$ 1,890,887**	**$ 1,890,886**	$ -
	FY 2025	**$ 1,980,461**	**$ 1,980,460**	$ -
	FY 2026	**$ 2,074,302**	**$ 2,074,301**	$ -
	FY 2027	**$ 2,172,615**	**$ 2,172,614**	$ -
	FY 2028	**$ 2,275,612**	**$ 2,275,611**	$ -
	FY 2029	**$ 2,295,288**	**$ 2,295,287**	$ -
	FY 2030	**$ 2,405,691**	**$ 2,405,690**	$ -
	FY 2031	**$ 2,521,405**	**$ 2,521,404**	$ -
	FY 2032	**$ 2,642,684**	**$ 2,629,876**	$ -
Total		**$ 29,477,229**	**$ 29,464,408**	$ -

FY 2019 includes Hawaii Energy Rebate administered by the PUC, amount $522,105

Oahu Campuses: PPA Financial Model

UNIVERSITY of HAWAI'I COMMUNITY COLLEGES
Honolulu, Kapiolani, Leeward, Windward

Existing

Solar "PPA" Power Purchase Agreement

TOTAL HISTORICAL PPA UHCC OAHU CAMPUSES					
	# Months	Avg HECO Rate	Avg PPA Rate	KWH Generated	$ Saved
Hon	45	0.2962	0.1808	1,377,773	158,044
Kap	46	0.2611	0.1808	757,640	57,905
Lee	34	0.2716	0.1808	2,961,853	207,245
Total				**5,097,266**	**423,194**

Additional

Solar + Storage "PPA" Power Purchase Agreement

$	4,257,368	kWh Savings from Solar PPA ($)
$	3,047,079	kW Demand Savings from Battery ($)
$	**7,304,447**	**Total PPA Savings ($)**

Additional UHCC (Oahu) Solar + Storage PPA

Year	kWh Savings from Solar PPA	kW Demand Savings Battery	Total PPA Savings
1	$ 218,998	$ 143,240	**$ 362,238**
2	$ 254,864	$ 150,130	**$ 404,994**
3	$ 293,201	$ 157,351	**$ 450,552**
4	$ 334,148	$ 164,920	**$ 499,067**
5	$ 377,852	$ 172,852	**$ 550,704**
6	$ 424,468	$ 181,167	**$ 605,634**
7	$ 474,158	$ 189,881	**$ 664,038**
8	$ 527,092	$ 199,014	**$ 726,106**
9	$ 48,138	$ 208,586	**$ 256,724**
10	$ 90,759	$ 218,619	**$ 309,378**
11	$ 136,629	$ 229,135	**$ 365,764**
12	$ 185,938	$ 240,156	**$ 426,094**
13	$ 238,886	$ 251,708	**$ 490,594**
14	$ 295,684	$ 263,815	**$ 559,499**
15	$ 356,555	$ 276,505	**$ 633,059**
Total	$ 4,257,368	$ 3,047,079	**$ 7,304,447**

Oahu Campuses: Total Additional Project Benefits (Proposed)

UNIVERSITY of HAWAI'I COMMUNITY COLLEGES
Honolulu, Kapiolani, Leeward, Windward

Additional Solar + Storage "PPA" Power Purchase Agreement

$	4,257,368	kWh Savings from Solar PPA ($)
$	3,047,079	kW Demand Savings from Battery ($)
$	**7,304,447**	**Total PPA Savings ($)**

+

Additional "ECM" Energy Conservation Measure

$	**27,753,351**	**Total Utility Savings**
$	**522,105**	**Hawaii Energy Rebate**
$	**1,201,773**	**Total Operations Savings**
$	**29,477,229**	**Total ECM Savings**

TOTAL COMBINED ADDITIONAL PROJECT BENEFITS = $ 36,781,676

UNIVERSITY of HAWAI'I®
MAUI COLLEGE

Maui Campus

2012

(COMPLETED)

AC/ Thermal

Controls

Solar

2015

HRS 304-119 requires UH to become net zero by January 1, 2035

2017

(PROPOSED)

LED lighting

Chiller Controls

Solar + Storage

Maui College: Project Overview (Implemented)

Performance Contract
Efficiency financing by bond

Backed by Guaranteed Savings stream, 20 year Guarantee

Lighting, AC, Controls

Automation with Smart Controls

More comfort, control, & reliability for areas of campus touched by project

Solar PPA Pricing

Electricity Pricing lower than Utility projections,

20 year term

800kw Solar PV

Clean Solar Energy to the grid

500 KW Energy Storage System

Maui College: Exceeding Guarantee by $510,775

University of Hawaii Community CollegesMaui College Energy Savings Performance Contract			
Year	**Guaranteed Savings**	**Verified Savings**	**Actual Savings**
1	$391,660	$389,618	$515,868
2	$471,394	$545,243	$666,308
3	$497,713	$598,491	$666,712
4	$525,531	$585,522	$548,185
Total	$1,886,298	$2,118,874	$2,397,073

THE BASIS OF THE GUARANTEE IS IN THE SCIENTIFIC MEASUREMENTS:
KWH, KGAL, TRASH, & THERMS (AVOIDANCE AMOUNT)

Guarantee is…… promised amount X contract rate = **$1,866,298**

****Actual** is…….. measured amount X HECO rate = **$2,397,073**

Actual amount exceeding Guarantee = $510,775

Maui College: Project Overview (Proposed)

Efficiency financing

Backed by Guaranteed Savings stream 20 year Guarantee

Energy Storage with Smart Controls

Complete storage system

20 year performance "up time" guarantee

Solar + Storage PPA Pricing

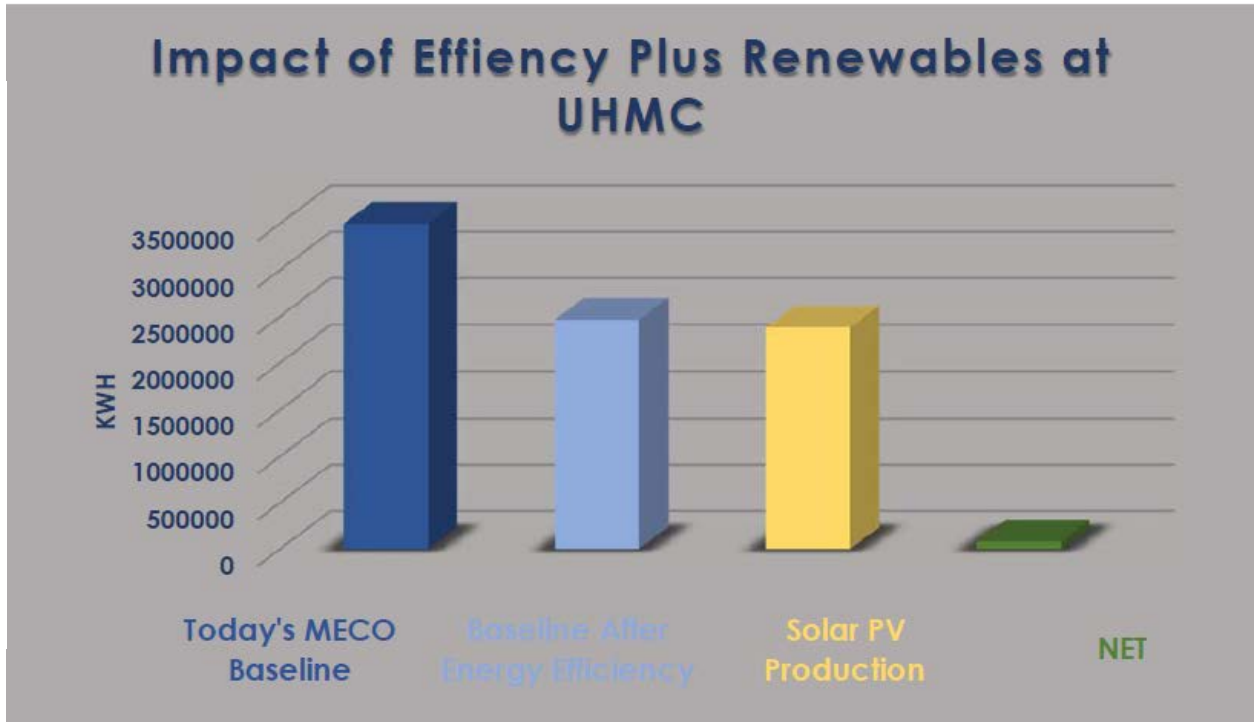
Demand Savings each year, 20 years

1.57 MW Solar PV

Clean Solar Energy stored on campus, 4 hours of storage

Maui College: Project Overview (Proposed)

ECM #	Recommended Energy Conservation Measures (ECM)	Maui College
1	Interior LED Lighting and Controls	X
2	Replace interior transformers	X
3	Install Window Film	X
4	Replace outdated controls	X
5	Chiller replacements	X
6	Install new BTU submeters	X
7	Install Trash Compactor	X
8	HVAC Modifications	X
9	Roof Mount / Carport / Covered Walkway Solar PV + Energy Storage	X



The Impact of Solar plus Energy Storage

3,499,200 kWh	2,464,764 kWh	2,382,518 kWh	82,246 kWh
Existing Annual MECO Utility Consumption	MECO Consumption After Energy Efficiency Measures	New Solar PV Production	NET
Baseline	30% efficiency	68% solar	98% total

2% remains

Maui College: ECM Financial Model

Additional

"ECM" Energy Conservation Measures

$	7,833,915	**Total Utility Savings**
$	125,062	**Hawaii Energy Rebate**
$	207,050	**Total Operations Savings**
$	8,166,027	**Total ECM Savings**

$ 6,301,662	Construction Price	
2.55%	Tax Exempt Lease Purchase "TELP" Interest Rate	

		Total Savings	**Bank Payment**	(Equipment Maintenance Agreement)
Construction	FY 2018	$ -		
Performance Years	FY 2019	$ 550,244	**$ 406,577**	$ 18,605
	FY 2020	$ 444,980	**$ 425,817**	$ 19,163
	FY 2021	$ 465,711	**$ 445,972**	$ 19,738
	FY 2022	$ 487,418	**$ 467,087**	$ 20,330
	FY 2023	$ 510,149	**$ 489,208**	$ 20,940
	FY 2024	$ 533,952	**$ 512,383**	$ 21,568
	FY 2025	$ 558,877	**$ 536,661**	$ 22,215
	FY 2026	$ 584,979	**$ 562,097**	$ 22,881
	FY 2027	$ 612,313	**$ 588,744**	$ 23,568
	FY 2028	$ 640,937	**$ 616,661**	$ 24,275
	FY 2029	$ 646,641	**$ 621,637**	$ 25,003
	FY 2030	$ 677,305	**$ 651,551**	$ 25,753
	FY 2031	$ 709,432	**$ 682,905**	$ 26,526
	FY 2032	$ 743,090	**$ 715,766**	$ 27,321
Total		**$ 8,166,027**	**$ 7,723,067**	$ 317,883

(Year 1) includes Energy Rebate administered by the PUC: amount $125,062

Demand Savings from Storage System are included here in Total Savings

Maui College: PPA Financial Model

Existing

Solar "PPA" Power Purchase Agreement

TOTAL HISTORICAL PPA UH MAUI COLLEGE					
	# Months	Avg MECO Rate	AVG PPA Rate	KWH Generated	$ Saved
Maui	42	0.3233	0.2459	3,533,583	232,933
Total				**3,533,583**	**232,933**

Additional

Solar + Storage "PPA" Power Purchase Agreement

$ 3,681,398	kWh Savings from Solar PPA ($)
see prior slide	kW Demand Savings from Battery ($)
$ 3,681,398	**Total Solar + Storage PPA Savings ($)**

Additional UH Maui College Solar + Storage PPA

Year	kWh Savings from Solar PPA	kW Demand Savings from Battery	Total PPA Savings
1	$ 179,766	$ 66,952	**$ 246,718**
2	$ 193,636	$ 70,172	**$ 263,809**
3	$ 208,322	$ 73,548	**$ 281,870**
4	$ 223,867	$ 77,085	**$ 300,952**
5	$ 240,315	$ 80,793	**$ 321,108**
6	$ 257,715	$ 84,679	**$ 342,394**
7	$ 276,115	$ 88,752	**$ 364,867**
8	$ 295,569	$ 93,021	**$ 388,590**
9	$ 198,452	$ 97,496	**$ 295,947**
10	$ 216,365	$ 102,185	**$ 318,551**
11	$ 235,382	$ 107,100	**$ 342,482**
12	$ 255,561	$ 112,252	**$ 367,812**
13	$ 276,964	$ 117,651	**$ 394,615**
14	$ 299,658	$ 123,310	**$ 422,968**
15	$ 323,712	$ 129,241	**$ 452,953**
Total	$ 3,681,398	$ 1,424,239	**$ 5,105,638**

Maui College: Total Additional Project Benefits (Proposed)

Additional Solar "PPA" Power Purchase Agreement

$ 3,681,398	kWh Savings from Solar PPA ($)
see prior slide	kW Demand Savings from Battery ($)
$ 3,681,398	**Total Solar + Storage PPA Savings ($)**

+

Additional "ECM" Energy Conservation Measure

$ 7,833,915	**Total Utility Savings**
$ 125,062	**Hawaii Energy Rebate**
$ 207,050	**Total Operations Savings**
$ 8,166,027	**Total ECM Savings**

TOTAL COMBINED ADDITIONAL PROJECT BENEFITS = $ 13,271,665

Oahu Campuses & Maui College: Project Target Timeline

Supplemental Investment Grade Audit (Detailed Engineering)- COMPLETE (April 2017 to August 2017)

Milestone 1 - Financing Documents Executed – November 17, 2017

Milestone 2 - Final Engineering, Notice To Proceed – December 2017

Milestone 3 - Equipment Ordered – December 2017

Milestone 4 - Performance Guarantee Effective – Oahu Campuses July 2018, Maui College November 2018

DT 18551

UNIVERSITY of HAWAI'I®
SYSTEM

Kalbert K. Young
Vice President for Budget and Finance
Chief Financial Officer

UNIVERSITY OF HAWAII
BOARD OF REGENTS

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UNIVERSITY OF HAWAII
PRESIDENT'S OFFICE

October 25, 2017

MEMORANDUM

TO: Jan N. Sullivan
Chairperson, Board of Regents

Wayne Higaki
Chair, Committee on Budget and Finance, Board of Regents

VIA: David Lassner
President

FROM: Kalbert K. Young
Vice President for Budget and Finance/Chief Financial Officer

SUBJECT: **APPROVAL OF A SUPPLEMENTAL RESOLUTION AUTHORIZING THE ISSUANCE OF REVENUE BONDS FOR REFUNDING AND UNIVERSITY PROJECTS IN AN AMOUNT NOT TO EXCEED $115,000,000**

SPECIFIC ACTION REQUESTED:

We request that the Board of Regents approve and adopt the Supplemental Resolution authorizing the issuance of Board of Regents of the University of Hawai'i, University Revenue Bonds, Series 2018, in a principal amount not to exceed $115,000,000 (2018 University Revenue Bonds) entitled:

> **"A SUPPLEMENTAL RESOLUTION AUTHORIZING THE ISSUANCE OF NOT TO EXCEED $115,000,000 PRINCIPAL AMOUNT OF BOARD OF REGENTS OF THE UNIVERSITY OF HAWAII, UNIVERSITY REVENUE BONDS, SERIES 2018; AUTHORIZING THE EXECUTION OF CERTAIN AGREEMENTS WITH RESPECT TO SAID BONDS; PROVIDING FOR THE PAYMENT AND SECURITY OF SAID BONDS;**

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Honolulu, Hawai'i 96822
Telephone: (808) 956-8903 • Fax: (808) 956-5286

ADDING A UNIVERSITY PROJECT TO THE UNIVERSITY SYSTEM; AND AUTHORIZING THE REFUNDING OF CERTAIN OUTSTANDING BONDS."

in substantially the same form as attached to this memorandum as Attachment 1. We also request certain delegations of authority to implement the intent and purposes of the Supplemental Resolution. These requests are more specifically detailed in the section "Action Recommended" below.

ADDITIONAL COST:

All costs related to the issuance of these bonds will be paid from the proceeds derived from the bond transaction itself (2018 University Revenue Bonds). The estimated costs for this transaction are anticipated to be $825,000 which includes underwriter services and fees, bond counsel services, financial advisor services, and other transactional fees. The University will sell an amount of bonds sufficient to cover all costs of issuance in addition to providing the necessary amount of bond proceeds.

ANTICIPATED TIMELINE:

Subject to the approval of the Board Regents, the targeted time line anticipates a sale date ("pricing") for the bonds in mid-January 2018 and a closing in late-January 2018 to early-February 2018.

PURPOSE:

The purpose of the Supplemental Resolution is to authorize the issuance of one or more series of revenue bonds of the University of Hawai'i pursuant to Regent Policy 8.201. The proceeds from this bond transaction will be used: (a) to finance the the Sinclair Library Basement Renovation, Phase 2 project; and (b) to current refund all or a portion of the University Bonds Refunding Series 2006A and University Revenue Bonds Series 2006A and to refund, in advance of their maturity, all or a portion of the University Revenue Bonds Series 2009A (the "*Refunded bonds*") issued to finance various University Projects and the construction of the School of Medicine in Kakaako.

It is expected that the bond issuance will be priced in mid-January 2018 and the transaction will close late–January 2018 to early-February 2018. The financing structure is expected to consist of the following bond series:

(1) The University Revenue Bonds, Series 2018A (tax-exempt bonds for Sinclair Library Basement Renovation, Phase 2 project).

(2) The University Revenue Bonds, Series 2018B (tax-exempt refunding of currently outstanding tax-exempt revenue bonds).

(3) The University Revenue Bonds, Series 2018C (taxable refunding of currently outstanding tax-exempt revenue bonds).

(4) The University Revenue Bonds, Series 2018D (tax-exempt refunding of currently outstanding Medical School tax-exempt revenue bonds).

(5) The University Revenue Bonds, Series 2018E (taxable refunding of currently outstanding Medical School tax-exempt revenue bonds).

(6) The University Revenue Bonds, Series 2018F (tax-exempt advance refunding of currently outstanding tax-exempt revenue bonds).

(7) The University Revenue Bonds, Series 2018G (taxable advance refunding of currently outstanding tax-exempt revenue bonds).

BACKGROUND INFORMATION:

New Capital Project
In Act 124, Session Laws of Hawai'i 2016, Item G95.01, authorized the University to issue revenue bonds under Chapter 304A, Hawai'i Revised Statutes (HRS), in the principal amount of $30 million for plans, design, construction and equipment for improvements to University of Hawai'i facilities.

The bond transaction will provide up to $5,000,000 in net bond proceeds (Series 2018A) that will provide financing for the Sinclair Library Basement Renovation, Phase 2 project.

The area will be occipied by employees of various offices of the Vice President for Research and Innovation (Office of Research Compliance, Office of Innovation and Commercialization, and Fiscal and Administration Operations). (See Attachment 2 – Hypothetical New Money)

Refunding
Depending upon market conditions at the time of pricing, the bond transaction will also refund as much as $109,935,000 in currently existing University of Hawai'i Revenue Bonds and University Bonds. Considering the status of the interest rate market as of this writing, the approximate size of the refunding transaction would be close to $102,000,000. The Administration intends to only transact bonds that will generate net present value (NPV) savings compared to the current debt service level.

