

# Wrap Fee Program Brochure (Form ADV Part 2A)

**UBS Swiss Financial Advisers AG**

Loewenstrasse 49  
CH-8098 Zürich,  
Switzerland  
Tel. +41-44-217 31 00  
Toll free 1-855-853 4288

[www.ubs.com/ubs-sfa](http://www.ubs.com/ubs-sfa)

**Discretionary Programs**

- UBS Portfolio Management Global Program (**PMGL**)
- UBS Portfolio Management International (**PMIN**)
- UBS Portfolio Management Choice (**PMC**)
- UBS Portfolio Management Prime (**PMP**)
- UBS Portfolio Management Asia Opportunities (**PMAO**)
- UBS Portfolio Management European Trade Opportunities (**PMETO**)
- UBS Managed Fund Portfolio (**MFP**)
- UBS Portfolio Strategy International (**PSIN**)

**Non-discretionary Advisory Programs**

- UBS Investment Advisory Program (**UBS-IA**)
- UBS Investment Advisory Program Precious Metals (**UBS-IA PRM**)

This Form ADV wrap fee program disclosure brochure (**Brochure**) provides information about the qualifications and business practices of UBS Swiss Financial Advisers AG (**UBS-SFA**) and our wrap fee investment advisory programs that you should consider before becoming a client of any of these programs.

If you have any questions about the contents of this Brochure, please contact us in the United States (**US**) through our toll-free number at +1 855 853 4288, in Switzerland at +41-44-217 31 00 or at [sfa@ubs.com](mailto:sfa@ubs.com). The information in this Brochure has not been approved or verified by the US Securities and Exchange Commission (**SEC**), any state securities authority, or any other governmental body.

Additional information about UBS-SFA is also available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

Please note that registration with the SEC does not imply a certain level of skill or training.

This Brochure applies to all of your wrap fee program advisory accounts at UBS-SFA, including any advisory accounts you may open in the future. We will not provide another copy of this Brochure when you establish new advisory accounts unless there are material changes to the document we originally provided to you. We will provide you annually with a copy of our updated Brochure or a summary of material changes from the Brochure previously provided to you.

**Please retain this document for future reference as it contains important information if you decide to open new advisory accounts with our firm.**

**You may obtain a copy of the current Form ADV Disclosure at any time by contacting your Wealth Management Consultant.**

# 1. Material changes

We have combined our Wrap Fee Program Brochure for Managed Programs with our Wrap Fee Program Brochure for Client Directed Advisory Programs of March 31, 2016 (together, **2016 Brochures**) into one Form ADV wrap fee brochure which now provides information about our discretionary and non-discretionary wrap fee investment advisory programs. This section describes the material changes to our 2016 Brochures since their amendments on March 31, 2016.

## Cover page

As of April 20, 2017, our phone number is +41 44 217 3100.

## Section 3: Advisory services, fees, and compensation

was updated to provide more information about:

- our discretionary programs including new disclosure regarding UBS shares;
- our non-discretionary advisory programs, including descriptions of certain investment guidelines as well as information regarding the retention of UBS shares;
- physical precious metals (**Precious Metals**) custody;
- the elimination of the "minimum fee" requirements; and

- loans, including risk information relating to the use of leverage as well as treatment of Precious Metals.

## Section 4: Account requirements and types of clients

was updated to provide further disclosure regarding our cross-border business.

## Section 5: Portfolio manager selection and evaluation of portfolio managers

was updated to disclose more information about:

- rights arising from corporate actions; and
- voting client securities (proxy voting).

**Section 7: Additional information** was updated to disclose more information about:

- SIX-SIS AG (**SIX-SIS**) as an additional executing broker for mutual funds;
- our limitations with respect to guaranteeing best execution;
- our trade error handling practices; and
- our legal obligations to clients under the laws of various jurisdictions.

## 2. Table of contents

<b>1.</b>	<b>Material changes</b>	<b>2</b>
<b>2.</b>	<b>Table of contents</b>	<b>3</b>
<b>3.</b>	<b>Advisory services, fees, and compensation</b>	<b>4</b>
3.1	About UBS Swiss Financial Advisers AG (UBS-SFA)	4
3.2	About our investment advisory programs	4
3.3	Description of our discretionary programs: PMGL, PMIN, PMC, PMP, PMAO, PMETO, MFP and PSIN	5
3.4	Description of our non-discretionary Advisory Programs: UBS-IA and UBS-IA PRM	6
3.5	Transactions for UBS-IA and UBS-IA PRM	8
3.6	Investing in Precious Metals	8
3.7	Your Advisory Fee and services included	9
3.8	Fee schedule and minimums	9
3.9	Fees and other charges not covered by your Advisory Fees	11
3.10	Third party fees and duties	12
3.11	Fees with regard to funds	13
3.12	Revenue sharing arrangements with UBS AG and UBS Switzerland AG	13
3.13	Compensation regarding other products	15
3.14	Conflict of interest in regard to compensation	15
<b>4.</b>	<b>Account requirements and types of clients</b>	<b>16</b>
4.1	Account requirements	16
4.2	Special disclosure requirements for selected countries	16
4.3	Cross-border business	16
<b>5.</b>	<b>Portfolio manager selection and evaluation portfolio managers</b>	<b>17</b>
5.1	Performance-based fees and side-by-side management	17
5.2	Methods of analysis and investment strategies	17
5.3	Discretionary programs	17
5.4	Risk of loss	18
5.5	Rights arising from corporate actions	18
5.6	Voting client securities (proxy voting)	19
<b>6.</b>	<b>Client information provided to managers</b>	<b>20</b>
6.1	Client contact with portfolio managers	20
<b>7.</b>	<b>Additional information</b>	<b>21</b>
7.1	Disciplinary information	21
7.2	Other financial industry activities and affiliations	21
7.3	Potential conflicts of interest and additional compensation	22
7.4	Code of ethics, participation or interest in client transactions, and personal trading	22
7.5	Review of client relationships (client accounts)	22
7.6	Client reporting	23
7.7	Other reviews	23
7.8	Client referrals and other compensation	23
7.9	Brokerage practices	23
7.10	Custody	25
7.11	Conflict of laws disclosure	25
7.12	Financial information	26

## 3. Advisory services, fees, and compensation

### 3.1 About UBS Swiss Financial Advisers AG (UBS-SFA)

Since 2004, we have offered investment advisory services from our office in Zurich, Switzerland, employing approximately 60 staff. We are a registered investment adviser with the Securities and Exchange Commission (**SEC**) in the United States (**US**), and have a license in Switzerland from the Swiss Financial Market Supervisory Authority (**FINMA**) as an Effektenhaendler (which roughly translates in English to "securities trader"). We are also a Qualified Intermediary under agreement (**QI Agreement**) with the US Internal Revenue Service (**IRS**). Our parent company, UBS AG, is a global integrated investment services firm and one of the world's leading banks.

As a registered investment adviser, we complete Part 1 of Form ADV, which contains additional information about our business and our affiliates. This information is publicly available through our filings with the SEC at <http://www.adviserinfo.sec.gov>.

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

**Conducting business with UBS-SFA:** We offer a number of investment advisory programs to clients, including discretionary account management and non-discretionary investment advisory programs.

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 this Brochure 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 yours.

### 3.2 About our investment advisory programs

This Brochure describes our wrap fee investment advisory programs (**Advisory Programs**). To address different investment needs, we offer both discretionary and non-discretionary advisory programs generally available in three reference currencies: US Dollar (USD), Swiss Francs (CHF) and Euro (EUR). We do not hold ourselves out as specializing in a particular type of advisory service or strategy. Instead, our Advisory Programs offer a broad variety of strategies, asset allocations, and features.

We are not registered as a securities broker-dealer in the US. Absent limited exceptions, as described further in the next paragraph, **we do not facilitate or carry out execution-only transactions**. Rather, for each client-directed Advisory Program, we provide investment advice and recommendations to you. For example, we advise you on the impact of a securities transaction considering:

- the asset allocation in relation to your stated risk profile and strategy;
- the liquidity of an investment instrument;
- the concentration risk by the counterparty;
- your stated personal and financial circumstances;
- the global economic financial market environment; and/or
- your stated investment restrictions.

Our Advisory Programs offer wrap fee advisory services, which allow you to manage your account in a number of ways:

- You can delegate investment discretion to our investment professionals, UBS-SFA Investment Management (**UBS-SFA Investment Management**);
- You can work with your Wealth Management Consultant (**WMC**) in combination with our Central Advisory Team (**CAT**) where you retain investment discretion; or
- You can use a combination of the above.

Generally, our Advisory Programs are designed for clients who want:

- to implement a medium to long-term investment plan;
- to use the advice and guidance of an investment professional either in their self-directed accounts or by delegating management of their assets to a portfolio manager; and
- investment advice, custody, trading and execution services, performance reporting, and US tax reporting services in an all-inclusive account instead of accessing those services separately.

However, our Advisory Programs may not be appropriate for you if you:

- have a short-term investment horizon;
- want to maintain consistently high levels of cash or money market funds in their accounts;
- want to maintain highly concentrated positions that will not be sold regardless of market conditions; and/or
- anticipate regular or continuous withdrawals from your account.

**Provision of services:** We provide investment advisory services to our clients. This means that all personnel providing investment advisory services for us and our clients are supervised persons, i.e. officers, directors or employees of UBS-SFA, and that there are no external investment advisers and no affiliated entities (or employees of affiliates) that act as investment adviser (i.e. portfolio manager) on our behalf.

In limited cases, and for persons domiciled outside the US only, we facilitate or carry out execution-only transactions under our license as a FINMA-supervised securities trader in Switzerland. We neither provide investment advice, nor act in our capacity as a US-registered investment adviser in connection with such execution-only services.

**US tax reporting:** Under the QI Agreement, we are obligated to provide all relevant 1099 Forms to the IRS and to our clients subject to taxation in the US on an annual basis. We provide IRS Form 1042 reporting to the IRS and satisfy US withholding tax obligations on behalf of all non-US clients.

**FATCA reporting:** As a Participating Foreign Financial Institution under the US Foreign Account Tax Compliance Act (**FATCA**), we may be required to report some or all of the following information to the IRS: your name and address, beneficial ownership information, a copy of any IRS Form W-9 "Request for Taxpayer Identification Number and Certification" on file and/or some or all of the data contained in the IRS Form W-9, account statements, the amount of assets held with us, the amount of revenues and income, and any other information regarding the relationship which may be requested or required by the IRS.

