Consideraciones Especiales

Cada Fondo es una compañía de inversión no diversificada de fin cerrado inscrita bajo la Ley Número 6 de 19 de octubre de 1954, según enmiendas y modificaciones que han sido efectuadas por la Junta de Directores de un Fondo. Los Fondos pueden solamente ser adquiridos por, o transferidos a, individuos que sean residentes de Puerto Rico y a entidades cuya oficina y localización de negocios principal están localizados en Puerto Rico. El rendimiento, el valor neto de activos de un Fondo y el precio en el mercado de las acciones de capital común del Fondo (en adelante, las “Acciones”), podrán fluctuar y se determinarán por factores como la demanda y oferta en el mercado de las Acciones y las condiciones económicas, políticas y del mercado en general, al igual que otros factores que están fuera del control de un Fondo. Las Acciones son negociadas al precio del mercado, el cual puede reflejar una prima o descuento del valor neto de los activos de un Fondo y no se puede dar representación alguna sobre su liquidez o el mercado para disponer de las mismas. A pesar de que es la intención de UBS Financial Services Incorporated of Puerto Rico (en adelante, “UBSFSPR”) de continuar manteniendo un mercado secundario para las Acciones, no está obligada a continuar haciéndolo. De otra parte, puede que no exista otra fuente de información de precios para las Acciones u otros compradores para las Acciones que no sea UBSFSPR.

Riesgo de concentración geográfica: El Fondo está expuesto a ciertos riesgos debido a la diversificación geográfica reducida de su cartera de inversiones. Los activos del fondo están invertidos principalmente en valores de emisoros de Puerto Rico. A consecuencia, el Fondo generalmente es más susceptible a factores económicos, políticos, regulatorios y otros que podrían afectar adversamente a emisoros de Puerto Rico que otra compañía de inversión la cual no esté tan concentrada en emisoros de Puerto Rico. En adición, valores emitidos por el Gobierno de Puerto Rico o sus instrumentalidades se afectan por las finanzas del gobierno central. Eso incluye, pero no se limita a, los deuda general de Puerto Rico y los bonos de ingresos, contribuciones especiales o de agencias. El efecto en cada deuda específica podría no ser el mismo y depende de qué parte del dinero del gobierno o sus ingresos se supone pague el interés de dicha deuda. En la medida que un porcentaje relativamente alto de los activos del Fondo pueden ser invertidos en obligaciones de un número limitado de emisoros de Puerto Rico, el valor neto de activos y su rendimiento puede aumentar o disminuir más que el de una compañía de inversión más diversificada, como resultado de cambios en cuanto a la evaluación de la condición financiera o prospecto de mercado de los activos de Puerto Rico. El Fondo también puede ser más susceptible a cualquier ocurrencia individual económica, política o regulatoria en Puerto Rico que una compañía de inversión más diversificada.

En los pasados años, los bonos principales del Gobierno de Puerto Rico, al igual que valores emitidos por ciertas instituciones financieras de Puerto Rico han sido degradados por varios factores, incluyendo sin limitación, el desempeño experimentado por la economía de Puerto Rico y la condición financiera pobre del Gobierno de Puerto Rico. Al presente, el mercado de bonos de Puerto Rico está experimentando un periodo de alta volatilidad, con las Estados Unidos de Puerto Rico, traficando a precios más bajos y rendimientos más altos a los puntos de referencia de los pasados dos (2) años, y así afectando el valor neto de activos del Fondo.

Transacciones de cartera entre un Fondo y UBSFSPR, Popular Securities (el caso de un Fondo co-manejado con Banco Popular de Puerto Rico) y otras afiliadas son efectuadas conforme a ciertos procedimientos adoptados por la Junta de Directores de un Fondo con miras a atender posibles conflictos de interés.

Divulgación de Mercado Secundario: Dado que actualmente UBSFSPR es la fuente dominante, y podría ser la única fuente, de liquidez para la negociación de las Acciones en el mercado secundario, cabe la posibilidad que un inversionista no pueda vender sus Acciones en el mercado secundario o que solamente pueda venderlas a pérdida, si UBSFSPR cesara de facilitar un mercado secundario para la negociación de las Acciones. Por lo tanto, la habilidad de un inversionista para vender sus Acciones dependerá del interés de otros inversinistas que estén comprando Acciones o la disponibilidad de UBSFSPR de designar capital adicional para mantener Acciones en su inventario. UBSFSPR podrá, a su única discreción, en las circunstancias extraordinarias para mantener Acciones en inventario cuando así lo estime apropiado, dependiendo de las condiciones del mercado y otras consideraciones, e igualmente en otras ocasiones, podrá reducir la cantidad de capital comprometida para financiar dicho inventario de las Acciones. Por ejemplo, cuando UBSFSPR compra Acciones para su inventario, los precios cotizados por éste podrán permanecer a los niveles previamente cotizados o aumentar. Por otro lado, cuando UBSFSPR vende Acciones de su inventario, los precios cotizados por éste podrían reducirse. En situaciones en que UBSFSPR está vendiendo Acciones del Fondo al mercado, al igual que valores emitidos por otras instituciones financieras de Puerto Rico que hayan sido degradados por varios factores, el mercado de dichos activos puede ser menos líquido, lo que podría disminuir el precio de los mismos.