A refunding occurs when new bonds are issued to repay principal and accrued interest on older outstanding bonds. NPV savings are generated when the interest rates paid on the

new/refunding bonds are lower than the rates on the older outstanding bonds. For example, the remaining coupon interest on the existing revenue bonds that will be targeted for refunding as part of this transaction range between 3.25% to 6.00%, while the interest rates on the new bonds are expected to be much lower. The bonds targeted for refunding were issued in October 2006, December 2006, and April 2009 at average coupon rates of about 4.45%, 4.53%, and 5.39%, respectively. An analysis as of October 23, 2017, estimates total interest costs (including cost of issuance and underwriter's discount) for this refunding to be between 2.54% and 3.35%, generating NPV savings of approximately $14.2 million ($893,900 average annual savings). (See Attachment 3 - Tax-Exempt and Taxable Refunding Analysis (75% Tax-Exempt / 25% Taxable))

Amongst the outstanding bonds that will be refunded, the Administration intends to target a portion of those bonds to be refunded as taxable revenue bonds. While taxable bonds typically carry a higher interest cost, the entire refunding plan of finance (combined tax-exempt and taxable refunding) will result in a net reduction from current debt service levels. Refunding existing tax-exempt bonds with taxable bonds is a strategic decision of the Administration in order to provide flexibility for private activity to occur, which is restricted with tax-exempt bonds.

2018 University Revenue Bonds
The Series 2018 University Revenue Bonds will be issued by the Board of Regents pursuant to Chapter 304A, HRS, as amended, which provides for the issuance of revenue bonds to finance University Projects and for the purpose of refunding, redeeming, or retiring outstanding revenue bonds before maturity.

University administration recommends the Board of Regents delegate authority to make the final determination of the amounts to be funded by the revenue bond proceeds up to the $115,000,000 maximum being proposed for approval by the Board. This request is necessary to execute the transaction accounting for the expected movements in the interest rate market over the next 60-90 days.

ACTION RECOMMENDED:

It is recommended the Board of Regents:

1. Approval of issuance and sale of one or more series of University Revenue Bonds. Approve the refunding, redeeming, or retiring of all or a portion of outstanding University Revenue Bonds, Series 2006A and Series 2009A, and University Bonds Refunding Series 2006A in order to take advantage of favorable bond market conditions and provide the flexibility for private business use to the business units.

2. Approval of project as University Project. Approve the Sinclair Library Basement Renovations, Phase 2 capital project constituting a University Project to be included

in the University System, for which proceeds of revenue bonds issued under Chapter 304A, HRS, may be used.

3. Approval of Supplemental Resolution authorizing issuance of 2018 University Revenue Bonds. Approve the Supplemental Resolution authorizing the issuance and sale of the 2018 University Revenue Bonds in substantially the same form and manner described herein and in the attached documents, and permitting such changes (including, but not limited to, typographical changes) that may be required to finalize any required documents and close and consummate the issuance and sale of the 2018 University Revenue Bonds.

4. Approval of delegation of authority to finalize issuance of 2018 University Revenue Bonds. Approve a delegation of authority to the chairperson of the Board of Regents (or the Vice Chairperson in the Chair's absence), the Executive Administrator and Secretary to the Board of Regents, the President, and the Vice President for Budget and Finance/Chief Financial Officer of the University, as needed, to perform all acts, make such determinations, execute such documents, apply and transfer such moneys, and do all things as may be necessary to implement, carry out, and effectuate the intent and purposes of this Supplemental Resolution including, without limitation, the authority to: (1) perform the acts specified in the Supplemental Resolution, (2) make such changes to the Supplemental Resolution, and other necessary documents as the Vice President for Budget and Finance/Chief Financial Officer deems necessary to carry out the purposes of the Supplemental Resolution, which changes may include provision for the issuance of additional series of Series 2018 Bonds, and (3) execute and deliver on behalf of the Board of Regents and the University any document, certification, or contract, including, without limitation, the Supplemental Resolution, a Certificate of Determination, the final Official Statement, a Contract of Purchase, the escrow agreements, and a continuing disclosure certificate, which may be required or deemed necessary to implement, carry out, and effectuate the intent and purposes of the Supplemental Resolution.

Attachments
1. Supplemental Bond Resolution – University of Hawai'i Revenue Bonds, 2018
2. Hypothetical New Money Analysis
3. Tax-Exempt & Taxable Refunding Analysis

c: Executive Administrator and Secretary to the Board

Attachment 1

BOARD OF REGENTS OF THE UNIVERSITY OF HAWAII

A SUPPLEMENTAL RESOLUTION AUTHORIZING THE ISSUANCE OF NOT TO EXCEED $115,000,000 PRINCIPAL AMOUNT OF BOARD OF REGENTS OF THE UNIVERSITY OF HAWAII, UNIVERSITY REVENUE BONDS, SERIES 2018; AUTHORIZING THE EXECUTION OF CERTAIN AGREEMENTS WITH RESPECT TO SAID BONDS; PROVIDING FOR THE PAYMENT AND SECURITY OF SAID BONDS; ADDING A UNIVERSITY PROJECT TO THE UNIVERSITY SYSTEM; AND AUTHORIZING THE REFUNDING OF CERTAIN OUTSTANDING BONDS.

A SUPPLEMENTAL RESOLUTION AUTHORIZING THE ISSUANCE OF NOT TO EXCEED $115,000,000 PRINCIPAL AMOUNT OF BOARD OF REGENTS OF THE UNIVERSITY OF HAWAII, UNIVERSITY REVENUE BONDS, SERIES 2018; AUTHORIZING THE EXECUTION OF CERTAIN AGREEMENTS WITH RESPECT TO SAID BONDS; PROVIDING FOR THE PAYMENT AND SECURITY OF SAID BONDS; ADDING A UNIVERSITY PROJECT TO THE UNIVERSITY SYSTEM; AND AUTHORIZING THE REFUNDING OF CERTAIN OUTSTANDING BONDS.

Be it resolved by the Board of Regents of the University of Hawaii (the "Board") as follows:

ARTICLE I

DEFINITIONS AND STATUTORY AUTHORITY

101. Supplemental Resolution; Authority. Unless the context shall clearly indicate some other meaning, the terms used in this Seventh Supplemental Resolution (including, without limitation, the next paragraph hereof) which are defined in the resolution adopted by the Board on November 16, 2001 entitled "A RESOLUTION CREATING AND ESTABLISHING A NETWORK CONSISTING OF A UNIVERSITY SYSTEM, INCLUDING CERTAIN UNIVERSITY PROJECTS, AND UNIVERSITY PURPOSES, OF THE BOARD OF REGENTS, UNIVERSITY OF HAWAII; CREATING AND ESTABLISHING AN ISSUE OF REVENUE BONDS OF THE BOARD OF REGENTS, UNIVERSITY OF HAWAII, AND PROVIDING FOR THE SECURITY FOR AND PAYMENT OF SAID BONDS AND LIMITING SUCH PAYMENT TO THE REVENUES OF SAID NETWORK; SETTING FORTH THE TERMS AND CONDITIONS FOR THE ISSUANCE OF BONDS; SETTING FORTH THE TERMS AND CONDITIONS FOR THE ISSUANCE OF ADDITIONAL SERIES OF SAID BONDS; PROVIDING FOR THE RIGHTS OF THE HOLDERS OF SAID BONDS; AND MAKING CERTAIN OTHER COVENANTS AND AGREEMENTS IN CONNECTION WITH THE FOREGOING", as amended and supplemented (said resolution and, unless the context shall clearly indicate otherwise, all amendments and supplements thereto being defined therein as the "Resolution"), shall have the meanings given to them in the Resolution.

Unless the context shall clearly indicate some other meaning, the following terms shall, for all purposes of the Resolution and of any Supplemental Resolution (including for all purposes of this Seventh Supplemental Resolution) and for all purposes of any certificate, opinion, instrument or other document therein or herein mentioned, have the following meanings, with the following definitions to be equally applicable to both the singular and plural forms of such terms and *vice versa*:

"Certificate of Determination" means a certificate of a Designated Financial Officer authorizing the issuance of Bonds as provided in Section 303 hereof and/or fixing the terms, conditions and other details of Bonds in accordance with the delegation of powers to do so under the Resolution and hereunder.

"Designated Financial Officer" means the Designated Financial Officer of the Board specified in Section 303 hereof.

"Master University Bond Resolution" means the resolution adopted by the Board on May 17, 2002 entitled "A RESOLUTION CREATING AND ESTABLISHING AN ISSUE OF REVENUE BONDS OF THE BOARD OF REGENTS OF THE UNIVERSITY OF HAWAII, AND PROVIDING FOR THE SECURITY FOR AND PAYMENT OF SAID BONDS AND LIMITING SUCH PAYMENT TO MONEYS DERIVED FROM THE OWNERSHIP AND OPERATION OF THE UNIVERSITY OF HAWAII AND CERTAIN OTHER MONEYS MADE AVAILABLE TO THE UNIVERSITY OTHER THAN MONEYS HERETOFORE PLEDGED TO OTHER OBLIGATIONS OF THE BOARD; SETTING FORTH THE TERMS AND CONDITIONS FOR THE ISSUANCE OF SAID BONDS; PROVIDING FOR THE RIGHTS OF THE HOLDERS OF SAID BONDS; AND MAKING CERTAIN OTHER COVENANTS AND AGREEMENTS IN CONNECTION WITH THE FOREGOING," as amended from time to time in accordance to its terms.

"Refunded Bonds" means, collectively, the Refunded Series 2006A Bonds, the Refunded Series 2009A Bonds and the Refunded 2006A University Bonds.

"Refunded Series 2006A Bonds" means the Board of Regents of the University of Hawaii, University Revenue Bonds, Series 2006A.

"Refunded Series 2009A Bonds" means the Board of Regents of the University of Hawaii, University Revenue Bonds, Series 2009A.

"Refunded 2006A University Bonds" means the Board of Regents of the University of Hawaii, University Bonds Refunding Series 2006A.

"**Regular Record Date**" means, with respect to the Series 2018 Bonds, the fifteenth (15th) day (whether or not a business day) preceding each interest payment date.

"**Resolution**" has the meaning given to such term in Section 101 hereof.

"**Securities Depository**" means, with respect to the Series 2018 Bonds, the Securities Depository appointed pursuant to Section 305(b) hereof, or any substitute Securities Depository, or any successor to any of them.

"**Series 2018 Bonds**" means the Board's University Revenue Bonds, Series 2018, authorized by Article III of this Seventh Supplemental Resolution.

"**Seventh Supplemental Resolution**" means this Supplemental Resolution.

"**Tax Certificate**" means, with respect to the Tax-Exempt Series 2018 Bonds, any certificate relating to the tax status of the Tax-Exempt Series 2018 Bonds, executed by the Board and dated the date of issuance of the Tax-Exempt Series 2018 Bonds.

"Taxable Series 2018 Bonds" means those Series 2018 Bonds which do not constitute Tax-Exempt Series 2018 Bonds.

"Tax-Exempt Series 2018 Bonds" means those Series 2018 Bonds the interest on which is intended to be excluded from gross income for federal income tax purposes, as specified in a Certificate of Determination.

"2006A Supplemental University Bond Resolution" means the resolution adopted by the Board on September 21, 2006 entitled "A SUPPLEMENTAL RESOLUTION AUTHORIZING THE ISSUANCE AND SALE OF ONE OR MORE SERIES OF BOARD OF REGENTS OF THE UNIVERSITY OF HAWAII, UNIVERSITY BONDS, REFUNDING SERIES FROM TIME TO TIME AND IN AN AGGREGATE PRINCIPAL AMOUNT SUFFICIENT TO PROVIDE FOR THE REFUNDING OF ALL OR A PORTION OF THE OUTSTANDING UNIVERSITY BONDS; AUTHORIZING THE PLEDGE OF CERTAIN AUXILIARY MONEYS AS SUPPLEMENTAL SECURITY FOR THE AFORESAID SERIES OF BONDS; AUTHORIZING THE EXECUTION OF CERTAIN AGREEMENTS WITH RESPECT TO SAID BONDS; AND PROVIDING FOR THE PAYMENT AND SECURITY OF SAID BONDS," as amended from time to time in accordance to its terms.

"University Bond Available Moneys" has the meaning ascribed to such term in the Master University Bond Resolution.

"University Bond Auxiliary Moneys" has the meaning ascribed to such term in the 2006A Supplemental University Bond Resolution.

102. Authority for this Seventh Supplemental Resolution. This Seventh Supplemental Resolution is adopted pursuant to the provisions of Sections 2.03, 2.04 and 2.05 of the Resolution.

ARTICLE II

ADDITION TO UNIVERSITY SYSTEM

201. Pursuant to clause (10) of Section 2.01 of the Resolution, the Board hereby elects to include in the University System, as a University Project, Phase 2 of the Sinclair Library Basement Renovation, a major repair and renovation project for which the University may apply or use funding approved by the Legislature of the State of Hawaii (the "State Legislature") in Act 124, Session Laws of Hawaii 2016, Item G95.01, along with any other University Project or Projects subsequently approved by the Board and the State Legislature and specified in a Certificate of Determination.

ARTICLE III

AUTHORIZATION OF SERIES 2018 BONDS

301. Principal Amount, Designation and Series. Pursuant to the provisions of the Resolution, one or more series of Bonds entitled to the benefit, protection and security of such provisions are hereby authorized in an aggregate principal amount not to exceed $115,000,000. Such Bonds shall be designated as and shall be distinguished from the Bonds of all other series by the title "University Revenue Bonds, Series 2018," with such additional letter designations for each series as shall be specified in a Certificate of Determination.

302. Purpose. (a) The Series 2018 Bonds are issued for the purpose of (1) financing or refinancing the costs of University Projects, including Phase 2 of the Sinclair Library Basement Renovation and any other project or projects selected by the Designated

Financial Officer in accordance with Section 201 hereof (collectively, the "Project"), and (2) refunding all or a portion of the Refunded Bonds.

(b) The proceeds of the Series 2018 Bonds shall be deposited and applied in accordance with a Certificate of Determination.

(c) The Project is hereby found, determined and declared to constitute and be a "University Project" within the meaning of the quoted words as used in the Resolution.

303. Delegation of Authority. (a) The Vice President for Budget and Finance/Chief Financial Officer of the University of Hawaii is hereby appointed as the Designated Financial Officer with respect to the Series 2018 Bonds.

(b) There is hereby delegated to any Designated Financial Officer of the Board, subject to the limitations contained herein, the power to determine and effectuate the following with respect to the Series 2018 Bonds:

(1) the aggregate principal amount of the Series 2018 Bonds to be issued; provided that such aggregate principal amount shall not exceed $115,000,000;

(2) number, designation and aggregate principal amount of each series of the Series 2018 Bonds, the dated date or dates, maturity date or dates and principal amount of each maturity of the Series 2018 Bonds, the initial interest payment date or dates of the Series 2018 Bonds, and the date or dates from which the Series 2018 Bonds shall bear interest; provided that the final maturity date of the Series 2018 Bonds shall not be later than October 1, 2047;

(3) which Series 2018 Bonds will constitute Tax-Exempt Series 2018 Bonds and which Series 2018 Bonds will constitute Taxable Series 2018 Bonds;

(4) the interest rate or rates of the Series 2018 Bonds, and the basis on which such rates shall be calculated, provided, however, that the interest rate or rates to be borne by any Series 2018 Bonds shall not exceed five percent (5.0%) per annum in the case of Tax-Exempt Series 2018 Bonds or six percent (6.0%) in the case of the Taxable Series 2018 Bonds;

(5) the specification of the University Projects to be financed from, and the application of, the proceeds of the Series 2018 Bonds;

(6) the specification of which of the Board of Regents of the University of Hawaii, University Revenue Bonds, Series 2006A, University Bonds Refunding Series 2006A and University Revenue Bonds, Series 2009A shall be refunded and the terms relating thereto;

(7) the redemption provisions of the Series 2018 Bonds;

(8) the numbering or other identification of the Series 2018 Bonds;

(9) the definitive form of the Series 2018 Bonds, and form of assignment thereon;

(10) the establishment of such funds, accounts and subaccounts as required by the Resolution and he deems necessary;

(11) matters, if any, contemplated by Section 304 hereof relating to insurance;

(12) appointment of a financial institution to serve as escrow agent;

(13) the preparation of one or more Preliminary Official Statements and final Official Statements and authorization of the purchasers of the Series 2018 Bonds to use and make available for use by prospective and ultimate purchasers of such Bonds such Preliminary Official Statements and final Official Statements; and

(14) any other provisions deemed advisable by a Designated Financial Officer of the Board and not materially in conflict with the provisions of this Seventh Supplemental Resolution or of the Resolution.

A Designated Financial Officer of the Board shall execute one or more certificates evidencing determinations or other actions taken pursuant to the authority granted herein, executed copies of which, or copies of which, certified by a Designated Financial Officer, shall be filed in the official records of the Board. Each such certificate shall be deemed a Certificate of Determination and shall be conclusive evidence of the action or determination of such officer as to the matters stated therein. The provisions of each Certificate of Determination shall be deemed to be incorporated in and be a part of this Seventh Supplemental Resolution.

(c) There is hereby delegated to any Designated Financial Officer of the Board, subject to the limitations contained herein, the power to enter into the following agreements and/or execute the following documents on behalf of the Board with respect to the Series 2018 Bonds in such forms as he deems appropriate:

(1) a contract or contracts of purchase with Morgan Stanley & Co. LLC, as representative of the purchasers, with a purchase price of not less than ninety-five percent (95%) of the principal amount of the Series 2018 Bonds;

(2) insurance commitments with respect to insurance, if any;

(3) the Tax Certificate;

(4) a paying agent agreement with any paying agent other than the Director of Finance;

(5) a continuing disclosure undertaking with respect to the Series 2018 Bonds;

(6) one or more escrow agreements and any other document or instrument necessary or desirable for the refunding and redemption of the Refunded Bonds; and

(7) such other documents and agreements as shall be necessary or proper related to the Series 2018 Bonds and the delivery thereof.

The execution of any agreement, certificate or document executed pursuant to this Section 303(c) shall be conclusive evidence of the determination of the Designated Financial Officer. Any agreements, certificates and documents executed pursuant to this Section 303 are hereby ratified by the Board.

304. Authorization of Bond Insurance. In connection with the issuance of the Series 2018 Bonds, the Board authorizes the Designated Financial Officer to purchase insurance upon such terms and conditions as he deems proper. The obtaining of insurance, and the payment of the premium therefor and any bond rating fee required to be paid by the Board relating thereto, are hereby authorized and approved. The Certificate of Determination may include any provisions necessary or desirable to satisfy conditions imposed by the Insurer on the issuance of any policy of insurance.

305. Designation of the Series 2018 Bonds as Book Entry Bonds; Appointment of Securities Depository for the Series 2018 Bonds. (a) The Series 2018 Bonds are hereby authorized to be and shall be issued in book-entry form within the meaning of and subject to Section 3.09 of the Resolution.

(b) The Depository Trust Company ("DTC") is hereby appointed as the initial Securities Depository for the Series 2018 Bonds.

(c) The Series 2018 Bonds shall be initially issued in the form of a separate single, fully registered Bond in the amount of each separate stated maturity of the Series 2018 Bonds. So long as DTC serves as Securities Depository for the Series 2018 Bonds, the registered holder of all Series 2018 Bonds shall be, and each of the Series 2018 Bonds shall be registered in the name of, DTC or its nominee. So long as any Series 2018 Bond is registered in the name of DTC in its capacity as Securities Depository for the Series 2018 Bonds, or its nominee, all payments with respect to the principal or redemption price of, and interest on, such Series 2018 Bond and all notices with respect to such Series 2018 Bond shall be made or given, as the case may be, to DTC as may be agreed to by the Board and DTC.