### 3.3 Description of our discretionary programs: PMGL, PMIN, PMC, PMP, PMAO, PMETO, MFP and PSIN

By selecting our discretionary programs, you authorize us to act as your investment adviser and give us the power to execute transactions (i.e., buy, sell, or to otherwise trade securities or other investments) for your discretionary

program account without consulting you. You authorize us to take any actions necessary to open and maintain your account or to complete and pay for transactions for your account. You also give us the sole authority to manage your account and make all investment decisions for your account without discussing these transactions with you. We are generally limited to investing in those securities classified as eligible for the selected program.

UBS-SFA Investment Management has the primary responsibility for the day-to-day management of discretionary program accounts.

*Assets held by UBS-SFA in discretionary programs as per December 31, 2016:* CHF 1,965,291,808. This figure corresponds to the "Regulatory Assets under Management" figure disclosed in Form ADV Part 1A.

**Discretionary program strategies:** Our discretionary programs offer a variety of investment strategies that are managed by UBS-SFA Investment Management on a discretionary basis. The following table provides an overview of the strategies and related investment objectives for each discretionary program strategy:

Discretionary programs									
Strategy	Investment objectives	MFP	PMGL	PMIN	PMC	PMP	PMAO	PMETO	PSIN
Fixed Income	To seek long-term capital preservation and regular interest income with minimal volatility.	√	√	√	√	√	n/a	n/a	√
Income	To seek long-term capital preservation, regular interest income, and very modest capital appreciation, with relatively low volatility.	√	√	√	√	√	n/a	n/a	√
Yield	To seek income generation and long-term capital appreciation with moderate volatility.	√	√	√	√	√	n/a	n/a	√
Balanced	To seek a balance of income and long-term capital appreciation generated by a broad mix of interest, dividends and capital gains, with medium volatility.	√	√	√	√	√	n/a	n/a	√
Growth	To seek significant long-term capital appreciation, with only modest interest income and dividend yield with above average volatility.	√	√	√	√	√	n/a	n/a	√

Discretionary programs									
Strategy	Investment objectives	MFP	PMGL	PMIN	PMC	PMP	PMAO	PMETO	PSIN
Equity	To seek substantial long-term capital appreciation with nominal dividend yield with high volatility.	√	√	√	√	√	n/a	√	√
Equity (special theme)	To seek substantial long-term capital appreciation in special themes and nominal dividend yield with significant volatility.	n/a	n/a	n/a	n/a	n/a	√	n/a	n/a

**Reference currencies available for each discretionary program:** The reference currency is the currency in which investment performance is measured over a specific period of time.

Discretionary programs								
Reference currency	MFP	PMGL	PMIN	PMAO	PMC	PMP	PMETO	PSIN
USD	√	√	n/a	√	√	√	n/a	n/a
CHF	n/a	√	n/a	n/a	√	√	n/a	n/a
EUR	n/a	√	√	n/a	√	√	√	√
Others	n/a	n/a	n/a	n/a	√	√	n/a	n/a

**Precious metals:** Some of our discretionary program strategies include an asset allocation to physical Precious Metals. **The value of Precious Metals cannot be used as security for a loan.** For more information see section 3.6 below.

**Rebalancing:** Our discretionary programs employ both strategic and tactical asset allocation. Discretionary program assets are evaluated as part of a regular rebalancing process. You are not allowed to direct the rebalancing frequency or methodology, or opt out of rebalancing on your account. The regular rebalancing process considers:

- market actions;
- your contribution;
- any withdrawal requests; and/or
- template or strategy changes that have been directed by UBS-SFA Investment Management.

**Investment restrictions:** For all discretionary programs, we have full investment discretion over your assets and also have full discretion to select the broker-dealer to execute the recommended discretionary transactions. You may have the opportunity to place reasonable investment restrictions with respect to your discretionary program. However, we reserve the right to decline or terminate discretionary programs and client accounts if we believe the restrictions imposed are not reasonable or otherwise may inhibit our effective management of your account in a given program.

**UBS shares:** Some of our discretionary program strategies have an allocation to Swiss securities. We manage the

allocation to Swiss securities by tracking the Swiss Leaders Index. UBS Group AG is represented in the financial sector in the Swiss Leaders Index, as well as all other Swiss indices. We have selected the Swiss Leaders Index because it is an index with the lowest concentration risk relative to comparable indices. We may, at our sole discretion, change the index selection from time-to-time without prior notification to our clients.

If your strategy has a Swiss security component, then you will be invested in UBS shares. In order to mitigate any potential conflicts presented by the purchase of UBS shares in your discretionary program account, we manage your investments in UBS shares based on independent third-party criteria such as a securities index developed by a non-affiliated index provider. Our trading in UBS shares tracks the changes in the index on a semi-annual basis. In order to mitigate conflicts to the fullest extent possible: (1) your exposure to UBS shares is based on the percentage it represents in the index and is only changed based on corresponding changes in the index with a relative tolerance of +/- 50% to the model portfolio weight; and (2) UBS share positions are not included in the calculation of your Advisory Program fee (**Advisory Fee**).

#### 3.4 Description of our non-discretionary Advisory Programs: UBS-IA and UBS-IA PRM

UBS-SFA offers two non-discretionary programs:

- UBS Investment Advisory Program (**UBS-IA**); and

- UBS Investment Advisory Program Precious Metals (**UBS-IA PRM**).

The following services are delivered to clients with a UBS-IA or UBS-IA PRM account:

- General investment advice on security level according to your risk profile;
- Advice with regard to economic outlook and tactical allocation in a broader context from UBS-SFA Investment Management;
- Semi-annual portfolio review for UBS-IA mandates and an annual portfolio review for IA-PRM; and

- Information about to “sell” recommendations of invested assets.

Due to the non-discretionary nature of these programs, it is your responsibility to determine whether and how to implement the target asset allocation/investment strategy and to ensure that your asset allocation continues to be consistent with your goals over time. Your assets allocation reflects only your assets invested in your UBS-IA account.

*Assets held by UBS-SFA in non-discretionary Advisory Programs as per December 31, 2016: CHF 2,906,338,333.*

### 3.4.1 UBS-IA

Available strategy	Investment objectives	Equity and Other Investments (as defined below) allocation ranges
Conservative	The objective of the conservative strategy is to seek to preserve long term assets and to obtain recurrent income. Capital volatility is low.	0% to 40%; remaining range is allocated to liquidity and fixed income securities (bonds).
Moderate	The objective of the moderate strategy is to seek to achieve long-term appreciation of capital, recurrent income, and dividend yield, supplemented by capital gains. Capital volatility is medium.	0% to 70%; remaining range is allocated to liquidity and fixed income securities (bonds).
Aggressive	The objective of the aggressive strategy is to seek to achieve substantial long-term appreciation of capital. The major yield element is driven by capital gains, complemented by interest and dividends. Capital volatility is high.	0% to 100%; remaining range is allocated to liquidity and fixed income securities (bonds).

Equity and “Other Investments” are considered as securities with respect to the asset allocation range as mentioned above; Other Investments can include commodities in the form of ETFs/ETNs, physical precious metals, US-registered investment funds, or other funds. Other Investments normally entail a risk profile that is similar to, or higher than, the risk associated with an equity investment. As part of the services in UBS-IA, you have direct access to a CAT member who will perform a portfolio review with you twice annually to address your risk profile, ineligible investments, bulk and single issuer concentration risk, and non-securities holdings.

**Target asset allocation:** You may deviate from your target strategy only by a pre-determined level based on your risk tolerance. We will notify you if your allocation shifts and is more aggressive than those limits and if those inconsistencies continue for a period of time. You are responsible for addressing any inconsistencies. For UBS-IA accounts, if you do not take action to update the account profile or modify your asset allocation, the account may be terminated.

**Taking advice on transactions:** You may execute security transactions that we have recommended (**Advised Transactions**), as well as transactions you execute based on our negative recommendation (**Non-advised Transactions**).

The advice and guidance from the CAT is a key service of the UBS-IA. A pattern of Non-advised Transactions may indicate that UBS-IA is no longer appropriate for you as you are not leveraging our advice. This may result in the termination of your UBS-IA account.

When holding a position after completing a Non-advised Transaction, 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;
- when we provide you with analyses and reports on your account's performance; and
- we may also make recommendations that you consider selling the asset.

As a result, and with the exception of UBS shares (see below), we will include any security you acquire in an Non-advised 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 Advisory Fee.

**Ineligible instruments in UBS-IA:** You may be permitted to hold, but not purchase, the following assets in your UBS-IA account: leveraged ETFs, equity syndicates, new issue securities, OTC derivatives, exchange traded derivatives, conditional conversion (CoCo) bonds, non-US registered mutual funds and ETFs, Reg S structured Products, UBS-issued bonds, structured products, options, and warrants. A concentration of ineligible instruments in your UBS-IA account may indicate that UBS-IA is no longer appropriate for you as you are not leveraging our advice. This may result in the termination of your UBS-IA account.

As these assets may be held in your account, and therefore subject to our ongoing advice, they are still included in the calculations of your Advisory Fee.

**Securities concentration:** UBS-IA is not appropriate for clients who want to maintain high levels of concentrated positions that will not be sold regardless of market conditions. If you continue to hold high levels of highly concentrated positions then you do so against our recommendation and with the understanding that the value of those securities is included for the purposes of calculating the Advisory Fee, resulting in a higher fee to us. If your account continues to be outside of the concentration guidelines over a specified period of time, we will continue to advise a reduction of these positions.

**Cash and non-securities concentration:** UBS-IA is not appropriate for clients who want to maintain high levels of cash and/or Precious Metals positions. If you continue to hold high levels of cash and/or Precious Metals positions then you do so against our recommendation and with the understanding that the value of those securities may be included for the purposes of calculating the Advisory Fee, resulting in a higher fee to us. If your account continues to be outside of the concentration guidelines over a specified period of time, we will continue to advise a reduction of these positions.

**Reverse churning:** You will be informed if you do not engage in any transaction in your UBS-IA for an extended period of time. If your account remains inactive we will continue to charge an Advisory Fee. An inactive UBS-IA account may indicate that this program is no longer

appropriate for you as you are not leveraging our advice. This may result in the termination of your UBS-IA account.

