



## Discretionary Programs

UBS Managed Portfolio Program, Portfolio Management Program

## Separately Managed Accounts Programs

ACCESS<sup>SM</sup>, Managed Accounts Consulting (MAC)

## Unified Accounts Program

UBS Strategic Wealth Portfolio (SWP)

## Non-Discretionary Advisory Programs

UBS Strategic Advisor

## Personalized Asset Consulting and Evaluation (“PACE”)

PACE Multi Advisor Program, PACE Select Advisors Trust

**This brochure provides information about UBS Financial Services Inc. and our investment advisory programs that you should consider before becoming a client of any of these programs. This information has not been approved or verified by any governmental authority.**

This Form ADV Disclosure Brochure applies to all of your advisory accounts at UBS Financial Services Inc., including any advisory accounts you may open in the future. We will not provide another copy of the Form ADV Disclosure Brochure when you establish new advisory accounts unless there are material changes to the document we originally provided to you. Annually, we will provide you with a copy of our updated Form ADV Disclosure Brochure or a summary of material changes from the document we originally provided to you.

**Please retain these documents for future reference as they contain important information if you decide to add services or open new advisory accounts with our Firm.**

**You may obtain a copy of the current Form ADV Disclosure at any time by contacting your Financial Advisor.**

**Form ADV Disclosure Brochure**

**November 19, 2010**

**SEC File Number 801-7163**

**UBS Financial Services Inc.**

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201-352-3000



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## I. ABOUT UBS FINANCIAL SERVICES INC.

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 AG ("UBS"), is a global, integrated investment services firm and one of the world's leading banks. With our affiliates, we are registered to act as a broker-dealer, investment adviser, futures commission merchant, commodity pool operator and commodity trading advisor.

We provide investment advisory services to individuals, banks, thrift institutions, mutual funds and other investment companies, pension and employee benefit plans, trusts, estates, charities, corporations and other business and government entities. Our advisory services cover most types of debt and equity or equity-related securities of U.S. and foreign companies and national and local government issuers, both those that are exchange-listed and those traded over-the-counter. We also provide consulting, brokerage and advisory services relating to rights and warrants, securities options and futures; mortgage-backed securities; certificates of deposit; commodities and commodity options and futures contracts, including financial futures; commercial paper; bankers' acceptances; variable annuities; variable life insurance; open and closed-end funds; exchange traded funds; real estate investment trusts; American Depositary Shares; foreign ordinary shares; and publicly traded master limited partnerships.

As a registered adviser, we complete a Form ADV, which contains additional information about our business and our affiliates. Information is available through publicly available filings at the U.S. Securities and Exchange Commission at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

This information is current as of the date of this document and is subject to change at our discretion.

### **Conducting Business with UBS: Investment Advisory and Broker Dealer Services**

As a firm providing wealth management services to clients in the United States, we are registered with the U.S. Securities and Exchange Commission (SEC) as a broker-dealer and an investment adviser, offering both investment advisory and brokerage services.<sup>1</sup>

Our clients work with their Financial Advisors to determine the services that are most appropriate given their goals and circumstances. Based on the services you request, we can fulfill your wealth management needs in our capacity as an investment adviser, as a broker-dealer, or as both. For example, we offer financial planning as an advisory service. Once we deliver a financial plan to you, you can decide whether to implement the financial plan via brokerage accounts, advisory programs or a combination, depending on your needs and preferences. Most of our Financial Advisors are qualified and licensed to provide both brokerage as well as advisory services depending on the services a client has requested.

In addition, some of our Financial Advisors hold educational credentials, such as the CERTIFIED FINANCIAL PLANNER™ (CFP®) designation. Holding a professional designation typically indicates that the Financial Advisor has completed certain courses or continuing education. However, use of such designations does not change UBS's or the Financial Advisor's obligation with respect to the advisory or brokerage products and services that may be offered to you.

**It is important to understand that investment advisory and brokerage services are separate and distinct and each is governed by different laws and separate contracts with you. While there are similarities among the brokerage and advisory services we provide, depending on the capacity in which we act, our contractual relationship and legal duties to you are subject to a number of important differences.**

### **Our Services as an Investment Adviser and Our Relationship With You**

We offer a number of investment advisory programs to clients, acting in our capacity as an investment adviser, including comprehensive financial planning, discretionary account management, non-discretionary investment advisory programs, and advice on the selection of investment managers, mutual funds, exchange traded funds and other securities offered through our investment advisory programs.

Generally, when we act as your investment adviser, we will enter into a written agreement with you expressly acknowledging our investment advisory relationship with you and describing our obligations to you. At the beginning of our advisory relationship, we will give you our Form ADV brochure(s) to you for our advisory program(s) which provides detailed information about, among other things, the advisory services we provide, our fees, our personnel, our other business activities and financial industry affiliations and conflicts between our interests and your interests.

### **How We Charge for Investment Advisory Services**

If you select an advisory product or service, we will charge you fees determined as either:

- A percentage of the amount of assets held in your advisory account,
  - A flat annual fee,
  - A combination of asset based fee and commissions, or
  - Periodic fees.
- Financial Planning Services are available for a fee; basic financial planning services are currently available at no charge.

Your Financial Advisor will receive a portion of the fees you pay us.

### **Our Fiduciary Responsibilities as an Investment Adviser**

When you participate in one of our investment advisory programs, we are considered to have a fiduciary relationship with you.<sup>2</sup> The fiduciary standards are established under the Investment Advisers Act of 1940 and state laws, where applicable, and include:

- Obligations to disclose to you all material conflicts between our interests and your interests.

<sup>1</sup> Examples of our advisory programs and services include our financial planning services and our ACCESS, Portfolio Management Program, Managed Accounts Consulting, UBS Institutional Consulting, UBS Strategic Advisor, UBS Strategic Wealth Portfolio, UBS Managed Portfolio Program, and PACE programs. Examples of our brokerage accounts include our Resource Management Account®.

<sup>2</sup> Our status as a fiduciary under the Investment Advisers Act will not, in itself, make us a fiduciary under ERISA or the Internal Revenue Code. We will not act in such capacity unless we have agreed to do so in writing.

- If we or our affiliates receive additional compensation from you or a third-party as a result of our relationship with you, we must disclose that to you.
- We must obtain your informed consent before engaging in transactions with you for our own account or that of an affiliate or another client when we act in an advisory capacity.
- We must treat you and our other advisory clients fairly and equitably and cannot unfairly advantage one client to the disadvantage of another.
- The investment decisions or recommendations we make for you must be suitable and appropriate for you and consistent with your investment objectives and goals and any restrictions you have placed on us.
- We must act in what we reasonably believe to be your best interests and in the event of a conflict of interest, we must place your interests before our own.

### **Our Services as a Broker-Dealer and Our Relationship With You**

As a full-service broker-dealer, our services are not limited to taking customer orders and executing securities transactions. As a broker-dealer, we provide a variety of services relating to investments in securities, including providing investment research, executing trades and providing custody services. We also make recommendations to our brokerage clients about whether to buy, sell or hold securities. We consider these recommendations to be part of our brokerage account services and do not charge a separate fee for this advice. Our recommendations must be suitable for each client, in light of the client's particular financial circumstances, goals and tolerance for risk.

Our Financial Advisors can assist clients in identifying overall investment needs and goals and creating investment strategies that are designed to pursue those investment goals. The advice and service we provide to our clients with respect to their brokerage accounts is an integral part of our services offered as a broker-dealer.

In our capacity as broker-dealer, we do not make investment decisions for clients or manage their accounts on a discretionary basis. We will only buy or sell securities for brokerage clients based on specific directions from you.

### **How We Charge for Brokerage Services**

If you choose to establish a brokerage account with us, you may elect to:

- Pay us for our brokerage services each time we execute a transaction for your account in a Resource Management Account. If you choose to pay on a transaction-by-transaction basis, we can act as either your agent or "broker," or as a "dealer."
- Operating as your agent or broker, we will charge a commission to you each time we buy or sell a security for you.
- As a "dealer," we act as a principal for our own account on the other side of a transaction from you. Using our own inventory, we will buy a security from or sell a security to you, and seek to make a profit on the trade by charging you a "mark up," "mark-down" or "spread" on the price of the security in addition to the commissions you pay on these transactions.

We pay our Financial Advisors a portion of commissions, profits on principal trades, and other charges.

### **Our Responsibilities to You as a Broker-Dealer**

As a broker-dealer we are subject to the Securities Exchange Act of 1934, the Securities Act of 1933, and the rules of self-regulatory organizations such as the Financial Industry Regulatory authority (FINRA) and the New York Stock Exchange and state laws, where applicable. The standards for broker-dealers include the following:

- As your broker-dealer, we have a duty to deal fairly with you. Consistent with our duty of fairness, we are obligated to make sure that the prices you receive when we execute transactions for you are reasonable and fair in light of prevailing market conditions and that the commissions and other fees we charge you are not excessive.
- We must have a reasonable basis for believing that any securities recommendations we make to you are suitable and appropriate for you, given your individual financial circumstances, needs and goals.
- We are permitted to trade with you for our own account or for an affiliate or another client and may earn a profit on those trades. When we engage in these trades, we disclose the capacity in which we acted on your confirmation, though we are not required to communicate this or obtain your consent in advance, or to inform you of the profit earned on the trades.
- **It is important to note that when we act as your broker-dealer, we do not enter into a fiduciary relationship with you. Absent special circumstances, we are not held to the same legal standards that apply when we have a fiduciary relationship with you, as we do when providing investment advisory services.** Our legal obligations to disclose detailed information to you about the nature and scope of our business, personnel, fees, conflicts between our interests and your interests and other matters are more limited than when we have a fiduciary relationship with you.

### **Our Obligations, Your Agreement and Your Account/Program Selection**

If you are establishing an *investment advisory* account with us, you will be required to execute both an investment advisory agreement and a brokerage account agreement. The brokerage agreement allows your account to have trading capability and custody services. Once executed, the brokerage agreement supplements your advisory agreement, and all, collectively, govern your relationship with us. In this case, your account will be designated as "advisory" and our obligations to you as they pertain to that account will be that of an investment adviser as described above and in your investment advisory program agreement and application.

If you open an investment advisory account with us, both you and UBS will have the right to terminate your account from the investment advisory program. You should note that termination will end our investment advisory fiduciary relationship with you as it pertains to that account and, depending on the terms of your specific investment advisory agreement with us, will cause your account to be converted to, and designated as, a brokerage

account only. Your investment advisory agreement will no longer apply to that account and it will be governed solely by the terms and conditions of your brokerage account agreement.

### For More Information

Understanding the ways in which we may conduct business under applicable laws and regulations is essential to the relationship between "You and Us." The investment advisory programs and brokerage accounts we offer differ in other ways than those summarized above. It is important that you carefully read the agreements and disclosures that we provide to you with respect to the products or services under consideration.

While we strive to make sure the nature of our services is clear in the materials we publish, if at any time you would like clarification on the nature of your accounts or the services you are receiving, please speak with your Financial Advisor.

### References in this brochure to:

- "Programs" means our investment advisory programs.
- "Agreement" means the Advisory Relationship Agreement.
- "SMA Manager" means your ACCESS, MAC or SWP investment manager as applicable.
- "Account" or "account" means the account(s) you have established in the relevant programs.
- "UBS Portfolio Manager" means your Portfolio Management Program Financial Advisor or our home office investment professionals in the UBS Managed Portfolio Program.
- "Asset Allocation" and "Portfolio Review" are used interchangeably in this document and refer to the asset allocation/investment strategy you have selected for your program account.
- "Plan" means an individual retirement account ("IRA"), a retirement plan for self-employed individuals, or an employee benefit plan subject to the Employee Retirement Income Security Act of 1974, as amended.

## II. ABOUT OUR INVESTMENT ADVISORY PROGRAMS

This brochure describes our investment advisory programs ("Programs"). We offer a variety of advisory services to address different investment needs, including Discretionary Programs, Non-Discretionary Advisory Programs, Separately Managed Accounts, and Unified Accounts Program. We act as sponsor for the Programs described in this Brochure.

- **Discretionary Programs:** UBS Managed Portfolio Program and Portfolio Management Program
- **Separately Managed Accounts Programs:** ACCESS and Managed Accounts Consulting
- **Unified Accounts Program:** UBS Strategic Wealth Portfolio
- **Non-Discretionary Advisory Programs:** PACE and UBS Strategic Advisor Program

These Programs offer "wrap fee" advisory services through which you can (i) delegate investment discretion to our Financial Advisors or our home office investment professionals; (ii) access the services of professional separate managed account investment managers (SMA Managers); or (iii) work with your Financial Advisor in Programs in which you retain investment discretion over your account; or (iv) a combination of the above.

These Programs are designed for clients who (i) want to implement a medium- to long-term investment plan; and; (ii) seek and use the advice and guidance of an investment professional either in their self-directed accounts or by delegating management of their assets to a portfolio manager or SMA Manager; and (iii) prefer the consistency of fee-based pricing. They may not be appropriate for clients who: (i) seek a short-term investment; (ii) want to maintain consistently high levels of cash or money market funds (iii) want to maintain highly concentrated positions that will not be sold regardless of market conditions; or (iv) anticipate significant withdrawals from the account.

**There are important differences among these Programs in terms of services, structure and administration, the depth of research conducted on the managers available in the programs, program fees and the compensation Financial Advisors receive. Please review this brochure carefully as you decide which program is appropriate for your investment needs.**

**A. Advisory Programs: Fee Schedules, Minimum Investments and Minimum Annual Fees**

<b>Discretionary Programs</b>		
<b>Program Name</b>	<b>UBS Managed Portfolio Program</b>	<b>Portfolio Management Program (PMP)</b>
<b>Minimum Account Size</b>	<p>The minimum account size required to open a Program varies by strategy:</p> <ul style="list-style-type: none"> <li>• UBS Managed Portfolio of Funds: \$5,000 or \$50,000 in eligible assets (depending on the strategy selected)</li> <li>• UBS Managed Portfolio of Global Selections: \$250,000 in eligible assets</li> <li>• UBS Managed Portfolio Advised by Richard Bernstein Advisors LLC: \$50,000 in eligible assets</li> <li>• UBS Managed Portfolio Selections: \$100,000 in eligible assets</li> <li>• UBS Managed Portfolio of ETFs: \$50,000 in eligible assets</li> </ul>	\$50,000 in eligible assets
<b>Fee Schedule</b>	<p><b>UBS Managed Portfolio of Funds</b>                      First \$500,000: 1.35% – 1.85%                      Next \$500,000: 1.10% – 1.85%                      Next \$4,000,000: 0.95% – 1.85%                      Above \$5,000,000: 0.70% – 1.85%</p> <p><b>UBS Managed Portfolio of Global Selections</b>                      First \$1,000,000: 1.30% – 2.05%                      Next \$4,000,000: 1.15% – 2.05%                      Above \$5,000,000: 0.90% – 2.05%</p> <p><b>UBS Managed Portfolio Advised by Richard Bernstein</b>                      All Assets 1.25% – 2.80%</p> <p><b>UBS Managed Portfolio Selections</b>                      First \$1,000,000: 1.30% – 2.05%                      Next \$4,000,000: 1.15% – 2.05%                      Above \$5,000,000: 0.90% – 2.05%</p> <p><b>UBS Managed Portfolio of ETFs in the MAC Program:</b>                      charges a maximum 0.80% as the Investment Management Fee in the MAC Program.</p>	<p><b>Equity and Balanced Accounts</b>                      2.80% for first \$500,000                      2.20% for next \$500,000                      1.60% for next \$4,000,000                      1.40% for assets over \$5,000,000</p> <p>Fixed Income Accounts                      1.25% for first \$500,000                      1.10% for next \$500,000                      1.00% for next \$4,000,000                      0.80% for assets over \$5,000,000</p> <p>Strategies consisting of Pooled Investment Vehicles (Equity and Balanced). These fees do not include management and administrative fees and expenses of the pooled investment vehicles.</p> <p>2.00% for first \$500,000                      1.70% for next \$500,000                      1.40% for next \$4,000,000                      1.00% for assets over \$5,000,000</p>
<b>Minimum Fee</b>	No minimum fee	No minimum fee
<b>Fee Options</b>	Asset-based fee	Asset-based fee

Separately Managed Accounts Programs and Unified Accounts Program			
Program Name	ACCESS	Managed Accounts Consulting (MAC)	Strategic Wealth Portfolio (SWP)
<b>Relationship Type</b>	Single contract, sub-advisory program. Client hires UBS-FS and authorizes UBS-FS to hire manager on client's behalf.	Dual contract, consulting program. Client hires UBS-FS as consultant and hires manager (directly) to manage the account.	Advisory product with discretionary and non-discretionary sub-accounts. Separate managed accounts are sub-advised as in ACCESS. Mutual fund, exchange traded funds and alternative strategies assets are non-discretionary.
<b>Minimum Account Size</b>	\$100,000 Certain fixed income, international and multiple style accounts have minimums from \$175,000 to over \$3,000,000	\$100,000 or the manager's minimum (whichever is greater) We may accept accounts with lower minimum investments for certain specialized strategies on a limited exception basis only.  \$10,000,000 for MAC accounts held at an outside custodian, subject to limited exceptions.	The minimum account opening size: \$375,000. May be higher when selecting certain SMA strategies (for example fixed income and international). Also, the minimum asset size required may be higher because of the target asset allocation and the percentage invested in each strategy.
<b>Fee Schedule</b>	<b>Equity and Balanced Accounts</b> 2.80% for first \$500,000 2.20% for next \$500,000 1.60% for next \$4,000,000 1.40% for assets over \$5,000,000  <b>Fixed Income Accounts</b> 1.25% for first \$500,000 1.10% for next \$500,000 1.00% for next \$4,000,000 0.80% for assets over \$5,000,000	<b>UBS Financial Services Inc. Portion of MAC Fee for Equity and Balanced Accounts</b> 2.05% for first \$500,000 1.50% for next \$500,000 0.95% for next \$4,000,000 0.80% for assets over \$5,000,000  <b>UBS Financial Services Inc. Portion of MAC Fee for Fixed Income Accounts</b> 0.90% for first \$500,000 0.75% for next \$500,000 0.65% for next \$4,000,000 0.45% for assets over \$5,000,000	UBS Financial Services Inc. Annual Consulting  Fee Range: 0.75% to 2.00%  The Strategic Wealth Portfolio Program has a "Blended Program Fee" that includes a UBS Consulting fee applicable to all assets in the Account and the fees for the services of the SMA Manager(s) you select for the discretionary portion of your SWP Account. Fees for sub-accounts and SMA Managers will vary depending on the strategy selected.
<b>Minimum Fee</b>	Equities/Balanced: \$2,800, or 2.80% of your account value, whichever is less  Fixed Income: \$1,250, or 1.25% of your account value, whichever is less	Equities/Balanced: \$2,050, or 2.05% of your account value, whichever is less  Fixed Income: \$900, or 0.90% of your account value, whichever is less.	No minimum fee
<b>Minimum fee will be imposed in your account if the total fee you negotiated is less than the required minimum annual fee for the program.</b>			
<b>Manager's Fee</b>	Included in the program fee	The SMA Manager's fee is in addition to the program fee and is negotiated between the client and the manager.	Included in the Blended Program Fee
<b>Fee Options</b>	Asset-based fee	MAC Fee: Asset-based fee MAC Fee Plus Commission: Directed commissions	Asset-based fee

Non-Discretionary Advisory Programs			
Program Name	PACE Select	PACE Multi	UBS Strategic Advisor
<b>Eligible Investments</b>	UBS Mutual Fund (100% mutual funds)	Affiliated and Non-Affiliated Mutual Funds (100% mutual funds)	Mutual funds (affiliated and non-affiliated), exchange traded funds, equities, fixed income (85% maximum mutual funds)
<b>Minimum Account Size</b>	\$10,000	\$5,000	\$50,000 in eligible billable assets. If you link to another Strategic Advisor account, only one of the Related Accounts is subject to this minimum requirement. Each other Related Account is subject to a minimum account size of \$10,000 in eligible assets.
<b>Fee Schedule</b>	0.75% to 2.00%	0.75% to 2.00%	0.75 to 2.00%
<b>Minimum Fee</b>	No minimum fee	No minimum fee	No minimum fee
<b>Fee Options</b>	Asset-based fee	Asset-based fee	Asset-based fee

**Billing practices vary by product. Please see section "Program Fees, Financial Advisor Compensation and Billing Practices", for a description of our billing practices and the compensation paid to your Financial Advisor and SMA Managers in our Programs.** We may, in the future and at our discretion, institute special pricing features for our clients.

**If you negotiated a discount to the Program Fee schedule, that discount will apply only to the break-point asset level indicated in the Application. As a result, your Program Fee will be subject to changes in the future as you increase the assets in your Account and trigger application of the breakpoints listed in the Application.**

We reserve the right, in our sole discretion, to change account minimums for new accounts, impose higher account minimums for certain strategies or portfolios that may be offered from time to time, to terminate accounts that fall below the minimum account value requirements, or require that additional monies or securities be deposited to bring the account up to the required minimum.

**The percentage of Firm revenues that Financial Advisors receive in advisory programs is higher than the percentage of Firm revenues they receive on most other products and services. As a result, Financial Advisors may have a financial incentive to recommend the program(s) described in this brochure over other products and services. See "Program Fees, Financial Advisor Compensation and Billing Practices."**

**PLEASE NOTE THAT SECURITIES TRANSACTIONS IN YOUR ACCOUNT(S), LIQUIDATIONS, REDEMPTIONS REBALANCING AND OTHER PORTFOLIO CHANGES MAY RESULT IN YOU INCURRING GAINS OR LOSSES FOR INCOME TAX PURPOSES. UBS FINANCIAL SERVICES INC. DOES NOT PROVIDE TAX ADVICE. PLEASE CONSULT YOUR TAX ADVISOR.**

## B. Establishing Advisory Accounts With Our Firm

We will provide you with an Advisory Relationship Agreement which, when signed by you, will apply to all future advisory accounts you establish with our Firm. After we receive and accept your signed Agreement, you may establish accounts with us by contacting your Financial Advisors and providing verbal instructions.

The Advisory Relationship Agreement and our Form ADV Disclosure Brochure **apply to all of your advisory accounts at UBS**, including any advisory accounts you may open in the future. We will not provide another copy of the Advisory Relationship Agreement unless there are updates and amendments to your account agreements. Likewise, we will not provide another copy of the Form ADV Disclosure Brochure when you establish new advisory accounts unless you request a copy from your Financial Advisor, or there are material changes to the document we originally provided to you. Annually, we will provide you with a copy of our updated Form ADV Disclosure Brochure or a summary of material changes from the document we originally provided to you.

Because the Agreement and the Form ADV Brochure apply to all the different types of advisory accounts you can establish with us, some of the information in those documents and the other disclosures we send you may not apply to you now, but may apply in the future as you establish other accounts with us. **Please retain these documents for future reference as they contain important information if you decide to add services or open new advisory accounts with our Firm.**

Some of our programs permit you to delegate proxy voting authority to UBS or your Separately Managed Account (SMA) Manager, suppress your receipt of daily trade confirmations and/or, elect to permit principal trades in your account. **We ask you to provide these instructions when you establish your first advisory account under the relationship Agreement. We will apply your preferences (where those features are available) to all advisory accounts you establish under the Agreement, unless you provide different instructions for specific accounts.**

You may decide to open additional advisory accounts or take advantage of new services and account features in the future without signing additional documents or agreements. When that happens, we will confirm your instructions in writing and provide any relevant agreements and disclosures you have not already received. For certain accounts and services, you may be required to sign additional documents and agreements. All of the agreements and disclosures we send you are considered part of the Advisory Relationship Agreement.

To become a Program client, you must complete, with the assistance of your Financial Advisor, an application that includes an Account Profile Questionnaire (the "Questionnaire") to determine your investment needs, objectives and risk tolerances for the assets being invested in that Program. The Questionnaire forms the basis of your selection of an investment strategy or asset allocations for your Program account.

In certain cases, the advisory and consulting services available in our programs may be provided by Financial Advisors registered with companies affiliated with us.

### **C. Selecting an Investment Strategy, a SMA Manager or an Asset Allocation; Our Investment Manager Research Process**

This section provides a general description of the parameters and criteria of our SMA Manager review process, the development of our asset allocation models and the performance composites available to you.

The description is not a complete list of all factors reviewed, is current as of the date of this document, and is subject to change in our discretion. **We reserve the right to revise and update this process in our discretion including using a risk based approach in order to determine the depth of due diligence, review processes and tools that will be used in connection with our initial and on-going analysis of these strategies.**

**Diversification.** Unless the investment strategy you selected is identified as a fully diversified strategy, an investment in that strategy should not be considered as a diversified asset allocation plan to investing (either overall or within a single asset class or style), but should be viewed only as the equity or fixed income portion, as applicable, of your overall portfolio.

**Manager Research Process.** We select investment managers and strategies to participate in UBS programs to give our clients a wide choice of investment capitalizations and styles, including, among others, value, growth, growth and income, income, contrarian, tactical asset allocation, strategic asset allocation (through multi-style accounts), municipals, global, international, convertible bonds, long/short investing and strategies with real estate investment trusts.

Before being selected to participate in UBS researched programs, each SMA Manager strategy undergoes a research due diligence process performed by the Manager Research Group. This process is described in our brochure, **Selecting an Investment Manager: The Manager Research Process**. The Manager Research Group begins the screening process by using publicly available databases, industry contacts of the Manager Research Group or others at UBS (including Financial Advisors), and from investment managers approaching the Manager Research Group

directly on an unsolicited basis. General screens such as assets under management and portfolio manager "longevity" and investment style are used to narrow the field.

As of the date of this brochure, our selection procedures include an examination of investment philosophy and process, and may also include interviews with principals and key staff members, a review of trading practices and portfolio performance, etc. We may use third parties to help gather and analyze information used in the review. We review SMA Managers periodically to confirm and validate our earlier conclusions. That process may include periodic contact with the SMA Managers, as well as ongoing performance monitoring.

Some SMA Managers in turn, delegate their management responsibilities to affiliated and non-affiliated sub-advisors. All SMA Managers and associated strategies in our programs and their sub-advisors with the exception of those managers categorized as MAC Eligible are subject to the initial and ongoing due diligence process.

We provide different levels of SMA Manager due diligence in our MAC program. The level of due diligence we undertake varies depending on whether the manager is in our researched list and approved for use in the UBS programs or available as "MAC Eligible."

### **UBS Financial Services Inc. Investment Portfolios & Research Exceptions for Proprietary Strategies.**

**While we seek to apply the same review criteria to all researched managers available in our Separately Managed Accounts Programs, certain UBS affiliated strategies and UBS discretionary Investment Portfolios, such as Managed Portfolio of ETFs, may not have been screened or approved as Researched strategies at the time they were included in the Separately Managed Accounts Programs (but will be reviewed in the future), or, if screened, may not have met the required criteria.**

**For example, for our discretionary Investment Portfolios, while the Firm itself would satisfy the general research screens, an Investment Portfolio on its own, may fail to meet several research screens, including: total assets under management, length of a performance track record with client assets, and minimum number of accounts which are normally imposed on third party managers.**

**The Manager Research Group responsible for evaluating strategies for these programs reports into the same function as the portfolio investment team which manages the Investment Portfolios.**

**MAC Eligible Investment Managers:** Unlike the MAC researched universe of SMA Managers who are subject to the review process outlined above, the MAC Eligible universe of managers is used as an accommodation for (i) newly recruited Financial Advisors whose clients use managers not on our researched list; and (ii) clients who wish to join the MAC program and may want to retain a previously hired manager not on the investment researched list (unsolicited managers). The Manager Research Group's review of MAC Eligible Managers is limited in scope and does not provide enough information for us to express an opinion regarding the investment capabilities of those firms. The limited review is performed once and

provides a broad overview of the manager's organizational structure and history, together with information about their assets under management, net worth and regulatory record, and is not updated. UBS does not make initial or ongoing recommendations on MAC Eligible Managers to existing and/or prospective clients.

**Selecting an SMA Manager:** Our SMA Programs and Unified Accounts Program offer to you the portfolio management services of a select, pre-screened group of SMA Managers. Our role is to identify managers which have been examined and determined to be suitable for the client's needs. Your Financial Advisor will review the results of the Questionnaire with you. In the MAC program, your Financial Advisor will review the information provided in your account application with you. You then select one or more SMA Manager(s) (who may or may not be affiliated with us) for your account(s) from a group of SMA Managers and model portfolios recommended by us.

We do not offer every investment manager or strategy available in the industry. We will present to you those managers which, have been approved to be offered through our Firm and which, in our professional judgment, are appropriate to help you pursue your financial goals. We do not represent that the managers presented will be the best available managers either in the industry or the best available managers among the managers included in our Firm-sponsored programs or otherwise reviewed by us. See **"Recommendation of Affiliated Managers, Mutual Funds and Alternative Investments" and "Additional Sources of Compensation to UBS Financial Services Inc., UBS Affiliates and Financial Advisors"** for a summary of additional compensation we receive from various sources.

**SMA Manager Searches.** To help you select an SMA Manager, at your request, we may provide information from third party or proprietary databases regarding different managers. We do not verify or guarantee this information, including past performance information, which may not be calculated on a uniform or consistent basis. Our inclusion of an SMA Manager in the database or in the manager search report is not an endorsement or recommendation of that SMA Manager by us.