Transfers of principal, the redemption price, and interest payments to DTC participants will be the responsibility of DTC. Transfers of such payments to beneficial owners of Series 2018 Bonds by DTC participants will be the responsibility of such participants, indirect participants and other nominees of such beneficial owners. Payments by the DTC participants to beneficial owners will be governed by standing instructions and customary practices, as is now the case with municipal securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such DTC participant and not of DTC or the Board, subject to any statutory and regulatory requirements as may be in effect from time to time.

(d) The Board hereby establishes the Regular Record Date for the Series 2018 Bonds for purposes of notification of and consents from participants of DTC in connection with any amendment or proposed amendment of the Resolution or otherwise.

(e) A Designated Financial Officer of the Board is hereby authorized to enter into such representations and agreements as he deems necessary and appropriate in furtherance of the provisions of this Section.

(f) (1) Upon the discontinuance of the services of DTC as Securities Depository for the Series 2018 Bonds, the Board may within 90 days thereafter appoint a substitute securities depository which, in the opinion of the Board, is willing and able to undertake the functions of Securities Depository under the Resolution upon reasonable and customary terms. If no such successor can be found within such period, the Series 2018 Bonds,

as appropriate, shall no longer be restricted to being registered in the Bond Registry in the name of a Securities Depository.

(2) In the event that the Series 2018 Bonds shall be no longer restricted to being registered in the Bond Registry in the name of a Securities Depository as provided in paragraph (1) of this subsection (f), (i) the Board shall execute and the Paying Agent shall authenticate and deliver, upon presentation and surrender of the Series 2018 Bonds, Bond certificates as requested by the Securities Depository therefor of like aggregate principal amount, maturity and interest rate, in authorized denominations, to the identifiable beneficial owners in replacement of such beneficial owners' beneficial ownership interests in the Series 2018 Bonds and (ii) the Series 2018 Bonds shall no longer be restricted to being registered in the Bond Registry in the name of a Securities Depository.

306. Place of Payment and Paying Agent. (a) The Board hereby authorizes the Designated Financial Officer to appoint an initial Paying Agent for the Series 2018 Bonds. The Board reserves the right to appoint any other or additional Paying Agents as permitted by the Resolution. Except as provided in the Resolution and Section 305 hereof, the principal and redemption price of the Series 2018 Bonds shall be payable at the principal corporate trust office or other designated office of the Paying Agent. Except as provided in Section 305 hereof, the interest on Series 2018 Bonds shall be paid by check or draft payable to the registered owner and mailed by first class mail, postage prepaid, to the address of such Person as it shall appear on the Bond Registry kept at the office of the Paying Agent.

(b) Notwithstanding Sections 306(a) or 307 hereof, a Holder of $1,000,000 or more in aggregate principal amount of Series 2018 Bonds, upon the written request of such Holder to the Paying Agent, received on or prior to a Regular Record Date, specifying the account or accounts to which such payment shall be made, payment of interest when due shall be made by wire transfer of immediately available funds. Any such direction or request shall remain in effect until revoked or revised by such Holder by an instrument in writing delivered to the Paying Agent.

307. Payment of Interest on Series 2018 Bonds; Interest Rights Preserved. Interest on any Series 2018 Bonds which is payable, and is punctually paid or duly provided for, on any interest payment date shall be paid to the Person in whose name that Series 2018 Bond is registered at the close of business on the Regular Record Date.

Subject to the foregoing provisions of this Section, each Series 2018 Bond delivered under the Resolution upon transfer of or in exchange for or in lieu of any other Series 2018 Bond shall carry the rights to interest accrued and unpaid, and to accrue, which were carried by such other Series 2018 Bond.

308. Regulations With Respect to Exchanges and Transfers; Offices for Servicing Bonds. In all cases in which the privilege of exchanging Series 2018 Bonds or transferring registered Series 2018 Bonds is exercised, Section 3.04 of the Resolution shall control. Neither the Board nor the Paying Agent shall be required to (a) transfer or exchange any Series 2018 Bonds between a Regular Record Date and next succeeding interest payment date for the Series 2018 Bonds, or for a period of 15 days next preceding any selection of Series 2018 Bonds to be redeemed or thereafter until after the first mailing of any notice of redemption, or (b) transfer, exchange or register any Series 2018 Bonds called for redemption. The Board hereby

appoints the Paying Agent as the registrar to maintain an agency for the registration, transfer or exchange of Series 2018 Bonds and for the service upon the Board of notices, demands and other documents, and the Paying Agent shall continuously maintain or make arrangements to provide such services.

309. Tax Covenant. (a) In order to maintain the exclusion of interest on the Tax-Exempt Series 2018 Bonds from gross income for federal income tax purposes, the Board shall comply with the provisions of the Code applicable to such Tax-Exempt Series 2018 Bonds necessary to maintain such exclusion, including, without limitation, the provisions of the Code which apply to the uses of the proceeds of the Tax-Exempt Series 2018 Bonds, including the yield and other limits within which proceeds of the Tax-Exempt Series 2018 Bonds are to be invested, and which, in certain circumstances, may require the rebate of certain earnings on such amounts to the Department of the Treasury of the United States of America in accordance with Section 148(f) of the Code. In furtherance of the foregoing, the Board shall comply with the Tax Certificate including all attachments thereto.

(b) The Board shall not use any part of the proceeds of the Tax-Exempt Series 2018 Bonds in a manner which would cause the Tax-Exempt Series 2018 Bonds to be "private activity bonds" within the meaning of Section 141(a) of the Code.

(c) The Board shall not take any action or fail to take any action which would cause the Tax-Exempt Series 2018 Bonds to be "arbitrage bonds" within the meaning of Section 148(a) of the Code; nor shall any part of the proceeds of the Tax-Exempt Series 2018 Bonds or any other funds of the Board be used directly or indirectly to acquire any securities or obligations the acquisition of which would cause any of the Tax-Exempt Series 2018 Bonds to be an "arbitrage bond" within the meaning of Section 148(a) of the Code.

(d) Notwithstanding any other provision of this Seventh Supplemental Resolution to the contrary, the covenants contained in this Section 309, including the obligation to comply with all other requirements of the Tax Certificate, shall survive the defeasance or payment in full of the Tax-Exempt Series 2018 Bonds.

ARTICLE IV

FINDINGS AND DETERMINATIONS; EFFECTIVE DATE; OTHER MATTERS

401. Findings and Determinations. The Board hereby finds, determines and declares: (a) except as amended by the Second, Third, Fourth, Fifth and Sixth Supplemental Resolutions, the Resolution has not been amended or rescinded since the effective date thereof; (b) the only bonds, notes or other evidences of indebtedness payable from and secured by the Revenues which have heretofore been issued since the effectiveness of the Resolution are the Board of Regents of the University of Hawaii, University Revenue Bonds, Series 2001A, the Board of Regents of the University of Hawaii, University Revenue Bonds, Refunding Series 2001B, the Board of Regents of the University of Hawaii, University Revenue Bonds, Series 2006A, the Board of Regents of the University of Hawaii, University Revenue Bonds, Series 2009A, the Board of Regents of the University of Hawaii, University Revenue Bonds, Series 2010A-1, 2010A-2, 2010B-1 and 2010B-2 (collectively, the "Series 2010 Bonds"), the Board of Regents of the University of Hawaii, University Revenue Bonds, Series 2012A (R) and the Board of Regents of the University of Hawaii, University Revenue Bonds, Series 2015A, 2015B

(R), 2015C (R), 2015D (R) and 2015E (R) (collectively, the "Series 2015 Bonds") heretofore issued under the Resolution; (c) the Series 2018 Bonds are being issued under the authorization of Sections 2.03, 2.04 and 2.05 of the Resolution; and (d) upon adoption of this Seventh Supplemental Resolution and the filing thereof in the office of the Director of Finance, all provisions and conditions of Sections 2.03, 2.04 and 2.05 of the Resolution and of other applicable laws shall have been complied with in the adoption of this Seventh Supplemental Resolution and in the authorization and issuance of the Series 2018 Bonds.

The Board hereby further finds, determines and declares that this Seventh Supplemental Resolution (1) supplements the Resolution; (2) constitutes and is a "Supplemental Resolution" within the meaning of the quoted words as defined and used in the Resolution; and (3) is adopted pursuant to and under the authority of the Resolution.

The Board hereby further finds, determines and declares that the Series 2018 Bonds are to be issued under the Resolution and to constitute and be "Bonds" within the meaning of the quoted word as defined and used in the Resolution. As more fully set forth in the Resolution, the Series 2018 Bonds: (i) shall be entitled to the benefits, security and protection of the Resolution, equally and ratably with one another and with any other Bonds hereafter issued thereunder; (ii) shall be payable as provided in the Resolution from Revenues on a parity with one another and with all Bonds hereafter issued under the Resolution, except as provided in the Fourth Supplemental Resolution; (iii) shall, except as provided in the Fourth Supplemental Resolution, be equally and ratably secured under the Resolution with one another and with all Bonds hereafter issued thereunder, without priority by reason of series, number, date of adoption of this Seventh Supplemental Resolution providing for the issuance thereof, date of Bonds, date of sale, date of execution, date of issuance, date of delivery, or otherwise, by the liens, pledges, charges and assignments created by the Resolution.

The Board hereby further finds, determines and declares: (a) except for the Series 2006A Bonds, the Series 2009A Bonds, the Series 2010 Bonds, the Series 2012A (R) Bonds and the Series 2015 Bonds referred to in the first paragraph of this section, there are not outstanding any bonds, notes or other evidences of indebtedness payable from and secured by a lien on or pledge or charge upon Revenues; (b) the Revenues are not encumbered by any lien charge thereon or pledge thereof; and (c) there does not exist an "Event of Default" as defined in Section 9.01 of the Resolution, nor does there exist any condition which, after the passage of time, would constitute, under such section, an "Event of Default".

402. Additional Pledge. In addition to the pledge of all other Revenues to all of the Bonds, there are hereby pledged to payment of Debt Service on (1) all of the Bonds, University Bond Available Moneys, and (2) any Series 2018 Bonds applied solely to refund the Refunded University 2006A University Bonds and associated costs, University Bond Auxiliary Moneys; provided, however, that so long as any bonds of the Board are outstanding under the Master University Bond Resolution, University Bond Available Moneys and University Bond Auxiliary Moneys shall be subject and subordinate to the lien of such moneys imposed by the Master University Bond Resolution.

403. Laws Governing; Severability. This Seventh Supplemental Resolution shall be construed and enforced in accordance with the Constitution and laws of the State of Hawaii.

If any provision of this Seventh Supplemental Resolution shall be held or deemed to be or shall, in fact, be inoperative or unenforceable as applied in any particular case in any jurisdiction or jurisdictions or in all jurisdictions, or in all cases because it conflicts with any other provision or provisions hereof or any constitution or statute or rule or public policy, or for any other reason, such circumstances shall not have the effect of rendering the provision in question inoperative or unenforceable in any other case or circumstance, or of rendering any other provision or provisions herein contained invalid, inoperative, or unenforceable to any extent whatever.

The invalidity of any one or more phrases, sentences, clauses, paragraphs or sections in this Seventh Supplemental Resolution shall not affect the remaining portions of this Seventh Supplemental Resolution or any part thereof or of the Series 2018 Bonds issued hereunder.

404. Section Headings; Table of Contents. The headings or titles of the several sections hereof, and any table of contents appended hereto or to copies hereof, shall be solely for convenience of reference and shall not affect the meaning or construction, interpretation or effect of this Seventh Supplemental Resolution.

405. Effective Date. This Seventh Supplemental Resolution shall take effect upon adoption.

New Money Financing Results

$5.0 Million of Project Proceeds

- We assume that the new money bonds are structured as tax-exempt bonds with level debt service and principal amortizing from 2018 to 2037 (20-year amortization)
  - No capitalized interest
- In the current market, new money bonds with a final maturity in 2037 would result in a borrowing cost of 3.12%
  - Average annual debt service is estimated to be $338,458 for $5.0 million of proceeds

Summary of New Money Financing Results
Current Market Conditions

Project Proceeds	$5,000,000
Par Amount	$4,240,000
Amortization	2018-2037
All-In TIC	3.12%
Average Annual Debt Service	$338,458

- The University has $16.0 million of outstanding 2006A University Bonds (Medical School) and $17.5 million of outstanding 2006A University Revenue Bonds that are currently callable
- The University also has $76.4 million of outstanding 2009A University Revenue Bonds that are callable on or after October 1, 2019
  - These bonds can be advance refunded for significant savings in the current market
- Assuming the refunding bonds are issued as 75% tax-exempt and 25% taxable:
  - A current refunding of the 2006A University Bonds and 2006A University Revenue Bonds generates $1.6 million of PV savings, or 4.76% of refunded par
  - An advance refunding of the 2009A University Revenue Bonds generates $12.6 million of PV savings, or 16.55% of refunded par
- Additional structuring assumptions include:
  - Uniform savings by refunded series
  - Frontloading of taxable bonds (i.e., amortizing before tax-exempt bonds)

Morgan Stanley

Tax-Exempt and Taxable Refunding Analysis (75% Tax-Exempt / 25% Taxable)

2006A University Bonds (Medical School), 2006A University Revenue Bonds, & 2009A University Revenue Bonds

Summary of Financing Results

Current Market Conditions

	2006A University Bonds (Medical School)	2006A University Revenue Bonds	Total
Refunded Bonds			
Par Amount	$16,045,000	$17,490,000	$33,535,000
Average Coupon	3.50%	3.25%	3.37%
Average Life	10.10 Years	11.34 Years	10.74 Years
Refunding Bonds			
Amortization	2027-2028	2027-2030	2027-2030
Par Amount	$14,070,000	$15,325,000	$29,395,000
Average Life	10.31 Years	11.35 Years	10.85 Years
All-In TIC	2.73%	2.98%	2.86%
Cashflow Savings	$1,361,502	$826,232	$2,187,734
Average Annual Cashflow Savings	$123,773	$63,556	$168,287
Net PV Savings ($) at Arbitrage Yield	$1,112,635	$483,999	$1,596,633
PV Savings (% of Refunded Par)	6.93%	2.77%	4.76%

Summary of Financing Results

Current Market Conditions

	2009A Refunding
Refunded Bonds	
Par Amount	$76,400,000
Average Coupon	5.56%
Average Life	12.8 Years
Refunding Bonds	
Amortization	2018-2038
Par Amount	$72,735,000
Average Life	12.28 Years
All-In TIC	3.28%
Cashflow Savings	$16,584,168
Average Annual Cashflow Savings	$789,722
Net PV Savings ($) at Arbitrage Yield	$12,641,240
PV Savings (% of Refunded Par)	16.55%
Negative Arbitrage ($)	$1,570,590
Refunding Efficiency[1]	88.95%

[1] Refunding efficiency = PV savings / (PV savings + negative arbitrage)

DD 18551

Kalbert K. Young
Vice President for Budget and Finance
Chief Financial Officer

UNIVERSITY of HAWAI'I SYSTEM

UNIVERSITY OF HAWAII
BOARD OF REGENTS

17 OCT 26 A11:16

RECEIVED

October 25, 2017

'17 OCT 25 A10:21

UNIVERSITY OF HAWAII
PRESIDENT'S OFFICE

TO: Jan N. Sullivan
Chairperson, Board of Regents

Wayne Higaki
Chair, Committee on Budget and Finance, Board of Regents

VIA: David Lassner
President

FROM: Kalbert K. Young
Vice President for Budget and Finance/Chief Financial Officer

SUBJECT: FY 18 First Quarter Financial Report

Attached is the FY18 First Quarter Financial Report for the period ending September 30, 2017 for the University of Hawai'i System. This report is an information item for discussion at the Budget and Finance Committee meeting on November 1, 2017.

To complement this First Quarter Financial Report a slide deck presentation which summarizes a high-level analysis fo the report is also included. The Vice President for Budget and Finance is anticipated to present this as an agenda item before the committee and will be available for any questions of members.

Attachments

c: University Budget Office (w/o Attachments)
University Controller (w/o Attachments)