**Retention of UBS shares:** If you deliver or purchase UBS shares into your UBS-IA account, you direct UBS-SFA to receive and retain those UBS shares into your UBS-IA account. We do not give advice with respect to the purchase, sale, or retention of UBS shares. Clients who direct us to hold UBS shares in their UBS-IA accounts agree to accept full responsibility for the retention of such securities (including the voting of any proxies related thereto). UBS share positions will not be included in the calculation of your Advisory Fee.

### 3.4.2 UBS-IA PRM

UBS-IA PRM's main objective is to seek to achieve your investment objectives by providing you with investment advice and recommendations from a CAT member with regard to Precious Metals and cash alternatives. You may only invest in a UBS-IA PRM Program if you have an aggressive risk profile and initial and ongoing investments of at least CHF 1 million. (See section 3.8.1 below). The investment universe consists of Precious Metals (gold, silver, platinum, and palladium) and money market funds, fiduciaries or any other approved cash alternative. The investment universe is regularly reviewed and monitored. Lending is not available for UBS-IA PRM accounts. For more information on investing in Precious Metals see section 3.6 below.

UBS-IA PRM strategy	Investment objectives
Aggressive (equivalent to a IP/PRP of above average)	The objective of the aggressive UBS-IA PRM strategy is to seek a potential hedge against inflation risks, currency devaluation, and meltdown scenarios with high volatility.

### 3.5 Transactions for UBS-IA and UBS-IA PRM

We will execute transactions for your UBS-IA and UBS-IA PRM based solely upon your instructions; UBS-SFA will not have any discretion over the investment of your program assets in these accounts. Due to the non-discretionary nature of these programs, it is your responsibility to determine whether and how to implement your target asset allocation/investment strategy and to ensure that your asset allocation continues to be consistent with your goals over time. Your asset allocation reflects only your assets invested in the respective UBS-IA or UBS-IA PRM account.

For US-resident clients, the value of Precious Metals cannot be:

- used as security for a loan;
- eligible for consideration as a pledged asset; or
- considered when calculating the lending value of your pledged assets.

The foregoing is applicable at all times. Additionally, you may not purchase Precious Metals with the proceeds of a loan.

We and our affiliates receive additional compensation when you purchase Precious Metals. Please see section 3.12.3 for a description of the additional compensation.

### 3.6 Investing in Precious Metals

Precious Metals purchased in one of our Advisory Programs are held in custody outside of the US at UBS Switzerland AG. You may only hold Precious Metals represented in the form of bullion, bars, and coins which are measured in kilograms or ounces. Precious Metals derivatives, such as futures contracts, options on futures, options on physical swaps or forward contracts will not be transacted or held in custody by us. No interest will be paid to you in respect of the Precious Metals positions. We will not enter into transactions for the purchase/sale of Precious Metals on your behalf on a leveraged or financed basis.

You may invest in Precious Metals in both our discretionary and non-discretionary Advisory Programs in either collective or segregated custody (each described below). Unless you specifically request to store your Precious Metals in segregated custody, your Precious Metals will be stored in collective custody.



**Collective custody:** Your Precious Metals are stored by UBS Switzerland AG in a collective custody account held in our name. You will be a joint owner of the collective custody account held in our name. Your share ownership is determined by the number of pieces or by weight. If UBS Switzerland AG were to declare bankruptcy, your collective ownership share Precious Metals would be separated from the bankruptcy assets and credited to you. With collective storage in Switzerland, you have collective ownership of the collective custody account in relationship to the custody assets booked into this custody account. In the case of physical delivery, you do not have the right to specific numbers or denominations of bars, or to specific years or minting of counts, but you will still have to pay a surcharge representing the production costs for physical delivery. This surcharge will be in addition to any delivery costs. At conversion, the current production and delivery costs are charged and, in the case of white metals, 8% VAT is charged on the current total value. The conversion and delivery costs are in addition to your Advisory Fee.

**Segregated custody:** Your Precious Metals are stored by UBS Switzerland AG in Switzerland in a separate individual custody account. You are the sole owner of this specific Precious Metal and you can request delivery at any time. If UBS Switzerland AG were to declare bankruptcy, the Precious Metals owned by you would be separated from the bankruptcy assets and credited to you. Precious Metals must be produced and stored by UBS Switzerland AG, which generates production costs not included in your Advisory Fee and in addition to any delivery costs.

### 3.7 Your Advisory Fee and services included

Our Advisory Fee is a wrap fee at the maximum annual rates listed in the fee schedules below covering the following services:

- investment advice;
- custody account maintenance (including costs associated with corporate actions and delivery of securities to us);
- trading, execution, and settlement (including primary market transactions in investment fund units);
- money market and fiduciary deposit transactions, which are intended as cash management tools;
- payment services, if the payments are to a payee in Switzerland or Liechtenstein and denominated in CHF or EUR;
- payment services to UBS Switzerland AG (any currency);
- periodic client reporting (in electronic or paper form);
- regulatory tax reports (annual Form 1099, Swiss tax statement for Swiss-resident clients);
- periodic meetings with and access to investment advisory personnel; and
- transmittal of Form 1099 information to the IRS.

**Fee negotiation:** All of our Advisory Programs offer the flexibility to negotiate either a flat fee or a tiered (break-point) fee schedule. With a flat fee option, the agreed upon annual

Advisory Fee is a fixed percentage of the assets in the account; that percentage does not change as the value of your account changes. With break-points, the negotiated fee, also a percentage of the assets, varies based on asset levels and changes as you increase or decrease assets in your account. Specific “break-points” for each asset level are defined in section 3.8 below. You may request to have two or more eligible Advisory Program accounts treated as related accounts to qualify for certain break-point discounts. If you negotiated a discount to the Advisory Fee schedule, this discount only applies to the break-point asset level (i.e., the asset level that qualifies for reduced fees). As a result, your Advisory Fee may change in the future as you increase the assets in your account and trigger the listed break points.

**Fee calculation:** Your Advisory Fee is calculated monthly in CHF based on the market value (in CHF) of the assets under management five business days before month end and covers the services performed in the 30 days prior to the fee determination date. The market value, i.e. the valuation of the investments in your account, is provided by SIX Financial Information Ltd., Zurich, Switzerland. At the end of each quarter (March, June, September, and December), your Advisory Fees for the three months in that quarter are totaled and debited from the account in your reference currency at the beginning of the following quarter. If your reference currency is not CHF but USD or EUR, then the debiting of your Advisory Fee to the USD or EUR account will result in a foreign-exchange transaction (CHF are bought against USD or EUR), on which there is additional revenue for UBS-SFA.

Your Advisory Fee will not be adjusted for: (1) low or no trading activity; (2) if you decide not to implement or follow investment advice we provide to you; or (3) if you decide to suppress required reports delivered in the Advisory Programs.

### 3.8 Fee schedule and minimums

We have the sole discretion to accept a client for an Advisory Program where the minimum recommended investment amount is not met. We have the right to terminate your participation in an Advisory Program if the assets in your account fall below the minimum size recommended by us as described above. Under normal circumstances, we will not do so if such decrease in value is attributable to the performance of the Advisory Program.

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

All rates listed below indicate the maximum annual fee in each Advisory Program.

### 3.8.1 Non-discretionary programs

#### UBS-IA Advisory Fees (per annum)

Assets under management (amount in CHF)	Advisory Fee
below 2.5 million	1.25%
2.5 to 5 million	1.20%
5 to 10 million	1.10%
10 to 25 million	0.95%
25 to 35 million	0.75%
more than 35 million	personal quote upon request

**Recommended minimum investment amount: CHF 1,000,000**

#### UBS-IA PRM Advisory Fee (per annum)

Assets under management (amount in CHF)	Advisory Fee
One fee regardless of assets under management	0.50%

**Recommended minimum investment amount: CHF 1,000,000**

### 3.8.2 Discretionary programs

For services provided under discretionary programs, we are compensated on the basis of an Advisory Fee calculated as a

percentage of assets under management. The Advisory Fee is dependent on not only the amount of assets under management but also the selected investment strategy.

#### PMGL, PMIN, PMC Advisory Fee schedule (per annum)

Investment strategy	Fixed income	Income	Yield	Balanced	Growth	Equity
Assets in CHF						
below 2.5 million	1.10%	1.20%	1.30%	1.40%	1.50%	1.65%
2.5 to 5 million	1.05%	1.15%	1.25%	1.35%	1.45%	1.60%
5 to 10 million	0.95%	1.05%	1.15%	1.25%	1.35%	1.50%
10 to 25 million	0.80%	0.90%	1.00%	1.10%	1.20%	1.35%
25 to 35 million	0.60%	0.70%	0.80%	0.90%	1.00%	1.15%
more than 35 million	personal quote upon request					

**Recommended minimum investment amount: CHF 1,000,000**

#### PMP Advisory Fee schedule (per annum)

Investment strategy	Fixed income	Income	Yield	Balanced	Growth	Equity
Assets in CHF						
below 35 million	0.60%	0.70%	0.80%	0.90%	1.00%	1.15%
more than 35 million	personal quote upon request					

**Recommended minimum investment amount: CHF 25,000,000**

#### PMAO, PMETO Advisory Fee schedule (per annum)

Investment strategy	Equity
Assets in CHF	
below 1.0 million	1.95%
1.0 to 2.5 million	1.85%
2.5 to 5 million	1.80%
5 to 10 million	1.70%
10 to 25 million	1.55%
25 to 35 million	1.35%
more than 35 million	personal quote upon request

**Recommended minimum investment amount: CHF 500,000**

**MFP Advisory Fee schedule** (per annum)

Investment strategy	Fixed income	Income	Yield	Balanced	Growth	Equity
Assets in CHF						
One fee regardless of assets under management	0.95%	1.05%	1.15%	1.25%	1.35%	1.50%

**Recommended minimum investment amount: CHF 1,000,000**

**PSIN Advisory Fee schedule** (per annum)

Investment strategy	Fixed income	Income	Yield	Balanced	Growth	Equity
Assets in CHF						
One fee regardless of assets under management	1.10%	1.20%	1.30%	1.40%	1.50%	1.65%

**Recommended minimum investment amount: CHF 1,000,000**

**3.9 Fees and other charges not covered by your Advisory Fees**

You will pay other charges in addition to the Advisory Fee, some of which add to the compensation that we receive. Advisory Fees will not be reduced or offset by these charges. Instead, **these additional charges will reduce the overall return of your account.**

Our Advisory Fees do not include:

- internal administrative, management, redemption (see below), and performance fees that may be imposed by collective investment vehicles such as open-end and closed-end mutual funds, hedge funds or other alternative investments, or ETFs;
- redemption fees charged by mutual funds for active trading in your accounts (see "mutual fund redemption fees for active trading" below); or
- other specialized charges, such as transfer taxes, and fees we charge to customers to offset fees we pay to exchanges and/or regulatory agencies on certain transactions; or
- revenue earned by us on foreign exchange transactions placed by us for execution (see section 3.11.2).