Los valores emitidos por el Gobierno de Puerto Rico son negociados al precio del mercado, el cual puede reflejar una prima o descuento del valor neto de los activos del Fondo. En el mercado secundario, los precios cotizados por éste podrían reducirse. En tales circunstancias, el precio por el que UBSFSPR puede vender y comprar Acciones podrían ser diferentes. UBSFSPR ha planeado ofrecer Acciones de su inventario a inversionistas al precio del mercado. También es probable que UBSFSPR no pueda vender todas las Acciones que compre a inversionistas de su inventario. En tales casos, UBSFSPR podría vender las Acciones que compre a inversionistas a precios diferentes al precio de mercado. Los precios de los valores subyacentes de los Fondos podrían ser diferentes al precio de mercado, lo que podría causar que los inversinistas no pudieran vender su inversión a precios del mercado. UBSFSPR no garantiza la liquidez de las Acciones. UBSFSPR no está obligado a vender los valores subyacentes de los Fondos.

UBSFSPR no garantiza la liquidez de las Acciones. UBSFSPR no está obligado a vender los valores subyacentes de los Fondos.
las tasas de intereses podrían aumentar la volatilidad en su rendimiento y afectar a un Fondo a mayor grado que a una compañía de inversión no apalancada. Información más detallada en cuanto a un Fondo, incluyendo los cargos, gastos y penalidades aplicables, objetivo(s) y políticas de inversión, factores de riesgo y el efecto de apalancamiento, se incluye en la documentación de oferta del Fondo, el cual usted debe leer cuidadosamente antes de hacer una inversión. Para obtener más información en cuanto a un Fondo (incluyendo los rendimientos de inversión calculados conforme el Reglamento 5766 de 11 de marzo de 1998, según enmendado) o una copia del prospecto para la oferta de las Acciones o los informes anuales del Fondo, favor de contactar a su Asesor Financiero en UBSFSPR o verifique los comunicados de prensa (“press releases”) en http://www.ubs.com/prfunds.

Glossary of fund terms

– Ask Price: generally refers to the lowest price at which a seller will sell a specified number of units of a given security at a particular time. The ask price may incorporate a markup, which may vary by transaction and may include commissions and other charges. The ask prices quoted by UBSFSPR represent its judgment of the market price for the Shares. The price quotes take into account market factors, including, but not limited to, recent transactions, supply and demand, the yield of similar types of products, the size and age of UBSFSPR’s inventory, and the size, price, and age of pending customer orders.

– Average Duration: a time measure of a bond’s interest-rate sensitivity, based on the weighted average of the time periods over which a bond’s cash flow accrue to the bondholder. Time periods are weighted by multiplying by the present value of its cash flow divided by the bond’s price. (A bond’s cash flow consist of coupon payments and repayment of capital.) A bond’s duration will almost always be shorter than its maturity, with the exception of zero-coupon bonds, for which maturity and duration are equal.

– Bid Price: generally refers to the highest price a buyer is willing to pay at a particular time for a unit of a given security. UBSFSPR publishes two types of bid prices for the Shares: firm or indicative. A firm bid is provided when UBSFSPR has the risk capacity and/or appetite at the particular time to purchase a specified number of Shares. An investor can sell to UBSFSPR at the firm bid price up to the specified number of Shares at a particular time. On the other hand, an indicative bid is provided for informational purposes only when UBSFSPR does not have the risk capacity and/or appetite at a particular time to purchase Shares. The prices quoted by UBSFSPR represent its judgment of the market price for the Shares. The price quotes take into account market factors, including, but not limited to, recent transactions, supply and demand, the yield of similar types of products, the size and age of UBSFSPR’s inventory, and the size, price, and age of pending customer orders, and may be higher (in which case the price is at a premium) or lower (in which case the price is at a discount) than the NAV of the Fund. The prices quoted by UBSFSPR may also be affected by its willingness to hold additional inventory of the Shares or by its need to sell its inventory of Shares. Depending on market liquidity conditions, orders to buy or sell at the quoted price may not receive immediate execution, and an investor may not be able to sell its Shares at the price quoted by UBSFSPR. Moreover, the proceeds an investor receives on a sale of Shares may be lower than the bid price due to discounts, markdowns, and other charges. Since inception, the Shares have historically traded at prices which reflect a premium to their respective NAV per Share, though on certain limited instances, they have traded at prices which reflect a discount to their respective NAV per Share. However, there is no assurance that the Shares will continue to trade at prices which reflect such a premium. The Fund is presently experiencing liquidity issues. As a result, the bid price is for a limited number of shares, and it may not be possible for sellers to obtain the current bid price.

