



# Important Information for Clients with an InsightOne<sup>SM</sup> Account

## General Conversion Information

This brochure contains general information regarding changes in your InsightOne account(s) as a result of the conversion from InsightOne to UBS Strategic Advisor. Please review each section carefully and contact your Financial Advisor with questions.

If you elect to convert your InsightOne account to a UBS Strategic Advisor account, we expect such conversion to take place on September 30, 2007.

To participate in this conversion, please complete the Signature Box on the accompanying form and return the form to the address provided on or before September 24, 2007. Your signature on the consent form represents your agreement to the terms and conditions of the enclosed UBS Strategic Advisor program documents and Summary of Certain Changes for InsightOne Accounts, including the establishment of a brokerage account, and (1) affirmative consent for clients with taxable accounts for us and our affiliates to engage in principal trades with you for your Strategic Advisor account and (2) the transfer of certain securities to that account if necessary.

**Although you will not be required to execute a new account agreement with UBS, your new account will be controlled by the terms and conditions applicable to all UBS accounts in the UBS Strategic Advisor program.** Those terms and conditions are described in the UBS Strategic Advisor Program Account Agreement that you will find on pages III-1 to III-11, and in the section entitled "Summary of Certain Changes for InsightOne Accounts" below.

We offer other advisory programs, each with different features, fee schedules and available strategies. **If you elect to transfer your InsightOne assets to an advisory program other than Strategic Advisor prior to Conversion, you will be required to sign new account documentation for the account program selected. If you elect not to convert to UBS Strategic Advisor or you do not select an alternative program on or before September 28, 2007, your InsightOne account will automatically be converted into a commission-based brokerage account on the conversion date as detailed in the brochure and the brokerage agreement that you executed upon opening your InsightOne account will remain in effect.**

**Please refer to the enclosed letter for the details of the consent process. Upon conversion of your InsightOne account, your InsightOne agreement will terminate and you will be deemed to have agreed to all the changes, terms and conditions described in this brochure and the enclosed Strategic Advisor agreement.**

**Please retain this brochure and enclosures in your records as they represent the governing documents for your new UBS advisory account(s).**

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# I. Summary of Certain Changes for InsightOne Accounts

Following is a summary of certain changes affecting your InsightOne account as a result of a conversion to UBS Strategic Advisor. The summary below **does not** outline all of the changes; please review the UBS Strategic Advisor Account Agreement and the Form ADV Disclosure Brochure reprinted on pages III-1 to IV-30 of this Brochure for the complete terms and conditions applicable to your InsightOne account(s) upon conversion to UBS Strategic Advisor. So that your Strategic Advisor account has custody and execution capabilities, the brokerage agreement that you executed upon opening your InsightOne account, remains in effect. Collectively the brokerage agreement and the Strategic Advisor agreement that follows govern your account.

## About Your InsightOne Account ("InsightOne")

InsightOne is a **non-discretionary**—you direct all trades in the account—**fee-based brokerage account** with an alternative pricing structure to commission-based accounts. InsightOne provides you with access to our full suite of brokerage services, investment recommendations from your Financial Advisor, and the ability to enter trades yourself through our online trading platform. Unlike traditional commission based accounts, fees in InsightOne are calculated as percentage of your eligible assets in the account, not on a trade-by-trade basis. You may invest in a wide range of investment vehicles in an InsightOne account.

Historically, these types of accounts offered, and were classified as, brokerage services although they have the asset-based pricing feature normally associated with advisory programs. As communicated in an earlier letter that we sent to you, the United States DC Circuit Court of Appeals issued an order nullifying the Securities and Exchange Commission (SEC) rule that allowed investment firms such as UBS to offer fee-based brokerage accounts, like InsightOne. As the Court's order becomes effective on October 1, 2007, fee-based brokerage programs will be deemed to be advisory and we will no longer be able to offer the InsightOne program as an alternative to a commission-based brokerage account.

You may convert your InsightOne fee-based account to a commission-based account or, if you prefer to a fee-based alternative, you may consider converting your InsightOne account to one of our advisory programs.

## About the UBS Strategic Advisor Program ("Strategic Advisor")

UBS Strategic Advisor is a non-discretionary advisory program through which Financial Advisors provide ongoing investment advice to clients for an annual asset-based fee. UBS Strategic Advisor blends the Firm's products and services to deliver personalized service and investment advice, a wide range of investment choices, ongoing performance reporting and a regular strategy review – in one account, for an annual asset-based fee. Your Financial Advisor will assist you in evaluating your investment needs and objectives, developing a strategic investment plan, and determining suitability for the program. While InsightOne focused on the ability and cost efficiency of trading on a fee-basis rather than paying trade-by-trade commissions, Strategic Advisor's primary focus is the advice we provide.

In selecting Strategic Advisor, you should consider that it is intended for investors who (i) seek to establish strategic

investment goals, (ii) seek and value ongoing advice from a professional financial advisor with respect to certain investment strategies and asset classes, but retain discretion over the trading activity in their account, (iii) are looking to implement a medium to long-term investment plan, and (iv) prefer consistency of costs and aligning of interests with their Financial Advisor. Product mix is another consideration you should take into account. For example, while domestic and offshore mutual funds in UBS Strategic Advisor are traded at NAV with no sales load charged, if you would qualify for breakpoint discounts in a commission based account, purchasing those funds in a commission based account may be a more cost efficient option. UBS Strategic Advisor is not appropriate for clients who maintain consistently high levels of cash or money market funds. UBS Strategic Advisor is not available for clients who engage in day trading or other excessive trading activity.

## Your Financial Advisor will discuss your investment objectives and risk tolerance with you to establish an investment strategy and a target portfolio for the UBS Strategic Advisor account.

Unless your investment strategy is identified as a fully diversified strategy, an investment in that strategy should not be considered as a diversified asset allocation plan to investing, but should be viewed only as the equity or fixed income portion, as applicable, of your overall portfolio.

## Distinctions between Brokerage and Advisory Services

By electing to convert your InsightOne brokerage account to our Strategic Advisor investment advisory program, the nature of our relationship will change from a brokerage to an advisory relationship. 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. We are providing the information on pages IV-1 – IV-3 of this Brochure to you about the main distinctions between investment advisory and brokerage services and our respective duties and obligations in each. We encourage you to review it carefully and discuss it with your Financial Advisor.

**Advisory Account Profiles**—When you established your InsightOne account, you provided us with your return objective, and primary and secondary risk profile for your account. As part of the conversion to Strategic Advisor, we will transfer the account return objectives and risk tolerance preferences you provided on your InsightOne account documents. So that we can service your advisory account appropriately, after conversion, we will confirm the investment objectives and risk tolerance for your Strategic Advisor account. The updated profile will be sent to you for your review.

### Program Fees and Billing Relationships

The fee schedules for InsightOne and the UBS Strategic Advisor program fee schedules, which are summarized below, differ in terms of maximum rates and minimum annual fees.

InsightOne	UBS Strategic Advisor
Account level pricing – 2.50% Maximum Fee Rate	Account level pricing – 2.00% Maximum Fee Rate
Minimum Fee: \$1,250	Minimum Fee: \$750

Upon conversion of your account from InsightOne to Strategic Advisor, your account will be assigned a fee rate. The fee rate on your Strategic Advisor account is equal—or less than—the fee rate you had in your InsightOne account. Asset-based fee rates in Strategic Advisor cannot exceed the maximum rate of 2.00%. As a result, clients with an InsightOne account paying an asset-based fee in excess of 2.00% will have their fee lowered to 2.00% upon conversion.

When converting your fees from InsightOne to Strategic Advisor our review of your account included any benefit in the billing rate you received from other InsightOne accounts that were part of a billing relationship during the relevant period. As such, if you have more than one InsightOne account, only those accounts which convert to Strategic Advisor will be

related to each other for billing purposes to ensure that the UBS Strategic Advisor minimum annual fee is assessed pro rata across your Strategic Advisor accounts.

### Net Asset Value on Margin Indebtedness

We bill on the net asset value (margin indebtedness and short positions are subtracted from the long value of your holdings) in Strategic Advisor, as opposed to the Total Market Value (long positions plus short positions and margin indebtedness) that we billed on InsightOne.

### Minimum Account Value

The minimum opening account size for UBS Strategic Advisor is \$50,000 in eligible billable assets. If you choose to link to another Strategic Advisor account, only one of the Linked Accounts is subject to this minimum account size requirement. Each other Linked Account is subject to a minimum account size of \$10,000 in eligible billable assets. We have the right in our sole discretion, 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.

### Non-billable Assets, Ineligible Assets and the Need for a Separate Brokerage Account

There are important differences in the securities classified as “eligible” in the InsightOne and Strategic Advisor programs. Below is a summary of how the programs treat certain assets.

Security Type	InsightOne	Strategic Advisor
Common stocks	Eligible	Eligible
Bonds (taxable and tax-free)	Eligible	Eligible
Cash and Money Market Funds	Eligible	Eligible
Fixed and Variable Rate Annuities	Non-billable	Ineligible
Insurance products	Non-billable	Ineligible
Auction Rate Preferred Securities	Eligible	Ineligible
Structured Products	Eligible or Non-billable	Ineligible
Mutual Funds	Eligible or Non-billable	Eligible or Non-billable
Exchange-Traded Funds	Eligible	Eligible
Closed-End Funds	Eligible	Eligible or Non-billable
Alternative Investments	Non-billable	Non-billable
Commodities and Futures	Non-billable	Non-billable
Private Placements	Non-billable	Non-billable
Unit Investment Trusts	Eligible or Non-billable	Eligible or Non-billable
UBS Securities (Equity, Debt, Options, Warrants)	Eligible	Ineligible

The securities/products listed below are currently “ineligible” in Strategic Advisor, meaning they may not be purchased or held in a UBS Strategic Advisor account:

- Fixed and variable rate annuities
- Insurance products
- Commodities
- Futures
- UBS Securities (equity, debt, warrants, options)
- Private Placements
- Auction Rate Preferred Securities such as VRDOs, ARPs, ARCs
- Structured Products

As an accommodation to former InsightOne clients and in order to assist in the orderly conversion of your InsightOne account, you may continue to hold B- and C-share class mutual funds, certain unit investment trusts, and Alternative Investments (e.g., managed futures funds, hedge funds and funds of hedge funds) (collectively, “Non-Billable Assets”) in a UBS Strategic Advisor account after Conversion. Non-billable Assets held in your UBS Strategic Advisor **account after Conversion will be included in your asset allocation plan but will not be assessed an asset-based fee.** If you would like to purchase new positions of Non-billable Assets, or increase an existing position after the date of Conversion, you may only do so through a commission-based brokerage account.

The balance of “ineligible assets” (Structured Products, Auction Rate Preferred Securities (e.g., ARPs, ARCs, and VRDOs) annuity and insurance products) **may not be held in a Strategic Advisor account.** If you elect to convert your InsightOne account to UBS Strategic Advisor and you hold any of these ineligible assets in your InsightOne account on the date of conversion, several options are available:

- You may instruct us to journal the ineligible assets (Structured Products, Auction Rate Preferred Securities (e.g., ARPs, ARCs, and VRDOs) annuity and insurance products) to an existing brokerage account of your choice.
- If you do not already have a brokerage account at UBS, you may open one prior to conversion with the same account title as your InsightOne account and we will automatically journal these assets to that brokerage account on the date of conversion.
- If you do not have a brokerage account with the same name as your InsightOne account as of the date of conversion and we do not receive any instructions from you, pursuant to your authorization, we will open a limited-purpose brokerage account for you solely for the purpose of holding these securities until they mature or you decide to sell them. This limited-purpose brokerage account will only be open if you hold Ineligible Assets in your account at the time of Conversion. The sole purpose for this account will be to hold assets journaled into it upon Conversion. Securities can only be liquidated from this brokerage account upon your direction. You will not have access to the following in this limited-purpose account: banking and cash management features such as credit cards (applicable to U.S. clients only) and debit cards, online bill payment, and check writing, margin, Online Services, or the ability to purchase securities—unless the Resource Management Account or International Resource Management Account application is completed and returned. If we open a limited-purpose brokerage account for you, you must complete a Resource Management Account Application and Agreement or International Resource Management Account Application

and Agreement in order to enjoy the benefits of a full-service brokerage account.

We may, to the extent permitted by applicable law, and in our sole discretion, change the status of certain ineligible assets to being eligible for the Strategic Advisor program. Only ineligible assets will be transferred to your brokerage account upon conversion.

The transfer of these assets from your advisory 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.

#### Principal Transactions

Under the UBS Strategic Advisor Program, we provide you with non-discretionary investment advice regarding investments for your account, and we also provide you transaction execution services, among other features. You make all investment decisions for your account and decide whether and when to ask us to buy or sell a security for you. You may place orders for your account by contacting your Financial Advisor or by placing the order electronically, using our online trading system.

In a principal transaction, a financial services firm acting for its own account buys a security from, or sells a security to, the account of a client. The legal and disclosure requirements with regard to these types of transactions differ depending on whether the firm is acting as your broker or your adviser. Although principal transactions were permitted in your InsightOne brokerage account (where we acted as a broker), they are not currently available in Strategic Advisor (where we act as your adviser). 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 in your Strategic Advisor account. Additionally, you may not purchase securities from UBS’s inventory, nor may UBS make a bid to purchase securities from you.

While individual fixed income securities are still available to you in UBS Strategic Advisor accounts; they are available to you on an agency basis, meaning they are purchased or sold to/from the inventories of other investment firms. Currently, you may not purchase individual fixed income securities from UBS’s inventory.

The SEC is currently considering changes to the “principal trade” rule under the Advisers Act which will permit us (as your adviser, when we have given you advice regarding a trade) to engage in principal transactions with you in non-discretionary advisory programs like Strategic Advisor if (1) you provide a one time written consent to these transactions and (2) we provide you with oral notification that a trade may be executed on a principal basis prior to execution and obtain your consent. Although the rule has not been published as of the date of this brochure, we expect it will require other disclosure and reporting requirements on our part in addition to your consent.

You may give your advance written consent for us or our affiliates to engage in principal trades with you for your Strategic Advisor account by signing, dating and returning the enclosed consent form to us. We will rely on this consent only if and when the proposed rule becomes effective and then only in connection with the securities or types of transactions covered by the final rule. You may rescind my consent to principal transactions in your Strategic Advisor account at any time with 30 days prior written notification. We will notify you when

Strategic Advisor has been modified to accommodate principal trades and will provide additional details regarding the requirements of the rule. **This option is not available for ERISA and IRA clients.**

In deciding whether to give your consent to principal transactions in your Strategic Advisor Account, you should consider the following information:

1. 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.
2. We and our affiliates expect to 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.
3. The profits we or our affiliates earn on these transactions will be in addition to the fees you pay us under the Strategic Advisory Program for investment advice, brokerage, 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 they might not be in your best interests.
4. 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, and you may not be able to compare the prices we are offering to those offered by other dealers.
5. Before providing your consent, please be sure that you understand and are willing to accept the risks and conflicts of interests presented by principal trades. If you have questions, please consult your Financial Advisor or your own legal advisor.
6. We will not rely on this consent for transactions in securities issued by us or an affiliate or where we are acting as an underwriter or a dealer in a public offering of a security, with the exception of investment-grade debt securities.
7. We will provide you, at least annually, a written statement showing all principal trades effected for your account during the period covered by the statement.
  - You are not obligated to give us your advance consent to engage in principal trades for your Strategic Advisor account.
8. We will inform you orally at the time of each trade that we may trade with you on a principal basis in the transaction. You must consent before a trade can be executed on a principal basis.

9. You will receive a written confirmation indicating when we act as principal in a trade with you and that you authorized such trade.
  - You may withdraw your consent at any time by giving us thirty (30) days advance written notice.
  - You may refuse to give your consent to any specific principal trade that we propose to you.

### **Investment Policy Statements**

As a policy, we do not approve or otherwise monitor compliance with investment policy statements when provided in connection with the opening of a Strategic Advisor account or the conversion of an InsightOne brokerage account to Strategic Advisor.

### **Asset Allocation Analysis**

As part of your participation in this Program, we will provide you with a strategy review and asset allocation analysis (the "Review"). Using the Strategic Advisor Asset Allocation Analysis tool, your Financial Advisor will produce an initial asset allocation analysis for each of your InsightOne account(s) that convert to UBS Strategic Advisor within approximately 90 days after the Conversion. The purpose of the analysis is to establish an investment strategy and a target portfolio which is based on the client's risk tolerance and investment objectives for the UBS Strategic Advisor account(s). The asset allocation analysis will be done at the account level in order to define an investment strategy and a target portfolio for your UBS Strategic Advisor account(s).

As part of the services provided under the Strategic Advisor Program, a Review will be performed at least annually. The purpose of the Review is to analyze your asset allocation in the context of your investment strategy; determine which asset class or classes you may seek advice on over the next year; incorporate any changes in your objectives, risk tolerance and financial condition; and update your target asset allocation, if necessary. Because UBS Strategic Advisor is a non-discretionary advisory program, it is your responsibility to determine whether to implement the target asset allocation set forth in the Review and how to accomplish any such implementation. UBS International Inc. will not track or monitor specific investments you make to determine whether they complement the Review.

You should understand that the recommendations made in your Review relate only to your UBS Strategic Advisor account, and do not constitute advice regarding other accounts, whether held at our affiliate and clearing firm, UBS International Inc., or elsewhere. Neither your Financial Advisor, nor UBS International Inc., provides advice as to accounts held at other firms and neither accepts any liability for actions you may choose to take in accounts at other firms.

### **Good Till Cancel Orders**

Any Good Till Cancel (GTC) Orders which you currently have on our books may be cancelled and re-entered at the same price so we do not execute a principal transaction in your account. Such cancellation and re-entry may cause you to lose priority for order execution. This means that your GTC order(s) may execute at a time later than otherwise would have been the case if priority had not been lost. Once your GTC order is re-entered, you will receive from us an "open order" confirmation of your re-entered order.

### Proxy Voting

In accordance with the terms of your InsightOne account agreement, except for ERISA Plans and Individual Retirement Accounts, where UBS International has forwarded proxy materials to you, and did not receive voting instructions from you within the designated time frame, UBS International would exercise its discretionary vote as recommended by the Board of Directors of the issuer of the security, where permitted by the rules of the applicable regulatory authority.

In UBS Strategic Advisor, you expressly retain the right and obligation to vote any proxies, tender offers and corporate actions relating to the securities held in your UBS Strategic Advisor account: provided, however, you may delegate these rights and obligations to a properly authorized agent. Neither your Financial Advisor, nor UBS International will exercise voting discretion or have input regarding voting decisions made on your behalf for the securities held in your Strategic Advisor account. 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.

### Mutual Funds

UBS Strategic Advisor accounts may not hold more than 85% of the account value in open-end mutual funds, including offshore mutual funds if applicable.

### Concentrated Equity Positions

Concentrated equity positions cannot be held in a Strategic Advisor account. A concentrated equity position is one that exceeds 25% of the account value. Eligible open-end, closed-end mutual funds, and ETFs are exempt from the concentrated equity calculation.