UBS Switzerland AG will also charge interest on any outstanding loan balances (including margin loans) due.

Additionally, you will also be charged additional fees for specific account services, such as:

- account transfer fee;
- voluntary corporate action fees;
- fees for banking account services, where such services are available to you; and **mutual fund redemption fees for active trading:** The mutual funds you hold in your account may charge redemption fees if shares are sold within a certain period of time after they are purchased, also known as active trading. These fees may also apply to the redemption portion of an exchange transaction if shares are exchanged among funds (whether through direct exchanges or through sales and new purchases) in the same family of funds more frequently than is permitted by each fund's prospectus. The amount charged as a redemption fee, the length of time you must hold your shares to avoid a redemption fee and the number and frequency of exchanges among funds you may make without paying a redemption fee varies from one mutual fund to another. This information is included in each fund's prospectus. If you have questions about whether a redemption fee will apply to a transaction you wish to make, please ask your WMC for a prospectus for the applicable mutual fund. **If charged, redemption fees are in addition to your Advisory Fee and are your responsibility**

**Supplementary Services Fee Schedule (not included in the Advisory Fee)**

Service	Supplementary services fee
Delivery of securities <b>to</b> UBS-SFA	Free of charge
Delivery of securities <b>from</b> UBS-SFA	CHF 100 per security (third party fees not included)
Payment services to a payee in Switzerland other than CHF and EUR	CHF 25 per payment order plus fees charged by financial institutions outside of Switzerland.
or to a payee outside of Switzerland	CHF 10 surcharge for European payments if the International Bank Account Number (IBAN) is not provided.
Checks: Deposit	CHF 50
Checks: Issuing	CHF 50 / Courier delivery fees (up to CHF 15) are not included
Numbered accounts	5% surcharge on Advisory Fee / CHF 500 minimum per year

### Supplementary Services Fee Schedule (not included in the Advisory Fee) (continued)

US tax statements (see section 3.2) for tax-related statements that are covered by the Advisory Fee)	CHF 350 for annual detailed tax statement. CHF 100 for each quarterly or semi-annual detailed tax statement.
<i>Tax reclaim services:</i> for each country that has entered into a double-taxation treaty with the US, UBS-SFA can assist US residents in reclaiming taxes withheld by these foreign countries	CHF 400 per country per tax year
Physical delivery of Precious Metals <b>from</b> UBS-SFA	CHF 250 per position (fees for insurance and shipping are not included)
Production costs of Precious Metals	Production costs vary depending upon the type of metal, the form (i.e., coins, bars), the size of the amount to be produced, and the market rate for the Precious Metal.

Fees not outlined above may arise in the course of transactions. We reserve the right to change the fees for supplementary services at any time upon notice to clients.

### 3.10 Third party fees and duties

Your Advisory Fee does **not** cover third-party fees and duties, which have to be **borne by you** and are charged separately. Below is an overview of the most commonly assessed third-party fees and duties. The information

contained in this overview is subject to change at any time and from time-to-time and without notice, because it is generally updated on an annual basis only. Material changes, however, are communicated promptly to you. You can request any of the fee schedules at any time.

Exchange/Country	Buy / Sell	Description	Equities	Fixed income (bonds)
			Rate	Rate
France	B	Transaction Tax	0.30%	
Greece	B/S	Stamp Tax	0.0325%	
	B/S	Stamp Tax	0.10%	
Hong Kong	B/S	Exchange Fee	0.005%	
	B	Levy Tax	0.0027%	
Italy	B/S	Transaction Tax	0.1%	
Korea	S	Sales Tax	0.15%	
	S	Farmers Tax	0.15%	
Singapore	B/S	Exchange Fee	0.0325%	
	B/S	Stamp Tax	0.075% / 0.15%	0.075% / 0.15%
Switzerland	B/S	SWX Fee		0.005% / floor CHF 3.50 / cap CHF 100
	B/S	SWX Fee on non-CHF Bonds placed on SWX		CHF 5.00
	B/S	VAT: 8% (*)		
Taiwan	S	Sales Tax	0.30%	
UK	B	Stamp Tax	0.50%	
USA	S	SEC Fees	0.00218%	

### 3.11 Fees with regard to funds

You can invest in funds (i.e. mutual funds shares or in shares of exchange traded funds) within your Advisory Program. In such a case you will, in addition to the Advisory Fee charged by us, also indirectly pay fees charged based on the particular instruments held as part of the Advisory Program and in your account (e.g. 12-b1 investment advisory fees and distribution fees<sup>1</sup> paid by mutual funds and indirectly borne by fund investors). A breakdown of the total expense ratio and distribution fees of funds is shown underneath the detailed position descriptions on your asset statement.

You should be aware that fund shares can be purchased directly without being invested in one of our Advisory Programs or using our services.

Fund distributors in our fund distribution chain have a distribution or similar arrangement with the issuer of funds. Under substantially all such arrangements, the fund distributor receives distribution fees, such as 12b-1 fees, which vary in amount and type and depend on the fund issuer, fund category, the fund itself and the fund share class, and/or other forms of non-monetary compensation. Those fees are disclosed in the respective fund's prospectus or other legal documents. They typically are calculated as a percentage of the average annual value of the fund shares held your account with us and paid on a monthly, quarterly, or yearly basis. The rates of the fees vary but typically range from 0 to 120 basis points (**bps**); 100 bps equal 1%. In general, fund distributors pass on to us the fees they receive related to your fund holdings.

In relation to the assets invested in an Advisory Program, we receive distribution fees of between 0 and 1.2% p.a. The exact percentage range depends on the type of program, the investment strategy, and the asset allocation applied thereunder from time-to-time.

We do not receive any front-end or contingent deferred sales loads with respect to your investments in mutual funds. Further, although a UBS group affiliate receives non-monetary compensation from issuers of fund shares (e.g. research), the only type of compensation that is passed on to us is the cash compensation, as described above.

Generally, only one share class of a fund is available to us for use with our clients under the contractual operational arrangements with the fund and/or its service providers. This

---

<sup>1</sup> Distribution [and/or Service] (12b-1) fees are fees paid by the fund out of fund assets to cover distribution expenses and sometimes shareholder service expenses. "12b-1 fees" get their name from the SEC rule that authorizes a fund to pay them. The rule permits a fund to pay distribution fees out of fund assets only if the fund has adopted a plan (12b-1 plan) authorizing their payment. "Distribution fees" include fees paid for marketing and selling fund shares, such as compensating brokers and others who sell fund shares, and paying for advertising, the printing and mailing of prospectuses to new investors, and the printing and mailing of sales literature. The SEC does not limit the size of 12b-1 fees that funds may pay." (source: SEC website at <http://www.sec.gov/answers/mffees.htm#distribution> on 31 March 2017).

share class may not be the fund's least expensive share class. It is possible that you may qualify for a share class that is less expensive than the share class made available to you by us (and that is ultimately used in your account).

Although we do not serve as an investment adviser, principal underwriter, transfer agent, custodian, administrator or other service provider of any fund in which client assets may be invested, an affiliate of ours may earn fees for providing services (such as investment advisory, distribution, transfer agency, administration or custody services) to funds in which we may invest your assets within an Advisory Program. These service arrangements and the fees paid by the funds for the services provided are disclosed in the respective fund's prospectus. We do not directly or indirectly receive any portion of these fees. Subject to applicable principal trading restrictions, we may invest your assets in funds that are sponsored or managed by UBS AG or one of its affiliates (i.e. in UBS "proprietary" funds).

The compensation arrangements described above create conflicts of interest for us (or the appearance of such conflicts). We have an incentive to invest your assets in funds for which we or an affiliate receives fees or other forms of compensation, and to keep your assets invested in that manner. Through your investments in these funds, you indirectly pay these fees and other forms of compensation, in addition to the Advisory Fee we charge for our services. **The Advisory Fee is not offset or reduced by any compensation that we or our affiliates receive from funds or their service providers.** We also have an incentive to advise you to invest in funds that pay (or that have service providers that pay) fees that are higher than those other funds (or their service providers) pay. However, based on such compensation arrangements, you may at the same time also benefit that such funds may not charge any front end-load or early redemption fees.

Subscription/redemption of funds or related investment instruments may be subject to payment of a front end-load/redemption fee, including but not limited to early redemption fees/penalties. Your Advisory Fee does not cover such additional charges or fees which are borne by you, and are generally charged separately.

### 3.12 Revenue sharing arrangements with UBS AG and UBS Switzerland AG

We may invest your assets in a discretionary program or recommend transactions to you in your non-discretionary program in a security or other instrument in which we or an affiliate has a financial or other interest or that results in the receipt of compensation by us or an affiliate that is in addition to your Advisory Fee paid to us by you. These and the below types of transactions or arrangements present a potential conflict between your interest and our interests, in that they provide us a direct or indirect financial or other incentive to recommend or effect the transaction when it may not be in your best interests to do so.

Any compensation received by us as a result of the arrangement or investments made by you in the products

discussed below is in addition to your Advisory Fee, and is paid directly or indirectly to us by you (often through the product issuer or service provider). **This additional compensation is not applied to reduce or offset any Advisory Fee or other fees paid by you** and it creates an incentive for us to recommend or make these types of investments or arrangements.

### 3.12.1 Loans

From time-to-time, and subject to restrictions by applicable laws and regulations, you may request lending assistance from UBS Switzerland AG in the form of a “**Lombard Loan**” (margin or purpose) or mortgage. You must meet certain eligibility requirements and you will be required to execute a separate margin agreement with us and with UBS Switzerland AG. UBS Switzerland AG would act as a lender to you and as such UBS Switzerland AG charges interest on the loans it provides. In connection with these loans, we provide services to UBS Switzerland AG such as administering part of the loan documentation and to UBS AG for the purpose of monitoring collateral held with us. For these services, we receive a service fee from UBS Switzerland AG in an amount equal to 50% of the interest (which will fluctuate from time-to-time) earned by UBS Switzerland AG in connection with your loan. You are not required to use UBS Switzerland AG as lender, and the terms of loans offered by UBS Switzerland AG may be more or less favorable to you than those that may be obtained from an unaffiliated third party lender.