2444 Dole Street, Bachman Hall, Room 201
Honolulu, Hawai'i 96822
Telephone: (808) 956-8903 • Fax: (808) 956-5286

FY18 Q1
Financial Report

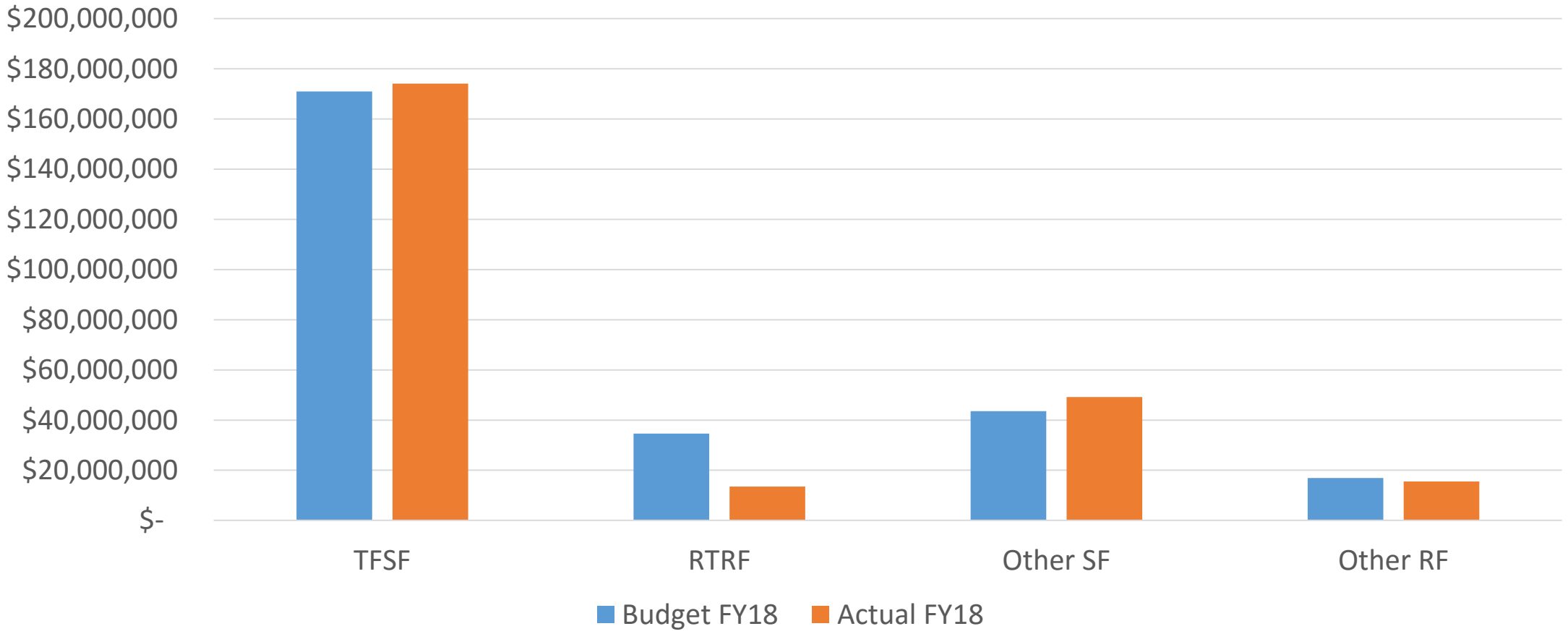
November 1, 2017

Committee on Budget and Finance

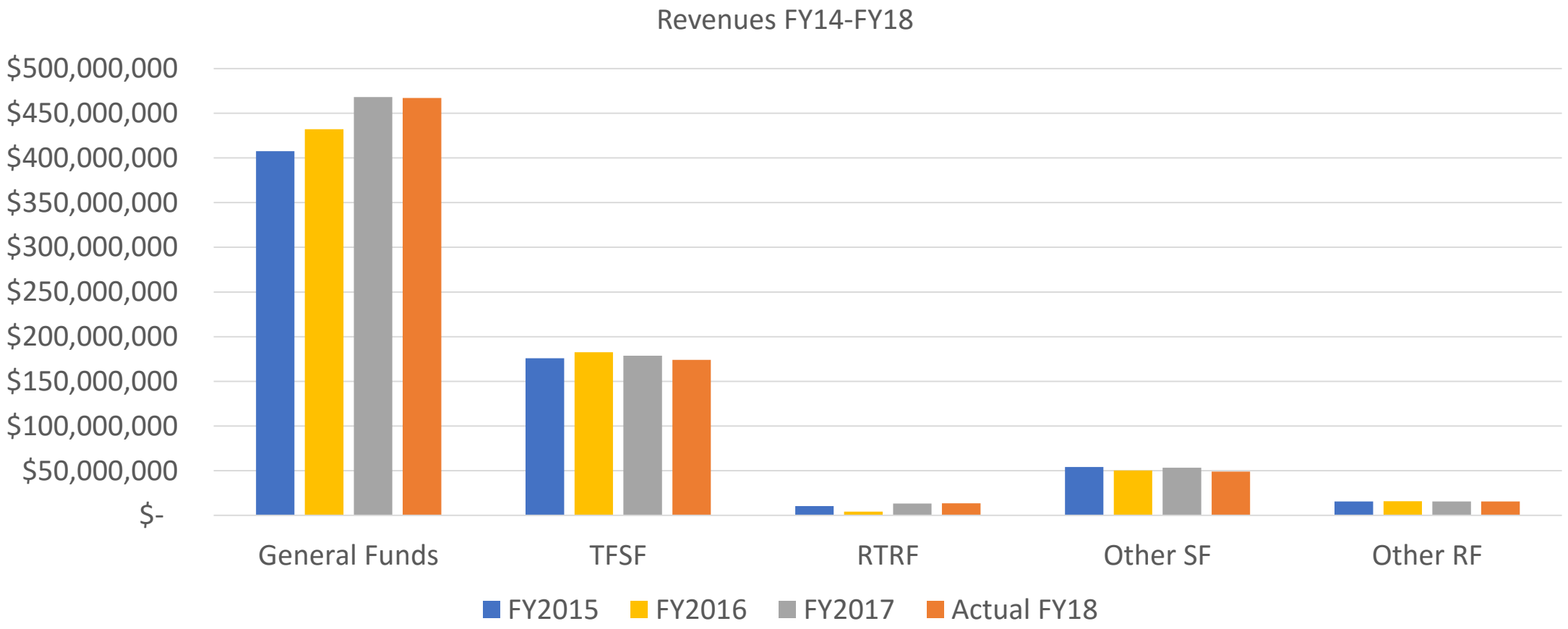
Overview

1. After the first quarter (Q1), revenues are in line with projections, with the exception of RTRF ($21.0 million variance).
   - Revenue at Systemwide Administration ($13.4 million) was not disbursed to the campuses. This disbursement will show up in Q2 report.
   - Additionally, Mānoa had budgeted its entire annual projection ($29.4 million) in Q1 rather than evenly across each quarter.
2. TFSF Revenue for Q1 is $3.2 million (1.8%) higher than projections.
3. Expenditures for Q1 are below projections for all funds (total of $18.5 million or 6.5%)

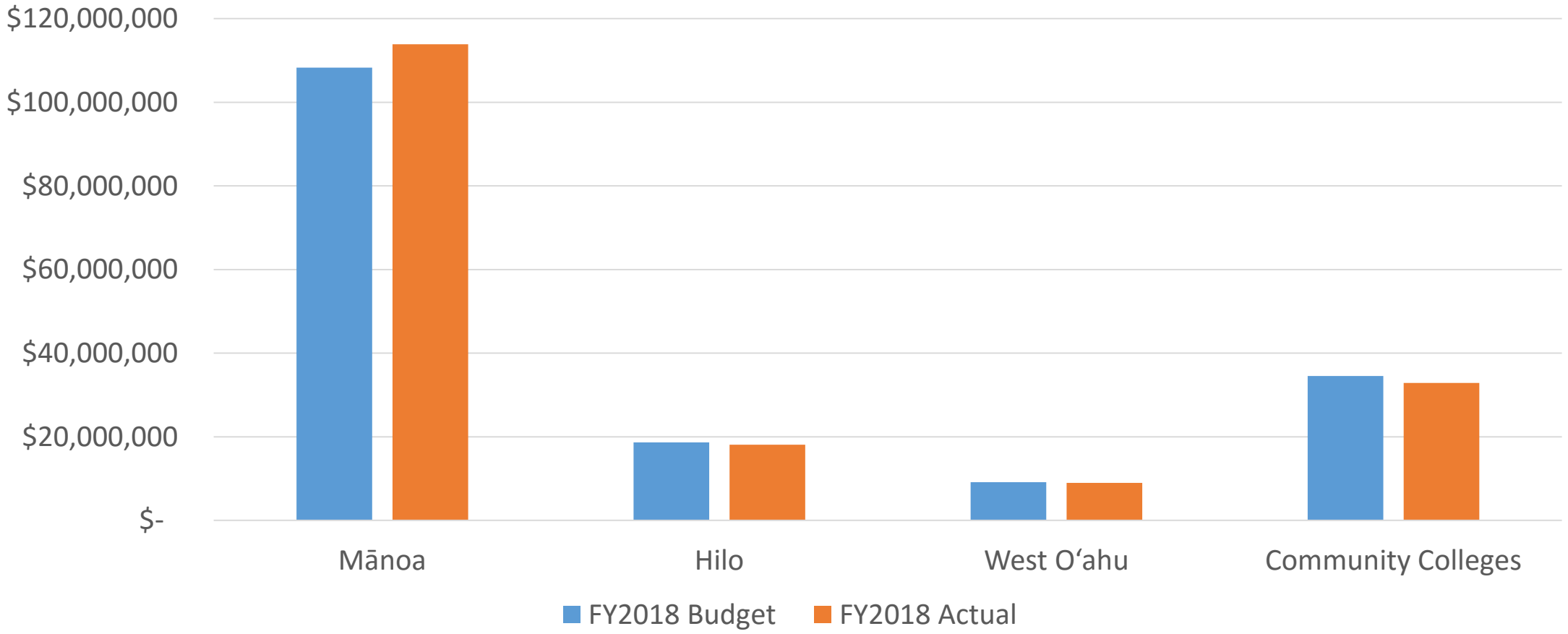
Non-General Fund Revenues (Budget vs. Actual)



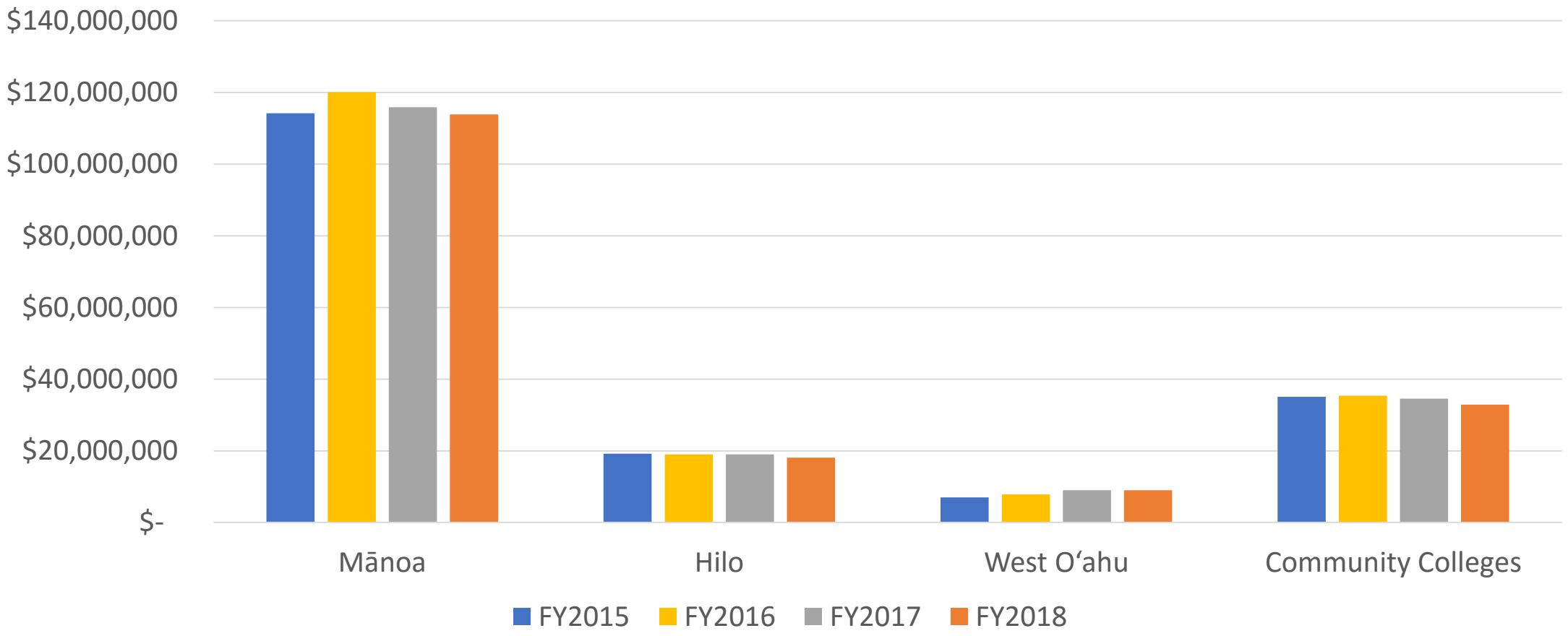
Revenues (Historic Trend)



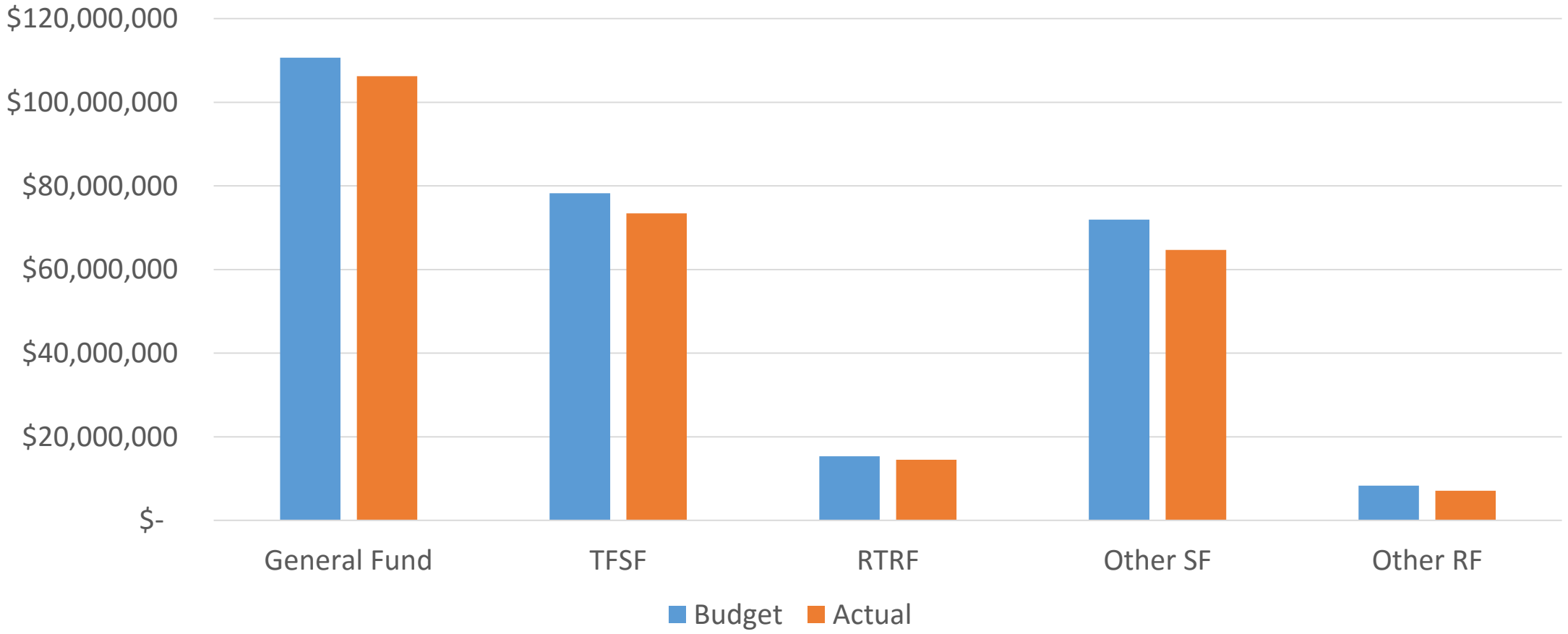
TFSF Revenue by Campus
(Budget vs. Actual)



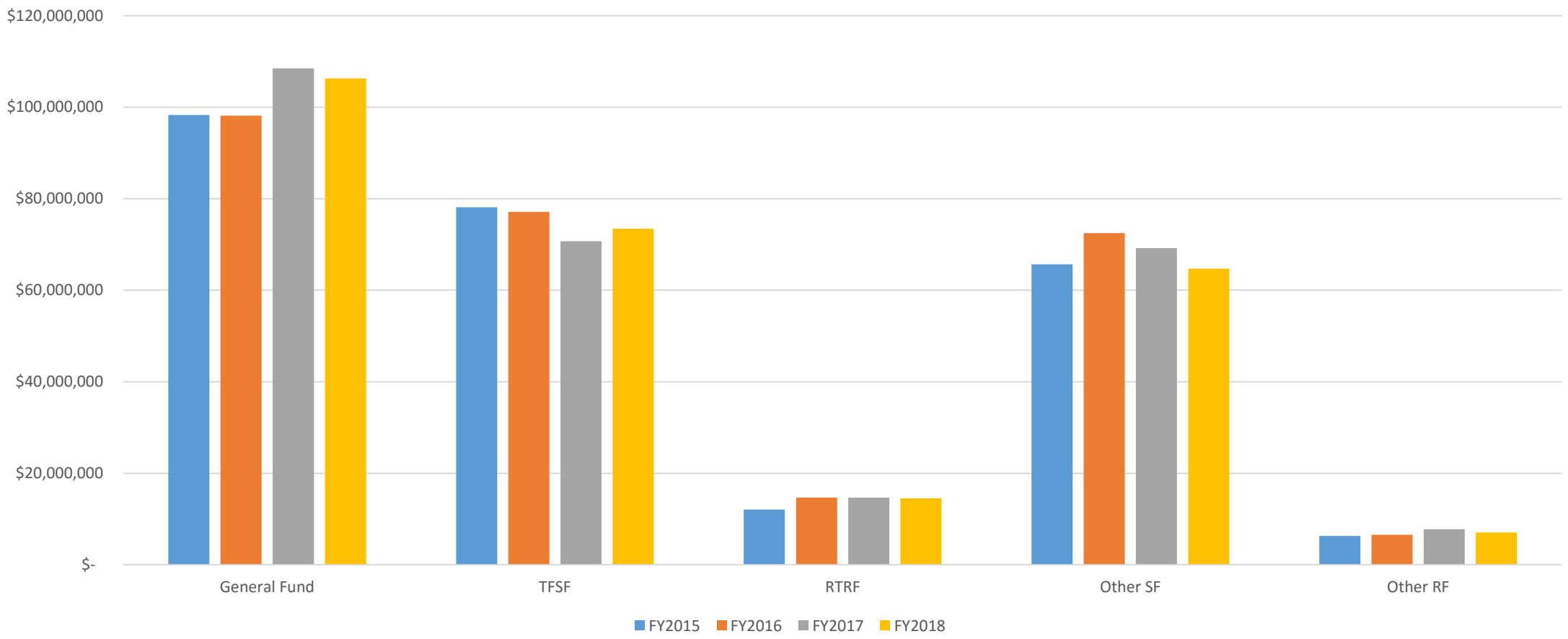
TFSF Revenue by Campus (Q1 FY15-18)



Expenditures (Budget vs. Actual)



Expenditures (Historic Trend)



Mānoa – General Fund and TFSF

1. TFSF Revenue $5.6 million (5%) above projections due to conservative projection of revenue and waivers.
2. TFSF Expenditures were also conservatively projected in anticipation of decreased revenues.
3. Transfers for UH Foundation and Cancer Center were budgeted to occur in Q1 but did not yet occur – will be recorded in future quarter
4. RTRF Revenue was not distributed from Systemwide Admin (OVPRI)
   - Several units had higher than expected transfers to cover allocations from the prior year

Mānoa – Other Special and Other Revolving Funds

5. Other SF Revenue higher than projected due to several factors:
   - Timing variances in Campus Services and Student Housing revenues
   - However, Bookstore revenues down as traditional textbook sales decline
6. Other SF Non-Personnel Expenditures lower than projected for:
   - Campus Services (timing issue);
   - Cancer Center (unrealized but will occur in future quarter); and
   - Telecomm (over-projection based on historic expenditures)
7. Other RF Non-Personnel Expenditures were lower than projected
   - Renovation Costs for University Health Services and some expenditures for Campus Services have not yet occurred but are expected in Q2

Hilo

1. TFSF Expenditures
   - Personnel expenses lower by $843k (25%) in response to lower than planned enrollment
   - Non-Personnel higher by $672k (34%) due to timing issues
   - Utilities expenses lower by $755k (58%) as a result of energy conservation
2. RTRF Expenditures reduced as a result of delay of Q1 revenue
3. Other SF Non-Personnel lower than planned as a result of cautious spending

West O‘ahu

1. TFSF revenue $170,207 (2%) lower than projection
   - TFSF expenditures are $700K (13%) lower than projected
2. Transfer in Other Special Funds was budgeted for Q1 but did not occur in time. This will be reflected in Q2 report.

Community Colleges

1. TFSF Revenue $1.7 million (5%) lower than projected due to decrease in enrollment
2. Other SF Revenue higher than projected due to fluctuations in activity level depending on course offerings and public interest

Systemwide Administration

1. General Fund Non-personnel expenditures lower than anticipated due to unrealized expenses in travel, equipment, and fee-based services.
2. TFSF Transfer variance due to timing issue with annual UH Foundation assessment to campuses. Will record in Q2 rather than Q1 as initially projected
3. RTRF Revenue was not distributed to campuses in time to make Q1 report. Distribution has already been made and will appear in Q2 report.

Conclusion

1. Aside from timing issue with RTRF, revenues are in line with projections.
2. TFSF revenues have declined in the past several years, but this decline was anticipated during FY18 budget construction.
3. Expenditures for all funds are lower than projections.