**SMA Manager/Terminations from our Researched List and Program Offerings:** We retain the authority to remove any SMA Manager from our programs and from the researched list at any time. Circumstances under which we may terminate or discontinue a manager include (but are not limited to) persistent underperformance, significant departure from the SMA Manager's stated investment discipline, or material changes in the SMA Manager's organization.

SMA Managers in our advisory programs are asked to contribute to our overall training and education costs for Financial Advisors in our managed accounts programs. Neither contribution towards these educational expenses, nor lack thereof, is considered as a factor in analyzing or determining whether an SMA Manager should be included or should remain in our advisory programs. See **"Additional Sources of Compensation to UBS Financial Services Inc., UBS Affiliates and Financial Advisors—Contributions to Training and Education Expenses."**

**If you are a client in our ACCESS, MAC, and Strategic Wealth Portfolio programs, we will notify you if your**

**SMA Manager is terminated from the program.**

**Performance Composites.** We may make available descriptive profiles of selected investment strategies that include past performance information. Profiles are not available for every Portfolio Manager, SMA manager or strategy available in the Programs. We also include manager performance, including their performance history prior to joining our programs, in various program proposals and profiles. Profiles are not available for every manager or strategy available in the programs.

We believe that composite performance information is meaningful. Composites that we provide may be prepared by us, or, in the case of some SMA Managers, by the managers, or obtained from third party sources.

We calculate a strategy's composite performance based on standards drawn from industry sources. Performance is calculated by taking into account at least the following items: a return calculated using a Modified Dietz formula; cash flows into and out of the accounts; monthly valuations; and income accrued on fixed income securities. The performance reflected in the composite information includes all accounts managed in the relevant style for at least one full calendar quarter. We do not eliminate accounts that impose restrictions and it is possible that the composite shown reflects the performance of only one account, even if that account is restricted. For this reason, and because *past performance is not a guarantee or indication of future results*, you should not consider the performance shown in the composite as representative of the historical performance of the manager or the performance you should expect in the future for either a restricted or unrestricted account. Accounts will be excluded from the composite if they have not been in the program for a full calendar quarter and/or if there appears to be a discrepancy in the report or contain material client directed constraints.

For our SMA Managers, we calculate performance composites only for those managers offered in our ACCESS program. Some of our ACCESS SMA Managers and their strategies are also available in other programs, for example, SWP and MAC. As a result, we use these managers' ACCESS data in program profile(s) and strategy(ies) composite performance in investment proposals for those programs. For SMA Manager strategies not available in ACCESS, we use performance provided by the investment manager or by external sources.

While we believe that information provided by managers or obtained from external sources is accurate, we do not independently verify or guarantee it. Please note that we cannot assure you that any performance information provided has been calculated on a uniform or consistent basis. **Note that past performance does not guarantee or indicate future results.**

For Programs in which clients retain trading authority of their Accounts, for example, PACE and Strategic Advisor, we do not create performance composites or review the performance of Financial Advisors with accounts in those programs.

**Your Asset Allocation.** We will provide you with an asset allocation proposal for accounts you want to open in our PACE, Strategic Advisor and Strategic Wealth Portfolio Programs. The proposal is based on the information you provided to us and discussions with you as to an appropriate allocation (Target Allocation) of your Program Assets. The Target Allocation

represented provides a long-term investment strategy that seeks to balance your investment objectives with your risk tolerance.

You may accept the Target Allocation for the Program Assets in your Account, or you may change it to include different asset categories or to allocate a different amount of your Program Assets to one or more asset classes. You may consult with your Financial Advisor about these choices. The allocation you select for your Target Allocation is intended to be used to initially invest your Program Assets, and may change from time to time as long as it is within your stated risk parameters. You must pay your Program fees regardless of whether or not you follow our recommended allocation.

Our asset allocations are based upon a proprietary methodology. In developing those allocations, UBS considers asset class risk and return results that are based on estimated forward-looking return and risk assumptions, as measured by standard deviation, (“capital market assumptions”), which are based on UBS proprietary research. The development process includes a review of a variety of factors, including the return, risk, correlations and historical performance of various asset classes, inflation and risk premium. The process assumes a situation where the supply and demand for investments is in balance and in which expected returns of all asset classes are a reflection of their expected risk and correlations regardless of timeframe. These capital market assumptions do not assume any particular investment time horizon.

UBS periodically reviews the economic or market conditions or other general investment considerations that it believes may impact the capital market assumptions. The capital market assumptions may change from time to time at the discretion of UBS. UBS has changed its risk and return assumptions in the past and may do so in the future. Neither UBS nor your Financial Advisor is required to provide you with an updated proposal based upon changes to these or other underlying assumptions. Changes in the assumptions may affect your Target Allocation on the broad, subclass or style level. You will be sent a written notice in the event that we change our capital market assumptions which result in a change to your Target Allocation.

We may add or remove asset classes, subclasses and styles from the allocation methodology at any time. Changes to the Target Allocation may result in tax consequences to you. Please consult your tax advisor if this occurs.

You should note that UBS employs a variety of asset allocation models and tools and, as a result, our modeling outside of the programs may vary depending upon the asset allocation model, amount invested, and software program used for analysis. Your account reflects the target asset allocation that you have selected. Deviations from your target asset allocation will occur due to, among other things, fluctuations in the market value of securities in the account before rebalancing, any investment restrictions you impose on the account and any tax selling requested.

We will not verify, nor are we responsible for, the accuracy or completeness of information regarding assets held at other institutions that you may include in your asset allocation. UBS does not provide advice with respect to your assets at other firms and specifically disclaims any liability for any activity conducted by you in accounts at other firms.

#### **Recommendation of Affiliated/proprietary SMA Managers, Securities and Investments:**

We may, upon your request and after a review of your needs and available options, recommend affiliated/proprietary money managers or securities. Recommendation of proprietary or affiliated products and managers raises a conflict of interest as retaining those entities or purchasing those securities will result in increased compensation to UBS and/or an affiliated company in the UBS organization, depending on your specific circumstances. If you select funds, products or other investment vehicles managed or sponsored by us or our affiliates, those management fees will be payable to us or those affiliated entities. Your Account’s actual investment return will be reduced by those fees and expenses as well as the Program Fee. Please review the applicable prospectus and offering documents carefully for a detailed description of the additional fees associated with these securities.

#### **D. Discretionary Programs: UBS Managed Portfolio Program and Portfolio Management Program (PMP)**

**Our Discretionary Services:** The Discretionary Programs described in this brochure offer you the portfolio management services of UBS Financial Advisors, (PMP) or our home office investment professionals (UBS Managed Portfolio Program).

By selecting our Discretionary Programs, you authorize UBS to act as your investment adviser and give UBS the power to buy, sell or otherwise trade securities or other investments for your Program account without consulting you. You also authorize UBS to take any actions necessary to open and maintain your account or to complete and pay for transactions for your account and if we deem appropriate, to delegate the selection of all or a portion of the securities for your Account to a sub-advisor for inclusion in the portfolio. UBS has the sole authority to manage your account and will make all investment decisions for your account without discussing these transactions with you. Your UBS Portfolio Manager will generally be limited to investing in those securities classified as “eligible” for the program you selected. See **“General Information About Our Wrap Fee Programs—Eligible and Ineligible Assets”** for a description of our practices and consult your Financial Advisor for the specific details regarding asset/security eligibility in your Program.

UBS Portfolio Managers will have primary responsibility for the day-to-day management of accounts in the UBS Managed Portfolio Program including, where applicable, the selection of tax lots for redemption or liquidation in your account. Your Portfolio Management Program application will include the name of your PMP Portfolio Manager or the name of his/her group (although only your PMP Financial Advisor may exercise discretion over your account). He/she will have primary responsibility for the day-to-day management of your account. For PMP accounts opened after you have established your first Advisory Account, we will confirm in writing your UBS Portfolio Manager. Primary responsibility for the supervision of the PMP program accounts lies with the Financial Advisor’s Branch Office Manager.

**Portfolio Manager Termination from the Programs.** We retain the authority to remove any UBS Portfolio Manager or model portfolio or strategy from the Programs at any time and to transfer day-to-day management responsibility of your account to another UBS Portfolio Manager at any time without first notifying you or obtaining your consent.

### **i. UBS Managed Portfolio Program**

**Strategies and Models.** The UBS Managed Portfolio Program offers a variety of investment strategies and models managed by our home office investment professionals who manage client assets on a discretionary basis.

**Rebalancing.** The Program employs both a strategic and tactical asset allocation for the UBS Managed Portfolio of Funds and the UBS Managed Portfolio of Global Selections. Program assets are evaluated on a regular basis and based on investment decisions, rebalancing trades will be made which may generate high trading volumes. We generally employ a regular rebalancing process that reviews market actions, contributions and withdrawal requests, template or strategy changes directed by the Portfolio Manager. The Program does not allow you to direct the rebalancing frequency or methodology or opt out of rebalancing for your Account.

### **UBS Managed Portfolio of Funds; Automatic Services/Redemptions; Minimum Investment**

For assets in the UBS Managed Portfolio of Funds, you may direct UBS to make cash available to you by redeeming Portfolio shares in accordance with your investment strategy in minimum amounts of \$200 per withdrawal. All purchases and redemptions for your Account will be made prorata according to the Investment Strategy you selected. If you requested automatic redemptions from your Account, we will request as described below.

#### Automatic Redemptions

- the 15th day of each month (or the prior Business Day, if the 15th is not a Business Day); or
- the last Business Day of each month; or
- the last Business Day of each calendar quarter.

The money will be redeemed from each investment that is currently overweighted as compared to your selected strategy and then by redeeming the remaining portion according to your strategy. Generally, redemptions will be processed two business days before the day you specified or earlier to ensure that cash will be available in your Account on that day. Redemption proceeds will be deposited in your Account and are not automatically forwarded to you. If withdrawal requests, including automatic redemptions, will reduce your Program assets below the Program minimum, we may request (at our sole discretion) that you terminate your Program account in order for us to process your withdrawal request. Additionally, if you do not meet the Program minimum within thirty (30) days, UBS will have the right to terminate your participation in the Program. We may also impose restrictions on withdrawals if the account falls below certain asset thresholds.

Certain portions of the UBS Managed Portfolio of Global Selections, Managed Portfolio of ETFs and UBS Managed Portfolio Selections strategies are derived from existing equity and ETF models which have been available in various advisory programs on a discretionary and a non-discretionary basis since 2005. Those models continue to be available in other programs, and are accessible to you, in some cases for a lower fee than is available through Global Selections or the Managed Portfolio Program. Your costs of investing and the overall impact of those costs on the performance of the model portfolios may vary substantially depending on your program selection.

For More Information, please see **“About Our Investment Advisory Programs—Fee Schedules, Minimum Investments and Minimum Annual Fees”**.

### **ii. Portfolio Management Program (PMP)**

**Strategies and Models.** The Portfolio Management Program offers a variety of investment strategies and models managed by a select group of specially trained Financial Advisors who manage client assets on a discretionary basis.

Financial Advisors who participate in this Program may also provide services to you outside of the Program in their capacity as broker-dealer representatives. As a result, you may have other accounts at UBS for which your PMP Portfolio Manager does not provide discretionary advisory services. Please see the section **“Conducting Business with UBS: Investment Advisory and Broker-Dealer Services”** for a description of the material distinctions between our advisory and broker-dealer services and our obligations.

**Concentrated Strategies.** Concentrated strategies are available in PMP through pre-approved Portfolio Managers in the Program. Please review these descriptions carefully and contact your Portfolio Manager with any questions.

Subject to our approval, you may authorize your Portfolio Manager to implement a concentrated strategy that is more volatile and presents greater risks of loss, especially over the short term. The more concentrated your portfolio, the higher your risk exposure will be. These portfolios may not be diversified, may hold stocks representing only one or a limited number of economic sectors, or only invested in International Securities, may include only a limited number of companies in certain sectors and may invest in new or emerging businesses or securities of foreign companies that present risks not typically associated with U.S. equity investments. Because a concentrated portfolio may hold a limited number of securities, movements in stock price could have a greater impact on the value of the portfolio than would occur if the portfolio held more securities. These portfolios may not be appropriate for investors who are not willing to accept a much greater risk of loss and volatility of investment returns than the general stock market (as measured by the S&P 500 Index) and may not be an appropriate investment for a significant portion of a client's investable assets. We may impose special suitability requirements with respect to these portfolios.

### **E. Separately Managed Accounts Programs and Unified Account Program**

#### **Program Structure/Hiring the Investment Managers:**

ACCESS and SWP are “sub-advised” programs. That means you enter into an investment advisory agreement with us and we, in turn, hire the SMA Manager(s) on your behalf. We hire the SMA Manager, and provide a copy of your completed Questionnaire for ACCESS to the SMA Manager. For SWP, managers are provided with the account profile prior to the SMA Manager accepting the account.

The MAC program allows you to enter into two separate agreements, one with UBS for consulting services and one directly with your SMA Manager for investment management services. You are responsible for negotiating the terms, fees and conditions of your agreement with your MAC SMA Manager.

**Management of Your Account.** For the SMA Programs described in this brochure, your SMA Manager has the sole authority to manage your account (or the portion they manage in SWP) and will make all investment decisions for your account without discussing these transactions with you or us. Your SMA Manager will generally be limited to investing in those securities classified as “eligible” for the program you selected. Please see **“General Information About Our Wrap Fee Programs—Eligible and Ineligible Assets”** for a description of our practices and consult your Financial Advisor for the specific details regarding asset/security eligibility in your program. We will execute transactions in your program accounts on instructions from your SMA Manager. Except for UBS and UBS affiliated strategies, such as the Managed Portfolio of ETFs strategies (and other UBS Managed Portfolios) available in MAC (and which may be available in other Separately Managed Accounts and Unified Account Programs) in which we act as your Portfolio Manager, for the strategies available in these programs, neither UBS nor your Financial Advisor will have discretionary authority, nor will we solicit your SMA Managers to buy or sell securities for your accounts.

We are not responsible for your choice of SMA Manager, or the SMA Manager’s day-to-day investment decisions (including their selection of tax lots for sale or redemption), performance, compliance with applicable laws, rules or regulations, including compliance with best execution obligation’s or other matters within the SMA Manager’s control, including, without limitation, implementation of your rebalancing election where the manager has assumed the responsibility to manage your account. We retain the right to refuse to effect any transaction in our program accounts if, in our reasonable judgment, effecting such transaction would violate any applicable law or rule, including rules of any regulatory agency or self-regulatory organization, or be inconsistent with any of our policies and procedures.

#### **i. ACCESS (Single Contract)**

ACCESS offers you the portfolio management services of a select, pre-screened group of SMA Managers. ACCESS is a sub-advisory program in which you hire UBS to assist you in the process of SMA Manager selection and authorize us to hire the manager on your behalf. ACCESS services also include custody at UBS, trading and execution through UBS, and performance reporting.

#### **ii. Managed Accounts Consulting (MAC) (Dual Contract)**

Managed Accounts Consulting (“MAC”) is a consulting program that allows you to select an SMA Manager and receive performance reporting on the eligible assets in your MAC account. Unlike our ACCESS program in which you delegate discretion to us and we hire a sub-advisor at your direction to manage your assets, in MAC your relationship and your investment agreement are directly with your SMA Manager. We act as your consultant, but you delegate discretionary authority directly to your SMA Manager.

**MAC Services.** Our consulting fee in MAC includes custody at UBS, trading and execution through UBS, performance reporting (for accounts held at UBS) and SMA Manager searches. You will select an SMA Manager and enter into a separate investment management agreement directly with the SMA Manager in addition to the MAC Agreement you enter into with us.

**MAC Manager Research.** We provide different levels of SMA Manager due diligence in our MAC program. The level

of due diligence we undertake varies depending on whether the manager is in our MAC Eligible or our researched list and approved for use in the UBS programs. Please see **“Selecting an Investment Strategy, SMA Manager or an Asset Allocation; Our Investment Manager Research Process.”**

#### **iii. UBS Strategic Wealth Portfolio Program (SWP)**

In SWP, program assets will be held in one account, but segregated within that account into investment sub-accounts (for example Separately Managed Account (SMA) sub-accounts, mutual fund sub-accounts and ETF sub-accounts) that correspond with the asset allocation you selected. The sub-accounts offer different levels of discretion, features, and services as described below.

**Your Asset Allocation for SWP.** Your Financial Advisor will review the results of the Questionnaire with you and assist you in developing an asset allocation for your account. Depending on your asset allocation, your account will be invested in all or a combination of equities or fixed income in separately managed accounts, mutual funds, exchange traded funds, and other securities available through the program. Clients will receive a personalized asset allocation proposal. For more information, please see **“Selecting an Investment Strategy, SMA Manager or an Asset Allocation; Our Investment Manager Research Process.”**

#### **Investment Selections for Your SWP Asset Allocation.**

The SWP program requires that at least one sub-account be a separately managed account. Therefore, you must select at least one SMA Manager (who may or may not be affiliated with us) to manage a portion of your assets from a group of SMA Managers recommended by us. Currently, you may have a maximum of 20 separately managed sub-accounts within your SWP account and a total of 20 sub-accounts overall. Each sleeve must have a minimum target allocation of 2%. The sub-accounts are managed on an individual basis by the selected SMA Manager(s) or by you if they are non-discretionary. SWP does not offer overlay management services.

**Management of Your Account; Discretionary Authority of Separately Managed Assets.** The SMA managers will manage the identified portion of your SWP account (“Separately Managed Portion”) on a discretionary basis and typically will direct purchase and sale transactions to UBS for execution unsolicited by UBS. You retain discretion and trading authority over assets not managed by your SMA Manager(s).

We will execute transactions for the Separately Managed Portion of your account on instructions from the SMA manager. Neither we nor your Financial Advisor will have discretionary authority, nor will we solicit any orders to buy or sell securities for the Separately Managed Portion of your account.

#### **Non-Discretionary Services by UBS Financial Services Inc.**

You may choose to include mutual funds, ETFs and/or non-daily traded alternative investment funds (collectively, “Non-Discretionary Assets”) in your SWP account. The advisory services we provide for those assets and sub-accounts are non-discretionary, meaning that you have sole discretion as to the purchase and sale of the Non-Discretionary Assets in your SWP Account subject to program eligibility. You may not impose investment restrictions on these Non-Discretionary Assets. Neither UBS, nor your Financial Advisor will have any discretion with respect to the investment of such assets. All purchases and redemptions of Non-discretionary

Assets for your account will be made prorata according to the investment strategy you selected, subject to the maintenance of a cash level ("Cash Level") for billing and other liquidity needs and further subject to our minimum trade requirements (currently \$500). The initial Cash Level will be approximately 1% of the asset value of the respective Non-discretionary Asset sub-account and can fluctuate between 0.5% to 1.5%. If the Cash Level is outside of this range, the respective sub-account will be re-balanced to a Cash Level of approximate 1%. Note that the per share value of certain investments can cause the Cash Level to exceed 1.5% of the asset value of the respective Non-discretionary Asset sub-account and, in such cases, the Cash Level will be maintained at this higher percentage.

All account changes, including transactions in Non-Discretionary Assets, are subject to a systematic administrative review to ensure consistency with your Target Allocation. We will also ensure that any required paperwork is complete. As a result, transactions are not executed until after the administrative review is completed and allocation changes may take several days to fully implement as set forth in the Advisory Relationship Agreement. Accounts with nondaily traded alternative funds may experience additional delays.

Transactions in exchange traded funds generally will be routed together for execution twice per day. Multiple account orders for the same security on the same side of the market may be aggregated for execution. Because the prices of ETFs fluctuate during the trading day, the price you receive at the time the order is executed may be better or worse than the price at the time you authorized the changes to your account.

**Applicable to Alternative Investments:** If you select a non daily traded alternative investment fund ("Alternative Fund") as part of your Target Allocation, an open end Alternative Investment mutual fund ("AI mutual fund") must accompany that selection. There is typically a minimum initial investment of \$50,000 for Alternative Investments. If at the time of funding the percentage allocation to the Alternative Fund does not meet the minimum investment amount, you direct UBS to increase this allocation by no more than \$5,000 in order to meet the Alternative Investment minimum with a corresponding dollar reduction to the AI mutual fund you selected. If the minimum investment amount cannot be reached with this adjustment, the entire amount will be allocated to the AI mutual fund you selected. Non-daily traded alternative investments require that you meet certain net worth and other requirements. If you are unable to meet these requirements, the entire value of the alternative strategy sub-account will be contributed to the AI mutual fund you selected.

**Rebalancing and Reallocation of your SWP Asset Allocation.** Your account will be automatically rebalanced on an annual basis, subject to our minimum trade requirement (currently \$500), unless you select semi-annual account rebalancing.

On the last business day of the anniversary of the calendar quarter in which your SWP Account was opened, we will compare your originally selected asset allocation against the current asset allocation of your portfolio and, if there is a deviation of more than 5% (or 10% as applicable) in any sub-account, your account will be automatically rebalanced to your current target allocation. Accounts opened October

thru December, will be rebalanced on the last business day of October instead of the last day of their anniversary. You have the option of selecting semi-annual account rebalancing. Accounts that are taxable have the option of selecting annual rebalancing when there is a deviation of more than 10% in any sub-account.

Rebalancing will be accomplished by your SMA Manager(s) (with respect to the Separately Managed Portion of your SWP Account) or UBS (with respect to the Non-Discretionary Assets) by selling investments in the overweighted sub-accounts and purchasing a corresponding dollar amount of investments in the underweighted sub-accounts.

Rebalancing is completed as promptly as possible. In the event that we are unable to initiate rebalancing as described above due to reasons beyond our control, we will initiate rebalancing as soon as practicable. Market conditions, illiquid securities or those with limited redemption schedules, availability of funds and orderly purchase and redemption procedures may cause a delay in the processing and/or completion of the rebalancing. In addition, we may adjust the date on which reviews and rebalancing are done if necessary to ensure accurate processing of the review or rebalancing. These services will not occur if the account has a pending or unprocessed trade or margin debit or holds shares of a fund that has been moved to a different asset category, or where the program account's value is below the minimum funding required for the target weight of the investment strategy you selected. However, reallocation/ rebalancing will occur for an account that is below the minimum funding required so long as the reallocation will not further reduce those sub-accounts that are below the respective investment minimum.

In addition, you may elect to reallocate your Program Account, which may require additional paperwork.

**SWP Accounts that include Alternative Investments:** Your SWP Account will be evaluated for rebalancing annually to coincide with the redemption period for alternative investments, so long as the SWP Account has been open for at least one calendar quarter. Alternative Funds require that you meet certain net worth and other requirements. If you are unable to meet these requirements at the time of rebalancing or reallocation, the entire value added to the alternative strategy sub-account will be contributed to the AI mutual fund you selected. In addition, as part of the annual rebalancing process for non-daily traded alternative investments, UBS will seek to rebalance to your original alternative investment sub-account(s) asset allocation subject to the following: The minimum subsequent investment is \$25,000 and you must continue to meet net worth requirements as reflected in the SWP account information you have provided. However, if at the time of rebalancing or contribution, the percentage allocation to the Alternative Fund does not meet the minimum investment amount, we will increase your allocation by no more than \$5,000 to meet the Alternative Fund minimum, with a corresponding dollar reduction to the liquid, daily traded AI mutual fund you selected. If UBS is unable to make a contribution to the Alternative Fund because one of the above requirements cannot be met, the contribution will instead be made to the liquid, daily traded AI mutual fund.

With respect to withdrawals from the alternative investment sub-account, Alternative Funds offered through SWP typically have only periodic (e.g., semi-annual) liquidity for redemptions.

The annual rebalance of SWP accounts holding Alternative Funds will coincide with such a redemption period. Any other withdrawals from this sub-account must coincide with a redemption period or, alternatively, the withdrawal will be made from the AI mutual fund strategy sub-account to the extent possible and from other sub-accounts if necessary.

## F. Non-Discretionary Advisory Programs

**Your Program Asset Allocation.** Depending on your program selection, your account will be invested in all mutual funds (in PACE) or, for Strategic Advisor, a combination of equities, open-end and closed-end mutual funds, exchange-traded funds (ETFs), fixed income securities, approved unit investment trusts (UITs), options and other securities available through the Strategic Advisor program.

Due to the non-discretionary nature of the programs, it is your responsibility to determine whether, and how, to implement the target asset allocation/investment strategy. Your asset allocation reflects only your assets invested in the program.

You may deviate from your target asset allocation only by a pre-determined level based on your risk tolerance. We will notify you if your allocation shifts and is more aggressive than those limits and those inconsistencies continue for after a period of time. PACE clients will receive a Risk Tolerance Alert in the quarterly performance review.

If you do not take action to update the Questionnaire or modify your asset allocation, the account may be terminated.

The recommendations made in your asset allocation and portfolio review relate only to your program accounts, and do not constitute advice regarding other accounts, whether held at UBS or elsewhere. Neither we nor your Financial Advisor will provide advice as to accounts held at other firms.

As part of the services in Strategic Advisor, your Financial Advisor will perform an annual review of your allocation and investment strategy. The annual review will be performed for the purpose of analyzing your asset allocation in the context of your investment strategy; determining which asset class or classes you may seek advice on over the next year; incorporating any changes in your objectives, risk tolerance and financial condition; and updating your target asset allocation, if necessary.

**Transactions for Your Strategic Advisor Account and PACE Investments.** We will effect transactions for your Strategic Advisor account and PACE investments only as instructed by you, and neither UBS nor your Financial Advisor will have any discretion with respect to the investment of your program assets.

If you invest in PACE, the dividends you receive from your mutual fund investments will be automatically invested according to your selected asset allocation unless you specifically request the withdrawal of those dividends from PACE. Since the programs are non-discretionary, you retain control over the trading in your account. That means you may execute security transactions which we have recommended to you (solicited transactions) as well as transactions which you execute without consultation with, or recommendation from, us (unsolicited transactions). These unsolicited transactions are solely your responsibility and neither UBS nor your Financial Advisor will act as your

investment adviser with respect to those transactions. The advice and guidance of your Financial Advisor is a key service of the programs. A pattern of unsolicited trading may indicate that the program you selected is no longer appropriate for you as you are not leveraging the advice of your Financial Advisor. This may result in the revocation of your online trading access (if applicable) and/or termination of your account from the program.

After you have completed an unsolicited transaction and have acquired a security on your own and without our advice, for so long as you hold that position in your program account, we will take that asset into consideration, as part of your overall account assets, when we give you periodic asset allocation advice, when we value your account holdings and provide you with analyses and reports on your account's performance. We may also make recommendations that you consider selling the asset, if and when we deem it appropriate. We will therefore include any security you acquire in an unsolicited transaction as part of your account assets in calculating your advisory fee, going forward, if you continue to hold the asset in your account on the date we next calculate your program fee.

### i. UBS Strategic Advisor Program

#### **Eligible Assets and Billable Assets in Strategic Advisor.**

The Section **"General Information About Our Wrap Programs—Investment Strategies; Eligible and Ineligible Assets"** describes our general policies regarding eligible assets in our advisory programs. Strategic Advisor provides a greater level of flexibility than other advisory programs as it pertains to eligible assets, meaning assets you may hold in your account and which are subject to our advice. Specifically, the program permits you to hold, but not to purchase, certain assets deemed ineligible in other programs such as B and C share class mutual funds, open end mutual funds not approved for the program, Unit Investment Trusts, Exchange Traded Funds and Closed End Funds not approved for the program, alternative investments, including hedge funds, hedge fund of funds, private equity, real estate funds and managed futures, private placements, and restricted stock.

While these assets may be deemed eligible for the program and therefore subject to our ongoing advice, due to embedded fees or additional compensation we receive in connection with those investments, those assets are excluded from the calculation of your program fee and are deemed to be ineligible for billing.

Non-billable assets will not be included when determining the minimum account opening requirement but they will be included in the performance reporting for the Strategic Advisor account.

#### **Principal Transactions in your Strategic Advisor Account.**

Most of our Advisory Programs do not offer the ability to conduct principal trades. However, you have access to principal execution for certain limited securities in the Strategic Advisor program. Before consenting to principal transactions, you must be sure that you understand and are willing to accept the risks and conflicts of interests presented by principal trades. This option is not available to ERISA and IRA accounts.

**When you establish a Strategic Advisor Account we will ask if you would like to permit the execution of principal trades in your Program Accounts. This is not a condition to you opening or maintaining a Strategic Advisor Account. We will apply your election to that Strategic Advisor**

**Account and to future Strategic Advisor Accounts you establish under your Advisory Relationship Agreement, unless you provide different instructions for specific accounts.**

**YOU MAY RESCIND YOUR WRITTEN CONSENT TO PRINCIPAL TRANSACTIONS IN YOUR STRATEGIC ADVISOR ACCOUNT(S) WITHOUT PENALTY AT ANY TIME BY PRIOR WRITTEN NOTICE TO US. That revocation will be effective once we have received and have had a reasonable time to act on it in accordance with our procedures (but in any event within 5 business days of our receipt.)**

In order to comply with principal trade restrictions, orders for most of our advisory programs are executed on an agency basis. This means that you cannot purchase syndicate offerings, including Initial Public Offerings (IPOs), Structured Products, Auction Rate Preferred Securities or other securities for which we or our affiliates act as underwriter. Additionally, you may not purchase securities from UBS's inventory, nor may UBS make a bid to purchase securities from you in most of our advisory programs. However, Strategic Advisor now offers clients the ability to have certain security transactions in the account executed on a principal basis. Such securities include non-convertible debt including US Treasury Bills, Notes and Bonds bought at auction, US Government Agency Bonds, Municipal Bonds bought out of inventory, Corporate Bonds bought out of inventory, Commercial paper, Certificates of Deposit and Auction Rate Securities.