**Margin:** Using margin in an Advisory Program, or using advisory assets as collateral for margin used in another account, is a more aggressive, higher risk approach to pursuing your investment objectives. Before you decide to use margin in your account or to use such assets as collateral, you must carefully consider:

- whether you can afford, and want, to assume the additional risks that losses in your account will be significantly greater than if you decide not to invest with borrowed funds (i.e., not to use leverage);
- that 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, will make your investment objectives more difficult to realize; and
- you will pay UBS Switzerland AG interest on the outstanding loan balance, and since your Advisory Fee is calculated as a percentage of your assets under management, the use of margin to purchase securities in an Advisory Program account generally increases the amount of (but not the percentage of) the Advisory Fee that you pay.

**The decision to use leverage in an Advisory Program account or use those assets as collateral rests with you and should only be made if you understand:**

- the risks of margin borrowing and the impact of the use of borrowed funds on a managed account;
- how the use of margin may affect your ability to achieve investment objectives;
- **that you may lose more than your original investment;**

- that a positive or negative performance of a margined Advisory Program account, net of interest charges and other account fees, will be magnified by virtue of using borrowed money. As a result, gains or losses in leveraged Advisory Program accounts will be greater than would be the case with unleveraged Advisory Program accounts; and
- **you will not benefit from using margin in your Advisory Program account if the performance of your account does not exceed the interest expense being charged on the loan plus the additional Advisory Fees incurred by your account as a result of the deposit of the loan proceeds.**

**Defaults:** Lombard Loans are full recourse demand loans and you will need to deposit additional cash or collateral or repay part or all of the loan if the value of the portfolio declines below the required loan-to-value ratio. UBS Switzerland AG can demand repayment at any time. You are personally responsible for repaying the margin loan in full, even if the value of the collateral is insufficient. 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, at our discretion, to liquidate or instruct us to liquidate some or all of the collateral account or accounts to meet the Lombard loan or credit line requirements. Depending on market circumstances, the prices obtained for the securities may be less than favorable. Any required liquidations may disrupt 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 Lombard loan borrowing and using securities as collateral for a loan.

The value of **physical precious metals cannot be used as security for a loan.** For more information on Precious Metals, see section 3.6 above.

There are substantial risks associated with the use of borrowed funds for investment purpose and securities as collateral for a loan. For further information, please request the UBS Switzerland AG Loan Disclosure Statement from your WMC.

### 3.12.2 Foreign Exchange

All foreign exchange transactions are executed exclusively through UBS AG’s Investment Bank. UBS AG and UBS-SFA earn a margin on these transactions. Although foreign exchange transactions are included in your Advisory Fee, we and UBS AG earn additional revenue from each foreign exchange transaction placed by us for execution. Specifically, we retain 85% of the margin in connection with such transactions and pass on the remaining 15% to UBS AG. The margin price set is subject to negotiation in our sole discretion of UBS AG. You should be aware that the margin applied by us for these transactions may be more or less favorable to clients than those that may be obtained from an unaffiliated third party. If you do not wish for us to use UBS AG to engage in foreign exchange transactions, we will

not be able to provide such services and you would need to seek such services from a third party. The margin applied by us to execute a foreign exchange transaction are based on the applicable rate and spread as follows:

- Foreign exchange spot transactions **below CHF 100,000** (or the equivalent in other currencies): If we buy/sell a currency on your behalf, we do so at the so-called system rate we receive through the bank system. The system rate is the early morning interbank rate, which may be adjusted during the day, plus a margin which depends on the currency being bought/sold on your behalf; the margin ranges from 110bps to 150bps. Such margin is additional revenue for us.
- Foreign exchange spot transactions of **CHF 100,000 or more** (or the equivalent in other currencies): If we buy/sell a currency on your behalf, we do so at the interbank rate we receive from UBS AG plus a margin. Such margin depends on (i) the transaction size and (ii) the currency you buy/sell. The margin ranges from 12bps to 100bps, and such margin is additional revenue for us.

In cases, where you purchase or sell an investment against your account and your account has a different reference currency than the investment is traded in, such trade will automatically lead to a foreign exchange transaction. Additionally, in case of time differences between the trade and the settlement date on the account, you may be exposed to a currency risk for this period.

### 3.12.3 Precious Metals

Your Precious Metals transactions are executed directly through UBS AG. UBS AG earns a margin on these transactions. While Precious Metals transactions are included in the Advisory Fee, production costs and delivery costs payable for UBS AG, and VAT are not included in your Advisory Fee. Additionally, UBS Switzerland AG earns additional margin revenue from each Precious Metals transaction placed by us for execution which ranges from 0.06 to 1.80% depending on the type and size of the metal transaction which is included in your Advisory Fee. UBS Switzerland AG retains 15% of the margin in connection with precious metals transactions with us and passes on the remaining 85% to us. We keep the entire portion of the margin which we receive from UBS Switzerland AG. The margin price set by us is subject to negotiation at our sole discretion. You should be aware that the margin applied by UBS Switzerland AG for these transactions may be more or less favorable to you than those that may be

obtained from an unaffiliated third party. If you do not wish for us to use UBS Switzerland AG to engage in Precious Metals transactions, we will not be able to provide such services for your relationship and you would need to seek such services from a third party.

### 3.12.4 Fiduciary deposits

Fiduciary call and time/term deposits are investments made by a financial institution in its own name, but in response to a written order or within your Advisory Program, exclusively for your account and at your own risk. Fiduciary deposits are placed by us with UBS Europe SE (**UBS Europe**). Such fiduciary deposits for you are subject to the credit risk of UBS Europe and ultimately of UBS AG, of which UBS Europe is a wholly owned subsidiary. However, at your request, we will place fiduciary deposits with other financial institutions with which we have a relationship in connection with fiduciary deposits, namely Rabobank Utrecht.

### 3.13 Compensation regarding other products

We will also receive compensation, directly or indirectly, when your Advisory Program accounts include products other than equity shares, bonds, or mutual fund shares (e.g. structured products). Such compensation could be in the form of a retrocession or distribution fee. The compensation received by us as a result of investments made by you in the foregoing product(s) is in addition to the Advisory Fee you pay directly to us. **This additional compensation is not applied to reduce or offset the Advisory Fee paid by you and it creates an incentive for us to recommend or make these types of investments for your Advisory Program.**

Recurring distribution fees up to 1.2% per annum of the invested assets will be paid to us. Recurring distribution fees are calculated and paid on a monthly, quarterly, or yearly basis. Upon request we can provide additional details to you regarding the methodology for calculating such compensation.

### 3.14 Conflict of interest in regard to compensation

We maintain investment policies reflecting a variety of factors used in assessing investment opportunities and making recommendations to you. These factors do not include, and we do not consider, the nature or amount of compensation to be received by us, or any financial or other interest held by, us or any affiliate in connection with any recommended transaction

## 4. Account requirements and types of clients

We serve natural persons who are subject to US federal income tax, i.e. US citizens, US permanent residents (green card holders), and persons who meet the “substantial physical presence” test, commonly referred to as the 183 day test. In addition to natural persons, we serve clients that are US trusts, US estates, US charitable organizations, and US business entities such as corporations, limited partnerships, as well as limited liability companies. We do not serve nor do we provide investment advice to registered or private investment companies, pension plans, or profit sharing plans. On a limited basis, we serve so-called offshore Clients, i.e. non-US trusts, non-US foundations, non-US partnerships, non-operating non-US companies and non-US insurance companies where the ultimate beneficial owner(s), policy holder and/or beneficiary is/are a natural person(s) who is/are subject to US federal income tax as described above.

### 4.1 Account requirements

We reserve the right, in our sole discretion, to change account minimums for new accounts, impose higher account minimums for new accounts, impose higher account minimums for certain strategies or portfolios that are offered from time-to-time, to terminate accounts that fall below certain thresholds that impact the management or servicing of the account, or require that additional monies or securities be deposited in the account in order to remain in the Advisory Program.

### 4.2 Special disclosure requirements for selected countries

When trading, registering, holding, or processing financial investment instruments (e.g. shares, bonds, structured products) issued in certain markets, the local regulator may require the financial intermediary acting on behalf of an investor to disclose, either as a prerequisite before any transaction or on express request at any time after a transaction took place, personal information about the investor. We strive to identify all such markets and to notify you in advance should such disclosure be required in connection with any transaction. Please note that you may be required to provide us with disclosure consent prior to entering into such transactions. **A disclosure is only made if required in advance of a transaction or upon specific request, i.e. there is no automatic disclosure.**

### 4.3 Cross-border business

Cross-border business activities carried out by us and our employees in or into a country other than Switzerland are restricted or limited as a result of certain licensing, legal, regulatory and/or tax considerations which are subject to change from time-to-time. As a result, we reserve the right to decline or terminate your account if we believe the cross-border considerations inhibit our effective management of your account in a given program.



## 5. Portfolio manager selection and evaluation portfolio managers

All investment advisory services for Advisory Program clients are provided by us and there are no external investment advisers or portfolio managers and no affiliates (such as UBS AG) that act as investment adviser or portfolio manager for our clients.

### 5.1 Performance-based fees and side-by-side management

We do not charge performance-based fees. However, we recognize that side-by-side management issues exist for other reasons.

We manage client accounts that have objectives that are similar to, or which overlap with, those of other clients. However, we strive to allocate investment opportunities among similarly-managed client accounts on a fair and equitable basis over time.

The investment advisory strategies we use for certain clients could conflict with the transactions and strategies employed for other clients and may affect the prices and availability of the securities and other financial instruments in which clients invest. For example, on a regular basis, and in particular after investment strategy changes have been approved by the Investment Committee (**IC**), the Head of Investment Management informs the members of the IS team (**IS**) and the CATCAT of investment recommendations or changes in investment strategies. As a consequence, clients should understand that transactions effected for one or more discretionary programs transactions may have already been recommended to clients of non-discretionary programs prior to effecting any transactions for clients with a discretionary program. These previous non-discretionary program transactions may result in changes to the prices of instruments from those obtained in later transactions on behalf of discretionary programs. Accordingly, the prices received for discretionary programs, if IS implements the investment recommendations or changes in investment strategies provided by the IC over a certain period of time, may not be advantageous relative to the prices previously received on behalf of non-discretionary programs, or in general. The same may apply to transactions effected by us on behalf of clients of non-discretionary programs if such transactions are effected after UBS-SFA implements the investment recommendations or changes in investment strategies provided by the IC.