– Credit Quality: a measure of the likelihood that a financial obligation will not be honored provided by one or more of the rating agencies. Rating agencies assign classifications to their ratings, with “AAA” being the highest and “D” being the lowest for S&P Global Ratings (“S&P”). The Fund may use other ratings and adjust them for use in this scale.

– Effective Duration: a calculation of duration that takes into account the embedded options in the securities of a portfolio and their expected changes in the cash flow of a portfolio caused by those options.

– Expense Ratio: The percentage of the Fund’s average net assets attributable to holders of the Shares and which is used to pay operating expenses and takes into account investment management fees, administration fees, and other operating expenses such as legal, audit, insurance, and shareholder communications.

– Hedge Notional: refers to the total net face value, reflecting any offsetting positions, of derivative instruments employed in hedging strategies of the Fund.

– Hedge Ratio: ratio of the Fund’s hedge notional amount to its total dollar amount of leverage as of the end of a calendar quarter, assuming the Fund is fully invested at quarter-end. The Fund’s investment adviser may, at its discretion, use a variety of derivative instruments including securities options, financial futures contracts, options on futures contracts, and other interest rate protection transactions such as swap agreements, to attempt to hedge its portfolio of assets and seek to enhance its return. There can be no assurance that any particular hedging strategy used will succeed.

– Leverage: the Fund may issue preferred stock or debt, enter into repurchase agreements, or borrow money, in order to increase the amounts available for investment (“leverage”). This gives the Fund’s investment adviser, in the fixed income area in particular, the opportunity to enhance yield. The use of leverage increases the likelihood of price volatility and market risk for the Shares. There is also the risk that the cost of funding leverage will exceed the earnings on the related investments, which will have the likely effect of reducing the Fund’s yield and the value of its investments.

– Leverage Adjusted Effective Duration: effective duration adjusted for the impact of the Fund’s utilization of leverage. A Fund that utilizes leverage will have a leverage-adjusted effective duration that is longer than its effective duration.

– Maturity: date on which the face value of a security/bond must be repaid. It measures the average length to maturity in years of all the bonds in the Fund’s portfolio. For mortgage- backed securities, the maturity takes into account the prepayment of the underlying mortgages.

– NAV: Net Asset Value. On a per-Share basis, it is determined by calculating the Fund’s total assets less its total liabilities and dividing such result by the Shares outstanding. On an aggregate, Fund basis, it is determined by calculating the Fund’s total assets less its total liabilities.

– Undistributed Income: the Fund’s net income that has not been distributed to holders of its Shares as of the latest available audited financial statements. In the case of a target maturity-type investment company (which is liquidated on or by a specific date), it also includes the amounts to be distributed on or by the liquidation date as the return of the initial investment.

*For a definition of other terms, please see the Shares’ prospectus.*
Puerto Rico Tax-Free Target Maturity Fund II, Inc.

Investment Objectives and Policies
Seeks high level of current income that, for Puerto Rico residents, is exempt from both U.S. Federal and Puerto Rico income taxes, consistent with the preservation of capital, and the distribution to shareholders of common stock of an amount at least equal to $10 per share.
– return initial investment of $10 per share by or before December 31, 2028, distributions of principal have commenced
– may issue leverage representing up to 50% of total assets

Pricing and Distribution History
Initial Public Offering (IPO) $10.00
Distribution to date $8.20
Remaining Capital $1.80
IPO Yield 0.05%
Current Yield 0.06%
Last Dividend Paid $0.0001
Last 12-month dividend $0.0008

Portfolio Statistics and Characteristics
Commencement Jul-97
Shares Outstanding (mm) 5.16
Bid Price 5.16
Net Asset Value (NAV) 1.74
Net Assets (mm) 8.96
Leverage (mm) 3.06
Expense Ratio 1.32%
Average Maturity (yrs) 2.63
Average Duration (yrs) 2.79
Leverage Adjusted 1.46
Effective Duration (yrs) 3.57
Fiscal Year 31-May
Leverage % 25.29%

Credit Quality
AAA 46.02%
AA- 53.08%

Portfolio Summary
PR Issues 69.27%
Mortgage-Backed Securities 30.73%

Average Annual Total Return
10%
9%
8%
7%
6%
5%
4%
3%
2%
1%
0%
-1%
-2%
-3%
Market NAV
YTD 1 year 3 years 5 years 10 years Life

Share Price, NAV and Current Dividend Yield – Prior 12 months

Pro-Forma Actual Capital distributed to date Adjusted Amount
Bid Price $1.46 $8.20 $9.66
NAV $1.74 $8.20 $9.94

Portfolio Managers
Leslie Highley, Jr., Portfolio Manager since inception
UBS Asset Managers of Puerto Rico

Javier Rubio, Portfolio Manager since inception
Popular Asset Management of Puerto Rico

See Portfolio Holdings, Portfolio Managers, Special Considerations, Disclaimers, Glossary of Fund Terms, and Footnotes on reverse.

