



UBS Institutional Consulting

This brochure provides information about UBS Financial Services Inc. and our UBS Institutional Consulting Services that you should consider before becoming a client of UBS Institutional Consulting. This information has not been approved or verified by any governmental authority.

**Form ADV Disclosure Brochure
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I. About UBS Financial Services Inc.

UBS Financial Services Inc. is one of the nation's leading securities firms, serving the investment and capital needs of individual, corporate and institutional clients. We are a member of all principal securities and commodities exchanges in the United States including the New York Stock Exchange ("NYSE"). Our parent company, UBS AG ("UBS"), is a global, integrated investment services firm and one of the world's leading banks. With our affiliates, we are registered to act as a broker-dealer, investment adviser, futures commission merchant, commodity pool operator and commodity trading advisor.

We provide investment advisory services to individuals, banks, thrift institutions, mutual funds and other investment companies, pension and employee benefit plans, trusts, estates, charities, corporations and other business and government entities. Our advisory services cover most types of debt and equity or equity-related securities of U.S. and foreign companies and national and local government issuers, both those that are exchange-listed and those traded over-the-counter. We also provide consulting, brokerage and advisory services relating to rights and warrants, securities options and futures; mortgage-backed securities; certificates of deposit; commodities and commodity options and futures contracts, including financial futures; commercial paper; bankers' acceptances; variable annuities; variable life insurance; open and closed-end funds; exchange traded funds and notes, real estate investment trusts; American Depositary Shares; foreign ordinary shares; and publicly traded master limited partnerships.

As a registered adviser, we complete a Form ADV, which contains additional information about our business and our affiliates. Information is available through publicly available filings at the Securities and Exchange Commission at www.adviserinfo.sec.gov.

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

Conducting Business with UBS: Investment Advisory and Broker Dealer Services

As a firm providing wealth management services to clients in the United States, we are registered with the U.S. Securities and Exchange Commission (SEC) as a broker-dealer and an investment adviser, offering both investment advisory and brokerage services.¹

Our clients work with their Financial Advisors to determine the services that are most appropriate given their goals and circumstances. Based on the services you request, we can fulfill your wealth management needs in our capacity as an investment adviser, as a broker-dealer, or as both. For example, we offer financial planning as an advisory service. Once we deliver a financial plan to you, you can decide whether to implement the financial plan via brokerage accounts, advisory programs or a combination,

depending on your needs and preferences. Most of our Financial Advisors are qualified and licensed to provide both brokerage as well as advisory services depending on the services a client has requested.

In addition, some of our Financial Advisors hold educational credentials, such as the Certified Financial Planner™ (CFP®) designation. Holding a professional designation typically indicates that the Financial Advisor has completed certain courses or continuing education. However, use of such designations does not change UBS' or the Financial Advisor's obligation with respect to the advisory or brokerage products and services that may be offered to you.

It is important to understand that investment advisory and brokerage services are separate and distinct and each is governed by different laws and separate contracts with you. While there are similarities among the brokerage and advisory services we provide, depending on the capacity in which we act, our contractual relationship and legal duties to you are subject to a number of important differences.

Our Services as an Investment Adviser and Our Relationship With You

We offer a number of investment advisory programs to clients, acting in our capacity as an investment adviser, including comprehensive financial planning, discretionary account management, non-discretionary investment advisory programs, and advice on the selection of investment managers mutual funds, exchange traded funds, exchange traded notes and other securities offered through our investment advisory programs.

Generally, when we act as your investment adviser, we will enter into a written agreement with you expressly acknowledging our investment advisory relationship with you and describing our obligations to you. At the beginning of our advisory relationship, we will give you our Form ADV brochure(s) for the program(s) you selected which provides detailed information about, among other things, the advisory services we provide, our fees, our personnel, our other business activities and financial industry affiliations and conflicts between our interests and your interests.

How We Charge for Investment Advisory Services

If you select an advisory product or service, we will charge you fees determined as either:

- A percentage of the amount of assets held in your advisory account,
- A flat annual fee,
- A combination of asset based fee and commissions or
- Periodic fees.
- Comprehensive Financial Planning Services are available for a fee; basic financial planning services are currently available at no charge.

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

¹ Examples of our advisory programs and services include our financial planning services and our ACCESS, PMP, Managed Accounts Consulting, UBS Institutional Consulting, UBS Strategic Advisor, UBS Strategic Wealth Portfolio, UBS Managed Portfolio Program and PACE programs. Examples of our brokerage accounts include our Resource Management Account.

Our Fiduciary Responsibilities as an Investment Adviser

When you participate in one of our investment advisory programs,² we are considered to have a fiduciary relationship with you³ The fiduciary standards are established under the Investment Advisers Act of 1940 and state laws, where applicable, and include:

- Obligations to disclose to you all material conflicts between our interests and your interests.
- If we or our affiliates receive additional compensation from you or a third-party as a result of our relationship with you, we must disclose that to you.
- We must obtain your informed consent before engaging in transactions with you for our own account or that of an affiliate or another client when we act in an advisory capacity.
- We must treat you and our other advisory clients fairly and equitably and cannot unfairly advantage one client to the disadvantage of another.
- The investment decisions or recommendations we make for you must be suitable and appropriate for you and consistent with your investment objectives and goals and any restrictions you have placed on us.
- We must act in what we reasonably believe to be your best interests and in the event of a conflict of interest, we must place your interests before our own.

Our Services as a Broker-Dealer and Our Relationship With You

As a full-service broker-dealer, our services are not limited to taking customer orders and executing securities transactions. As a broker-dealer, we provide a variety of services relating to investments in securities, including providing investment research, executing trades and providing custody services. We also make recommendations to our brokerage clients about whether to buy, sell or hold securities. We consider these recommendations to be part of our brokerage account services and do not charge a separate fee for this advice. Our recommendations must be suitable for each client, in light of the client's particular financial circumstances, goals and tolerance for risk.

Our Financial Advisors can assist clients in identifying overall investment needs and goals and creating investment strategies that are designed to pursue those investment goals. The advice and service we provide to our clients with respect to their brokerage accounts is an integral part of our services offered as a broker-dealer.

In our capacity as broker-dealer, we do not make investment decisions for clients or manage their accounts on a discretionary basis. We will only buy or sell securities for brokerage clients based on specific directions from you.

How We Charge for Brokerage Services

If you choose to establish a brokerage account with us, you may elect to:

- Pay us for our brokerage services each time we execute a transaction for your account in a Resource Management Account. If you choose to pay on a transaction-by-transaction basis, we can act as either your agent or "broker," or as a "dealer."
- Operating as your agent or broker, we will charge you a commission each time we buy or sell a security for you.
- As a "dealer," we act as a principal for our own account on the other side of a transaction from you. Using our own inventory, we will buy a security from or sell a security to you, and seek to make a profit on the trade by charging you a "mark up," "mark-down" or "spread" on the price of the security in addition to the commissions you pay on these transactions.

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

Our Responsibilities to You as a Broker-Dealer

As a broker-dealer⁴ we are subject to the Securities Exchange Act of 1934, the Securities Act of 1933, and the rules of self-regulatory organizations such as the Financial Industry Regulatory authority (FINRA), the New York Stock Exchange and state laws, where applicable. The standards for broker-dealers include the following:

- As your broker-dealer⁴, we have a duty to deal fairly with you. Consistent with our duty of fairness, we are obligated to make sure that the prices you receive when we execute transactions for you are reasonable and fair in light of prevailing market conditions and that the commissions and other fees we charge you are not excessive.
- We must have a reasonable basis for believing that any securities recommendations we make to you are suitable and appropriate for you, given your individual financial circumstances, needs and goals.
- We are permitted to trade with you for our own account or for an affiliate or another client and may earn a profit on those trades. When we engage in these trades, we disclose the capacity in which we acted on your confirmation, though we are not required to communicate this or obtain your consent in advance, or to inform you of the profit earned on the trades.
- **It is important to note that when we act as your broker-dealer, we do not enter into a fiduciary relationship with you. Absent special circumstances, we are not held to the same legal standards that apply when we have a fiduciary relationship with you, as we do when providing investment advisory services.** Our legal obligations to disclose detailed information to you about the nature and scope of our business, personnel, fees, conflicts between our interests and your interests and other matters are more limited than when we have fiduciary duties with you.

² Examples of our advisory programs and services include our financial planning services and our ACCESS, PMP, Managed Accounts Consulting, UBS Institutional Consulting, UBS Strategic Advisor, UBS Strategic Wealth Portfolio, UBS Managed Portfolio Program and PACE programs. Examples of our brokerage accounts include our Resource Management Account.