### 5.2 Methods of analysis and investment strategies

All investments carry the risk of loss. Please review the documents, profiles, and investment proposals we provide to you when you establish accounts in the Advisory Programs for a description of the specific risks associated with the investment strategy you selected.

It is of highest importance to us that we apply sound methods and analysis in formulating investment advice. We have adopted a “top-down” approach: the IC agrees on a global macro and market environment view by taking into account gross domestic product, inflation, short-term interest rates, currencies, long term interest rates, equities. Based on that, the IC formulates an asset allocation. IS and the CAT then select individual securities (bonds, equities, mutual funds, structured products, etc.) to implement the asset allocation based on the client’s risk profile and investment objectives. We use external, as well as UBS AG created, research for this decision-making process.

We obtain information from various sources, including:

- financial publications;
- inspections of corporate activities;
- company press releases and securities filings;
- research and due diligence material prepared by UBS AG, our affiliate, and third parties;
- rating or timing services;
- regulatory and self-regulatory reports;
- third-party data providers and research consultants;
- outside consultants, experts and other professionals; and
- other public sources.

In addition, we receive a broad range of research and information about the following:

- generic economic conditions;
- industries;
- groups of securities and individual companies;
- market data;
- accounting and tax law interpretations;
- political developments;
- pricing and appraisal services;
- credit analysis,
- risk measurement analysis, and
- other information that may affect the economy.

Research can be received through various channels, including:

- written reports;
- telephone contacts and personal meetings with research analysts;
- economists;
- government representatives; and
- corporate and industry spokesmen.

### 5.3 Discretionary programs

As described above, IS and the IC use a variety of research sources in making their investment decisions for your account, including research issued by our affiliates and independent sources. **IS and the IC are not required to follow UBS issued research except in limited circumstances and may, in their discretion, take positions for your account that contradict the research issued by our affiliates. You should be aware that our**

**affiliates (or employees thereof) may have conflicts of interest in connection with the research reports they publish.**

IS and IC compensation is not based on investment banking, sales and trading or principal trading revenues, however, their compensation relates to the revenues of the UBS business groups as a whole, of which investment banking, sales and trading and principal trading are each a part.

#### 5.4 Risk of loss

Investments in securities involve the risk of **financial loss** that you should be prepared to bear. Raising the awareness for this risk and discussing the factors that can potentially lead to such loss is therefore a key consideration when looking at the investment opportunities with you or a prospective client.

It all starts with working with you step-by-step identifying your financial objectives and risk profile. The purpose of this process is to determine your personal loss capacity, investment objectives, and knowledge and experience. Based on the information provided by you, the correct balance between the opportunity for financial gain and the capacity for financial loss can be determined. You should understand the following risks and discuss them with your WMC.

**Risk of various strategies:** The selection of an appropriate investment strategy from conservative to average and high risk must fit your risk profile and investment objectives. In addition, each strategy involves investment in a certain type or types of securities, each of which have their own risks. Examples of common risk types include, *without limitation*:

- **Market risk:** The market price of securities will go up or down, sometimes rapidly or unpredictably, and can lead clients to lose up to their whole investment. Market risk exists in all types of investments.
- **Interest rate risk:** Fixed income securities fluctuate in value as interest rates change. The general rule is that if interest rates rise, the market prices of fixed income securities will usually decrease. The reverse is also true: if interest rates fall, the market prices of fixed income securities will generally increase. A fixed income security with a longer maturity (or a fund holding fixed income securities with a longer average maturity) will typically be more sensitive to changes in interest rates and it will fluctuate more in price than a shorter term security.
- **Credit risk:** The risk that the issuer of a fixed income security could default on its obligation to pay interest and/or principal, or go bankrupt, which could cause the holder of such a security to lose money.
- **Currency risk:** The risk (or opportunity) for additional financial loss (or profit) depending on how much of the investments will occur in the client's domestic versus foreign currency and on how much the foreign currencies is relative to the client's domestic currency.

- **Liquidity risk:** The risk of not being able to buy or sell a security due to low trading volume (low liquidity). This can be especially the case for fixed income securities or securities of companies with a smaller market capitalization (so-called small caps) during crisis or stress in markets during some hours or a certain period of time.
- **Concentration/bulk risk:** The risk of being invested in a single security or issuer is considered and while diversification in general is sought by UBS-SFA, there is no assurance that this will necessarily mitigate or eliminate the risk of loss in every market environment.
- **Geographical and sector risk:** The same applies as stated under bulk risk, where there is risk in concentrating investments in geographic regions or business or industry sectors. While geographic and sector diversification is generally sought, there is no assurance that this will necessarily mitigate or eliminate risk of loss. Also, certain strategies necessarily require concentration in a geographic region, and thus those client accounts invested in accordance with that strategy will be subject to increased risk associated with that region (e.g. Asia).

Your risk awareness is reviewed at least annually. For non-discretionary program accounts, you are informed of securities which are not within our recommended investment universe and therefore also not actively monitored, bulk risks, and the overall allocation discrepancies that do not fulfil your stated investment objectives.

There is no assurance that any investment risk mitigation efforts, or any hedging strategies, undertaken by us will be successful or otherwise eliminate the relevant risk. Further, there is no assurance that you will achieve your stated investment objective.

#### 5.5 Rights arising from corporate actions

**UBS-IA Advisory Program:** In connection with investment instruments held in your UBS-IA account you will be informed by us on rights arising from corporate actions, such as tender or exchange offers, subscription rights, option and conversion rights, and redemption rights. You may retain the rights and obligations arising from corporate actions relating to the securities held in your UBS-IA account, or you may grant us the authority to make these elections on behalf of your account under your account agreement.

If you retain the responsibility to make corporate action elections for your account and you have not elected to receive notifications as they become available electronically either via UBS-SFA Online, the application which gives you electronic access to your account and other information, or via an email notification, there is a risk that you will not receive the relevant information in a timely manner and you will therefore not have the opportunity to make an election within the prescribed timeframe.

In addition, we generally provide notice of the default election that will apply if we do not receive your response with respect to a notice of corporate action. In the event you have retained the right to make corporate action elections for your account and do not provide an election within the required deadline, we will make an election in accordance with our notice of default election.

In order to deal with the complexity of our cross-border business we will limit certain activities in or into certain countries. This means that if you live in a country where communication activities have been limited or prohibited, we will not be able to provide information about corporate actions, even upon your explicit request, and therefore, you will not have the opportunity to take action even if you have explicitly retained the right to make your own corporate action elections.

**Discretionary Program accounts:** By signing the discretionary program account agreement, you grant us the authority to make elections based upon our investment judgment on behalf of your account arising from corporate actions, such as tender or exchange offers, subscription rights, option and conversion rights, and redemption rights.

**Limitations of our authority:** We will not make an election with respect to a corporate action, even if you have designated authority to us, if: (a) the securities are no longer held in your account; or (b) the relevant materials are not received in sufficient time to allow an appropriate analysis to allow an election to be made by the deadline.

## 5.6 Voting client securities (proxy voting)

We do not vote proxies solicited by, or with respect to, the issuers of any securities held for you in your Advisory Program. We will not provide you with information and/or advice regarding proxies unless specifically requested by you, and then, we will only do so to the extent permitted by applicable law. Otherwise, we will not forward proxy related information or materials to your attention.

If you hold Swiss-registered shares or bearer shares in your own name, proxies will be sent to you directly from the issuer. With respect to proxies of non-Swiss registered shares and Swiss-registered or bearer shares held in the name of a nominee, you will be responsible for obtaining any applicable proxy information, and you may contact us for further information. Proxy information received from the custodians will not be forwarded by us to you. We do not monitor proxies solicited by issuers on an ongoing basis for your account and will not be responsible for sending-proxy-related information to you.

Additionally, we do not make elections with respect to reorganizations, bankruptcy proceedings, and class action lawsuits involving an issuer whose equity or debt securities are held in your account, nor will we provide you with advice and/or information regarding the above unless specifically requested by you, and then, we will only do so to the extent permitted by applicable law.

## 6. Client information provided to managers

Because there are no external investment advisers or portfolio managers and no affiliates (such as UBS AG) that act as investment adviser or portfolio manager for Advisory Programs clients, we are already in possession of all client information. All of our employees have at least limited access to client information.

### **6.1 Client contact with portfolio managers**

There are no restrictions on you contacting your WMC. For information on investments in your Advisory Program you can also contact a member of our IS (i.e., portfolio manager) or the CAT through your WMC.

# 7. Additional information

## 7.1 Disciplinary information

There is no disciplinary information to report.

## 7.2 Other financial industry activities and affiliations

### 7.2.1 General remarks

As explained in section 3.1 above, UBS-SFA is a wholly-owned subsidiary of UBS AG, an internationally diversified organization with operations in many areas of the financial services industry. UBS AG is a bank and securities trader licensed and supervised in Switzerland by FINMA. We are a part of UBS AG's Wealth Management division.

There are various forms of relationships and cooperation between us and our parent company UBS AG and affiliated or third party companies. While section 7.2.2 lists services which have been outsourced to UBS AG and its divisions or affiliates, section 7.2.3 describes various functions which have been outsourced to third parties. Section 7.3 explains potential conflicts of interest and issues which arise out of additional compensation.

### 7.2.2 Relationships with UBS-affiliated entities

**General remark:** As stated above, the revenue sharing and other arrangements described in this Brochure provide us with an incentive to engage UBS AG or other affiliates to provide certain services to, or enter into certain transactions with, with our clients.

**Fiduciary deposits:** Unless otherwise instructed by the client, we place fiduciary deposits with UBS Europe, a wholly owned subsidiary of UBS AG. Such placement exposes the client to the credit risk of UBS Europe and therefore ultimately of UBS AG.

**Cash:** Except for such amounts which are held with SIX-SIS, a Swiss-based bank, your cash positions held with us are deposited by us in our name for your benefit, in an omnibus cash account with UBS Switzerland AG. We and ultimately you are exposed to UBS Switzerland AG's credit risk.