**There are important considerations to authorizing principal trades in your Strategic Advisor Account(s). Please review these factors carefully and contact your Financial Advisor with any questions.**

**Important Information about Principal Transactions:** In a principal transaction, UBS or an affiliate, acting for its own account, buys a security from or sells a security to you. In Strategic Advisor we may (as your adviser, when we have given you advice regarding a trade) engage in principal transactions if, among other things, (1) you provide a one time written consent to these transactions (2) we provide you with oral notification at the time the trade is executed that the trade may be executed on a principal basis and we obtain your consent (3) we provide certain disclosure to you on your trade confirmation and (4) provide you with an annual report of the principal transactions in your account.

In addition to the one-time written consent you provide to us, we are required to obtain your oral consent to execute principal transactions on a trade-by-trade basis in order to engage in principal trades for your Strategic Advisor account(s). **You are not obligated to provide that consent and may decline to have any specific transaction from being executed on a principal basis.** The capacity in which we execute trades for your account will be displayed on the trade confirmation. To help you better evaluate and monitor the principal trades that have occurred in your account, we will provide you an annual statement showing all principal trades affected for your account during the calendar year.

When acting for our own account in a trade with you, there are several potential conflicts of interest that arise. We and our affiliates maintain inventories and make a market in certain securities that we can buy from or sell to you on terms

that generally are as favorable or sometimes more favorable than could be obtained elsewhere. In some cases, it may be difficult to obtain the securities you wish to buy, such as certain municipal securities, from other sources or to obtain a buyer for those securities when you wish to sell. For these reasons, it may be to your advantage to buy them from or sell them to us. However, these possible advantages may be outweighed by the disadvantages and conflicts of interest described below.

We and our affiliates may earn a profit whenever we engage in principal transactions with you, and depending on the type of security, we may include a profit margin in the price we pay or charge you, by marking up or marking down the price of the security. The mark-up or mark-down is not shared with your Financial Advisor. The profits we or our affiliates earn on these transactions will be in addition to the fees you pay us under the Strategic Advisor program for investment advice, trading, execution, custody and other program services. As a result, principal transactions present a conflict between your interests and our interests and those of our affiliates, because we have a financial incentive to recommend these transactions to you.

When we propose a principal transaction to you, it is possible that better prices or other terms for the trade could be obtained from alternative sources not known to UBS. Since there may be securities offered by other dealers only to their clients, you may not be able to compare the price on securities offered by these dealers and to those offered by UBS. These conflicts are addressed as follows: (1) we have an obligation to provide you with best execution and we believe we can provide best execution to you by routing certain orders to our affiliate, UBS Securities LLC, for execution on a principal basis; (2) we monitor our execution services and measure how we meet our best execution obligation by taking into account many factors, including the degree to which our affiliate, UBS Securities, executes principal trades in client accounts and, specifically, the pricing and service quality that we receive in connection with principal trades versus the costs associated with foregoing a trade (if UBS is the only dealer in a security) or executing on an agency basis through another dealer; (3) you remain in control of transactions effected in your account and can withhold consent to specific principal trades before each trade is effected or overall upon your notice to us that you wish to revoke your consent; (4) although we are not required to waive or offset our compensation under applicable rules or regulations, for certain security types such as new issue fixed income securities, we may waive some of the compensation we earn in effecting principal trades or waive a portion of the fee imposed on your account for a period of time as an offset for other compensation we receive.

Our ability to act as principal in a transaction with you may be limited or restricted by other applicable law, and nothing in this Agreement requires that we act as principal in any transaction. In addition, we may act as principal in a transaction with you apart from the circumstances described in this Section where we are not acting as investment adviser in relation to the transaction or, if we are, where we disclose to you in writing before the completion of the transaction the capacity in which we are acting and obtaining your consent.

## **G. PACE—Personalized Asset Consulting and Evaluation**

### **PACE Select Advisors Trust (“PACE Select”) and PACE Multi Advisor (“PACE Multi”) Programs**

PACE Select and PACE Multi share certain features, services and basic requirements which are outlined below. PACE combines our ability to evaluate your investment objectives and risk tolerance with professional investment advice, and offers the convenience of style specific mutual funds in PACE Select, and a broad array of mutual funds (non-proprietary and proprietary) available in PACE Multi.

In **PACE Select**, you may choose a combination of the investment styles and asset classes available through the PACE Select Advisors Trust (the "Trust"), a series of proprietary mutual fund investment portfolios (the "Select Portfolios"). In **PACE Multi**, you may choose among a variety of no load and load waived shares of mutual funds ("Funds").

We and/or our affiliates are paid for providing investment management, distribution and other services to the Select Portfolios and affiliated Funds ("Affiliated Funds") available through the programs.

A PACE client receives the following services:

**Asset Allocation and Investment Selection.** There are differences in the allocations and investment options available in PACE Multi and PACE Select. The Pace Multi default for equity allocations is a Large-SMID-Small allocation, PACE Select only offers a Large/SMID ("SMID" which is a combination of small and medium size mutual funds) asset allocation for the equity portion of your investment. The assets you invest through PACE are called "Program Assets."

Based on the Questionnaire, we will recommend a mix of investment styles for both PACE Select and PACE Multi. These allocations seek to appropriately balance your financial objectives with your risk tolerance, as part of a long-term investment strategy. We will help you select an appropriate asset allocation for your Program Assets from the investment styles available in each program and then invest your Program Assets according to your Target Allocation. You will make all investment decisions in the program other than automatic service transactions, if you choose that option (described under "PACE Automatic Investment Options"). Neither UBS nor your Financial Advisor have investment discretion over your account. At your request, your account contributions and withdrawals will be invested in accordance with your Target Allocation.

#### **PACE Select**

You may choose from among the following Select Portfolios of the Trust:

1. Money Market Investments
2. Intermediate Fixed Income Investments
3. Strategic Fixed Income Investments
4. Municipal Fixed Income Investments
5. Government Securities Fixed Income
6. Large Company Value Equity Investments
7. Large Company Growth Equity Investments
8. Small/Medium Company Value Equity Investments
9. Small/Medium Company Growth Equity Investments
10. REIT Investments
11. International Equity Investments
12. International Emerging Markets Equity Investments
13. Global Fixed Income Investments
14. High-Yield Investments
15. Alternative Strategies Investments

Certain share class(es) of these portfolios are offered only to PACE Select clients, except for select share classes for PACE Money Market Investments which is also available to PACE Multi clients. These Portfolios are described in more detail in the Trust's prospectus, which you may obtain at no charge from your Financial Advisor. You will not pay any sales charge when you buy or redeem shares in these portfolios in PACE Select.

You should note that the Select Portfolios issue share classes available outside of the PACE Select program and the P share classes, which are available exclusively through PACE Select. **You may buy P class shares of the Select portfolios only in the PACE Select program.** Upon termination, you may direct us to liquidate your PACE investment or you may continue to hold the P class shares you purchased while in the PACE program (except for the UBS PACE Money Market Investments). For PACE Select clients, if you decide to hold your PACE Select P Share investments after termination, you may not buy any additional P class shares of the select Portfolios except through dividend reinvestment. However, you may continue to hold your P class shares of the Select Portfolios (other than the UBS PACE Money Market Investment) though you no longer will be entitled to the services you received in the PACE Select Program. The liquidation of such securities may have tax consequences to you. By participating in either of the PACE programs you agree to the automatic redemption of the shares of the PACE Money Market Investment upon termination of your participation in the PACE program and direct us to effect such liquidation. You should carefully consider the potential impact of such liquidations and restrictions before participating in these types of strategies. If you move your account to another Broker/Dealer and they do not accept the P class shares, you will be asked to liquidate your shares or maintain them in an account with UBS.

There is no guarantee that a Select Portfolio will continue to be available through PACE Select for the entire period you participate in PACE. We may add or remove Select Portfolios to or from PACE Select at any time and for any reason. If you are invested in a discontinuing Select Portfolio, your Financial Advisor can help you decide what action to take. You may decide to replace the discontinued Select Portfolio or liquidate your shares. We will notify you of the removal or discontinuance of a Select Portfolio and will indicate what action, if any, is suggested. If we discontinue a Select Portfolio, you may incur a tax liability.

#### **PACE Multi Advisor**

You may choose from among shares of Non-Affiliated Funds and certain designated share classes of Affiliated Funds and an affiliated Money Market Fund. There is no guarantee that a Fund will continue to be available through PACE Multi during the entire period of your participation in the Program.

#### **Account Structure, Fund Eligibility and Impact on PACE Multi Asset Allocation.**

The PACE allocation is held as a separate investment or sub-account in brokerage account, as a result, you may buy and hold in your account assets that are not invested through the PACE Program including mutual funds that are not eligible in PACE ("Non-PACE Assets"). You do not need to liquidate securities prior to your participation in the program as you may hold those securities in your brokerage account. Neither we nor your Financial Advisor will act as your investment advisor with respect to your Non-PACE assets. We will execute transactions in your Non-PACE assets as you direct, as your

broker-dealer, and will charge you our customary brokerage commissions or other fees. The PACE Fee does not apply to these other assets or transactions. Non-PACE assets will not be included in your Review but will be included in your account statements.

We may add or remove mutual funds from PACE Multi in our sole discretion, or, a fund may stop participating in or offering its shares through the Program.

If a new fund or new share class is made eligible in PACE Multi and you already own that fund or share in the same brokerage account in which you hold the PACE allocation, those existing holdings will be automatically moved to your PACE allocation when the fund/share is made eligible. Those changes may impact your asset allocation and risk tolerance as well as increase the level of assets on which the PACE fee is charged. These changes should be discussed with your Financial Advisor.

Those new shares will be included as part of your Program Assets for performance and billing purposes, except as described below.

**If you have elected automatic rebalancing and you own a fund that is made eligible in PACE and/or has not been assigned a target within your PACE Allocation, your PACE Allocation will be included in the automatic rebalancing, but recently added PACE funds and/or funds that have not been assigned a target will be excluded from your automatic rebalancing. In order to fully rebalance your Allocation in the future, you have to include that fund in your Target Allocation. Alternatively, you can elect to move that fund to another account.**

If you have held shares of a newly eligible fund less than 12 months from the date of the initial purchase at UBS, you will not be billed until you have held those shares for a period of 12 months. If, in our opinion, documentation is not reasonably sufficient to show ownership for 12 months, no Program Fee will be payable on these shares until 12 months after they are placed in the Program. The shares will be included for performance purposes once they are eligible regardless of how long they are held. The newly eligible fund or share class will not be considered a contribution to your Program Assets during the applicable quarter but will be included in your Program Assets on the last day of the quarter for billing purposes unless the exception explained above applies.

**PACE Automatic Investment Options.** We offer several automatic investment options to PACE Multi and PACE Select clients. Automatic investment options are administrative by nature and will normally be done on the day or date selected by you on the application unless market conditions, technology failures, availability of funds from the portfolio, purchases or redemption procedures, trading volumes or other matters beyond our control reasonably preclude us from accurately processing on such a date (day) or otherwise cause delays in processing, in which case we may later alter the date (day) to the next available date that such processing can accurately be completed.

**The Rebalancing Process.** In the future, the PACE Program may include mandatory annual rebalancing. If your account is opened before this service begins, you will receive advance notice. In this case, your PACE assets will automatically be rebalanced on an annual basis unless you elect to have rebalancing occur on a

semi-annual basis or quarterly basis. Rebalancing will occur if the amount of your Program assets in any mutual fund deviates from the allocation you selected by more than 5% on the rebalancing date. In the future, taxable accounts may have an option to rebalance at a 10% deviation for their annual rebalance. We may also provide you with an option to rebalance at a 3.5% deviation in the future. Rebalancing is subject to our minimum trade requirements. Rebalancing is accomplished by selling the shares of overweighted Funds/Portfolio(s) and purchasing a corresponding dollar amount of the appropriate Funds/Portfolio(s), provided that the sale and the purchase are each in an amount above \$50.

**Depending on the circumstances and in order to ensure the accurate processing of the automatic investment options, including rebalancing, we may (i) alter or delay the Rebalancing Day to the next available date, (ii) change the rebalancing percentage for that rebalancing event only or the minimum dollar amount of the individual rebalancing transactions, (iii) process rebalancing for accounts for PACE Select and PACE Multi on different days, (iv) process rebalancing for taxable and non-taxable accounts on different days, or (v) rebalance all accounts based on a random rotation process. We may also suspend a rebalancing event or an automatic service event, if based on the factors outlined above, we cannot ensure the orderly and accurate processing of the rebalancing or the service. We will notify you of that suspension and offer to you the option to have your account manually rebalanced for that period.**

Rebalancing generally is done during the third week of the second month of the calendar quarter (a "Rebalancing Day") in February, May, August and November. For clients that elect semi annual rebalancing, their PACE Accounts will be reviewed for rebalancing in February and August. In this Agreement a "Business Day" will mean any day that the New York Stock Exchange is open for regular trading.

Market conditions, availability of monetary funds from the Select Portfolios or Funds and/orderly purchase and redemption procedures may cause a delay in the processing of the automatic rebalancing, purchases and redemptions. In addition, we may adjust the date on which reviews and rebalancings are done if necessary to ensure accurate processing of the review or rebalancing. Individual rebalancing transactions that equal \$50 or less are not performed. **We reserve the right to change the rebalancing percentage measure or the minimum dollar amount of individual rebalancing transactions.** Rebalancing will not occur if the PACE Account has a pending or unprocessed trade or margin debit. In PACE Multi, if you hold shares of a Fund that has been moved to a different asset category, or require an additional purchase of shares of a Fund for which the mutual fund eligibility level has changed to "hold," the rebalance will be processed to get as close as possible to your Target Allocation without disrupting those funds.

**PACE Automatic Purchases.** You may have \$250 or an amount as determined by UBS or more invested automatically in accordance with your Target Allocation on the 15th of every month (or, if the 15th is not a Business Day, the next Business Day), the last Business Day of every month, or the last Business Day of every calendar quarter. We expect to introduce a new service in the near future that will allow clients to specify the date (calendar date) and frequency (monthly or quarterly) in which the automatic purchasing services will be performed. We

may change the date on which automatic purchases are made if we decide it is advisable in light of market conditions or to ensure the accurate processing of the purchases. We will do this by automatically withdrawing the designated dollar amount from your brokerage account (either cash balances or money market redemption proceeds) and investing in Program Assets. If sufficient funds are not available in your account on the trade date to purchase the full amount specified in your PACE program agreement, no purchase will be made.

You may designate the duration of your automatic purchases or the total target investment amount on the Application. The contribution will first buy the Funds/Portfolios that are underweighted as compared to your Target Allocation and then invest the remaining portion according to the Target Allocation.

**If you invest Plan assets through PACE and select the automatic purchase option, please note that you must carefully monitor your contributions to prevent them from inadvertently exceeding federal limits on your annual contribution.**

**PACE Automatic Redemptions.** You may have \$250 or an amount as determined by UBS or more of Program Assets redeemed automatically from Program Assets in proportion to your Target Allocation, so that cash is available in your account on the 15<sup>th</sup> (or, if the 15<sup>th</sup> is not a Business Day, the prior Business Day) of every month, the last Business Day of every month, or the last Business Day of every calendar quarter. A new service will be introduced in the near future that will allow clients to specify the date (calendar date) and frequency (monthly or quarterly) in which the automatic redemptions services will be performed. We may change the date on which automatic redemptions are made if we decide it is advisable in light of market conditions or to ensure the accurate processing of the redemptions. We will request redemption two Business Days before the date you select, or such other date as may be necessary to ensure that cash is available in your account on the date selected. **Redemption proceeds are deposited in your account and are not automatically forwarded to you.** If an automatic redemption causes Program Assets to be reduced below \$7,500 for PACE Select Advisors and \$3,500 for PACE Multi, we may ask you to restore your Program Assets to the amount of the Opening Date account minimum within 30 days. If you do not restore your Program Assets to this minimum as requested, we will have the right to terminate your PACE agreement. Upon termination, we will automatically liquidate your UBS PACE Money Market fund. No automatic redemption will occur if insufficient shares in any Fund are available to process the redemption proportionately in accordance with your Target Allocation.

Shares will be redeemed from each Fund that is currently overweighted as compared to your Target Allocation and then redeeming the remaining portion according to your Target Allocation. We plan to offer additional methods in which a client may redeem shares in the near future, including offering redemptions on a prorata basis.

### **III. PROGRAM FEES, FINANCIAL ADVISOR COMPENSATION AND BILLING PRACTICES**

The following section describes the fees for the advisory programs we offer as well as how we compensate our Financial Advisors, Portfolio Manager and SMA Managers.

### **Please see Section “About our Investment Advisory Programs—Fee Schedules, Minimum Investments and Minimum Annual Fees.”**

#### **A. Program Fees & Compensation To Financial Advisors**

**Your Program Fee.** The fees and/or commissions charged by us for the programs described in this brochure are negotiable and may differ from client to client based on a number of factors. These factors include, but are not limited to, the type and size of the account, and the number and range of supplemental advisory and client-related services to be provided to the account. Fees as well as other account requirements may vary as a result of the application of prior policies depending upon account inception date. From time to time, the fees for certain advisory services described in this brochure may be reduced for our employees, certain family members or employees of our affiliates. We reserve the right to change those fees upon termination of employment with the firm. Other types of fee arrangements – such as a fee plus commission, or a fixed fee arrangement – are available in certain programs. We may enter into special agreements to provide other services involving specific clients, Financial Advisors or any of our branch offices. For more information regarding the above, contact your Financial Advisor.

Our programs charge a “wrap fee” at the annual rates listed in fee schedule in Section **“About Our Investment Advisory Programs—Fee Schedules, Minimum Investments and Minimum Annual Fees”** based on a percentage of the assets in the account for our advice, execution, settlement, custodial and related services. No separate fees for brokerage commissions will be charged to your account.

Program fees are expressed as an annual rate that is prorated for the quarterly or other billing period and is applied to the net asset value of the account. For this purpose, net asset value means the total fair market value of the eligible securities in your account less the value of any margin loan outstanding on the valuation date.

You may pay more or less in a UBS Financial Services Inc. wrap fee program than you might otherwise pay if you purchased the services separately. For example, depending on your asset allocation or strategy selection, you may find that the individual components of your strategy or allocation are available to you outside of the Program for more or less than you would pay in the Program. Several factors affect whether your costs are more or less in a wrap fee program, including size of the portfolio; whether we serve as custodian for your account assets, the types of investments made by the SMA Manager, Portfolio Manager or Financial Advisor; whether such investments carry additional administrative or management fees; the amount of trading effected by the SMA Manager or Financial Advisor; and the actual costs of the services if purchased separately. You should consider these factors carefully before establishing accounts in the programs.

When you select an investment portfolio managed by UBS, such as Managed Portfolio of ETFs, our firm earns more compensation than it would if you selected a third-party SMA Manager because the fees you pay for investment management are retained by us or one of our affiliates.

Certain SMA Manager strategies and UBS Discretionary Program Portfolios are offered in several programs at different fee levels. Therefore your program fee you pay will vary, depending on the program you select and the structure of the program (dual, single contract, unified account, discretionary or non-discretionary program). For example:

- The ACCESS and MAC programs offer some of the same SMA Managers. Depending on your asset level and ability to negotiate the investment management fee with the SMA Manager in the dual-contract structure of the MAC program, you may find that the single-manager structure in ACCESS provides a more cost-effective option or vice versa.
- **UBS Managed Portfolio of ETFs in the MAC Program:** charges a maximum 0.80% as the Investment Management Fee in the MAC Program. That fee may be greater than the fee, which ranges from 0.20% to 0.75%, third-party SMA Managers charge in our SMA programs such as ACCESS or SWP. The Managed Portfolio of ETFs maximum fee may also vary from the fee third-party managers of ETF strategies would charge you directly in the MAC Program for investment management services which may be up to 1.50%.
- **Managed Portfolio Program Strategies:** Strategies available in our Managed Portfolio Program may also be offered in other Advisory Programs and within other Managed Portfolio Program strategies, in some cases, for a different fee. For example, Global Selections strategies in the Managed Portfolio Program have two principal components: (i) an allocation to equity securities; and (ii) an allocation to ETFs for international and fixed income exposure. The equity allocation of the Global Selections portfolios is derived from existing equity models which have been available in various Advisory Programs on a discretionary and a non-discretionary basis since November 2005. Those models continue to be available in other programs, and are accessible to you, in some cases for a lower wrap fee than is available through Global Selections. As a result, Financial Advisors may have an incentive to recommend the portfolios and strategies in programs where they receive higher compensation. **Your costs of investing and the overall impact of those costs on the performance of the model portfolios may vary substantially depending on your program selection.**

We may, in our discretion, and in order to address fiduciary obligations, offer the program to trust clients for which our affiliate serves as trustee at substantially discounted rates than those listed.

**Services Included in Your Program Fee:** The fee that you pay under the programs described in this brochure covers the investment advice and consulting services of your Financial Advisor, trading and execution, custody, performance reporting and related account services that we provide to you and, depending on the program that you select, may include portfolio management as well. **Your Financial Advisor receives a percentage of the Program Fees you pay to us.**

**Compensation to Financial Advisors.** In general, we pay our Financial Advisors a percentage of clients' commissions and fees (called a payout rate), less certain adjustments requested by our Financial Advisors, according to an established schedule based on the revenues the Financial Advisor generates with the clients

he or she services. For transactions-based accounts, which hold products such as stocks, bonds, options and mutual funds, the payout rate ranges from 20% to 45% of the commissions or sales charges paid to the firm. Generally, for stock and option transactions, the payout is adjusted to account for \$12 per transactions. For insurance and annuity products and asset-based fee programs, the payout ranges from 20% to 48% of the commissions or sales charges paid to the firm.

We may reduce or abolish the above payouts to Financial Advisors in connection with accounts they service that do not meet certain prescribed asset levels on a household basis.

In general, Financial Advisors earn more for products sold in initial offerings than for those purchased and sold in secondary offerings.

**The percentage of firm revenues credited to Financial Advisors in asset-based programs and insurance products is higher than the percentage of firm revenues credited on most other products and services. The differences in compensation may create an incentive for Financial Advisors to recommend products for which they receive higher compensation.**

Under certain circumstances (for example, acquisitions), some Financial Advisors or producing Branch Office Managers may be compensated differently. We reserve the right, at our discretion and without prior notice, to change the methods by which we compensate our Financial Advisors.

**Your Portfolio Manager's Compensation:** In the Portfolio Management Program, the entire Program fee you pay is allocated to the branch office and it is used as the basis to calculate the percentage of the Program fee that is paid to your Financial Advisor in his/her role as Portfolio Manager in the PMP program.

Portfolio Managers in the UBS Managed Portfolio Program do not receive a portion of the Program fee. The Firm retains an administrative and management fee, ranging from 0.10% to 0.50% based on the strategy you select. The balance of the Program fee you pay is allocated to the branch office and it is used as the basis to calculate the percentage of the Program fee that is paid to your Financial Advisor.

The percentage payable to Financial Advisors acting as Portfolio Managers in the Program is based on their total production level at UBS. The percentage paid to Financial Advisors in the PMP is higher than traditional commission-based brokerage business and is higher than the percentage paid to Financial Advisors who recommend third party money managers. As a result, Financial Advisors in these PMP may have an incentive to recommend their services in PMP over those of a third party money manager in our other managed accounts programs or over traditional commission-based brokerage services. From time to time, Financial Advisors outside of PMP may refer their clients to PMP Portfolio Managers. In those instances, the PMP Portfolio Manager shares a portion of his/her fee with the referring Financial Advisor.

**SMA Manager Fees in the ACCESS and SWP Programs.** We pay a portion of the program fee to your SMA Manager as compensation for their services. The amount of the program fee paid to each SMA Manager is a function of that SMA

Manager's investment style as well as their total amount of assets under management in the ACCESS and SWP programs. The range of annual fees paid to SMA Managers for equity and balanced accounts is generally 0.25% to 0.75% of assets under management. The range of annual fees paid to SMA Managers for fixed income accounts is generally 0.10% to 0.60% of assets under management.

The compensation payable to SMA Managers, your Financial Advisor and UBS is higher for equity and balanced strategies than it is for fixed income strategies.

### **UBS Strategic Wealth Portfolio Program (SWP)**

The Strategic Wealth Portfolio Program has a "Blended Program Fee" that includes a UBS consulting fee, applicable to all assets in the Account, for trade execution, administrative services and consulting services (which includes the advice and guidance of your UBS Financial Advisor to develop an asset allocation and evaluate investment options, rebalancing to your Target Allocation and quarterly performance reports), and a fee for the services of the SMA Manager(s) you have selected for the discretionary portion of your account. Fees for your sub-accounts and SMA Managers will vary depending on the strategy selected. Please consider the following and discuss with your Financial Advisor:

- Because each sub-account may be subject to a different fee, your Blended Program Fee will change as the value of the assets in each sub-account fluctuates with market movement, contributions and withdrawals, or if you make changes to your allocation or SMA Managers. As a result, **the Blended Program Fee may be more or less than the Blended Program Fee shown in your account application.** Changes to your Target Allocation and/or investments will be confirmed to you in writing.
- At initial Account funding or upon reallocation, your Target Allocation may not be fully implemented for reasons including the time needed to receive the proceeds from a reduction in Alternative Funds or due to insufficient funding to completely fund multiple SMA Managers. See Section **Funding Multiple Managers** and **For Investment Management Strategies that Include Alternative Investment Funds** for additional information. **However, the initial fee for the Strategic Wealth Portfolio Program will be calculated based on the Target Allocation you selected (even if the Target Allocation is not fully implemented at that time) and the value of the assets on the date your account is accepted.** Thereafter, the Blended Program Fee will be based on the actual allocation across sub-accounts on the last business day of each calendar quarter and will cover the next calendar quarter. However, if your account is pending rebalancing at or about the time the Program Fee is calculated, the blended program fee will be based on the current Target Allocation. If sufficient funds are not available in your Account to cover the fee, then assets from each asset category in your account will be liquidated to pay the portion of the fee attributable to that asset category.

### **Fees/Other Charges Not Covered by Your Program Fee.**

You may pay other charges in addition to the wrap fee, some of which may add to the compensation that we receive. **Program fees will not be reduced or offset by these fees. These**

**additional fees will reduce the overall return of your account.** Our Program fees do not include:

**SMA Manager Fees in the MAC Program:** Our MAC program fee does not include the services of your SMA Managers in that program. Your MAC SMA Manager will charge a separate fee, negotiated by you, for portfolio management services which, when added to our fees, constitute your total "program fee." The range of annual fees charged by SMA Managers in MAC for equity and balanced accounts is generally 0.50% to 1.50% of assets under management. For fixed income accounts, the range of annual fees is generally between 0.25% and 0.75% of assets under management. However, fees charged by SMA Managers and the associated breakpoints can vary significantly, depending on the type of investment services offered. Your account may also be subject to minimum annual fees from the SMA Manager, which may be assessed quarterly.

**MAC Commission Accounts:** Historically, and on an exception basis, you may establish a MAC account and pay through a commission pricing structure. MAC Commission is a commission account in which, instead of an asset-based consulting fee, we are paid through brokerage commissions, at rates that we negotiate with you. **Your selection of the commission option may result in us earning more than the asset-based fee option. This may result in a financial incentive for your Financial Advisor to (i) advocate the use of the MAC Commission pricing option over the MAC Fee option to pay for services, due to the potential for increased compensation in the form of brokerage commissions and (ii) recommend managers who will direct client trades to us. Please refer to the section "Additional Information—Commissions and Directed Brokerage" for important information regarding commission pricing.** The SMA Manager will also charge a separate fee, negotiated by you, for portfolio management services.

**In the MAC Program, you are responsible for negotiating your investment management agreement and the fees for their services directly with your SMA Manager. You should consider that based on the combination of our fees and your SMA Manager's fees, the overall fee for your MAC account may exceed 3.00% of the account value, particularly if the value of your account falls below the account-opening minimums. Therefore, it is important that you understand that the services we offer through MAC may be available to you on a more cost-efficient basis in other UBS programs.**

### **Other fees and charges not covered by your Program Fee:**

1. Commission charges for transactions for your account that your manager or we, at your direction, may effect through other broker-dealers. Your SMA Manager has the option to trade through us or with other financial institutions, in accordance with best execution obligations. Our fees do not include the commission charges for transactions for your account that your SMA Manager may effect through other broker-dealers. **If your SMA Manager will not be executing transactions with UBS, MAC may not be an appropriate option as you will be incurring redundant costs.** You should direct your inquiries regarding these costs to your Financial Advisor;
2. Custody fees imposed by other financial institutions if you choose to custody your assets at other financial institutions;

3. Mark-ups/mark-downs on principal transactions with us or other broker-dealers;
4. Internal trust fees;
5. Charges imposed by law;
6. Costs relating to trading in foreign securities (other than commissions otherwise payable to us);
7. Internal administrative, management, redemption (see below) and performance fees that may be imposed by collective investment vehicles such as open-end and closed-end mutual funds, UITs, hedge funds and other alternative investments, exchange-traded funds or real estate investment trusts; and
8. Other specialized charges, such as transfer taxes, exchange and SEC transaction fees.

We or UBS Credit Corp. will also charge interest on any outstanding loan balances to clients who borrow money from us or UBS Credit Corp. Clients also may be charged additional fees for specific account services, such as ACAT transfers, annual and termination fees for retirement accounts or Resource Management Accounts® (and/or Business Services Accounts BSA®) and wire transfer charges.