³ Our status as a fiduciary under the Investment Advisers Act will not, in itself, make us a fiduciary under ERISA or the Internal Revenue Code. We will not act in such capacity unless we have agreed to do so in writing.

⁴ Resource Management Account.

Our Obligations, Your Agreement and Your Account/ Program Selection

If you are establishing an investment advisory account with us (for example, ACCESS, Managed Accounts Consulting Program, PACE, UBS Strategic Advisor, UBS Strategic Wealth Portfolio, UBS Portfolio Management Program, and UBS Managed Portfolio Program), you will be required to execute both an investment advisory agreement and a brokerage account agreement, so that your advisory account will have trading capability and custody services. When you execute a brokerage agreement as part of the process of establishing an investment advisory account, the brokerage agreement supplements your advisory agreement, and all, collectively, govern your relationship with us. In this case, your account will be designated as "advisory" and our obligations to you as they pertain to that account will be that of an investment advisor as described above and in your investment advisory program agreement and application.

If you open an investment advisory account with us, both you and UBS Financial Services Inc. will have the right to terminate your account from the investment advisory program. You should note that termination will end our investment advisory fiduciary relationship with you as it pertains to that account and, depending on the terms of your specific investment advisory agreement with us, will cause your account to be converted to, and designated as, a brokerage account only. Your investment advisory agreement will no longer apply to that account and it will be governed solely by the terms and conditions of your brokerage account agreement.

For More Information

Understanding the ways in which we may conduct business under applicable laws and regulations is essential to the relationship between "You and Us." The investment advisory programs and brokerage accounts we offer differ in other ways than those summarized above. It is important that you carefully read the agreements and disclosures that we provide to you with respect to the products or services under consideration.

While we strive to make sure the nature of our services is clear in the materials we publish, if at any time you would like clarification on the nature of your accounts or the services you are receiving, please speak with your Financial Advisor.

II. UBS Institutional Consulting—Description of Services

UBS Financial Services Inc. is registered both as a broker-dealer and an investment adviser. In those capacities, we make available to our clients a wide array of brokerage and advisory services. Your rights and our duties and obligations to you, including the scope of our fiduciary obligations differ depending on whether we are providing services to you as a broker or an advisor.

UBS Institutional Consulting is a program designed to provide advisory services to institutional clients such as sponsors of qualified retirement plans, corporations,

endowments and foundations, municipalities, and religious and charitable organizations, although we may provide services to other types of clients under certain conditions. The ongoing advice of your UBS Institutional Consultant is one of the key components and services provided. The program is designed for institutional clients that (i) seek advice on the establishment of strategic investment goals and seek assistance in the development of investment policy statements; (ii) seek advice on the development and analysis of a strategic asset allocation for the overall investment fund; (iii) seek to delegate investment discretion to a professional money manager(s) and value the ongoing advice of a financial advisor who recommends professional money managers, mutual funds, alternative investments and other investments, as well as exchange traded funds (ETFs) and exchange traded notes (ETNs) are reviewed for eligibility; (iv) are looking for assistance in the search and implementation of a medium- to long-term investment plan pursuant to an investment policy statement; and/or (v) wish to receive portfolio evaluation and review services which includes a report of the performance of the overall investment portfolio and the professional money managers who manage components of the overall fund.

Depending on the services you select, you may find that components or variations of the individual **UBS Institutional Consulting** services are available to you outside of **UBS Institutional Consulting** for more or less than you would pay in the program. For example, outside of **UBS Institutional Consulting**, all Financial Advisors in our firm can provide certain asset allocation modeling, mutual fund selection services and basic portfolio analytics to clients either free of charge or for the 12b-1 payments we receive from the mutual funds we sell to you. We make these services available to all our customers as part of our brokerage services for no additional or separate charge. **In particular, Financial Advisors with a UBS Institutional Consultant designation may provide components of the UBS Institutional Consulting asset allocation service or portfolio evaluation service free of charge to clients who do not enter into a UBS Institutional Consulting Services Agreement.** Our brokerage services do not include our assistance or recommendations in the selection of investments.

Our fee-based investment advisory services are separate and distinct from our brokerage services and entail comprehensive, sophisticated or specialized asset allocation studies and analysis and portfolio evaluation and review services as an investment advisory service, for which we charge a separate fee. However, as is the case with all our Financial Advisors who are duly licensed to conduct advisory business, **UBS Institutional Consultants** (in their capacity as brokers/Financial Advisors) can provide clients with brokerage services outside of the **UBS Institutional Consulting** program. Since services similar to those available in **UBS Institutional Consulting** are also available to you through our brokerage services, **UBS Institutional Consultants** may have an incentive to recommend to you those services, which may result in increased compensation to them. **Please discuss our various product offerings, their features and costs with your Financial Advisor. See "Consulting, Other Business Activities and**

Affiliations—Retirement Consulting Services™ for more information on the brokerage services available to retirement plans.

Our **UBS Institutional Consulting** services are available for client relationships where the amount of client investment assets is generally \$10 million or greater, although we may allow clients with less than \$10 million in investment assets under certain conditions. The following is a description of the available services and their basic fees. The fees listed are the maximum charged for each service when selected individually and might be lower depending on the type and size of the institution, the complexity of the needs and preferences of the institution, the expected frequency with which services may be needed, amongst other factors. Total fees for bundled services may be less or more than the sum of the fee for the individual components.

Please note that we do not provide legal, tax or actuarial advice. We will not be responsible for ensuring that your investment policy statement, asset allocation or investment choices comply with all specific legal, actuarial or other requirements that apply to you or your investment manager's compliance with your investment policy statement asset allocation or other investment restrictions. That responsibility rests solely with you, and you should consult with your legal and tax advisors regarding those matters.

- (1) **Investment Policy Assistance.** UBS Institutional Consulting will assist you in the development and preparation of an investment policy statement. The investment policy statement is a written document that presents various components of your overall investment plan. This service typically involves analyzing your liquidity requirements, performance goals and risk tolerance levels based on the information you provided to us. If you select this service on an ongoing or retainer basis, we will review the investment policy statement on a periodic basis and will assist you in incorporating any changes you determine are appropriate.

The basic fee for this service is \$25,000 per investment policy statement.

Investment Policy Monitoring. UBS Institutional Consulting will assist you in the monitoring of your investment policy statement if we are also providing you with Investment Policy Assistance. This service will assist you in monitoring your investment portfolio on at least a quarterly basis, based on the guidelines set forth in your investment policy statement. This service may include monitoring your portfolio's current asset allocation versus your target asset allocation. It may also include monitoring the securities selected by your manager(s) based on a variety of objective criteria that may include credit quality, duration, and/or liquidity. If we determine your portfolio or specific investments are not in compliance with the guidelines established in your investment policy statement and the agreed upon monitoring criteria, we will recommend corrective action. We may cease providing this service if corrective action

is not taken within a reasonable time and your portfolio remains out of compliance.

In order for us to provide this service, you may be required to execute a separate agreement with our third-party data aggregation service.

The basic fee for this service is 10 basis points on the value of the portfolio being monitored.

- (2) **Asset Allocation Studies and Analysis.** UBS Institutional Consulting provides periodic asset allocation analysis, using asset allocation studies, of your investment holdings including investment managers, mutual funds, alternative investments, and other managed investments, as well as ETFs and ETNs. This service typically involves analyzing your liquidity requirements, performance goals and risk tolerance levels based on the information you provided to us. **Our asset allocation studies and analysis may cover investment managers, mutual funds, alternative investments, and other managed investments, as well as ETFs, ETNs and other securities, which you retained or purchased, as the case may be, at other institutions prior to entering into the UBS Institutional Consulting agreement and without our recommendation. Our inclusion of these investments into our asset studies and analysis does not constitute an endorsement that you continue to hold those securities or retain those managers.**

As part of our asset allocation services we may assist you in the development and preparation of asset allocation models. Based on your asset allocation we could then conduct a search described in Section (3) below. Unless your strategy is identified as a fully diversified strategy, an investment in a single equity, balanced or fixed income strategy should not be considered as a diversified asset allocation plan to investing (either overall or within a single asset class or style), but should be viewed only as the equity or fixed income portion, as applicable, of your overall portfolio.

The basic fee for this service is \$25,000, which includes a final asset allocation study.