* During the principal distribution period, the Fund will distribute pro-rata to holders of common stock the principal payments received by the Fund on its portfolio securities, in addition to the regular monthly distributions of net investment income and annual distributions of net capital gains. Provided the Fund adheres to certain requirements imposed by the Office of the Commission of Financial Institutions during the principal distribution period, the 67% investment requirement in Puerto Rico securities will not be applicable to the Fund.

** In order to compute the Pro-Forma values, the total aggregate amount of all return of capital distributions per Share made to date (i.e., since commencement of capital distributions on August 2008) is added back to (i) the bid price for the Shares and (ii) the NAV. The Pro-Forma value is intended to reflect the value of a Share on the basis of the original $10.00 initial public offering (IPO) price per Share. An investor purchasing Shares at current market prices can expect to receive return of capital distributions of up to the amount labeled “Remaining Capital” in the “Pricing and Distribution History” Table, although there can be no assurance that they will ultimately receive such amounts.
*Special Considerations

The Fund is a non-diversified, closed-end management investment company registered under the Puerto Rico Investment Companies Act of 1954, as amended. Shares issued may be purchased or otherwise transferred only to individuals who are residents of Puerto Rico and to entities whose principal office and principal place of business are located in Puerto Rico. The Fund’s yield and net asset value and the market price of the Fund’s shares of Common Stock (the “Shares”) will be determined by factors, including without limitation, the downturn in the market, as well as general market, political, and economic conditions and other factors beyond the control of the Fund. The Shares trade at market price, which may be at a discount or premium to NAV, and no assurance can be given as to their liquidity or trading market. While it is the intention of UBS Financial Services Incorporated of Puerto Rico (“UBSFSPR”) to continue to maintain a secondary market for the Shares, it is not obligated to continue to do so. Moreover, there may be no other source of price information for the Shares or other purchasers of the Shares other than UBSFSPR.

Geographic Concentration Risk. The Fund is exposed to certain risks resulting from the reduced geographic diversification of its portfolio. The Fund’s assets are invested primarily in securities of Puerto Rico issuers. Consequently, the Fund in general is more susceptible to economic, political, regulatory or other factors adversely affecting issuers in Puerto Rico than an investment company that is not so concentrated in Puerto Rico issuers. In addition, securities issued by the Government of Puerto Rico or its instrumentalities are affected by the central government’s finances. That includes, but is not limited to, general obligations of Puerto Rico and revenue bonds, special tax bonds, or agency bonds. The effect on each specific debt may not be the same; it depends on exactly what part of the government’s money or revenue is supposed to pay the interest thereon. Inasmuch as a relatively high percentage of the Fund’s assets may be invested in obligations of a limited number of Puerto Rico issuers, the Fund’s net asset value and its yield may increase or decrease more than that of a more diversified investment company as a result of changes in the market’s assessment of the financial condition and prospects of such Puerto Rico issuers. The Fund may also be more susceptible to any single economic, political, or regulatory occurrence in Puerto Rico than a more widely diversified investment company. Over the past years, the principal Puerto Rico Government bonds as well as the securities issued by several Puerto Rico financial institutions have been downgraded as a result of several factors, including without limitation, the downturn experienced by the Puerto Rico economy and the strained financial condition of the Government of Puerto Rico. Currently, the Puerto Rico bond market is experiencing a period of increased volatility, with Puerto Rico bonds trading at lower prices and higher yields compared to benchmarks of the past three (3) years, thereby affecting the Fund’s net asset value.

Portfolio transactions between the Fund and UBSFSPR, Popular Securities (in the case of a co-managed Fund with Banco Popular de Puerto Rico), and other affiliates, are conducted in accordance with procedures adopted by the Fund’s Board of Directors in an effort to address potential conflicts of interest.

Secondary Market Disclosure: Given UBSFSPR is currently the dominant, and may be the sole source of secondary market liquidity for the Shares, an investor may not be able to sell its Shares or may only be able to sell them at a loss, if UBSFSPR were to cease to facilitate such secondary market for the Shares. Accordingly, an investor’s ability to sell its Shares will depend on the interest of other investors buying Shares, or UBSFSPR’s willingness to commit additional capital to holding Shares in inventory. UBSFSPR may, in its sole discretion, commit additional capital to hold Shares in inventory when it deems it appropriate to do so, given market conditions or other considerations, and similarly may reduce the amount of capital committed to fund such inventory of Shares at other times. For example, when UBSFSPR purchases Shares and holds them in its inventory, quoted prices may remain at the previously quoted levels or increase. Conversely, when UBSFSPR sells Shares from its inventory, the quoted prices may decrease. In situations where UBSFSPR is selling Shares from its inventory, it may offer to sell its Shares at prices that are lower than pending sell orders that were placed by investors in the Shares. Decisions by UBSFSPR to increase or decrease inventory are made at its sole discretion and are not generally disclosed.