**Mutual Fund Redemption Fees for Active Trading.** The mutual funds you hold in your Accounts may charge redemption fees if shares are redeemed within a certain period of time after they are purchased, also known as active trading. These fees may also apply to the redemption portion of an exchange transaction if shares are exchanged among funds (whether through direct exchanges or through sales and new purchases) in the same family of funds more frequently than is permitted by each fund’s prospectus. The amount charged as a redemption fee, the length of time you must hold your shares to avoid a redemption fee and the number and frequency of exchanges among funds you may make without paying a redemption fee, varies from one mutual fund to another. This information is included in each Fund’s prospectus. If you have questions about whether a redemption fee will apply to a transaction you wish to make, please ask your Financial Advisor for a prospectus for the applicable mutual fund. **If charged, redemption fees will be in addition to the Program Fee and will be your responsibility.**

For mutual fund assets in our Managed Portfolio of Funds, UBS Strategic Wealth Portfolio and PACE programs, you will not be charged redemption fees resulting solely from automatic transactions effected for your allocation, including periodic automatic account rebalancing, periodic automatic withdrawals from your account or withdrawals to pay your Program Fee, if you have selected these features. If due to system limitations or errors, your account is charged redemption fees as a result of periodic automatic account rebalancing, periodic automatic withdrawals from your account or withdrawals to pay your Program Fee, we will credit your Account for the amount of those fees. **Redemption fees incurred for any other reason and as a result of trading you direct, will be your responsibility.**

## B. Billing Practices

**Relating Accounts for Billing Purposes.** You may elect to have two or more eligible Advisory Accounts treated as “Related Accounts” for purposes of taking their assets into account in order to calculate the program fee. That means all eligible assets

in those accounts will be considered together to determine breakpoints in the fee schedule or (for those programs that impose a minimum fee) whether the minimum fee applies. If the minimum fee applies, each account will be billed its pro rata share based on that account’s amount of eligible assets. Please contact your Financial Advisor for more information on the definition of “eligible accounts” and the forms needed to choose this billing option. Retirement Accounts may not be linked where a prohibited transaction under ERISA or the IRC may result.

**Minimum Annual Fees.** Minimum fee will be imposed in your account if the total fee you negotiated is less than the required minimum annual fee for the program. For example, if you negotiated a fee schedule for your ACCESS equity account your minimum annual fee will be \$2,800 or 2.80% of your account value, whichever is less. See Section **“About Our Investment Advisory Programs—Fee Schedules, Minimum Investments and Minimum Annual Fees”** for details.

**Initial Program Fee.** The billing process described below is subject to change upon prior written notice to you. The initial program fee will be assessed in the first month in which your account is approved. The fee will be calculated on the value of the eligible assets on the date your account is approved, prorated to cover the period from the date your account is approved through the end of the next full calendar quarter unless we receive instructions from you to bill only through the end of the current calendar quarter. For SWP, Strategic Advisor and UBS Managed Portfolio Advised by Richard Bernstein Advisors, LLC accounts, your initial fee covers the billing period through the current calendar quarter only. The minimum program fee (where applicable) is calculated and assessed quarterly.

**Quarterly Fee.** After the assessment of the initial Program fee, your Program fee will be assessed quarterly based on the net asset value (the fair market value of the eligible assets in your account less the value of any margin loan outstanding on the valuation date) in your account on the last business day of each calendar quarter. Fees will be charged directly to your account within the month following the close of a calendar quarter unless you have designated another one of your eligible UBS accounts to pay the Program fee or elected to have your fee invoiced to you (non-IRA qualified plans only). Your fee is an annual percentage of your account assets. You will pay the fee quarterly in advance, prorated according to the number of calendar days in the billing period. For example, for a typical second quarter period, assuming a March 31 (last business day of the preceding quarter) value of \$100,000, an annual fee percentage of 2.8% (the maximum fee in our ACCESS program) and 91 billing days (April 1 – June 30), the quarterly fee would be calculated as follows:  $\$100,000 \times .028 \times (91/365) = \$698.08$ .

**Contributions and Withdrawals.** Additional eligible assets deposited into your account within a billing period will be charged a pro-rated fee based upon the number of days remaining in that period whether or not those assets remain in the account until the end of the quarter. **No fee adjustments will be made for withdrawals, repayment of borrowed funds, or for account appreciation or depreciation within a billing period.** Consider the following example:

An account with a \$100,000 net asset value on the last business day of the fourth calendar quarter (December), will be charged the quarterly fee covering the Program’s advisory services for

the first calendar quarter (March). If during that time, \$50,000 in additional eligible assets were deposited into the account on February 15, we would assess a prorated fee on the additional \$50,000 to cover our services for the remainder of the calendar quarter. On the other hand, if \$50,000 were withdrawn from the account, you would not be entitled to a pro-rata refund for the rest of the quarter. **In light of this, if you anticipate making periodic contributions and/or withdrawals from this account, you should carefully consider the impact such a practice can have on the overall fee.**

**For PACE and certain UBS Managed Portfolio Programs (e.g. Managed Portfolio of Funds) Clients:** Each time that you redeem shares of a Fund or Select Portfolio and reduce your program assets during any one quarter, we will calculate a fee credit applicable to the withdrawal amount, based on the proportion of the period remaining after the withdrawal is effected. In calculating an additional fee during a quarter, deductions and credits may offset each other. We waive additional fees if the difference between the deductions and credits during any one period is less than \$25. Net credits or debits assessed will be due and payable on the first Business Day of the following quarter, with the actual credit to your account being made within the first two weeks of the quarter.

**Debiting/Invoicing Program Fees.** Program fees are debited from your account unless you have designated another one of your eligible UBS accounts to pay the Program fee or you elect to have your fee invoiced. Employee benefit plans subject to the Employee Retirement Income Security Act of 1974, as amended ("ERISA") (a "Plan") may elect to be invoiced for the Program fee by directing us to do so in writing. Payment will be due within thirty (30) days of the mailing of the invoice. If the fee is not received within thirty (30) days, the account may be debited. **An individual retirement account ("IRA") may not elect the invoice feature.** From time to time and in our sole discretion, however, we may make the invoicing feature available to select IRA accounts for the invoicing of the Program Fee.

**MAC SMA Manager Fee:** When requested by the SMA Manager and authorized by you, the SMA Manager's fee will be deducted directly from your account. Otherwise, the SMA Manager will bill you directly.

**PACE Program Fee Payment Hierarchy.** You may elect to have your PACE program fee paid from assets within your PACE investment or from non-PACE participating assets held in your brokerage account. **The PACE program automatically defaults to deducting your Program Fee out of your PACE assets unless you instruct us otherwise.** Payments from your PACE assets will be processed by either redeeming shares of PACE Money Market Investments or if sufficient funds are not available, then Program Assets in your account will be liquidated by redeeming shares of Multi Funds/Select Portfolios in your Account beginning with the largest Fund in the first asset category in which you hold sufficient shares to pay the remaining fee. The specific order for redeeming shares for this purpose is listed below. If you instruct us to deduct the Program Fee from non-PACE assets, we will do so by debiting first any available cash or non-PACE eligible money market funds in your brokerage account and/or if sufficient funds are not available, debiting the fee from the PACE assets as indicated.

#### **PACE Select Advisors**

(1) PACE Money Market; (2) Intermediate Fixed Income; (3)

Government Securities Fixed Income; (4) Strategic Fixed Income; (5) Municipal Fixed Income; (6) High Yield; (7) Large Cap Value; (8) Large Cap Growth; (9) Small/Medium Cap Value; (10) Small/Medium Cap Growth; (11) REITs; (12) International Equity; (13) International Emerging Markets; (14) Global Fixed Income; (15) Alternative Strategies

#### **PACE Multi Advisor**

(1) PACE Money Market; (2) Short/Intermediate Taxable Fixed Income; (3) Long Term Taxable Fixed Income; (4) Short/Intermediate Municipals; (5) Long Municipals; (6) High Yield; (7) U.S. Fixed Income – Other; (8) Fixed Income – Other; (9) All Cap Equity; (10) Large Cap Equity; (11) Medium Cap Equity; (12) Small Cap Equity; (13) U.S. Equity – Other; (14) REITs; (15) Global Equity; (16) Non U.S. Equity – Developed Markets; (17) Non U.S. Equity – Emerging Markets; (18) Non U.S. Equity – Other; (19) Equity – Other; (20) Global Fixed Income; (21) Non U.S. Fixed Income; (22) Balanced; (23) Global Balanced; (24) Non U.S. Balanced; (25) Balanced – Other; (26) Alternative Strategies – Equity; (27) Alternative Strategies - Fixed Income; (28) Alternative Strategies – Both; (29) Other; (30) Commodities; (31) Precious metals; (32) Energy

**Debit Balances in Your Accounts.** We charge interest according to our Firm's usual credit practices if payment of the program fees results in a debit balance in your Account. These charges may include compound interest, increases in interest rates that reflect adjustments in the Firm's Base Loan Rate, as defined in the Firm's Statement of Credit Practices, and charges to cover the cost of the Firm's facilities and extra services. Payment of the fees and any interest may be made at any UBS office. Please refer to the enclosed UBS Statement of Credit Practices for more information.

#### **Offsets, Credits and Rebates and Billing Exclusions Available in Certain Programs**

**12b-1 Fees and Revenue Sharing Offsets for Retirement Accounts in Discretionary Programs.** In Discretionary Programs, your UBS Portfolio Manager may select mutual funds that charge 12b-1 fees for the management of your Account and may also invest in institutional shares or fee-based share classes that do not charge a 12b-1 fee. We will reduce your Program Fee by the amount of any trailers or 12b-1 fees associated with those mutual fund investments in your Account. We will deposit the 12b-1 fees and trailers into your Account to reduce your Program Fee. If the credits remain in your account at the time of billing, they will be subject to the asset-based fee charged to your account.

**PACE Select Plan Rebates.** For a client that is a Plan or IRA we will rebate to the Plan or IRA a part of the Program Fee in an amount equal to, for each Select Portfolio in which the Plan's assets are invested, (A) the average daily balance invested in a Select Portfolio for the period multiplied by (B) the reduction factor specified below, multiplied by (C) a fraction, the numerator of which is the number of days in the period for which the PACE Select Advisor Fee is being assessed and the denominator of which is the actual number of days in that calendar year. The "reduction factor" varies among the Select Portfolios and is based on the amount by which the investment advisory fees paid to UBS Global Asset Management (Americas) Inc. ("UBS Global AM") by the Select Portfolios (the "PACE Select Advisor Fee") exceeds twenty basis points (0.20%) after payment by UBS Global AM of the fee to that Select Portfolio's

sub-advisor(s). In the event that the UBS Global AM waives some or all of the PACE Select Advisor Fee or other expenses paid to it by a Select Portfolio, these rebates and reduction factors may be reduced or eliminated.

**Transferred Mutual Funds Shares.** If you transfer mutual funds shares to your Advisory accounts and those shares have a front-end sales load and were purchased at UBS, we will exclude those shares from Program fee until 12 months have elapsed from the date of initial purchase. See section **“General Information About Our Wrap Fee Programs—Transferring Mutual Fund Shares into Your Advisory Accounts”** for more information.

**Billing on Cash and Cash Equivalents in Your Strategic Advisor, UBS Managed Portfolio and PACE Accounts.** Cash and cash equivalent instruments including money market funds and PACE holdings in the PACE Money Market Funds are subject to the Program fees. In Strategic Advisor, UBS Managed Portfolio Program and PACE, we limit the amount of cash and cash equivalents that are subject to the fees in those programs to 30% of the total eligible asset value commencing with the third billing period after your account is in the Program. This policy is subject to change at any time in our sole discretion and only applies to quarterly billing.

#### IV. GENERAL INFORMATION ABOUT OUR WRAP FEE PROGRAMS

##### A. Account Opening

**Your Advisory Relationship Agreement.** Participation in our Programs, our obligations to you under the Programs, and your ability to hold shares that, in some cases, are available exclusively through our Programs are contingent on you returning an executed Advisory Relationship Agreement to us. Failure to return the signed Agreement to us will result in your investments being deemed and charged as brokerage and the liquidation of investments that may be held exclusively in our advisory Programs, for example, PACE Money Market fund shares.

**Your Account Profile and Information.** It is your responsibility to inform us of any material changes in your objectives or financial condition. After a new account is opened or whenever your investment objectives or financial information is updated, we confirm your personal information to verify that our records are correct. Please review those materials carefully and report any discrepancies to your Financial Advisor as soon as possible. Updates to existing accounts are reflected in your next account statement. Information for new accounts is confirmed and sent promptly after account acceptance.

If your personal circumstances change in a way that could affect how your Program Assets are being invested, you should let us know right away, and give us any additional information or documents that we reasonably request. For accounts in PACE, Strategic Advisor and SWP, if you ask us to do so, we will prepare a new Target Allocation for you, based on the revised information you provide us.

You are responsible for providing us with your current address. If we are unable to contact you by mail, we will be required to terminate your account from the program. Upon termination,

the assets will continue to be invested in the existing positions when permissible given the nature of the securities, and will be held in a brokerage account. Your advisory agreement with us no longer applies.

**Ownership of Securities and Investment Discretion.** You understand that you are the beneficial owner of all securities in your Account and, other than as specifically delegated to us in your Agreement, you retain all rights related to such ownership.

For Accounts in Non-Discretionary Programs and SWP Non-Discretionary Assets, you retain trading authority and all transactions in those Accounts and sub-accounts will be effected by UBS only as instructed by you, and neither UBS nor your Financial Advisor will have any discretion with respect to the investment of those Program assets. Based on the authority you delegate to us in your Agreement, and as applicable given your Program preferences, we will engage the SMA Managers to manage your accounts. You also authorize UBS to take any actions necessary to open and maintain your Accounts or to complete and pay for transactions for your Accounts. If you select one of our Discretionary Programs, your signature gives UBS investment discretion over those Program accounts and authorizes us to delegate investment selection for your accounts to sub-advisers. With that authority, we may delegate the selection of all or a portion of the securities for your Account to a sub-advisor for inclusion in the portfolio.

**Transactions in your SMA Programs, Discretionary Programs and your SWP SMA Manager Sub-accounts.** After your Account is accepted for a Discretionary or SMA Program, you can no longer place orders to trade those Accounts or sub-accounts. However, we may accept your instructions for transactions associated with tax planning (i.e., tax gain and loss sales), if your instructions are consistent with your Portfolio Manager/SMA Manager’s strategy. For tax gain or loss sale requests specifically, each SMA Manager will make his or her own qualitative assessment of market liquidity while considering your request. After December 1 of each calendar year, however, there may be reduced liquidity in the market and your SMA Manager may determine that executing your request in such an environment would not be in your best interest and/or would interfere with the SMA Manager’s ability to properly deliver the stated strategy. For this reason, tax sales should be requested before December 1 of each calendar year.

For Accounts in the SWP program, the processing of requests to realize gains or losses may require us to show your SMA Manager positions in your Account held by another SMA Manager in your Account. You understand and consent to the release of such information for these purposes.

**Custody.** Generally, the programs described in this brochure require you to custody your account assets with UBS. However, we may, on an exception basis, accept certain accounts whose assets are custodied with other financial institutions who meet the definition of a qualified custodian. Those accounts are referred to as delivery versus payment (“DVP”) accounts.

If you choose to proceed on this basis, you do so against our recommendation and with the understanding that you will be incurring additional costs in excess of your program fee (for example, custody costs), you will not receive a Performance Review from us, and billing for your account, including the accurate processing of rebates if applicable, is the responsibility

of your custodian. For DVP accounts, you agree to use only a “qualified” custodian that is a bank, a U.S. registered broker-dealer or futures commission merchant or a foreign financial institution and meets the definition of “qualified custodian” set forth in Rule 206(4)-3(c)(3) under the Investment Advisers Act of 1940.

**Funding Your Account.** You may fund your account by depositing cash and/or eligible securities. However, if you fund your account with securities, you authorize and direct UBS and/or your SMA Manager, as applicable given the terms of your program, to liquidate those securities on your behalf and to allocate the proceeds in accordance with your selected investment style. **We will execute those transactions free of commission charges, but, depending on the type of security involved, those liquidations may result in you incurring redemption charges and taxable gains or losses.** You should review the potential tax consequences of these liquidations with your tax advisor before funding your account with securities.

If you sold mutual fund securities, prior to entering into a Program or while in a Program, you may have paid certain fees with respect to that sale or incurred charges on the initial purchase of certain share classes. You will now incur the Program fee, in addition to the operating fees and expenses applicable to the mutual funds.

Class A shares used to fund accounts subsequent to the share class conversions in the Program to Institutional, Advisor or Fee-Bases share classes (see “**Mutual Fund Share Classes**” below for details) will be automatically converted, on a tax-free exchange basis, to the new share class available for the relevant fund. We will undertake this action on your behalf based on your authorization in the Program Agreement.

When liquidating these securities for purposes of establishing your account, we will be acting as your broker, not your investment adviser. Liquidations will be effected at the then prevailing market prices. We will not be responsible for the liquidations and any consequences due to your failure to notify us of other existing security holdings, the overall effect of liquidations once effected, or the loss of potential gains due to movements in the market prices or changes in market conditions.

#### **For SWP Accounts Only—Funding Multiple Investment Managers.**

If you have selected two (2) or more SMA Managers for your Target Allocation, either at the time you initially open the Account or upon reallocation, and there is not sufficient cash and/or securities to fund all Investment Managers, funding will occur as follows:

- If funding with cash alone, you direct UBS to fund the SMA Managers you selected in the order that would result in the least amount of cash being left uninvested. For instance, if you selected two Managers, the Manager with the highest minimum investment will be funded first and the additional Manager funded thereafter.
- Where two Managers would have the same minimum funding, you direct UBS to use a random selection methodology to identify the Manager to be funded.

- With respect to cash that remains after the maximum number of Managers can be funded to meet their respective investment minimums, these monies will be invested in mutual funds and/or exchange traded funds if part of your target asset allocation or money market mutual funds according to the sweep option selected.
- If securities comprise some or all of the funding in your account (“funding securities”), all fixed income funding securities will be allocated to the fixed income SMA Manager(s) first for a determination on retention or liquidation, even if the total value of the fixed income funding securities exceeds the allocation to the fixed income Investment Manager(s). Upon liquidation of fixed income investments to meet the appropriate allocation for the fixed income Investment Manager(s), the money will be allocated to your other SMA Managers and/or other investments.
- Equity funding securities will be allocated to the Manager whose investment strategy is comprised of the greatest amount of the equity funding securities, based on dollar value.
- Equity funding securities that are not part of the equity Manager’s portfolio will be liquidated as described in the **Funding Your Account** section above, to the extent necessary to meet the Investment Manager’s investment minimum. To the extent that additional SMA Managers can be funded, such funding shall be based on this logic in order of highest to lowest match of equity funding securities to securities in the Investment Managers’ respective investment strategies.
- **Your initial Program Fee will be based on the Target Allocation you selected rather than on your actual asset allocation, as in certain circumstances, one or more Investment Managers may not be fully funded for a limited period of time and your Target Allocation may not be fully implemented.**

#### **B. Eligible Assets**

**Investment Strategies; Eligible and Ineligible Assets.** We employ a variety of investment strategies in connection with our wrap fee and other investment advisory services, depending upon the type of client involved, the program chosen and the objective selected by the client. These strategies may involve the use of proprietary models or research blends, long-term and short term investments and covered option writing, but may also include in special circumstances, short sales, and option or other hedging techniques. We, in our sole discretion, may expand the offerings in our programs to include multiple style accounts, and investment strategies that include the purchase and sale of mutual funds, exchange traded funds, alternative investment vehicles also known as hedge funds or the use of margin and short sales and option strategies. We may impose special suitability and investment requirements with respect to these portfolios.

We require that you hold and purchase only eligible assets in your advisory accounts. Eligible assets may vary by Program. However, in general, with respect to most of the programs described in this brochure, you or your SMA Manager or Portfolio Manager may purchase and sell securities of any kind which may include U.S.

and foreign stocks, bonds, options, American Depositary Receipts, foreign Ordinary Shares, and (at prescribed levels in certain programs) open- and closed-end funds, eligible UITs, exchange-traded funds, money market funds, and public real estate investment trusts (collectively, “eligible assets”).

Insurance and annuity products, limited partnership interests, private placements, IPOs, syndicate offerings, alternative investments (except for non-daily traded alternative investment funds available through the SWP program), UBS securities (in certain programs), auction rate securities (in certain programs), floating rate securities, listed or OTC index warrants, commodities and futures, and, for those programs which permit open-end mutual funds, B and C class shares, (collectively, “Ineligible Assets”) are not eligible for our advisory programs. Most of our advisory programs do not offer the ability to conduct principal trades. As such, in these accounts, you may not hold, purchase or sell securities which only trade on a principal basis. Currently, you have access to principal execution in your advisory account only if your account is in MAC (unaffiliated managers only) and for certain limited securities in the UBS Strategic Advisor program. **The list of Eligible and Ineligible Investments can change at any time in our discretion.**

Generally, our Programs do **not offer UBS stock or UBS securities, except for the UBS mutual funds and money market funds used as cash sweep vehicles in the Programs.** However, SMA managers who are not affiliated with UBS may be able to purchase UBS securities for your Accounts. UBS securities are issues by UBS AG, the parent company of UBS, or another UBS affiliate under common control. As a UBS AG subsidiary, we have a control relationship (we are either controlled by or under common control) with the issuer of such securities.

If you hold Ineligible Assets in your advisory account and you also have a separate UBS commission-based brokerage account, we will transfer those assets from your Program account to your UBS commission-based brokerage account to facilitate the UBS method of billing and performance reporting. The transfer of Ineligible Assets from your Program account to your brokerage account will **not** result in liquidation of your securities or taxable events, commissions or any other compensation either to UBS or your Financial Advisor. If you do not have a separate UBS commission-based brokerage account and you decide to hold Ineligible Assets in your advisory account, you do so against our recommendation and with the understanding that the value of those securities may be included for purposes of calculating and reporting the performance of your account, and calculating the Program Fee, resulting in a higher fee to us and your SMA Manager can cause a trade error due to overinvestment and may lead to termination of your account.

**Neither UBS, your SMA Manager nor your Financial Advisor will act as your investment advisor with respect to Ineligible Assets.**

#### **Classification and Availability of Investment, Mutual Funds, and PACE Select Trust Portfolios.**

We categorize all eligible mutual funds, exchange traded funds, and other pooled investment vehicles into asset categories. We may add or remove asset categories at any time. We also may change a mutual fund’s asset category, based on various factors, including the fund’s portfolio holdings. In the event of these changes, you will be required to accept such changes to

the Program and/or the funds. Should you choose not to accept such changes, you will no longer be eligible to participate in the Program. In assigning each mutual fund to an asset category, we may rely solely on third-party vendors or on the fund’s prospectus and other information that is publicly available or provided to us by the fund’s agents.

There can be no assurance that any of the investments available or eligible in our programs will remain available for purchase through the Program. We may add or remove securities or issuers at any time, or an issuer or sponsor may stop offering its securities through or participating in the Program. Depending on the circumstances those investments may be redeemed, transferred to a brokerage account or registered directly in your name with the issuer’s transfer agent. This may result in additional costs or be a taxable event for you.

The inclusion of any particular PACE Select Portfolio, mutual fund or other investment in our Programs does not mean that UBS endorses or recommends that you invest in that security.

**Mutual Fund Share Classes.** For Programs which offer mutual funds, the offering includes affiliated and non-affiliated mutual funds. We will provide you with mutual fund prospectuses and other fund information as you may reasonably request to assist you in completing appropriate forms for purchases, redemptions, account designations, address changes and other transactions involving these investments.

Generally, our advisory Programs offer Class A shares of mutual funds, which are sold on a no-load or load-waived basis. These Class A shares normally impose a shareholder servicing fee, commonly referred to as a 12b-1 fee, which you pay directly to the fund company. As a distributor of mutual funds, we and our Financial Advisors receive a portion of the 12b-1 fees for services we provide.

In addition to offering no-load or load-waived Class A shares, we may also offer Institutional, Advisor or Fee-Based share classes (where available) in the future for some or all of the funds available in our Programs. As with the no-load or load-waived Class A Shares, these share classes do not impose a load or sales charge at the time of purchase; however, because most Institutional, Advisor or Fee-Based share classes do not impose a 12b-1 fee shareholder servicing fee, these share classes are usually more cost effective than the Class A shares. We will notify you of these changes.

If you hold Class A shares at the time we convert each Program to a new share class, then we will convert your Class A shares on a tax-free basis into the Institutional, Advisor or Fee-Based share class. At our discretion we may allow existing clients to hold Class A shares.

Class A shares that are used to fund Accounts subsequent to the share class conversions in each Program will be automatically converted, on a tax-free exchange basis, to the new share class available for the relevant fund. After you sign the Advisory Relationship Agreement, we have the authority to conduct such tax-free exchanges on your behalf.

Most of our Programs, offer affiliated mutual funds. In our Discretionary Programs, your Program Fee will be reduced by any trailers or 12b-1 fees associated with mutual fund investments in your Account. We will deposit the 12b-1 fees and trailers into

your Account to reduce your Program Fee. To the extent those credits remain in your account at the time of billing, they will be subject to the asset based fee charged to your account.

**Transferring Mutual Funds Shares into Your Advisory Accounts.** We may accept transferred shares of mutual funds purchased outside of our advisory Programs at UBS or at other financial institutions. Fund shares transferred into your advisory Accounts are referred to as “Transferred Shares.” Transferred Shares may have been assessed a sales load, sales charge or distribution fees previously and, you will be assessed the Program Fee based on the value of those shares except in certain instances.

If your Transferred Shares have a front-end sales load and were purchased at UBS, those shares will not be charged the Program fee until 12 months have elapsed from the date of initial purchase. Transferred Shares purchased at other financial institutions will be assessed the Program fee immediately. Because the exceptions are not available for shares purchased at another financial institution, the overall cost to you of transferring shares into the Programs may be higher for shares you purchased at another financial institution. Please review the costs carefully before making a decision to transfer fund shares into your advisory Accounts. If you sold mutual fund shares prior to entering into, or while in our Programs, you may have paid certain fees with respect to that sale or incurred charges on the initial purchase of certain share classes. You will now incur the Program fee on eligible mutual fund shares held in your Accounts, in addition to the operating fees and expenses applicable to mutual funds.

### C. Investment Restrictions & Investment Policy Statements

**Investment Restrictions.** Our Discretionary and SMA Programs offer you the ability to impose reasonable investment restrictions on the management of your Accounts including restrictions as to permissible securities, industries, industry sectors or credit ratings. Investment restrictions will apply only to those assets over which we or your SMA Manager have discretion. We are not responsible for investment restrictions in “ineligible” assets you may hold in the Accounts.

These preferences will apply only to the account you designate and vary by type of program, account or strategy. When you establish your accounts in these Programs, we will ask you if you want to impose any investment restrictions on the management of your Account. Depending on the structure of the program you selected, we or your SMA Manager, as the case may be, will seek to adhere to these restrictions on a reasonable basis. However, if the strategy you selected utilizes commingled vehicles (for example, mutual funds, exchange traded funds or alternative investments), any restrictions you place on your account will not flow through to the securities owned by those commingled vehicles. **Also, given the structure of most pooled investment vehicles, the 100% mutual fund/ETF portfolios can only accommodate restrictions on an individual investment vehicle.**

We or your SMA Manager may refuse to accept an account for management in cases where we find the restriction to be onerous. In this circumstance, you would need to select a new SMA Manager (or other investment). This may delay investment of the entire account.

**MAC Accounts:** If you wish to impose any restrictions on the management of your MAC Accounts, you must contact your SMA Manager directly. Clients in the MAC program must communicate investment restrictions directly to the MAC SMA Manager. It is also the client’s and the SMA Manager’s responsibility to monitor compliance with specific investment restrictions. Neither UBS nor your Financial Advisor will monitor such compliance. Where our Portfolio Managers serve as your SMA Manager, we will seek to comply with reasonable restrictions you place on your accounts.

Accounts with investment restrictions may perform differently from accounts without restrictions and performance may be poorer. We obtain information about company classifications, credit ratings, and industry groupings from third parties. Although we believe this information to be reliable, we do not independently verify or guarantee the accuracy of the information. The change of the classification of a company, the grouping of an industry or the credit rating of a security may force the SMA Manager to sell securities in a client’s account at an inopportune time, possibly causing a taxable event to the client. In addition, due to corporate actions at an issuer, including but not limited to mergers, spin-offs and other types of reorganizations, new securities may be issued and/or certain securities will no longer exist following the corporate action. UBS and the SMA Manager may not restrict any new security owned as a result of the corporate action.

**Investment Policy Statements.** Since a managed account is generally only one component of a client’s overall portfolio, we will not approve or otherwise monitor compliance with investment policy statements when provided in connection with the opening of an account in the programs described in this brochure, at account conversion (for acquisitions) or otherwise. In connection with these accounts, we will not be responsible for ensuring that your investment policy statement and asset allocation choices comply with all specific legal, actuarial or other 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 may enter into separate arrangements in our Institutional Consulting Program for the development and monitoring of investment policy statements for your investment portfolio.

### D. Trade Confirmations & Account Statements

**Trade Confirmations and Account Statements.** We will send you confirmations of transactions for your Accounts, as well as monthly account statements.