- (3) **Searches:** UBS Institutional Consulting will identify and present investment managers, mutual funds, alternative investments, ETFs and ETNs and other investments, based upon the information and selection criteria you provide to us (including your goals, risk tolerance and financial needs) and on information obtained from the managers, from the firm's proprietary databases and/or from various commercially available means.
- a) **Investment Manager Searches.** For a manager search in a specific asset category, strategy or product type, UBS Institutional Consulting will identify and present a minimum of three investment managers, where appropriate and available, for

each asset category, strategy or product type for your consideration, based upon the information and selection criteria you provide to us (including your goals, risk tolerance and financial needs) and on information obtained from the managers, from the firm's proprietary database and/or from various commercially available means. Our manager searches and recommendations cover only those managers included in our firm-sponsored programs or otherwise reviewed by us.

Our role is to identify managers which have been examined and determined to be suitable for the client's needs. We will present to you those managers and model portfolios which, in our professional judgment, are appropriate to help you pursue your financial goals. We do not represent that the managers or models presented will be the best available managers or models either in the industry or the best available managers/models among the managers/models included in our firm-sponsored programs or otherwise reviewed by us. See **"Recommendation of Affiliated Managers, Mutual Funds and Alternative Investments" and "Additional Sources of Compensation to UBS Financial Services Inc., UBS Affiliates and Financial Advisors"** for a summary of additional compensation we receive from various sources.

For the managers included in searches, we currently provide a "WMS Researched Manager" list. Below is a general description of the parameters and criteria reviewed for this manager category. The description, which is not a complete list of all factors reviewed, is current as of the date of this document, and is subject to change in our discretion.

While our investment manager searches will not include any manager you previously retained that is not in our WMS Researched Manager database (described below), if you would like to continue your relationship with such manager in the context of a new UBS Institutional Consulting agreement, you will be asked to acknowledge that the manager has not been reviewed by our firm. UBS Manager Research also has a "MAC Eligible" universe of managers is used as an accommodation for (i) newly recruited Financial Advisors whose clients use managers not on our researched list; and (ii) clients who wish to join a UBS program but want to retain a previously hired manager not on our researched list. The Manager Research Group's analysis of MAC Eligible Managers is limited in scope and does not provide enough information for us to express an opinion regarding the investment capabilities of those firms. To retain one of these managers, you will be asked to acknowledge that the manager has not been researched by our firm. UBS does not make initial or ongoing recommendations on MAC Eligible Managers to existing and/or prospective clients.

Manager Research Process. We select investment managers and strategies to participate in UBS

researched programs to give our clients a wide choice of investment capitalizations and styles, including, among others, value, growth, growth and income, income, contrarian, tactical asset allocation, strategic asset allocation (through multi-style accounts), municipals, global, international, convertible bonds, long/short investing and strategies with real estate investment trusts. Some investment managers in turn, delegate their management responsibilities to affiliated and non-affiliated subadvisers.

Before being selected to participate in UBS researched programs, each investment manager strategy undergoes a research due diligence process performed by the Manager Research Group. This process is described in our brochure, **Selecting an Investment Manager: The Manager Research Process**. The Manager Research Group begins the screening process by using publicly available databases, industry contacts of the Manager Research Group or others at UBS Financial Services Inc. (including Financial Advisors), and from managers approaching the Manager Research Group directly on an unsolicited basis. General screens such as assets under management and portfolio manager "longevity" and investment style are used to narrow the field.

As of the date of this brochure, our selection procedures include an examination of investment philosophy and process, and may also include interviews with principals and key staff members, a review of trading practices and portfolio performance, etc. We may use third parties to help gather and analyze information used in the review. We review investment managers periodically to confirm and validate our earlier conclusions. That process includes periodic contact with the investment managers, as well as ongoing performance monitoring.

All investment managers and associated strategies in our programs and their sub-advisors with the exception of those managers categorized as MAC Eligible are subject to the initial and ongoing due diligence process described above.

We provide different levels of investment manager research and due diligence in our MAC program. The level of due diligence we undertake varies depending on whether the manager is in our researched list and approved for use in the UBS programs or available as "MAC Eligible."

MAC Eligible Investment Managers: Unlike the MAC researched universe of investment managers who are subject to the review process outlined above, the MAC Eligible universe of managers is used as an accommodation for (i) newly recruited Financial Advisors whose clients use managers not on our researched list; and (ii) clients who wish to join the MAC program and may want to retain a previously hired manager not on the investment researched list (unsolicited managers). The Manager Research

Group's analysis of MAC Eligible Managers is limited in scope and does not provide enough information for us to express an opinion regarding the investment capabilities of those firms. The limited analysis is performed once and provides a broad overview of the manager's organizational structure and history, together with information about their assets under management, net worth and regulatory record, and is not updated. UBS does not make initial or ongoing recommendations on MAC Eligible Managers to existing and/or prospective clients.

This is a general description of the parameters and criteria of our investment manager process. The description is not a complete list of all factors reviewed, is current as of the date of this document, and is subject to change in our discretion. **We reserve the right to revise and update this process in our discretion including using a risk based approach in order to determine the depth of due diligence, review processes and tools that will be used in connection with our initial and on-going analysis of these strategies.**

While we seek to apply the same review criteria to all researched managers available in our Separately Managed Accounts Programs, certain UBS affiliated strategies and UBS Financial Services Inc. discretionary Investment Portfolios, such as Global Selections of ETFs, may not have been screened or approved as Researched strategies at the time they were included in the Separately Managed Accounts Programs (but will be reviewed in the future), or, if screened, may not have met the required criteria.

For example, for our discretionary Investment Portfolios, while the firm itself would satisfy the general research screens, an Investment Portfolio on its own, may fail to meet several research screens, including: total assets under management, length of a performance track record with client assets, compliance with GIPS standards, and minimum number of accounts which are normally imposed on third party managers.

The Manager Research Group responsible for evaluating strategies for these programs reports into the same function as the portfolio investment team which manages the Investment Portfolios.

Investment managers in our advisory programs are asked to contribute to our overall training and education costs for Financial Advisors in our managed accounts programs. Neither contribution towards these educational expenses, nor lack thereof, is considered as a factor in analyzing or determining whether an investment manager should be included or should remain in our advisory programs. See **"Additional Compensation—Manager Contributions to Training and Education Expenses."**

Investment managers do not contribute toward educational programs specifically for UBS Institutional Consulting.

We cannot assure you that we will continue to provide ongoing analysis for any of these managers and retain the authority to remove any manager from the research list at any time.

We may provide descriptive profiles of selected investment managers in the programs that include past performance information. We also include manager performance, including their performance history prior to joining our programs, in various program proposals and profiles. While we believe this information is accurate, we do not independently verify or guarantee it. Please note that we cannot assure you that any past performance information provided has been calculated on a uniform or consistent basis. Profiles are not available for every manager or strategy available in the programs. We believe that composite performance information is meaningful. Currently we calculate performance composites only for managers offered in our ACCESS program. We calculate the investment manager's composite performance for accounts in our program based on standards drawn from industry sources. Performance is calculated by taking into account at least the following items: a time-weighted rate of return; cash flows into and out of the accounts; monthly valuations; and income accrued on fixed income securities. Accounts will be excluded from the composite if they have not been in the program for a full calendar quarter and/or if there appears to be a discrepancy in the report. The prior performance of an investment manager may not be indicative of the investment manager's future results.

The basic fee for each individual service is \$15,000 per search for IS Researched Managers. For managers you select, you will be asked to execute separate investment management agreements with the managers you choose and, depending on the program and manager selected, you will incur additional fees for those services.

- b) **Mutual Fund Searches. UBS Institutional Consulting** will identify mutual funds for you from among those funds for which the firm serves as distributor or on which the firm has conducted a due diligence review. Our suggestions are based on information that you provide to us and on publicly available information in third-party databases. Unless you purchase the mutual funds in a wrap fee product, such as PACE, or buy only no-load or load waived funds we will receive commissions in connection with your transactions. We will not receive commissions, 12b-1s or other compensation for your purchase of mutual funds for which we do not have distribution agreement. If you had previously retained a mutual fund for which our firm does not serve as distributor

or does not conduct a due diligence review and you would like to continue that relationship in the context of a new **UBS Institutional Consulting** agreement, you will be asked to acknowledge that the mutual fund(s) has not been reviewed by our firm. If we do not have a distribution agreement with mutual funds that are included as part of your mutual fund search, and you select one of those funds as your investment option, you agree not to list UBS Financial Services or any UBS Financial Services Inc. employee including your UBS Institutional Consultant as broker of record. See **"Recommendation of Affiliated Managers, Mutual Funds and Alternative Investments";** see also **"Additional Sources of Compensation to UBS Financial Services Inc., UBS Affiliates and Financial Advisors"** for a summary of additional compensation we receive in connection with the sale and distribution of mutual funds.