### Margin

If you have a taxable InsightOne account in which you have elected to use margin, you may continue to use of margin in your UBS Strategic Advisor account. **Margin is not available for IRAs or for accounts that are benefit plans subject to ERISA or custodial accounts. ERISA and IRA accounts may not be used as collateral for lending purposes.** Margin is generally not recommended in managed accounts. Using margin in a managed account is a more aggressive, higher risk approach to pursuing your investment objectives. Before you decide to use margin in your managed account, 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.

### Performance Reporting

We will provide you with a quarterly portfolio review upon the completion of a full calendar quarter under management at UBS, 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. Based on a conversion date of September 30, 2007, you should expect your first performance report for the period ending December 31, 2007.

### Cash and Money Market Fund Billing

In InsightOne accounts, the asset-based fee is imposed on all cash or money market balances you hold in your account. In Strategic Advisor, cash, including money market funds, in your account is subject to the asset-based fee. However, we limit the amount of cash that is subject to the fee to 30% of the market value of the account commencing with the third billing period your account is in Strategic Advisor. This policy is subject to change at any time in our sole discretion and only applies to quarterly billing.

### 12b-1 Fees and Revenue Sharing

We and certain of our affiliates are compensated for providing services to certain mutual funds in which your assets may be invested. This compensation includes, in the case of mutual funds not affiliated with us, shareholder servicing or distribution fees and, in the case of affiliated funds, investment advisory and/or management and certain other fees. 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 is greater than the amount payable to the organization as a whole from the sale of unaffiliated mutual funds.

In addition to commissions on sales, most broker-dealers, including UBS International Inc., receive substantial payments from the distributors and/or advisors of the mutual funds that they sell. **The type and source of that compensation is described in the Form ADV Disclosure Brochure included in this booklet. In Strategic Advisor, we receive 12b-1 fees and revenue sharing compensation in connection with all domestic and offshore mutual fund assets participating in the Program. This compensation will not be rebated to you.** Your use of your UBS account and related services will constitute acceptance of these the terms and conditions.

We share a portion of the 12b-1 fees with Financial Advisors whose clients participate in the Strategic Advisor program.

**IMPORTANT INFORMATION FOR QUALIFIED PLAN CLIENTS:** The enclosed Form ADV includes important information for fiduciaries of Qualified Plans regarding the applicable exemptions under the Employee Retirement Income Security Act (ERISA) on which we rely. Please read that information carefully as it summarizes sources of additional compensation to UBS and its affiliates. Your signature in the enclosed letter will evidence your consent to the assignment and your agreement to the terms and conditions of the enclosed Strategic Advisor program documents and this Summary of Certain Changes document. In addition, by signing the enclosed letter, you (i) authorize the transactions described in the ERISA Special Disclosure, (ii) agree that such disclosure provides sufficient information for you to determine whether the authorization should be made, and (iii) confirm that you have received a copy of the Prohibited Transaction Class Exemption 86-128 and a form for termination of this authorization.

### Banking Services

Upon conversion of your account, the banking services that you may have used in your InsightOne account will continue to be available to you—uninterrupted—in Strategic Advisor. These services include Electronic Funds Transfers (EFTs) within the U.S., check writing, debit card, credit card (applicable to U.S. clients only) and online bill payment features.

### Online Services and Trading

If you elected to use Online Services and online trading in while in an InsightOne account, you will continue to have access to those services in Strategic Advisor. Clients who want to actively trade their accounts—online or otherwise—should consider an alternative. We will monitor your UBS Strategic Advisor accounts for excessive trading, and remove accounts from the program if product management deems the online trading activity inappropriate.

### Unsolicited Trades

Since Strategic Advisor is 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.

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 your Strategic Advisor 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 deemed 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.

### Change of Sweep Vehicles (applicable to U.S. clients only)

At conversion there will be a change in the cash sweep option for your account. Currently, un-invested cash balances in your InsightOne account are automatically transferred or "swept" to a UBS Bank USA deposit account or to a money market fund sweep option. On Conversion, cash that was swept into the UBS Bank USA deposit account will be withdrawn/liquidated completely and the funds/proceeds will be transferred to a money market fund sweep option ("UBS Sweep Fund"). After Conversion, un-invested cash balances in your accounts will sweep on a daily basis to \$.01 for retirement accounts and to \$1.00 for all other accounts.

In InsightOne, all accounts swept into the UBS Bank USA Deposit Account as the primary sweep vehicle, and you could elect a secondary sweep option once you exceeded \$100,000 in the UBS Bank USA Deposit Account. In the Strategic Advisor account, you do not have the ability to select a secondary sweep. However, the assets in your secondary sweep fund will remain in the fund you choose, but no new funds will sweep into that fund. **The rates of interest that you earn in a money market sweep fund do not vary based on the amount of money you have in your account, as it does in the UBS Bank USA deposit account.**

UBS Bank USA Deposit Account	Annual percentage Yield (APY)	Annual Interest Rate	UBS RMA Money Market Fund	UBS Liquid Assets Fund
Tier 6 - \$2 million and more	4.90%	4.78%	4.77%	5.24%
Tier 5 - \$1 million to \$1,999,999	4.11%	4.03%		
Tier 4 - \$500,000 to \$999,999	3.17%	3.12%		
Tier 3 - \$250,000 to \$499,999	3.01%	2.97%		
Tier 2 - \$100,000 to \$249,000	1.43%	1.42%		
Tier 1 - less than \$100,000	1.11%	1.10%		

UBS Bank USA Rates as of August 8, 2007. Rates May Change Daily. RMA Money Market Fund and Liquid Assets Fund Rates as of July 31, 2007.

Cash accounts whose primary sweep in InsightOne was the UBS Bank USA Deposit Account will sweep into the UBS RMA Money Market Portfolio.

ERISA and IRA accounts whose primary sweep in InsightOne was the UBS Bank USA Deposit Account will sweep into the UBS Liquid Assets Fund.

**Note:** Non U.S. accounts whose sweep vehicle in InsightOne was International Deposit Account (IDA) will continue to sweep into IDA.



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# II. UBS Strategic Advisor Investment Profile Descriptions

## What follows are general descriptions of the Investment Profiles available for UBS Strategic Advisor accounts. VERY CONSERVATIVE (SCORE 3-9)

**Investment Objective:** This Strategy may be appropriate for risk-averse investors seeking capital stability with investment returns above cash equivalents. This Strategy may also be appropriate for investors who wish to expose a significant portion of their portfolio to fixed income instruments.

**Risk:** The principal value of fixed income instruments may fluctuate due to interest rate changes and other factors. For non-U.S. issued fixed income instruments additional risk considerations include the potential impact of currency changes, economic, political and social changes, and loss of market liquidity.

**Target Portfolio Composition:** The target portfolio should be comprised solely of fixed instruments and cash equivalents. Generally the fixed income instruments should be of high quality and liquidity, typically consisting of U.S. Treasuries, U.S. Agency, investment grade corporate issues or investment grade municipal bonds if preferred. An allocation to non-U.S. fixed income securities may also be included. Typically fixed income instruments should comprise up to 100% of assets with the balance in cash or cash equivalents.\*

## CONSERVATIVE (SCORE 10-19)

**Investment Objective:** This Strategy may be appropriate for investors who are generally risk-averse, yet are willing to accept some degree of risk to achieve low to moderate appreciation potential.

**Risk:** The principal value of fixed income instruments may fluctuate due to interest rate changes and other factors. Non-investment grade corporate issues carry a higher degree of risk and are subject to a higher default potential than investment grade bonds. Equity investments historically have shown greater growth potential than other securities but also greater volatility. Non-U.S. investments include additional risk considerations which include the potential impact of currency changes, economic, political and social changes, and loss of market liquidity.

**Target Portfolio Composition:** The target portfolio should be comprised of fixed income and equities. The fixed income instruments utilized may vary in maturity and quality rating to enhance performance and may include a larger percentage of corporate issues. Equity positions in higher quality dividend paying or preferred securities may be indicated. A small allocation to non-U.S. fixed income and equity securities may also be included. Typically fixed income investment should comprise approximately 75-85% of the assets; equities should comprise 15-25% of assets with the balance in cash and cash equivalents.\*

## MODERATE CONSERVATIVE (SCORE 20-29)

**Investment Objective:** This Strategy may be appropriate for those investors who are seeking moderate appreciation comprised from income and capital appreciation and who are willing to accept some an some degree of volatility in their returns.

**Risk:** The principal value of fixed income instruments may fluctuate due to interest rate changes and other factors. Non-investment grade corporate issues carry a higher degree of risk and are subject to a higher default potential than investment grade bonds. Equity investments historically have shown greater growth potential than other securities but also greater volatility. Non-U.S. investments include additional risk considerations which include the potential impact of currency changes, economic, political and social changes, and loss of market liquidity.

**Target Portfolio Composition:** The target portfolio should be comprised of fixed income and equities. The fixed income instruments utilized may vary in maturity and quality rating to enhance performance and may include a larger percentage of corporate issues. Equity positions in dividend paying securities or preferred securities are indicated. An allocation to non-U.S. fixed income and equity securities may also be included. Typically fixed income investment should comprise approximately 60-70% of the assets; equities should comprise 30-40% of assets with the balance in cash and cash equivalents.\*

## MODERATE (SCORE 30-39)

**Investment Objective:** This Strategy may be appropriate for investors who are seeking a total return comprised from income and capital appreciation and who are willing to accept a moderate degree of volatility returns.

**Risk:** The principal value of fixed income instruments may fluctuate due to interest rate changes and other factors. Non-investment grade corporate issues carry a higher degree of risk and are subject to a higher default potential than investment grade bonds. Equity investments historically have shown greater growth potential than other securities but also greater volatility. Non-U.S. investments include additional risk considerations which include the potential impact of currency changes, economic, political and social changes, and loss of market liquidity.

**Target Portfolio Composition:** The target portfolio should be balanced between fixed income and equities. The fixed income instruments that should be utilized may vary in maturity and quality rating to enhance performance and may include a larger percentage of corporate issues. Equity positions should be in both dividend paying and 'total return' equities where appreciation and dividends are considered. An allocation to non-U.S. fixed income and equity instruments may also be included as well as an allocation to smaller capitalization equity securities. Typically fixed income investment should comprise approximately 45-55% of the assets; equities should comprise 45-55% of assets with the balance in cash and cash equivalents.\*

## MODERATE AGGRESSIVE (SCORE 40-49)

**Investment Objective:** This Strategy may be appropriate for investors who are seeking long-term growth. Investors who select this Strategy should be willing to accept a higher degree of volatility in their returns.

**Risk:** The principal value of fixed income instruments may fluctuate due to interest rate changes and other factors. Non-investment grade corporate issues carry a higher degree of risk and are subject to a higher default potential than investment grade bonds. Equity investments historically have shown greater growth potential than other securities but also greater volatility. Non-U.S. investments include additional risk considerations which include the potential impact of currency changes, economic, political and social changes, and loss of market liquidity.

**Target Portfolio Composition:** The target portfolio should be over-weighted in equities. The fixed income instruments utilized may vary in maturity and quality rating to enhance performance and may include a larger percentage of corporate issues. Equity positions should be diversified between large cap value and growth investment styles. An allocation to non-U.S. fixed income and equity securities may also be included as well as an allocation to smaller capitalization equity securities. Typically fixed income investment should comprise approximately 25-35% of the assets; equities should comprise 65-75% of assets with the balance in cash and cash equivalents.\*

#### **AGGRESSIVE (SCORE 50-63)**

**Investment Objective:** This Strategy may be appropriate for investors who are seeking long-term growth. Investors who select this portfolio should be willing to accept a high degree of volatility in their returns.

**Risk:** The principal value of fixed income instruments may fluctuate due to interest rate changes and other factors. Non-investment grade corporate issues carry a higher degree of risk and are subject to a higher default potential than investment grade bonds. Equity investments historically have shown greater growth potential than other securities but also greater volatility. Non-U.S. investments include additional risk considerations which include the potential impact of currency changes, economic, political and social changes, and loss of market liquidity.

**Target Portfolio Composition:** The target portfolio should be over-weighted in equities. The fixed income instruments utilized may vary in maturity and quality rating to enhance performance and may include a larger percentage of corporate issues and non-US issues. Equity positions may be diversified between large cap value and growth styles, smaller capitalization and non-U.S. securities. Typically fixed income investment should comprise approximately 10-20% of the assets; equities should comprise 80-90% of assets with the balance in cash and cash equivalents.\*

#### **VERY AGGRESSIVE (SCORE 64-68)**

**Investment Objective:** This Strategy may be appropriate for investors who are seeking long-term growth with less of an emphasis on income. Investors who select this portfolio should be willing to accept the potential for greater volatility of investment return than that of the broader stock market.

**Risk:** The principal value of fixed income instruments may fluctuate due to interest rate changes and other factors. Non-investment grade corporate issues carry a higher degree of risk and are subject to a higher default potential than investment grade bonds. Equity investments historically have shown greater growth potential than other securities but also greater volatility. Non-U.S. investments include additional risk considerations which include the potential impact of currency changes, economic, political and social changes, and loss of market liquidity.

**Target Portfolio Composition:** The target portfolio should be heavily weighted in equities. The fixed income instruments utilized may vary in maturity and quality rating to enhance performance and may include a larger percentage of corporate issues and non-U.S. issues. Equity positions may be diversified between large cap value and growth styles, smaller capitalization and non-U.S. securities. Typically fixed income and cash investments should comprise 0-5% of the assets; equities should comprise 95-100% of assets.\*

\*The asset allocations of the target portfolios may be subject to change at any time.



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# III. UBS Strategic Advisor Program Account Agreement

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

Following this section, you will find your investment advisory agreement. If you are establishing an investment advisory account with us (for example, ACCESS<sup>SM</sup>, Managed Accounts Consulting Programs, PACE<sup>SM</sup>, UBS Strategic Advisor or Portfolio Management Program), you will be required to execute both an investment advisory agreement and a brokerage account agreement, so that your advisory account will have trading capability and custody services. When you execute a brokerage agreement as part of the process of establishing an investment advisory account, 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 advisor 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 International Inc. 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 can 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.

For more information, please visit our website at [www.ubs.com/international](http://www.ubs.com/international)

### Investment Advisory Agreement

This agreement ("Agreement") describes the services, terms and conditions in the UBS Strategic Advisor Program, a non-discretionary wrap fee advisory program (the "Program" or "Strategic Advisor") designed to give clients advice, guidance, and flexibility with the simplicity of one annual asset-based fee. We act as sponsor for the UBS Strategic Advisor Program. If you would like additional information about the Program or have questions about your Strategic Advisor account, please ask your Financial Advisor or refer to the UBS Strategic Advisor Form ADV Disclosure Brochure.

Strategic Advisor is an advisory program in which the ongoing advice of your Financial Advisor is one of the key components and services provided. In selecting Strategic Advisor, you should consider that it is intended for investors who (i) seek to establish an investment strategy ii) seek and value ongoing advice from a professional financial advisor with respect to a certain investment strategy, but retain discretion over the trading activity in their account, (iii) are looking to implement a medium- to long-term investment plan; and (iv) prefer consistency of costs and aligning of interests with their Financial Advisor. Product mix is another consideration you should take into account. For example, while mutual funds in Strategic Advisor are purchased at NAV with no sales load charged, if you would qualify for break point discounts in a commission based account, purchasing those funds in a commission based account may be a more cost efficient option. Strategic Advisor is not appropriate for clients who (i) maintain consistently high levels of cash, money market funds or invest primarily in load- waived or no-load mutual funds. The Program is not available for clients who engage in day trading or other excessive trading activity.

## 1. Managing Your Account

You have opened an investment account with UBS International Inc. This means that you have authorized UBS International Inc. to act for your account in accordance with the Program. Depending on your investment strategy, you may invest in all or a combination of equities, open- and closed-end mutual funds, exchange traded funds, unit investment trusts, fixed income instruments and other securities available through the Program. From time to time, we may make available additional investment vehicles in the Program, however, insurance products, fixed and variable rate annuities, auction rate preferred securities, illiquid securities such as limited partnership interests, alternative investments, hedge funds and other privately placed securities, commodities, futures, initial public offering (IPOs) and syndicate offerings are not eligible for purchase in these accounts.

The mutual funds and other pooled investment products (collectively referred to in this Agreement as "Funds") available through the Program include domestic and off-shore no-load and load-waived shares of Funds that may or may not be affiliated with UBS International Inc., including money market funds.

There can be no assurance that any Funds will remain available for purchase through the Program. A Fund or issuer can be added or removed at any time by UBS International Inc., or a Fund may stop offering its shares through or participating in the Program. Your investment in the Fund may be redeemed, or if permitted, transferred to a brokerage account or registered directly in your name with the Fund's transfer agent. This may result in additional costs or result in a taxable event for you. Your Financial Advisor can discuss with you other Funds in the same general asset category that you may select to replace the affected Fund.

**Documentation.** In order to participate in the Program, you will be required to execute a brokerage application and agreement in addition to the documents required for this Program, so that your advisory account will have trading capability and custody services. Those brokerage documents supplement this advisory Agreement and Application and all, collectively, govern your relationship with us.

**Non-Discretionary Service.** Except as otherwise specified in this Agreement, UBS International Inc. will effect transactions for your Account only as instructed by you, and neither UBS International Inc. nor your Financial Advisor will have any discretion with respect to the investment of your Program assets.

**Your Asset Allocation.** In connection with your participation in this Program, we will provide you with a strategy review (the "Review") at Account opening. As part of the services under the Program, your Financial Advisor will also meet with you at least annually to update the Review, if necessary; analyze your asset allocation in the context of your investment strategy; incorporate any changes in your objectives, risk tolerance and financial condition; and determine which asset classes you plan to seek advice on over the next year.

The Review is an analytic report. It contains our advice based on your answers to our questionnaire and discussions with you and provides you with a review of your current and a target asset allocation. Your answers to the questionnaire will provide the basis for your Financial Advisor to help you determine your investment strategy and the type of investment advice you seek.

The recommendations made in your Review relate only to your Strategic Advisor account, and do not constitute advice regarding other accounts, whether held at our affiliate and clearing firm, UBS Financial Services Inc., or elsewhere. Neither we nor your Financial Advisor will provide advice as to accounts held at other firms.

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, but should be viewed only as the equity or fixed income portion, as applicable, of your overall portfolio.

**Investment Policy Statements.** Since an advisory account is generally only one component of an overall portfolio, we will not approve or otherwise monitor compliance with investment policy statements when provided in connection with the opening of this Strategic Advisor account, an account conversion or otherwise. In connection with this account, 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.

**Funding Your Account.** You may fund your account by depositing cash and/or securities. However, fixed and variable rate annuities, insurance products, auction rate preferred securities such as VRDOs, ARPs and ARCs and structured products (collectively, "ineligible assets") may not be deposited in

your account. You may transfer the ineligible assets to another UBS International Inc. account or instruct UBS International Inc. to liquidate the ineligible securities. You should review the potential tax consequences of these liquidations with your tax advisor before funding this account with securities.

When liquidating these securities, we will be acting as your broker, not as your investment advisor and, therefore, may liquidate such securities on a principal basis if so required depending on market availability. Liquidations will be effected promptly after acceptance of your Program account at the then prevailing market prices.

We will not be responsible for liquidations and the consequences thereof due to your failure to notify us of existing account portfolios or other 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.