Repurchase Agreement Tax Disclosure: While there is authority generally supporting the treatment of repurchase and reverse repurchase agreements as collateralized loans for Puerto Rico income tax purposes, that authority does not specifically address the tax treatment of the repurchase agreements that the Fund typically enters into, which contain provisions that grant the buyer the right to sell, transfer, pledge, or hypothecate the securities that are the object of such agreements. Although the Puerto Rico Treasury Department (“PR Treasury”) has never pronounced itself as to whether this type of arrangement should be viewed as a transfer of ownership of the underlying securities, it is possible that the PR Treasury could take that position in the future that Puerto Rico courts would agree with that view. In such an event, the tax exempt interest paid on such underlying securities could be deemed not to constitute tax exempt income for the seller of such securities, to the extent that the Fund was such seller, the dividends distributed on its Shares from such income could be treated either as taxable dividends or capital gain dividends. If such dividends were treated as taxable dividends, holders of the Shares who are individuals or Puerto Rico trusts could be subject to a 15% income tax (or 10% income for dividends distributed before July 15, 2014) on the dividend (or the applicable alternate basic tax), and those which are corporate recipients must be subject to a maximum effective income tax rate of 5.85% (or 4.5% for dividends distributed before July 15, 2014), due to the 85% excise tax on the Fund’s Puerto Rico Internal Revenue Code, 15% of the dividend multiplied by a 39% maximum corporate income tax rate for dividends distributed on or after July 1, 2014 and 30% for dividends distributed before July 1, 2014). On the other hand, if such dividend is treated as capital gains dividend, holders of the Shares who are individuals or Puerto Rico trusts would be subject to a 15% income tax (or 10% income tax for capital dividends distributed before July 1, 2014) (or the applicable alternate basic tax), and holders of the Shares which are taxed as corporations would be subject to a 20% income tax (15% income tax for capital dividends distributed before July 1, 2014).

Recent changes in the Puerto Rico tax law: Amendments that change the sales and use tax rates are currently in effect and relevant to the Fund because they provide for the imposition of a new 4% SUT on professional and other services (with limited exceptions) rendered after September 30, 2015 and before April 1, 2016. Amendments providing for the imposition of a new “value added tax” of 10.5% on the purchase of goods and services have been repealed.

Legal Disclaimer

Past performance does not guarantee future results. Current performance may be lower or higher than the performance quoted. Securities issued by the Fund are subject to risks and uncertainties. These risks and uncertainties include, but are not limited to, the principal risk of investing in the Shares. Decisions by UBSFSPR to increase or decrease inventory are made at its sole discretion and are not generally disclosed.

More detailed information about the Fund, including applicable fees, costs, penalties, investment objectives and policies, risk factors, and the effects of leverage, is available in the Fund’s prospectus or Fund’s annual report, please contact your UBS Financial Advisor or see “press releases” at ubs.com/prfunds. Please note that the Fund’s historical performance does not necessarily indicate future performance. There is no assurance as to whether and when the Fund will be able to do so.

Footnotes:

1. Generally, the Fund must invest at least 67% of the total market value of the Fund’s portfolio securities (including, but not limited to, portfolio securities purchased with the proceeds of leverage, with the proceeds of leverage, including cash equivalents, but excluding non-cash, non-portfolio securities items (including, but not limited to, prepaid items, receivables, and swap marked-to-market), in Puerto Rico securities. Additionally, the Fund may issue preferred stock, debt securities, or other forms of leverage unless the value of its total assets less all its liabilities and indebtedness, other than the preferred stock, debt securities, or other forms of leverage being issued or already outstanding, is at least equal to 200% of the total aggregate liquidation preference/principal amount of all of its outstanding preferred stock (not including any accumulated preferred stock payments), debt securities, and other forms of leverage.

2. Credit quality is as of April 30, 2018. The Fund’s investment portfolio is actively managed, and its composition (including the portfolio statistics and characteristics) will vary over time. Credit quality percentages include only fixed income securities and vary over time, as new investment securities are acquired and the credit rating of any investment held by the Fund is reassessed. For purposes of determining
compliance with the Fund’s investment requirements, ratings are as of the time of purchase, using a S&P’s equivalent ratings scale.

Fitch Ratings (“Fitch”), Moody’s Investors Service (“ Moody’s”), and Standard & Poor’s Global Ratings (“S&P”) have downgraded the general obligation bonds (“GOs”) of the Commonwealth of Puerto Rico, as well as the obligations of certain Commonwealth agencies and public corporations, including sales tax debt issued by the Puerto Rico Sales and Tax Financing Corporation (“COFINA”) and the Employees Retirement System of the Government of the Commonwealth of Puerto Rico (“ERS”), on numerous occasions. Most recently, Fitch downgraded the GOs to “D” (default) and its ratings for the Commonwealth as a bond issuer, to “RD” on July 6, 2016, and for COFINA and ERS, both to “D” on July 3, 2017 and July 20, 2017, respectively. S&P had previously downgraded ERS, to “C” on September 10, 2015, and subsequently the GOs, to “D” (default) on July 7, 2016, and the debt ratings for the Government Development Bank for Puerto Rico, to “D” (default) on September 8, 2016, and for COFINA, to “D” (default) on June 6, 2017. Finally, Moody’s downgraded ERS, to “C” on April 5, 2017, and the GOs and COFINA’s senior bonds, to “Ca” on October 11, 2017. All non-default ratings carry a negative outlook.