The basic fee for each individual service is \$10,000 per search.

- c) **ETF and ETN Searches:** UBS Institutional Consulting will identify ETFs and ETNs on which the firm has conducted a due diligence review. Our suggestions are based on information that you provide to us and on publicly available information in third-party databases. We will present to you those ETFs and ETNs which, in our professional judgment, are appropriate to help you pursue your financial goals. We do not represent that the ETFs and ETNs presented will be the best available either in the industry or the best available among the ETFs and ETNs reviewed by us. If you selected to retain an ETF or ETN not in our database, you will be asked to acknowledge that the ETF or ETN has not been reviewed by our firm. See **"Recommendation of Affiliated Managers, Mutual Funds and Alternative Investments"** and **"Additional Sources of Compensation to UBS Financial Services Inc., UBS Affiliates and Financial Advisors"** for a summary of additional compensation we receive from various sources.

The basic fee for each individual service is \$10,000 per search.

- d) **Alternative Investments and other managed investment Searches:** UBS Institutional Consulting will identify investments which are determined to be suitable for the client's needs. We will present to you those investments which, in our professional judgment, are appropriate to help you pursue your financial goals. We do not represent that the investments presented will be the best available either in the industry or the best available among the investments reviewed by our Alternative Investments Committee or otherwise reviewed by us. If you selected to retain an investment not reviewed by our Committee or otherwise reviewed by us, you will be asked to acknowledge that the investment has not been reviewed by our firm. See **"Recommendation of Affiliated Managers, Mutual Funds and**

Alternative Investments" and **"Additional Sources of Compensation to UBS Financial Services Inc., UBS Affiliates and Financial Advisors"** for a summary of additional compensation we receive from various sources.

When consistent with your investment objectives, risk tolerance and financial circumstances, and upon your request, we may refer you to proprietary and non-proprietary alternative investments. You are solely responsible for your decision to invest in an alternative investment. Alternative investments are volatile in nature. You will bear the costs and fees of these funds, including asset-based fees, expenses, and incentive based compensation. We and certain of our affiliates are compensated for providing services to certain affiliated or proprietary alternative investment vehicles. This compensation can include distribution or referral fees, investment advisory and/or management and certain other fees, including performance fees. As a result of the various payments to us or our affiliated companies, the amount of compensation that UBS entities receive with respect to the sale of affiliated or proprietary vehicles is greater than the amount payable to the organization as a whole from the sale of unaffiliated investments. The nature of the services provided by, and the compensation paid to, us and our affiliates are set forth in the offering documents, which are available for no charge through your UBS Institutional Consulting Consultant.

The basic fee for each individual service is \$25,000 per search.

We do not independently verify or guarantee the information in any descriptive profiles of mutual funds, alternative investments, ETFs and ETNs provided to you. Also, we may not review any past performance information in the profile, and we cannot assure you that the performance information is calculated on a uniform or consistent basis. Moreover, the prior performance of an investment may not be indicative of the mutual fund's future performance.

Historically, and subject to our prior approval, certain Financial Advisors in the **UBS Institutional Consulting** program may have entered into arrangements to provide self-directed plan participants whose plan assets have been custodied outside of our firm with investment advice regarding the purchase and sale of specific securities and some or all of the other services provided through **UBS Institutional Consulting**. These services have been provided on a non-discretionary basis. The plan participant has retained absolute discretion over, and responsibility for, the implementation of any of **UBS Institutional Consulting's** suggestions and, therefore, the participant should fully evaluate these suggestions. Fees for these services have been negotiated with the **UBS Institutional** Consultant and have been generally based on a percentage of assets under management in the UBS Institutional Consulting account.

(4) **Portfolio Evaluation and Review. UBS Institutional Consulting** provides periodic portfolio evaluation and review and analysis of your investment holdings including investment managers, mutual funds, alternative investments, and other managed investments as well as ETFs and ETNs. We will assist you in evaluating your portfolio including the review of each manager's performance on an absolute and relative basis. Based on your overall objectives and performance of your investments, we can then determine whether an adjustment is necessary to your investment strategy. Should a change of manager be warranted, we can assist you in conducting a new manager search. If requested, we can also provide performance reporting to you free of charge. Our performance reports may be based on the custody statements for your account(s). When reporting performance to you for your mutual fund information, we may provide you solely with the underlying performance of the mutual fund and not necessarily your specific investment performance. The reports may contain a summary of assets at the beginning and end of the period, including any additions or withdrawals, and rates of return. Our reports may also include graphic and tabular presentations of performance (including comparisons to appropriate market indexes, inflation and stated goals), as well as a market cycle comparisons, performance attribution and risk/return analyses. Although we believe that information provided to us by custodians is reliable, we do not independently verify or guarantee its accuracy or validity.

Our review of your portfolio may cover investment managers, mutual funds, alternative investments, and other managed investments, as well as ETFs and ETNs, which you retained or purchased, as the case may be, at other institutions prior to entering into the UBS Institutional Consulting agreement and without our recommendation. Our review of these investments is solely for the purpose of portfolio evaluation and does not constitute an endorsement that you continue to hold those securities or retain those managers.

As part of the portfolio evaluation and review, we will provide a performance report of your investment managers, mutual funds, alternative investments, and other managed investments, as well as ETFs and ETNs. In addition, we can also provide portfolio characteristic and style attribution analysis and historical asset evaluation for a variety of investment strategies and vehicles, including mutual funds and managed accounts based on your custody statements.

Portfolio Reviews include a depiction of investment results compared to pre-selected benchmarks. Benchmarks shown are for informational purposes only. Those comparisons relate to the historical performance of market indexes and not the performance of actual investments. Our selection and use of benchmarks for comparison purposes is not a promise or guarantee that the performance of your assets will meet or exceed the performance of the stated benchmark. A particular investment strategy in which you invest is generally not

restricted to investing only in the securities and only at the weights or percentages of the securities that are included in the benchmarks.

Our performance reports may be based on the custody statements for your account(s). When reporting performance to you for your mutual fund information, we may provide you solely with the underlying performance of the mutual fund and not necessarily your specific investment performance. The reports we provide to you may include information obtained from third-party sources. Any information we provide to you which has been obtained, computed, formatted or displayed by outside sources is believed to be accurate but has not been independently verified and as a result we cannot guarantee it.

To the extent permissible by applicable law, we may, in the future, deliver these Portfolio Reviews to you via electronic format.

In the event you are receiving portfolio-wide performance reporting and you maintain an account(s) in one of our wrap-fee programs, and the UBS Performance and Reporting Group prepares a consolidated performance report for the accounts in your **UBS Institutional Consulting** relationship, you may opt to not receive the Performance Review for your individual advisory programs (for example, MAC, ACCESS or other advisory program account(s)), but will receive instead a portfolio review within the parameters you requested under your **UBS Institutional Consulting** agreement. **This suppression option is only available when your UBS Institutional Consulting consolidated Portfolio Reviews are prepared by our UBS Performance and Reporting Group.** We use our best efforts to ensure timely delivery of these reports, but reserve the right to delay delivery to ensure accuracy and completeness.

The basic fee for this individual service is \$50,000 for the first five managed investments and an additional \$10,000 for each managed investment thereafter.

(5) **Special Services for Participant Directed Retirement Plans. UBS Institutional Consulting** provides services specifically designed for participant directed plans. These services include assistance to sponsors in evaluating the type and number of investment alternatives offered to plan participants; development of criteria used in selecting service providers; evaluation of the relative merits of bundled or unbundled recordkeeping/investment service providers; evaluation of proposals received from prospective service providers; and investment education, which may include enrollment seminars and written educational materials.

The basic fee for these individual services is \$50,000.

(6) **Investment Education for 401(k) plan participants. UBS Institutional Consulting** will provide general investment education, which will include educational seminars to the participants of the Plan periodically

as requested by you. Services may include providing seminars focused on educating employees about topics such as asset allocation, the definition of various asset classes, potential risks and rewards, the advantages of tax deferred or tax free investing options available when receiving a retirement plan distribution and other similarly generic subject matter. These seminars are generic in nature and do not contain recommendations to invest in a particular security.

This service is generally billed out at an hourly or per diem rate plus travel expenses. These rates vary by consultant and by the level of education provided.