Certain assets, such as commodities, futures, UBS Securities (equity, debt, warrants, options), Alternative Investments (e.g., managed futures funds, hedge funds and funds of hedge funds), Private Placements, B and C-share class mutual funds, and certain unit investment trusts (UITs) (collectively, "non-billable assets"), which may be used for funding, may not be eligible for purchase in a UBS Strategic Advisor account. We will not act as your adviser with respect to the non-billable assets you decide to deposit when funding your account, to the extent you decide to deposit non-billable securities in your account, you do so with the understanding that you may not purchase new positions of non-billable assets, or increase an existing position in your Strategic Advisor account: instead, you may only do so through a commission-based brokerage account. **Non-billable Assets held in your UBS Strategic Advisor account after account opening will not be assessed the program fee.** Additionally, 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.

**Transferring Mutual Funds Shares into Your Program Account.** We may, in our discretion, accept into the Account your shares of Non-Affiliated Funds and/or shares of Affiliated Funds purchased outside of the Program at UBS International Inc. or at other financial institutions. Fund shares transferred into your Program account are referred to as "Transferred Shares." Transferred Shares may have been assessed a sales load, sales charge or distribution fees previously, and subject to certain exceptions, you will be assessed the Program Fee based on the value of those assets. However, if transferred shares were purchased at UBS International Inc. with a front-end sales load, these shares will not be charged a program fee until two year have elapsed from the initial purchase. Transferred Shares purchased at other financial institutions will be assessed the Program fee regardless of whether or not you paid a front-end load or other compensation. Because the exception is not available for shares purchased at another financial institution, the overall cost to you of Transferred Shares into the Program may be higher for shares you purchased at another financial institution. Please review the costs carefully before making a decision to transfer shares into the Program.

**Please note that liquidations, redemptions, and other portfolio changes may result in you incurring gains or losses for income tax purposes. UBS International Inc. does not provide tax advice. Please consult your tax advisor.**

If you sold mutual fund shares prior to entering into, or while in, the 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 on eligible mutual fund shares held in the Account, in addition to the operating fees and expenses applicable to mutual funds.

**Eligible Assets.** We require that you purchase only eligible assets in your Program account.

Please see the enclosed UBS Strategic Advisor Form ADV Disclosure Brochure (“General Information About Our Wrap Fee Programs; *Investment Strategies; Eligible and Ineligible Assets.*”) for description of the eligible assets for the Program. If you hold ineligible assets in your Account and you also have a separate UBS commission-based brokerage account, we may transfer some or all of 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 International Inc. 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 investment manager and may lead to termination of your account.

**Neither UBS International Inc., nor your Financial Advisor will act as your investment advisor with respect to Ineligible Assets which are in the Program account against our recommendation.**

#### **Investment Objectives; Update of Personal Information.**

Our understanding of your current objectives for the Account is based on your answers to the Account Profile Questionnaire. By executing the Application, you confirm that the information you provided is accurate and complete. We will rely on this information in managing your Account and you agree 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 in your next account statement to verify that our records are correct. Please review those materials carefully and report any discrepancies to your Financial Advisor as soon as possible. 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. We will no longer provide advice on these assets.

**Sweep Vehicle for NRA Clients -- International Deposit Account (“IDA”).** Cash held in your Program Account, whether temporarily, as part of an asset allocation strategy, or otherwise, is automatically swept into an IDA, an interest-bearing deposit account at UBS AG, Cayman Islands Branch (“UBS Cayman”). The Program fees you pay generally apply to all eligible assets in your Program Account, including cash that is swept into the IDA; however, to the extent that the cash portion of your Program Account exceeds 30% of the total Account value, the Program fees will not apply to any cash amount exceeding 30%. UBS Cayman earns revenue from cash swept into the IDA, including your cash, that is greater than the interest it pays you and other IDA depositors. This excess revenue is split between UBS Cayman and UBS International. Your Financial Advisor does not share in this excess revenue.

As a consequence, UBS International is effectively paid two fees with regard to cash in your Program Account and therefore may have an incentive to encourage you to maintain more cash in your Program Account than it otherwise would. Other sweep options may be available and you should discuss other options with your Financial Advisor. Of course, you may choose to maintain any cash component of an asset allocation strategy outside of your UBS Strategic Advisor account. However, you may prefer to use the IDA for ready access to cash generated, for example, as a result of the sale of a security.

**Sweep Options for U.S. Clients.** Cash balances in your Account will be automatically invested in money market mutual funds (“Funds”), including, as permitted by law, those affiliated with UBS International Inc. that pay us or our affiliates fees for services. Cash balances in Accounts subject to the Employee Retirement Income Security Act of 1974, as amended (“ERISA”), also may be invested in Funds serviced by 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.

## **2. Other Services Provided**

**Trade Confirmations and Statements.** You will be sent confirmations of transactions for your Account and periodic Account statements. To the extent permissible by applicable law, we may send you confirmations via electronic format.

**Performance Reviews.** A Portfolio Review summarizing your Account positions and portfolio value will be sent to you quarterly. We use our best efforts to ensure timely delivery of these reports, but reserve the right to delay delivery to ensure accuracy and completeness. To the extent permissible by applicable law, we may send you Portfolio Reviews via electronic format. You are responsible for reviewing these materials and reporting any problems or questions to your Financial Advisor as soon as possible. Portfolio Reviews use benchmarks shown 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 Program account is not restricted to the securities in the benchmark. Due to the non-discretionary nature of the Program, your Portfolio Review will illustrate the historical performance of broad equity and fixed-income market indexes that are readily recognized, but not intended for direct performance comparisons against your accounts. Depending upon the composition of your portfolio and your investment objectives, these indices may not be an appropriate measure for comparison purposes and as such, are represented for illustration only. Although most portfolios use indices as benchmarks, portfolios are not restricted to investing only in the securities in the index. As a result, your portfolio holdings and performance may significantly vary from the index. Indices 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. We require that you hold only eligible billable and non-billable assets (see above) in your Program account. Since ineligible assets are not considered managed assets, the inclusion of such securities will impact the actual performance of the advisory assets in your Program account and therefore UBS International Inc. may exclude the account from receiving a quarterly performance report and/or uncode your account and remove it from the program until the ineligible assets are removed.

**Custody.** Our affiliate, UBS Financial Services Inc., generally maintains custody of the assets in your account as they act as clearing firm for our clients' assets. As custodian, they will, at no additional charge, credit your account with dividends, interest and other earnings on securities in your account, including principal paid on called or matured securities. In the event we agree to allow assets on your Account to be in custody with another financial institution, you agree that such financial institution must be a "qualified custodian" as defined by the rules under the Investment Advisers Act of 1940.

### 3. Transactions for Your Account

You retain the trading authority and all transactions in your account will be effected by UBS International Inc. upon your direction and neither UBS International Inc. nor your Financial Advisor will have any discretion with respect to the investment of your Program assets. Depending on the investment strategy you selected, your Account will be invested in all or a combination of equities, open- and closed- end mutual funds, exchange-traded funds (ETFs), fixed income securities, approved unit investment trusts (UITs), options and other securities available through the Program.

Since Strategic Advisor is 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.

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 your Strategic Advisor 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 deemed 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.

We may, at your request and after a review of your needs and available options, recommend affiliated or proprietary products. Recommendation of proprietary or affiliated products raises a conflict of interest as purchasing those securities will result in increased compensation to, depending on the circumstances, UBS International Inc. and/or an affiliated company in the UBS organization.

As permitted by law, UBS International Inc. may act either as your agent or as riskless principal for our own account on the other side of any transaction with you. As permitted by applicable law, we or our affiliate may effect "principal transactions" for our own account in instances in which we are not acting as your investment adviser. This means that we can execute those types of transactions in connection with the liquidation of securities in a brokerage account in order to establish your Program Account or the liquidation of securities in your Program Account following termination of the Program Agreement. You also give us permission to effect transactions for your Account on the floor of any national securities exchange to which we belong.

At times, UBS International Inc. or an affiliate will act as agent for both buyer and seller in a securities transaction. This is called an "agency cross" trade. We believe that it is to your advantage to allow us to do agency crosses when appropriate. Since UBS International Inc. expects to receive compensation from parties on both sides of these transactions, we will have a conflict of interest when doing agency cross trades for your Account. By signing the Application, you consent to us executing agency cross transactions for your Account when we consider them advisable. You may revoke your consent at any time by notifying us in writing. You understand that all trading in your Account is at your risk and that your Account is subject to a variety of market and other risks, including illiquidity and volatility. You further understand that investment performance of any kind can never be and is not guaranteed. Past performance is not an indicator of future results.

### 4. Representations and Disclosure Applicable to Retirement Plans Only

If you are a trustee or other authorized fiduciary, owner or beneficiary of a Qualified Plan or IRA (the "Responsible Fiduciary") you acknowledge, agree and represent:

- (a) that the services provided under the Strategic Advisor Program do not constitute "investment advice" for purposes of ERISA or the related provisions of the Internal Revenue Code.

- (b) that you have delivered or caused to be delivered, and from time to time will deliver to UBS International Inc., in writing, all of the information (including information about parties in interest and disqualified persons) which UBS International Inc. may require or reasonably request to perform its duties without violating or causing any violation of ERISA or other applicable law. If the Program Assets are only a portion of the assets of the Plan, you understand and agree that the services performed by UBS International Inc. under the Program will have no effect on assets of the Plan not in the Program and UBS International Inc. will have no responsibilities in connection with those other Plan assets.
- (c) that you have considered the following with respect to the Plan's investment in the Program and have determined that, in view of these considerations, the placement of the Plan's Program Assets in the Account is consistent with your fiduciary responsibilities:
- whether the participation in the Program and the investments selected in the Program under are reasonably designed to further the purposes of the Plan, taking into account both the risk of loss and the opportunity for gain that could result therefrom;
  - the composition of the Plan's investments with regard to diversification;
  - the liquidity and current rate of return of the Plan to the anticipated cash flow requirements of the Plan;
  - the risks associated with participating in the Program and the investments selected in the Program; and
  - that participation in the Program and the investments selected in the Program are permitted by the Plan's governing documents.
- (d) that you are independent of UBS International Inc. and its affiliates, and do not receive any direct or indirect compensation for your own account in connection with participating in the Program or any transaction or investment contemplated in the Program. You further represent that you are (i) capable of making independent decisions as a fiduciary regarding the investment of Plan assets, (ii) knowledgeable with respect to the Plan in administration and related funding matters; and (iii) able to make informed decisions concerning participation in the Program and the selection of investments in the Program.
- (e) that (i) you have received and read a current prospectus for the Funds in which the Plan will invest, and that you will not initiate a purchase in any domestic mutual fund in the Program until you have received and read a current prospectus for such mutual fund, (ii) you have read and understood the disclosure concerning fees contained in Section 6 and 7 of this Agreement, including those related to the Affiliated Funds and the Non-Affiliated Funds, (iii) You have determined that the compensation to be received by UBS International Inc. and its affiliates is reasonable within the meaning of 408(b)(2) of ERISA and the regulations thereunder, and (iv) that the Program is a non-discretionary program and that you independently direct all investment of the Plan's assets in the Program.
- (f) that (i) UBS International Inc. is the principal underwriter for all of the Affiliated Funds and has the right to buy and sell

shares of such Funds for its own account, on behalf of the Affiliated Funds and that (ii) although UBS International Inc. does not act as principal underwriter for Non-Affiliated Funds, it distributes Non-Affiliated Funds under the Program and receives compensation for distributing the Non-Affiliated Fund and for services ancillary thereto (see Section 7 of this Agreement).

With respect to compensation paid to UBS International Inc. in connection with certain mutual funds participating in the Program, UBS International Inc. may rely on one or more exemptions from the prohibited transaction restrictions of ERISA (and the related prohibited transaction restrictions of section 4975 of the Internal Revenue Code). For your information, we have included in the Program's Form ADV Disclosure Brochure, a copy of the requirements described in one such exemption, Prohibited Transaction Exemption 86-128. UBS International Inc. may have potentially conflicting loyalties and responsibilities in connection with our acting as agent for the Retirement Plans and certain mutual funds in transactions under the Program.

UBS International Inc. does not receive any "soft dollar benefit" or any other direct or indirect compensation in connection with the assets in the Program that is not disclosed in the Program's Form ADV Disclosure Brochure or in this Agreement. By signing the Program Agreement and participating in the Program, you are authorizing UBS International Inc. to retain this compensation; however, you may revoke the authorization at any time by written notice. Please note that termination of our authorization will also terminate your participation in the Program. Following the end of each calendar year, we will provide Qualified Plan clients with a summary of (i) all of the transaction related charges retained by UBS International Inc. in connection with mutual funds purchased during the applicable period, and (ii) the total number of transactions with mutual funds in connection with your account.

### 5. Margin Agreement

Margin is not available to IRAs or for accounts that are benefit plans subject to ERISA.

If you elect to use margin for your account, by signing the Program Application, you have authorized our affiliate, UBS Financial Services Inc., to establish and maintain a margin account on your behalf. This authorization supersedes the "no margin" default in your brokerage account and application.

You understand and acknowledge that using margin in a fee-based account will affect the total compensation payable to UBS International Inc. and its affiliated companies as we will receive the interest you pay on the out-standing loan balance as well the Program fees normally charged on your account. We may change, at our discretion, the base rate on which your interest rate is charged.

In return for our extension or maintenance of credit in connection with your account, you acknowledge that UBS International Inc. and its successors, assignees and affiliates are authorized in the usual course of business to lend, re-lend, hypothecate, pledge or repledge separately or together with property of others, either to themselves or to others, any

property (securities or holdings) which they may carry on your behalf on margin or until such time as payment is received for any such property. In certain circumstances, those bans, may limit, in whole or in part, the ability to exercise voting rights of the securities lent.

In connection with such loans, and in connection with securities loans made to you for short sale transactions, they are authorized to receive and retain certain benefits (including, but not limited to, interest on collateral posted for those loans) to which you will not be entitled. Your authorization of a margin feature for your account will remain in full force until they receive your written notice of revocation.

**Margin Maintenance Requirements.** You agree to maintain in your account such positions and margin as required by all applicable statutes, rules, regulations, procedures and customs or as we deem necessary or advisable, and where applicable, to satisfy any and all margin calls issued in connection with the account.

**Risk for Strategies with Margin.** Using margin in a managed account is a more aggressive, higher risk approach to pursuing your investment objectives. Before you decide to use margin in your managed account, 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.

The securities contained in your Program account will serve as collateral for the margin loans. You understand that there are substantial risks involved in trading securities on margin, especially in periods of market volatility. When you buy on margin, losses can increase significantly just as gains can increase. A decline in the value of the securities purchased on margin may require you to deposit additional funds into the account. Unlike a cash trade, when a trade is done on margin, losses can exceed the amount of capital committed to the trade. If you are unable to meet a margin, UBS Financial Services Inc., as the margin lender can, among other things, force the sale of securities in the account without notifying you and may have to sell the securities at unfavorable prices. This sale may have tax consequences to you. For small transactions, the costs involved in utilizing margin may outweigh any benefit to you. Please review carefully the disclosure document entitled "Loan Disclosure Statement—Risk Factors Associated with Using

Margin" included with the Application for a detailed discussion of the risks involved with the use of margin.

**Liquidation and Covering Positions.** In extending margin to you, our affiliate will be acting as creditors, and accordingly our interests may be inconsistent with, and potentially adverse to, your interests.

Your margin lender will have the right, at any time and without prior notice, to satisfy a margin call or to obtain full payment of the margin loan, all without demand for margin or additional margin, other notice of sale or purchase, or other notice of

advertisement. To satisfy a margin call or to obtain full payment of the margin loan, they have the right to (i) require additional collateral, (ii) sell any or all holdings in any of your accounts with us, whether carried individually or jointly with others, (iii) buy any or all holdings which may be held short in the account, (iv) cancel any open orders and close any or all outstanding contracts or (v) liquidate any of your accounts with us.

Your margin lender can exercise those rights for a variety of reasons, including (i) in accordance with their general policies on margin maintenance requirements then in effect, (ii) if they consider it necessary for your or their protection; (iii) in the event a petition in bankruptcy, or for the appointment of a receiver, is filed by or against you, (iv) an attachment is levied against any account you have with us, or (v) in the event of your death or dissolution (if an entity).

Your margin lender may make those sales or purchases on any exchange or other market where such business is usually transacted, or at public auction or private sale, and they may be the purchaser for their own account. Depending on market conditions, they may profit from the future sale of those securities. They are not responsible for losses you incur if they sell your holdings, irrespective of whether or not we notified you of a margin call giving rise to such sale. They may at any time, and in their sole discretion, subject to applicable rules and regulations, amend the requirements applicable to your margin account, including changing the level of credit available to you and applicable maintenance requirements. It is understood that a prior demand, or call, or prior notice of the time and place of such sale or purchase will not be considered a waiver of our right to sell or buy without demand or notice as provided in this Agreement.

## **6. Program Fee, Minimum Account Size and Minimum Annual Fee**

**Minimum Account Size.** The minimum account value in the Program is \$50,000 in eligible billable assets. If you choose to link accounts (as described below under "Linking Accounts for Billing Purposes"), only one of the Linked Accounts is subject to this minimum account size requirement. Each other Linked Account is subject to a minimum account size of \$10,000 in eligible assets. If an account does not meet the minimum asset requirement it may not be accepted into the Program. We also have the right to terminate accounts that fail to meet the ongoing minimum account value requirements. We have the right to require that additional monies or securities be deposited to bring the account up to the required minimum or convert the account to a brokerage account.

**Program Fee.** You agree to pay the fees indicated in the "ANNUAL FEE SCHEDULE" section of the Program Application. **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.**

**Fees will be deducted directly from your account.** If your account is subjected to the Employee Retirement Income Security Act of 1974 ("ERISA"), as amended, you may elect to

be invoiced for fees by checking the box titled "INVOICING FEES" on the Program Application. If we do not receive full payment of the fee within the time stated on the invoice, any remaining balance will be automatically deducted from your account. **IRA accounts may not elect the invoice feature.**

Your initial fee will be due in full as soon as your account is approved for the Program. This fee will be calculated on the value of the eligible billable assets on the date your account is approved, pro-rated to cover the period from the date your account is approved through the end of the current calendar quarter unless we receive instructions from you to bill only through the end of the current calendar quarter. Thereafter, the fee will be based on the net value of billable assets in your account on the last business day of each calendar quarter, will be due the following business day, and will cover the next calendar quarter.

Our fees cover investment management services and UBS agency execution, custodial and related services. No separate UBS International Inc. brokerage commissions will be charged. Our fees cover only the services described here.

The amount of cash including money market funds in your account is subject to the program fee, but is generally capped at 30% of the total account value commencing with the third billing period your account is in the Program. This policy is subject to change at any time in our sole discretion.

Depending on your investment strategy, you may find that the individual components of your investment strategy are available to you outside of the Program for more or less than you would pay in the Program. Please discuss your options with your Financial Advisor before investing. Several factors affect whether your costs are more or less in a wrap fee program, including size of the portfolio; types of investments you make; whether such investments carry additional administrative or management fees; the amount of trading effected; and the actual costs of the services if purchased separately.