**Precious Metal accounts:** All Precious Metals in account form, i.e. not in physical form, are held by us in our name, for your benefit, in an omnibus precious metal account with UBS Switzerland AG. We and ultimately you are exposed to UBS Switzerland AG's credit risk.

**Client loans:** Subject to restrictions from applicable laws and regulations, UBS Switzerland AG provides loan services to our clients. For that purpose, our clients must maintain a separate and independent client relationship with UBS Switzerland AG.

**IT services framework:** UBS Business Solutions AG provides part of UBS-SFA's IT infrastructure.

**Telephone services:** We pay a fixed fee to UBS Business Solutions AG.

**Fund order placement services:** We use the order placement services of UBS AG and SIX-SIS to purchase or redeem shares of funds for clients, generally at net asset value (**NAV**). In some instances, you may want to invest in funds that charge an additional subscription fee (front end-load).

**Foreign exchange and Precious Metals services:** UBS Switzerland AG's Investment Bank division provides us with foreign exchange and Precious Metals execution services.

### 7.2.3 Relationships with unaffiliated third-party providers

**Broker Services:** As explained in more detail in section 7.9 below, Morgan Stanley & Co, New York (**Morgan Stanley**), SIX-SIS, and Zurich Cantonal Bank, Zurich, Switzerland (**ZKB**) execute your equity securities, fund, and fixed income securities (bond) transactions.

**Operational Services:** Avaloq Sourcing (Switzerland & Lichtenstein) Ltd. in Bioggio-Lugano, Switzerland (**Avaloq Sourcing (Switzerland & Lichtenstein) Ltd.**) is our operational service provider. This includes UBS-SFA Online. Avaloq Sourcing (Switzerland & Lichtenstein) Ltd. is a Swiss-based company specialized in providing comprehensive IT and business process outsourcing services to the financial industry.

**US Tax reporting services:** We use Sovos Compliance, a US-based tax reporting company, to satisfy tax reporting obligations under our QI Agreement (e.g. IRS Form 1099) and other client tax reports (e.g. annual tax statement). As part of the report production process, the client account number and transaction details are transmitted us to Sovos Compliance for processing. No client name or related information is provided to Sovos.

**Tax Reclaim Services:** We work together with Goal Taxback Ltd., a UK-based company, to process tax reclaim applications on behalf of clients that have signed up for this additional service. The service entails filing a tax reclaim form with Swiss and other countries' tax authorities in order to reclaim certain amounts of taxes paid that are refundable under the available dual taxation treaties in place between the US and the country of the respective investments.

**Mailing Services:** For the preparation of certain paper mailings to clients, we use Avaloq Sourcing (Switzerland & Lichtenstein) Ltd. and Avaloq Outline AG in Winterthur, Switzerland, specialized in printing and packaging mail.

**Settlement/Security Depository Services:** For the settlement and custody of Swiss securities, as well as securities from the rest of the world, we use SIX-SIS.

**Privacy aspects:** In connection with these outsourcing arrangements, we require our outsourcing partners to limit their use of information only to the purposes for which it was provided and to sign an appropriate confidentiality agreement. More details are available in UBS-SFA's Privacy Notice.

### 7.3 Potential conflicts of interest and additional compensation

#### 7.3.1 Potential conflicts with affiliates in general

Except as prohibited by law or written client instruction, we, our personnel, and our affiliates will purchase, sell or recommend for purchase or sale to and for our clients, securities issued by companies:

- for which our respective affiliates act as an investment banker or financial adviser;
- with which our respective affiliates have business or other relationships;
- in which our respective affiliates have a financial interest or other interest, through ownership of securities, loan arrangements, or otherwise;
- for which our respective affiliates act as a market maker or maintain a position; or in which our respective officers, directors, or employees, or those of our respective affiliates own securities or otherwise have an interest.

We may give investment advice and take action in the performance of our duties for you that differ from the advice given, or the timing and nature of actions taken, for other client accounts which may invest in some of the same securities recommended to you. In addition, investment advice provided by us may differ from investment advice given by our affiliates.

#### 7.3.2 Potential conflicts with SIX-SIS

The vast majority of equity and bond trades for our clients are settled through SIX-SIS. SIX-SIS's core business, as a central securities depository, is the settlement and custody of Swiss securities, as well as securities from the rest of the world. To enable settlement against payment, we are required to hold cash accounts in different currencies with SIX-SIS. Furthermore, we are required to maintain sufficient cash balances on these accounts. The cash in these accounts belongs to our client and not to us. If there is insufficient cash in the currency accounts, SIX-SIS will charge interest. However, if the cash balances in the major currencies (USD, EUR, CHF and GBP) exceed a certain threshold, SIX-SIS will pay interest on the amount by which the cash balances exceed the threshold. We endeavor to consistently have cash balances in our currency accounts below the threshold for which SIX-SIS pays interest and above the threshold for which SIX-SIS charges interest. Should we not meet our target, i.e. interest is either charged or paid by SIX-SIS, we will **not** pass on SIX-SIS interest charges or interest payments to our clients

as it is operationally too cumbersome to do so given the amounts typically involved.

#### 7.3.3 Potential conflicts with UBS-SFA employees

From time-to-time our directors, officers and employees may have acquired or sold, or may subsequently acquire or sell, for their personal accounts, securities that may also be held or have been purchased or sold, for the accounts of clients. The below section 7.4 explains the precautions taken in an effort to prevent conflicts of interest in this area.

### 7.4 Code of ethics, participation or interest in client transactions, and personal trading

We have adopted a Code of Ethics which (1) sets forth standards of conduct that apply to all of our employees and reflect our fiduciary obligations towards our clients, and (2) addresses prevention of conflicts of interest associated with the personal trading activities of our employees and certain members of their families.

In an effort to prevent such conflicts, all employees and certain family members (referred to as access persons) are prohibited from conducting any transaction or issuing any recommendation, investment advice or instruction to any third-party (including but not limited to spouses, partners and children) with the aim to circumvent the personal account dealing rules. Specifically, access persons must:

- submit their securities holding reports;
- avoid trading in securities that are on the "Restricted List" (a list of securities and issuers that are subject to restrictions in trading for employees);
- obtain pre-approvals before trading in certain securities; and
- observe stated holding periods.

In addition, UBS Switzerland AG has distribution or similar arrangements with the issuers of one or more funds that we recommend to clients, under which UBS Switzerland AG receives distribution fees or other monetary compensation such as 12b-1 fees referred to above in section 3.11. These payments to our affiliate create conflicts of interest for us, or the appearance of such conflicts.

We also have policies and procedures that are designed to prevent the misuse of material, non-public information which may become available to us through our client relationships or for any other reason and will not knowingly be passed on to our clients or used for their benefit, or for any other purpose. As a result, we will be prohibited from recommending that you purchase or sell such an effected instrument even when you might otherwise do so.

We can provide you with a copy of our current Code of Ethics upon request.

### 7.5 Review of client relationships (client accounts)

We have various policies and procedures applicable to the review and supervision of client accounts in our Advisory Programs. Those policies are designed and comply with the

requirements of the Investment Advisers Act of the 1940 and other applicable rules and regulations.

There are general policies applicable to all advisory accounts as well as individually tailored guidelines for each of the Advisory Programs described in this Brochure. Because the Advisory Programs offer different services and have different features, the guidelines for supervision vary by Advisory Program.

Accounts are reviewed periodically (e.g. quarterly), although certain guidelines for specific Advisory Programs are reviewed daily (e.g., principal trades and trading errors). Items generally reviewed include, but are not limited to the following (as applicable given program features and services):

- consistency of your investment profile with, your selection of Advisory Program and program strategy;
- levels of security and cash concentration;
- compliance with principal trade restrictions where those trades are not permitted;
- compliance with principal trade requirements for Advisory Programs which offer principal trade execution;
- volume of Non-advised Transaction in UBS-IA; and
- trading activity in the discretionary programs.

WMC Desk Heads are responsible for the supervision and review of these accounts, while IM is responsible for enforcing the various program guidelines. Reports are generated either by IM and provided to the WMCs and Desk Heads for follow-up. These reports are for internal use and are not provided to clients. If the report item is not remedied within a pre-determined period of time, the accounts will be terminated from the Advisory Program or other action taken to bring the account back into compliance with Advisory Program guidelines or document an exception to the guidelines.

## 7.6 Client reporting

We will send you transaction confirmation statements as well as periodic asset statements and account statements. Unless you provide different instructions, we will deliver your transaction confirmation statements, asset statements, and account statements quarterly. To the extent permitted by applicable law, we will, with your prior written consent, deliver statements via electronic format via "UBS-SFA Online." Clients who have chosen to access client relationship information electronically via "UBS-SFA Online" will receive a physical year-end statement, but will otherwise no longer receive paper copies of any statements, except upon explicit request.

## 7.7 Other reviews

Selected client relationships are also periodically reviewed by WMCs and their supervisors, as well as compliance officers and business risk, in connection with other risk- and policy-related controls of various aspects of the client relationship (e.g. unusual events in a client's account, suitability, know

your client information, etc.). On a regular basis, internal and external audit will also select client relationships for review in connection with topical audits.

## 7.8 Client referrals and other compensation

**Arrangements with affiliates:** We have referral agreements with our affiliates that outline:

- how we refer clients to them;
- how they refer clients to us;
- how we act as solicitor for their advisory services and/or Advisory Programs; and
- how we refer clients to them for services other than advisory services.

Under those agreements, we share fees with or receive fees from our affiliates for the referral or solicitation of clients or for services provided to the clients. These payments will 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 us or our affiliate or for an agreed upon period. Arrangements will also be based on a percentage of revenue received.

## 7.9 Brokerage practices

### 7.9.1 Brokerage practices, generally

We normally use four firms to effect client transactions.

**Morgan Stanley** is used for equity security transactions, whereas **ZKB** is used for fixed income security (bond) transactions. For business contingency reasons, equity trades might also be routed through ZKB. Your Advisory Program includes any so-called order ticket fee which Morgan Stanley or ZKB will charge us for the execution of these transactions. ZKB has selected Toronto Dominion Bank of Canada to execute bonds in Mexican Peso or in some cases Mexican bonds in general. There can be an additional broker selected in the future in case of markets where the liquidity is low or limited. As a result of such a sub-broker, best execution cannot be evidenced due to the absence of other bids.