FY18 First Quarter Financial Report

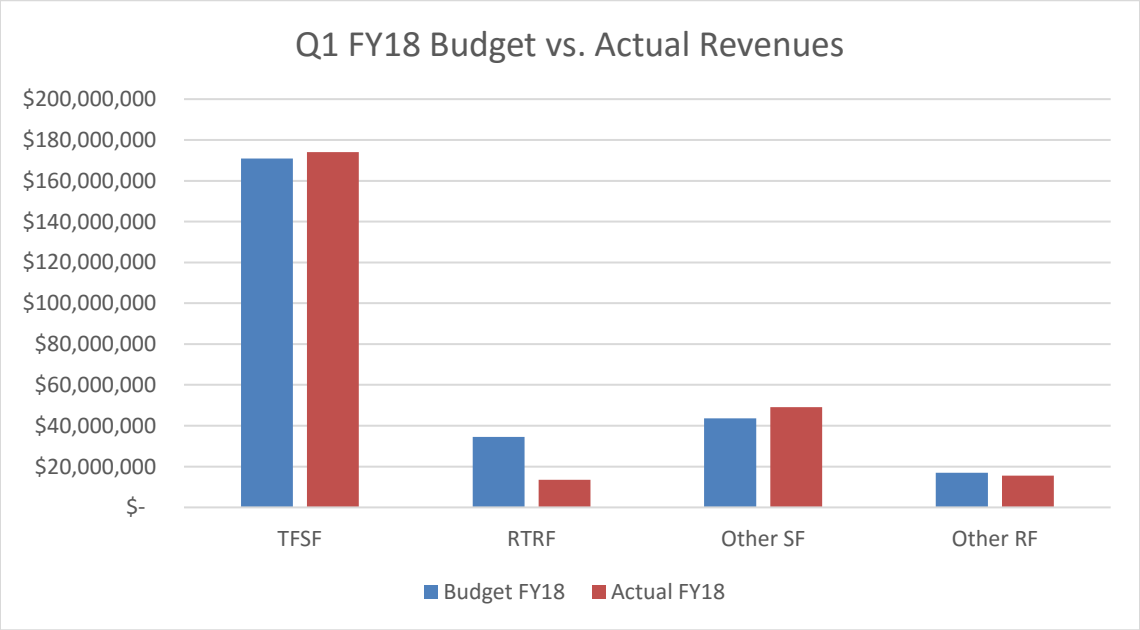
UNIVERSITY SYSTEM SUMMARY

Introduction

Through the first quarter (Q1) of Fiscal Year 2017-2018 (FY18), revenues are mostly in line with projections, with the exception of revenue for the Research and Training Revolving Fund (RTRF). Revenue from Systemwide Administration to the campuses was not disbursed by the end of Q1, although the disbursement did occur at the beginning of Q2. Additionally, Mānoa's annual projection for RTRF revenue is budgeted entirely in Q1 rather than quarterly throughout the year. The combination of these two factors explains the variance in RTRF for all of the units.

Revenues

The following chart shows revenues through Q1, comparing budgeted and actual amounts for UH's non-general funds. (The magnitude of the General Fund appropriation and the fact that virtually the entire amount is booked in the first quarter are the reasons for not including it in the graph although the relevant data is included in the table below the graph.)



	FY18 Budget	FY18 Actual	Difference	%age
General Fund	$ 468,317,755	$ 467,026,684	$ (1,291,071)	-0.3%
TFSF	$ 170,936,461	$ 174,100,760	$ 3,164,299	1.9%
RTRF	$ 34,571,955	$ 13,543,694	$ (21,028,261)	-60.8%
Other SF	$ 43,589,345	$ 49,139,805	$ 5,550,460	12.7%
Other RF	$ 16,917,336	$ 15,522,440	$ (1,394,896)	-8.2%
All Funds	**$ 734,332,852**	**$ 719,333,383**	**$ (14,999,469)**	**-2.0%**

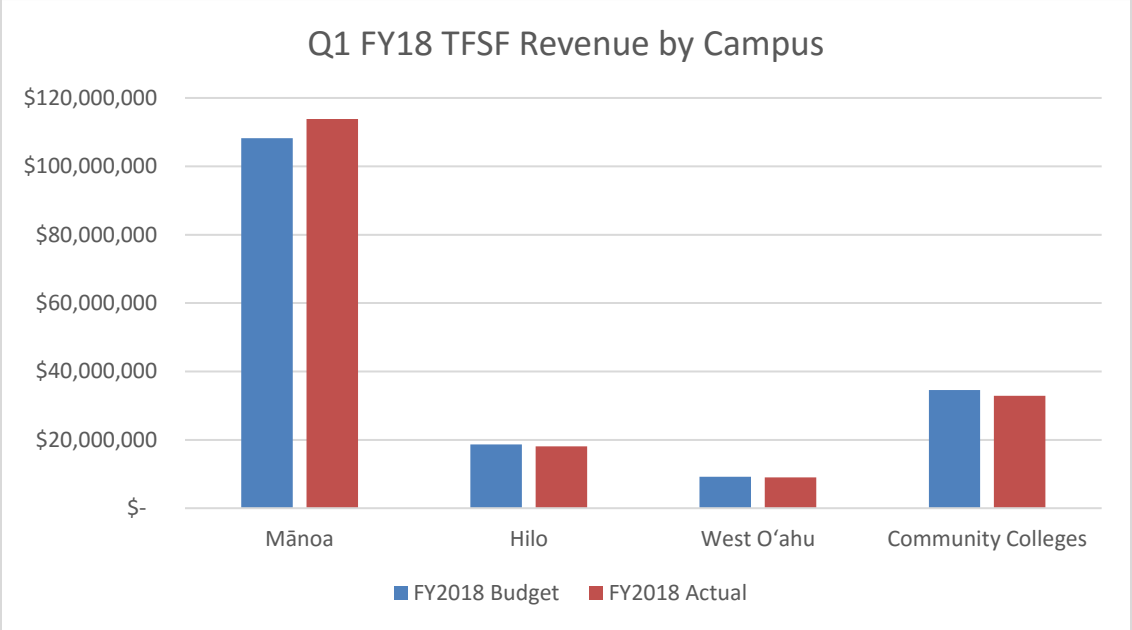
With the exception of RTRF, revenues are mostly in-line with expectations. This variance is due to two factors: Mānoa budgeted their annual projection of $29.4 million entirely in Q1 rather than evenly distributed in each quarter. Additionally, RTRF revenue for the entirety of UH was recorded at Systemwide Administration but was not disbursed to the campuses by the reporting deadline for Q1.

The revenue has since been disbursed and should be reconciled in the Q2 report. Additionally, the variance for Mānoa's RTRF revenue should decrease as the year progresses.

Aside from RTRF, General Fund allocations and revenues for Other Revolving Funds are below projections. However, TFSF and Other Special Fund revenues are above projections by a larger degree. Outside of RTRF, total revenue for UH is $6.0 million above projections.

Tuition and Fees Revenue

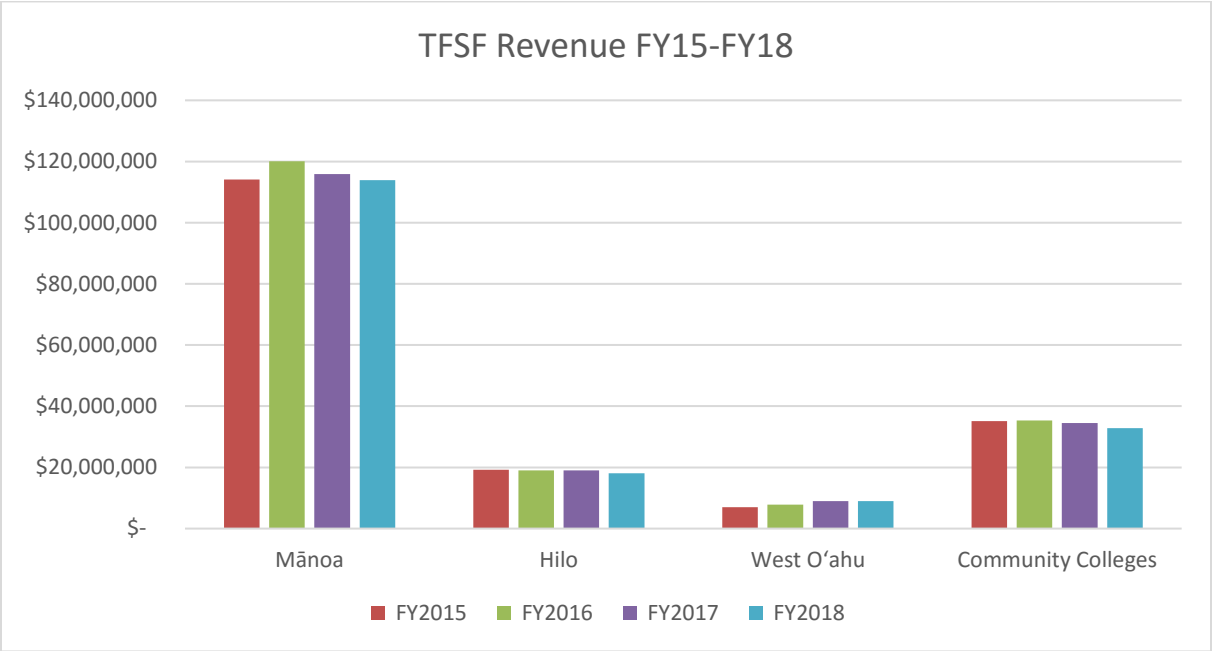
The following chart shows TFSF Revenue through Q1 by campus:



Campus	FY2018 Budget	FY2018 Actual	Difference	%age
Mānoa	$ 108,263,114	$ 113,860,734	$ 5,597,620	5.17%
Hilo	$ 18,682,701	$ 18,110,593	$ (572,108)	-3.06%
West O'ahu	$ 9,168,551	$ 8,998,344	$ (170,207)	-1.86%
Community Colleges	$ 34,556,775	$ 32,861,719	$ (1,695,056)	-4.91%
Systemwide Support	$ 265,320	$ 269,370	$ 4,050	1.53%
Total	**$ 170,936,461**	**$ 174,100,760**	**$ 3,164,299**	**1.85%**

Across all campuses, TFSF revenue is slightly (1.85%) above projections. Although overall enrollment across UH has declined 3.3% since the prior year, this decline was anticipated and accounted for in the FY18 spending plan.

The trend for TFSF revenue by campus through Q1 for the past four fiscal years is presented below:

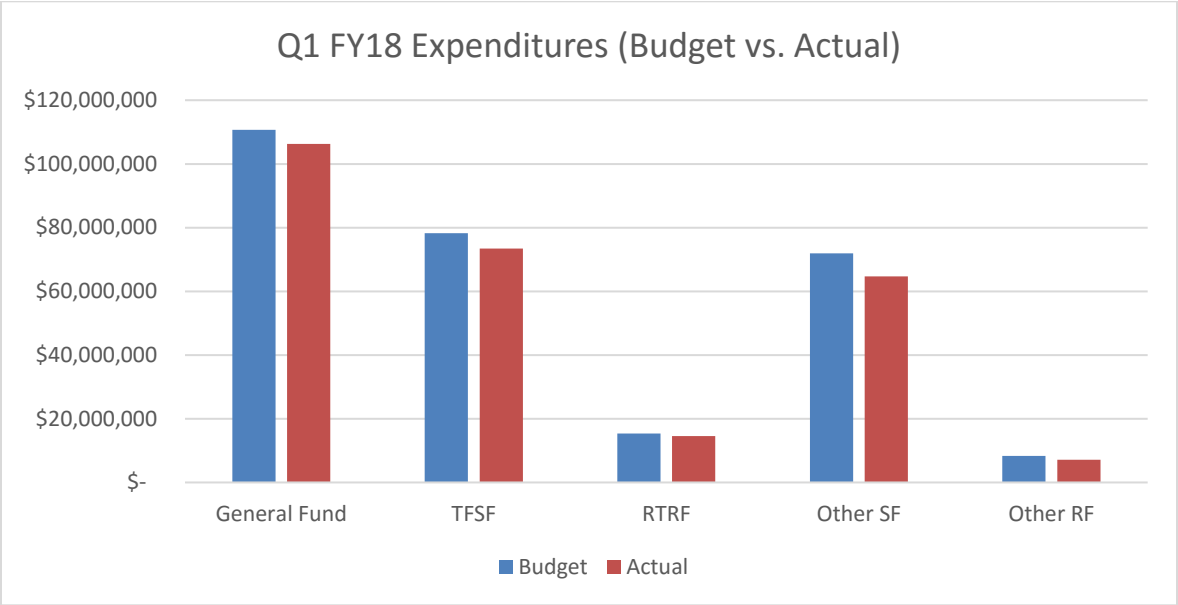


Campus	FY2015	FY2016	FY2017	FY2018
Mānoa	$ 114,159,266	$ 120,065,710	$ 115,874,952	$ 113,860,734
Hilo	$ 19,201,886	$ 19,023,434	$ 18,986,352	$ 18,110,593
West O'ahu	$ 7,001,614	$ 7,826,311	$ 8,998,776	$ 8,998,344
Community Colleges	$ 35,092,883	$ 35,385,760	$ 34,551,476	$ 32,861,719
Systemwide Support	$ 286,349	$ 287,220	$ 265,470	$ 269,370
Total	**$ 175,741,998**	**$ 182,588,435**	**$ 178,677,026**	**$ 174,100,760**

With the exception of University of Hawai'i - West O'ahu (UHWO), the trend of declining enrollment and subsequent decline of TFSF revenue in the past several years is evident and continues to be of concern. However, as evidenced in the FY18 Budget approved by the Board in August 2017, prudent fiscal policies have been implemented at the various campuses which have resulted in fund balances holding relatively steady in recent years despite the decline in revenue.

Expenditures

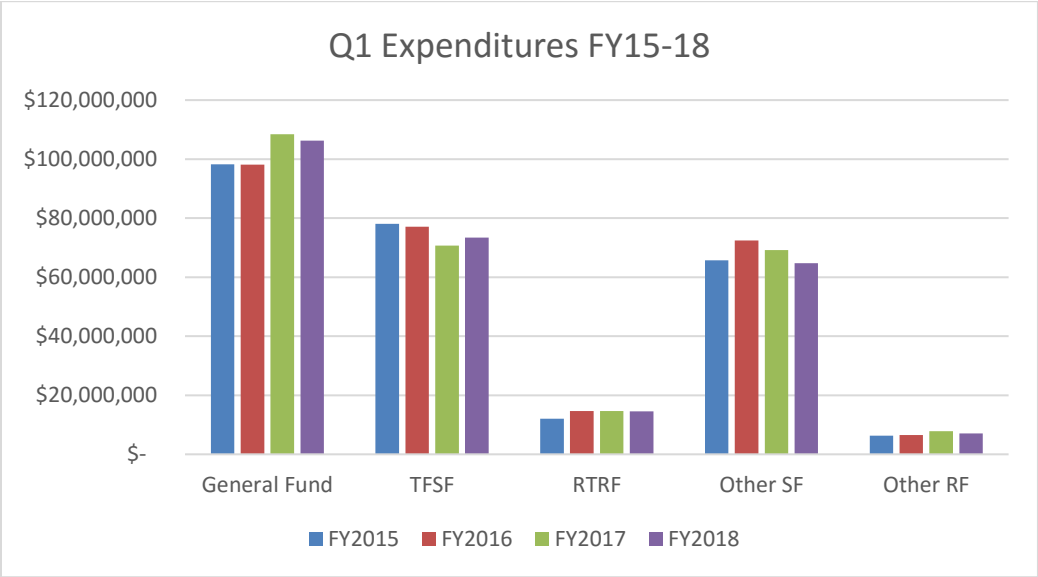
The following chart compares budgeted and actual expenditures through Q1 FY18:



Fund	Budget	Actual	Difference	%age
General Fund	$ 110,662,692	$ 106,248,823	$ (4,413,869)	-4.0%
TFSF	$ 78,235,421	$ 73,434,986	$ (4,800,435)	-6.1%
RTRF	$ 15,366,578	$ 14,534,218	$ (832,360)	-5.4%
Other SF	$ 71,913,071	$ 64,701,216	$ (7,211,855)	-10.0%
Other RF	$ 8,320,681	$ 7,087,933	$ (1,232,748)	-14.8%
Total	**$ 284,498,443**	**$ 266,007,176**	**$ (18,491,267)**	**-6.5%**

Actual expenditures for all fund categories are lower than projected expenditures for Q1 FY18. This can be attributable to generally conservative budgeting during construction of the FY18 spending plan as well as responding to revenue situation during budget execution.

Historical trends for expenditures for the various fund categories over the past four fiscal years are shown below:



Fund	FY2018	FY2017	FY2016	FY2015
General Fund	$ 106,248,823	$ 108,463,560	$ 98,165,307	$ 98,288,633
TFSF	$ 73,434,986	$ 70,713,518	$ 77,116,728	$ 78,101,915
RTRF	$ 14,534,218	$ 14,680,605	$ 14,681,448	$ 12,048,476
Other SF	$ 64,701,216	$ 69,190,328	$ 72,453,706	$ 65,683,638
Other RF	$ 7,087,933	$ 7,795,614	$ 6,544,384	$ 6,314,667
Total	**$ 266,007,176**	**$ 270,843,625**	**$ 268,961,573**	**$ 260,437,329**

In aggregate, Q1 expenditures are slightly below expenditures for the same period from FY16 and FY17. TFSF expenditures are slightly above FY17 for the same period, but lower than FY15 and FY16.

MANOA

Tuition and Fees Special Fund

Actual revenues for TFSF were higher than projected due to conservative projection of revenue and waivers. Waivers were estimated to be higher than what was actually recorded for the first quarter. Revenues through Q1 are lower than in FY17.

Expenditures were also conservatively projected in anticipation of decreased revenues. Units are currently projected to spend within their current year allocations, which are within the projected revenue for the year. Variations in quarterly expenditures can occur throughout the year due to timing issues. Transfers for UH Foundation and Cancer Center were budgeted to occur in Q1, but did not yet occur; these transfers will occur in a future quarter.

Research & Training Revolving Fund

The RTRF revenue budget was projected to be received entirely in Q1 instead of being distributed over all four quarters. Quarterly variances therefore will continue throughout the year but will decrease as the year progresses. In addition, RTRF revenues were not distributed to the campus from the Office of the Vice President for Research and Innovation (OVPRI) by the end of Q1 as initially projected.

RTRF expenditures are budgeted based on the total amount of allocation given to the units for their facilitating money. Since this money is used to support start up packages and longer term projects, units typically budget the entire amount of allocation even though it might not be spent in the current year. This is a means to track the progress of the project over a period of time and to be able to calculate a balance for the Principal Investigators.

Several units had higher than expected transfers to cover their allocations from the prior year than budgeted which resulted in a variance.

Other Special Funds

Actual revenues for Other Special Funds were higher than projected due to several factors. Campus Services revenues were budgeted to be received evenly across the four quarters, and there will be some variation in when revenues were actually collected. Bookstore revenues were lower than expected due to an overall decrease in traditional textbook sales. More classes are moving to e-Book formats and due to their lower costs, the resulting revenues from those formats are lower.

Student Housing revenue for Q1 is higher than projected because of the timing of when revenues were anticipated to be collected. The total projected annual amount is still anticipated to be collected for the fiscal year.

Non-personnel expenditures were lower than expected for Campus Services, Cancer Center, and Telecomm, but higher than expected for Student Housing.

- Campus Services expenditure projections were evenly distributed across the four quarters. This will cause some variation between the quarters depending on the timing of the actual expenditures. Some Cancer Center expenditures were projected to occur in Q1 but now are anticipated to occur in a future quarter. In addition, a portion of utilities cost was budgeted in the projection for other current expenditures as well as in the utilities projection.
- Telecomm had lower than expected non-personnel expenditures due to over-projection of expenditures based on prior year expenditures. Recent prior year expenditures included nonrecurring expenditures related to an upgrade; inclusion of these expenditures resulted in a higher than average projection.
- Student Housing had higher than expected non-personnel expenditures due to increased repairs and maintenance costs in Q1.