A portion of your Program fees will be paid by us to your Financial Advisor. Your Program fee covers the Program services, trading, and execution. No separate fees for brokerage commissions will be charged to your account; however, there will be an additional charge for certain block trades and large options trades.

**Minimum Annual Fee.** Strategic Advisor's minimum annual fee requirement is \$750. Regardless of the Program fee rate specified in the Application (the "contracted annual fee rate") or the net asset value of eligible billable assets in your account, the minimum fee charged will be at least \$750.00 annually (the "Minimum Annual Fee"). Imposition of the Minimum Annual Fee could result in an effective annual fee rate that exceeds the contracted annual fee rate.

Consider the following examples:

A \$200,000 account with a contracted annual fee rate of 1.25% would be charged a quarterly fee of \$625, or an annualized fee of \$2,500 (\$625 x 4). In this example, the contracted annual fee assessed on \$200,000 covers the minimum fee requirement. However, if for any reason, the balance of this account were to drop to \$40,000, the

calculated quarterly fee would be \$125.00 for the quarter, or an annualized fee of \$500.00 (\$125.00 x 4). In this example, the contracted fee assessed on \$40,000 does not cover the minimum fee requirement and the account would instead be charged \$187.50 (the prorated quarterly share of the minimum annual fee requirement). In addition, the effective annual rate on this account at \$40,000 would be 1.875% exceeding the contracted fee rate of 1.25%.

**Contributions and Withdrawals.** Additional assets deposited in your account within a billing period will be charged a pro rata 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 partial withdrawals, repayment of borrowed funds, or for account appreciation or depreciation within a billing period.

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. If your Account is closed during a billing period, a pro-rata refund of fees paid in advance will be made, or if no fees have been paid, a prorated fee will be charged. UBS International Inc. may terminate your Account without your notification if it falls below the minimum required to open an Account.

**Linking Accounts for Billing Purposes.** You may elect to have two or more eligible Strategic Advisory accounts treated as "Linked Accounts" for purposes of taking their assets into account in order to calculate the program fee. 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 avail yourself of this billing option. You may not link ERISA qualified plan accounts to non-ERISA accounts, including IRAs (e.g., John Smith's IRA Account cannot be linked to ABC Corporation's 401k Plan for the benefit of John Smith).

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

You may pay other charges in addition to the wrap fee, many 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 (i) commission charges for transactions for your account that your manager or we, at your direction, may effect through other broker-dealers; (ii) custody fees imposed by other financial institutions if you choose to custody your assets at other financial institutions; (iii) mark-ups/mark-downs on riskless principal transactions with us or other broker-dealers; (iv) internal trust fees; (v) charges imposed by law; (vi) costs relating to trading in foreign securities (other than commissions otherwise payable to us); (vii) internal administrative and management fees that may be imposed by collective investment vehicles such as open-end and closed-end mutual funds, UITs, exchange traded funds or real estate investment trusts and (viii) other specialized charges, such as transfer taxes, exchange and SEC transaction fees. Our affiliates will also charge interest on any outstanding loan balances to clients who borrow money from such affiliates. Clients also may be charged additional fees for specific account services, such as ACAT transfers, annual and termination fees for retirement accounts or International Resource Management

Accounts® or Resource Management Accounts® (and/or Business Services Accounts BSA®) and wire transfer charges.

**Mutual Fund Redemption Fees.** You should be aware that the mutual funds in which you invest through the Program may charge redemption fees if you redeem shares within a certain period of time after you purchase them, also known as active trading. In addition, these fees may apply to the redemption portion of an exchange transaction, if you exchange shares among funds 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 fund to another. This information is described 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 fund or funds. If charged, redemption fees will be in addition to the Program fee, and will be your responsibility.

#### **7. Additional Sources of Compensation to UBS International Inc., UBS Affiliates and Financial Advisors**

**You understand and agree that UBS International Inc. and its affiliates will receive fees from the funds you invest in for providing the services described below. The services and fees, and the various ranges of compensation, are described in the Program's Form ADV Brochure.**

**Offshore Fund Compensation.** In the Strategic Advisor Program, we generally 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 Program 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), we pay a portion of that compensation 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 to UBS International 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, UBS International receives 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 its clients during each month. (Also included in this calculation are shares of the same offshore fund owned by clients of our affiliate, UBS Financial Services Inc.) 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. UBS International does 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 varying amounts of trail commissions or revenue sharing compensation to us. To the extent that an offshore fund has agreed to pay more of any of these fees to us than 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.

**U.S. Mutual Fund Compensation.** From time to time, client account assets may invest in U.S. mutual fund shares, although offshore fund purchases are generally more appropriate for non-U.S. taxpayers. We and certain of our affiliates are compensated for providing services to certain U.S. mutual funds and to certain affiliated money market funds in which your cash assets may be invested. This compensation includes, in the case of U.S. mutual funds *not* affiliated with us, shareholder servicing or distribution fees and, in the case of affiliated funds, investment advisory and/or management and certain other fees. 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 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 prospectuses for the U.S. registered mutual funds, which are available for no charge through your Financial Advisor. These mutual funds are sold by prospectus only. Please read the prospectus carefully before investing. The amount of those fees paid to us, and therefore Financial Advisors, may vary depending on the arrangement between us and the fund and the terms and conditions of the relevant fund's 12b-1 plan. These payments may be made for the duration of the Program agreement or, in some circumstances, may extend beyond the termination of the Program agreement if you continue to hold shares of funds at our firm.

**Management and Administrative Fees for Affiliated U.S. Funds Available in Strategic Advisor.** 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 Program. The current annual rates of investment management fees paid by the affiliated funds in the Program 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. The amount of investment management fees paid to our affiliates may vary depending on the arrangement between our affiliate and the Fund. Our affiliates also receive administrative fees in connection with the affiliated funds in

the Program. 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 International nor our Financial Advisors receive a portion of the management and administrative fees paid to our affiliates.

**12b-1 Fees for Affiliated U.S. Funds and Non-Affiliated U.S. Funds Available in Strategic Advisor.** UBS International Financial Advisors receive a portion of the 12b-1 fees paid by affiliated U.S. mutual funds and non-affiliated U.S. mutual funds available in Strategic Advisor. The current annual rate of 12b-1 fees paid from affiliated funds in the Program is generally 0.25% of the different funds' assets. The current rate of 12b-1 fees paid from non-affiliated funds in the Program ranges generally from 0% to 0.50%, but on average the current annual rate is approximately 0.25%. While UBS International's Financial Advisors receive a portion of these fees in connection with sales of affiliated U.S. mutual funds and non-affiliated U.S. mutual funds, UBS International does not receive any portion of these fees. Instead, the balance of these fees is paid to our affiliate.

**Revenue Sharing Compensation.** For sales by UBS International Financial Advisors to UBS International clients of mutual funds registered under the Investment Company Act of 1940, our affiliate and clearing firm, UBS Financial Services Inc., receives certain revenue sharing payments. **Note: None of the amounts is paid to the Financial Advisor or his or her branch office.** For additional detail regarding revenue sharing payments and registered mutual funds, please see the information contained on our affiliate's [www.ubs.com/mutualfundrevenuesharing](http://www.ubs.com/mutualfundrevenuesharing).

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 approximately 2,500 mutual funds from nearly 160 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.

**Additional Compensation Paid by the UIT Sponsors.** Most UIT sponsors make additional payments to the firms that sell their UITs, including UBS International. These payments typically are calculated as a percentage of the total volume of sales of the sponsor's UITs made by the firm through non-wrap-fee programs 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 International 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.

**Contributions to Training and Education Expenses.** In addition to the contributions listed above, from time to time, mutual fund companies or their affiliates ("vendors") may subsidize a portion of the cost of training and achievement seminars we and our affiliates offer to Financial Advisors through specialized firm-wide programs and consulting training forums. These seminars are designed to provide education and related training to Financial Advisors who regularly solicit clients to participate in our mutual fund platform. The subsidies may vary among mutual fund vendors, and no mutual fund vendor is required to participate in the seminars or to contribute to the costs of the seminars in order to have their funds distributed through our platform. UBS affiliated companies often contribute substantially more to the costs of these seminars than other mutual fund vendors. Your Financial Advisor does not receive a portion of these payments.

**Non-Cash Compensation.** In addition to the revenue sharing payments described above, we, our affiliates, and our Financial Advisors may, from time to time, receive non-cash compensation from mutual fund companies, money 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.

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

## 8. Other Investment and Account Information

UBS International Inc. and our affiliates manage accounts for many types of clients and engage in a broad range of other research, advisory, brokerage and investment banking activities. The advice given to, or action taken for, any other client or account, including our own account, may differ from that given or taken for your account. UBS International Inc. may acquire confidential information in the course of its business. If that happens, we will not be able to divulge it or act on it for your account. UBS International Inc. has no obligation to execute any transaction for your account which we believe to be improper under applicable laws, rules or regulations.

## 9. Proxy Voting and Code of Ethics

**Proxy Voting.** You expressly retain the right and obligation to vote any proxies, tender offers and corporate actions relating to the securities held in your Account; provided, however, that you may delegate these rights and obligations to a properly authorized agent. Neither your Financial Advisor nor UBS International Inc. will exercise voting discretion or have input regarding voting decisions made on your behalf for the securities held in your Strategic Advisor account. 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.

**Code of Ethics.** We maintain and enforce a written Code of Ethics ("Code") pursuant to Rule 204A-1 under the Investment Advisers Act of 1940. 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." Clients and prospective clients may obtain a copy of the Investment Adviser Code of Ethics upon request.

## 10. Closing Your Account

You may terminate your investment advisory agreement with us within (5) five business days from the date the investment advisory agreement is accepted by us and receive a full refund of advisory fees.

Either we or you may terminate the investment advisory agreement at any time. We will notify you in writing of our decision to terminate your account. **Termination of your participation in the Strategic Advisor Program as well as our advisory relationship, is effective promptly after receipt of your request. Requests may be made in writing or orally to your Financial Advisor.** We will confirm your instructions in writing and notify you once we have terminated your account.

Such Liquidation will be done in a brokerage capacity, and will be executed free of commission charges. **You should note that termination will end our investment advisory fiduciary relationship with you as it pertains to that account and, will cause your account to be converted to and designated as a commission-based 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.** In the event of your death, UBS International Inc. will continue to manage your Account until we receive notice that a court has appointed an executor/ administrator for your estate. UBS International Inc. will ask the executor/ administrator for written instructions on disposition of the Account. If no response is received within a reasonable time, UBS International Inc. will terminate the Account's participation in the Strategic Advisor Program, but will not liquidate Account assets. For trust Accounts, the death of a trustee will not result in termination of the Account until the substitute fiduciary/trustee requests termination.

UBS International Inc. will liquidate the securities held in your Account if you specifically instruct us to do so when you terminate your Account. Liquidation depends upon market conditions at that time and, absent unusual circumstances, will generally be effected by the end of the next business day after we receive your instructions.

Transactions initiated by your Financial Advisor on the date your termination request is received by UBS International Inc. but before your Financial Advisor is made aware of your request will be completed and we will not be liable to you for completing those trades. Termination will not affect either your or our responsibilities under this Agreement for previously initiated transactions or for balances due in the Account.

Upon termination, you will be solely responsible for monitoring your Account assets, and neither UBS International Inc. nor your Financial Advisor will have further obligations to act for or advise you with respect to those assets.

## 11. Additional Contractual Matters

This Agreement, including the Application and any supplemental documents such as a trustee certification, represents our entire understanding about the matters described in it and supersedes all earlier agreements or understandings between us on these matters.

You understand that you are the beneficial owner of all securities in your Account and, other than as specifically delegated in this Agreement or the Application, you retain all rights related to such ownership. As permitted by applicable law, we have the right to change this Agreement by sending you written notice of the change 30 days in advance. If you continue to accept our services under this Agreement after we have sent you notice of a change, you will be deemed to have agreed to the change. However, notwithstanding the foregoing, UBS International Inc. may not assign (as defined under the Investment Advisers Act of 1940) this Agreement without your consent.

If any part of this Agreement is found to be invalid or unenforceable, it will not affect the validity or enforceability of the remainder of the Agreement. This Agreement will be interpreted under the substantive laws of the State of New York provided that there is no inconsistency with the federal securities laws.

- The effective date of this Agreement will be the date it is accepted, in writing, by the Investment Solutions Department of UBS International Inc. UBS International Inc. will not be responsible for managing your Account before that date. Any transaction executed for your Account before that date will be executed by UBS International Inc. in its capacity as broker-dealer and will be subject to our customary brokerage fees or commissions.

All written communications from you about your Account or this Agreement should be sent to your Financial Advisor unless we instruct you otherwise. We will send written communications to you at the address shown in our new Account documentation, unless you give us another address in writing.

## 12. Representations

UBS International Inc. represents that it is a registered investment advisor under the Investment Advisers Act of 1940 and that it has the authority to enter into this Agreement. You represent that you have the authority to enter into this Agreement. If you have signed the Application for a corporation, trust, partnership or other legal entity, you represent that applicable law and the entity's governing documents allow it to participate in the Program and the transactions contemplated by it, including the delegation of investment discretion to UBS International Inc., and authorize you to execute this Agreement.

### 13. Unforeseeable Events/Force Majeure

UBS International Inc. shall not be liable for losses caused directly or indirectly by government restrictions, exchange controls, exchange or market rulings, suspension of trading, act of war, strikes or other conditions beyond our control, including but not limited to, extreme market volatility or trading volumes.

### 14. Arbitration

This Agreement contains a predispute arbitration clause. By signing an arbitration agreement the parties agree as follows:

- **Arbitration is final and binding on the parties. All parties to this Agreement are giving up the right to sue each other in court, including the right to a trial by jury, except as provided by the rules of the arbitration forum in which a claim is filed.**
- **The parties are waiving their right to seek remedies in court, including the right to jury trial. Arbitration awards are generally final and binding; a party's ability to have a court reverse or modify an arbitration award is very limited.**
- **Pre-arbitration discovery is generally more limited than and different from court proceedings. The ability of the parties to obtain documents, witness statements and other discovery is generally more limited in arbitration than in court proceedings.**
- **The arbitrator's award is not required to include factual findings or legal reasoning and any party's right to appeal or to seek modification of rulings by the arbitrators is strictly limited. The arbitrators do not have to explain the reason(s) for their award.**
- **The panel of arbitrators will typically include a minority of arbitrators who were or are affiliated with the securities industry.**
- **The rules of some arbitration forums may impose time limits for bringing a claim in arbitration. In some cases, a claim that is ineligible for arbitration may be brought in court.**
- **The rules of the arbitration forum in which the claim is filed, and any amendments thereto, shall be incorporated into this Agreement.**
- **You agree, and by opening an account for you, UBS Financial Services Inc. or UBS International Inc. or UBS Financial Services Incorporated of Puerto Rico, as applicable, agrees, and by carrying an account for you UBS Financial Services Inc. agrees, that any controversy, claim or issue in any controversy which may arise between you and UBS Financial Services Inc., or you and UBS International Inc. or you and UBS Financial Services Incorporated of Puerto Rico, that occurred prior, on or subsequent to the execution of this Agreement, including but not limited to, any controversy, claim or issue in any controversy concerning any account(s), transaction, dispute or the construction, performance or breach of this or any other Agreement (whether entered into prior, on or subsequent to the date hereof) shall be determined by arbitration. Any arbitration under this Agreement shall be held under and pursuant to and be governed by the Federal Arbitration Act, and shall be conducted before an arbitration panel convened by the New York Stock Exchange, Inc. or the National Association of Securities Dealers, Inc., whichever appropriate. You may also select any other national securities exchange's arbitration forum in the United States upon which UBS Financial Services Inc. or, for those accounts opened with UBS International Inc., UBS International Inc. is legally required to arbitrate the controversy with you, including where applicable, the Municipal Securities Rulemaking Board. Such arbitration shall be governed by the rules of the organization convening the panel. The award of the arbitrators, or of the majority of them, shall be final, and judgment upon the award rendered may be entered in any court of competent jurisdiction.**
- **No person shall bring a putative or certified class action to arbitration, nor seek to enforce any predispute arbitration Agreement against any person who has initiated in court a putative class action; who is a member of a putative class who has opted out of the class with respect to any claims encompassed by the putative class action until:**
  - i. **THE CLASS CERTIFICATION IS DENIED;**
  - ii. **THE CLASS IS DECERTIFIED; OR**
  - iii. **THE CUSTOMER IS EXCLUDED FROM THE CLASS BY THE COURT.**
- **Such forbearance to enforce an Agreement to arbitrate shall not constitute a waiver of any rights under this Agreement except to the extent stated herein.**
- **You expressly agree that service of process in any action shall be sufficient if served by certified mail, return receipt requested, at your last address known to UBS.**
- **You expressly waive any defense to service of process as set forth above.**

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# IV. UBS Strategic Advisor Form ADV Disclosure Brochure

**This brochure provides information about UBS International Inc. and our wrap fee, advisory program known as UBS Strategic Advisor that you should consider before becoming a client of this program. This information has not been approved or verified by any governmental authority.**

## **Disclosure Brochure**

October 1, 2007  
SEC File Number 801-60476

## **I. About UBS International Inc.**

UBS International Inc. ("UBS-I") is an investment adviser and broker-dealer registered with the U.S. Securities and Exchange Commission, and is a member of the National Association of Securities Dealers Inc. UBS-I is wholly-owned by UBS AG, a global, integrated investment services firm and one of the world's leading banks. UBS AG conducts banking and related financial businesses in the United States through state and federal licensed offices. In addition to providing traditional banking services, UBS AG provides investment advisory, custodial and related services for its private banking clients, which generally consist of high net worth individuals and families.

In connection with its broker-dealer services, UBS-I provides 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 Depository 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 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 in our discretion.

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

As a firm providing wealth management services to clients, 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. Examples of our advisory programs and services that may be available to our clients include the ACCESS, PMP, and Managed Accounts Consulting programs. Examples of our

brokerage accounts include our International Resource Management Account and Resource Management Account.

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 introduce clients to the estate, financial planning and trust services provided by the representatives of certain affiliates, such as UBS AG. Similarly, we may use tools developed by our other UBS affiliates to help you decide how to allocate your assets, determine your risk tolerance, make your investment decisions, or help provide you access to a financial plan. If you receive a financial plan prepared by either us or one of our affiliates, you can decide whether to implement the financial plan via brokerage accounts, advisory programs or a combination, depending on your needs and preferences. Our Financial Advisors are qualified and licensed to provide both brokerage as well as advisory services depending on the services a client has requested.

*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 discretionary account management, non-discretionary investment advisory programs, and advice on the selection of investment managers and mutual funds offered through our investment advisory programs.

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) for the program(s) you selected 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**

Depending on the advisory product or service you choose, 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.

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

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

As your investment adviser, we are considered to have a fiduciary relationship with you and are held to legal standards under the Investment Advisers Act of 1940 and state laws, where applicable, that reflect this high standard. These standards include:

- Obligations to disclose to you all material conflicts between our interests and your interests.
- 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 via our affiliate and clearing firm, UBS Financial Services Inc. 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 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 pay us for our brokerage services each time we execute a transaction for your account in an International Resource Management Account or Resource Management Account. We can act as either your agent or "broker," or UBS Financial Services Inc., our affiliate through which we clear transactions in securities, may act as a "dealer."

