

28 June 2017

Dear Investor

Re: Update to investors – AMIT and other changes

On 1 June 2017, UBS Asset Management (Australia) Ltd (ABN 310 003 146 290) (“**UBS**”) published its intention to operate under the new Attribution Managed Investment Trust (“**AMIT**”) regime in respect of schemes of which UBS is the responsible entity, including each of the schemes listed in the enclosed update (each a “**Fund**”). This notice is to let you know about UBS’ intention to elect into the AMIT regime with effect from 1 July 2017.

As a result of this intended election, UBS has made some changes to the Product Disclosure Statement (“**PDS**”) and Broker’s Guide to application and redemption procedures (“**Broker’s Guide**”) for the Funds. Those changes, together with certain unrelated foreign tax and reporting changes, are outlined in the accompanying update dated 28 June 2017.

You can get copies of the Product Disclosure Statement and the Broker’s Guide for the Funds from www.ubs.com/etf-australia or you can request a copy free of charge by calling UBS.

UBS has also now modified the constitutions of all Funds because the AMIT regime will operate a bit differently from the existing regime. The modifications are summarised in this table:

Modification	Description of the modification
Distributable income, distribution and accumulation, attribution	<ul style="list-style-type: none"> • The existing provisions for the determination of distributable income are retained and will apply for financial years to which the AMIT Regime does not apply. <p>New provisions:</p> <ul style="list-style-type: none"> • provide for standing principles to determine the distributable income for financial years to which the AMIT Regime applies to include the “trust components” that have an assessable income character, together with additional amounts UBS considers appropriate (eg amounts relating to the discount capital gains concession); • provide the basis for attribution of components of taxable income to unit holders. This addresses specific requirements of the AMIT Regime, such as a “fair and reasonable basis” for attributions and that attributions must not be based on the “tax characteristics” of the unit holder; and • provide that UBS may direct an amount arising from the sale of an asset to a particular Member on redemption where the relevant amount is used to fund the redemption.
Rights and powers	<p>New provisions:</p> <ul style="list-style-type: none"> • provide UBS with general powers, which include electing in to the AMIT Regime and powers otherwise necessary or desirable to operate the Fund under the AMIT Regime; • provide UBS with specific powers which are expected to be necessary for the Fund to operate under the AMIT Regime, including determining taxable income components, making attributions to unit holders and issuing unit holder statements for that purpose;

Modification	Description of the modification
	<ul style="list-style-type: none"> • seek to exclude UBS from liability in respect of, or as a consequence of, the exercise of powers provided to it for the purposes of the AMIT Regime, but this will generally only be available where UBS has properly performed its duties; • seek to provide for UBS to require unit holders and former unit holders to give certain indemnities for tax and related costs and expenses incurred by UBS, but only to the extent that such tax and related costs and expenses were incurred by the responsible entity in the proper performance of its duties; and • seek to impose certain procedural requirements on unit holders and former unit holders if they are seeking to exercise their objection rights under the AMIT Regime, and provide UBS with certain powers with respect to how such objections are dealt with.
Incidental changes	Other changes considered by UBS as being necessary or incidental to the Funds being able to be operated as an AMIT, for example, to include specific definitions referable to the AMIT Regime.

More information

Please contact UBS Client Services on **(02) 9324 3222** or **1800 023 043** between 9am and 5pm (AEST) Monday to Friday.

Yours sincerely,



Bryce Doherty
Managing Director
Head of Australia & New Zealand
UBS Asset Management (Australia) Ltd

UBS Asset Management (Australia) Ltd

UBS IQ ETFs – product update

The Attribution Managed Investment Trust (“AMIT”) regime, Foreign Account Tax Compliance Act (“FATCA”) and Common Reporting Standard (“CRS”)

This information is provided to update the information set out in the UBS IQ ETFs Product Disclosure Statement dated 1 February 2016 (“PDS”), which incorporates the UBS IQ ETFs Broker’s Guide to application and redemption procedures dated 1 February 2016 (“Broker’s Guide”) in relation to the following Funds:

