

Main principles of the remuneration policy

As of 30 September 2016

1. Overview

This document sets out the principles governing the remuneration and compensation framework of UBS Asset Management Funds Ltd, which are described under the remuneration policy (the Policy) whose objectives are:

- to promote a sound and effective risk management environment, not encourage risk-taking which is inconsistent with the risk profiles, rules or instruments of incorporation of the Undertakings for Collective Investment in Transferable Securities (UCITS)/Alternative Investment Funds (AIFs) managed, and to comply with the UBS business strategy, objectives, values and interests, including measures to avoid conflicts of interests, as stated under the UBS Conflicts of Interests Policy; and
- to ensure that the remuneration is in line with the applicable regulations, and more specifically with the provisions defined under (i) Alternative Investment Fund Managers (AIFM) Directive 2011/61/EU transposed into the Alternative Investment Fund Managers Regulations 2013; (ii) the Undertakings for Collective Investment in Transferable Securities (UCITS) Directive 2014/91/EU (the UCITS V Directive) transposed into the Undertakings for Collective Investment in Transferable Securities Regulations 2016, the AIFM Remuneration Code SYSC 19B, the UCITS Remuneration Code SYSC 19E and (ii) the ESMA guidelines on sound remuneration policies under the UCITS Directive and AIFMD published on 31 March 2016 (the Guidelines).

The Board of Directors of UBS Asset Management Funds Ltd has approved and adopted the policy on September 2016. The Policy applies to all UBS Asset Management Funds Ltd employees as defined within the Policy.

Important note: the entities to which the investment management functions have been delegated (the Delegates) have their own remuneration policies. However, UBS Asset Management Funds Ltd has ensured that these Delegates are either subject to regulatory requirements on remuneration that are equally as effective as those applicable under the UCITS V / AIFM Directive, or that appropriate contractual arrangements have been entered into with the relevant Delegates in order to ensure that their remuneration will fulfil and apply remuneration rules in line with the remuneration requirements defined under the UCITS V / AIFM Directive with respect to the remuneration paid to their own UCITS / AIFM Remuneration Code Staff as compensation for the performance of investment management activities on behalf of the Management Company as a result of the delegation of its investment management functions.

All employees of the UBS Group are subject to the UBS Group compensation framework, a framework for the compensation decisions and compensation programs across the organization that balance performance with prudent risk-taking.

The principles focus on sustained profitability, sound governance and strong risk awareness. Further, they build on UBS's guiding principles of client focus, excellence and sustainable performance and give full effect to relevant regulatory requirements in jurisdictions where UBS operates.

This approach aims at:

- attract and engage a diverse, talented workforce – to provide talented employees with pay that is appropriately balanced between fixed and variable elements, competitive in the market, and paid out over an appropriate period;
- foster effective individual performance management and communication – thorough evaluation of individual performance and adherence to UBS behaviours, combined with effective communication, ensures there is a direct connection between achievement of business objectives and compensation across UBS;
- align reward with sustainable performance and support appropriate and controlled risk-taking - the aim is to cultivate a culture of integration and collaboration within the firm. The compensation is structured such that employees behave in a manner consistent with UBS's risk framework and tolerance, thereby protecting the firm's capital, reputation and the investors' interests;
- support appropriate and controlled risk-taking -, thereby protecting firm's capital, reputation and the investors' interests.

2. Calculation of remuneration and benefits

The remuneration of all staff members of UBS Asset Management Funds Ltd consists of the following components:

- The fixed component of the remuneration represents a sufficient high proportion of the total remuneration and allows a fully flexible bonus strategy, including the possibility to pay no variable remuneration component. The fixed remuneration is determined by taking into consideration the role of the individual employee, including responsibility and job complexity, performance and local market conditions. It is also to be noted that the company may, on its own discretion, offer fringe benefits to some employees which are an integral component of the fixed remuneration;
- The variable remuneration allocated is based on a combination of the assessment of the performance of the individual and of the business unit concerned and of the overall results of the company. Moreover, the assessment of individual performance is taking into consideration quantitative (financial) and qualitative (non- financial) criteria: the award process is defined according to the Bottom-up approach.

Without prejudice to the general principles of national contract and labour law, the total variable remuneration shall generally be considerably contracted where subdued or negative financial performance occurs or where economic state of the company has deteriorated significantly.

The various remuneration components are combined to ensure an appropriate and balanced remuneration package that reflects the business unit, the employee's rank in UBS Asset Management Funds Ltd, the professional activity as well as the local market practices.

In exceptional cases, a guaranteed Incentive Award can be granted to a new employee for the first year of employment only. In the event of the early termination of an employment contract, the individual concerned will only be entitled to his salary, in accordance with the provisions of the employment contract and the relevant and applicable labour law regime. In particular, no bonus will be granted to any such individual.

All employees are required to undertake not to use personal hedging strategies or remuneration, and liability, related insurance to undermine the risk alignment effects embedded in their remuneration arrangements.

Variable remuneration is not paid through vehicles or methods that facilitate the non-compliance with the regulatory provisions laid down under the applicable UCITS and AIFM Regulation.

It is to be noted that the control functions are compensated in accordance with the achievement of the objectives linked to their functions and independent from the performance of the business areas they control.

3. Proportionality

As foreseen under the ESMA guidelines, UBS Asset Management Funds Ltd may invoke the proportionality principle at the level of the Management Company/AIFM, given its size, internal organisation and nature of its business model.

By applying the principles of proportionality, the following criteria are neutralised:

- the establishment of a remuneration committee;
- the payment of the variable remuneration in units or shares, equivalent ownership interests or share-linked instruments or equivalent non-cash instruments;
- the deferral requirements;
- the retention requirements; and
- the incorporation of ex-post risk factors (i.e. malus or clawback arrangements).

4. Organisations responsible for the award of remuneration and benefits

The corporate governance structure of UBS Group AG ensures that the group's overall Global Compensation Framework complies with all applicable regulatory requirements. This is achieved through the following bodies: Group Executive Board, Board of Directors' Compensation Committee (BoD CC), Board of Directors' Risk Committee, Full Board of Directors.

In addition to the above, and in order to ensure that the implementation of the remuneration policy complies with additional local regulatory requirements, the Board of Directors of UBS Asset Management Funds Ltd is responsible for:

- approving and annually reviewing the compensation policy;
- overseeing its implementation;
- approving any subsequent material exemptions or changes suggested by considering carefully and monitoring their effects;
- ensuring that the overall corporate governance principles and structures are considered with the design and implementation of the compensation policies and practices; and
- oversight of setting appropriate remuneration for identified staff

5. Review and amendment

The remuneration and compensation framework is reviewed at least on a yearly basis and subject to review by the Board of Directors of UBS Asset Management Funds Ltd. The implementation of the Policy is also subject to an annual review by the internal control functions of UBS Asset Management Funds Ltd.