For our Discretionary Programs, SMA Programs, and the SMA Manager assets in your Strategic Wealth Portfolio Account, we offer you the option of receiving your trade confirmations monthly instead of as the transactions take place. Simply check the box labeled “TRADE CONFIRMATIONS” on the Program Application. **Unless you provide different instructions, we will deliver your trade confirmations the same way for advisory Accounts you establish now and in the future.** Doing so will waive your right to receive immediate trade confirmations for those Accounts and any future advisory Accounts you establish with us and will instruct UBS to send trade confirmations to your SMA Manager.

**You are not required to select this option in order to participate or continue to participate in our Programs, nor will you pay additional fees if you choose to elect this option. You may change this instruction at any time by notifying UBS in writing.**

All trade confirmations for Non-discretionary Assets purchased or sold in your SWP Account will be sent to you immediately following the transaction.

**PACE Program:** If you elect to use automated services in your PACE Account including (automatic rebalancing, purchases or redemptions), you will receive trade confirmations for transactions resulting from those services, as well as for transactions completed in order to debit your PACE Program Fee, on a monthly basis with your account statement. You will not pay or incur additional fees by opting to receive monthly trade confirmations. You may change this instruction at any time by contacting your Financial Advisor. Changes will be effective with your next scheduled automatic service. For any other transactions effected in your PACE investment outside of the automatic services, you will receive immediate confirmations following the transaction.

**Data Downloads.** To service and reconcile your Discretionary, SMA or Unified Account efficiently, we automatically provide your SMA Managers or sub-advisors with copies of the confirmations for trades they place in the Accounts they manage for you, unless you instruct us otherwise in writing. Upon request by your SMA Managers, we provide copies of your SMA or Unified Account statements. From time to time, your SMA Managers or sub-advisors may request that we provide them with a data download of all transactions they effected on your behalf in order to reconcile your Account. We consider your selection of the Discretionary Program sub-advisors and SMA Managers for your Accounts and your continued participation in the program as your consent to our providing that data and copies of your account statements. You may revoke that consent at any time by contacting us in writing.

**Electronic Delivery of Documents.** To the extent permissible by applicable law, we may, with your prior consent, deliver trade confirmations, Form ADV Disclosure brochures, performance monitors, prospectus(es), offering documents and other documents and notices related to your accounts, trades and relationship with us via electronic format.

UBS offers certain communications through electronic delivery. Examples include: statements, trade confirmations and notices; shareholder communications, including fund reports, prospectuses and proxies; quarterly performance reports; tax reporting documents; Client and account information documents; other firm documents that may be available now or in the future.

We will automatically enroll you in electronic delivery for your Advisory accounts if you select this option in your brokerage account agreement.

**You may change your delivery preferences at any time by logging into UBS Online Services at: <http://www.ubs.com/edelivery>. You may also change your delivery preferences by contacting your Financial Advisor.**

When a new prospectus is available, we will send you an email notification to the email address you have provided to us. The email will include a link that will take you directly to the prospectus where it can be viewed and downloaded. Prospectus(es) contain important information regarding your investments, and we recommend that you them carefully and maintain them in your files for future reference. If you have any questions, please contact your Financial Advisor. If your email address becomes outdated or we receive messages that a prospectus sent to you is not deliverable to the email address you provided, we will send the document to you via regular mail.

**Valuation and Other Information.** To determine the value of securities in your account, we generally rely on third party quotation services. If a price is unavailable or believed to be unreliable, we may determine the price in good faith and may use other sources such as the last recorded transaction. When securities are held at another custodian, we will generally rely on the value provided by that custodian.

If your investment strategy includes mutual funds, in computing the value of your Program assets, shares of UBS mutual funds will be valued at their respective net asset values on the valuation date calculated in accordance with the fund's current prospectus. Shares of non-affiliated funds will be valued at their net asset values on the valuation date as provided by pricing sources we believe to be reliable. This pricing information may not be accurate, complete or provided in a timely manner. If the net asset value for particular shares is not available for the valuation date, the most recent available net asset value will be used. Similarly, valuation data for certain private or illiquid investments may not be provided to us in a timely manner, resulting in valuations that are not current in your statements and Performance Reviews.

## **E. Proxy Voting**

Some of our programs permit you to delegate proxy voting authority to UBS or your Separately Managed Account (SMA) Manager, suppress your receipt of daily trade confirmations or, elect to permit principal trades in your account. **We ask you to provide these instructions when you establish your first advisory account under the relationship Agreement. We will apply your preferences (where those features are available) to all advisory accounts you establish under this Agreement, unless you provide different instructions for specific accounts.**

### **PACE; Strategic Advisor; SWP Non-Discretionary Assets:**

You expressly retain the right and obligations to vote any proxies relating to the securities held in your PACE and Strategic Advisor Accounts, as well as for your SWP Non-Discretionary Assets, but you may delegate these rights and obligations to a properly authorized agent. Neither your Financial Advisor nor UBS will exercise voting discretion or have input regarding voting decisions made on your behalf for the securities held in these Programs. We will **not** vote or provide any advice about the voting of proxies solicited by, or with respect to, legal proceedings, including bankruptcies and class actions, relating to securities in those Accounts, or their issuers, except to the extent required by law.

**SMA Programs; Discretionary Programs; SMA Managers in Strategic Wealth Portfolio:** By signing the Agreement, you

designate (as relevant given your advisory Program selection) your SMA Manager or for Discretionary Programs, UBS, to receive and vote all proxy and related materials for securities held in the advisory Accounts they manage on your behalf.

**Unless you provide different instructions, we will apply your proxy-related preferences to all advisory Accounts you establish under this Agreement, assuming your preferences are available in each program.**

#### **You may Change your Preferences at any time by Notifying us in Writing.**

Your proxy-related preferences do **not** apply to class action lawsuits, legal proceedings and bankruptcy proceedings involving an issuer whose equity or debt securities are held in your Accounts, even if you delegated proxy voting authority to us or your SMA Manager. Correspondence related to such lawsuits will be mailed to you directly and will be your responsibility. Neither UBS, the SMA Manager nor your Financial Advisor will be authorized to respond to such correspondence.

#### **SMA Accounts and SMA Managers in Strategic Wealth Portfolio:**

When you delegate proxy voting authority to your SMA Manager, he or she will vote on matters requiring a proxy vote for the securities held in your Account. Your SMA Manager will also vote on other corporate actions, like tender offers, which do not require a proxy or are not solicited via a proxy.

We have no authority, direct or implicit, and accept no responsibility for taking any action or rendering any advice with respect to the voting of proxies related to securities held in your SMA Accounts. Our obligations with respect to any such solicitation are limited exclusively to forwarding, within a reasonable period of time, to your SMA Managers any materials or other information received by us with respect to such solicitation.

**Discretionary Programs:** Neither UBS, your Portfolio Manager or your Financial Advisor exercise voting discretion or have input regarding voting decisions made on your behalf for the securities held in your Discretionary Program account. We maintain a proxy voting committee, which utilizes an independent third party to assist us in the administration, reporting and voting of proxies delegated to us. As part of their service, they provide us with voting recommendations. As a matter of policy, we instruct them to vote according to their recommendations. We will not vote or provide any advice about the voting of proxies solicited by, or with respect to, legal proceedings, including bankruptcies and class actions, relating to securities in your account, or their issuers, except to the extent required by law.

We will not vote in the following circumstances: (a) the securities are no longer held in your account; (b) the proxy or other relevant materials are not received in sufficient time to allow an appropriate analysis by the proxy service provider or to allow a vote to be cast by the voting deadline; or (c) UBS or the proxy service provider concludes that the cost of voting the proxy will exceed the potential benefit to the client. In addition, the provider generally does not make recommendations, and we will not vote proxies in respect to bankruptcies and class actions, limited partnership or bond issues, and certain foreign securities, if voting may cause the sale of the security to be prohibited under foreign law for a period of time, usually the time between the record and meeting dates ("share blocking"). Also, UBS will not vote or advise you on other corporate actions, like tender offers, which do not require a proxy or are not solicited via a proxy.

Copies of your investment manager's proxy voting policies and procedures are available to you upon your request. You may also request specific information as to how proxies for your securities were voted. Some of the information, format, and period covered by the proxy reports will vary depending on the individual investment manager's policies and procedures. **Please contact your Financial Advisor regarding your requests.**

Except for UBS Investment Portfolios, such as the Managed Portfolio strategies available in MAC, we have no authority, direct or implicit, and accept no responsibility for taking any action or rendering any advice with respect to the voting of proxies related to securities held in your Account. Our obligations with respect to any such solicitation shall be limited exclusively to forwarding, within a reasonable period of time, to your Manager any materials or other information received by us with respect to such solicitation.

#### **F. Performance Reporting**

**Performance Reporting.** We will provide you with a quarterly performance review ("Performance Review") upon the completion of a full calendar quarter under management, and for each quarter thereafter. We use our best efforts to ensure timely delivery of these reports, but reserve the right to delay delivery to ensure accuracy and completeness. You are responsible for reviewing these materials and reporting any discrepancies to your Financial Advisor as soon as possible.

**With limited exceptions, performance reporting is not available for accounts whose assets are not custodied with us.** The Performance Review summarizes the performance of your account during the preceding quarter as well as historical periods, if applicable. We assign benchmarks to *researched* SMA Managers based on our understanding of the strategy, the style and our research. These benchmarks may differ from those presented by your SMA Managers in their materials. Benchmarks shown are for informational purposes only. Those comparisons relate to the historical performance of market indexes and not the performance of actual investments. Our selection and use of benchmarks for comparison purposes is not a promise or guarantee that your account will meet or exceed the stated benchmark. The investment strategy in your account(s) is not restricted to the securities in the benchmark. Indexes are not available for direct investment and represent an unmanaged universe of securities which does not take into account advisory or transaction fees, all of which will reduce overall return.

If your account is part of a consulting program in which you pay a separate fee for portfolio-wide performance analysis, for example our UBS Institutional Consulting Program, and the UBS Performance and Reporting Group prepares a consolidated performance report for the accounts in your UBS Institutional Consulting relationship, you may not receive the Performance Review for your individual MAC, ACCESS or other advisory program account(s), but will receive instead a portfolio review within the parameters you requested under your UBS Institutional Consulting program agreement. This suppression option is only available when your UBS Institutional Consulting program consolidated Portfolio Reviews are prepared by our UBS Performance and Reporting Group. At your discretion, you may direct us to suspend the delivery of Performance Reviews to you. That request must be submitted in writing on a form available through your Financial Advisor.

**Benchmark Selection for Non-Discretionary, Advisory Accounts (PACE, UBS Strategic Advisor) and MAC Eligible SMA Managers.** Due to the non-discretionary nature of the PACE and Strategic Advisor programs, and because we do not research MAC Eligible managers, Performance Reviews for those programs and managers will illustrate the historical performance of certain broad equity and fixed-income market indexes that are readily recognized, but cannot be used for direct performance comparisons against your accounts. These benchmarks may be different than those selected by your MAC Eligible SMA Manager. As a result, the performance comparisons in the Performance Reviews differ from those provided to you directly by your MAC Eligible manager. **You may also designate a fixed-rate index which will be included for illustrative purposes only and not as a benchmark against which performance should be compared.** Depending upon the composition of your portfolio and your investment objectives, these broad market indexes may not be an appropriate measure for comparison purposes, and as such, are represented for illustration only. As a result, your portfolio holdings and performance may significantly vary from the index. Indexes are not available for direct investment and reflect an unmanaged universe of securities, which does not take into account advisory or transaction fees, all of which will reduce the overall return.

**Effect of Ineligible Assets on Performance Reporting.** Since Ineligible Assets are not considered advisory assets, the inclusion of such securities will impact the actual performance of the advisory assets in your account and, therefore, we may exclude the account from receiving a Quarterly Performance Review and/or remove it from the Program until the Ineligible Assets are removed.

**Aggregating Accounts for Quarterly Performance Reviews.** Related accounts may also be aggregated for performance reporting. You must request, in writing, to have your Financial Advisor aggregate the accounts for performance reporting.

## **G. Uninvested Cash Balances in your Advisory Accounts**

**Uninvested Cash Balances.** Generally, some portion of your account will be held in cash, cash equivalents or money market mutual funds as part of the overall investment strategy for the account. Your program fee applies to the cash and cash equivalents in your account including cash that is swept into the various sweep funds or IDA. Certain programs may limit the amount of cash that is subject to the Program fee. Please see section **“Program Fees, Financial Advisor Compensation and Billing Practices ”** for details.

In brokerage accounts, uninvested cash balances are automatically deposited with our affiliate, UBS Bank USA (member FDIC). In our investment advisory programs, uninvested cash balances are invested in money market mutual funds including, as permitted by law, those affiliated with us and where we and/or our affiliates receive compensation for services rendered in addition to the program fee. We serve as investment adviser and administrator to several of the money market funds. **Please see Additional Compensation “Affiliated Money Market Funds” for a description of the advisory fees we and our affiliate receive from the money market funds. Termination of your advisory account may result, under certain circumstances, in the liquidation of your holdings in the UBS money market funds. Please see the “General**

**Information About Our Wrap Fee Programs—Termination” for more information.**

**Domestic Accounts:** We will automatically invest cash balances in your advisory Accounts in money market mutual funds including, as permitted by law, those affiliated with UBS for which we or our affiliates receive compensation for services in addition to the Program fees you pay us. For more information about these funds please contact your Financial Advisor for a copy of the prospectus(es). If your sweep option changes as a result of your Advisory selection, the prospectus will be sent to you as part of your Welcome Package when we confirm that your Account has been accepted.

**Retirement Accounts:** For certain Programs, cash balances in Accounts subject to ERISA or IRAs (“Retirement Accounts”), also may be invested in Funds serviced by UBS or our affiliates. Our compensation from these Funds will be limited to reimbursement of our direct costs and expenses of providing services to the Funds and will not include overhead costs or profits. All fees and reimbursements for direct costs and expenses paid to us by a Fund are in addition to the fees you pay us. For more information about these Funds, ask your Financial Advisor for a free prospectus.

**Sweep Vehicle for NRA Clients—International Deposit Account (“IDA”):** Cash held in Program Accounts of clients who are non-resident aliens of the U.S. (NRA), whether temporarily, as part of an asset allocation strategy, or otherwise, is automatically swept into a demand deposit account at the New York Branch of UBS AG (“UBS NY”), from which the cash is then swept and re-deposited each business day into an interest-bearing overnight deposit account (the “IDA”) at the Cayman Islands Branch of UBS AG (“UBS Cayman”). The cash swept from the UBS NY account becomes payable only at the UBS Cayman account, and not at the UBS NY account, and is thus temporarily exposed to the sovereign risk of the Cayman Islands. **Funds on deposit in the accounts at UBS NY and UBS Cayman are not eligible for federal deposit insurance from the Federal Deposit Insurance Corporation (FDIC).** For more detailed information on the IDA for NRA clients, please see the *International Deposit Account Sweep Program Disclosure Statement*.

**Sweep Vehicle for Puerto Rico Residents:** The Puerto Rico Short Term Investment Fund, Inc. is available as a sweep option only for customers who hold accounts with UBS Financial Services Incorporated of Puerto Rico and who are Puerto Rico residents, as defined in the Fund’s prospectus. UBS Financial Services Incorporated of Puerto Rico is a subsidiary of and introducing firm to UBS Financial Services Inc.

The Puerto Rico Short Term Investment Fund, Inc. is not a money market fund registered under the U.S. Investment Company Act of 1940, does not comply with rules applicable to U.S. registered funds and presents a higher degree of risk than those funds. The Fund is sold by prospectus only, is not FDIC-insured, not bank guaranteed, and may lose value.

Other sweep options may be available, and you should discuss your options with your Financial Advisor. You may also choose to maintain any cash component of an asset allocation strategy outside of your UBS Advisory Accounts.

If you close your advisory Account, we will liquidate the assets held in certain money market funds. Please see section **“General**

## Information About Our Wrap Fee Programs—Closing Your Advisory Accounts; Terminating your Agreement” for details.

When your advisory account is closed, it becomes a brokerage account and is subject to the terms and conditions of your brokerage account agreement. The sweep options in advisory and brokerage accounts are different and depending on the circumstances, may yield significantly different rates of return on the free cash in your brokerage account. This may result in additional compensation to UBS, its Financial Advisors and UBS affiliates. The sweep options for the cash in held in brokerage accounts are defined in the brokerage account agreement.

### Important Information About Your Sweep Options for PACE Investments Only

Your PACE investment is generally held within a UBS brokerage account (for example a Resource Management Account or, if available, a Basic Investment Account). For eligible clients, available cash balances in Basic Investment and Resource Management Accounts, including available cash balances in your account, are **automatically** swept into interest-bearing, FDIC insured deposit accounts (“Deposit Accounts”) at our affiliate, UBS Bank USA (the “Bank”) unless, in the case of clients with Resource Management Accounts, you may select one of the other sweep options available. You also have the option to cap the amount of available funds which will be swept into the Deposit Accounts. **You should review the UBS Deposit Account Sweep Program Disclosure Statement carefully before selecting sweep options for your account.** You should note the following:

- The Deposit Accounts are insured by the FDIC to the FDIC insurance coverage limits, currently a maximum of \$250,000 (for individual accounts) or \$500,000 (for joint accounts) (in each case, including principal and interest) for the total amount of all Deposit Accounts held in each recognized legal capacity (for example, individual accounts, joint accounts, certain retirement accounts, etc.). If you have multiple accounts with us held in the same recognized legal capacity, once uninvested cash in those accounts exceed, as applicable, \$250,000 or \$500,000 in the aggregate, then your aggregate funds on deposit with the Bank will exceed FDIC insurance coverage limits. We are not responsible for any insured or uninsured portion of the Deposit Accounts.
- We are a member of the Securities Investor Protection Corporation (“SIPC”). SIPC provides protection for your account(s) with us up to \$500,000, including \$100,000 for free cash balances in the unlikely event that we fail financially. The SIPC asset protection limits apply, in the aggregate, to all accounts that you hold in a particular capacity. Interest in the sweep money market funds are not bank accounts and are not protected by the FDIC. However, balances in those funds, are covered by SIPC and the excess SIPC insurance we have obtained for the benefit of our clients. **See the Account Information Booklet and the Disclosure Statement for more information regarding SIPC protection.**
- UBS Bank USA, UBS AG and UBS may receive substantial financial benefits for activities related to the Deposit Accounts.

**Please see the UBS Financial Services Inc. Deposit Account Sweep Program Disclosure Statement for details.**

## H. Closing your Advisory Accounts; Terminating your Agreement

The Advisory Relationship Agreement is effective when it is accepted by UBS. We will send you confirmation of our acceptance and provide you with a copy of our Form ADV Disclosure Brochure. You may cancel that Agreement within five (5) business days from the day it is accepted by UBS and receive a full refund of Program fees. Thereafter, either we or you may terminate the Advisory Relationship Agreement at any time. Each time you establish a new advisory account with us, you may terminate that account and receive a full refund of Program Fees within five (5) business days from the day we send you confirmation of your instruction. Closing one or more of your advisory accounts does not terminate this Advisory Relationship Agreement. You may terminate this Agreement only by notifying us in writing. In addition, this Agreement will terminate if we receive instructions to deliver all your Advisory assets to another firm, effective promptly after receipt of those instructions.

For MAC clients, termination of this Agreement with UBS does not result in the termination of your agreement with your MAC investment manager. You are responsible for terminating your agreement with the MAC investment manager and we do not assume responsibility for notifying the investment manager.

We will notify you in writing of our decision to close any or all of your accounts. We may close your account(s) in our discretion, including if you fail to maintain minimum account balances or adhere to program requirements. **Ending your participation in these programs as well as our Advisory relationship is effective promptly after receipt of your request. Requests to terminate your participation in a program (closing an account) may be made in writing or verbally to your Financial Advisor.** We will confirm your instructions in writing and notify you when we have terminated you from the program and/or closed your account.

Upon termination, you are responsible for the assets in your account, and neither we nor your SMA Manager will have further obligations to act or advise with respect to these assets.

**Automatic Liquidation of Certain Assets: Closing your advisory account will result in the liquidation of assets held in the UBS Money Market Funds in instances in which your underlying brokerage account is eligible to use the UBS Bank USA as a sweep option or if the cash in your advisory account is swept into a money market fund that is available exclusively in advisory accounts. See the section “Cash Balances” in this Agreement for additional details.**

In certain cases, your assets may be invested in securities, special mutual funds or shares of mutual funds that have been created for use or are eligible **exclusively** within wrap fee advisory programs. Most of these investments contain restrictions that limit their use exclusively to within wrap fee advisory programs, and may be unavailable for purchase or holding outside of wrap fee programs. When you end your participation in those strategies, for any reason, that termination results in the **automatic redemption** of shares or investments held by or on your behalf, which will have tax consequences to you. When you select one of these types of strategies or investments for your portfolio, you agree to the automatic redemption of the investments upon termination of your account and direct us to

effect such liquidation. We recommend that you consider the potential impact of such liquidations and restrictions carefully before participating in these types of strategies.

**PACE Program:** Upon termination of your participation in PACE, the PACE Money Market Fund will be automatically liquidated. Unless you direct us to liquidate your other holdings, all other assets will continue to be invested in the existing positions and will be held in a brokerage account.

**Transactions in your Accounts Prior to Receipt of your Termination Request:** We are not responsible to you for the purchase or sale of a security by your SMA Manager or your UBS Portfolio Manager prior to our receipt of your request to close your advisory account. Any transactions initiated by your SMA Manager and/or your UBS Portfolio Manager on the day your account is closed will be processed, if practicable.

**Liquidation Requests:** As part of your instructions to withdraw from the program, you may request us to liquidate your securities. If you select or discontinue use of an SMA Manager without consulting us, you are solely responsible for that decision. We do not restrict your access to the SMA Managers during the selection process or thereafter. Closing your account terminates our advisory relationship with you as it pertains to that Account.

**Closing your account will not affect your obligation to pay balances due on the account. We will liquidate the securities held in your Program account if you specifically instruct us to do so when you tell us to close your account.**

Liquidation of your account will depend upon market conditions at the time and, absent unusual circumstances, generally will be processed by the end of the next business day after instructions have been received by us. However, certain managers may take longer to liquidate securities for terminated accounts, including high-yield securities, convertible securities and other less liquid securities.

If we are unable to obtain an agency bid on small bond or illiquid fixed income position, after a number of attempts, we will, in our capacity as broker, seek to sell the position on a principal basis if a bid is available. This will allow us to comply with your liquidation request in an expeditious manner.

Such liquidation will be done in a brokerage capacity, and will be executed free of commission charges. Trade confirmations for liquidating transactions effected on an agency basis will be sent to you monthly or "bulked" if you selected that option for your account.

If your Account includes securities with limited liquidity or redemption schedules, such as alternative investments, we may be unable to liquidate those securities upon your request. When processing your liquidation request in such cases, we will liquidate readily marketable and otherwise unrestricted securities in your account, leaving any securities that we are not able to liquidate in your account. Once the account is closed, you may have to wait for specific liquidity windows and process your liquidation request through procedures that are specific to the illiquid investment you own.

You should note that termination will end our investment advisory relationship with you as it pertains to that account and will cause your account to be converted to and designated as a

"brokerage" account only. Your investment advisory relationship agreement will no longer apply to that account and it will be governed solely by the terms and conditions of your brokerage account agreement.

**Estate Administration Instructions:** In the event of your death, your account will continue to be managed until we and, in the case of MAC, your SMA Manager receive instructions from a court-appointed executor/administrator as to the disposition of the account. If we are notified of the account holder's death, but no instructions are received in a reasonable time, we will terminate accounts without liquidation. For trust accounts, the death of a trustee will not result in termination of the managed account unless and until the successor fiduciary/trustee requests termination. **For the MAC program, we do not assume responsibility for notifying the SMA Manager of the client's death and do not require the SMA Manager to follow any particular procedures.**

**Program Fees for Closed Accounts:** Upon termination, a pro-rated refund of any prepaid fees will be made or, if no fees have been paid, a pro-rated fee will be billed.

**Margin:** For accounts with strategies that use margin, we may, at our discretion, elect to cover all existing short positions when you close your account. Upon termination, you are responsible for monitoring the securities in your account, and neither UBS nor your SMA Manager will have any further obligation to act or advise with respect to those assets.

**Brokerage Relationship:** When you close your Advisory Account, our Investment Advisory fiduciary relationship with you as it pertains to that account ends and the account will be converted to and designated as a "brokerage" account only. This Agreement will no longer apply to that account and it will be governed solely by the terms and conditions of your brokerage account agreement.

## V. METHODS OF ANALYSIS, SOURCES OF INFORMATION AND INVESTMENT STRATEGY USED FOR INVESTMENT MANAGEMENT PURPOSES

We obtain information from various sources, including financial publications, inspections of corporate activities, company press releases, research material prepared by our affiliates and third parties, rating or timing services, regulatory and self-regulatory reports and other public sources. In addition, we receive a broad range of research and information about the economy, industries, groups of securities and individual companies, statistical information, market data, accounting and tax law interpretations, political developments, pricing and appraisal services, credit analysis, risk measurement analysis, performance analysis and other information which may affect the economy or securities prices. Research can be received in the form of written reports, telephone contacts and personal meetings with research analysts, economists, government representatives and corporate and industry spokespersons. We may receive research, model portfolios and asset allocation services generated by third parties, by or through brokers or dealers or investment advisers, including research, model portfolios and asset allocation advice purchased through economic arrangements with such parties.

Our investment advisory services generally rely on a variety of fundamental, technical, quantitative and statistical tools

and valuation methodologies. As a result of these different methodologies employed, technical or quantitative research recommendations may differ from, or be inconsistent with, fundamental opinions for the same security. We may use computer technology to more readily display these factors and to create asset allocation recommendations. Personnel involved in providing investment advisory services may have access to specialists or other information for all major industry groups.

Our Financial Advisors and clients have access to research from UBS Wealth Management Research (“WMR”), which is part of UBS Wealth Management Americas and UBS Wealth Management and Swiss Bank. WMR is designed specifically for use by private clients and UBS Financial Services Inc. Financial Advisors. As a result, subject to certain exceptions, we expect that product areas in UBS Financial Services Inc. will incorporate insights and economic perspectives of WMR, where appropriate, in their products and services.

Clients and Financial Advisors also have access to certain categories of UBS Investment Research (“INV Research”) issued by UBS Investment Bank, a separate business group of UBS. Because both sources of research reflect the different assumptions, views and analytical methods of the analysts who prepared them, there may exist a difference of opinions between WMR and INV Research. Neither source is necessarily more reliable than the other. The various research content provided does not take into account the unique investment objectives, financial situation, or particular needs of any specific individual investor.

**Discretionary Programs:** UBS Portfolio Managers in our Discretionary Programs use a variety of research sources in making their investment decisions for your account, including research issued by the Firm, UBS affiliates and independent sources. **UBS Portfolio Managers are not required to follow the Firm or UBS issued research and may, in their discretion, take positions for your account that contradict the research issued by UBS and its affiliates.**

**SMA Managers:** Managers in our advisory programs are not required to use UBS research as the source of their investment decisions. SMA Managers participating in our ACCESS, MAC, and SWP programs may utilize various fundamental, technical, quantitative or statistical research, tools and valuation methodologies in order to determine which securities to purchase for your Program account(s). They may rely on their proprietary research, and/or they may receive research from a variety of sources, including UBS or one of our affiliates, as part of their investment process. Any research that we or one of our affiliates may provide to an SMA Manager is separate and apart from our advisory programs and does not affect or otherwise limit the manager’s discretionary investment responsibility with respect to your Program account.

Clients and Financial Advisors also have access to certain categories of UBS Investment Research (“INV Research”) issued by UBS Investment Bank, a separate business group of UBS. Because both sources of research reflect the different assumptions, views and analytical methods of the analysts who prepared them, there may exist a difference of opinions between WMR and INV Research. Neither source is necessarily more reliable than the other. The various research content provided does not take into account the unique investment objectives, financial situation, or particular needs of any specific individual investor.

**You should be aware that we or our affiliates (or employees thereof) may have conflicts of interest in connection with the research reports we publish.** UBS, and its affiliates (or employees thereof) may have long or short positions, or deal as principal or agent, in relevant securities, or may provide advisory or other services to the issuer of relevant securities or to a company connected with an issuer covered in research reports issued by WMR and/or INV Research. Analyst compensation is not based on investment banking revenues, however, their compensation may relate to the revenues or profitability of UBS business groups as a whole, which may include investment banking, sales and trading services

Financial Advisors also have access to proprietary models covering equities, fixed income, mutual funds, and municipal securities developed by our various business areas.

## VI. EDUCATION AND BUSINESS STANDARDS

Generally, we require our professional personnel who provide investment advisory services to clients to have a college degree or securities industry experience.

Most of our Financial Advisors are registered as broker-dealer and investment adviser representatives. You may obtain information about your Financial Advisor, their licenses, educational background, employment history, and if they have had any problems with regulators or received serious complaints from investors through the FINRA BrokerCheck service available from the FINRA. You can also contact your state securities regulator through the North American Securities Administrators Association, Inc.’s website at <http://www.nasaa.org> and request information about our Firm and your Financial Advisor.