On June 30, 2016, the Puerto Rico Oversight, Management, and Economic Stability Act (“PROMESA”) was signed into law. It created the Financial Oversight and Management Board for Puerto Rico (the “Oversight Board”) with broad powers designed to help the Commonwealth balance its finances, restructure its debt and ensure payments to the markets. The enactment of PROMESA operated as a stay of any actions or proceedings against the Commonwealth and its agencies and instrumentalities by its creditors, which stay was in effect through March 1, 2017. As of that date, the Oversight Board has filed five (5) petitions to commence mediation under Title III of PROMESA in “D.” The U.S. District Court for the District of Puerto Rico (the “District Court”) with respect to all debt issued by: the Commonwealth of Puerto Rico, COFINA, ERS, the Puerto Rico Electric Power Authority (“PREPA”), and the Puerto Rico Electric, Utility, and Telecommunications Administration (aka “PUERTA”). The filing of these petitions triggered a new stay of any actions or proceedings against these five debtors.

In the COFINA Title III case, the District Court granted a motion by Bank of New York Mellon (“BNYM”), the COFINA bond trustee, ruling that all funds for payment of interest and principal held in a segregated account were to be held by BNYM pending the resolution of the various conflicting claims of holders and insurers of COFINA bonds. Additionally, the Commonwealth has asserted claims against the collateral securing the COFINA bonds, and there is litigation pending between the Commonwealth and COFINA regarding ownership of this collateral. As a result, all interest and principal payments on the COFINA bonds are currently suspended, pending resolution of the various conflicting claims through either a decision from the District Court or a mediated settlement. The Commonwealth, COFINA, certain COFINA bondholders, and others are currently participating in a mediation process, led by a team of five judges appointed by the District Court. On June 5, 2018, the Oversight Board and its agents filed a joint motion requesting the court hold in abeyance its decision on the motions for summary judgments filed by the parties in abeyance for sixty (60) days because they had reached a restructuring agreement in principle during mediation. Thereafter, the Commonwealth and the COFINA filed a motion on June 7, 2018, disclosing the terms of their restructuring agreement in principle and through which the sales and use tax would be apportioned between the Commonwealth and COFINA. The Court issued an order on June 11, 2018 holding in abeyance its decision on the motions for summary judgment and awaiting the outcome of further mediation through September 13, 2018. On August 8, 2018, certain COFINA creditors parties reached an agreement in principle on how to restructure the COFINA bonds. In general terms, under the agreement, the COFINA senior bondholders would expect to receive from 93% to 95% of their claims in the form of new debt while COFINA subordinated bondholders could expect to recover 56% to 58%. With respect to the ERS bonds, certain ERS bondholders reached a consensus agreement with the Commonwealth, ERS, and the Oversight Board which, among other things, provided that (i) all employer contributions received by ERS during the pendency of the PROMESA stay would be segregated in an account for the benefit of holders of the ERS bonds, and (ii) ERS would transfer to BNYM, as ERS’ fiscal agent, the amounts required each month for the payment of interest on the ERS bonds. On June 5, 2017, the Puerto Rico Fiscal Agency and Financial Advisory Authority (known by its Spanish initials “AFAAF”), on behalf of ERS, delivered a non-funding notice as permitted under the agreement, stating that ERS would discontinue transferring the amounts necessary to pay interest due on the ERS bonds commencing on July 1, 2017 and going forward. Certain ERS bondholders filed a motion to lift the stay with the District Court on May 31, 2017, to seek protection of the ERS bonds through mediation. On June 28, 2017, the District Court ordered the ERS creditors, the Oversight Board, and the Commonwealth to attempt to reach another consensual agreement, in line with what was previously agreed.

On July 17, 2017, the District Court issued an order approving the joint stipulation (the “Joint Stipulation”) entered into among certain ERS bondholders, the Commonwealth, ERS, and the Oversight Board, which provides for the payment of interest on the ERS bonds through the date that the District Court enters a ruling in an action seeking declaratory relief regarding the validity of ERS bondholders’ liens and security interests in certain collateral, as well as the deposit by the Commonwealth of approximately $18,500,000 in escrow with the ERS bondholders and public corporations into a segregated account of ERS for the benefit of ERS bondholders in July, August, September, and October 2017 (the “Declaratory Relief Action”). On November 3, 2017, the parties filed motions in the Declaratory Relief Action. On December 13, 2017, the District Court issued an order reserving its ruling. In addition to defending the ERS bondholders’ collateral in the Declaratory Relief Action, on July 27, 2017, certain ERS bondholders also instituted a lawsuit challenging the Puerto Rico Legislature’s June 24, 2017 joint resolution purporting to terminate employer contributions to ERS; that litigation remains pending.