- (7) **Additional Consulting.** On an ongoing basis, we will consult with you on matters related to news and developments in the capital markets and asset classes based on information generally available from UBS Wealth Management Research or other UBS affiliates, or more specifically prepared for you based on publicly available information. Additional services may be available as agreed to between us.

The fees for our ongoing consulting services are generally billed at an hourly or per diem rate or on a fixed fee basis for projects that are specifically undertaken at your request.

- (8) **Various Other Services.** UBS Institutional Consulting may provide other consulting services, including assistance in identifying custodial services; third-party administrators; record keepers; securities lending programs (which may include our lending services); and asset/liability modeling. Generally, there are no set fees for these services. Your actual fees will vary significantly depending upon the nature and complexity of the service rendered. You generally may not obtain these services separately if you select the Retainer Service Option described below.

Recommendation of Affiliated Managers, Mutual Funds and Alternative Investments. We may, at your request and after a review of your needs and available options, recommend affiliated/proprietary money managers, mutual funds and alternative investments. Recommendation of proprietary or affiliated products and managers raises a conflict of interest as retaining those entities or purchasing those securities will result in increased compensation to, depending on the circumstances, the **UBS Institutional Consultant**, **UBS Financial Services Inc.** and/or a member of the UBS organization. We and certain of our affiliates are compensated for providing services to certain affiliated or proprietary alternative investment vehicles. This compensation can include distribution or referral fees, investment advisory and/or management and certain other fees, including performance fees. As a result of the various payments to us or our affiliated companies, the amount of compensation that UBS entities receive with respect to the sale of affiliated or proprietary vehicles is greater than the amount payable to the organization as a whole from the sale of unaffiliated investments. The nature of the services provided by, and the compensation paid to, us and our affiliates are set forth in the offering documents, which

are available for no charge through your UBS Institutional Consulting Consultant. **See "Additional Sources of Compensation to UBS Financial Services Inc., UBS Affiliates and Financial Advisors."**

If you would like us to present for your consideration any proprietary money managers, alternative investments or mutual funds, you should direct us to do so in the UBS Institutional Consulting Services Agreement. By doing so, you direct us to present affiliated and proprietary mutual funds, money managers, alternative investments, other managed investments, ETFs and ETNs for your consideration and you acknowledge that your selection of those managers/investments will result in additional compensation to us or other members of the UBS organization. This option is available only for Non-ERISA clients.

Other Information. Our expenses in delivering services to you, such as travel expenses, are in addition to the fees described above unless we specifically agree otherwise. We also may charge minimum fees if you request limited services. We may terminate one or more of the UBS Institutional Consulting services at any time for any reason. In some cases, in order to provide you with the best possible service, UBS Institutional Consulting may use one or more experts not affiliated with us to assist in one or more of its services.

III. Retainer Service Option And Other Alternative Fee Arrangements

Our fees and commissions are subject to negotiation based upon the type and size of your account, the number and type of services selected, the complexity of your needs and preferences and the expected frequency with which services may be needed, among other factors. **UBS Institutional Consulting** may customize the fee structure to allow you to obtain certain services under one payment option and other services under a different option.

The fees described above do not include any charges that you may incur implementing any suggestions we make, such as fees for investment managers or execution, custody or other account or client services, commission charges for transactions effected through us or other broker-dealers and the administrative and management fees associated with pooled investment vehicles such as open and closed end mutual funds, exchange traded funds, exchange traded notes, alternative investment vehicles (such as hedge funds), and similar instruments.

Fees, as well as other account requirements, may vary as a result of the application of prior policies depending upon customer account inception date. From time to time, the fees for certain services described in this brochure may be reduced for our employees, their family members and employees of our affiliates.

Retainer Service Option. As an alternative to the basic fees described above, you may select the Retainer Service Option. Under this option, you may pay a retainer and

request, with reasonable frequency, an agreed-upon selection of **UBS Institutional Consulting** services. Retainer fees may be either a specific dollar amount or as a percentage of assets ("hard dollars"). In some cases, you may elect to pay for **UBS Institutional Consulting** services with a combination of hard dollars and directed brokerage at negotiated commission and conversion rates or distribution fees and finder's fees (in the case of mutual fund searches) paid to us from mutual funds. The amount you pay to us under this option may be greater or smaller than the aggregate amount of fees for similar services under an "a la carte" payment option, where you pay us for each specific individual services negotiated from the basic fees described above.

All Inclusive Fee Arrangement. You may choose an "all-inclusive fee," or "zero-commission," arrangement that combines various **UBS Institutional Consulting** services with custody of securities and all brokerage and execution services for the purchase and sale of securities at our firm. However, in no event will the firm be obligated to execute any transaction which it believes in good faith might be in violation of applicable federal or state law or regulations, or of applicable regulations of any self-regulatory body of which the firm is a member. The amount you pay to us under this option may be greater or smaller than the aggregate amount of fees for similar services under an "a la carte" payment option, where you pay us for each specific individual services negotiated from the basic fees described above. For information on the all-inclusive or wrap fee programs that we offer, please contact your **UBS Institutional Consultant**.

Fees/Other Charges Not Covered by Your Program Fee. You may pay other charges in addition to the **UBS Institutional Consulting** all-inclusive fee, some of which may add to the compensation that we receive. **Program fees will not be reduced or offset by these fees. These additional fees will reduce the overall return of your account.** Our Program fees do not include (i) commission charges for transactions for your account that your manager or we, at your direction, may effect through other broker-dealers; (ii) custody fees imposed by other financial institutions if you choose to custody your assets at other financial institutions; (iii) internal trust fees; (iv) charges imposed by law; (v) costs relating to trading in foreign securities (other than commissions otherwise payable to us); (vi) internal administrative and management fees that may be imposed by collective investment vehicles such as open-end and closed-end mutual funds, UITs, exchange traded funds, exchange traded notes or real estate investment trusts and (vii) other specialized charges, such as transfer taxes, exchange and SEC transaction fees. We or UBS Credit Corp. will also charge interest on any outstanding loan balances to clients who borrow money from us or UBS Credit Corp. Clients also may be charged additional fees for specific account services, such as ACAT transfers, annual and termination fees for retirement accounts or Resource Management Accounts® (and/or Business Services Accounts BSA®) and wire transfer charges. **Please review the applicable prospectus and offering documents for the collective investment vehicles carefully for a detailed description of the additional**

fees associated with these securities. You may be able to purchase those securities directly in the open market without incurring the all-inclusive fee.

If you decide to invest all or portion of your assets in one of our other UBS programs, that portion of your assets will be carved out the **UBS Institutional Consulting** Services Agreement for fee calculation purposes.

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

IV. Limits Of UBS Institutional Consulting's Responsibility

In making the services described in this brochure available to you, we rely on the information you provide to us. It is your responsibility to provide us with all material and pertinent information regarding investment objectives, risk tolerance, asset allocation, and the historical performance of your investments, income and liquidity requirements as well as any other relevant matters that we may request from time to time. We will rely on the information you provide without further verification. You should notify us promptly of any material changes in your financial condition, risk tolerance, needs or objectives.

UBS Institutional Consulting is not a portfolio management program. Neither we nor your **UBS Institutional Consultant** will manage your assets or exercise any investment discretion or control over your account. However, if you select one of our portfolio management programs as one of your investment options in **UBS Institutional Consulting**, a third party money manager will exercise discretion over your account as described in that program's contract.

Discretion Over Your Account(s). **UBS Institutional Consulting** services are suggestions, and are not binding on you. All investment decisions are your responsibility and you retain absolute discretion over, and responsibility for, the implementation of any of **UBS Institutional Consulting's** suggestions.

On an exception basis, however, and subject to our prior approval, a limited number of clients may have elected to delegate to their Institutional Consultant limited discretion to select managed investments, excluding alternative investments. Such clients, however, retain the right to reject any selected investment. This option was not made available for ERISA Qualified Plans. Clients who have delegated limited authority to us or who have directed us to implement certain investment decisions may also have delegated to their Institutional Consultant the authority to act on such clients' behalf in handling other matters necessary or incidental to the

handling of the clients' accounts, including, for example wire transfers of funds at client request.

We do not assume any responsibility nor are we liable for the conduct or investment performance, either historical or prospective, of any investment manager, mutual fund, alternative investment, other managed investments, ETF or ETN suggested by your **UBS Institutional** Consultant and selected or ratified by you. In the agreements between yourself and your investment managers, you must explicitly include the allocation of responsibilities with respect to fulfilling their obligations in regards to suitability. In addition, neither we nor your **UBS Institutional** Consultant will provide any legal, accounting or actuarial advice to you or prepare any legal, accounting or actuarial document.