You can view the disciplinary history reported on our Form ADV by reviewing Part I of our ADV available on [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

## VII. CONSULTING, OTHER BUSINESS ACTIVITIES AND AFFILIATIONS

As a full service broker-dealer and investment adviser, we offer our customers and investment advisory clients a broad range of financial services and products, and we are engaged in various aspects of the securities and investment business. Our financial services include underwriting securities offerings; acting as a market maker in securities; trading for our own account; acting as a clearing firm for other broker-dealers; buying or selling securities, commodity futures contracts and other financial instruments for customers as their broker or buying them from or selling them to clients, acting as principal for our own account; providing investment advice and managing investment accounts or portfolios; and acting as a commodity pool operator, futures commission merchant or commodity trading advisor and providing custodial services. Through our affiliates, we provide clients with trust and custodial services; and we manage, sponsor and distribute registered investment companies and other public and private pooled investment vehicles, including hedge funds, whose shares or other interests are sold to clients. Currently, our principal business, in terms of its revenues and personnel, is that of a broker-dealer in securities.

**Financial Planning Services:** We offer financial planning as an investment advisory service. These services are separate and distinct from our brokerage services and other investment advisory services. Currently, clients may select among three distinct financial planning services based on their objectives, levels of wealth and the overall complexity of financial needs. These services are designed for use with persons who are U.S. citizens or residents and subject to U.S. taxes. A fourth service is available only to Puerto Rico residents. We provide clients with a personalized report to help them assess their current and projected financial situation and their ability to pursue specific financial goals. Our financial planning services **do not** include initial or ongoing advice regarding specific securities or other investments. Recommendations and types of analysis (including asset allocation strategies) may vary depending on the asset allocation model and the software used for the analysis. Some services are provided free of charge.

**Although we act as an investment adviser in providing a client with a financial plan, this does not affect any other relationship the client may have with UBS or one of our Financial Advisors. The nature of any existing UBS accounts, the rights and obligations relating to these accounts, and the terms and conditions of any UBS account agreement in effect do not change in any way. Financial planning services end upon our delivery of the plan to the client. Clients are not required to establish accounts, purchase products that UBS distributes, or otherwise transact business with UBS Financial Services Inc. or any of our affiliates. If a client decides that they would like UBS to help them implement an investment strategy, the capacity in which we act will depend on, and vary by, the nature of the accounts (i.e., brokerage or advisory accounts) used for such implementation.**

Please contact your Financial Advisor with questions about these services.

**Financial Education Program (FEP).** We also offer a financial education program where an employer or other sponsoring entity, such as an adult education organization, can contract with UBS to have a UBS Financial Advisor provide one or more of a series of financial education seminars to their employees or members (generally, but not always, at no charge to the employee or member) or to the public for a fee. Seminars can be developed in-house or purchased from outside vendors. The seminars focus on topics such as asset allocation, the definition of various asset classes, potential risks and rewards, the advantages of tax-deferred or tax-free investing, options available when receiving a retirement plan distribution and other similarly generic subject matter. Seminars offered through FEP are generic in nature and do not contain recommendations to invest in any particular security.

**Consulting Services.** Consulting services may also be available to retirement plans, institutions and corporate clients for an asset-based fee, a fixed fee, mutual fund distribution and finder's fees or brokerage commissions, as well as a combination of a consulting fee with a brokerage offset or transaction fee. Certain services may be available for fixed hourly rates for some programs. The compensation structure may create 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. In addition, Financial Advisors' compensation may be connected to the referral or cross-selling of additional UBS products and services to clients.

Consulting services may include, but are not limited to, helping a client establish or amend investment policies and objectives; assisting in an investment manager search; aiding in asset allocation modeling; providing asset/liability analysis for defined benefit plans; providing investment evaluation and education materials including enrollment seminars; determining the number and type of investment alternatives to be offered to plan participants; developing criteria to select and evaluate service providers; and providing performance evaluations. In these cases, investment decisions are made by the client.

#### **UBS Financial Services Inc. Subsidiaries & Other Affiliates**

We have a number of related persons that may provide investment management and other financial services and products to our investment advisory clients that may be material to our advisory business.

We, our subsidiaries or affiliates act in one or more capacities, including investment adviser, sub-adviser, consultant, administrator and principal underwriter (as applicable) to a number of open-end and closed-end investment companies with varying investment objectives. As a futures commission merchant, commodity pool operator and commodity trading advisor, we or an affiliate also provide advice on commodities and commodity related products. Certain of our subsidiaries, affiliates and related entities include the following:

- PaineWebber Properties Incorporated creates, markets, distributes or acts as general partner for a number of limited partnerships which invest in commercial and residential properties, oil and gas interests and research and development activities.
- UBS Financial Services Insurance Agency, Inc.
- UBS Financial Services Incorporated of Puerto Rico, a separately registered broker-dealer
- UBS Insurance Agency of Puerto Rico Incorporated
- UBS International Hong Kong Limited
- Trust related services are available through the UBS Trust Company, N.A. and the UBS Trust Company of Puerto Rico.
- UBS Credit Corp. provides loans to clients that are either unsecured or secured by securities or other financial instruments. These loans may be used to buy securities or for other purposes. These loans are not subject to the maintenance requirements and potential capital charges that are imposed on broker-dealers.

UBS AG (UBS Financial Services Inc.'s ultimate parent) offers investment advisory services through a variety of direct and indirect subsidiaries. These entities are separately registered investment advisors and, in some cases, registered broker-dealers and commodity trading advisers. Their principal lines of business range from developing and distributing investment products including wrap fee products, mutual funds, closed-end funds, privately placed funds and other pooled investment products, providing investment advice to individuals, pension and other employee benefit plans; other tax-exempt organizations, insurance companies, investment companies, commingled trust funds, corporations, and other institutional investors, and serving as an investment managers, administrators, distributors and/or placement agents for a number of funds, including (in the case of UBS Global Asset Management (US) Inc., the PACE

Select Advisors Trust and a number of UBS and UBS Global Asset Management-advised mutual funds. Certain of the investment advisers listed below may serve as investment manager for clients participating in our Managed Accounts Consulting Program ("MAC") Your ACCESS program or our SWP program.

The UBS AG subsidiaries registered as investment advisers in the United States include:

- Alternative Investment Solutions;
- UBS Agrivest LLC;
- UBS Global Asset Management (Americas) Inc.;
- UBS Global Asset Management (US) Inc.;
- UBS O'Connor LLC;
- UBS Realty Investors LLC;
- UBS Securities LLC;
- UBS Swiss Financial Advisers; and
- UBS Fund Advisor, LLC, a separately registered investment adviser, is the managing member of four additional registered investments. These are UBS Juniper Management, L.L.C.; UBS Tamarack Management, L.L.C.; UBS Eucalyptus Management, LLC; and UBS Willow-Management, LLC. These entities manage the assets of or serve as general partners or managers of registered investment companies and private investment funds that may be offered and sold to our advisory clients. Information on those investment vehicles can be found on the respective Form ADV of each affiliated adviser.

### **VIII. ADDITIONAL SOURCES OF COMPENSATION TO UBS FINANCIAL SERVICES, UBS AFFILIATES OR FINANCIAL ADVISORS**

#### **A. Contributions to Training and Education Expenses**

Investment managers, mutual fund vendors, unit investment trust sponsors, annuity, life insurance companies or their affiliates and sponsors of Exchange Traded Funds (collectively, "vendors") whose products are available on our platform may contribute funds to support our Financial Advisor education programs.

The contributions are used to subsidize the cost of training seminars we offer to Financial Advisors through specialized firm-wide programs and regional training forums. These seminars are designed to provide training and education to Financial Advisors who regularly solicit clients to participate in the various types of businesses listed above. These contributions also subsidize a portion of the costs incurred to support the Financial Advisor training, education, and product marketing efforts conducted regionally and nationally by product specialists employed by UBS.

Not all vendors contribute to our education efforts. Neither contribution towards these training and educational expenses, nor lack thereof, is considered as a factor in analyzing or determining whether a vendor should be included or should remain in our programs or our platform. Contributions can vary by vendor and event. Some vendors may decide to contribute at levels different than those we request. Additional contributions may be made by certain vendors in connection with specialized events or training forums.

Your Financial Advisor does not receive a portion of these payments.

#### **B. Directed Brokerage Compensation from Managers Available in our Advisory Programs**

Financial Advisors who recommend or otherwise solicit the hiring of investment managers in our advisory programs, including but not limited to, ACCESS, MAC, and SWP programs are prohibited from receiving any directed commission income or other transaction revenue from any investment manager who is also employed in any of their ACCESS, MAC, or SWP, account relationships. However, the Firm and other Financial Advisors may execute securities transactions directed to us by affiliated and unaffiliated investment managers for other clients. These transactions and the compensation we receive may not be pursuant to any specific oral or written arrangement between us and any of the affiliated and unaffiliated investment managers.

#### **C. Mutual Funds Compensation**

We, our Financial Advisors, and affiliates receive additional compensation in connection with certain types of assets in which your advisory accounts may be invested. This compensation is in addition to the program fee you pay us for our investment advisory services, and is a result of distribution, shareholder servicing, administration, marketing, investment management or referral agreements we and/or affiliates have with vendors or sponsors of those securities and other services ancillary to the execution of purchases of these products. For certain alternative investments, the compensation may also include performance fees.

**Not all advisory programs permit the purchase and sale of mutual funds, unit investment trusts, or alternative investments. Please review the eligibility of investments in your advisory program with your Financial Advisor for more details.**

The amount of fees paid to us, and therefore Financial Advisors, may vary depending on the arrangement between us and the vendors/sponsors and, if applicable, the terms and conditions of the relevant fund's 12b-1 or trail plan. If you hold these assets in your advisory accounts, we receive these payments for the duration of your advisory program agreement. In some circumstances, our receipt of such compensation may extend beyond your participation of our advisory programs if you continue to hold those assets at our firm.

As a result of the various payments to us or our affiliated companies, the amount of compensation that UBS entities receive with respect to the sale of affiliated or proprietary mutual funds, including the money market funds used as sweep vehicles in advisory accounts, is greater than the amount payable to the organization as a whole from the sale of unaffiliated mutual funds.

The nature of the services provided by, and the compensation paid to, us and our affiliates are set forth in the offering documents for the respective products, which are available for no charge through your Financial Advisor. Certain securities, for example, mutual funds are sold by prospectus only. Please read the prospectus carefully before investing.

Our affiliates receive fees for providing investment management and other services ancillary to the execution of purchases of shares in affiliated funds, including, administration and shareholder services to the affiliated funds in the Programs.

**Mutual Funds.** We receive trailers and 12b-1 fees from affiliated funds and non-affiliated funds available in our advisory programs which are intended to compensate us for effecting purchases of shares of funds or for other services ancillary thereto. The current annual rate of 12b-1 fees paid from affiliated funds in our advisory programs to us is generally 0.25% per year of the respective funds' assets. The current rate of 12b-1 fees paid from non-affiliated funds in our advisory programs to us ranges generally from 0% to 0.50%, per year, but on average the current annual rate is approximately 0.25% per year.

**Alternative Investment Funds in SWP.** The current annual rates of investment management fees paid by the affiliated alternative investment funds in SWP to our affiliates generally range from 0.23% to 1.95% of the average daily net assets and are described in each fund's prospectus. As of the date of this document, the annual contract rate for administrative services ranges from 0.075% to 0.30% of the fund's average daily assets. Neither UBS nor our Financial Advisors receive a portion of the management and administrative fees paid to our affiliates.

#### **Mutual Fund Networking Fees; Omnibus Processing Fees.**

We also receive networking fees in consideration for certain other services, which are ancillary to the effecting of mutual fund transactions that we provide on behalf of mutual funds. These fees generally are paid from investor assets in mutual funds, but in some cases may be subsidized in part by affiliates of the mutual funds, and are generally calculated by applying our standard networking rate of \$12 to each mutual fund position that exceeds \$500 and is held at UBS, though some fund companies may choose to calculate this rate expressed in basis points on assets. As of the date of this brochure, we are in the process of transitioning the manner in which we transact our mutual fund business from a NSCC level 3 processing (fully disclosed individual accounts) to an Omnibus sub-accounting processing (one or more master accounts per fund company). The fees mutual fund vendors pay for these services will vary based on the networking level of the Mutual Fund Position (Omnibus or fully disclosed individual accounts) and the associated additional account services provided by UBS. Fees for Omnibus processing are higher than networking payments. These payments, which usually range from \$16 – 20 per position are assessed per client and can vary by share class. A portion of the payments we receive for Omnibus processing is paid to the transfer agent. **Your Financial Advisors does not receive a portion of this compensation.**

**Account Services Fee.** We also receive fees in connection with account support services for certain Affiliated Funds. The amount of such fees may vary depending on the fund, but generally average \$12 per account per year, billed quarterly. We do not share these fees with our Financial Advisors.

**Class Y Shares.** Generally, shareholders pay no front-end sales charges on Class Y shares nor does that share class pay ongoing 12b-1 distribution or service fees. We have entered into an agreement with our affiliate, UBS Global Asset Management (US) Inc., pursuant to which UBS Global Asset Management (US) Inc., as principal underwriter of its funds, may make payments out of its own resources for sales of Class Y shares to eligible

purchasers. The payments consist of a one time finder's fee consistent with the Fund's Class A share Reallowance to Selected Dealers' schedule as indicated in the relevant funds' prospectus and, beginning in the 13th month after purchase, an annual fee in an amount up to 20 basis points for an equity fund, an asset allocation fund or a balanced fund, 15 basis points for a fixed income fund, and 5 basis points for an index fund. UBS Global Asset Management (US) Inc. does not make these payments on accounts holding Class Y shares for employees or employee-related clients. The one time finder's fee is calculated on the date of purchase and may be paid in four equal installments over the first 12 months of ownership. UBS Global Asset Management (US) Inc. reserves the right to suspend these payments at any time in its sole discretion. We pay a portion of these payments to the Financial Advisor originating the sale. **These payments may create a financial incentive for our brokers to recommend Class Y shares of UBS proprietary funds over non-proprietary products.**

**Additional Compensation Paid by the UIT Sponsors.** Most UIT sponsors make additional payments to the firms that sell their UITs, including UBS. These payments typically are calculated as a percentage of the total volume of sales of the sponsor's UITs made by the firm during the UIT's initial offering period. That percentage typically increases as higher sales volume levels are achieved. Detailed descriptions of the terms of these additional payment programs are provided in a UIT's prospectus. UIT sponsors may also pay UBS fixed amounts for marketing, promotional or related expenses intended to result in additional sales of a sponsor's products, or to defray a portion of the costs incurred to facilitate UIT sales, such as the costs of developing or purchasing UIT trading systems. Payment rates and total payment amounts vary from sponsor to sponsor. These payments are made by the UIT sponsor and not out of UIT assets. None of these amounts are paid to the Financial Advisor or his or her branch office.

**Offshore Fund Compensation.** Generally, we receive trail commissions and, in some cases, revenue sharing compensation in connection with the sale of offshore fund interests (i.e., funds that are not registered under the Investment Company Act of 1940) in Strategic Advisor accounts. When we receive trail commissions (asset-based fees similar to shareholder servicing fees paid by U.S. mutual funds, i.e. 12b-1 fees, but typically paid by the distributor or advisor, not by the offshore funds), a portion of that compensation is paid to your Financial Advisor. The portion of the trail commission paid to your Financial Advisor in connection with your offshore fund interests ranges from 50 to 90 basis points for equity offshore funds and 25 to 60 basis points for fixed income offshore funds. These ranges are applicable to both affiliated and non-affiliated offshore funds. Therefore, in the event that an affiliated offshore fund pays higher trail commissions than a non-affiliated offshore fund, we and your Financial Advisor have an incentive to sell you the affiliated offshore fund. Please ask your Financial Advisor for our fee schedule that shows the specific trail commissions that are paid to your Financial Advisor as these amounts are typically not clearly disclosed in the offering materials of offshore funds.

Where revenue sharing compensation is paid, we receive an amount that ranges from 0.10% to 0.50% per annum of the average daily net asset value of the fund attributable to the shares owned by our clients, during each month. Revenue sharing compensation is made directly from the distributor or advisor, and not from the offshore funds or indirectly through fund portfolio

trading commissions because revenue sharing compensation is intended to compensate us for ancillary services in connection with effecting sales of offshore fund shares. We do not receive any revenue sharing compensation from affiliated offshore funds. While we retain revenue sharing compensation, **we do not rebate this compensation to you and no portion of it is paid to your Financial Advisor or his or her branch office.**

Offshore funds and their service providers pay us varying amounts of trail commissions or revenue sharing compensation. To the extent that an offshore fund has agreed to pay us at higher levels compared to other offshore funds, we and your Financial Advisor (if trail commissions are higher for one fund over another) have an incentive to recommend that you buy or hold the offshore fund interests that pay the most. However, as noted above, your Financial Advisor is not paid a portion of any revenue sharing compensation and, as such, has no incentive to favor one offshore fund over another on this basis.

**Revenue Sharing Compensation.** The revenue sharing information below is current as of the date of this brochure and is subject to change in our discretion. Updated and current information on these arrangements is available at our website, [www.ubs.com/mutualfundrevenuesharing](http://www.ubs.com/mutualfundrevenuesharing).

**Generally, we receive revenue sharing compensation in connection with all mutual fund assets in Program Accounts except for assets held by:**

- (i) Qualified Plans and IRA clients in our Discretionary Programs (UBS Managed Portfolio Program and PMP) and in PACE Select.
- (ii) Clients whose accounts are custodied at other financial institutions.
- (iii) PACE Money Market Fund assets in the PACE Multi Program.

**Revenue sharing compensation will not be rebated or credited to you. However, to the extent we receive revenue sharing compensation for Qualified Plans and IRAs assets in our Discretionary Programs or PACE Select, that compensation will be rebated to Plan and IRA clients.**

In addition to sales loads, 12b-1 fees and processing fees, UBS receives other compensation from certain distributors or advisors of mutual funds that we sell. These separate compensation amounts (commonly referred to as "revenue sharing") are based on two components: (i) the amount of sales by UBS of a particular mutual fund family to our clients (excluding sales through wrap-fee programs); and (ii) the asset value of a particular mutual fund family's shares held by our clients at UBS. We require that these payments be made directly from the distributor or advisor, and not from the mutual funds or indirectly through mutual fund portfolio trading commissions, because revenue sharing payments are intended to compensate us for ancillary services in connection with effecting sales of mutual fund shares. **Except as noted below, none of these amounts are rebated to you or paid to the Financial Advisor or his or her branch office.**

Many mutual funds companies pay revenue sharing to us, including our affiliate, UBS Global Asset Management. UBS determines the level of access to our branches based on our own review and evaluation of mutual funds and fund families. There are multiple factors involved in determining a particular mutual fund's level of access to our branches. Although revenue sharing may be one factor, others include understanding of business goals, quality of sales personnel and marketing material, range of products, level of service to Financial Advisors and Branch Managers, participation of funds in researched investment models, and branch discretion.

In general, we charge each mutual fund family the following amounts: (i) 0.05% per year (paid quarterly) on all sales of mutual fund shares (excluding sales through wrap-fee programs); (ii) up to 0.10% per year (paid quarterly) of the asset value of all equity mutual fund shares held at UBS; and, (iii) up to 0.075% per year (paid quarterly) of the asset value of all fixed income mutual fund shares held at UBS (other than money market, institutional, and offshore funds). Except as noted below, this calculation includes shares of affiliated and non-affiliated funds in our wrap-fee programs, but does not include UBS PACE Money Market investments or mutual fund assets held at other financial institutions. Further, we may institute caps at certain asset and sales levels, as well as comprehensive caps, and may exclude certain mutual fund shares from the above calculations. And although we seek to apply a level, standard payment schedule for all of the mutual fund companies whose funds we sell, we recognize that mutual fund companies approach revenue sharing in a variety of ways, and that some mutual fund companies may decline to pay revenue sharing exactly at the levels listed above or at all, which may present a financial disincentive for us to promote the sale of those funds that do not pay us at the levels listed above.

Revenue sharing payments may present a conflict between our interests and those of our customers, because the payments give us a financial incentive to recommend that our customers buy and hold shares of those funds that we maintain on our distribution platform and for which we receive revenue sharing payments. Although mutual funds from over 200 different mutual fund families are available through our distribution platform, this is only part of the universe of mutual funds that are available to our customers in the marketplace. Certain other mutual funds may be purchased by our customers through the FundConnect system at a charge of \$20 per transaction, plus other customary sales charges.

#### **D. Additional Compensation from Sweep Vehicles for Uninvested Cash in Program Accounts**

##### **Domestic Accounts: Affiliated Money Market Funds.**

We serve as advisor and administrator to several of the money market funds<sup>3</sup> underwritten by our affiliate, UBS Global Asset Management (US) Inc. The amount of investment management fees may vary depending on the arrangement between us and the fund. Your Financial Advisor does not receive a portion of these fees. Pursuant to sub-advisory and/or sub-administration agreements with UBS Global Asset Management (Americas) Inc. ("UBS Global AM"), we delegate to UBS Global AM the

<sup>3</sup> UBS Cashfund Inc., UBS RMA Money Market Portfolio, UBS RMA U.S. Government Portfolio, UBS RMA California Municipal Money Fund, UBS RMA New York Municipal Money Fund, UBS RMA New Jersey Municipal Money Fund, UBS RMA Tax-Free Fund and UBS Retirement Money Fund.

day-to-day investment management of the money market funds. Pursuant to these sub-advisory and/or sub-administration agreements, UBS (not the funds) pays UBS Global AM fees, compounded daily and paid monthly, at an annual rate of

0.08% of the fund's average daily net assets. The current contract fee schedule of advisory and administrative fees (after break-point fee waivers by UBS) as of March 31, 2010 is:

Fund	Advisory/Admin Fee Rates Paid to UBS Financial Services Inc. (as a Percentage of Average Daily Net Assets)	
<b>UBS Cashfund Inc.</b>	Up to \$500 million	0.500%
	In excess of \$500 million up to \$1.0 billion	0.425
	In excess of \$1.0 billion up to \$1.5 billion	0.390
	In excess of \$1.5 billion up to \$2.0 billion	0.380
	In excess of \$2.0 billion up to \$2.5 billion	0.350
	In excess of \$2.5 billion up to \$3.5 billion	0.345
	In excess of \$3.5 billion up to \$4.0 billion	0.325
	In excess of \$4.0 billion up to \$4.5 billion	0.315
	In excess of \$4.5 billion up to \$5.0 billion	0.300
	In excess of \$5.0 billion up to \$5.5 billion	0.290
	In excess of \$5.5 billion	0.280
<b>UBS RMA Money Market Portfolio</b>	Up to \$1 billion	0.50%
	In excess of \$1 billion up to \$1.5 billion	0.44
	In excess of \$1.5 billion up to \$5 billion	0.36
	In excess of \$5 billion up to \$10 billion	0.35
	In excess of \$10 billion up to \$15 billion	0.34
	In excess of \$15 billion up to \$20 billion	0.33
	Over \$20 billion	0.30
<b>UBS RMA U.S. Government Portfolio</b>	Up to \$300 million	0.50%
	In excess of \$300 million up to \$750 million	0.44
	\$750 million up to \$5 billion	0.36
	In excess of \$5 billion up to \$10 billion	0.35
	In excess of \$10 billion up to \$15 billion	0.34
	In excess of \$15 billion up to \$20 billion	0.33
	Over \$20 billion	0.30
<b>UBS RMA California Municipal Money Fund, and UBS RMA New York Municipal Money Fund</b>	Up to \$300 million	0.50%
	In excess of \$300 million up to \$750 million	0.44
	Over \$750 million	0.36
<b>UBS RMA New Jersey Municipal Money Fund</b>	Up to \$300 million	0.45%
	In excess of \$300 million up to \$750 million	0.39
	Over \$750 million	0.31
<b>UBS RMA Tax-Free Fund</b>	Up to \$1 billion	0.50%
	In excess of \$1 billion up to \$1.5 billion	0.44
	in excess of \$1.5 billion up to \$5 billion	0.36
	In excess of \$5 billion up to \$10 billion	0.35
	In excess of \$10 billion up to \$15 billion	0.34
	In excess of \$15 billion up to \$20 billion	0.33
	Over \$20 billion	0.30
<b>UBS Retirement Money Fund</b>	Up to \$300 million	0.50%
	In excess of \$300 million up to \$750 million	0.44
	Over \$750 million	0.36

**International Accounts: International Deposit Account (IDA).** Cash held in these Program Accounts is automatically swept into a demand deposit account at the New York Branch of UBS AG (“UBS NY”), from which the cash is then swept and re-deposited each business day into an interest-bearing overnight deposit account (the “IDA”) at the Cayman Islands Branch of UBS AG (“UBS Cayman”). The cash swept from the UBS NY account becomes payable only at the UBS Cayman account, and not at the UBS NY account, and is thus temporarily exposed to the sovereign risk of the Cayman Islands. **Funds on deposit in the accounts at UBS NY and UBS Cayman are not eligible for federal deposit insurance from the Federal Deposit Insurance Corporation (FDIC).** UBS Cayman earns revenue from cash swept into the IDA, including your cash, that is greater than the interest you receive on your cash. The difference between the rate that UBS Cayman earns on your cash and what you receive is shared between UBS AG and UBS. Your Financial Advisor receives a share of UBS’ portion of such excess revenue. For more detailed information on the IDA for NRA clients, please see the *International Deposit Account Sweep Program Disclosure Statement* given to you with the documentation for your Program Account.

**Sweep Vehicle for Puerto Rico Residents:** The Puerto Rico Short Term Investment Fund, Inc. is available as a sweep option only for customers who hold accounts with UBS Financial Services Incorporated of Puerto Rico and who are Puerto Rico residents. UBS Asset Managers of Puerto Rico, a Division of UBS Trust Company of Puerto Rico, serves as investment advisor to the Fund and receives management fees of 0.500%. UBS Trust Company of Puerto Rico also acts as administrator, transfer agent and custodian to the Fund and receives fees for those services, which are included in the Fund’s Other Expenses estimated at 0.137%. UBS Trust Company of Puerto Rico is an affiliate of UBS Financial Services Inc.

In addition, Distribution and/or Service (12b-1) fees of .125% are deducted from the Fund’s assets and a portion may be paid to financial advisors in connection with their sale of Fund shares.

#### **E. Non-Cash Compensation**

In addition to the revenue sharing payments described above, we and our Financial Advisors, may, from time to time, receive non-cash compensation from mutual fund companies, investment managers, insurance vendors, and sponsors of products we distribute in the form of: (i) occasional gifts; (ii) occasional meals, tickets or other entertainment; (iii) sponsorship support of training events for our employees; and/or (iv) various forms of marketing support.

#### **F. Other Compensation**

In addition, our affiliates receive trading commissions and other compensation from mutual funds and insurance companies whose products we distribute.

You also understand that we or certain of our affiliates may engage in a variety of transactions with or provide other services to the investment managers and mutual funds or to their affiliates or service providers presented to you or already held by you for which we receive compensation. Those transactions

and services may include but will not be limited to effecting transactions in securities or other instruments, as broker or as dealer for our own account and research, consulting, performance evaluation, investment banking, banking or insurance services.

#### **IX. TRADING AND EXECUTION PRACTICES**

This section is a general summary of our execution practices as they relate to brokerage and advisory accounts. You should note that in order to comply with principal trade restrictions, orders for most of our advisor programs are routed for agency execution. Where permissible by applicable law, and after complying with applicable regulatory requirements, we may route orders for our advisory clients for execution as principal.

If your account is managed by a third-party investment manager, your manager is solely responsible for meeting its best execution obligations to you, and you should review carefully the manager’s trading for your account. UBS does not analyze or evaluate whether your manager is meeting its best execution obligations on trades executed for your account.

All trading in your Accounts is at your risk. Accounts are subject to a variety of market and other risks, including illiquidity and volatility. Investment performance of any kind can never be and is not guaranteed. Past performance is not an indicator of future results. In executing transactions for your Accounts, we will not be liable for losses caused directly or indirectly by government restrictions, exchange controls, exchange or market rulings, suspension of trading, acts of war, strikes or other conditions beyond our control, including but not limited to, extreme market volatility or trading volumes.

**Execution of Transactions for Your Account.** We use automated systems to route and execute orders for the purchase and sale of securities for all advisory accounts, unless you direct us otherwise. Generally, an order is routed to an execution center that we believe will provide the best execution. Certain large orders that may require special handling may be routed to a market center for execution via the telephone. We regularly monitor existing and potential execution venues and may route orders in exchange listed or OTC securities to other venues if we believe that such routing is consistent with best execution principles.

In determining the best way to execute an order for a client, we evaluate (i) speed and certainty of execution; (ii) price and size improvement; and (iii) overall execution quality.

#### **Exchange Listed Securities, NASDAQ and OTC Securities.**

The vast majority of our exchange listed securities and over the counter (OTC) order flow is routed for execution to our affiliate, UBS Securities LLC. Orders routed to UBS Securities LLC are executed by UBS Securities LLC as principal or as agent, depending on the circumstances and type of program involved. These orders will be executed by UBS Securities LLC as principal when there is an opportunity for execution at a price equal to or superior to the price quoted on the primary exchange. If that is not the case, the order will be routed immediately to the primary exchange for execution. UBS Securities LLC may have a profit or loss when executing orders as principal. For orders requiring agency execution, UBS Securities LLC routes the orders

to unaffiliated market makers for execution. In some instances, however, for certain securities, we place over-the-counter orders directly with unaffiliated market makers for execution. All routing decisions are in accordance with the principles of best execution.