**UBS Switzerland AG** and **SIX-SIS** are normally used for mutual fund shares transactions, generally on a NAV basis, transactions in precious metals and foreign exchange transactions. Compensation for UBS Switzerland AG and SIX-SIS for executing these transactions for you is covered by your Advisory Fee.

In addition, certain financial products such as structured products, hedge funds, specific closed-end funds, interests in limited partnerships and limited liability companies and similar products are usually purchased directly from the issuer or its affiliate.

All costs for executing transactions directly with product issuers or their agents are covered by the Advisory Fee. The Advisory Fee, however, does not cover certain third party fees

and duties, or fees with regard to funds, as mentioned in sections 3.9 through 3.12 above.

**Best execution:** We are obligated to seek “best execution” for client transactions. Best execution generally refers to the execution of transactions in such a manner that total cost or proceeds in each transaction are the most favorable under the circumstances. The SEC defines best execution as “best qualitative execution,” not merely the lowest possible execution cost. In evaluating the quality of execution and selecting broker-dealers to execute client transactions, we will consider various factors, such as execution capability, commission rate (or spread), and responsiveness. We have adopted a best execution policy where our execution desk is responsible for securities transactions checks on, at least a weekly basis, the execution of trades, taking into account execution time and price. On a monthly basis (or more often if significant issues arise), our execution desk reports its findings to our Best Execution Committee. Through these mechanisms, we seek “best execution” by monitoring Morgan Stanley’s, ZKB’s and our trading activity for, and execution costs and quality obtained for, clients, and their own best execution and related trading policies, procedures and practices. Consistent with seeking best execution, we selected Morgan Stanley, ZKB, and UBS AG to effect client transactions as described below. The best execution principle of having several prices from different brokers can be limited in markets with low liquidity, such as the Mexican bond market. In such markets the chosen broker can define a sub-broker for execution. Furthermore, limitation of best execution can also be a result of insufficient brokers in the market to offer a bid.

**While we are obliged under Swiss law to provide best execution to our clients, as a result of our obligations under US law as an RIA, we cannot engage in principal transactions without prior written client consent. In practice, this means that we cannot guarantee best execution in situations where obtaining the best price would result in a principal transaction and if a trade would result in a principal transaction, we will not seek best execution with respect to that trade.**

**Selection of brokers:** Morgan Stanley and ZKB were chosen because we believe that they offered an attractive platform for our business model while, at the same time, are able to provide competitive equity securities and fixed income securities (bonds) brokerage services. UBS Switzerland AG and SIX-SIS were each chosen because we believe that their global reach in the funds business is advantageous to clients. Furthermore, mutual fund shares are generally purchased and redeemed directly from the fund at NAV only.

### 7.9.2 Research and other soft dollar benefits

Soft dollar arrangements generally arise when an investment adviser obtains research or other products or services (other than securities execution) from a broker in return for directing securities transactions for its clients to the broker.

We receive research material from Morgan Stanley and ZKB, including periodic and publicly available newsletters as well as access to the research platform. UBS AG, its affiliates, and third parties provide us with research material or services free of charge. This research may include written materials, bulletins, newsletters, daily emails, as well as conference calls and personal visits with analysts. We also have access to all research of UBS AG, including its internet research platform. Furthermore, we are involved in the voting process of external research providers at UBS AG and, as a result, are granted access to the research platforms of these providers. Research providers do not receive trading flows from us, however, they may receive trading flows from UBS AG.

We do not consider the provision of research or other services when evaluating Morgan Stanley’s, ZKB’s, SIX-SIS or UBS Switzerland AG’s transaction execution services.

### 7.9.3 Brokerage for client referrals

When selecting an executing broker, we do not consider whether we, or one of our affiliates, receive client referrals from such executing brokers. For example, as mentioned in section 7.9.2 above, there is a referral arrangement with UBS Switzerland AG under which UBS Switzerland AG may refer clients to us. We do not consider these referrals in the selection of UBS Switzerland AG for services related to our Advisory Programs.

### 7.9.4 Directed brokerage

As explained in section 7.9.1 above, we use Morgan Stanley, ZKB, SIX-SIS, or UBS Switzerland AG, and product issuers for execution of all client transactions. We do not permit clients to direct us to use any other specific broker for any client transaction as brokerage commissions or other transaction costs charged by that broker would not be included in the Advisory Fee.

### 7.9.5 Aggregation and allocation

IS strives to aggregate trades for discretionary program accounts. However, it is not mandatory for IS to aggregate trades and such aggregation is made at IS’s full discretion. Aggregation of trades is a technique that seeks to increase the consistency in the execution process and support the quality and cost of execution. Execution of aggregated trades is generally completed by the end of the trading day. In some circumstances, an aggregated trade may be executed over a period of more than one day.

That said, an IS member can always require immediate trade execution for a particular client’s discretionary program, without being part of the aggregation process, as may be necessary or appropriate for that client’s discretionary program.

### 7.9.6 Allocation of investment opportunities

There are be situations where a particular security must be purchased or sold for more than one investment advisory program or more than one client, but the investment opportunity is limited. In those situations, we will allocate the



opportunities among eligible client accounts in a way that, over time, does not favor one client relationship over another. In principle, we will use a pro rata allocation method. For example: if clients A and B order 2,500 shares each and client C orders 5,000 shares (i.e., the total order is for 10,000 shares, of which clients A and B will have 25% and client C 50%) and only 4,000 share can be obtained on the market, the 4,000 shares will be allocated proportionally such that clients A and B each receive 1,000 shares (25% each) and client C receives 2,000 shares (50%). For possible side-by-side management issues, also see section 5.1 above.

#### 7.9.7 Trade error handling

We have a trade error procedure, pursuant to which we endeavor to timely resolve any identified trading errors that occur from time to time for a client relationship. We strive to correct and otherwise resolve trade errors in a manner that does not adversely affect the client. Trade errors are neutralized (unwound) immediately after detection regardless of gain or loss for us. The gain stays with us, so does the loss. The correction takes place as quickly as possible after detection. So, there is not timing or speculation. The effect of the trade error correction is neutralization for the client as if the initial transactions never happened on the account(s).

#### 7.9.8 Principal trades and cross trades

We do not knowingly engage in principal trades for our clients. It might be the case, however, that in a specific fixed income security (bond) UBS AG or another of our affiliate is a market maker offering the best execution price, and under such circumstances that specific bond would have to be purchased from or sold to UBS AG or its affiliate by us on your behalf in order to guarantee best execution. In such cases, we will not execute the transaction, because such a transaction would be considered a principal trade. We will only execute a trade which would result in a principal transaction upon prior written client consent on a trade-by-trade basis.

We do not "cross" client trades in any security, even if doing so would be beneficial for clients, as we do not currently have the operational ability to identify potential cross trades between clients. Similarly, neither we, nor any affiliate, engage in "agency cross" trades between our clients and brokerage clients of such affiliates.

#### 7.9.9 Trading conflicts

Because most of a client's trading costs are included in the Advisory Fee we receive, we pay for these execution services ourselves. As a result, we may have an incentive to minimize trading for clients (thereby reducing the amount of money we must pay for execution). However, we believe that this incentive is addressed through our investment decision-making process. For example, the CAT and IS, which are responsible for the selection and monitoring of securities for client accounts, maintain a recommended list of securities (i.e. investment universe) and report large relative performance deviations against markets on a regular basis to the IC. The IC takes note of such decisions and has the power to override them.

#### 7.10 Custody

**UBS-SFA is a "qualified custodian."** As a securities trader licensed and supervised by FINMA, we are allowed, under Swiss law and applicable SEC rules, specifically Rule 206(4)-2 of the Investment Advisers Act of 1940 (the "Custody Rule"), to hold in custody financial assets for our clients. We serve as the "Qualified Custodian" for all our clients. When investing in one of our Advisory Programs, you must establish a custody account with us. You should be aware that the fraud potential with an investment adviser having custody of client assets is higher than with an investment adviser which does not have custody of client assets.

**Ernst & Young Ltd** conducts an annual examination of the controls related to the custody function for our client assets and issues a report in regard to our custody function for our clients (so-called SOC-1 Report). We can provide you with a copy of the most recent SOC-1 Report as well as our most recent Annual Report to you upon your request."

UBS-SFA's sub-custodians are:

- **SIX-SIS** for client assets (e.g. bonds, notes, structured products, funds, shares, rights, etc.) other than non-SIX-SIS-Eligible Securities, and Precious Metals, and
- **UBS Switzerland AG** for certain mutual fund shares, certain equity types (such as equities that are physically delivered and held in custody or shares that are registered in the shareholders' registry of the issuing company) and Precious Metals.

#### 7.11 Conflict of laws disclosure

Our legal obligations to clients may vary under the laws of the various jurisdictions that may apply to our business, including based on where we conduct business and the nature of the particular client and the laws that apply to the client or our relationship with the client. In order to address potential uncertainties in this area, our investment advisory client agreements generally stipulate the laws under which our agreements and client relationships are governed to the exclusion of other laws. Our stipulation of laws can have the effect of limiting our legal obligations or the rights a client may enjoy in relation to other laws that might potentially apply.

In addition, there can be circumstances in which our relationship or a particular matter may be governed by the laws of multiple jurisdictions whose requirements may diverge or conflict. In such circumstances, we generally make our own determination of whether and to what extent these different laws and requirements apply to us based on our understanding of those laws and applicable legal principles. In making these determinations, we can face a conflict of interest particularly when these determinations involve a choice among laws and requirements that impose greater restrictions or obligations or are otherwise less favorable to us even though they may be more favorable to clients.

Finally, there can be circumstances where the laws or requirements applicable to a given relationship, particularly with multiple clients, themselves present conflicts of laws and

correspondingly present conflicts between and among the interests of various clients within a given relationship. In these circumstances, we may seek instructions from the person or persons authorized to represent the interests of such clients and may rely on any instruction given by such person without any obligation to inquire as to the authority of such person or propriety of the instruction so given, notwithstanding any potential conflict between that person and the other persons covered by the client relationship.

#### **7.12 Financial information**

UBS-SFA is a qualified custodian (as defined in SEC Rule 206(4)-2). As a result, we have not included our balance sheet. Further, as of this Brochure's date, there is no financial condition that is reasonably likely to impair our ability to meet our contractual commitment to our clients, nor have we been the subject of a bankruptcy petition at any time during the last ten years.