Trading Authorization. Clients who have delegated limited discretion to us to select managed investments, authorize us to grant each investment manager complete and unlimited discretionary trading authorization and to appoint each investment manager as an agent and attorney-in-fact with respect to the assets in the accounts to be managed by the investment manager, consistent with the clients' stated investment objectives and guidelines. Pursuant to such authorization, each investment manager may, in its discretion and at the clients' risk, trade in the securities and other investments in such clients' accounts. In such instances, the client has authorized us to grant each investment manager full authorization to issue such instructions to and engage in such transactions with the custodian as may be appropriate in connection with the management of the client's accounts.

Trade Errors. We have a trade error procedure, pursuant to which we resolve trading errors that may occur from time to time. We require the appropriate supervisory personnel to review and approve the correction. The correction must be processed on a timely basis and may not adversely affect a client absent a de minimus exception. The firm maintains an error account to facilitate handling trading errors. Gains may be offset by losses in the error account. If an outside investment adviser causes a trade error, the outside investment adviser's trade error procedure will govern, unless it conflicts with our internal procedure.

In cases where you maintain a brokerage account at our firm, we will not be liable for losses caused directly or indirectly by government restrictions, exchange controls, exchange or market rulings, suspension of trading, act of war, strikes or other conditions beyond our control, including but not limited to, extreme market volatility or trading volumes. In addition, we will not be responsible to you for the purchase or sale of a security by your investment manager prior to our receipt of your written request for termination. For accounts in our wrap fee advisory programs, liquidations will be effected free of commission charges. Any transactions initiated by your investment manager on the day of termination will be processed, if practicable. Liquidation of your account will depend upon market conditions at the time and, absent unusual circumstances, generally will be processed by the end of the next business day after written instructions have been received by us. However, certain managers may take longer

to liquidate securities for terminated accounts, including high yield securities, convertible securities and other less liquid securities. Refer to the respective manager profile for complete details on these strategies.

IMPORTANT NOTE: Termination of your advisory account will result in the liquidation of assets held in the UBS Money Market Funds in instances in which your underlying brokerage account is eligible to use the UBS Bank USA as a sweep option. Generally, the Bank sweep option is available only to individuals, trusts (so long as the beneficiaries of the trust accounts are natural persons or nonprofit organizations), sole proprietors and governmental entities. Custodial accounts are eligible if each beneficiary is an eligible participant. Other entities organized or operated to make a profit, such as corporations, partnerships, limited liability companies, associations, business trusts or other organizations are not eligible.

In addition, if the available cash in your advisory account sweeps to the UBS Liquid Assets Fund or the Cash Reserves Fund, termination of your advisory account will automatically result in the liquidation of the assets held in those funds. These money market funds sweep vehicles are available only in advisory accounts, therefore liquidation will occur even in instances in which you terminate your account but do not liquidate other holdings.

Once your account becomes a brokerage account, it will be subject to the terms and conditions of your brokerage account agreement, including those pertaining to available sweep options for the cash in brokerage accounts (e.g., the deposit account sweep to our FDIC-insured affiliate, UBS Bank USA). The sweep options in advisory and brokerage accounts are different and, depending on the circumstances, may yield significantly different rates of return on the free cash in your brokerage account and result in additional compensation to UBS Financial Services, its Financial Advisors and UBS affiliates. Please see the UBS Financial Services Deposit Account Sweep Program Disclosure Statement for more information.

V. General Information About UBS Institutional Consulting

Custody and Other Account Services. You may choose to have your assets held in a brokerage account at our firm. Your account will be subject to the standard fees, terms and conditions that we impose on these accounts. You may be charged additional fees for specialized account services, such as transfer taxes, exchange and SEC transaction fees, ACAT transfers and annual or termination fees for IRAs and Resource Management Accounts® (and/or Business Services Accounts BSA®)* and wire transfer charges.

If you decide to hold your assets at another custodian, you agree to use only a "qualified" custodian that is a bank, a U.S. registered broker-dealer or futures commission

merchant or a foreign financial institution and meets the definition of "qualified custodian" set forth in Rule 206(4)-3(c)(3) under the Investment Advisers Act of 1940. UBS accounts will need to be established when trading needs to be conducted at our firm.

Mutual Fund Share Classes. Generally, our advisory program offer Class A shares of mutual funds sold on a no-load or load-waived basis. These Class A shares normally impose a shareholder servicing fee, commonly referred to as a 12b-1 fee, which you pay directly to the fund company. As a distributor of mutual funds, we and our Financial Advisors receive a portion of the 12b-1 fees for services we provide. See **"Revenue Sharing and Additional Compensation"** for a summary of additional compensation we receive in connection with the sale and distribution of mutual funds.

We may, in the future, in addition to offering no-load or load-waived Class A shares, also offer Institutional, Advisor or Fee-Based share classes (where available) for some or all of the funds available in our advisory programs. As is the case with the no-load or load-waived Class A Share, these share classes do not impose a load or sales charge at the time of purchase. However, because they do not impose a 12b-1 fee shareholder servicing fee, these share classes are usually more cost effective than the Class A share.

We will notify you in advance of these changes. If you hold Class A shares at the time we convert the Program to a new share class, you will have the option to convert your Class A shares on a tax-free basis into the Institutional, Advisor or Fee-Based share class.

Class A shares used to fund accounts subsequent to the share class conversions in the advisory programs, will be automatically converted, on a tax-free exchange basis, to the new share class available for the relevant fund. We will undertake this action on your behalf based on your authorization in the relevant program agreement.

Agreements and Account Documentation. As a **UBS Institutional Consulting** client, you will enter into a written agreement with us. Your agreement to participate in **UBS Institutional Consulting** will not be effective until accepted by an authorized member of **UBS Institutional Consulting** Program Management. The agreement may be terminated at any time in writing by either party upon written notice to the other. If you decide to open an account with us as part of your **UBS Institutional Consulting** relationship, you will be required to execute (as applicable) brokerage and additional advisory agreements.

Your **UBS Institutional Consulting** Agreement may cover a variety of assets and accounts which, depending on the circumstances, may be invested or held at UBS or at other financial institutions. **It is important to note that including a UBS brokerage account within the UBS Institutional Consulting relationship will change the nature of the account and our obligations as it pertains to that account so long as that account is part of the UBS Institutional Consulting agreement.**

For example, when you establish a brokerage account with us, you are required to execute a brokerage account application and agreement and our obligations to you, as it pertains to that account, are solely those of a broker-dealer. When that account is included as part of the accounts covered by a **UBS Institutional Consulting** agreement, the brokerage account agreement continues to be in effect, but the **UBS Institutional Consulting** relationship and the **UBS Institutional Consulting** advisory agreement add new services to be provided to you in connection with that (and maybe other accounts) and change the nature of our obligations to you to that of an adviser as well as a broker. See **"Conducting Business with UBS: Investment Advisory and Broker Dealer Services."**

You should note that termination of your **UBS Institutional Consulting** agreement will end our investment advisory fiduciary relationship with you as it pertains to accounts covered by the **UBS Institutional Consulting** agreement and, depending on the terms of your underlying account (i.e., brokerage or advisory) with us, will cause your UBS brokerage accounts to be converted to, and designated as, a brokerage account only. Your **UBS Institutional Consulting** agreement will no longer apply to that account and it will be governed solely by the terms and conditions of your brokerage account agreement.

Proxy Voting, Corporate Actions and Other Related Events. Neither the firm nor your **UBS Institutional Consulting** will vote or provide any advice about the voting of proxies solicited by, or with respect to, the issuers of any securities held by you. We will not advise or take any action on your behalf with respect to corporate actions, tender offers, class actions and legal proceedings, including bankruptcies, relating to securities in your account, or their issuers, except to the extent required by law. Your separate agreement with your investment manager will govern whether you or your investment manager will vote proxies or on corporate actions relating to the securities in your **UBS Institutional Consulting** accounts. If you so direct us, we will direct *Proxy Voting, Corporate Actions and Other Related Events materials to your investment manager*. You may change or cancel this instruction at any time by giving us prior written notice. Different policies may apply in other programs offered through UBS Financial Services.

Diversification. Unless your strategy is identified as a fully diversified strategy, an investment in a single equity, balanced or fixed income strategy should not be considered as a diversified asset allocation plan to investing (either overall or within a single asset class or style), but should be viewed only as the equity or fixed income portion, as applicable, of your overall portfolio.