Other Revolving Funds

Non-personnel expenditures from Other Revolving Funds was lower than projected for Q1 primarily due to circumstances in two funds. Student Services had lower than expected non-personnel expenditures due to University Health Services budgeting for renovation costs that have not yet occurred. Campus Services had lower than expected non-personnel expenditures due to the equal distribution of the expenditure projection over the year. The expenditures from Q1 that were budgeted but not expended are expected to occur in Q2.

HILO

Tuition and Fees Special Fund

Personnel expenditures are lower than planned, due to delays in filling vacant positions and reduction in lecturer costs. This is in response to lower than planned enrollment.

Non-personnel expenditures are higher than projected due to the timing of when encumbrances are liquidated and recorded as expenditures.

Utilities are less than planned due to continued efforts to reduce energy consumption.

Net transfers are lower than planned due to system assessments that were planned for Q1 not being recorded, but instead will be recorded in Q2.

Research and Training Revolving Fund

Non-personnel expenditures are lower than planned as a result of the delay in receiving Q1 revenue from OVPRI.

Other Special Funds

Non-personnel expenditures are lower than planned due to cautious spending as a result of enrollment being lower than planned. Also contributing to the decrease is the timing of when encumbrances are liquidated and recorded as expenditures.

Net transfers are lower than planned due to the timing of transfers for the Series 2009A debt service payment. The transfer was recorded in early October, therefore will be reported in Q2.

WEST O'AHU

Other Special Funds

Due to the late approval of the document to transfer debt service funds out of the revenue undertaking account, transfer of $911,001.97 will be reflected Q2.

COMMUNITY COLLEGES

Tuition and Fees Special Fund

The TFSF revenue was lower than anticipated due to a decrease in enrollment for the Community Colleges. The budgeted revenue projection was based on flat enrollment.

Other Special Funds

The revenue variance for other Special Funds is primarily associated with Community Colleges Special Fund (CCSF) non-credit and Summer Session programs. The budgeted revenue amount was developed from a review of historical activity; however, the actual level of activity varies from year to year depending on course offerings and interest from the public.

SYSTEMWIDE ADMINISTRATION

General Funds

Non-Personnel expenditures were less than anticipated due to unrealized expenses in areas such as travel, equipment and fee-based services.

Tuition and Fees Special Funds (TFSF)

The Non-Personnel expenditures were less than projected, which was primarily attributable to timing issues with payments towards the ITS Document Imaging contract and the PeopleSoft upgrade contract. The payments did not occur in Q1 as anticipated but should record in Q2.

The Transfer variance was the result of a timing issue with the annual UH Foundation assessment to the campuses. The transfer did not occur in Q1 as anticipated; it will instead record in Q2.

Research and Training Revolving Fund (RTRF)

The Revenue and Transfers variance were attributed to a timing issue in which revenues were not distributed to the campuses and transfers were not made to the programs in Q1 as anticipated. Campus allocations were determined late in Q1 which delayed Q1 revenue distributions and program transfers into Q2.

Non-Personnel expenditures were lower than anticipated due in part to timing issues with encumbrances and payments, but was largely the result of increased fiscal prudence and a concerted effort to reduce expenditures in areas such as travel, supplies, and membership dues.

Other Special Funds

Non-personnel expenditures were below projections primarily due to a reimbursement of legal expenses advanced on the Risk Management Special Fund and unrealized expenses for the POST Building recovery.

UNIVERSITY OF HAWAIʻI SYSTEM REPORT

Report to the University of Hawaiʻi Board of Regents
Committee on Budget and Finance

FY 2018 First Quarter Financial Report
For the Period Ending September 30, 2017

UNIVERSITY OF HAWAI'I

FY 2018 First Quarter Financial Report for the Period Ending September 30, 2017

GENERAL FUNDS	FY 2018 Budget-to-Actual				Prior Fiscal Years		
	FY 2018 YTD Budget	FY 2018 YTD Actual	Difference	%	FY 2017 YTD Actual	FY 2016 YTD Actual	FY 2015 YTD Actual
Revenue							
Allocation	468,317,755	467,026,684	(1,291,071)	0%	468,062,520	432,084,364	407,607,629
Expenditures							
Personnel	108,851,086	105,544,381	(3,306,705)	-3%	107,869,369	97,552,576	97,476,123
Non-Personnel (incl. trfs for B+)	1,594,828	462,933	(1,131,895)	-71%	322,102	384,994	600,749
Utilities	216,778	241,509	24,731	11%	272,089	227,737	211,761
Total Expenditures	110,662,692	106,248,823	(4,413,869)	-4%	108,463,560	98,165,307	98,288,633
Revenue - Expenditures	357,655,063	360,777,861			359,598,960	333,919,057	309,318,996

TUITION & FEES SF (TFSF)	FY 2018 Budget-to-Actual				Prior Fiscal Years		
	FY 2018 YTD Budget	FY 2018 YTD Actual	Difference	%	FY 2017 YTD Actual	FY 2016 YTD Actual	FY 2015 YTD Actual
Revenue							
Total Revenue	170,936,461	174,100,760	3,164,299	2%	178,667,026	182,588,435	175,741,998
Expenditures/Transfers							
Personnel	36,717,747	32,756,680	(3,961,067)	-11%	34,538,120	34,964,990	42,984,568
Non-Personnel	22,609,486	22,925,563	316,077	1%	21,039,216	22,558,786	21,137,224
Utilities	12,409,744	10,531,343	(1,878,401)	-15%	9,861,984	14,555,893	11,083,232
Transfers	6,498,444	7,221,400	722,956	11%	5,274,198	5,037,059	2,896,891
Total Expenditures/Transfers	78,235,421	73,434,986	(4,800,435)	-6%	70,713,518	77,116,728	78,101,915
Revenue - Expenditures/Transfers	92,701,040	100,665,774			107,953,508	105,471,707	97,640,083

RESEARCH & TRAINING RF (RTRF)	FY 2018 Budget-to-Actual				Prior Fiscal Years		
	FY 2018 YTD Budget	FY 2018 YTD Actual	Difference	%	FY 2017 YTD Actual	FY 2016 YTD Actual	FY 2015 YTD Actual
Revenue							
Total Revenue	34,571,955	13,543,694	(21,028,261)	-61%	13,412,219	4,334,776	10,562,237
Expenditures/Transfers							
Personnel	4,454,991	4,393,401	(61,590)	-1%	4,476,374	4,187,491	4,696,221
Non-Personnel	10,902,395	8,121,949	(2,780,446)	-26%	7,866,274	8,755,125	4,699,243
Utilities	867,421	675,151	(192,270)	-22%	1,009,139	422,384	1,355,341
Transfers	(858,229)	1,343,717	2,201,946	-257%	1,328,818	1,316,448	1,297,671
Total Expenditures/Transfers	15,366,578	14,534,218	(832,360)	-5%	14,680,605	14,681,448	12,048,476
Revenue - Expenditures/Transfers	19,205,377	(990,524)			(1,268,386)	(10,346,672)	(1,486,239)

UNIVERSITY OF HAWAI'I

FY 2018 First Quarter Financial Report for the Period Ending September 30, 2017

OTHER SPECIAL FUNDS	FY 2018 Budget-to-Actual				Prior Fiscal Years		
	FY 2018 YTD Budget	FY 2018 YTD Actual	Difference	%	FY 2017 YTD Actual	FY 2016 YTD Actual	FY 2015 YTD Actual
Revenue							
Total Revenue	43,589,345	49,139,805	5,550,460	13%	53,395,599	50,305,087	54,304,665
Expenditures/Transfers							
Personnel	15,291,289	14,771,931	(519,358)	-3%	16,126,369	15,036,402	14,509,102
Non-Personnel	41,866,843	38,315,827	(3,551,016)	-8%	40,980,426	37,948,578	38,881,117
Utilities	2,388,689	2,450,528	61,839	3%	2,234,129	1,484,178	2,365,231
Transfers	12,366,250	9,162,930	(3,203,320)	-26%	9,849,404	17,984,548	9,928,188
Total Expenditures/Transfers	71,913,071	64,701,216	(7,211,855)	-10%	69,190,328	72,453,706	65,683,638
Revenue - Expenditures/Transfers	(28,323,726)	(15,561,411)			(15,794,729)	(22,148,619)	(11,378,973)

OTHER REVOLVING FUNDS	FY 2018 Budget-to-Actual				Prior Fiscal Years		
	FY 2018 YTD Budget	FY 2018 YTD Actual	Difference	%	FY 2017 YTD Actual	FY 2016 YTD Actual	FY 2015 YTD Actual
Revenue							
Total Revenue	16,917,336	15,522,440	(1,394,896)	-8%	15,612,840	15,978,777	15,635,630
Expenditures/Transfers							
Personnel	3,051,440	2,777,513	(273,927)	-9%	2,728,702	2,435,956	2,475,614
Non-Personnel	5,312,732	4,168,877	(1,143,855)	-22%	4,986,741	4,066,479	3,800,457
Utilities	55,895	94,857	38,962	70%	78,829	18,586	10,826
Transfers	(99,386)	46,686	146,072	-147%	1,342	23,363	27,770
Total Expenditures/Transfers	8,320,681	7,087,933	(1,232,748)	-15%	7,795,614	6,544,384	6,314,667
Revenue - Expenditures/Transfers	8,596,655	8,434,507			7,817,226	9,434,393	9,320,963

TOTAL, UOH	FY 2018 Budget-to-Actual				Prior Fiscal Years		
	FY 2018 YTD Budget	FY 2018 YTD Actual	Difference	%	FY 2017 YTD Actual	FY 2016 YTD Actual	FY 2015 YTD Actual
Revenue							
Total Revenue	734,332,852	719,333,383	(14,999,469)	-2%	729,150,204	685,291,439	663,852,159
Expenditures/Transfers							
Personnel	168,366,553	160,243,906	(8,122,647)	-5%	165,738,934	154,177,415	162,141,628
Non-Personnel	82,286,284	73,995,149	(8,291,135)	-10%	75,194,759	73,713,962	69,118,790
Utilities	15,938,527	13,993,388	(1,945,139)	-12%	13,456,170	16,708,778	15,026,391
Transfers	17,907,079	17,774,733	(132,346)	-1%	16,453,762	24,361,418	14,150,520
Total Expenditures/Transfers	284,498,443	266,007,176	(18,491,267)	-6%	270,843,625	268,961,573	260,437,329
Revenue - Expenditures/Transfers	449,834,409	453,326,207			458,306,579	416,329,866	403,414,830

University of Hawai'i - Mānoa

FY 2018 First Quarter Financial Report for the Period Ending September 30, 2017

GENERAL FUNDS	FY 2018 Budget-to-Actual				Prior Fiscal Years		
	FY 2018 YTD Budget	FY 2018 YTD Actual	Difference	%	FY 2017 YTD Actual	FY 2016 YTD Actual	FY 2015 YTD Actual
Revenue							
Allocation (including net transfers)	234,337,820	233,153,016	(1,184,804)	-1%	230,798,269	215,711,521	206,186,867
Expenditures							
Personnel	58,818,611	56,953,374	(1,865,237)	-3%	58,121,758	52,666,924	51,928,360
Non-Personnel	32,625	17,073	(15,552)	-48%	20,908	83,844	(1,532)
Utilities	-	72	72	budget = 0	72	-	-
Total Expenditures	58,851,236	56,970,519	(1,880,717)	-3%	58,142,738	52,750,768	51,926,828
Revenue - Expenditures	175,486,584	176,182,497			172,655,531	162,960,753	154,260,039

TUITION & FEES SF (TFSF)	FY 2018 Budget-to-Actual				Prior Fiscal Years		
	FY 2018 YTD Budget	FY 2018 YTD Actual	Difference	%	FY 2017 YTD Actual	FY 2016 YTD Actual	FY 2015 YTD Actual
Revenue							
Total Revenue	108,263,114	113,860,734	5,597,620	5%	115,874,952	120,065,710	114,159,266
Expenditures/Transfers							
Personnel	25,694,907	22,766,335	(2,928,572)	-11%	23,914,000	24,930,640	32,071,961
Non-Personnel	9,426,177	9,273,334	(152,843)	-2%	10,434,008	9,516,625	8,886,629
Utilities	8,155,716	6,864,774	(1,290,942)	-16%	6,242,956	11,102,387	7,297,798
Transfers (net)	2,292,197	858,228	(1,433,969)	-63%	1,810,297	2,092,411	975,326
Total Expenditures/Transfers	45,568,997	39,762,671	(5,806,326)	-13%	42,401,261	47,642,063	49,231,714
Revenue - Expenditures/Transfers	62,694,117	74,098,063			73,473,691	72,423,647	64,927,552

RESEARCH & TRAINING RF (RTRF)	FY 2018 Budget-to-Actual				Prior Fiscal Years		
	FY 2018 YTD Budget	FY 2018 YTD Actual	Difference	%	FY 2017 YTD Actual	FY 2016 YTD Actual	FY 2015 YTD Actual
Revenue							
Total Revenue	29,454,427	(1,226)	(29,455,653)	-100%	7,917,261	7,534,373	25,363
Expenditures/Transfers							
Personnel	2,594,665	2,494,950	(99,715)	-4%	2,227,232	2,600,623	3,435,940
Non-Personnel	5,218,542	4,406,594	(811,948)	-16%	3,401,642	4,242,795	2,702,696
Utilities	677,712	280,006	(397,706)	-59%	952,650	422,384	1,355,341
Transfers (net)	(600,501)	1,345,189	1,945,690	-324%	1,328,818	1,448,123	1,408,310
Total Expenditures/Transfers	7,890,418	8,526,739	636,321	8%	7,910,342	8,713,925	8,902,287
Revenue - Expenditures/Transfers	21,564,009	(8,527,965)			6,919	(1,179,552)	(8,876,924)

University of Hawai'i - Mānoa

FY 2018 First Quarter Financial Report for the Period Ending September 30, 2017

OTHER SPECIAL FUNDS	FY 2018 Budget-to-Actual				Prior Fiscal Years		
	FY 2018 YTD Budget	FY 2018 YTD Actual	Difference	%	FY 2017 YTD Actual	FY 2016 YTD Actual	FY 2015 YTD Actual
Revenue							
Total Revenue	32,840,899	37,326,727	4,485,828	14%	42,911,886	40,611,001	41,826,463
Expenditures/Transfers							
Personnel	10,059,260	9,331,039	(728,221)	-7%	10,820,287	10,392,031	9,637,252
Non-Personnel	32,797,272	30,987,316	(1,809,956)	-6%	30,649,658	29,844,207	30,364,054
Utilities	2,259,941	2,339,874	79,933	4%	2,097,480	1,315,318	2,130,845
Transfers (net)	11,397,069	10,451,000	(946,069)	-8%	14,315,918	15,437,510	10,019,260
Total Expenditures/Transfers	56,513,542	53,109,229	(3,404,313)	-6%	57,883,343	56,989,066	52,151,411
Revenue - Expenditures/Transfers	(23,672,643)	(15,782,502)			(14,971,457)	(16,378,065)	(10,324,948)

OTHER REVOLVING FUNDS	FY 2018 Budget-to-Actual				Prior Fiscal Years		
	FY 2018 YTD Budget	FY 2018 YTD Actual	Difference	%	FY 2017 YTD Actual	FY 2016 YTD Actual	FY 2015 YTD Actual
Revenue							
Total Revenue	13,677,308	12,997,362	(679,946)	-5%	13,036,089	13,148,374	12,912,647
Expenditures/Transfers							
Personnel	2,209,762	2,089,652	(120,110)	-5%	2,134,561	1,911,484	1,961,253
Non-Personnel	4,376,813	3,504,669	(872,144)	-20%	4,366,785	3,357,538	3,057,335
Utilities	46,687	90,874	44,187	95%	69,957	18,586	10,826
Transfers (net)	(125,000)	65,984	190,984	-153%	1,339	23,517	28,000
Total Expenditures/Transfers	6,508,262	5,751,179	(757,083)	-12%	6,572,642	5,311,125	5,057,414
Revenue - Expenditures/Transfers	7,169,046	7,246,183			6,463,447	7,837,249	7,855,233

TOTAL, UH MANOA	FY 2018 Budget-to-Actual				Prior Fiscal Years		
	FY 2018 YTD Budget	FY 2018 YTD Actual	Difference	%	FY 2017 YTD Actual	FY 2016 YTD Actual	FY 2015 YTD Actual
Revenue							
Total Revenue	418,573,568	397,336,613	(21,236,955)	-5%	410,538,457	397,070,979	375,110,606
Expenditures/Transfers							
Personnel	99,377,205	93,635,350	(5,741,855)	-6%	97,217,838	92,501,702	99,034,766
Non-Personnel	51,851,429	48,188,986	(3,662,443)	-7%	48,873,001	47,045,009	45,009,182
Utilities	11,140,056	9,575,600	(1,564,456)	-14%	9,363,115	12,858,675	10,794,810
Transfers	12,963,765	12,720,401	(243,364)	-2%	17,456,372	19,001,561	12,430,896
Total Expenditures/Transfers	175,332,455	164,120,337	(11,212,118)	-6%	172,910,326	171,406,947	167,269,654
Revenue - Expenditures/Transfers	243,241,113	233,216,276			237,628,131	225,664,032	207,840,952

University of Hawai'i - Hilo
FY 2018 First Quarter Financial Report for the Period Ending September 30, 2017

GENERAL FUNDS	FY 2018 Budget-to-Actual				Prior Fiscal Years		
	FY 2018 YTD Budget	FY 2018 YTD Actual	Difference	%	FY 2017 YTD Actual	FY 2016 YTD Actual	FY 2015 YTD Actual
Revenue							
Allocation (including net transfers)	34,951,072	34,803,813	(147,259)	0%	34,724,895	32,227,067	30,811,301
Expenditures							
Personnel	8,625,611	8,696,066	70,455	1%	8,504,301	7,683,053	8,022,986
Non-Personnel	63,000	-	(63,000)	-100%	3,400	826	230,124
Utilities	-	-	-	budget = 0	-	-	-
Total Expenditures	8,688,611	8,696,066	7,455	0%	8,507,701	7,683,879	8,253,110
Revenue - Expenditures	26,262,461	26,107,747			26,217,194	24,543,188	22,558,191

TUITION & FEES SF (TFSF)	FY 2018 Budget-to-Actual				Prior Fiscal Years		
	FY 2018 YTD Budget	FY 2018 YTD Actual	Difference	%	FY 2017 YTD Actual	FY 2016 YTD Actual	FY 2015 YTD Actual
Revenue							
Total Revenue	18,682,701	18,110,593	(572,108)	-3%	18,986,352	19,023,434	19,201,886
Expenditures/Transfers							
Personnel	3,355,677	2,513,106	(842,571)	-25%	3,010,201	3,331,718	3,394,343
Non-Personnel	1,951,068	2,623,518	672,450	34%	1,840,384	2,585,301	2,648,469
Utilities	1,575,508	1,002,682	(572,826)	-36%	1,047,215	820,209	1,037,624
Transfers (net)	1,292,548	537,961	(754,587)	-58%	637,832	261,607	200,677
Total Expenditures/Transfers	8,174,801	6,677,267	(1,497,534)	-18%	6,535,632	6,998,835	7,281,113
Revenue - Expenditures/Transfers	10,507,900	11,433,326			12,450,720	12,024,599	11,920,773