- Operating as your agent or broker, we will charge you a commission each time we buy or sell a security for you.
- In addition, we may act as a principal for your account by buying and selling securities on a "riskless principal" basis through our affiliate, UBS Financial Services Inc., acting as a dealer (or principal) as well. When we buy a security from or sell a security to you on a principal basis (riskless or otherwise), we may seek to make a profit on the trade by charging you a "mark up", "mark-down" or "spread" on the price of the security.

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

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

When we act as your broker, we are held to the legal standards of the Securities Exchange Act of 1934, the Securities Act of 1933, the rules of self-regulatory organizations such as the National Association of Securities Dealers (NASD) and state laws, where applicable.

- 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 fiduciary duties with you.

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

If you are establishing an **investment advisory** account with us (for example, ACCESS, Managed Accounts Consulting Programs or Portfolio Management Program), you will be required to execute both an investment advisory agreement and a brokerage account agreement, so that your advisory account will have trading capability and custody services. When you execute a brokerage agreement as part of the process of establishing an investment advisory account, 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 advisor 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 International 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.

## **II. Introduction**

This brochure describes our UBS Strategic Advisor program ("Strategic Advisor" or the "Program"), a non-discretionary wrap fee advisory program designed to give clients advice, guidance, and flexibility with the simplicity of one annual asset-based fee. We act as sponsor for the program described in this brochure.

Strategic Advisor is an advisory program in which the ongoing advice of your Financial Advisor is one of the key components and services provided. In selecting Strategic Advisor, you should consider that it is intended for investors who (i) seek to establish strategic investment goals, (ii) seek and value ongoing advice from a professional financial advisor with respect to certain investment strategies and asset classes, but retain discretion over the trading activity in their account, (iii) are looking to implement a medium to long-term investment plan, and (iv) prefer consistency of costs and aligning of interests with their Financial Advisor. Product mix is another consideration you should take into account. For example, while domestic and offshore mutual funds in Strategic Advisor are traded at NAV with no sales load charged, if you would qualify for breakpoint discounts in a commission based account, purchasing those funds in a commission based account may be a more cost efficient option. Strategic Advisor is not appropriate for clients who maintain consistently high levels of cash or money market funds. The Program is not available for clients who engage in day trading or other excessive trading activity.

Following this introduction, you will find product specific sections that summarize the features and services of the

Program. Please refer to the section "General Information About Our Wrap Fee Programs" for a description of the eligible assets for the programs, our process(es) for account opening, terminations, liquidations, proxy voting, best execution, fee calculations and other important information applicable to all the program(s) described in this brochure.

**The percentage of Firm revenues that Financial Advisors receive in asset-based 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 "Additional Compensation—Compensation to Financial Advisors."**

**SECURITIES TRANSACTIONS IN YOUR ACCOUNT(S) MAY HAVE TAX CONSEQUENCES TO YOU. UBS INTERNATIONAL INC. DOES NOT GIVE TAX ADVICE. PLEASE CONSULT WITH YOUR TAX ADVISER FOR ADVICE ON THESE ISSUES.**

#### **A. Strategic Advisor Program**

**Your Portfolio Review.** As part of your participation in this Program, we will provide you with a strategy review (the "Review") at account opening. The Review contains our advice based on your answers to our questionnaire and is intended to encourage a discussion with you concerning the investment strategy for your Strategic Advisor account. Additionally, as part of the services provided under the Strategic Advisor Program, a Review will be performed as part of an annual strategy review 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. Because the Program is non-discretionary, it is your responsibility to determine whether to implement the target asset allocation set forth in the Review and how to accomplish any such implementation. UBS International Inc. will not track or monitor specific investments you make to determine whether they complement the Review.

Your Review may include assets held in a number of your existing accounts, each with a potentially different investment objective and risk parameter. Upon your instruction, the assets in these accounts will be considered together, as a whole, in developing your Review for your Strategic Advisor account. If you provided information regarding assets that you hold at other financial institutions, they will be included in the Review. We will not verify, nor are we responsible for, the accuracy or completeness of this information. UBS International Inc. 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

The recommendations made in your Review relate only to your Strategic Advisor account, and do not constitute advice regarding other accounts, whether held at our affiliate and clearing firm, UBS Financial Services or elsewhere. Neither we nor your will provide advice as to accounts held at other firms. You should note that the sponsor of the program employs a variety of asset allocation models and programs and, as a result, our modeling outside of the Program may vary

depending upon the asset allocation model, amount invested, and software program used for analysis. Your Portfolio Strategy reflects target asset allocations only. 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 management of the account.

**Your Account Profile.** Once you decide to establish a Strategic Advisor account, we begin that process by reviewing your answers to the Program Application (the "Application"). Your answers will provide the basis for your Financial Advisor to help you determine your investment needs, objectives, risk tolerances, and the type of investment advice you seek. Our understanding of your current objectives for your Strategic Advisor account is based on the information in your Application. We rely on all the information you provide us. It is your responsibility to inform us of any material changes in your objectives or financial condition. You are responsible to inform us of any material changes in your objectives or financial condition. If you inform us of significant changes in your financial circumstances, we will discuss with you the effects, if any, on your investment strategy.

**Transactions for Your Account.** We will effect transactions for your Strategic Advisor account only as instructed by you, and neither UBS International Inc. nor your Financial Advisor will have any discretion with respect to the investment of your Program assets. Depending on the investment strategy you selected, your account will be invested in all or a combination of equities, open- and closed-end mutual funds, exchange-traded funds (ETFs), fixed income securities, approved unit investment trusts (UITs), options and other securities available through the Program.

Since Strategic Advisor is 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.

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 your Strategic Advisor 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 deemed 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.

**Program Fees.** The Strategic Advisor program charges a "wrap fee" at the annual rates set forth below for our advisory, execution, settlement, custodial (via our affiliate) and related

services. The fee rate is calculated and assessed quarterly. Certain services provided to you in the Program are available to you outside the Program at no charge. Also, depending on your investment strategy, you may find that the individual components of your investment strategy are available to you outside of the Program for more or less than you would pay in the Program. Please discuss the options with your Financial Advisor before investing. Several factors affect whether your costs are more or less in a wrap fee program, including size of the portfolio; types of investments you make; whether such investments carry additional administrative or management fees; the amount of trading effected; and the actual costs of the services if purchased separately.

The maximum annual Program fee for clients is a flat fee of 2.00% of the amount of billable Program Assets.

The Program fee is 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. **While cash and cash equivalent instruments including money market funds are subject to the Program fee, we limit the amount of cash and cash equivalents that are subject to the fee 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.**

**Currently, management and administrative fees for ETFs in the Programs range from 9 to 99 basis points; 80 to 175 basis points for eligible UITs; and 0 to 300 basis points for mutual funds. The management and administrative fees for offshore mutual funds may vary from fund to fund.**

**Minimum Annual Fee.** Strategic Advisor's minimum annual fee requirement is \$750.00. Regardless of the Program fee rate specified in the Application (the "Contracted annual fee rate") or the net asset value in your account, the minimum fee charged will be at least \$1,000 annually (the "Minimum Annual Fee"). Imposition of the Minimum Annual Fee could result in an effective annual fee rate that exceeds the contracted annual fee rate.

**Consider the following examples:**

A \$200,000 account with a contracted annual fee rate of 1.25% would be charged a quarterly fee of \$625, or an annualized fee of \$2,500 (\$625 x 4). In this example, the contracted annual fee assessed on \$200,000 covers the minimum fee requirement. However, if for any reason, the balance of this account were to drop to \$40,000, the calculated quarterly fee would be \$125.00 for the quarter, or an annualized fee of \$500.00 (\$125.00 x 4). In this example, the contracted fee assessed on \$40,000 does not cover the minimum fee requirement and the account would instead be charged \$187.50 (the prorated quarterly share of the minimum annual fee requirement). In addition, the effective annual rate on this account at \$750,000 would be 1.875% exceeding the contracted fee rate of 1.25%.

**Additional Fees.** A portion of your Program fees will be paid by us to your Financial Advisor. Your Program fee covers the Program services, trading, and execution. No separate fees for brokerage commissions will be charged to your account; however, there will be an additional charge for certain block trades and large options trades. For block trades, there will be a charge to the client of \$0.02 for all shares over 5,000 and \$2.00 per option contract for all contracts over 50. Please see **"General Information About Our Wrap Programs – Fees/Other Charges Not Covered by Your Program Fee"** for a list of additional fees that may apply to your account in addition to the Strategic Advisor program fee. Your account's return will be reduced by those fees and expenses. If the strategy you selected includes the purchase of mutual funds or other commingled vehicles, you should consider that you may be able to purchase those securities directly in the open market without incurring the program fee. Please review the applicable prospectus and offering documents carefully for a detailed description of the additional fees associated with these securities.

**Minimum Account Value.** The minimum opening account size for Strategic Advisor is \$50,000 in eligible billable assets. If you choose to link to another Strategic Advisor account (as described below under "Linked Accounts"), only one of the Linked Accounts is subject to this minimum account size requirement. Each other Linked Account is subject to a minimum account size of \$10,000 in eligible billable assets. If an account does not meet the minimum account value requirement it may not be accepted into the Program. We also have the right, in our sole discretion, 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.

**Transferring Shares of Eligible Mutual Funds into Your Program Account.** The Program permits the purchase of UBS affiliated mutual funds. If your investment strategy permits the use of mutual funds or unit investment trust shares and you hold those same mutual funds in other accounts, you may transfer those shares to your Program account.

UBS International Inc. may, in its discretion, accept into the Program your shares of affiliated and/or non-affiliated funds held in other UBS International Inc. accounts and purchased outside of the Program at UBS International Inc. or at other financial institutions. Fund shares transferred into the Program are referred to as "Transferred Shares." Transferred Shares may have been assessed a sales load, sales charge or distribution fees previously and, subject to certain exceptions, you will be assessed the Program Fee based on the value of those shares. However, if Transferred Shares were purchased at UBS International Inc. with a front-end sales load, those shares will not be charged the Program fee until two years have elapsed from the date of initial purchase. Transferred Shares purchased at other financial institutions will be assessed the Program fee immediately. Therefore, the overall cost to you of transferring shares into the Program may be higher for Transferred Shares you purchased at another financial institution. Please review the costs carefully before making a decision to transfer shares into the Program.

**Redemption Fees for Active Trading.** You should be aware that the mutual funds you purchase through the Program may charge redemption fees if you redeem shares 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 you exchange shares 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 fund to another. This information is described 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 fund or funds. **If charged, redemption fees will be in addition to the Program fee, and will be your responsibility.**

**Proxy Voting.** You expressly retain the right and obligation to vote any proxies, tender offers and corporate actions relating to the securities held in your Account; provided, however, that you may delegate these rights and obligations to a properly authorized agent. Neither your Financial Advisor nor UBS International Inc. will exercise voting discretion or have input regarding voting decisions made on your behalf for the securities held in your Strategic Advisor account. 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.

### III. General Information About Our Wrap Fee Programs

**Your Program Agreement and Participation in a Wrap Program.** In order to establish an account in one of our advisory programs, you will be required to execute both an investment advisory agreement and a brokerage account agreement, so that your advisory account will have trading capability and custody services. When you execute a brokerage agreement as part of the process of establishing an investment advisory account, 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 advisor as described in your investment advisory program agreement and application.

Your agreement to participate in the programs described in this brochure will not be effective until accepted by us. Our acceptance may be delayed for various reasons including paperwork deficiencies or inadequate funding. **We will not be liable for losses caused directly or indirectly by government restrictions, exchange controls, exchange or market rulings, suspension of trading, act of war, strikes or other conditions beyond our control, including but not limited to, extreme market volatility or trading volumes.**

**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 in your next account statement to verify that our records are correct. Please review those materials carefully and report any discrepancies to your Financial Advisor as soon as possible. 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 assets will no longer be managed.

**Funding Your Account.** You may fund your account by depositing cash and/or eligible and non-billable securities. You may transfer the ineligible assets to another UBS International Inc. account or instruct UBS International Inc. to liquidate the ineligible securities. If you fund your Strategic Advisor account through the transfer of securities, you authorize and direct UBS International Inc. and/or your financial advisor, as applicable given the terms of your program, to liquidate those securities on your behalf. **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. 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 promptly after acceptance of your account 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.

**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- 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 purchase only eligible, managed assets in your advisory accounts. Generally, with respect to the program described in this brochure, you may purchase and sell securities of any kind which may include U.S. and foreign stocks, bonds, options, American Depository Receipts<sup>1</sup>, 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"). Certain assets, such as commodities, futures, UBS Securities (equity, debt, warrants, options), Alternative Investments (e.g., managed futures funds, hedge funds and funds of hedge funds), Private Placements, B and C-share class mutual funds, and certain unit investment trusts (UITs) (collectively, "non-billable assets"), which may be used for funding, may not be eligible for purchase in a UBS Strategic Advisor account. While we will act as your adviser with respect to the non-billable assets you decide to deposit when funding your account, to the extent you decide to deposit non-billable securities in your account, you do so with the understanding that you may not purchase new positions of non-billable assets, or increase an existing position in your Strategic Advisor account: instead, you may only do so through a commission-based brokerage account. Non-billable Assets held in your UBS Strategic Advisor account after account opening will not be assessed the program fee. Additionally, 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. Fixed and variable rate annuities, insurance products, auction rate preferred securities such as VRDOs, ARPs and ARCs and structured products (collectively, "ineligible assets") may not be deposited and purchased in your account.

**The list of eligible and ineligible assets can change at any time in our discretion.**

If you hold ineligible assets in your advisory account and you also have a separate UBS International commission-based brokerage account, we may transfer those assets from your Program account to your UBS International 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 International 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 Financial Advisor. **Neither UBS International, nor your Financial Advisor will act as your investment advisor with respect to ineligible assets.**

**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, but should be viewed only as the equity or fixed income portion, as applicable, of your overall portfolio.

<sup>1</sup> From time to time, in applicable programs, investment managers that invest in U.S. equities may also purchase certain ADRs as part of their investment strategy, as long as those securities are generally consistent with the investment manager's strategy and the relevant program's policies and procedures.

**Custody; DVP Accounts.** Generally, the programs described in this brochure require you to custody your account assets with our affiliate and clearing firm, UBS Financial Services. However, we may, on an exception basis, accept certain accounts whose assets are custodied with other financial institutions. 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.

**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 program 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.

**Your Program Fee.** The fees and/or commissions charged by us for the program 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 customer 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. Our fees are negotiable and 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.

You may pay more or less in a UBS International Inc. Inc. wrap fee program than you might otherwise pay if you purchased the services separately. Several factors affect whether your costs are more or less in a wrap fee program, including: size of the portfolio; types of investments made by the investment manager or Financial Advisor and whether such investments carry additional administrative or management fees; the amount of trading effected by the investment manager or Financial Advisor; and the actual costs of the services if purchased separately.

We offer a variety of advisory programs, each with different features, fee schedules and available strategies. Please see the section **“Pricing Information for Our Advisory Products,”** a general summary of other wrap fee advisory programs that are available to you in addition to the ones described in this brochure. If you would like additional information about the programs listed below or any other products and services available through UBS International Inc., please contact your Financial Advisor.

**Services Included in Your Program Fee:** The wrap fee that you pay under the program described in this brochure covers the consulting services of your Financial Advisor, trading and execution, custody (via our clearing firm), performance reporting and related account services that we provide to you and, depending on the program that you select, may include portfolio management.

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

You may pay other charges in addition to the wrap fee, many 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 (i) commission charges for transactions for your account that your manager or we, at your direction, may effect through other broker-dealers; (ii) custody fees imposed by other financial institutions if you choose to custody your assets at other financial institutions; (iii) mark-ups/mark-downs on principal transactions with us or other broker-dealers; (iv) internal trust fees; (v) charges imposed by law; (vi) costs relating to trading in foreign securities (other than commissions otherwise payable to us); (vii) internal administrative and management fees that may be imposed by collective investment vehicles such as open-end and closed-end mutual funds, UITs, exchange traded funds, offshore funds or real estate investment trusts and (viii) other specialized charges, such as transfer taxes, exchange and SEC transaction fees. Our affiliates (UBS Financial Services or UBS Credit Corp.) will also charge interest on any outstanding loan balances to clients who borrow money from them. Clients also may be charged additional fees for specific account services, such as ACAT transfers, banking fees, annual and termination fees for retirement accounts, International Resource Management Accounts® or Resource Management Accounts® \*(and/or Business Services Accounts BSA®) and wire transfer charges.

**Initial Program Fee.** Your initial fee will be due in full as soon as your account is approved for the Program. This fee will be calculated on the value of the eligible billable assets on the date your account is approved, pro-rated to cover the period from the date your account is approved through the end of the current calendar quarter.

**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. Your wrap fee is an annual percentage of your account assets. You will pay the fee quarterly in advance, prorated according to

\* International Resource Management Account, Resource Management Account and Business Services Account BSA are registered service marks of our affiliate, UBS Financial Services Inc.

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 2.0% and 91 billing days (April 1 - June 30), the quarterly fee would be calculated as follows:

$$\$100,000 \times .02 \times (91/365) = \$498.63.$$

**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 billable 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.**

**Minimum Fees.** Certain programs impose minimum fee requirements. Please see the individual program pricing descriptions below.

**Debiting/Invoicing Program Fees.** Program fees are debited from your account. 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 will 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 the Program Fee.

**Linking Accounts.** You may elect to have two or more eligible advisory accounts treated as "Linked 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 avail yourself of this billing option. You may not link ERISA qualified plan accounts to non-ERISA accounts, including IRAs (e.g., John Smith's IRA Account cannot be linked to ABC Corporation's 401k Plan for the benefit of John Smith).

**Uninvested Cash Balances.** Generally, some portion of your account will be held in cash, cash equivalents, money market mutual funds (in the case of W9 clients) or the International Deposit Account (in the case of W8 clients) as part of the overall investment strategy for the account. Your program fee applies to the cash and cash alternative investments in your account. Certain programs may limit the amount of cash that is subject to the Program fee. Please see the individual program descriptions for details. For W9 clients, uninvested cash balances are automatically invested in money market mutual funds including, as permitted by law, those affiliated with us for which we and/or our affiliates receive compensation for services rendered in addition to the fees payable under your program. Our affiliates serve as investment adviser and administrator to several of the money market funds. For certain ERISA accounts, uninvested cash balances may be automatically invested in money market mutual funds affiliated with us. In such instances, our affiliates will only receive reimbursement for our direct costs and expenses for providing management and administrative services to the money market fund. Direct costs and expenses exclude overhead costs and profit charges and are in addition to your program fee. **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.** For W8 clients, the sweep option is generally the International Deposit Account ("IDA"). W8 clients' cash balances will be invested in IDA or such other sweep option as the client selects and as may be available from time to time.

**Trading Practices, Best Execution and Trading Errors.** Please see the section entitled "**Participation or Interest in Client Transactions – Trading and Execution Practices**" for a description of our trading practices.