If we (or another investment manager managing the portfolio) execute securities transactions through other broker-dealers, we may choose brokers who provide us with research services if the commissions charged by these broker-dealers are reasonable in relation to the value of the brokerage and/or research services. If your account is a commission-based account, you may pay higher commissions if we obtain research in this manner. We do not try to place specific dollar value on the research or brokerage services of any broker-dealer or to allocate the relative costs or benefits of research, because we believe that the research we receive is beneficial in fulfilling our overall responsibilities to clients. Accordingly, research received for a particular client's brokerage commissions may not be used for that client's account or may be useful not only for that client but for other clients' accounts as well. Similarly, clients may benefit from the research received for the commission of other clients.

**Aggregation of Trades for Advisory Clients.** We may aggregate transactions for advisory clients for execution under appropriate circumstances. This practice will not ordinarily affect or otherwise reduce fees, commissions or other costs charged to clients for these transactions but may provide price improvement. Partial fill of a block security transaction may be allocated among advisory clients' accounts randomly, pro rata, or by some other equitable procedure adopted by the investment manager. In certain cases, investment managers may use a computer system that allocates purchases and sales transactions either on a random or pro rata basis. In any case, clients may pay higher or lower prices for securities than may otherwise have been obtained.

**Payment for Order Flow.** At this time, we have determined not to direct the order flow from our advisory programs to specific destinations in exchange for payment for that order flow (payment for order flow is defined to include any monetary payment, service, property or benefit that results from remuneration, compensation or consideration to a broker-dealer from another broker-dealer in return for routing customer orders to that broker-dealer.) We may route orders to electronic communication networks ("ECNs") or similar enterprises in which we may have a minority ownership interest. If we direct orders for our advisory programs accounts to such a trading network, we may receive indirect compensation from the ECN with respect to these trades due to our ownership interest. These arrangements will not cause you to pay additional fees directly to us. We believe that, in the course of executing trades for our clients, we may be able to obtain best execution through other exchanges or trading networks. We may direct order flow for these programs to trading networks in which we have an interest in the future if we determine that it is in the interest of our clients and consistent with our obligations under applicable laws.

**Best Execution.** In ACCESS, SWP and our Discretionary Programs, we provide all managers in the programs with proprietary trading systems to administer, maintain, reconcile and place trades with UBS for accounts managed in those Programs.

In MAC, we provide only certain SMA Managers with a proprietary trading system or establish electronic connectivity to their own trading system in order to administer, maintain, reconcile and place trades with UBS for accounts managed in the program. Many MAC Eligible managers trade through our branch offices and place trades directly with the Financial Advisor for your MAC account.

Regardless of the program or trading system used for investing, your SMA Manager has the option to trade through us or with other financial institutions, in accordance with the manager's obligation to achieve best execution on all trades for your account. Although use of our proprietary trading system is not required for a manager to participate in our programs, the system makes it easier, and therefore encourages, a manager to place trades for program accounts with UBS instead of with other financial institutions. SMA Managers typically will place transactions through UBS on an unsolicited basis, as your SMA Manager deems appropriate.

Your program fee covers the costs of trades executed with UBS but not the costs of trades executed elsewhere. We refer to trades on which we are not the executing broker as "step out trades." These transactions are generally traded from broker to broker and are usually cleared net, without any commissions. However, under certain circumstances, you may be assessed other trading related costs in addition to your program fee, if your manager trades with another firm. For this reason, your SMA Manager may find that placing your trades with UBS is often the most favorable trading option for you. However, your manager may direct transactions to other broker-dealers (for additional fees or sometimes, commissions) if your manager decides that its best execution obligations so require. Some managers have historically directed 100% of their trades to outside broker-dealers.

**Your SMA Manager is solely responsible for meeting its best execution obligations to you, and you should carefully review the manager's trading for your account. UBS does not analyze or evaluate whether your SMA Manager is meeting its best execution obligations on trades executed for your account. See "Participation or Interest in Client Transactions – Execution of Transactions for Your Account" for a description of our execution and order routing practices.**

**Non-Discretionary Transactions in the SWP Program.** All account changes, including transactions in Non-Discretionary Assets, are subject to a systematic administrative review to ensure consistency with your Target Allocation. We will also ensure that any required paperwork is complete. As a result, transactions are not executed until after the administrative review is completed and allocation changes may take several days to fully implement as set forth in the Advisory Relationship Agreement. Accounts with non-daily traded alternative funds may experience additional delays.

Transactions in exchange traded funds generally will be routed together for execution twice per day. Multiple account orders for the same security on the same side of the market may be aggregated for execution. Because the prices of ETFs fluctuate during the trading day, the price you receive at the time the order is executed may be better or worse than the price at the time you authorized the changes to your account.

**Trade Errors.** We have a trade error procedure, pursuant to which we resolve trading errors that may occur from time to time. We require the appropriate supervisory personnel to review and approve the correction. The correction must be processed on a timely basis and may not adversely affect a client absent a de minimus exception. The firm maintains an error account to facilitate handling trading errors. Gains may be offset by losses in the error account. If an outside investment adviser causes a trade error, the outside investment adviser's trade error procedure will govern, unless it conflicts with our internal procedure.

### **Commissions and Directed Brokerage**

In light of the variety of services we provide, including research, supplemental advisory and client-related services that may be offered through Financial Advisors, the wrap fees and/or commissions charged may exceed those of other broker-dealers and/or investment advisers. When we receive compensation in connection with execution services (other than under a wrap fee), the commissions charged may exceed those that other broker-dealers may charge. Generally, the commission rate payable by a client may be negotiated between the client and the Financial Advisor.

However, the commission rate you negotiate may not be as advantageous as the rate(s) available to an investment manager. Accordingly, you should consider requiring your investment manager(s) to negotiate all commission charges, consistent with their duties of best execution.

If you participate in a managed account program, your investment manager or other agent may effect transactions through broker/dealers other than us when the manager or agent reasonably believes that the other broker or dealer may effect the transactions at a price, including any commissions or dealer mark-ups or mark-downs, that is more favorable than would be the case if transacted through us.

If the UBS program in which you participate permits the payment of program fees through directed brokerage (for example, UBS Institutional Consulting) and you choose that option, you must instruct your investment manager with responsibility for investment of your assets to effect securities transactions for the assets through us, subject to best execution, your needs and, if applicable, the requirements of ERISA. It is your responsibility to monitor the level of directed commission transactions in relation to your payment obligations. If an investment manager placing transactions on your behalf directs more commissions to us than necessary to satisfy your fee obligation, we will assume that the investment manager has determined that it is advisable for execution purposes to direct these transactions to us. Your brokerage direction may cause us to earn substantially more than the fee quoted to you and may result in a financial incentive for your Financial Advisor to advocate the use of directed brokerage instead of hard dollars to pay for services due to the potential for increased compensation in the form of brokerage commissions, and to recommend managers who will direct client trades to us.

As a general matter in these types of arrangements, you may use directed brokerage to pay our fees for a period of not longer than one year from the date the fee was earned.

Gross brokerage commissions may be credited against fees at a negotiated rate, but generally at a 2-to-1 conversion rate. Similarly, distribution and finder's fees (in the case of mutual fund searches) will generally be credited against fees at a 1-to-1 conversion rate. For programs other than MAC, if your investment manager directs insufficient brokerage to us (or in the case of services related to mutual funds, distribution fees and/or finder's fees received by us are insufficient) to pay fees in full, you will be billed for the difference. The bill must be paid within thirty (30) days of receipt, or, we as the custodian, will debit the outstanding balance from your account.

## **X. CODE OF ETHICS AND PARTICIPATION OR INTEREST IN CLIENT TRANSACTIONS**

### **A. Code of Ethics**

The Firm maintains and enforces a written Code of Ethics ("Code") pursuant to Rule 204A-1 under the Investment Advisers Act of 1940. The Code, and any subsequent amendments, is provided to all employees of the Firm and each employee is responsible for acknowledging receipt.

The Code, which supplements the Firm's Code of Conduct, has a dual purpose: to set forth standards of conduct that apply to all employees of the Firm including the Firm's fiduciary obligation to its clients; and, to address conflicts of interest associated with the personal trading activities of a subset of employees defined as "access persons."<sup>4</sup> Employees are required to promptly report any suspected violation of the Code. Violations of the Code may result in discipline, up to and including termination. Clients or prospective clients may obtain a copy of the Investment Adviser Code of Ethics upon request.

### **B. Margin and Lending.**

You may choose to engage in leverage strategies involving the assets in your eligible non-retirement, non-custodial accounts. Margin is generally not recommended or permitted in managed accounts. However, we may from time to time, approve margin on an exception basis when requested by a client or for use in specialized strategies available in our managed programs. You may also use certain managed account assets to collateralize margin lending in your brokerage account or non-purpose loans referred to as Credit Line Loans below.

**Margin.** Using margin in a managed account or using the advisory assets as collateral for margin used in another account is a more aggressive, higher risk approach to pursuing your investment objectives. Before you decide to use margin in your managed account or to use such assets as collateral for margin, you must carefully consider whether or not you can afford, and want, to assume the additional risks that losses in your account may be significantly greater than if you decide not to invest with borrowed funds (i.e., not to use leverage). The use of leverage will increase your costs of investing, as well as your risks, and depending upon the return achieved through the use of margin, may make your investment objectives more difficult to realize.

<sup>4</sup> Access Person: all branch office employees, regardless of their job function, and any other Firm employee who works from a branch location or home office employees who place trades on behalf of money managers who participate in the Firm's advisory programs and home office employees that develop, manage or place trades for the home office centrally managed portfolios.

If we provide a margin loan to you, you will pay us interest on the outstanding loan balance. Since the wrap fee is calculated as a percentage of assets under management, the use of margin to purchase securities in a managed account generally will increase the amount of (but not the percentage of) the wrap fee that you pay to us. This will result in additional compensation to us, the Financial Advisor and your selected investment manager. However, we deduct the amount of the margin loan from the total value of the investments when determining the account value for fee purposes.

The decision to use leverage in a managed account or use those assets as collateral rests with you and should only be made if you understand the risks of margin borrowing, the impact of the use of borrowed funds on a managed account, and how the use of margin may affect your ability to achieve investment objectives. Specifically, you may lose more than your original investment, likewise a positive or negative performance of a margined managed account, net of interest charges and other account fees, will be magnified by virtue of using borrowed money. Thus, gains or losses in a leveraged managed account will be greater than would be the case with an unleveraged managed account. You may not benefit from using margin in a managed account if the performance of your managed account does not exceed the interest expense being charged on the loan plus the additional managed account fees incurred by your account as a result of the deposit of the loan proceeds.

**Credit Lines.** You also may apply to borrow money from our affiliate, UBS Bank USA ("Bank USA") using an eligible securities account, including one or more eligible accounts in the programs described in this brochure (each a "Managed Account"), as collateral pursuant to the UBS Credit Line Program. The proceeds of this loan may not be used to purchase, trade or carry securities or to repay debt (a) used to purchase, trade or carry securities or (b) to any affiliate of Bank USA. In order for a Managed Account to be eligible to serve as collateral for the Premier Variable Credit Line, Premier Fixed Credit Line or Prime Credit Line (each a "Credit Line Loan") products, the Managed Account cannot serve as collateral for any margin lending.

As a result, if you wish to collateralize a Credit Line Loan with a Managed Account, we will automatically discontinue the margin for that Managed Account. In addition, since your Managed Account will be pledged to support any loans extended under the UBS Credit Line Program you will not be permitted to withdraw any of the assets in the Managed Account unless there is a sufficient amount of collateral otherwise supporting the loans (as determined by Bank USA in its sole discretion). If you participate in the UBS Credit Line Program, you will pay interest to Bank USA in addition to any Managed Account fees charged. We and your Financial Advisor will receive additional compensation as a result of your participation in the UBS Credit Line Program. Neither we nor our Financial Advisors will act as an investment manager to you with respect to the liquidation of securities to meet a call in connection with the UBS Credit Line Program and, as a creditor, Bank USA may have interests that are adverse to a client in the UBS Credit Line Program. Additional limitations and availability may vary by state.

Failure to promptly meet a request for additional collateral or repayment or other circumstances (e.g., a rapidly declining market) could cause Bank USA to instruct us to liquidate some or all of the collateral supporting the Credit Line Loan. Any required liquidations may interrupt your long-term investment strategies

and may result in adverse tax consequences. We and Bank USA do not provide legal or tax advice. You should consult your legal and tax advisors regarding the legal and tax implications of borrowing using securities as collateral for a loan.

**Defaults.** Clients with margin accounts may need to deposit additional cash or collateral or repay part or all of the margin loan if the value of the portfolio declines below the required loan-to-value ratio. Failure to promptly meet a request for additional collateral or repayment or other circumstances (for example, a rapidly declining market) could cause us or an affiliate, in their sole discretion, to liquidate or instruct us to liquidate some or all of the securities in the collateral account or accounts to meet the margin requirement.

Likewise, Credit Line Loans extended under the UBS Credit Line Program are demand loans and are subject to collateral maintenance requirements. Bank USA may demand repayment at any time. If the required collateral value is not maintained, Bank USA can require you to post additional collateral, repay part or all of your loan and/or sell your securities.

In these circumstances, failure to promptly meet a request for additional collateral or repayment or other circumstances (e.g., a rapidly declining market) could cause us or our affiliate, as applicable, to liquidate some or all of the collateral. Depending on market circumstances, the prices obtained for the securities may be less than favorable. Any required liquidations may interrupt your long-term investment strategies and may result in adverse tax consequences. We and our affiliates do not provide legal or tax advice. You should consult your legal and tax advisors regarding the legal and tax implications of margin borrowing and using securities as collateral for a loan.

**Neither we, our affiliates or our Financial Advisors, will act as investment manager to you with respect to the liquidation of securities held in a managed account to meet a margin call or Credit Line Loan demand and, as creditors, we and our affiliate may have interests that are adverse to you.**

**There are substantial risks associated with the use of (i) borrowed funds for investment purpose and (ii) securities as collateral for a loan. For further information, please see the UBS Financial Services Inc. Loan Disclosure Statement which is available from your Financial Advisor.**

**Documentation.** You must meet certain eligibility requirements and complete loan documentation prior to using margin in your managed account or applying for a UBS Credit Line Loan. Specifically, you will be required to execute a separate margin agreement with us or loan documents with Bank USA, as applicable.

### **C. Principal Transactions And Agency Cross Trades**

We may enter into principal transactions for some investment advisory clients after making appropriate disclosure and obtaining client consent when necessary. In accordance with the provisions of Section 11(a) of the Securities Exchange Act of 1934, we may execute transactions on the floors of national or regional securities exchanges for managed client accounts where appropriate. For MAC accounts, we may execute transactions in our capacity as broker-dealer on a routine basis, as agent or

principal, and may charge commissions or mark-ups and mark-downs as appropriate, unless we or one of our affiliates is acting as investment manager.

Additionally, if appropriate client consent is obtained and required disclosure is made, "agency cross" transactions may be effected for customer accounts to the extent permitted by law. "Agency cross" transactions are transactions in which we or our affiliates act as broker for the party or parties on both sides of the transactions. In these circumstances, we will receive compensation from parties on both sides of these transactions (the amount of which may vary) and, consequently, we will have a potentially conflicting division of loyalties and responsibilities. Consent to "agency cross" transactions may be revoked at any time by written notice to us. For MAC accounts, we may execute agency cross transactions on a routine basis, consistent with best execution, unless we or one of our affiliates is acting as investment manager.

#### **D. Sweep Vehicles; Money Market Funds**

We may use affiliated money market funds for our managed client accounts as permitted by law, in "sweep" arrangements, for cash allocation, temporary investment purposes or otherwise. We or our affiliates, including our Financial Advisors earn advisory, distribution or other fees for providing services to these funds. This compensation is in addition to the fees paid by clients for investment advice described in this Brochure. We or an affiliated broker-dealer may also benefit from our possession and temporary investment of cash balances in client accounts prior to investment or other use. Please see **"Fees and Compensation – Affiliated Money Market Funds"** for a summary of advisory compensation receive under these arrangements. **Termination of your advisory account may result, under certain circumstances, in the liquidation of your holdings in the UBS money market funds. Please see the "General Information About Our Wrap Fee Programs–Termination" for more information.**

**Other Activities.** We and our affiliates provide investment banking, research, brokerage, investment advisory and other services for different types of clients, and may give advice to or take actions for those clients or for our or our affiliates own accounts that differs from advice given to, or the timing and nature of actions taken for you. We and our affiliates may buy and sell securities for our own or other accounts or act as market maker or an underwriter for securities recommended, purchased or sold. We and our affiliates, from time to time, may not be free to divulge or act upon certain information in their possession on behalf of investment advisory or other clients. We are not obligated to effect any transaction for your account that we believe to be improper under applicable law or rules or contrary to our own policies. In particular, you should note that some of our programs may recommend asset allocations or analyze markets and the economy in a different way than would be recommended by some of our research, trading or other departments.

We have adopted policies and procedures that limit transactions for our proprietary accounts and the accounts of our employees. These policies and procedures are designed to prevent, among other things, improper or abusive conduct when there may be a potential conflict with the interests of a client.

#### **XI. REFERRAL ARRANGEMENTS**

We have referral agreements with our affiliates pursuant to which we refer clients to them and/or they refer clients to us. Under those agreements, we share fees with our affiliates for the referral or solicitation of clients or for services provided to clients. These payments may vary, depending on the type of agreement, product or the nature and extent of the services provided, and may continue as long as the client account is maintained with UBS or our affiliate.

In certain cases, the advisory and consulting services available in our programs may be provided by Financial Advisors registered with companies affiliated with us. In some instances, our affiliates may offer these programs pursuant to a solicitation agreement with us or we may serve as a clearing broker for those affiliated entities.

We also have a referral program pursuant to which we enter into solicitation arrangements with third parties who we compensate for referring or soliciting clients to participate in our advisory or trust services programs. We also have solicitation arrangements under which either we and/or our Financial Advisor may receive compensation for referring clients to a third party who will provide investment advisory or other services to the client.

As a result of these arrangements, fees paid by clients may differ from the prevailing retail rate. It is our practice to disclose to the client being referred the terms of the arrangement, including the maximum compensation payable to us and/or our Financial Advisors or a third party, as the case may be.

We and our affiliates also have arrangements with some third party investment managers under which we and/or certain of our Financial Advisors provide research (within the meaning of Section 28(e) of the Securities Exchange Act of 1934), and in return, the investment manager places brokerage transactions with us for execution, subject to best execution practices and requirements. The research services provided generally may be in the form of written reports or telephone contacts or personal meetings with security analysts, economists, or meetings hosted by our Financial Advisors with corporate or industry spokespersons. We or our Financial Advisors also may recommend or refer clients to third party investment managers that place brokerage transactions with us. The differences in the form or amount of compensation paid to us by different investment managers for client referrals or research products create a conflict between our interests and the interests of the clients referred because of the incentive to make referrals to those investment managers that offer us greater compensation than others.

#### **Referral Arrangements for Financing Business**

We have certain agreements pursuant to which we refer our customers to certain lenders, on a non-exclusive basis, for specific financing opportunities not available at UBS or its affiliates. These lenders may be able to assist clients in securing financing for specialized borrowing needs. It is our practice to disclose to the client being referred the roles of UBS and the lender in connection with such referral and that we receive a referral fee from the lender. Upon the successful completion of a transaction, the lender will pay us a referral fee, which will vary depending upon the lender and/or the amount of the financing. A portion of the fee we receive is paid to the Financial Advisor.

## XII. REGULATORY ORDERS

Please note that we are required to disclose to you the following orders which have been entered against UBS Financial Services Inc. but which, pursuant to a no-action letter issued by the Securities and Exchange Commission, do not preclude UBS Financial Services Inc. from receiving the compensation under our referral arrangements with affiliated and non-affiliated third parties:

1. On July 1, 2010, the Firm, without admitting or denying the allegations, consented to the findings that it violated MSRB rules G-17 and G-30(B) in that it purchased or sold municipal securities as agent for a customer for a commission or service charge that was in excess of a fair and reasonable amount. The Firm was censured, fined \$17,000 and required to pay \$1,620.25, plus interest, in restitution to an investor. The Firm also made restitution totaling \$6,583.60 to another customer for which no additional restitution was required.
2. On January 20, 2010, the Firm, without admitting or denying the allegations, consented to the findings that in transactions for or with a customer the Firm violated NASD Rules 2110 and 2320 by failing to use reasonable diligence to ascertain the best inter-dealer market and did not buy or sell in such market so that the resultant price to its customer was as favorable as possible. The firm was censured and fined \$11,500.
3. On June 26, 2009, without admitting or denying the allegations, UBS consented to findings that between January 2004 and December 2005 ("Relevant Period") the Firm did not have adequate systems and/or procedures, including supervisory procedures, reasonably designed to detect and prevent unsuitable patterns of short-term trading of Closed End Funds ("CEFS") purchased at the initial public offering or to supervise its registered representatives' sales of new issue CEFS to their customers. As a result, during the Relevant Period, the Firm failed to detect and prevent certain registered representatives from engaging in unsuitable short-term trading of CEFS purchased at the initial public offering. The Firm was fined \$100,000.
4. On or about June 16, 2009, The Firm, without admitting or denying the allegations, consented to the findings that it violated NASD Rule 6955(a) in that it transmitted to the Order Audit Trail System (OATS) Reportable Order Events (ROES) that were rejected by OATS for context or syntax errors and the Firm failed to repair many of the rejected ROES. The Firm was censured and fined \$7,500.
5. On May 20, 2009, UBS entered into a consent order with the State of Missouri, pursuant to which the Firm, without admitting or denying the allegations, consented to findings that UBS Financial Advisors made unsuitable recommendations related to Variable Annuity and Closed End Mutual Fund transactions and that the Firm failed to supervise one Financial Advisor related to conduct that ended in 2005. The Firm was (1) censured, (2) ordered to disgorge \$652,675.54, (3) ordered to pay \$80,000 to the Missouri Investor Education and Protection Fund, (4) ordered to pay \$20,000 civil penalty, and (5) ordered to pay \$7,500 which was the cost of the investigation.
6. On or about April 6, 2009, UBS, without admitting or denying the allegations, consented to the findings that it failed to report to the Trade Reporting and Compliance Engine (TRACE) certain large block transactions in TRACE-eligible securities within 15 minutes of the time of execution during the time periods of April 1 to June 30, 2007 and from April 1 to June 30, 2008. The Firm was censured and fined \$8,000.
7. On February 26, 2009, the firm settled with FINRA for violations of NASD Rules 2110, 2320, 3010, 3110, 3360, 3370, 6130, 6955(A) in that for certain transactions with customers, the firm did not use reasonable diligence to ascertain the best inter-dealer market and did not buy or sell in such market so that the resultant price to its customers was as favorable as possible under prevailing market conditions; the firm executed short sale orders and did not properly mark the order tickets as short for the orders; the firm accepted customer short sale orders in certain securities and, for each order, did not make/annotate an affirmative determination that the firm would receive delivery of the security on behalf of the customer or that the firm could borrow the security on behalf of the customer for delivery by settlement date; the firm executed short sale transactions and did not report each of the transactions to the trade reporting facility with a short sale modifier. The firm's supervisory system did not provide for supervision reasonably designed to achieve compliance with applicable securities laws, regulations and NASD rules concerning short sales and short interest reporting. The firm submitted incorrect short interest reports to NASD aka FINRA. The firm transmitted reports to OATS (Order Audit Trail System) which contained inaccurate, incomplete or improperly formatted data in that the reports erroneously reported, or did not report, display flags to OATS. Without admitting or denying the findings, the firm consented to the described sanctions and to the entry of findings; therefore, the firm was censured, fined \$110,000, ordered to pay \$2,719.65, plus interest, in restitution to certain public customers and required to revise its written supervisory procedures regarding short sales and short interest reporting within 30 business days of acceptance of the order.
8. On January 9, 2009, the Commodity Futures Trading Commission ("CFTC") entered an Order ("Order") Instituting Proceedings Pursuant to Sections 6(c) and 6(d) of the Commodity Exchange Act, Making Findings and Imposing Remedial Sanctions against UBS Fund Advisor, LLC ("UBSFA"). UBSFA consented to the entry of the Order without admitting or denying any of the CFTC's findings. The CFTC found that UBSFA did not, in its capacity as a registered commodity pool operator, distribute to pool participants and file with the National Futures Association one or more of its commodity pools' annual reports in a timely manner, in violation of Regulation 4.7(b)(3)(i), 17 C.F.R. § 4.7(b)(3)(i)(2008). The CFTC ordered UBSFA to cease and desist from violating Regulation 4.7(b)(3)(i), 17 C.F.R. § 4.7(b)(3)(i)(2008) and pay a civil penalty in the amount of \$50,000.
9. On December 12, 2008 the Attorney General of the State of New York Investor Protection Bureau issued an Assurance of Discontinuance of its investigation concerning the Firm's

marketing, sale and distribution of auction rate securities. UBS, without admitting or denying the findings set out in the Assurance of Discontinuance, agreed to buy back at par value auction rate securities ("ARS") from UBS investors who (1) held those ARS at UBS or in DVP accounts in which UBS had bidding rights as of February 13, 2008 or (2) purchased the ARS at UBS between October 1, 2007 and February 12, 2008 and transferred the ARS out of UBS prior to February 12, 2008. Individual investors and IRS 501(c)3 qualified charities, endowments and foundations with less than \$1 million in funds on deposit at UBS were eligible for repurchase of their ARS on October 31, 2008. Individual investors and IRS 501(c)3 qualified charities, endowments and foundations with more than \$1 million in funds on deposit at UBS, as well as entities with less than \$10 million in assets at UBS as of August 8, 2008 (excluding clients with \$50 million in total assets) were eligible for repurchase of their ARS on January 2, 2009. For the remaining non-bank and non-broker-dealer institutional investors that (1) held ARS at UBS or in DVP accounts in which UBS had bidding rights as of February 13, 2008 or (2) purchased the ARS at UBS between October 1, 2007 and February 12, 2008 and transferred the ARS out of UBS prior to February 12, 2008, the Firm has until June 30, 2010 at the latest to repurchase the ARS. In addition the New York Attorney General required the Firm to: proceed with its announced plans for the repurchase of tax-exempt auction rate securities held by certain UBS investors; refund refinancing fees to municipal issuers of auction rate securities where the ARS was issued in an initial primary market between August 1, 2007 and February 12, 2008 and then refinanced after February 13, 2008; pay the difference between the sale price and par value to UBS investors who sold ARS positions below par value between February 13, 2008 and September 15, 2008, who would otherwise be eligible under the terms of the Consent Order; reimburse investors who participated in UBS ARS related loan programs the amount of interest paid on such loans that was in excess of the interest paid to the investor on the ARS; agree to special arbitration procedures for ARS investors to seek consequential damages related to the illiquidity of their ARS; agree that in cases brought by ARS investors for consequential damages the Firm will not argue against liability for ARS illiquidity and will not assert as a defense the investors decision not to borrow from UBS prior to September 15, 2008; create a customer assistance line and an internet page; and pay a penalty of \$75 million to the New York Attorney General by January 2, 2009.

10. On or about October 31, 2008, the Firm, without admitting or denying the allegations or findings, agreed to a Consent Judgment with the United States Securities and Exchange Commission regarding allegations related to UBS' sale and marketing of auction rate securities. The Consent Judgment permanently restrains and enjoins the Firm from violations of Section 15(c) of the Securities and Exchange Act of 1934 [15 U.S.C. §78o(c)] and, upon motion by the Commission and order by the Court, orders the payment of a civil penalty pursuant to SEC 21(d)(3) of the Exchange ACT [15 U.S.C. §78u(d)(3)]. Under the Consent Order the Firm undertook to buy back at par value auction rate securities ("ARS") from UBS investors who (1) held those ARS at UBS or in DVP accounts in which UBS had bidding rights as of February 13, 2008 or (2) purchased the ARS at UBS between October 1, 2007 and February 12, 2008 and transferred the ARS out of UBS prior to February 12, 2008.

Individual investors and IRS 501(c)3 qualified charities, endowments and foundations with less than \$1 million in funds on deposit at UBS were eligible for repurchase of their ARS on October 31, 2008. Individual investors and IRS 501(c)3 qualified charities, endowments and foundations with more than \$1 million in funds on deposit at UBS, as well as entities with less than \$10 million in assets at UBS as of August 8, 2008 (excluding clients with \$50 million in total assets) were eligible for repurchase of their ARS on January 2, 2009. For the remaining non-bank and non-broker-dealer institutional investors that (1) held ARS at UBS or in DVP accounts in which UBS had bidding rights as of February 13, 2008 or (2) purchased the ARS at UBS between October 1, 2007 and February 12, 2008 and transferred the ARS out of UBS prior to February 12, 2008, the Firm has until June 30, 2010 at the latest to repurchase the ARS. Additional requirements under the Consent Order required the Firm to: proceed with its announced plans for the repurchase of tax-exempt auction rate securities held by certain UBS investors; refund refinancing fees to municipal issuers of auction rate securities where the ARS was issued in an initial primary market between August 1, 2007 and February 12, 2008 and then refinanced after February 13, 2008; pay the difference between the sale price and par value to UBS investors of ARS that sold ARS positions below par value between February 13, 2008 and September 15, 2008, who would otherwise be eligible under the terms of the Consent Order; reimburse investors who participated in UBS ARS related loan programs the amount of interest paid on such loans that was in excess of the interest paid to the investor on the ARS; agree to special arbitration procedures for ARS investors to seek consequential damages related to the illiquidity of their ARS; and agree that in cases brought by ARS investors for consequential damages the Firm will not argue against liability for ARS illiquidity and will not assert as a defense the investors decision not to borrow from UBS prior to September 15, 2008.