RESEARCH & TRAINING RF (RTRF)	FY 2018 Budget-to-Actual				Prior Fiscal Years		
	FY 2018 YTD Budget	FY 2018 YTD Actual	Difference	%	FY 2017 YTD Actual	FY 2016 YTD Actual	FY 2015 YTD Actual
Revenue							
Total Revenue	859,724	-	(859,724)	-100%	832,022	936,426	-
Expenditures/Transfers							
Personnel	71,839	70,794	(1,045)	-1%	213,401	90,919	21,826
Non-Personnel	1,328,573	501,765	(826,808)	-62%	1,422,009	1,255,245	660,045
Utilities	-	-	-	budget = 0	305	-	-
Transfers (net)	70,750	31,250	(39,500)	-56%	-	(7,500)	-
Total Expenditures/Transfers	1,471,162	603,809	(867,353)	-59%	1,635,715	1,338,664	681,871
Revenue - Expenditures/Transfers	(611,438)	(603,809)			(803,693)	(402,238)	(681,871)

University of Hawai'i - Hilo
FY 2018 First Quarter Financial Report for the Period Ending September 30, 2017

OTHER SPECIAL FUNDS	FY 2018 Budget-to-Actual				Prior Fiscal Years		
	FY 2018 YTD Budget	FY 2018 YTD Actual	Difference	%	FY 2017 YTD Actual	FY 2016 YTD Actual	FY 2015 YTD Actual
Revenue							
Total Revenue	3,459,849	3,813,746	353,897	10%	3,559,010	3,533,291	3,527,316
Expenditures/Transfers							
Personnel	505,686	406,913	(98,773)	-20%	475,567	473,480	424,267
Non-Personnel	4,580,087	3,815,235	(764,852)	-17%	4,724,694	3,276,008	3,876,788
Utilities	81,566	84,377	2,811	3%	74,843	76,803	60,282
Transfers (net)	583,615	(324,943)	(908,558)	-156%	(321,326)	707,255	(98,785)
Total Expenditures/Transfers	5,750,954	3,981,582	(1,769,372)	-31%	4,953,778	4,533,546	4,262,552
Revenue - Expenditures/Transfers	(2,291,105)	(167,836)			(1,394,768)	(1,000,255)	(735,236)

OTHER REVOLVING FUNDS	FY 2018 Budget-to-Actual				Prior Fiscal Years		
	FY 2018 YTD Budget	FY 2018 YTD Actual	Difference	%	FY 2017 YTD Actual	FY 2016 YTD Actual	FY 2015 YTD Actual
Revenue							
Total Revenue	1,180,331	1,056,875	(123,456)	-10%	1,114,161	1,135,200	1,084,056
Expenditures/Transfers							
Personnel	386,730	316,357	(70,373)	-18%	310,011	265,341	275,067
Non-Personnel	127,342	110,824	(16,518)	-13%	109,353	163,441	180,911
Utilities	1,581	2,656	1,075	68%	2,082	-	-
Transfers (net)	-	-	-	budget = 0	-	-	237
Total Expenditures/Transfers	515,653	429,837	(85,816)	-17%	421,446	428,782	456,215
Revenue - Expenditures/Transfers	664,678	627,038			692,715	706,418	627,841

TOTAL, UH HILO	FY 2018 Budget-to-Actual				Prior Fiscal Years		
	FY 2018 YTD Budget	FY 2018 YTD Actual	Difference	%	FY 2017 YTD Actual	FY 2016 YTD Actual	FY 2015 YTD Actual
Revenue							
Total Revenue	59,133,677	57,785,027	(1,348,650)	-2%	59,216,440	56,855,418	54,624,559
Expenditures/Transfers							
Personnel	12,945,543	12,003,236	(942,307)	-7%	12,513,481	11,844,511	12,138,489
Non-Personnel	8,050,070	7,051,342	(998,728)	-12%	8,099,840	7,280,821	7,596,337
Utilities	1,658,655	1,089,715	(568,940)	-34%	1,124,445	897,012	1,097,906
Transfers	1,946,913	244,268	(1,702,645)	-87%	316,506	961,362	102,129
Total Expenditures/Transfers	24,601,181	20,388,561	(4,212,620)	-17%	22,054,272	20,983,706	20,934,861
Revenue - Expenditures/Transfers	34,532,496	37,396,466			37,162,168	35,871,712	33,689,698

University of Hawai'i - West O'ahu
FY 2018 First Quarter Financial Report for the Period Ending September 30, 2017

GENERAL FUNDS	FY 2018 Budget-to-Actual				Prior Fiscal Years		
	FY 2018 YTD Budget	FY 2018 YTD Actual	Difference	%	FY 2017 YTD Actual	FY 2016 YTD Actual	FY 2015 YTD Actual
Revenue							
Allocation (including net transfers)	15,566,399	15,500,566	(65,833)	0%	14,778,662	13,230,292	12,793,063
Expenditures							
Personnel	3,534,700	3,617,678	82,978	2%	3,632,847	3,380,174	2,497,347
Non-Personnel	-	633	633	budget = 0	-	7,794	-
Utilities	-	-	-	budget = 0	-	-	-
Total Expenditures	3,534,700	3,618,311	83,611	2%	3,632,847	3,387,968	2,497,347
Revenue - Expenditures	12,031,699	11,882,255			11,145,815	9,842,324	10,295,716

TUITION & FEES SF (TFSF)	FY 2018 Budget-to-Actual				Prior Fiscal Years		
	FY 2018 YTD Budget	FY 2018 YTD Actual	Difference	%	FY 2017 YTD Actual	FY 2016 YTD Actual	FY 2015 YTD Actual
Revenue							
Total Revenue	9,168,551	8,998,344	(170,207)	-2%	8,988,776	7,826,311	7,001,614
Expenditures/Transfers							
Personnel	1,600,080	1,286,092	(313,988)	-20%	1,302,934	774,333	1,026,701
Non-Personnel	734,200	417,245	(316,955)	-43%	541,040	362,334	227,564
Utilities	281,800	206,326	(75,474)	-27%	252,545	276,384	312,617
Transfers (net)	2,959,923	2,965,621	5,698	0%	2,935,120	2,906,604	1,822,848
Total Expenditures/Transfers	5,576,003	4,875,284	(700,719)	-13%	5,031,639	4,319,655	3,389,730
Revenue - Expenditures/Transfers	3,592,548	4,123,060			3,957,137	3,506,656	3,611,884

RESEARCH & TRAINING RF (RTRF)	FY 2018 Budget-to-Actual				Prior Fiscal Years		
	FY 2018 YTD Budget	FY 2018 YTD Actual	Difference	%	FY 2017 YTD Actual	FY 2016 YTD Actual	FY 2015 YTD Actual
Revenue							
Total Revenue	41,300	-	(41,300)	-100%	41,380	31,301	-
Expenditures/Transfers							
Personnel	-	43	43	budget = 0	3	33	6
Non-Personnel	35,000	22,216	(12,784)	-37%	10,585	18,188	960
Utilities	-	-	-	budget = 0	-	-	-
Transfers (net)	-	-	-	budget = 0	-	-	-
Total Expenditures/Transfers	35,000	22,259	(12,741)	-36%	10,588	18,221	966
Revenue - Expenditures/Transfers	6,300	(22,259)			30,792	13,080	(966)

University of Hawai'i - West O'ahu
FY 2018 First Quarter Financial Report for the Period Ending September 30, 2017

OTHER SPECIAL FUNDS	FY 2018 Budget-to-Actual				Prior Fiscal Years		
	FY 2018 YTD Budget	FY 2018 YTD Actual	Difference	%	FY 2017 YTD Actual	FY 2016 YTD Actual	FY 2015 YTD Actual
Revenue							
Total Revenue	40,000	31,608	(8,392)	-21%	38,476	92,957	8,195
Expenditures/Transfers							
Personnel	33,000	53,751	20,751	63%	35,397	4,390	-
Non-Personnel	1,045,000	941,725	(103,275)	-10%	1,019,239	1,021,117	500,391
Utilities	-	-	-	budget = 0	-	-	-
Transfers (net)	-	(911,002)	(911,002)	budget = 0	(2,933,120)	259	(23)
Total Expenditures/Transfers	1,078,000	84,474	(993,526)	-92%	(1,878,484)	1,025,766	500,368
Revenue - Expenditures/Transfers	(1,038,000)	(52,866)			1,916,960	(932,809)	(492,173)

OTHER REVOLVING FUNDS	FY 2018 Budget-to-Actual				Prior Fiscal Years		
	FY 2018 YTD Budget	FY 2018 YTD Actual	Difference	%	FY 2017 YTD Actual	FY 2016 YTD Actual	FY 2015 YTD Actual
Revenue							
Total Revenue	418,000	331,682	(86,318)	-21%	410,293	380,213	362,538
Expenditures/Transfers							
Personnel	62,500	34,981	(27,519)	-44%	33,951	35,849	22,465
Non-Personnel	90,000	66,310	(23,690)	-26%	68,461	45,362	47,642
Utilities	7,000	296	(6,704)	-96%	6,519	-	-
Transfers (net)	-	-	-	budget = 0	-	-	(1,091)
Total Expenditures/Transfers	159,500	101,587	(57,913)	-36%	108,931	81,211	69,016
Revenue - Expenditures/Transfers	258,500	230,095			301,362	299,002	293,522

TOTAL, UH WEST OAHU	FY 2018 Budget-to-Actual				Prior Fiscal Years		
	FY 2018 YTD Budget	FY 2018 YTD Actual	Difference	%	FY 2017 YTD Actual	FY 2016 YTD Actual	FY 2015 YTD Actual
Revenue							
Total Revenue	25,234,250	24,862,200	(372,050)	-1%	24,257,587	21,561,074	20,165,410
Expenditures/Transfers							
Personnel	5,230,280	4,992,545	(237,735)	-5%	5,005,132	4,194,779	3,546,519
Non-Personnel	1,904,200	1,448,129	(456,071)	-24%	1,639,325	1,454,795	776,557
Utilities	288,800	206,622	(82,178)	-28%	259,064	276,384	312,617
Transfers	2,959,923	2,054,619	(905,304)	-31%	2,000	2,906,863	1,821,734
Total Expenditures/Transfers	10,383,203	8,701,915	(1,681,288)	-16%	6,905,521	8,832,821	6,457,427
Revenue - Expenditures/Transfers	14,851,047	16,160,285			17,352,066	12,728,253	13,707,983

University of Hawai'i - Community Colleges
FY 2018 First Quarter Financial Report for the Period Ending September 30, 2017

GENERAL FUNDS	FY 2018 Budget-to-Actual				Prior Fiscal Years		
	FY 2018 YTD Budget	FY 2018 YTD Actual	Difference	%	FY 2017 YTD Actual	FY 2016 YTD Actual	FY 2015 YTD Actual
Revenue							
Allocation (including net transfers)	135,081,329	135,558,252	476,923	0%	132,361,642	121,796,244	116,421,787
Expenditures							
Personnel	28,542,900	27,422,940	(1,119,960)	-4%	28,088,590	25,550,575	27,588,998
Non-Personnel	80,159	28,384	(51,775)	-65%	18,412	38,240	46,437
Utilities	187,073	212,659	25,586	14%	243,062	227,737	211,761
Total Expenditures	28,810,132	27,663,983	(1,146,149)	-4%	28,350,064	25,816,552	27,847,196
Revenue - Expenditures	106,271,197	107,894,269			104,011,578	95,979,692	88,574,591

TUITION & FEES SF (TFSF)	FY 2018 Budget-to-Actual				Prior Fiscal Years		
	FY 2018 YTD Budget	FY 2018 YTD Actual	Difference	%	FY 2017 YTD Actual	FY 2016 YTD Actual	FY 2015 YTD Actual
Revenue							
Total Revenue	34,556,775	32,861,719	(1,695,056)	-5%	34,551,476	35,385,760	35,092,883
Expenditures/Transfers							
Personnel	5,434,733	5,853,579	418,846	8%	5,728,632	5,705,580	5,899,412
Non-Personnel	8,692,161	9,364,116	671,955	8%	7,219,323	9,004,102	7,753,909
Utilities	2,358,720	2,430,402	71,682	3%	2,289,217	2,354,342	2,430,078
Transfers (net)	4,390,073	4,083,135	(306,938)	-7%	9,000	10,250	184,768
Total Expenditures/Transfers	20,875,687	21,731,232	855,545	4%	15,246,172	17,074,274	16,268,167
Revenue - Expenditures/Transfers	13,681,088	11,130,487			19,305,304	18,311,486	18,824,716

RESEARCH & TRAINING RF (RTRF)	FY 2018 Budget-to-Actual				Prior Fiscal Years		
	FY 2018 YTD Budget	FY 2018 YTD Actual	Difference	%	FY 2017 YTD Actual	FY 2016 YTD Actual	FY 2015 YTD Actual
Revenue							
Total Revenue	444,524	-	(444,524)	-100%	551,623	656,951	-
Expenditures/Transfers							
Personnel	113,679	306,012	192,333	169%	228,423	240,106	91,883
Non-Personnel	212,458	334,497	122,039	57%	213,994	295,452	191,012
Utilities	25	99,201	99,176	396704%	43	-	-
Transfers (net)	-	-	-	budget = 0	-	-	(34,136)
Total Expenditures/Transfers	326,162	739,710	413,548	127%	442,460	535,558	248,759
Revenue - Expenditures/Transfers	118,362	(739,710)			109,163	121,393	(248,759)

University of Hawai'i - Community Colleges
FY 2018 First Quarter Financial Report for the Period Ending September 30, 2017

OTHER SPECIAL FUNDS	FY 2018 Budget-to-Actual				Prior Fiscal Years		
	FY 2018 YTD Budget	FY 2018 YTD Actual	Difference	%	FY 2017 YTD Actual	FY 2016 YTD Actual	FY 2015 YTD Actual
Revenue							
Total Revenue	5,738,238	6,373,848	635,610	11%	6,231,818	5,768,039	6,324,875
Expenditures/Transfers							
Personnel	4,461,356	4,735,936	274,580	6%	4,467,785	4,033,723	4,321,222
Non-Personnel	1,474,421	1,478,070	3,649	0%	1,455,517	1,393,040	1,407,317
Utilities	14,216	9,606	(4,610)	-32%	23,164	92,057	174,104
Transfers (net)	411,180	9,462	(401,718)	-98%	(3)	2,090,131	1,960
Total Expenditures/Transfers	6,361,173	6,233,074	(128,099)	-2%	5,946,463	7,608,951	5,904,603
Revenue - Expenditures/Transfers	(622,935)	140,774			285,355	(1,840,912)	420,272

OTHER REVOLVING FUNDS	FY 2018 Budget-to-Actual				Prior Fiscal Years		
	FY 2018 YTD Budget	FY 2018 YTD Actual	Difference	%	FY 2017 YTD Actual	FY 2016 YTD Actual	FY 2015 YTD Actual
Revenue							
Total Revenue	1,462,351	1,025,498	(436,853)	-30%	852,647	1,091,832	1,131,850
Expenditures/Transfers							
Personnel	296,964	266,090	(30,874)	-10%	168,753	157,784	152,481
Non-Personnel	711,804	393,798	(318,006)	-45%	387,314	390,660	415,602
Utilities	411	815	404	98%	127	-	-
Transfers (net)	-	2	2	budget = 0	3	-	-
Total Expenditures/Transfers	1,009,179	660,705	(348,474)	-35%	556,197	548,444	568,083
Revenue - Expenditures/Transfers	453,172	364,793			296,450	543,388	563,767

TOTAL, UH COMMUNITY COLLEGES	FY 2018 Budget-to-Actual				Prior Fiscal Years		
	FY 2018 YTD Budget	FY 2018 YTD Actual	Difference	%	FY 2017 YTD Actual	FY 2016 YTD Actual	FY 2015 YTD Actual
Revenue							
Total Revenue	177,283,217	175,819,317	(1,463,900)	-1%	174,549,206	164,698,826	158,971,395
Expenditures/Transfers							
Personnel	38,849,632	38,584,557	(265,075)	-1%	38,682,183	35,687,768	38,053,996
Non-Personnel	11,171,003	11,598,865	427,862	4%	9,294,560	11,121,494	9,814,277
Utilities	2,560,445	2,752,683	192,238	8%	2,555,613	2,674,136	2,815,943
Transfers	4,801,253	4,092,599	(708,654)	-15%	9,000	2,100,381	152,592
Total Expenditures/Transfers	57,382,333	57,028,704	(353,629)	-1%	50,541,356	51,583,779	50,836,808
Revenue - Expenditures/Transfers	119,900,884	118,790,613			124,007,850	113,115,047	108,134,587

University of Hawai'i - Systemwide Programs
FY 2018 First Quarter Financial Report for the Period Ending September 30, 2017

GENERAL FUNDS	FY 2018 Budget-to-Actual				Prior Fiscal Years		
	FY 2018 YTD Budget	FY 2018 YTD Actual	Difference	%	FY 2017 YTD Actual	FY 2016 YTD Actual	FY 2015 YTD Actual
Revenue							
Allocation (including net transfers)	48,381,135	48,011,037	(370,098)	-1%	55,399,052	49,119,240	41,394,611
Expenditures							
Personnel	9,329,264	8,854,323	(474,941)	-5%	9,521,873	8,271,850	7,438,432
Non-Personnel	1,419,044	416,843	(1,002,201)	-71%	279,382	254,290	325,720
Utilities	29,705	28,778	(927)	-3%	28,955	-	-
Transfers (B+ Scholarships)	-	-	-	budget = 0	-	-	-
Total Expenditures	10,778,013	9,299,944	(1,478,069)	-14%	9,830,210	8,526,140	7,764,152
Revenue - Expenditures	37,603,122	38,711,093			45,568,842	40,593,100	33,630,459

TUITION & FEES SF (TFSF)	FY 2018 Budget-to-Actual				Prior Fiscal Years		
	FY 2018 YTD Budget	FY 2018 YTD Actual	Difference	%	FY 2017 YTD Actual	FY 2016 YTD Actual	FY 2015 YTD Actual
Revenue							
Total Revenue	265,320	269,370	4,050	2%	265,470	287,220	286,349
Expenditures/Transfers							
Personnel	632,350	337,568	(294,782)	-47%	582,353	222,719	592,151
Non-Personnel	1,805,880	1,247,350	(558,530)	-31%	1,004,461	1,090,424	1,620,653
Utilities	38,000	27,159	(10,841)	-29%	30,051	2,571	5,115
Transfers (net)	(4,436,297)	(1,223,545)	3,212,752	-72%	(118,051)	(233,813)	(286,728)
Total Expenditures/Transfers	(1,960,067)	388,532	2,348,599	-120%	1,498,814	1,081,901	1,931,191
Revenue - Expenditures/Transfers	2,225,387	(119,162)			(1,233,344)	(794,681)	(1,644,842)

RESEARCH & TRAINING RF (RTRF)	FY 2018 Budget-to-Actual				Prior Fiscal Years		
	FY 2018 YTD Budget	FY 2018 YTD Actual	Difference	%	FY 2017 YTD Actual	FY 2016 YTD Actual	FY 2015 YTD Actual
Revenue							
Total Revenue	3,771,980	13,544,920	9,772,940	259%	4,069,933	(4,824,275)	10,536,874
Expenditures/Transfers							
Personnel	1,674,808	1,521,602	(153,206)	-9%	1,807,315	1,255,810	1,146,566
Non-Personnel	4,107,822	2,856,877	(1,250,945)	-30%	2,818,044	2,943,445	1,144,530
Utilities	189,684	295,944	106,260	56%	56,141	-	-
Transfers (net)	(328,478)	(32,722)	295,756	-90%	-	(124,175)	(76,503)
Total Expenditures/Transfers	5,643,836	4,641,701	(1,002,135)	-18%	4,681,500	4,075,080	2,214,593
Revenue - Expenditures/Transfers	(1,871,856)	8,903,219			(611,567)	(8,899,355)	8,322,281