**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.

**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 our affiliate and clearing firm, UBS Financial Services.** The Performance Review summarizes the performance of your account during the preceding quarter as well as historical periods, if applicable. Benchmarks shown are for informational purposes only. Those comparisons relate to the historical performance of market indices 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. Indices are not available for direct investment. To the extent permissible by applicable law, we may, in the future, deliver these documents to you via electronic format. If your account is part of a consulting program in which you pay a separate fee for portfolio-wide performance analysis, for example our PRIME Consulting Program, and the UBS Performance and Reporting Group prepares a consolidated performance report for the accounts in your PRIME 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 PRIME consulting agreement. This suppression option is only available when your PRIME consolidated Portfolio Reviews are prepared by the UBS Performance and Reporting Group.

**Benchmark Selection for Non-Discretionary, Advisory Accounts (UBS Strategic Advisor).** Due to the non-discretionary nature of the Strategic Advisor program, Performance Reviews for this programs 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. **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 report and/or remove it from the Program until the Ineligible Assets are removed.

**Aggregating Accounts for QPRs.** Linked accounts may also be aggregated for performance reporting. Your Financial Advisor may aggregate the accounts for performance reporting.

**Trade Confirmations, Account Statements and Data Downloads.** You will be provided with trade confirmations and monthly account statements in any month in which there is activity in your account. To the extent permissible by applicable law, we may, in the future, deliver these documents to you via electronic format. In order to efficiently service and reconcile your account, the individual or entity managing your account will automatically receive copies of your account statements and the confirmations for trades they place in your account unless you instruct otherwise in writing.

**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.

**Termination.** Either we or you may terminate the investment advisory agreement at any time. We will notify you in writing of our decision to terminate your account. **Termination of your participation in these programs as well as our advisory relationship is effective promptly after receipt of your request. Requests may be made in writing or orally to your Financial Advisor.**

You may terminate your investment advisory agreement with us within (5) five business days from the date the investment advisory agreement is accepted by us and receive a full refund of advisory fees. Thereafter, if an investment advisory agreement is terminated by you or by us, a pro-rated refund of fees paid in advance will be made, or, if no fees have been paid, a pro-rated fee will be imposed. Upon termination, you are responsible for the assets in your account, and neither we nor your investment manager will have further obligations to act or advise with respect to these assets.

If your account is managed by a third party manager, we will not be responsible to you for the purchase or sale of a security by your investment manager prior to our receipt of your request for termination. Any transactions initiated by your investment manager on the day of termination will be processed, if practicable. As part of your instructions to terminate from the program, you may request us to liquidate your securities. If you select or discontinue use of an investment manager without consulting us, you are solely responsible for that decision. We do not restrict your access to the investment managers during the selection process or thereafter.

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. Such liquidation will be done in a brokerage capacity, and will be executed free of commission charges.

You should note that termination will end our investment advisory fiduciary 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 agreement will no longer apply to that account and it will be governed solely by the terms and conditions of your brokerage account agreement.

Program accounts will continue to be managed following a client's death until we 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.

## A. Pricing Information For Our Advisory Products

### Discretionary Separately Managed Accounts—Accounts Managed By Affiliated and Non-Affiliated Investment Management Firms

Program Name	ACCESS	Managed Account Consulting (MAC)
<b>Relationship Type</b>	Subadvisory program. Client hires UBS-I and authorizes UBS-I to hire manager on client's behalf.	Consulting program. Client hires UBS-I as consultant and hires manager (directly) to manage the account.
<b>Minimum Account Size</b>	Equity: \$100,000  Fixed Income: \$100,000 to \$1million depending on the manager/strategy	For accounts custodied at our affiliate and clearing firm, UBS FS: \$100,000 or the manager's minimum (whichever is greater), subject to limited exceptions.  For accounts held at other custodians: \$10,000,000, subject to limited exceptions
<b>Manager Universe</b>	Over 55 investment managers offering over 120 investment styles	MAC Researched Managers: Over 90 Researched Managers with over 150 Investment Styles  MAC Reviewed: Over 500 investment managers (1 or more investment styles per manager)
<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
<b>Minimum Fee</b>	Equities/Balanced: \$2,800, or 2.80% of 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
<b>Manager's Fee</b>	Included in the program fee	The manager's fee is in addition to the program fee and is negotiated between the client and the manager.
<b>Fee Options</b>	Asset-based fee	MAC Fee: Asset-based fee MAC Fee Plus Commission: Directed commissions

## Discretionary Portfolio Management by UBS-FS Financial Advisors/Portfolio Managers

Program Name	Portfolio Management Program (PMP)
Relationship Type	Discretionary portfolio management
Minimum Account Size	\$50,000
Fee Schedule	<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><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</p> <p><b>100% pooled investment vehicle strategies—These fees do not include management and administrative expenses of the pooled investment vehicles.</b>            1.75% for first \$500,000            1.25% for next \$500,000            1.00% for next \$4,000,000</p>
Minimum Fee	No minimum fee
Fee Options	Asset-based Fee

## Non-Discretionary Advisory Programs

Program Name	PACE Select	PACE Multi	UBS Strategic Advisor
Relationship Type	Non-Discretionary Advisory Program	Non-Discretionary Advisory Program	Non-Discretionary Advisory Program
Eligible Investments	Proprietary Open-End Mutual Fund	Affiliated and Non-Affiliated Open-End Mutual Funds	Mutual funds (affiliated and non-affiliated), exchange traded funds, equities, fixed income
Minimum Account Size	\$10,000	\$10,000	\$50,000
Fee Schedule	0.75% to 1.50%	0.75% to 1.50%	2.00%
Minimum Fee	No minimum fee	No minimum fee	\$750 annually
Fee Options	Asset-based fee	Asset-based fee	Asset-based fee

#### **IV. Methods Of Analysis, Sources Of Information And Investment Strategy Used For Investment Management Purposes**

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 Global Wealth Management and Business Banking. WMR is the primary source of research for private clients and UBS International Inc. Financial Advisors. As a result, subject to certain exceptions, we expect that UBS International Inc. will incorporate insights and economic perspectives of WMR, where appropriate, in their products and services.

Clients and Financial Advisors also have access to Investment Research (“INV Research”) issued by UBS Investment Bank, a separate business group of UBS. Although the WMR and INV Research organizations are both under the UBS umbrella, they are independent of each other and employ separate methodologies. Because both sources of information are independent of one another and reflect the different assumptions, views and analytical methods of the analysts who prepared them, there may exist a difference of opinions between the two sources. Neither WMR nor INV Research 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.** Our 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.

In the United States, UBS International Inc. is obligated to provide independent, third-party research on companies covered by UBS Research to UBS customers, at no cost to them, where such research is available.

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 services generated by third parties by or through brokers or dealers.

#### **V. 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 NASD BrokerCheck service available from the NASD. You can also contact your state securities regulator through the North American Securities Administrators Association, Inc.'s web site at <http://www.nasaa.com> 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).

#### **VI. Consulting, Other Business Activities, And Affiliations**

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 via our affiliate and clearing firm, UBS Financial Services Inc. 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 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. Through our affiliates, we provide clients with trust, planning and custodial services; and we distribute registered and unregistered 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 Education Program.** We also offer a financial education program where an employer or other sponsoring entity, such as an adult education organization, can have a Financial Advisor provide one or a series of financial education seminars to their employees or members (generally, but not always, free of charge to the employees or members) or to the public for a fee. Seminars offered through this program are generic in nature and do not contain recommendations to invest in any particular security. These seminars focus on educating attendees about such topics 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 general subjects.

**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 generates 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 International 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 planning; 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 International 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, subadviser, 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 and PaineWebber Development Corp. create, market, distribute or act 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
- Trust related services are available through the UBS Fiduciary Trust Company, 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 International 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., formerly known as "Mitchell Hutchins Asset Management Inc." and as "Brinson Advisors, Inc.") the PACE Select Advisors Trust and a number of UBS Financial Services Inc. 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") or our ACCESS program.

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

- Alternative Investment Solutions;
- DSI International Management Inc.;
- UBS Agrivest LLC;
- UBS Financial Services Inc.;
- UBS Global Asset Management (Americas) Inc.;
- UBS Global Asset Management (US) Inc. (formerly known as "Mitchell Hutchins Asset Management Inc." and as "Brinson Advisors, Inc.");
- UBS Investment Advisors Ltd.;
- UBS O'Connor LLC;
- UBS O'Connor Limited;
- 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 six additional registered investments. These are UBS Juniper Management, L.L.C.; UBS Tamarack Management, L.L.C.; UBS Sequoia Management, LLC; 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.

## VII. Additional Sources of Compensation to UBS International Inc., UBS Affiliates and Financial Advisors

**Offshore Mutual Fund Compensation.** In the Strategic Advisor Program, we generally 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 Program 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), we pay a portion of that compensation 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 to UBS International 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, UBS International receives 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 its clients during each month. (Also included in this calculation are shares of the same offshore fund owned by clients of our affiliate, UBS Financial Services Inc.) 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. UBS International does 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 varying amounts of trail commissions or revenue sharing compensation to us. To the extent that an offshore fund has agreed to pay more of any of these fees to us than 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.

**U.S. Mutual Fund Compensation.** From time to time, client account assets may invest in U.S. mutual fund shares, although offshore fund purchases are generally more appropriate for non-U.S. taxpayers. We and certain of our affiliates are compensated for providing services to certain U.S. mutual funds and to certain affiliated money market funds in which your cash assets may be invested. This compensation includes, in the case of U.S. mutual funds not affiliated with us, shareholder

servicing or distribution fees and, in the case of affiliated funds, investment advisory and/or management and certain other fees. 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 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 prospectuses for the U.S. registered mutual funds, which are available for no charge through your Financial Advisor. These mutual funds are sold by prospectus only. Please read the prospectus carefully before investing. The amount of those fees paid to us, and therefore Financial Advisors, may vary depending on the arrangement between us and the fund and the terms and conditions of the relevant fund's 12b-1 trail plan. These payments may be made for the duration of the Program agreement or, in some circumstances, may extend beyond the termination of the Program agreement if you continue to hold shares of funds at our firm.

**Management and Administrative Fees for Affiliated U.S. Funds Available in Strategic Advisor.** 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 Program. The current annual rates of investment management fees paid by the affiliated funds in the Program 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. The amount of investment management fees paid to our affiliates may vary depending on the arrangement between our affiliate and the Fund. Our affiliates also receive administrative fees in connection with the affiliated funds in the Program. 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 International nor our Financial Advisors receive a portion of the management and administrative fees paid to our affiliates.

**12b-1 Fees for Affiliated U.S. Funds and Non-Affiliated U.S. Funds Available in Strategic Advisor.** UBS International Financial Advisors receive a portion of the 12b-1 fees paid by affiliated U.S. mutual funds and non-affiliated U.S. mutual funds available in Strategic Advisor. The current annual rate of 12b-1 fees paid from affiliated funds in the Program is generally 0.25% of the different funds' assets. The current rate of 12b-1 fees paid from non-affiliated funds in the Program ranges generally from 0% to 0.50%, but on average the current annual rate is approximately 0.25%. While UBS International's Financial Advisors receive a portion of these fees in connection with sales of affiliated U.S. mutual funds and non-affiliated U.S. mutual funds, UBS International does not receive any portion of these fees. Instead, the balance of these fees is paid to our affiliate.

**Revenue Sharing Compensation.** For sales by UBS International Financial Advisors to UBS International clients of mutual funds registered under the Investment Company Act of 1940, our affiliate and clearing firm, UBS Financial Services Inc., receives certain revenue sharing payments. **Note: None of the amounts is paid to the Financial Advisor or his or her branch office.** For additional detail regarding revenue sharing payments and registered mutual funds, please see the

information contained on our affiliate's [www.ubs.com/mutualfundrevenue-sharing](http://www.ubs.com/mutualfundrevenue-sharing).

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 approximately 2,500 mutual funds from nearly 160 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.

**Additional Compensation Paid by the UIT Sponsors.** Most UIT sponsors make additional payments to the firms that sell their UITs, including UBS International. These payments typically are calculated as a percentage of the total volume of sales of the sponsor's UITs made by the firm through non-wrap-fee programs 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 International 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.

**Contributions to Training and Education Expenses.** In addition to the contributions listed above, from time to time, mutual fund companies or their affiliates ("vendors") may subsidize a portion of the cost of training and achievement seminars we and our affiliates offer to Financial Advisors through specialized firm-wide programs and consulting training forums. These seminars are designed to provide education and related training to Financial Advisors who regularly solicit clients to participate in our mutual fund platform. The subsidies may vary among mutual fund vendors, and no mutual fund vendor is required to participate in the seminars or to contribute to the costs of the seminars in order to have their funds distributed through our platform. UBS affiliated companies often contribute substantially more to the costs of these seminars than other mutual fund vendors. Your Financial Advisor does not receive a portion of these payments.

**Non-Cash Compensation.** In addition to the revenue sharing payments describe above, we, our affiliates, and our Financial Advisors may, from time to time, receive non-cash compensation from mutual fund companies, money 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.

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

#### **VIII. Code Of Ethics And Participation Or Interest In Client Transactions**

**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 WM US 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>2</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.

**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 International Inc. does not analyze or evaluate whether your manager is meeting its best execution obligations on trades executed for your account.

**Execution of Transactions for Your Account.** Our affiliate and clearing firm, UBS Financial Services, makes use of automated systems to route and execute orders for the purchase and sale of securities for all our advisory accounts, unless you direct us otherwise. Generally, an order is routed to an execution center that UBS Financial Services believes 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. UBS Financial Services regularly monitors existing and potential execution venues and may route orders in exchange listed or OTC securities to other venues if it believes that such routing is consistent with best execution principles.

In determining the best way to execute an order for a client, our clearing firm, UBS Financial Services, evaluates (i) speed and

<sup>2</sup> Access Person: any branch office employee, regardless of their job function, and any other Firm employee who works from a branch location or any home office employee who places trades on behalf of money managers that participate in the Firm's advisory programs.

certainty of execution; (ii) price and size improvement; and (iii) overall execution quality.

**Exchange Listed Securities.** For round-lot orders in listed securities (round lot means a multiple of 100), our clearing firm, UBS Financial Services, currently routes most orders to the floor of the primary exchange (generally, the New York Stock Exchange) for execution, unless a customer requests otherwise. UBS Financial Services believes that the primary exchange frequently offers significant liquidity, thus providing substantial opportunity for price and size improvement.

UBS Financial Services routes non-advisory orders for certain listed securities to another one of our affiliates, UBS Securities LLC, for possible execution. 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.

**NASDAQ and OTC Securities.** The vast majority of our over the counter (OTC) order flow is routed for execution to another 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. 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 in accordance with the principles of best execution.

If our clearing firm, UBS Financial Services, (or another investment manager managing the portfolio), executes securities transactions through other broker-dealers, it may choose brokers who provide it 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 research is obtained in this manner. UBS Financial Services does 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 it believes that the research it receives 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.** UBS Financial Services may aggregate transactions for our 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.

#### **Principal Trades in Strategic Advisor Accounts**

In a principal transaction, a financial services firm acting for its own account buys a security from, or sells a security to, the account of a client. The legal and disclosure requirements with regard to these types of transactions differ depending on whether the firm is acting as your broker or your adviser. 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.

While individual fixed income securities are still available to you in UBS Strategic Advisor accounts, they are available to you on an agency basis, meaning they are purchased or sold to/from the inventories of other investment firms. Currently, you may not purchase individual fixed income securities from UBS's inventory.

The SEC is currently considering changes to the "principal trade" rule under the Advisers Act which will permit us (as your adviser, when we have given you advice regarding a trade) to engage in principal transactions with you in non-discretionary advisory programs like Strategic Advisor if (1) you provide a one time written consent to these transactions and (2) we provide you with oral notification that a trade may be executed on a principal basis prior to execution and obtain your consent. Although the rule has been published as of the date of this brochure, we expect it will require other disclosure and reporting requirements on our part in addition to your consent.

You may give your advance written consent for us or our affiliates to engage in principal trades with you for your Strategic Advisor account by signing, dating and returning the enclosed consent form to us. We will rely on this consent only if and when the proposed rule becomes effective and then only in connection with the securities or types of transactions covered by the final rule. You may rescind my consent to principal transactions in your Strategic Advisor account at any time with 30 days prior written notification. We will notify you when Strategic Advisor has been modified to accommodate principal trades and will provide additional details regarding the requirements of the rule. **This option is not available for ERISA and IRA clients.**

Important considerations when giving your consent to these transactions:

1. 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 conducts of interest described below.

2. We and our affiliates expect to 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 making up or marking down the price of the security.
  3. The profits we or our affiliates earn on these transactions will be in addition to the fees you pay us under the Strategic Advisory Program for investment advice, brokerage, custody and other program services. As a result, principal transactions present a conflict between your interests and those of our affiliates because we have a financial incentive to recommend these transactions to you when they might not be in your best interests.
  4. 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, and you may not be able to compare the prices we are offering to those offered by other dealers.
  5. Before consenting to principal transactions, you must be sure that you understand and are willing to accept the risks and conflicts of interest presented by principal trades. If you have questions, please consult your Financial Advisor or your own legal advisor.
  6. We will not rely on this consent for transactions in securities issued by us or an affiliate or where we are acting as an underwriter or a dealer in a public offering of a security, with the exception of investment-grade debt securities.
  7. We will provide you, at least annually, a written statement showing all principal trades effected for your account during the period covered by the statement.
  8. We will inform you orally at the time of each trade that we may trade with you on a principal basis in the transaction. You must consent before a trade can be executed on a principal basis.
  9. You will receive a written confirmation indicating when we act as principal in a trade with you and that you authorized such trade.
- **You are not obligated to give us your advance consent to engage in principal trades with you for your Strategic Advisor account.**
  - **You may withdraw your consent at any time by giving us thirty (30) days advance written notice.**
  - **You may refuse to give your consent to any specific principal trade that we propose to you.**

**Payment for Order Flow.** At this time, UBS Financial Services has 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.) UBS Financial Services may route orders to electronic communication networks

(“ECNs”) or similar enterprises in which it may have a minority ownership interest. If UBS Financial Services directs orders for our advisory programs accounts to such a trading network, it may receive indirect compensation from the ECN with respect to these trades due to such ownership interest. These arrangements will not cause you to pay additional fees directly to us. We and UBS Financial Services believe that, in the course of executing trades for our clients, UBS Financial Services may be able to obtain best execution through other exchanges or trading networks. UBS Financial Services may direct order flow for these programs to trading networks in which it has an interest in the future if it determines that it is in the interest of UBS’ clients and consistent with their obligations under applicable laws.

**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, for example, the ACCESS Hedged Core Equity Strategy. You may also use your managed account assets to collateralize non-purpose loans referred to as Credit Lines Loans below.

**Margin.** Using margin in a managed account is a more aggressive, higher risk approach to pursuing your investment objectives. Before you decide to use margin in your managed account, 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.

If our affiliate UBS Financial Services provides a margin loan to you, you will pay them 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 the Financial Advisor and your selected investment manager. However, the amount of the margin loan is deducted from the total value of the investments when determining the account value for fee purposes.

The decision to use leverage in a managed account 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 another affiliate of ours, 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 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.

**Principal Transactions and Agency Cross Trades.** We may enter into riskless 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 riskless 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 or our affiliate 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.