In connection with the Auction Rate Securities issues described above, the Firm, without admitting or denying the allegations, has entered into cease and desist and/or orders with thirty (30) states and US territories. As of July 2010, the Firm has entered into the following settlements: California-\$15,209,146.78; Indiana-\$705,000.11; North Dakota-\$235,194.78; Kentucky-\$485,558.29; Idaho-\$389,031.88; Vermont-\$243,263.37; So. Dakota-\$317,375.71; Louisiana-\$867,350.22; Montana-\$324,542.52; Colorado-\$2,166,411.03; Michigan-\$2,227,163.33; Missouri-\$1,272,039.07; Virginia-\$1,662,029.43; Arizona-\$1,363,942.61; West Virginia-\$155,754.80; Georgia-\$1,279,856.07; Connecticut-\$2,098,792.26; Mississippi-\$498,250.77; Washington-\$1,805,294.31; Wyoming-\$288,945.81; Rhode Island-\$247,677.36; Delaware-\$269,248.97; Maine-\$249,018.17; Puerto Rico-\$207,429.25; Tennessee-\$1,046,609.84; Alabama-\$328,180.42; Virgin Islands-\$258,154.66; Iowa-\$455,918.09; Nebraska-\$406,414.94; and New Mexico-\$275,205.48

11. On July 30, 2008, a Final Consent Judgment was entered against the Firm, pursuant to its consent and without admitting any liability or findings of fact, in an action brought by the Massachusetts Attorney General relating to the permissibility of the sale of auction rate securities to Massachusetts public entities. Pursuant to the Final Consent

Judgment, the Firm offered to repurchase at par value auction rate securities that were impermissible investments for public entities under Massachusetts state law, paid Massachusetts \$750,000 and contributed \$250,000 for education and training of public entity treasurers and other financial officials.

12. On February 28, 2008, FINRA accepted a Letter of Acceptance, Waiver, and Consent ("AWC") in which the Firm, without admitting or denying the allegations or findings consented to the finding that from January 1, 2002 through May 31, 2003, the Firm effected transactions in Class B share mutual funds to certain customers, where an equal investment in Class A share mutual funds would have been more advantageous to these customers. The Firm also consented to the finding that, from January 1, 2002 through September 30, 2003, the Firm effected transactions in Class C share mutual funds to certain customers, where an equal investment in Class A share mutual funds would have been more advantageous to these customers. Also included within this AWC, yet unrelated to the Class B and Class C share matter, the Firm consented to the finding that, from January 1, 2002 through June 30, 2004, the Firm did not provide certain investors the opportunity to purchase Class A shares of certain mutual funds at Net Asset Value ("NAV") where the relevant mutual funds had a NAV transfer program applicable to those particular transactions. In addition, the Firm consented to the finding that, from January 1, 2002 through June 30, 2004, the Firm did not establish, maintain and enforce supervisory systems and procedures reasonably designed to identify NAV transfer programs offered by the mutual funds that the Firm sold to its customers, and provide, on a consistent basis, consideration to the benefits of the various mutual fund share classes as they applied to individual customers. The Firm consented to a censure, fine of \$1,000,000, and an undertaking to provide remediation to certain customers who either purchased Class B or Class C shares of mutual funds, or who did not receive the benefit of the NAV transfer program. The Firm further agreed to augment its training relative to the receipt and handling of customer inquiries concerning the NAV transfer program, or Class B/C share mutual fund purchases. The Firm also consented to engage a third party to review the Firm's compliance with these remediation efforts.
13. In February 2008, the firm settled with FINRA for violations of NASD rules 2110, 2320, 3010, 3110, 3360, 3370, 6130, 6955(a) in that for certain transactions for or with customers, the firm did not use reasonable diligence to ascertain the best inter-dealer market and did not buy or sell in such market so that the resultant price to its customers was as favorable as possible under prevailing market conditions; the firm executed short sale orders and did not properly mark the order tickets as short for the orders; the firm accepted customer short sale orders in certain securities and, for each order, did not make/annotate an affirmative determination that the firm would receive delivery of the security on behalf of the customer or that the firm could borrow the security on behalf of the customer for delivery by settlement date; the firm executed short sale transactions and did not report each of the transactions to the trade reporting facility with a short sale modifier. The firm's supervisory system did not provide for supervision reasonably designed to achieve compliance with applicable securities laws, regulations and NASD rules concerning short sales and short interest reporting. The firm submitted incorrect short interest reports to NASD AKA FINRA. The firm transmitted to oats reports that contained inaccurate, incomplete or improperly formatted data in that the reports erroneously reported, or did not report, display flags to oats. Without admitting or denying the findings, the firm consented to the described sanctions and to the entry of findings; therefore, the firm was censured, fined \$110,000, ordered to pay \$2,719.65, plus interest, in restitution to certain public customers and required to revise its written supervisory procedures regarding short sales and short interest reporting within 30 business days of acceptance of this AWC by the NAC.
14. On December 3, 2007, the Firm, without admitting or denying the allegations or findings, accepted a Consent Order from the State of Missouri alleging that from January 1999 to May 2001, the Firm failed to reasonably supervise two former Financial Advisors regarding seminars offered to the public, and certain recommendations to their customers concerning B-share mutual funds. The Firm was 1) censured, 2) required to pay \$247,680 to the Missouri Secretary of State's Investor Restitution Fund, 3) required to disgorge commissions received from certain purchases of B-share mutual funds in the amount of \$135,946 paid directly to the Missouri Secretary of State's Investor Restitution Fund, 4) required to pay a civil penalty of \$75,000, 5) required to pay \$230,000 to the Investor Education and Protection Fund, and 6) required to pay \$8,584 for the cost of the investigation.
15. On October 24, 2007, FINRA accepted a Letter of Acceptance, Waiver, and Consent wherein the Firm, without admitting or denying the allegations or findings consented to the finding that, from January 1, 2002 to December 31, 2004, it did not file, or did not file on a timely basis certain amendments to Forms U4 and U5, and did not have adequate supervisory systems in place to achieve compliance with the rules requiring that it do so. The Firm also consented to a finding that, from January 1, 2002 to June 18, 2003, it did not file certain Forms U5 on a timely basis and with accurate termination dates. The Firm consented to a censure and a fine of \$370,000 and an undertaking to conduct an audit of its reporting procedures.
16. On October 2, 2007, the Firm, without admitting or denying guilt, consented to NYSE findings that it a) violated NYSE Rule 401(a) by not ensuring delivery of prospectuses in connection with sales of certain registered securities and b) violated NYSE Rule 342 by not providing for, establishing or maintaining appropriate procedures of supervision and control. The Firm consented to a censure and fine of \$500,000 and an undertaking to provide enforcement, within 90 days, with a written certification that the Firm's current policies and procedures are reasonably designed to ensure compliance with the federal securities laws and NYSE rules applicable to the delivery of prospectuses and product descriptions.
17. On September 7, 2007, without admitting or denying the findings by FINRA that during the period January 1, 2005 – March 31, 2005 in five customer transactions, UBS Financial Services Inc. did not use reasonable diligence to ascertain the best inter-dealer market, the Firm signed a Letter of Acceptance, Waiver and Consent and consented

- to the following sanctions: a censure, a \$30,000 fine and restitution to the five customers in the total amount of \$11,630, plus interest.
18. On July 16, 2007, the Firm entered into a settlement agreement with the Attorney General of the State of New York relating to a civil complaint filed on December 12, 2006. The complaint alleged that non-discretionary fee-based brokerage accounts were unsuitable for certain clients based on the fees generated in relation to the potential commissions those clients would have been assessed in a strictly commission-based brokerage account. The Firm denied the allegations in the complaint and was not sanctioned. The Firm, however, agreed to pay \$21,300,000 towards a remediation pool for approximately 3,100 current and former customers of the Firm that maintained fee-based brokerage accounts. The Firm further agreed to pay a penalty of \$2,000,000 to the Attorney General of the State of New York.
  19. On April 16, 2007, the Firm, without admitting or denying the allegations or findings, signed a Consent Order with the State of Connecticut Department of Banking relating to the market timing of mutual funds and variable insurance products. It was alleged that the Firm failed to keep certain books and records pertaining to sub-account transfers within variable insurance products and that the Firm failed to reasonably supervise agents regarding market timing. The Firm paid fines in total of \$1,500,000, and was ordered to make the following additional payments: \$1,250,000 to the State of Connecticut Department of Education in order to promote financial literacy initiatives in public schools, \$1,000,000 to the State of Connecticut Department of Higher Education in order to promote financial literacy initiatives in colleges and universities, \$1,500,000 to the State of Connecticut Department of Social Services in order to promote financial literacy initiatives for the benefit of lower income and elderly persons, and \$250,000 to the National White Collar Crime Center for the purpose of training Connecticut Regulatory and Law Enforcement personnel.
  20. On February 1, 2007, the Firm, without admitting or denying allegations made by the State of Virginia, accepted a Settlement Order with the State for \$100,000 (\$83,000 penalty/\$17,000 cost of investigation) in connection with the activities of a former Financial Advisor during the period of 2000 and 2001. The allegations include failure to properly maintain certain books and records in the branch office and inadequate supervision of the Financial Advisor.
  21. On November 3, 2006, the NASD's Office of Disciplinary Affairs and the National Adjudicatory Council accepted a Letter of Acceptance, Waiver, and Consent ("AWC"), wherein the Firm, without admitting or denying the findings, consented to the entry of the findings that it violated NASD Conduct Rules 2110 and 2320, in that, in 27 transactions it failed to use reasonable diligence to ascertain the best inter-dealer market and failed to buy or sell in such market so that the resultant price to its customer was as favorable as possible under prevailing market conditions. The Firm consented to a censure, a fine of \$10,000 and restitution in the amount of \$938.99, plus interest.
  22. On May 26, 2006, the Firm, without admitting or denying any allegations or findings, entered into a Stipulation of Facts and Consent to Penalty with the New York Stock Exchange ("NYSE") relating to discrete issues identified in various branch offices during the NYSE Member Firm Regulation's annual sales practice examinations in 2003 and 2004. The Stipulation resulted in NYSE Hearing Board Decision 06-116, which was finalized on August 2, 2006, and which censures the Firm and imposes a fine of \$175,000. The Decision indicates that, during 2003 and 2004 in certain branches, the Firm did not: 1) exercise reasonable supervision and control, including a separate system of follow-up and review, with respect to the review of certain communications, trade corrections, review of trades in customer accounts, records of customer addresses, and restrictions of accounts in which customer had reneged on trades; 2) obtain appropriate supervisory approval for certain account designation changes prior to effecting such changes; 3) freeze or restrict certain customer accounts in which customers had reneged on trades; 4) maintain adequate memoranda of certain orders that contained all of the required elements; and 5) exercise due diligence in certain accounts that used post office box addresses, and where account documents were sent to a third party.
  23. On January 11, 2006, the Firm, without admitting or denying the findings, signed a Stipulation of Facts and Consent to Penalty with the relating to the market timing of mutual funds and variable insurance products. NYSE alleged that the Firm failed to supervise brokers who with their clients engaged in deceptive marketing timing of mutual funds. Through the Stipulation and Consent Order, the Firm was fined \$23.7 million which included censure and civil penalty of \$5 million for failure to supervise, plus \$750,000 for books and records violations and \$18 million in disgorgement. At the same time, UBS Financial Services Inc. entered into an Agreed Consent Order with the New Jersey Bureau of Securities covering the same matters as that NYSE Order. Pursuant to the NJBS Order, the Firm was fined \$24.7 million which included censure and civil penalty of \$12 million for failure to supervise, plus \$750,000 for books and records violations, \$12 million for investigation costs and investor education and other enforcement initiatives. Pursuant to both orders, the Firm also agreed to retain outside counsel to review procedures related to the alleged failures and violations.
  24. On May 6, 2005, UBS Financial Services Inc., without admitting or denying the findings, signed a Letter of Acceptance, Waiver and Consent with the NASD relating to the Firm's marketing and sale of a non-proprietary managed futures fund (the "Fund") to certain customers. The NASD reviewed the period January 2002 to December 2003, during which time more than 4,000 UBS customers purchased the Fund. The NASD found that 14 customers made investments in the fund that exceeded 10% of their net worth, which was not permitted by the prospectus. The NASD also found that the Firm did not maintain certain records disclosing the basis upon which suitability determinations were made when the Fund was recommended to customers, did not establish and maintain a supervisory system related to maintaining these records and did not adequately describe certain of the risks of investing in managed futures on the firm's public website.

To resolve this matter, the Firm agreed to a censure, a fine of \$175,000, and agreed to offer restitution to the 14 affected customers. The Firm also agreed to determine whether another group of customers' purchases of the Fund exceeded the net worth limitation set forth in the Fund's prospectus and, if so, to offer them restitution.

25. On July 7, 2004, the Firm, without admitting or denying the findings, settled with the NASD an action relating to the Firm's sales literature for privately placed registered investment companies. The NASD found that, between July 2002 and May 2003, UBS Financial Services Inc. distributed a number of pieces of sales literature to its customers that did not comply with NASD conduct Rules 2210(d)(1)(A) and 2110. These included one sales presentation which stated that the fund was seeking a targeted rate of return without providing a substantiated basis for the target, and 22 fund updates which did not contain adequate risk disclosure. To resolve these charges, the Firm agreed to a censure, to a fine of \$85,000, and to submit certain sales literature relating to privately placed registered investment companies to the NASD for review within 30 days of July 7, 2004.
26. On June 28, 2004, the Firm, along with seven other firms, without admitting or denying the findings, settled with the NASD an action concerning the Firm's reliance on broker's brokers to determine the fair market value of certain of its customers' bonds. In particular, the NASD identified eleven instances during the period from August 6, 2002 through June 4, 2003 where a client requested that UBS Financial Services Inc. sell a bond in which the Firm does not make a market. The Firm, following industry practice, contacted a broker's broker and obtained bids for the customers' securities, and then bought the bonds from the customers at the bid price. Subsequent trading of the customer's bonds occurred at prices higher than the customers had originally received, indicating that the customers had not received fair prices for the bonds the customers sold. Along with other firms in the group settling with the NASD, UBS Financial Services Inc. was found to have violated MSRB Rules G-17 and G-30 by relying solely on the prices provided by the broker's brokers to determine the fair market values of the bonds. To resolve the actions, all eight firms agreed to make restitution, pay fines in an amount roughly equal to the restitution amount, and update their written supervisory procedures relating to the determination of the fair market value of municipal securities being bought or sold from a public customer. UBS Financial Services Inc. paid a fine of \$100,000, made restitution to the impacted customers and updated its written supervisory procedures.
27. On February 12, 2004, the Firm, along with six other firms, without admitting or denying the findings, settled with both the SEC and the NASD actions relating to the Firm's failure to uniformly provide breakpoint discounts to clients during 2001 and 2002. Breakpoint discounts are volume discounts applicable to front-end sales charges on Class A mutual fund shares. The SEC and NASD each brought cases against a group of seven firms, and the NASD separately brought actions against eight other firms. To resolve the actions, all 15 firms agreed to review all front-end load mutual fund trades in excess of \$2,500 between January 1, 2001, and November 3, 2003, to provide written notification of the breakpoints problem to each customer who purchased Class A shares from January 1, 1999, to November 3, 2002,

to advise these customers that they may be entitled to a refund; to provide refunds where appropriate; and to pay a fine equal to the amount of the Firm's projected overcharges. Along with other firms in the group settling with both the SEC and NASD, UBS Financial Services Inc. was found to have violated Section 17(a)(2) of the Securities Act of 1933 and Rule 10b-10 under the Securities Exchange Act of 1934. The NASD charged all 15 firms with violations of its just and equitable principles of trade rule. UBS Financial Services Inc. paid a fine of \$4,621,768, split evenly between the SEC and NASD.

28. In August 2003, the Firm consented, without admitting or denying the matters set forth therein, to the entry by the SEC of an Order Instituting Proceedings, Making Findings and Imposing Remedial Actions. The Order alleges that, during the period from 1994 to 1998, the Firm failed to reasonably supervise a former registered representative who had carried out an extended fraud that caused clients substantial losses. Pursuant to the Order, UBS Financial Services Inc. was censured under Section 15(b) of the Exchange Act and ordered to pay civil penalties of \$500,000 to the United States Treasury.

### **XIII. PERSONNEL**

The following are brief biographical descriptions of personnel who either function as our directors, principal executive officers or who have supervisory responsibility for the program(s) described in this Brochure. The information below is as of March 31, 2010:

#### **Executive Officers and Board of Directors**

**Robert J. McCann**, born 1958, is Chief Executive Officer of Wealth Management Americas for UBS, which comprises the registered broker-dealer, UBS Financial Services Inc., as well as the Private Banking operation. He became a member of the UBS Group Executive Board in 2009. Mr. McCann joined UBS in 2009 with 26 years of financial services experience, primarily at Merrill Lynch.

In 1982, Mr. McCann joined Merrill Lynch as an Associate within the Associate Sales & Trading Program. From 1982-2003, he held various roles at Merrill Lynch, including: Director, Head Trader US listed Equity Desk (1983 – 1990); Managing Director, Head US Equity Markets (1990-1995); Senior Vice President and Global Head, Global Equity Markets (1995 – 1998); Senior Vice President and Global Head, Global Institutional Debt and Equity Sales (1998 – 2000); Senior Vice President and Chief Operating Officer, Global Markets and Investment Banking (2000 – 2001); and Senior Vice President and Director, Global Securities Research and Economics (2001 – 2003). After a year with AXA Financial as Vice Chairman, Distribution and Marketing in 2003, Mr. McCann returned to Merrill Lynch where he held the position of Vice Chairman and President, Global Wealth Management Group (2003 – 2009), which included Global Private Client and Merrill Lynch Investment Managers, providing investment banking and retirement services for individuals and businesses globally. Under his guidance and leadership, the business was one of the largest of its kind on the global financial platform with more than 16,600 financial advisors and \$1.6 trillion in client assets.

Mr. McCann has extensive experience with various Securities Associations and Exchanges, has been a governor of FINRA and a board member of the Securities Industry Association. Mr. McCann is a graduate of Bethany College, with a B.A. in economics, holds a master's degree in Business Administration from Texas Christian University and is a graduate of the Advanced Management Program at Harvard University.

**John J. Brown**, born 1958, is a Group Managing Director for Wealth Management Americas of UBS, which comprises the registered broker-dealer, UBS Financial Services Inc., as well as the Private Banking operation. He currently heads the Wealth Management Solutions business. He became a member of the Wealth Management Americas Executive Board in 2009. Mr. Brown joined UBS in 2009 with 30 years of financial services experience, primarily at Merrill Lynch.

In 1980, Mr. Brown joined Merrill Lynch as a junior trader on the Convertible Bond Desk. From 1980-1995, he held various roles at Merrill Lynch, including, Global Head of Convertible Trading & Sales (1990 – 1995). In 1995, Mr. Brown joined UBS Securities LLC in Stamford, CT to run their Global Convertible Trading & Sales business. After 5 years with UBS, Mr. Brown returned to Merrill Lynch to head up the Global Securities Lending & Equity Financing division. Over the next 9 years, Mr. Brown held multiple positions including CEO of ML's Professional Clearing Corporation and Head of Prime Brokerage Americas.

Mr. Brown currently serves as a Chairman of No Greater Sacrifice, a non-for-profit corporation which raises funds to pay for college tuition and graduate degree program for the children of our nation's fallen servicemen and women. Mr. Brown is a graduate of St. John's University, with a B.S. in finance.

**Brian P. Hull**, born 1959, is Head of Wealth Management Partnerships for UBS, which is comprised of 3 units: Strategic Client Relationships, Investment Services and Client Development. Brian joined UBS as a member of the Wealth Management Americas Renewal team in November 2009, after 15 years at Merrill Lynch and 26 years overall in the financial services industry.

Mr. Hull joined Atalanta Sosnoff in 1983 as a trader and stayed until 1994, when he left as Head Trader, Senior Vice President and member of the Investment Committee.

In 1994, Mr. Hull joined Merrill Lynch in the Equity Capital Markets group, a role in which he stayed until 1998. From 1999 to 2003, Mr. Hull held various roles at Merrill Lynch including: Head of Equity Sales for the US (1999-2001); Head of Equities for the Americas (2001-2002); Co-Head, Global Cash Equities (2002-2003); Head, Global Investor Client Group (2003). In 2004, Mr. Hull was named Vice Chairman and a Member of the Executive Client Coverage Group of Merrill Lynch.

In 2005, Mr. Hull was named Head of the Institutional Advisory Division & Distribution of the Global Private Client Group. In 2008, Mr. Hull continued to serve as head of the Institutional Advisory Division, while also taking on two new roles as Head of Private Banking & Investment Group as well as the Head of Cross Organizational Coverage, where he was responsible for delivering the full breadth of the firm's capabilities to its clients.

Mr. Hull is a graduate of Fairfield University with a B.S. in Accounting. Mr. Hull is a member of the Board of Trustees at Fairfield University and is involved in a wide array of philanthropic organizations across the tri-state area.

**Robert E. Mulholland**, born 1952, is the Head of the Wealth Management Advisor Group for UBS Financial Services Inc. Mr. Mulholland joined UBS in 2009 and is a member of the Executive Committee. He joined UBS with 30 years of financial services experience, primarily at Merrill Lynch.

In 1979, Mr. Mulholland joined Merrill Lynch as a Financial Advisor in the Morristown, NJ branch. From 1984-2005, he held various roles at Merrill Lynch, including: Sales Manager for Lawrenceville, NJ (1984 – 1987); Branch Manager for Wayne, NJ (1987 – 1990); Eastern Division Sales Manager (1990 – 1993); Branch Manager for 6<sup>th</sup> Avenue, NY (1993 – 1995); Branch Manager for World Financial Center, NY (1995 – 1998); Northern NJ District Director (1998 – 2000); Southeast Region Director (2000 – 2001); Senior Vice President and Head of Client Relationship Group (2001 – 2003); Senior Vice President and Co-Head of Americas Region and Global Private Client (2003 – 2005). Mr. Mulholland was a member of the Executive Committee of Merrill Lynch Global Private Client from 2001 – 2005 and was also a member of the Operating Committee of Merrill Lynch and Company from 2002 – 2005. From 2005 – 2009, Mr. Mulholland served as the Chairman and President of Sound Securities LLC, based out of Jericho, NY.

Mr. Mulholland graduated with honors from Lehigh University with a B.S. in Management and Marketing and is a graduate of the Advanced Management Program at Harvard University.

**Thomas C. Naratil**, born 1961, is Chief Financial Officer and Chief Risk Officer of Wealth Management Americas for UBS, which comprises the registered broker-dealer, UBS Financial Services Inc., as well as the Private Banking operation. Mr. Naratil joined Paine, Webber, Jackson & Curtis in 1983 as a Corporate Intern. In 1985 he took a position as a US Treasury and Agency debt trader for PaineWebber Private Client Group. In 1987 Mr. Naratil went on to co-manage the Taxable Fixed Income (TFI) Government and Federal Agency debt trading desk. In 1993 he took the position of manager, TFI Risk, Organization, Sales and Marketing, later becoming the Director of TFI in 1994, a position he held until 2000. After the merger with UBS, Mr. Naratil served as Director of the Investment Products Group. In 2002, he went on to found UBS Bank USA and was Director of Banking and Transactional Solutions for UBS Wealth Management USA as well as Chairman of UBS Bank USA, positions he held until 2005 when he took the role of Global Head of Market Strategy and Development for UBS Global Wealth Management & Business Banking. Mr. Naratil then served as Global Head of Marketing, Segment & Client Development. In 2008 Mr. Naratil headed the Auction Rate Solutions group until he was named to his current roles in 2009. He holds a B.A. in History from Yale University and an M.B.A. from New York University.

**Paula Polito**, born 1959, is Chief Marketing Officer of Wealth Management Americas for UBS, which comprises the registered broker-dealer, UBS Financial Services Inc., as well as the Private Banking operation. She became a member of the UBS Group Executive Board in 2009. Ms. Polito joined UBS in 2009 with 15 years of financial services experience, as well as significant experience in broadcasting.

In 1996, Ms. Polito joined Fidelity Investments as the Executive Vice President of Corporate Marketing. Prior to this, she spent 10 years as a Producer, News Editor and Managing Editor for WBZ TV in Boston followed by five years as a Senior Vice President at Hill, Holliday, Connors and Cosmopolos, Inc., Advertising. In 2000, she joined Merrill Lynch to be Head of Strategic Marketing and Brand Management. In 2003, she was appointed to be a member of the Executive Committee for Global Wealth Management Group at Merrill Lynch. In this role, Ms. Polito was responsible for the ongoing development and management of consumer-focused marketing programs for the Global Wealth Management business including communications, advertising, events, public relations, relationship marketing, and key sales support for 16,000 Financial Advisors.

Ms. Polito is a graduate of Boston College with a B.A. in communications. Currently, Ms. Polito is a member of the Board of Trustees of Boston College. She is also a member of the Women's Health Leadership Council at Brigham and Women's Hospital in Boston.

**David J. Satler**, born 1957, is a Managing Director, member of the Executive Committee and the Head of Human Resources of UBS Financial Services. He is also the Wealth Management Americas Chief of Staff. Mr. Satler joined UBS in 2005 and has held a variety of senior management positions during that time, including, Chief Administrative Officer, Products & Services (2005), Head of Global Sales Development (2006), Head of High Net Worth and Core Affluent Segments (2008).

Prior to joining UBS, Mr. Satler was the Chief Executive Officer and Founder of Pulse Capital Advisors.

From 1988 to 2004, Mr. Satler was affiliated with Prudential Securities as Chief Operating Officer, Private Client Group (2003), Branch Office Manager (2001), Head of Strategic Initiatives (1999), and Chief of Staff to the President (1998), among other positions.

Mr. Satler graduated with a B.S. in Accounting from Bentley College and attended Harvard Business School Executive Education in 2000. Mr. Satler is a member of the American Institute of Certified Public Accountants.

#### **General Counsel, Director of Compliance and Chief Compliance Officer**

**Jonathan Eisenberg**, born 1952, is Group Managing Director and General Counsel of Wealth Management Americas for UBS, which comprises the registered broker-dealer, UBS Financial Services Inc., and the Private Banking Operation. Mr. Eisenberg joined UBS in July 2010 and is a member of the Executive Committee. He has over 30 years experience practicing law, most recently at Skadden, Arps, Slate, Meagher & Flom, LLC (since 2009) and Merrill Lynch for the previous 12 years, where he served as co-head of Global Litigation, Regulatory and Employment Law. He has also practiced law at the U.S. Securities and Exchange Commission and at other private law firms. He is the author of more than a dozen articles on securities law issues, and is on the Board of Directors of the Association of the Bar of the City Of New York Fund, Inc. He received a B.A. with distinction in all subjects from Cornell University in 1974 and graduated from the University of Virginia School of Law in 1977.

**Douglas T. Siegel**, born 1963, is a Managing Director and Head of Compliance for UBS Wealth Management Americas, which includes UBS Financial Services Inc. Mr. Siegel joined the firm in 1998 and has held a number of Senior Compliance positions with UBS. Previously, Mr. Siegel served as Senior Deputy Director of Compliance, Products and Services, Director of Compliance for UBS Financial Services of PR Inc., and a Deputy Director of Compliance, Surveillance and Branch Review. Prior to joining UBS, Mr. Siegel spent 13 years and held various Compliance positions at Smith Barney or predecessor firms. Mr. Siegel graduated from Syracuse University in 1985.

**Lisa M. Francomano**, born 1969, is an Executive Director, Deputy Director of Compliance and Chief Compliance Officer for UBS Financial Services' advisory business. Ms. Francomano has been with the firm since 2001. Prior to her current role, she managed the compliance products group and was an investment advisory attorney in the legal department. Prior to joining the firm, Ms. Francomano was a Vice President at Lehman Brothers Inc. responsible for providing investment advisory legal support primarily to the firm's wrap fee and broker-managed programs. Ms. Francomano began her career at Prudential Securities Inc. in 1992 as an analyst in the legal department. Ms. Francomano graduated from Fairfield University and New York Law School, evening division.

#### **Product Management for the Products Covered in this Brochure**

**Michael A. Perry**, born in 1967, joined UBS Financial Services in January 2010 as a Managing Director and the Head of Wealth Management Advice and Platforms and Chief Operating Officer of Wealth Management Solutions.

As Head of the Wealth Management Advice and Platforms business unit, Mr. Perry is responsible for the strategy, product development and management of the Firm's investment advisory, insurance, trust, planning, alternative investment and mutual fund platform capabilities, as well as the Firm's portfolio strategy and due diligence efforts. Prior to joining UBS, Mr. Perry was a Managing Director at Merrill Lynch & Co responsible for various investment and wealth management businesses from 1995 to 2009. Mr. Perry received his M.B.A. from New York University in 1995 and B.S. in Industrial Engineering from the University of Michigan in 1989.

**Marilee Ferone**, born in 1962, is an Executive Director and is responsible for Investment Advisory Programs & Platforms. Prior to joining the firm in April 2007, Ms. Ferone was employed at JPMorgan and Merrill Lynch for more than 26 years where she served in senior management roles in Private Banking and Global Wealth Management. Her most recent role was Managing Director at JPMorgan Private Client responsible for investment advisory programs. Ms. Ferone holds a Bachelor of Science in Business Administration from Fairleigh Dickinson University.

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