Fund Name	ARSN
UBS IQ Morningstar Australia Quality ETF	159 571 531
UBS IQ Morningstar Australia Dividend Yield ETF	161 570 574
UBS IQ MSCI Australia Ethical ETF	166 219 601
UBS IQ MSCI World ex Australia Ethical ETF	603 812 040
UBS IQ MSCI Europe Ethical ETF	603 813 949
UBS IQ MSCI USA Ethical ETF	603 812 246
UBS IQ MSCI Japan Ethical ETF	603 812 451
UBS IQ MSCI Asia APEX 50 Ethical ETF	603 812 826

In connection with the introduction of the AMIT regime, the following information in the PDS is updated.

1. Taxation

- (a) The information in paragraph 7.1 of the PDS has been updated. It now reads as follows:

7.1 Taxation of the Fund

Generally, each Fund should not have to pay Australian income tax, provided Unitholders are presently entitled to all of the income of the Fund in each year of income, which is intended to be the case. The taxation of Unitholders is set out below.

A trust that qualifies as a managed investment trust (“MIT”) can irrevocably elect (in an approved form) to treat its gains and losses on disposal of certain investments (including shares and units in other trusts, but excluding derivatives, debt securities and foreign exchange contracts) as capital gains and losses. However, where a MIT is eligible to make an election and it does not do so, any gains and losses on the disposal of those otherwise eligible assets (excluding land or certain interests in land) will be taxed on revenue account. It is expected that each Fund will make this election, where eligible.

Under the new Attributed Managed Investment Trust (“AMIT”) regime which can potentially apply from 1 July 2016, an eligible MIT is also able to make an irrevocable election to be an AMIT. Accordingly, if the Responsible Entity chooses to make the AMIT election for a Fund, the Responsible Entity will be able to allocate trust components to Unitholders on a fair and reasonable basis in accordance with the terms of the Constitution (without the need to satisfy the complex “present entitlement” rules). Additionally, an AMIT will be treated as a fixed trust for tax purposes, which will provide further certainty for the Fund in respect of certain tax characteristics such as franking credits and carry forward tax losses. Whether a Fund will elect to be an AMIT has not yet been finally determined, but as at the date of this PDS, the Responsible Entity intends to elect for the AMIT regime to apply to each Fund with effect from 1 July 2017.

- (b) A new sub-section titled “Attribution” has been added to paragraph 7.2 “Taxation of Australian resident Unitholders” as follows:

Attribution

If the Responsible Entity makes an irrevocable election for a Fund to be an AMIT, the following measures will be available in respect of the Fund:

- an attribution method that provides a formal mechanism to allocate taxable income to Unitholders, which is not dependent on the amount of income distributed to Unitholders and which ensures that the income retains the tax character it had in the hands of the Fund;
- an ability for under-estimations and over-estimations of amounts at the trust level to be carried forward and dealt with in the year in which they are discovered;
- both upwards and downwards adjustments to Unitholders' cost base for CGT purposes and cost for revenue purposes in specified circumstances and clarification of the treatment of tax deferred distributions; and
- deemed fixed trust treatment, which will provide further certainty for the Fund in respect of certain tax characteristics such as franking credits and carry forward tax losses.

- (c) The information under the sub-heading "Streaming of capital gains" in paragraph 7.3 "Applications and redemptions" has been updated. It now reads as follows:

Streaming of capital gains

Each Fund has been structured with the intention of ensuring that a Unitholder's level of distributions from a Fund is not affected by capital gains realised by the Fund in meeting redemptions by other Unitholders. Accordingly, any income or gains arising from investments sold to meet the redemption will be distributed or "streamed" to the redeeming Unitholder, with the aim that remaining Unitholders will not be adversely affected by such income or gains.

The redeeming Unitholder's redemption price may therefore comprise a distribution of the income of the Fund.