The Fund received the interest payments on the ERS bonds through and including November 1, 2017. However, with respect to the November 1st interest payment, AFAAF argued before the District Court that the funding by BNYM of such payment was in violation of the automatic stay applicable in ERS’s Title III case and demanded that BNYM reverse the payment. On December 28, 2017, the Court issued an order (the “December 2017 Order”) stating that the Joint Stipulation was in principle on how to restructure the ERS bonds in the aggregate amount of $13,876,582.48, beyond October 31, 2017, until such date as the District Court issues a decision in the Declaratory Relief Action. The December 2017 Order also confirmed that ERS would continue paying the interest payments required thereunder to be applied to all series of the ERS bonds, including the capital appreciation payments that would otherwise not be entitled to current interest, with such payments expressly constituting “adequate protection payments” for all ERS bondholders in accordance with the December 2017 Order, PROMESA, and the U.S. Bankruptcy Code. The District Court reserved for future consideration the final allowance and treatment of such “adequate protection payments” in determining the allowed amount of the claims under the ERS bonds in the ERS Title III case. The continuation of these interest payments depended on the Court issuing a ruling on the Declaratory Relief Action or the exhaustion of the amounts held in the segregated account for the payments. On May 18, 2018, AFAAF released its Summary of Bank Account Balances for the Commonwealth of Puerto Rico and its instrumentalities, which included information as of April 30, 2018, which reflected that the segregated account for the payments lacked sufficient funds to make the requisite payment for August 2018 and would thereafter be exhausted.

Consistent with the information released by AFAAF, on July 20, 2018, BNYM received the remaining balance of the segregated account amounting to $6,118,730.37, which represented approximately 44% of the full stipulated monthly interest payment amount and resulted in the depletion of the segregated account.

Subsequently, on August 17, 2018, the District Court ruled against the ERS bondholders and determined that they do not possess a perfected security interest over the ERS bondholders’ collateral and that any security interest held by the ERS bondholders over their ERS collateral is invalid and unenforceable. Any future developments in this respect could result in additional interruptions in cash flow on debt payments, which may result in more price volatility, across Puerto Rico and other U.S. territories. There can be no assurance that any additional defaults by the Commonwealth and other Commonwealth instrumentalities will not have an additional adverse impact on the Fund’s net investment income and its ability to declare and pay dividends in the future.

On September 20, 2017, the passage of Hurricane Maria through Puerto Rico is considered the most destructive storm to hit Puerto Rico in almost 90 years. It knocked out all electric power, destroyed more than 100,000 homes, and ruptured bridges and other public infrastructure. Puerto Rico is facing substantial economic and revenue disruption in the near term, and diminished output and revenue has negatively impacted the Puerto Rico government’s ability to repay its debt. While it remains too early to determine the long-term economic effects of post-Hurricane Maria, certain forecasts may be mixed. On one hand, an exodus of residents relocating to the U.S. mainland has eroded Puerto Rico’s economic base. However, significant amounts of U.S. federal aid and private insurance proceeds will be available in aid in rebuilding, including for economic growth and infrastructure replacement.

On February 9, 2018, President Donald J. Trump signed into law the Bipartisan Budget Act of 2018, which includes a disaster relief package of up to $16 billion for Puerto Rico and the U.S. Virgin Islands, to be used for the Medicaid program and projects under the Community Development Block Grant. Governor Rosselló has also announced plans to privatize PREPA and the generation of energy in Puerto Rico, and award a concession of the distribution and transmission of energy. Thereafter, on February 13, 2018, the Commonwealth, PREPA, and the Puerto Rico Aqueducts and Sewers Authority submitted revised fiscal plans to the Oversight Board for its review and certification. Such fiscal plans will establish the fiscal roadmap for the Commonwealth through the fiscal year ending in 2023. The Oversight Board raised objections to such fiscal plans, and upon revision of the same by the Commonwealth, such fiscal plans were certified by the Oversight Board on April 19, 2018.

On May 24, 2018, President Trump signed into law the Economic Growth, Regulatory Relief, and Consumer Protection Act (S. 2155), which contains an amendment to the U.S. Investment Company Act of 1940, as amended (the “1940 Act”), to repeal the exemption from its coverage of investment companies created under the laws of Puerto Rico, the U.S. Virgin Islands,
or any other U.S. possession. The bill amends the 1940 Act by eliminating the exemption provided to U.S. possessions under its Section 6(a)(1). The repeal of the exemption will take effect three (3) years after enactment of the bills. The amendment also provides the U.S. Securities and Exchange Commission ("SEC") with the authority to extend the three-year safe harbor by up to an additional three (3) years. According to a report issued by the House Financial Services Committee in connection with a similar amendment previously considered by the U.S. House of Representatives, the elimination of the 1940 Act exemption of investment companies headquartered in a U.S. territory would subject them to existing U.S. federal requirements for investment companies, such as registering with the SEC, meeting minimum capital requirements, making disclosures to investors, and registering the securities they offer. Currently, Fund management is evaluating the impact that these additional requirements will have on the Fund and is contemplating seeking guidance from the SEC as to a possible time extension of the three-year safe harbor. There is no assurance as to what the ultimate impact of this law may be on the Fund or the SEC may provide in such respect.