University of Hawai'i - Systemwide Programs
FY 2018 First Quarter Financial Report for the Period Ending September 30, 2017

OTHER SPECIAL FUNDS	FY 2018 Budget-to-Actual				Prior Fiscal Years		
	FY 2018 YTD Budget	FY 2018 YTD Actual	Difference	%	FY 2017 YTD Actual	FY 2016 YTD Actual	FY 2015 YTD Actual
Revenue							
Total Revenue	1,510,359	1,593,876	83,517	6%	654,409	299,799	2,617,816
Expenditures/Transfers							
Personnel	231,987	244,292	12,305	5%	327,333	132,778	126,361
Non-Personnel	1,970,063	1,093,481	(876,582)	-44%	3,131,318	2,414,206	2,732,567
Utilities	32,966	16,671	(16,295)	-49%	38,642	-	-
Transfers (net)	(25,614)	(61,587)	(35,973)	140%	(1,212,065)	(250,607)	5,776
Total Expenditures/Transfers	2,209,402	1,292,857	(916,545)	-41%	2,285,228	2,296,377	2,864,704
Revenue - Expenditures/Transfers	(699,043)	301,019			(1,630,819)	(1,996,578)	(246,888)

OTHER REVOLVING FUNDS	FY 2018 Budget-to-Actual				Prior Fiscal Years		
	FY 2018 YTD Budget	FY 2018 YTD Actual	Difference	%	FY 2017 YTD Actual	FY 2016 YTD Actual	FY 2015 YTD Actual
Revenue							
Total Revenue	179,346	111,023	(68,323)	-38%	199,650	223,158	144,539
Expenditures/Transfers							
Personnel	95,484	70,433	(25,051)	-26%	81,426	65,498	64,348
Non-Personnel	6,773	93,276	86,503	1277%	54,828	109,478	98,967
Utilities	216	216	-	0%	144	-	-
Transfers (net)	25,614	(19,300)	(44,914)	-175%	-	(154)	624
Total Expenditures/Transfers	128,087	144,625	16,538	13%	136,398	174,822	163,939
Revenue - Expenditures/Transfers	51,259	(33,602)			63,252	48,336	(19,400)

TOTAL, UH SYSTEMWIDE PROGRAMS	FY 2018 Budget-to-Actual				Prior Fiscal Years		
	FY 2018 YTD Budget	FY 2018 YTD Actual	Difference	%	FY 2017 YTD Actual	FY 2016 YTD Actual	FY 2015 YTD Actual
Revenue							
Total Revenue	54,108,140	63,530,226	9,422,086	17%	60,588,514	45,105,142	54,980,189
Expenditures/Transfers							
Personnel	11,963,893	11,028,218	(935,675)	-8%	12,320,300	9,948,655	9,367,858
Non-Personnel	9,309,582	5,707,827	(3,601,755)	-39%	7,288,033	6,811,843	5,922,437
Utilities	290,571	368,768	78,197	27%	153,933	2,571	5,115
Transfers	(4,764,775)	(1,337,154)	3,427,621	-72%	(1,330,116)	(608,749)	(356,831)
Total Expenditures/Transfers	16,799,271	15,767,659	(1,031,612)	-6%	18,432,150	16,154,320	14,938,579
Revenue - Expenditures/Transfers	37,308,869	47,762,567			42,156,364	28,950,822	40,041,610

DTJ 18551

Kalbert K. Young
Vice President for Budget and Finance
Chief Financial Officer

UNIVERSITY of HAWAI'I SYSTEM

UNIVERSITY OF HAWAII
BOARD OF REGENTS

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October 23, 2017

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UNIVERSITY OF HAWAII
PRESIDENT'S OFFICE

TO: Jan N. Sullivan
Chairperson, Board of Regents

Wayne Higaki
Chair, Committee on Budget and Finance, Board of Regents

VIA: David Lassner
President

FROM: Kalbert K. Young
Vice President for Budget and Finance/Chief Financial Officer

SUBJECT: FY16 Bond Post-Issuance Compliance Update

The Administration hereby submits for the information of the Board of Regents and its Committee on Budget & Finance a report and presentation entitled "University of Hawai'i Post-Issuance Compliance Update." Since FY2013, a review has been undertaken annually to monitor a number of post-issuance compliance issues related to outstanding University of Hawai'i revenue bonds – including, the amount of private activity occurring on or within facilities financed with UH revenue bonds. The attached report covers compliance review through FY16.

This report is to be discussed as an information item at the Committee on Budget & Finance meeting on November 1, 2017.

Attachment
Presentation: "University of Hawai'i Post-Issuance Compliance Update"

c: University Controller (w/o Attachment)

2444 Dole Street, Bachman Hall, Room 201
Honolulu, Hawai'i 96822
Telephone: (808) 956-8903 • Fax: (808) 956-5286

UNIVERSITY of HAWAI'I SYSTEM

Financial Management Office

University of Hawai'i Post-Issuance Compliance Update

UH Board of Regents
Committee on Budget & Finance
November 1, 2017

Post-Issuance Compliance Update

I. Compliance Requirements

II. Process to Determine Private Use

III. Private Use Analysis Results

IV. Moving Forward

Compliance Requirements

Governmental Bond Requirements

- At least 90% of the proceeds of the bond issue must be used for governmental purposes
- No more than 10% of the proceeds of the bond issue can be used for a "private business use"
- Private business use is determined over the life of the bond issue

Compliance Requirements

- *Basic Tax Analysis in Governmental Bond Financings*
  - Are the bond financed assets used by members of the general public?
  - Does a party other than a State or Local Government agency or department have a "special legal entitlement" to use the bond financed assets?
  - Private business use can arise under a management contract <u>even if</u> the assets serve the general public
  - Use of governmental bond financed assets by a charitable organization (e.g., a Section 501(c)(3) organization) will generally give rise to private business use
  - Contracts with the federal government will generally give rise to private business use

Compliance Requirements

Contracts that may give rise to private business use include:

- Management Contracts
  - Bookstore Contracts
  - Physician Contracts
  - Concession Contracts
  - Cafeteria Contracts
- Research Contracts
  - Federal
  - Business Sponsored (including non-profit)

Compliance Requirements

Contracts that will generally give rise to private business use:

- Leases
  - Cafeteria Contracts; Pharmacies; Physician Office Spaces; Gift Shops; Corporate Events
  - Many so-called "management contracts" are in fact leases (even though it might be called something else)
- If someone is paying rent or splitting profits from an operation in bond financed space, that person is not treated as a manager under the tax rules, and would be considered a nonqualified user

INCIDENTAL CONTRACTS

- Contracts for services that are solely incidental to the primary function of the financed facility are not subject to IRS rules.

  Examples:

  - Janitorial contracts
  - Routine maintenance contracts
  - Hospital billing contracts
  - Landscaping contracts

Question to ask to determine private use

Why Do Some Management And Research Contracts Give Rise To Private Business Use?

- They represent a transfer of control or economic benefit from the University to a private party
- They provide a “special legal entitlement” (e.g. lease) to use the University’s bond financed property
- Private party benefits from use of the University’s bond financed facility and college/university research “know-how” in connection with a scientific endeavor

Management Contract –Revenue Procedure Changes

- *Revenue Procedure 97-13 and IRS Notice 2014-67*
  - Based on mechanical rules
  - Provided for range of contract structures based on term and compensation
- *Revenue Procedure 2016-44 -- released August 22, 2016*
  - Replaced mechanical approach of Rev Proc 97-13 with a principle-based approach
- *Revenue Procedure 2017-13 -- released January 17, 2017 (details on slide 10 & 11)*
  - Supersedes Rev Proc 2016-44
  - Addresses concerns raised by Rev Proc 2016-44, most notably confirming that certain Rev Proc 97-13 compliant contracts will not cause private business use under the new rules
  - Applies to contracts entered into on or after January 17, 2017

Management contract - Revenue Procedures 2017-13

- Applies principle-based concepts of control, risk, and who derives the benefits and burdens of bond-financed property
- Rules to be applied:
  - Compensation must be reasonable
    - ✓ Payments to reimburse actual and direct expenses and related administrative overhead expenses
  - Timing and payment of compensation
    - ✓ At least paid annually; payment would include interest charges and late payment fees, etc.
  - Service provider may not receive a share of net profits from managed property
  - No bearing of net loss to the manager
  - Term of the contract
    - ✓ Must not exceed the lesser of 30 years or 80% of the weighted average expected economic life of managed property
  - Control over the use of managed property
  - No risk of loss to the manager
  - No inconsistent tax positions
    - ✓ The manager is not entitled to, will not take, any tax position inconsistent with the bond-finance property (e.g. depreciation of the property)
  - Owner's exercise of rights

Sponsored Research Agreements - Revenue Procedures 2007-47

- Permits certain types of sponsored research to be conducted within bond financed space without research being treated as private business use
  - Applies only to “basic research” – any original investigation for the advancement of science not having a commercial objective

Process To Determine Private Use

Management and Lease Contracts

- Reviewed all active contracts during fiscal year 2016
- Obtained square footages allocated for the services provided by these contracts
- Calculated the private use percentage

Process To Determine Private Use

Sponsored Program Contracts

- Involved Office of Research Services, BLX Group (compliance consultant), and Orrick (tax law attorney) to determine if UH standard agreement terms with sponsors meet the Safe Harbor requirements:
  - Qualified Sponsored Agreements
    - UH federal contracts governed by the Bayh-Dole rules meet the requirements of 2007-47 and don't give rise to private business use
    - Public universities, State and Local government agreements don't give rise to private business use.
  - Non-qualified Sponsored Agreements
    - Any research undertaken on behalf of section 501(c)(3) organizations (including UH Foundation) and for-profit and foreign organizations are treated as private business use unless the requirements of 2007-47 are met. This is the rule under the tax-exempt bond regulations, even if the research is undertaken for a public interest
      - Private use is generally measured based on non-qualified research dollars/total research dollars (Revenue Method). That measurement is based on a "bond issue by bond issue" basis

Process To Determine Private Use

Example: Private Use Calculation for sponsored programs - Fiscal Year 2016 Sponsored Program Revenue Data

	JABSOM	Cancer Center	CMORE
Non-Qualified Research (NQR) Revenue			
UH Foundation	175,310.69	270,261.48	103,190.10
Non-CT, Non-MTA, Non-UHF			
501(c)(3)	529,261.90	432,352.71	57,418.93
Business	71,779.00		
Foreign		65,795.75	61,633.20
STTR/SBIR2			
Total	776,351.59	768,409.94	222,242.23
Qualified Research Revenue			
UH Foundation Qualified Revenue			2,953,352.09
Material Transfer			
Non-CT, Non-MTA, Non-UHF			
Federal	17,961,126.53	19,432,019.71	2,632,380.35
Public University	(3,089.20)	-	82,188.30
State	-	-	
State/Local	-	-	
Total	17,958,037.33	19,432,019.71	5,667,920.74
Grand Total	18,734,388.92	20,200,429.65	5,890,162.97
NQR Revenue % of Grand Total	4.14%	3.80%	3.77%

Private Use Analysis Results

Series 2006A Refunding (compliant)

- Refund Series 2002A only (no new money)
- Series 2002A financed Biomedical Sciences Building Renovations 1 and 2, Cancer Center design and planning, and various JABSOM buildings including a central plant, cooling system, and emergency generators
- Research was applicable to all three Series 2002A financed projects
- Private use associated with JABSOM, Cancer Center, and Biomedical Sciences Renovation 1 due to nonqualified sponsored research
- Series 2015E(R) defeased portions of Series 2006 A Refunding principal in fiscal year 2016
  - ✓ *2013 Fiscal Year private use percentage: 2.24%*
  - ✓ *2014 Fiscal Year private use percentage: 3.46%*
  - ✓ *2015 Fiscal Year private use percentage: 2.89%*
  - ✓ *2016 Fiscal Year private use percentage: 2.39%*

Private Use Analysis Results

Series 2006A (compliant)

- Financed student housing (Frear Hall and Hilo and Manoa R&R) and the Gateway Cafeteria
- No corporate sponsored research conducted in any facilities financed by 2006A Bonds
- Series 2015B(R) defeased portions of Series 2006 A principal in fiscal 2016
- Private use due to short term non-UH student uses in excess of 50 days in Frear Hall and Manoa Student Housing
  - ✓ *2013 Fiscal Year private use percentage: 0.00%*
  - ✓ *2014 Fiscal Year private use percentage: 0.18%*
  - ✓ *2015 Fiscal Year private use percentage: 2.02%*
  - ✓ *2016 Fiscal Year private use percentage: 2.11%*

Private Use Analysis Results

Series 2009A (compliant)

- Financed the following projects: Ching Field, Hawaii CC Palamanui Campus, Hilo Bookstore Campus Center addition, UH Hilo College of Pharmacy, UH Hilo Student Housing, UH Manoa Student Housing, UHM Biomedical Sciences Building addition (C-MORE), Waianae Education Center, and UH West O'ahu campus development
- Refunded Housing Finance and Development Corporation Series 1995 Bonds that financed the Kau'iokahaloa Nui faculty housing project
- Private use associated with
  - West O'ahu Campus Development – UH Federal Credit Union lease and the Da Spot Food, LLC lease
  - Hale Aloha Student Housing - short term uses in excess of 50 days
  - Kau'iokahaloa Nui - laundry lease with Touchstone Properties, LLC, of which was replaced by Wash Multimedia Laundry Systems, LLC
  - C-MORE Addition - high levels of nonqualified sponsored research from UH Foundation in fiscal year 2014 & 2015 and significant drop in fiscal year 2016

✓ *2013 Fiscal Year private use percentage: 0.45%*

✓ *2014 Fiscal Year private use percentage: 6.09%*

✓ *2015 Fiscal Year private use percentage: 11.44%*

✓ *2016 Fiscal Year private use percentage: 2.60%*

(Private use compliance is determined over the life of the bond issue. Exceeding the allowable percentage in one year doesn't put us out of compliance.)

Private Use Analysis Results

Series 2010A-1 and 2010A-2 (compliant)

- Financed construction of Cancer Center
- Private use due to nonqualified sponsored research
  - ✓ *Series 2010A-1 & 2010A-2 2013 Fiscal Year private use percentage: 7.89%*
  - ✓ *Series 2010A-1 & 2010A-2 2014 Fiscal Year private use percentage: 9.73%*
  - ✓ *Series 2010A-1 & 2010A-2 2015 Fiscal Year private use percentage: 5.04%*
  - ✓ *Series 2010 A-1 & 2010 A-2 2016 Fiscal Year private use percentage: 3.80%*

Private Use Analysis Results

Series 2010 B-1 and 2010 B-2 (compliant)

- Financed Campus Center – UH Manoa Campus Center, CC Energy Conservation Project, Culinary Institute of the Pacific, ITC building, Pan-STARRS facility, Sinclair Library Basement Renovation, Waianae Education Center, and UH West O'ahu campus development
- Not all facilities were placed in service as of the end of fiscal 2016
- Private use associated with
  - UH Manoa Campus Center –American Savings Bank, Subway, and UH Federal Credit Union leased space receiving utility from the Water Cooled Chiller
  - West O'ahu Campus Development - Federal Credit Union lease and the Da Spot Food, LLC lease
  - Community Colleges Energy Conservation Project – lease of space affected by the energy efficiency improvements at HCC, KCC, and LCC

✓ *Series 2010B-1 & 2010B-2 2013 private use percentage: 0.66%*

✓ *Series 2010B-1 & 2010B-2 2014 private use percentage: 0.17% and .13%, respectively*

✓ *Series 2010B-1 & 2010B-2 2015 private use percentage: 2.62% and 1.95%, respectively*

✓ *Series 2010 B-1 & 2010 B-2 2016 Fiscal Year private use percentage: 2.83% and 2.10%, respectively*

Private Use Analysis Results

Series 2012A (compliant)

- Refunding the Series 2001B Bonds which refunded the Series 1992 and 1994 Bonds
- Series 1992 financed a telecommunications system
- Series 1994 financed elevator upgrades (Gateway, Hale Aloha Towers, Hale Wainani, & Hale Noleani), bathroom renovations (Laulima, Kahawai, Hale Aloha Ilima, & Mokihana Towers), and lounge conversions (Gateway, Laulima, & Kahawai)
- Private use associated with
  - Telecommunications system – private use of 431 out of 12,000 line capacity in fiscal 2013, 408 in fiscal 2014, 401 in fiscal 2015, and 413 in fiscal 2016
  - Hale Aloha – the elevator upgrades due to short term uses in excess of 50 days

✓ *2013 Fiscal Year private use percentage: 2.19%*

✓ *2014 Fiscal Year private use percentage: 2.05%*

✓ *2015 Fiscal Year private use percentage: 2.01%*

✓ *2016 Fiscal Year private use percentage: 2.09%*

Private Use Analysis Results

Series 2015B (R) (compliant)

- Partial refund Series 2006 A (no new money)
- Series 2006 A financed student housing (Frear Hall, Hilo and Manoa R&R) and the Gateway Cafeteria
- No corporate sponsored research conducted in any facilities financed by Series 2006 A
- Series 2015B(R) private use mitigated by Taxable Bond proceeds
- Private use due to short term uses in excess of 50 days in Frear Hall and Manoa Student Housing
  - ✓ *2016 Fiscal Year private use percentage: 0.48%*

Private Use Analysis Results

Series 2015E(R) (compliant)

- Partial refund of Series 2006A Refunding Bonds (no new money)
- Series 2006A Refunding Bonds refunded Series 2002 A (no new money)
- Series 2002A financed Biomedical Sciences Building Renovations 1 and 2, Cancer Center design and planning, and various JABSOM buildings including a central plant, cooling system, and emergency generators
- Research is applicable to all three Series 2002A financed projects
- Series 2015E(R) private use mitigated by Taxable Bond proceeds
- Private use associated with JABSOM, Cancer Center, and Biomedical Sciences Renovation 1 due to nonqualified sponsored research
  - ✓ *2016 Fiscal Year private use percentage: 1.92%*

Private Use Analysis Results

Research Facilities - JABSOM, Cancer Center, BioMed, C-MORE

Research revenue data and contract summaries:

- Complexion of research activity remained relatively consistent from fiscal year 2013 to fiscal year 2016
- Private use rose for some bond issues due to research facilities being placed in service with non-qualified research activity in fiscal 2014 and 2015
- Fiscal 2016 private use drop for bond issues due to the changes made to the UH Foundation contract template and legal review of certain UH Foundation research contracts

Private Use Analysis Results

Research Analyses - JABSOM, Cancer Center, BioMed, C-MORE

- IRS-sanctioned revenue methodology:
  - Revenue method continues for the fiscal 2016 analyses, as it has been for the fiscal 2013, 2014 and 2015 analyses
  - University of Hawaii Foundation ("UHF") research was found, by virtue of certain wording in its research contract template, to not convincingly meet the safe harbor requirements of Rev. Proc. 2007-47, and thus all revenue from UHF research has been considered to cause private use
  - UH has revised the UHF research template and beginning with fiscal 2016, UHF research should no longer result in private use as long as the original research contract is funded by a Qualified Research Sponsor or has met Rev. Proc. 2007-47 safe harbor

Moving Forward

- Consider to issue certain percentage of taxable revenue bonds to allow private use in future bond issuance
- Continue to monitor private business use percentages on an annual basis for all outstanding bond issues
- Consider the effects newly placed in service bond-financed projects will have on the private use percentages of certain bond issues
- UHF research contributed by far the most to non-qualified sponsored research, so new UHF research template should greatly reduce private use from research. Still, very important to continue to monitor research activity annually, to ensure continued compliance