**Sweep Vehicle for NRA Clients—International Deposit Account (“IDA”).** Cash held in your Program Account, whether temporarily, as part of an asset allocation strategy, or otherwise, is automatically swept into an IDA, an interest-bearing deposit

account at UBS AG, Cayman Islands Branch ("UBS Cayman"). The Program fees you pay generally apply to all eligible assets in your Program Account, including cash that is swept into the IDA; however, to the extent that the cash portion of your Program Account exceeds 30% of the total Account value, the Program fees will not apply to any cash amount exceeding 30%. UBS Cayman earns revenue from cash swept into the IDA, including your cash, that is greater than the interest it pays you and other IDA depositors. The difference between the rate the UBS Cayman earns on your funds, and what it pays you is shared between UBS AG and UBS International. Your Financial Advisor does not share in this excess revenue.

As a consequence, UBS International is effectively paid two fees with regard to cash in your Program Account and therefore may have an incentive to encourage you to maintain more cash in your Program Account than it otherwise would.

Other sweep options may be available and you should discuss other options with your Financial Advisor. Of course, you may choose to maintain any cash component of an asset allocation strategy outside of your UBS Strategic Advisor account. However, you may prefer to use the IDA for ready access to cash generated, for example, as a result of the sale of a security.

#### **Sweep Vehicles for U.S. Clients; 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 "**Additional Compensation—Affiliated Money Market Funds**" for a summary of advisory compensation received under these arrangements.

**Other Activities.** We and/or 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. Our affiliates may buy and sell securities for their 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.

## **IX. Additional Information**

**Compensation to Financial Advisors.** In general, we pay a percentage of clients' commissions and fees, called a payout rate, to our Financial Advisors, according to an established schedule that depends on a variety of factors. These factors include the total amount of the Financial Advisor's client assets under management and the total amount of revenues the Financial Advisor generates with his or her entire client base. For transaction-based accounts, which hold products such as stocks, bonds, options and mutual funds, the payout rate ranges from 24% to 44% of the commissions or sales charges paid to the Firm. For stock and option transactions, the payout is reduced by \$12 per transaction. For insurance and annuity products, the payout ranges from 24% to 49% of the commissions or sales charges paid to the Firm. For our asset-based fee programs, the payout generally ranges from 24% to 47% of the fees earned by the Firm.

The percentage of Firm revenues that Financial Advisors receive in asset-based programs and insurance products 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.

Under certain circumstances (for example, acquisitions), some Financial Advisors 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.

**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 International Inc. program in which you participate permits the payment of program fees through directed brokerage (for example, MAC Fee Plus Commission and PRIME) 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 will debit the outstanding balance from your account.

**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 International Inc. or our affiliate.

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 International or its affiliates. These lenders may be able to assist clients secure financing for working capital, capital expenditures, and leasing, as well as for other specialized borrowing needs. It is our practice to disclose to the client being referred the roles of UBS International 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.

#### **X. Regulatory Orders**

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

1. On August 2, 2005, 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 3010, in that it failed to report to Trace transactions in Trace eligible securities within 30 minutes after execution. The findings stated that the Firm's supervisory system did not provide for supervision reasonable designed to achieve compliance with respect to the applicable securities laws and regulations, and the rules of NASD concerning Trace trade reporting. The Firm consented to a censure and a fine of \$15,000.
2. On June 6, 2005, the Firm, without admitting or denying the findings, settled with the NASD an action relating to the firm's reporting of its municipal securities customer transactions. The NASD found that the Firm did not comply with MSRB Rules G-14 and G-17 in that it failed to timely

report its municipal securities transactions customer transactions to the MSRB. The Firm failed to monitor its trade reporting to ensure compliance with MSRB Rule G-14. To resolve these charges, the firm agreed to a censure and a fine of \$10,000.

## XI. 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:

### Executive Officers and Directors

**Ricardo A. Gonzalez, Jr.**, born in 1961, is President, CEO and Chairman of the Board of UBS International Inc. Before joining UBS International Inc. in 2002, he was a Senior Vice President and Director of UBS Financial Services Inc.'s International Division. From 1986 until 1998, Mr. Gonzalez held various positions with UBS Financial Services Inc. of Puerto Rico, most recently as a Senior Vice President and Retail Sales Manager. Subsequent to Puerto Rico, Mr. Gonzalez was a Senior Vice President and Branch Manager of UBS Financial Services Inc.'s International Office in Coral Gables. He is a graduate of Boston University.

**Rudolf P. Burri**, born in 1952, is Chief Operating Officer and a member of the Board of Directors of UBS International Inc. Before joining UBS International Inc. in March 2005, he was Local Market Head for Latin America at Swiss Bank Corporation in Miami from 1990 to 1994 and thereafter until 2005 in New York first with Swiss Bank Corporation and with UBS AG after the merger in 1998. Mr. Burri started his career with Swiss Bank Corporation in 1971 and held various positions with the institution in Switzerland and the United States including assignments in New York, Houston and Dallas. Mr. Burri also had a training assignment with Credit Commercial de France in Paris from August 1975 to February 1976.

**Al Alvey**, born in 1941, is the Chief Financial Officer of UBS International. He has been with UBS or an acquired company since 1979, and has held various positions with other affiliates, particularly UBS Financial Services Inc. He is a graduate of Bellarmine College. Prior to 1979 he served as the Chief Examiner of the American Stock Exchange and was an audit manager with the Certified Public Accounting Firm of Peat Marwick Mitchell & Co.

**Elaine Trotta**, born in 1955, is Chief Administrative Officer of UBS International Inc. since its inception in 2002. She has been employed with UBS or one of its affiliates for the past 19 years. Her prior roles within UBS included: 1995 - 2001 Associate Division Control Officer of the former UBS Financial Services Inc. Division, 1985- 1995 various positions within the branch system. She began her career in the financial industry in 1978 at a small regional firm, Phillips Appel and Walden while earning her master's degree from Fairleigh Dickinson University. Elaine obtained her undergraduate degree from Rutgers University. Industry licenses include: 7, 63, 65, 3, 8, and 24.

**Annabelle K. Bryde**, born in 1972, is a Director of UBS International Inc. as well as Head of Wealth Management International (WMI) US. From 2005 to September 2006, she was Head of Business Management for Wealth Management International in Zurich, having joined the Business Management Office of WMI in 2002 after having served for two years as Head Business Management UK in the London Head Project Office for the European Wealth Management Initiative. Previously, Ms. Bryde was a Corporate Finance professional with the Aerospace & Defense and TMT industry teams in London from 1996 to 1999 and from 2000 to 2001, having spent the year in between with the Private Banking Corporate Advisory Group in London. Ms. Bryde holds a Bachelor of Arts Degree in Politics and European Studies from the University of Durham in the UK.

### Chief Legal Officer, Director of Compliance and Chief Compliance Officer

**Scott I. Noah**, born in 1955, is a Director of UBS International Inc. as well as Head of Legal for UBS International Inc. and UBS AG NY Private Bank. Before joining UBS-I in 2002, he was Senior Vice President and Director of Compliance for Policy, Product and Services for UBS Financial Services Inc.. Previously, Mr. Noah was Counsel to UBS Financial Services Inc.'s Director of Compliance, and held various positions with the New York and American Stock Exchanges and Smith Barney Inc., and in private law practice. He is a graduate of the City University of New York, the Fordham University Graduate School, and the Fordham University School of Law.

**Joseph Scavo**, born in 1960, is the Director of Compliance of UBS International Inc. (since 2002) and the UBS AG NY Private Bank (since 1997) and is Chief Compliance Officer for UBS International Inc.'s advisory business. Prior to 1997, Mr. Scavo was the Director of Compliance for Mitchell Hutchins, as well Deputy Director of Compliance in PaineWebber's Compliance Department.

## XII. Special Erisa Disclosure For Retirement Plans

The purpose of this disclosure is to inform independent fiduciaries of tax-qualified retirement plans and IRAs ("Qualified Plans") about certain compensation paid to UBS International Inc. from mutual funds participating in the Strategic Advisor Program ("Program").

**Offshore Mutual Fund Compensation.** In the Strategic Advisor Program, we generally 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 Program 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), we pay a portion of that compensation 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 to UBS International 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, UBS International receives 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 its clients during each month. (Also included in this calculation are shares of the same offshore fund owned by clients of our affiliate, UBS Financial Services Inc.) 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. UBS International does 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 varying amounts of trail commissions or revenue sharing compensation to us. To the extent that an offshore fund has agreed to pay more of any of these fees to us than 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.

**U.S. Mutual Fund Compensation.** From time to time, client account assets may invest in U.S. mutual fund shares, although offshore fund purchases are generally more appropriate for non-U.S. taxpayers. We and certain of our affiliates are compensated for providing services to certain U.S. mutual funds and to certain affiliated money market funds in which your cash assets may be invested. This compensation includes, in the case of U.S. mutual funds not affiliated with us, shareholder servicing or distribution fees and, in the case of affiliated funds, investment advisory and/or management and certain other fees. 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 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 prospectuses for the U.S. registered mutual funds, which are available for no charge through your Financial Advisor. These mutual funds are sold by prospectus only. Please read the prospectus carefully before investing. The amount of those fees paid to us, and therefore Financial Advisors, may vary depending on the arrangement between us and the fund and the terms and conditions of the relevant fund's 12b-1 plan.

These payments may be made for the duration of the Program agreement or, in some circumstances, may extend beyond the termination of the Program agreement if you continue to hold shares of funds at our firm.

**Management and Administrative Fees for Affiliated U.S. Funds Available in Strategic Advisor.** 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 Program. The current annual rates of investment management fees paid by the affiliated funds in the Program 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. The amount of investment management fees paid to our affiliates may vary depending on the arrangement between our affiliate and the Fund. Our affiliates also receive administrative fees in connection with the affiliated funds in the Program. 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 International nor our Financial Advisors receive a portion of the management and administrative fees paid to our affiliates.

**12b-1 Fees for Affiliated U.S. Funds and Non-Affiliated U.S. Funds Available in Strategic Advisor.** UBS International Financial Advisors receive a portion of the 12b-1 fees paid by affiliated U.S. mutual funds and non-affiliated U.S. mutual funds available in Strategic Advisor. The current annual rate of 12b-1 fees paid from affiliated funds in the Program is generally 0.25% of the different funds' assets. The current rate of 12b-1 fees paid from non-affiliated funds in the Program ranges generally from 0% to 0.50%, but on average the current annual rate is approximately 0.25%. While UBS International's Financial Advisors receive a portion of these fees in connection with sales of affiliated U.S. mutual funds and non-affiliated U.S. mutual funds, UBS International does not receive any portion of these fees. Instead, the balance of these fees is paid to our affiliate.

**Revenue Sharing Compensation.** For sales by UBS International Financial Advisors to UBS International clients of mutual funds registered under the Investment Company Act of 1940, our affiliate and clearing firm, UBS Financial Services Inc., receives certain revenue sharing payments. **Note: None of the amounts is paid to the Financial Advisor or his or her branch office.** For additional detail regarding revenue sharing payments and registered mutual funds, please see the information contained on our affiliate's [www.ubs.com/mutualfundrevenuesharing](http://www.ubs.com/mutualfundrevenuesharing).

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 approximately 2,500 mutual funds from nearly 160 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.

**Additional Compensation Paid by the UIT Sponsors.** Most UIT sponsors make additional payments to the firms that sell their UITs, including UBS International. These payments typically are calculated as a percentage of the total volume of sales of the sponsor's UITs made by the firm through non-wrap-fee programs 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 International 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.

**Contributions to Training and Education Expenses.** In addition to the contributions listed above, from time to time, mutual fund companies or their affiliates ("vendors") may subsidize a portion of the cost of training and achievement seminars we and our affiliates offer to Financial Advisors through specialized firm-wide programs and consulting training forums. These seminars are designed to provide education and related training to Financial Advisors who regularly solicit clients to participate in our mutual fund platform. The subsidies may vary among mutual fund vendors, and no mutual fund vendor is required to participate in the seminars or to contribute to the costs of the seminars in order to have their funds distributed through our platform. UBS affiliated companies often contribute substantially more to the costs of these seminars than other mutual fund vendors. Your Financial Advisor does not receive a portion of these payments.

**Non-Cash Compensation.** In addition to the revenue sharing payments describe above, we, our affiliates, and our Financial Advisors may, from time to time, receive non-cash compensation from mutual fund companies, money 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.

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

UBS International Inc. is permitted to retain the payments discussed above pursuant to specific regulatory provisions established by the Department of Labor ("DOL").

UBS International Inc. may have potentially conflicting loyalties and responsibilities in connection with our acting as agent for the Qualified Plan and the mutual funds in transactions under the Program. UBS International Inc. does not receive any "soft dollar benefit" or any other direct or indirect compensation in connection with the assets in the Program that is not disclosed in this Disclosure Brochure, or in the Strategic Advisor agreement. By continuing participation in the Program, you are authorizing UBS International Inc. to retain this compensation; however, you may revoke the authorization at any time by written notice. Please note that termination of our authorization will also terminate your participation in the Program.

**UBS International Inc.  
Termination Of Authorization Pursuant To PTE 86-128**

Pursuant to your contract for participation in the UBS Strategic Advisor Program (the "Program"), you have authorized UBS International Inc. to collect and retain certain fees in connection with the shares purchased in non-proprietary mutual funds under the Program, as permitted by Prohibited Transaction Class Exemption 86-128 (51 F.R. 41686). This authorization is terminable at will by the Plan, without any penalty to the Plan. **The termination of such authorization will result in the termination of your participation in the Program.** In order to terminate this authorization and your participation in the Program you may (i) call your UBS International Inc. Financial Advisor; or (ii) complete and mail this Form to the following address:

UBS International Inc. c/o  
UBS Financial Services Inc.  
UBS Strategic Advisor Program Administration  
1000 Harbor Boulevard  
Weehawken, New Jersey 07086-6791

Plan Name: \_\_\_\_\_

Plan Sponsor's Address: \_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

Account Number: \_\_\_\_\_

Authorized Signature \_\_\_\_\_

Name/Title \_\_\_\_\_

Date \_\_\_\_\_

Your authorization to allow UBS International Inc. to collect certain fees in connection with the shares held in mutual funds under the Program will continue unless you provide notice to UBS International Inc. to terminate such authorization in the manner set forth above.

**Prohibited Transaction Class Exemption 86-128, November 18, 1986**

**(51 FR 41686). Amended October 17, 2002.**

**Exemption**

In accordance with section 408(a) of the Act and section 4975(c)(2) of the Code, and based upon the entire record including the written comments submitted in response to the notice of January 24, 1985, the Department makes the following determinations:

- (a) The class exemption set forth herein is administratively feasible;
- (b) It is in the interests of plans and of their participants and beneficiaries; and
- (c) It is protective of the rights of participants and beneficiaries of plans.

Accordingly, the following exemption is hereby granted under the authority of section 408(a) of the Act and section 4975(c)(2) of the Code and in accordance with the procedures set forth in ERISA Procedure 75-1.

**Section I: Definitions and Special Rules**

The following definitions and special rules apply to this exemption:

- (a) The term "person" includes the person and affiliates of the person.
- (b) An "affiliate" of a person includes the following:
  - (1) Any person directly or indirectly controlling, controlled by, or under common control with, the person;
  - (2) Any officer, director, partner, employee, relative (as defined in section 3(15) of ERISA), brother, sister, or spouse of a brother or sister, of the person;
  - (3) Any corporation or partnership of which the person is an officer, director or partner.

A person is not an affiliate of another person solely because one of them has investment discretion over the other's assets. The term "control" means the power to exercise a controlling influence over the management or policies of a person other than an individual.

- (c) An "agency cross transaction" is a securities transaction in which the same person acts as agent for both any seller and any buyer for the purchase or sale of a security.
- (d) The term "covered transaction" means an action described in section II(a), (b) or (c) of this exemption.
- (e) The term "effecting or executing a securities transaction" means the execution of a securities transaction as agent for another person and/or the performance of clearance, settlement, custodial or other functions ancillary thereto.
- (f) A plan fiduciary is independent of a person only if the fiduciary has no relationship to or interest in such person that might affect the exercise of such fiduciary's best judgment as a fiduciary.

- (g) The term "profit" includes all charges relating to effecting or executing securities transactions, less reasonable and necessary expenses including reasonable indirect expenses (such as overhead costs) properly allocated to the performance of these transactions under generally accepted accounting principles.
- (h) The term "securities transaction" means the purchase or sale of securities.
- (i) The term "nondiscretionary trustee" of a plan means a trustee or custodian whose powers and duties with respect to any assets of the plan are limited to (1) the provision of nondiscretionary trust services to the plan, and (2) duties imposed on the trustee by any provision or provisions of the Act or the Code. The term "nondiscretionary trust services" means custodial services and services ancillary to custodial services, none of which services are discretionary. For purposes of this exemption, a person does not fail to be a nondiscretionary trustee solely by reason of having been delegated, by the sponsor of a master or prototype plan, the power to amend such plan.

**Section II: Covered Transactions**

Effective the later of December 18, 1986, or the date on which the Office of Management and Budget approves the information collection requests contained in this exemption under the Paperwork Reduction Act of 1980, if each condition of section III of this exemption is either satisfied or not applicable under section IV, the restrictions of section 406(b) of ERISA and the taxes imposed by sections 4975(a) and (b) of the Code by reason of section

**4975(c)(1)(E) or (F) of the Code shall not apply to —**

- (a) A plan fiduciary's using its authority to cause a plan to pay a fee for effecting or executing securities transactions to that person as agent for the plan, but only to the extent that such transactions are not excessive, under the circumstances, in either amount or frequency;
- (b) A plan fiduciary's acting as the agent in an agency cross transaction for both the plan and one or more other parties to the transaction; or
- (c) The receipt by a plan fiduciary of reasonable compensation for effecting or executing an agency cross transaction to which a plan is a party from one or more other parties to the transaction.

**Section III: Conditions**

Except to the extent otherwise provided in section IV of this exemption, section II of this exemption applies only if the following conditions are satisfied:

- (a) The person engaging in the covered transaction is not a trustee (other than a nondiscretionary trustee) or an administrator of the plan, or an employer any of whose employees are covered by the plan.
- (b) The covered transaction is performed under a written authorization executed in advance by a fiduciary of each plan whose assets are involved in the transaction, which plan fiduciary is independent of the person engaging in the covered transaction.

(c) The authorization referred to in paragraph (b) of this section is terminable at will by the plan, without penalty to the plan, upon receipt by the authorized person of written notice of termination. A form expressly providing an election to terminate the authorization described in paragraph (b) of this section with instructions on the use of the form must be supplied to the authorizing fiduciary no less than annually. The instructions for such form must include the following information:

- (1) The authorization is terminable at will by the plan, without penalty to the plan, upon receipt by the authorized person of written notice from the authorizing fiduciary or other plan official having authority to terminate the authorization; and
- (2) Failure to return the form will result in the continued authorization of the authorized person to engage in the covered transactions on behalf of the plan.

(d) Within three months before an authorization is made, the authorizing fiduciary is furnished with any reasonably available information that the person seeking authorization reasonably believes to be necessary for the authorizing fiduciary to determine whether the authorization should be made, including (but not limited to) a copy of this exemption, the form for termination of authorization described in section III(c), a description of the person's brokerage placement practices, and any other reasonably available information regarding the matter that the authorizing fiduciary requests.