Valuation and Other Information. To determine the value of securities in your account, if we are your custodian, we generally rely on third party quotation services. If a price is unavailable or believed to be unreliable, we may determine the price in good faith and may use other sources such as the last recorded transaction. When securities are held at another custodian, we will generally rely on the value provided by that custodian.

If your investment strategy includes mutual funds, in computing the value of your Program assets, shares of UBS mutual funds will be valued at their respective net asset values on the valuation date calculated in accordance with the fund's current prospectus. Shares of non-affiliated funds will be valued at their net asset values on the valuation date as provided by pricing sources we believe to be reliable. This pricing information may not be accurate, complete or provided in a timely manner. If the net asset value for particular shares is not available for the valuation date, the most recent available net asset value will be used. Similarly, valuation data for certain private or illiquid investments may not be provided to us in a timely manner, resulting in valuations that are not current in your statements and Performance Reviews.

If we are not your custodian, valuations of securities will be as provided by the client's custodian and are not subject to independent verification by us.

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

To the extent permitted by applicable law and regulation, we will allow you to waive your right to immediate trade confirmations by instructing us in writing to bulk trade confirmations (or summaries thereof) to be mailed to you periodically. You are not required to select this option in order to participate or continue to participate in UBS Institutional Consulting. In addition, you will not pay any additional fee if you choose to elect this "bulk mailed" option and you may rescind your election at any time. If you waive your right to get immediate confirmations, we will send them to your investment manager or to a third party that you designate to us in writing. You may change or revoke the instructions at any time.

Likewise, from time to time, your third-party investment managers may request that we provide them with a data download of all transactions they effected on your behalf in order to reconcile your account. Your selection of your third party investment manager and your execution of the Program Agreement is deemed to be your consent to our providing that data. You may revoke that consent at any time by contacting us in writing.

Payment of Fees. When you select one of our advisory products (for example, ACCESS, MAC, SWP, or PACE), you will be billed in accordance with the policies of that program. Those policies are outlined in the Form ADV for each UBS Financial Services Inc. program. Otherwise, for selected services, fees will be debited from your account or billed upon completion of the service. For the Retainer Services Option, generally fees will be debited or billed in

arrears on a calendar quarter basis. If the fee will be based on the percentage of assets, when we bill in arrears the fees will be calculated based on the asset value of the account at the end of the preceding quarter and will be debited or billed at the beginning of the current quarter. If you elect to be billed in advance and your assets are custodied with UBS, your initial fee will be due in full as soon as your UBS Institutional Consulting account is approved. This fee will be calculated on the value of the eligible assets on the date your account is approved, pro-rated to cover the period from the date your account is approved through the end of the current calendar quarter. Thereafter, the fee will be based on the value of your account on the last business day of each calendar quarter, will be due the following business day if debited, and will cover the next calendar quarter. If you hold your assets at another institution, we will invoice you for our services or debit your UBS accounts as you direct us. We will not bill the custodian directly for our fees unless you specifically request in writing that we do so.

If you choose to pay some or all of your **UBS Institutional Consulting** fee through directed brokerage, you must your agents to effect securities transactions for the assets through us, subject to best execution, your needs, and, if applicable, the requirements of the Employee Retirement Income Security Act of 1974, as amended ("ERISA"). You should monitor the level of directed commission transactions in relation to your payment obligations. If an investment manager placing transactions on your behalf directs more commissions to us than necessary to satisfy your fee obligation, we will assume that the investment manager has determined that it is advisable for execution purposes to direct these transactions to us. We will notify you in writing if your fee obligation has been satisfied by commissions from these transactions. **Your brokerage direction may result in us earning substantially more than the fee quoted to you and results in a financial incentive for your Financial Advisor to (i) advocate the use of directed brokerage instead of hard dollars to pay for services due to the potential for increased compensation in the form of brokerage commissions, and (ii) to recommend managers who will direct client trades to us.**

Generally, the commission rate that you pay is negotiated between you and your **UBS Institutional Consultant**. **However, the commission rate you negotiate may not be as advantageous as the rate(s) available to an investment manager. Accordingly, you should consider requiring your investment manager(s) to negotiate all commission charges, consistent with their duties of best execution.** Your investment manager may effect transactions through broker-dealers other than us when the investment manager reasonably believes that the other broker or dealer may effect the transactions at a price, including any commissions or dealer mark-ups or mark-downs, that is more favorable than would be the case if transacted through us.

As a general matter in these types of arrangements, you may use directed brokerage to pay our fees for a period of not longer than one year from the date the fee was earned. Gross brokerage commissions may be credited against fees at a negotiated rate, but at a maximum conversion

rate of 2-to-1. Similarly, distribution and finder's fees (in the case of your mutual fund investments where we are named as broker of record) will be credited against fees at a 1-to-1 conversion rate. **Conversion rates on brokerage commissions are negotiable and may vary in UBS Institutional Consulting.** If your investment manager directs insufficient brokerage to us (or in the case of services related to mutual funds, distribution fees and/or finder's fees received by us are insufficient) to pay fees in full, you will be billed for the difference. The bill must be paid within thirty (30) days of receipt, or we, as the custodian, will debit the outstanding balance from your account.

On a quarterly basis, **UBS Institutional Consulting** will notify you in writing of the levels of compensation credited against your hard dollar fee at a rate agreed upon in the **UBS Institutional Consulting Agreement** and will inform you if the commissions and/or fees have satisfied your **UBS Institutional Consulting** fees. Any additional transactions executed through us and our affiliates will result in additional compensation for us and our firm; however, any 12b-1 fees collected above your annual fee will be rebated back to the client.

Debiting/Invoicing Program Fees. Program fees are debited from your account unless you have designated another one of your eligible UBS accounts to pay the Program fee or you elect to have your fee invoiced. Employee benefit plans subject to the Employee Retirement Income Security Act of 1974, as amended ("ERISA") (a "Plan") may elect to be invoiced for the Program fee by directing us to do so in writing. Payment will be due within thirty (30) days of the mailing of the invoice. If the fee is not received within thirty (30) days, the account may be debited. An individual retirement account ("IRA") may not elect the invoice feature. From time to time and in our sole discretion, however, we may make the invoicing feature available to select IRA accounts for the invoicing of the Program Fee.

Relating Accounts for Billing Purposes. You may elect to have two or more eligible advisory accounts treated as "Related Accounts" for purposes of taking their assets into account in order to calculate the program fee. That means all eligible assets in those accounts will be considered together to determine breakpoints in the fee schedule or (for those programs that impose a minimum fee) whether the minimum fee applies. If the minimum fee applies, each account will be billed its pro rata share based on that account's amount of eligible assets. Please contact your Financial Advisor for more information on the definition of "eligible accounts" and the forms needed to avail yourself of this billing option. You may not link an ERISA qualified plan to a different ERISA qualified plan. You may not link ERISA qualified plan accounts to non-ERISA accounts, including IRAs (e.g., ABC Corporation's operating fund cannot be linked to ABC Corporation's 401(k) Plan).

You are responsible for providing us with your current address. If we are unable to contact you by mail, we will be required to terminate your account from the program. Upon termination, the assets held in custody in the **UBS Institutional Consulting** program at UBSFS will continue

to be invested in the existing positions where permissible and will be held in a brokerage account.

Uninvested Cash Balances. Generally, if we are your custodian, some portion of your account will be held in cash, cash equivalents or money market mutual funds as part of the overall investment strategy for the account. Your program fee applies to the cash and cash alternative investments in your account. Certain programs may limit the amount of cash that is subject to the Program fee. Please see the individual program descriptions for details. Uninvested cash balances are automatically deposited with our affiliate, UBS Bank USA (member FDIC) or for our investment advisory programs invested in money market mutual funds including, as permitted by law, those affiliated with us for which we and/or our affiliates receive compensation for services rendered in addition to the fees payable under your program. We serve as investment adviser and administrator to several of the money market funds. For certain ERISA accounts, uninvested cash balances may be automatically invested in money market mutual funds affiliated with us. In such instances, we or our affiliates will only receive reimbursement for our direct costs and expenses for providing management and administrative services to the money market fund. Direct costs and expenses exclude overhead costs and profit charges and are in addition to your program fee. **Please see Additional Compensation "Affiliated Money Market Funds" for a description of the advisory fees we and our affiliate receive from the money market funds. Termination of your advisory account may result, under certain circumstances, in the liquidation of your holdings in the UBS money market funds. Please see the "General Information About Our Wrap Fee Programs—Termination" for more information.**

Termination. You may terminate **UBS Institutional Consulting** within five (5) business days of executing the **UBS Institutional Consulting** agreement and receive a full refund of all fees paid to us. Thereafter, either party may terminate this relationship by notifying the other in writing. The termination will become effective upon the receipt of this notice. Upon termination, we will have no further obligation to you to act or advise you with respect to your assets. If you executed additional brokerage and advisory applications and agreements to receive additional services, termination of the **UBS Institutional Consulting** agreement will not automatically terminate other advisory relationships. Each agreement must be terminated separately. You should note that termination of your **UBS Institutional Consulting** agreement will end our investment advisory fiduciary relationship with you as it pertains to the UBS Institutional Consulting accounts and, depending on the terms of your underlying account agreements (i.e., brokerage or advisory) with us, will cause your UBS advisory accounts to be converted to, and designated as, a brokerage account only. Your **UBS Institutional Consulting** agreement will no longer apply to that account and it will be governed solely by the terms and conditions of your brokerage account agreement or UBS advisory program.