Most recently, on July 30, 2018, PREPA, AAAF, the Oversight Board, and the Ad Hoc Group of PREPA Bondholders published a Preliminary Restructuring Support Agreement, proposing that PREPA Bondholders exchange their uninsured bonds for two (2) bond tranches secured by a staggered transition charge on electricity consumption. On May 25, 2018, the Fund’s Board of Directors authorized a final distribution of principal to its holders of the Shares and approved the liquidation and dissolution of the Fund. Thereafter, on May 31, 2018, the Fund effected an aggregate final distribution amounting to $8,921,186, representing $1.73 of the initial offering price of $10 per Share, upon surrender of the Shares so held to Banco Popular de Puerto Rico, as the Fund’s transfer agent. The payment of this final distribution will result in the Fund’s liquidation, and its dissolution will be effected upon surrender of all outstanding Shares to the Fund’s transfer agent. Any final distribution amount that could not be distributed to the holders of the Shares on or by June 15, 2018, has been deposited with Banco Popular de Puerto Rico for the benefit of such remaining holders, until the statutory period for abandoned property under Puerto Rico law has elapsed. Upon the Fund’s dissolution, the books and records of the Fund shall be filed with Banco Popular de Puerto Rico, as the Fund’s administrator, for a period of six (6) years.

Return figures were not calculated in accordance with Regulation 5766 of March 11, 1998, as amended, which requires that the investment returns for an individual retirement account ("IRA") be calculated in the manner provided therein. To the extent that an individual invests in the Fund through an IRA, his or her investment return figures will be less than those reported herein, when computed in accordance with Regulation 5766 and inasmuch as actual sales charges applicable to such IRA investments are taken into consideration. This Fund has commenced return of capital distributions to its shareholders of Common Stock. This Fund has never offered a dividend reinvestment plan for the Shares. "Average Annual Total Return" figures reflect the percentage change in the market value, determined by calculating the average between the bid and ask prices, plus any income and capital gain dividends, and return of capital distributions, all such dividends and distributions reinvested as of the corresponding record date thereof, at the month-end NAV as of that date. In the case of "NAV Total Return," the Fund’s NAV per Share is used, rather than the average between the bid and ask prices or the sum of (i) the average between the bid and ask prices and (ii) the aggregate amount of return of capital distributions to date, to determine such total return, as applicable. "Rolling Period Annual Returns" measure the monthly movement in the average of the Annualized Average Market Return figures over a one-year, three-year, five-year, and ten-year period (as applicable), as it moves over a consecutive time series that begins on the Fund’s inception date. Additionally, in the case of the Average Annual Total Return and Rolling Period Annual Return figures, commissions or sales charges payable in connection with a purchase or sale of Shares may vary with each brokerage institution. This Fund has commenced return of capital distributions to its shareholders of Common Stock. This Fund has never offered a dividend reinvestment plan for the Shares. "Average Annual Total Return" figures reflect the percentage change in the market value, determined by calculating the average between the bid and ask prices, plus any income and capital gain dividends, and return of capital distributions, all such dividends and distributions reinvested as of the corresponding record date thereof, at the month-end NAV as of that date. In the case of "NAV Total Return," the Fund’s NAV per Share is used, rather than the average between the bid and ask prices or the sum of (i) the average between the bid and ask prices and (ii) the aggregate amount of return of capital distributions to date, to determine such total return, as applicable. "Rolling Period Annual Returns" measure the monthly movement in the average of the Annualized Average Market Return figures over a one-year, three-year, five-year, and ten-year period (as applicable), as it moves over a consecutive time series that begins on the Fund’s inception date. Additionally, in the case of the Average Annual Total Return and Rolling Period Annual Return figures, commissions or sales charges payable in connection with a purchase or sale of Shares may vary with each brokerage institution. This Fund has commenced return of capital distributions to its shareholders of Common Stock. This Fund has never offered a dividend reinvestment plan for the Shares. "Average Annual Total Return" figures reflect the percentage change in the market value, determined by calculating the average between the bid and ask prices, plus any income and capital gain dividends, and return of capital distributions, all such dividends and distributions reinvested as of the corresponding record date thereof, at the month-end NAV as of that date. In the case of "NAV Total Return," the Fund’s NAV per Share is used, rather than the average between the bid and ask prices or the sum of (i) the average between the bid and ask prices and (ii) the aggregate amount of return of capital distributions to date, to determine such total return, as applicable. "Rolling Period Annual Returns" measure the monthly movement in the average of the Annualized Average Market Return figures over a one-year, three-year, five-year, and ten-year period (as applicable), as it moves over a consecutive time series that begins on the Fund’s inception date. Additionally, in the case of the Average Annual Total Return and Rolling Period Annual Return figures, commissions or sales charges payable in connection with a purchase or sale of Shares may vary with each brokerage institution.