(e) The person engaging in a covered transaction furnishes the authorizing fiduciary with either:

- (1) a confirmation slip for each securities transaction underlying a covered transaction within ten business days of the securities transaction containing the information described in Rule 10b-10(a)(1-7) under the Securities Exchange Act of 1934, 17 CFR 240.10b-10; or
- (2) at least once every three months and not later than 45 days following the period to which it relates, a report disclosing:
  - (A) A compilation of the information that would be provided to the plan pursuant to subparagraph (e)(1) of this section during the three-month period covered by the report;
  - (B) the total of all securities transaction related charges incurred by the plan during such period in connection with such covered transactions; and
  - (C) the amount of the securities transaction-related charges retained by such person and the amount of such charges paid to other persons for execution or other services.

For purposes of this paragraph (e), the words "incurred by the plan" shall be construed to mean "incurred by the pooled fund" when such person engages in covered transactions on behalf of a pooled fund in which the plan participates.

(f) The authorizing fiduciary is furnished with a summary of the information required under paragraph (e)(1) of this section at least once per year. The summary must be furnished within 45 days after the end of the period to which it relates, and must contain the following:

- (1) The total of all securities transaction-related charges incurred by the plan during the period in connection with covered securities transactions.
- (2) The amount of the securities transaction-related charges retained by the authorized person and the amount of these charges paid to other persons for execution or other services.
- (3) A description of the person's brokerage placement practices, if such practices have materially changed during the period covered by the summary.
- (4) (i) A portfolio turnover ratio, calculated in a manner which is reasonably designed to provide the authorizing fiduciary with the information needed to assist in discharging its duty of prudence. The requirements of this paragraph (f)(4)(i) will be met if the "annualized portfolio turnover ratio," calculated in the manner described in paragraph (f)(4)(ii), is contained in the summary.  
(ii) The "annualized portfolio turnover ratio" shall be calculated as a percentage of the plan assets consisting of securities or cash over which the authorized person had discretionary investment authority, or with respect to which such person rendered, or had any responsibility to render, investment advice (the "portfolio") at any time or times ("management period(s)") during the period covered by the report. First, the "portfolio turnover ratio" (not annualized) is obtained by dividing (A) the lesser of the aggregate dollar amounts of purchases or sales of portfolio securities during the management period(s) by (B) the monthly average of the market value of the portfolio securities during all management period(s). Such monthly average is calculated by totaling the market values of the portfolio securities as of the beginning and end of each management period and as of the end of each month that ends within such period(s), and dividing the sum by the number of valuation dates so used. For purposes of this calculation, all debt securities whose maturities at the time of acquisition were one year or less are excluded from both the numerator and the denominator.

The "annualized portfolio turnover ratio" is then derived by multiplying the "portfolio turnover ratio" by an annualizing factor. The annualizing factor is obtained by dividing (C) the number twelve by (D) the aggregate duration of the management period(s) expressed in months (and fractions thereof).

Examples of the use of this formula are provided in section V of this exemption.

- (iii) The information described in this paragraph (f)(4) is not required to be furnished in any case where the authorized person has not exercised discretionary authority over trading in the plan's account during the period covered by the report.

For purposes of this paragraph (f), the words "incurred by the plan" shall be construed to mean "incurred by the pooled fund" when such person engages in covered transactions on behalf of a pooled fund in which the plan participates.

(g) If an agency cross transaction to which section IV(b) does

not apply is involved, the following conditions must also be satisfied:

- (1) The information required under section III(d) or IV(d)(1)(B) of this exemption includes a statement to the effect that with respect to agency cross transactions, the person effecting or executing the transactions will have a potentially conflicting division of loyalties and responsibilities regarding the parties to the transactions;
- (2) The summary required under section III(f) of this exemption includes a statement identifying the total number of agency cross transactions during the period covered by the summary and the total amount of all commissions or other remuneration received or to be received from all sources by the person engaging in the transactions in connection with those transactions during the period;
- (3) The person effecting or executing the agency cross transaction has the discretionary authority to act on behalf of, and/or provide investment advice to, either (A) one or more sellers or (B) one or more buyers with respect to the transaction, but not both.
- (4) The agency cross transaction is a purchase or sale, for no consideration other than cash payment against prompt delivery of a security for which market quotations are readily available; and
- (5) The agency cross transaction is executed or effected at a price that is at or between the independent bid and independent ask prices for the security prevailing at the time of the transaction.

#### Section IV: Exceptions From Conditions

- (a) Certain plans not covering employees. Section III of this exemption does not apply to covered transactions to the extent they are engaged in on behalf of individual retirement accounts meeting the conditions of 29 CFR 2510.3-2(d), or plans, other than training programs, that cover no employees within the meaning of 29 CFR 2510.3-3.
- (b) Certain agency cross transactions. Section III of this exemption does not apply in the case of an agency cross transaction, provided that the person effecting or executing the transaction:
  - (1) Does not render investment advice to any plan for a fee within the meaning of section 3(21)(A)(ii) of ERISA with respect to the transaction;
  - (2) Is not otherwise a fiduciary who has investment discretion with respect to any plan assets involved in the transaction, see 29 CFR 2510.3-21(d); and
  - (3) Does not have the authority to engage, retain or discharge any person who is or is proposed to be a fiduciary regarding any such plan assets.
- (c) Recapture of profits. Section III(a) of this exemption does not apply in any case where the person engaging in a covered transaction returns or credits to the plan all profits earned by that person in connection with the securities transactions associated with the covered transaction.
- (d) Special rules for pooled funds. In the case of a person engaging in a covered transaction on behalf of an account or fund for the collective investment of the assets of more than one plan (pooled fund):

(1) Sections III(b), (c) and (d) of this exemption do not apply if —

- (A) The arrangement under which the covered transaction is performed is subject to the prior and continuing authorization, in the manner described in this paragraph

(d)(1), of a plan fiduciary with respect to each plan whose assets are invested in the pooled fund who is independent of the person. The requirement that the authorizing fiduciary be independent of the person shall not apply in the case of a plan covering only employees of the person, if the requirements of section IV(d)(2)(A) and (B) are met.

- (B) The authorizing fiduciary is furnished with any reasonably available information that the person engaging or proposing to engage in the covered transactions reasonably believes to be necessary to determine whether the authorization should be given or continued, not less than 30 days prior to implementation of the arrangement or material change thereto, including (but not limited to) a description of the person's brokerage placement practices, and, where requested, any reasonably available information regarding the matter upon the reasonable request of the authorizing fiduciary at any time.
- (C) In the event an authorizing fiduciary submits a notice in writing to the person engaging in or proposing to engage in the covered transaction objecting to the implementation of, material change in, or continuation of, the arrangement, the plan on whose behalf the objection was tendered is given the opportunity to terminate its investment in the pooled fund, without penalty to the plan, within such time as may be necessary to effect the withdrawal in an orderly manner that is equitable to all withdrawing plans and to the nonwithdrawing plans. In the case of a plan that elects to withdraw under this subparagraph (d)(1)(C), the withdrawal shall be effected prior to the implementation of, or material change in, the arrangement; but an existing arrangement need not be discontinued by reason of a plan electing to withdraw.
- (D) In the case of a plan whose assets are proposed to be invested in the pooled fund subsequent to the implementation of the arrangement and that has not authorized the arrangement in the manner described in subparagraphs (d)(1)(B) and (C) of this section, the plan's investment in the pooled fund is subject to the prior written authorization of an authorizing fiduciary who satisfies the requirements of subparagraph (d)(1)(A).

- (2) Section III(a) of this exemption, to the extent that it prohibits the person from being the employer of employees covered by a plan investing in a pool managed by the person does not apply if —
  - (A) The person is an "investment manager" as defined in section 3(38) of ERISA, and
  - (B) Either (i) the person returns or credits to the pooled fund all profits earned by the person in connection with all covered transactions engaged in by the person on behalf of the fund, or (ii) the pooled

fund satisfies the requirements of paragraph IV(d)(3).

- (3) A pooled fund satisfies the requirements of this paragraph for a fiscal year of the fund if —
- (A) On the first day of such fiscal year, and immediately following each acquisition of an interest in the pooled fund during the fiscal year by any plan covering employees of the person, the aggregate fair market value of the interests in such fund of all plans covering employees of the person does not exceed twenty percent of the fair market value of the total assets of the fund; and
- (B) The aggregate brokerage commissions received by the person, in connection with covered transactions engaged in by the person on behalf of all pooled funds in which a plan covering employees of the person participates, do not exceed five percent of the total brokerage commissions received by the person from all sources in such fiscal year.

#### Section V: Examples Illustrating the Use of the Annualized

Portfolio Turnover Ratio Described in Section III(f)(4)(ii)

- (a) A, an investment manager affiliated with a broker-dealer that A uses to effect securities transactions for the accounts that it manages, exercises investment discretion over the account of plan P for the period January 1, 1987, through June 30, 1987, after which the relationship between A and P ceases. The market values of P's account with A at the relevant times (excluding debt securities having a maturity of one year or less at the time of acquisition) are:

Market Value Date	(\$ millions)
January 1, 1987	10.4
January 31, 1987	10.2
February 28, 1987	9.9
March 31, 1987	10.0
April 30, 1987	10.6
May 31, 1987	11.5
June 30, 1987	12.0
Sum of market values	74.6

Aggregate purchases during the 6-month period were \$850,000; aggregate sales were \$1,000,000, excluding in each case debt securities having a maturity of one year or less at the time of acquisition.

For purposes of section III(f)(4) of this exemption, A computes the annualized portfolio turnover as follows:

A = \$850,000 (lesser of purchases or sales)  
 B = \$10,657,143 (\$74.6 million divided by 7, i.e., the number of valuation dates)

$$\text{Annualizing factor} = \frac{C = 12/6 = 2}{D}$$

Annualized portfolio turnover ratio =  
 $2 \times (850,000/10,657,143) = 0.160 = 16.0$  percent

- (b) Same facts as (a), except that A manages the portfolio through July 15, 1987, and, in addition, resumes management of the portfolio on November 10, 1987, through the end of the year. The additional relevant valuation dates and portfolio values are:

Market Value Date	(\$ millions)
July 15, 1987	12.2
November 10, 1987.	9.4
November 30, 1987	.9.6
December 31, 1987	9.8
Sum of market values	41.0

$$\text{Annualizing factor} = \frac{C \ 12/(6.5 + 1.67) = 1.47}{D}$$

Annualized portfolio turnover ratio =  
 $1.47 \times (1,400,000/10,509,091) = 0.196 = 19.6$  percent.

During the periods July 1, 1987, through July 15, 1987, and November 10, 1987, through December 31, 1987, there were an additional \$650,000 of purchases and \$400,000 of sales. Thus, total purchases were \$1,500,000 (i.e., \$850,000 + \$650,000) and total sales were \$1,400,000 (i.e., \$1,000,000 + \$400,000) for the management periods.

A now computes the annualized portfolio turnover as follows:

A = \$1,400,000 (lesser of aggregate purchases or sales) B = \$10,509,091 (\$115.6 million divided by 11)

#### Section VI. Effective Dates and Transitional Rule

- (a) This exemption will be effective on the later of December 18, 1986, or the date on which the Office of Management and Budget approves the information collection requests contained in this exemption under the Paperwork Reduction Act of 1980.
- (b) PTE 79-1 and PTE 84-46 are revoked effective April 1, 1987. Signed at Washington, DC, this 5th day of November, 1986. Dennis M. Kass, Assistant Secretary, Pension and Welfare Benefits Administration.

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- 1 44 FR 5963 (January 30, 1979).
- 2 49 FR 22157 (May 25, 1984).
- 3 Section 102 of Reorganization Plan No. 4 of 1978 (43 FR 47713, October 17, 1978) transferred the authority of the Secretary of the Treasury to issue exemptions of the type granted herein to the Secretary of Labor. For the sake of clarity, the remainder of the preamble refers only to Title I of ERISA, although these references also apply to the corresponding provisions of section 4975 of the Code.
- 4 40 FR 18471 (April 28, 1975).
- 5 Persons who elect the quarterly reporting option may incorporate any such report into a contemporaneous summary provided pursuant to section 111(f) of the exemption.
- 6 Another commentator objecting to this provision argued that the breakdown of remuneration charges was information not currently required to be provided to "customers." The requirement to provide the breakdown to independent plan fiduciaries is, however, currently required under section 11(e)(ii) of PTE 79-1.
- 7 The Department notes that, as the definition of "person" includes affiliates of the person, the exempted person need not disclose a breakdown of amounts paid to its affiliates. The Department also notes that, in other cases where precise figures are not available, a reasonable approximation of the allocation of fees will satisfy this condition (See, Preamble to PTE 79-1, 44 FR at 5966 (footnote 15)).
- 8 One commentator stated that while it is feasible to provide this information, it is "not possible" to do so on the confirmation slips. Disclosure of this information on the confirmation slips themselves is not required, the remuneration breakdown is to be provided annually (for those supplying confirmation slips) or in quarterly reports for others.
- 9 In 1976, the SEC had proposed a rule (proposed Rule 28e(2)-1 under the 1934 Act) which would have required investment advisers and others to disclose certain information concerning research services obtained in return for brokerage commissions, including a description of such services and an estimate of their fair market value. In addition, the SEC specifically invited comments on the feasibility and desirability of requiring disclosure of specific dollar amounts paid through brokerage commissions. See SEC Release Nos. 33-5772, 34-13024, IC-9547, IA-554 (41 FR 53356, December 6, 1976).

In response to this proposed rule, the Commission received numerous comments similar to those received by the Department: that it was impossible to attribute specific research to specific trades, that it was not practical to place a value on those services, and that it was not feasible to separate commissions into research and brokerage charges. SEC Release Nos. 33-6019, IC-10569. IA-665 (44 FR 7864,

February 7, 1979). See also, SEC Release Nos. 34-15541, IA-664 (44 FR 7870, February 7, 1979).

- 10 44 FR at 7864.
- 11 See, e.g., 17 CFR 270.20(a)(7)(vi).
- 12 See 17 CFR 275.204-3. See also, Securities and Exchange Commission Release No. IA-991 (50 FR 42903, October 23, 1985).
- 13 However, under this exemption, such a description must be supplied regardless of whether the authorized person is subject to the "brochure rule."
- 14 See generally, discussion of ongoing responsibilities of a fiduciary at 29 CFR 2509.75-8, FR-17, and, more particularly, ERISA Technical Release 86-1, issued May 22, 1986.
- 15 See SEC Release No. 34-21633, IC-14299, dated January 4, 1985 (50 FR 1442, 1479, January 11, 1985).
- 16 If that argument were correct, the necessity for this exemption would be called into question. Regulations promulgated pursuant to section 408(b)(2) provide, however, that that section does not provide an exemption for acts described in section 406(b). These regulations have been at issue in litigation and have been upheld. In *Marshall v. Kelly*, 465 F. Supp. 341 (W.D. Okla., 1978), the court held:  
  
Section 408(b)(2) of ERISA, 29 U.S.C. 1108(b)(2), provides no exemption from the provisions of section 406(b). Although the language of section 408(b)(2) appears to provide an exemption from all of the prohibitions of section 406, a closer look at the statutory language and purpose has led the Department of Labor to the position expressed in an interpretative regulation, 29 CFR 2550.408b-2(a) and (e), that section 408(b)(2) provides no exemption from the provisions of section 406(b). Since this construction by the agency charged with the enforcement of ERISA resolves inconsistencies in the statutory language and preserves a fundamental purpose of ERISA, i.e. to prevent a fiduciary from acting in matters in which he has an interest which might affect his judgment, this Court should give it great weight, *Udall v. Tallman*, 380 U.S. 1 (1965). In addition, the Court has itself reviewed the statutory language and legislative history and has independently concluded that section 408(b)(2) should not be construed to provide an exemption from the prohibitions of section 406(b).  
  
See also, *Gilliam v. Edwards*, 492 F. Supp. 1255 (D.N.J. 1980).
- 17 One commenter argued that, in the case where a participant directs trading in his account, the fiduciary following those instructions should not be liable for any excise taxes that might be imposed if this condition of the exemption is not satisfied. The commentator correctly pointed out that while section 404(c) of ERISA (relating to relief from fiduciary liability in the case of participant-directed pension plan accounts) might provide relief from the prohibited transaction provisions of Title 1 of ERISA in

- such cases, there is not counterpart in the Code to section 404(c). If the fiduciary does not use its authority to cause the plan to pay additional fees for brokerage services, this exemption from the provisions of section 406(b)(1) of the Act and its counterpart in the Code is not necessary. See note 22, *infra*. The situation described by the commentator, however, also raises questions under section 406(a) of the Act and its counterpart in the Code. The extent to which the statutory exemptions in the Act and Code for the provisions of services apply to the situations described by the commentator is an interpretive matter that depends in part, on the facts and circumstances surrounding the series of transactions directed by the participant. It should also be noted that, pursuant to section 102(a)(iii) of Reorganization Plan No. 4 of 1978 (43 FR 47713, Oct. 17, 1978), the authority to grant exemptions from the excise taxes imposed by section 4975 "... with respect to transactions that are exempted by subsection 404(c) from the provisions of Part 4 of ... Title I of ERISA ..." was not transferred from the Internal Revenue Service to the Department. See also, however, PTE 75-1 (40 FR 50845, Oct. 31, 1975), Section 1(b). PTE 75-1 was issued by both the Department and the Internal Revenue Service.
- 18 See, preamble to PTE 79-1, 44 FR at 5964 (footnote 11).
- 19 Opinion of the Comptroller, November 21, 1983.
- 20 12 CFR 333.101(b), 50 FR 10753 (March 18, 1985).
- 21 The Department will consider, for purposes of this exemption, the power to amend plan documents solely to comply with changes in applicable law as a nondiscretionary trustee or custodial function. The Department expresses no opinion, however, on whether the power to amend plan documents in a more substantive manner would indicate the opposite result.
- 22 49 FR 13208 (April 3, 1984). The distinction between "nondiscretionary" trustees and trustees generally was made in that exemption for reasons similar to those for which it is made here.
- 23 It should be noted, however, that the Department has issued two advisory opinions which held that the subject banks would not violate ERISA section 406(b)(1) by the use of their inhouse brokerage services in circumstances where (1) the banks would effect securities transactions only upon the express direction of a participant or an independent investment manager, and (2) the banks did not exercise any of the authority, control or responsibility that made them fiduciaries to cause the plans to pay any additional fees for the provision of such services. See DOL Advisory Opinions Nos. 85-15A, 85-16A (April 4, 1985). In other cases, section 404(c) of ERISA might provide adequate relief from the prohibited transaction provisions of Title I. However, it should be noted that the authority to grant administrative exemptions from the corresponding provisions of section 4975 of the Code remains with the Internal Revenue Service under Reorganization Plan No. 4 of 1978, there being no Code counterpart to section 404(c).
- 24 Class Exemption Involving Mutual Fund InHouse Plans, 42 FR 16734 (April 6, 1977).
- 25 ERISA Conference Report, H.R. Rep. No. 93-1280, 93d Cong., 2d Sess. 313, 314 (1974).
- 26 See also, PTE 79-60, 44 FR 59018 (October 12, 1979).



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