Where the streaming rules apply to the assets held by a Fund on capital account, the Constitution of the Fund should operate to stream the capital gains realised by the Fund when redeeming Units to the relevant redeeming Unitholders. This treatment should arise on the basis that the relevant redeeming Unitholders should be made specifically entitled to the capital gains realised by the Fund on the redemption of their Units.

However, it is also possible that income or gains (other than capital gains) may be streamed to redeeming Unitholders on redemption. This could arise, for example, where other amounts of a revenue nature are taken to be received by the Fund (e.g. in connection with a redemption of its investment in certain foreign entities in order to meet the redemption by the redeeming Unitholder).

- (d) Paragraph 7.5 "Tax reforms" has been deleted.

2. Foreign Account Tax Compliance Act and Common Reporting Standard

The information in paragraph 10.13 "Foreign Account Tax Compliance Act (FATCA)" has been updated. It now reads as follows:

In respect of the U.S. Foreign Account Tax Compliance Act ('FATCA'), each Fund is a Reporting Australian Financial Institution under the intergovernmental agreement ('IGA') entered into between the Australian and U.S. governments in relation to FATCA on 28 April 2014. Each Fund is also a Reporting Financial Institution under the OECD Common Reporting Standard for Automatic Exchange of Financial Account Information ('CRS'). Depending on your status for the purposes of the FATCA IGA and CRS, you may be requested to provide certain information and certifications to ensure compliance with the FATCA IGA and the CRS and the Fund may be required to report information in relation to you and your unit holding to the Australian Taxation Office, who in turn will share such information with the U.S. Internal Revenue Service or tax authorities of jurisdictions that have signed the CRS Competent Authority Agreement.

The Australian Government has enacted legislation amending, among other things, the Taxation Administration Act 1953 of Australia to give effect to the CRS. The CRS will apply to Australian financial institutions with effect from 1 July 2017.

We conduct due diligence on prospective investors in each Fund and on existing unit holders. Prospective investors (including existing unit holders applying for additional units) will need to provide us with certain information and/or documentation. Existing unit holders will need to provide us with certain information and/or documentation on request.

We will report information in respect of certain unit holders and their unit holdings in the Fund to the Australian Taxation Office (“ATO”). Broadly, we will report to the ATO information in respect of unit holders who are:

- U.S. citizens or residents,
- certain types of U.S. entities, or
- certain types of non-U.S. entities that are controlled by one or more U.S. citizens or residents.

We are also required to report to the ATO the details of any payments we make to “Nonparticipating Financial Institutions”, as such term is defined in the IGA.

If you are an existing unit holder and you do not provide us with the required documentation upon request we may be required to report information in respect of you and your unit holding in a Fund to the ATO.

If you are a new investor and you do not provide us with the required information and/or documentation at the appropriate time, we may report information in respect of you and your unit holding in a Fund to the ATO. Alternatively, we may not issue units to you.

In accordance with the IGA, the ATO will share information reported to it by Australian financial institutions with the IRS.

For further information in relation to how our due diligence and reporting obligations under the IGA may affect you, please consult your tax adviser.

3. Broker’s Guide

The Broker’s Guide has been updated to reflect T+2 settlement for applications and redemptions in respect of the Australian ETFs (this has previously been notified to the market), as well as FATCA and CRS updates to the application forms.

Important information

This information is provided by UBS Asset Management (Australia) Ltd (ABN 31 003 146 290, AFSL 222605).

This information may constitute general advice. It has been prepared without taking account of an investor’s objectives, financial situation or needs and because of that an investor should, before acting on the advice, consider the appropriateness of the advice having regard to their personal objectives, financial situation and needs. You should obtain a Product Disclosure Statement (PDS) relating to the financial products mentioned in this communication, and consider it before making any decision about whether to acquire or continue to hold these products. A copy of the PDS is available upon request by phoning (02) 9324 3222 or 1800 023 043, or emailing ClientServices-UBSAM@ubs.com.

Any opinions expressed in this communication constitute our judgement at the time of issue and are subject to change.