SECURITIES TRANSACTIONS MAY HAVE TAX CONSEQUENCES TO YOU. UBS FINANCIAL SERVICES INC.

DOES NOT GIVE TAX ADVICE. PLEASE CONSULT WITH YOUR TAX ADVISOR FOR ADVICE ON THESE ISSUES.

VI. Additional Sources Of Compensation To UBS Financial Services Inc., UBS Affiliates or Financial Advisors

Contributions to Training and Education Expenses.

Investment managers, mutual fund vendors, unit investment trust sponsors, annuity, life insurance companies or their affiliates and sponsors of Exchange Traded Funds (collectively, "vendors") whose products are available on our platform may contribute funds to support our Financial Advisor education programs.

The contributions are used to subsidize the cost of training seminars we offer to Financial Advisors through specialized firm-wide programs and regional training forums. These seminars are designed to provide training and education to Financial Advisors who regularly solicit clients to participate in the various types of businesses listed above. These contributions also subsidize a portion of the costs incurred to support the Financial Advisor training, education, and product marketing efforts conducted regionally and nationally by product specialists employed by UBS.

Not all vendors contribute to our education efforts. Neither contribution towards these training and educational expenses, nor lack thereof, is considered as a factor in analyzing or determining whether a vendor should be included or should remain in our programs or our platform. Contributions can vary by vendor and event. Some vendors may decide to contribute at levels different than those we request. Additional contributions may be made by certain vendors in connection with specialized events or training forums.

Managers, sponsors and underwriters of investments do not contribute toward educational programs specifically for UBS Institutional Consulting.

Directed Brokerage Compensation from Managers Available in our Advisory Programs.

Financial Advisors who recommend or, otherwise solicit the hiring of investment managers in our advisory programs, including but not limited to, **UBS Institutional Consulting**, ACCESS, MAC, UBS Strategic Wealth Portfolios, and UMA programs are prohibited from receiving any directed commission income or other transaction revenue from any investment manager who is also employed in any of their ACCESS, MAC, UBS Strategic Wealth Portfolios, **UBS Institutional Consulting** or UMA account relationships. However, the firm and other Financial Advisors may execute securities transactions directed to us by affiliated and unaffiliated investment managers for other clients. These transactions and the compensation we receive may not be pursuant to any specific oral or written arrangement between us and any of the affiliated and unaffiliated investment managers.

Affiliated Money Market Funds. We serve as advisor and administrator to several of the money market funds⁵ underwritten by our affiliate, UBS Global Asset

Management (US) Inc. The amount of investment management fees may vary depending on the arrangement between us and the fund. Your Financial Advisor does not receive a portion of these fees. Pursuant to sub-advisory and/or sub-administration agreements with UBS Global Asset Management (Americas) Inc. ("UBS Global AM"), we delegate to UBS Global AM the day-to-day investment management of the money market funds. Pursuant to these sub-advisory and/or sub-administration agreements, UBS Financial Services Inc. (not the funds) pays UBS Global AM fees, compounded daily and paid monthly, at an annual rate of 0.08% of the fund's average daily net assets. The current contract fee schedule of advisory and administrative fees (after break-point fee waivers by UBS Financial Services Inc.) as of March 31, 2010 is:

Advisory/Admin Fee Rates Paid to UBS Financial Services Inc. (as a Percentage of Average Daily Net Assets)		
Fund		
UBS Cashfund Inc.	Up to \$500 million	0.500%
	In excess of \$500 million up to \$1.0 billion	0.425
	In excess of \$1.0 billion up to \$1.5 billion	0.390
	In excess of \$1.5 billion up to \$2.0 billion	0.380
	In excess of \$2.0 billion up to \$2.5 billion	0.350
	In excess of \$2.5 billion up to \$3.5 billion	0.345
	In excess of \$3.5 billion up to \$4.0 billion	0.325
	In excess of \$4.0 billion up to \$4.5 billion	0.315
	In excess of \$4.5 billion up to \$5.0 billion	0.300
	In excess of \$5.0 billion up to \$5.5 billion	0.290
	In excess of \$5.5 billion	0.280
UBS RMA Money Market Portfolio	Up to \$1 billion	0.50%
	In excess of \$1 billion up to \$1.5 billion	0.44
	In excess of \$1.5 billion up to \$5 billion	0.36
	In excess of \$5 billion up to \$10 billion	0.35
	In excess of \$10 billion up to \$15 billion	0.34
	In excess of \$15 billion up to \$20 billion	0.33
UBS RMA U.S. Government Portfolio	Over \$20 billion	0.30
	Up to \$300 million	0.50%
	In excess of \$300 million up to \$750 million	0.44
	\$750 million up to \$5 billion	0.36
	In excess of \$5 billion up to \$10 billion	0.35
	In excess of \$10 billion up to \$15 billion	0.34
	In excess of \$15 billion up to \$20 billion	0.33
UBS RMA California Municipal Money Fund; and UBS RMA New York Municipal Money Fund	Over \$20 billion	0.30
	Up to \$300 million	0.50%
	In excess of \$300 million up to \$750 million	0.44
UBS RMA New Jersey Municipal Money Fund	Over \$750 million	0.36
	Up to \$300 million	0.45%
	In excess of \$300 million up to \$750 million	0.39
UBS RMA Tax-Free Fund	Over \$750 million	0.31
	Up to \$1 billion	0.50%
	In excess of \$1 billion up to \$1.5 billion	0.44
	In excess of \$1.5 billion up to \$5 billion	0.36
	In excess of \$5 billion up to \$10 billion	0.35
	In excess of \$10 billion up to \$15 billion	0.34
	In excess of \$15 billion up to \$20 billion	0.33
UBS Retirement Money Fund	Over \$20 billion	0.30
	Up to \$300 million	0.50%
	In excess of \$300 million up to \$750 million	0.44
	Over \$750 million	0.36

⁵ UBS Cashfund Inc., UBS RMA Money Market Portfolio, UBS RMA U.S. Government Portfolio, UBS RMA California Municipal Money Fund, UBS RMA New York Municipal Money Fund, UBS RMA New Jersey Municipal Money Fund, UBS RMA Tax-Free Fund and UBS Retirement Money Fund.

Mutual Funds Compensation. We, our Financial Advisors, and affiliates receive additional compensation in connection with certain types of assets in which your advisory accounts may be invested. This compensation is in addition to the program fee you pay us for our investment advisory services, and is a result of distribution, shareholder servicing, administration, marketing, investment management or referral agreements we and/or affiliates have with vendors or sponsors of those securities and other services ancillary to the execution of purchases of these products. For certain alternative investments, the compensation may also include performance fees.

Not all advisory programs permit the purchase and sale of mutual funds, unit investment trusts, or alternative investments. Please review the eligibility of investments in your advisory program with your Financial Advisor for more details.

The amount of those fees paid to us, and therefore Financial Advisors, may vary depending on the arrangement between us and the vendors/sponsors and, if applicable, the terms and conditions of the relevant fund's 12b-1 or trail plan. If you hold these assets in your advisory accounts, we receive these payments for the duration of your advisory program agreement. In some circumstances, our receipt of such compensation may extend beyond your participation of our advisory programs if you continue to hold those assets at our firm.

As a result of the various payments to us or our affiliated companies, the amount of compensation that UBS entities receive with respect to the sale of affiliated or proprietary mutual funds, including the money market funds used as sweep vehicles in advisory accounts, is greater than the amount payable to the organization as a whole from the sale of unaffiliated mutual funds.

The nature of the services provided by, and the compensation paid to, us and our affiliates are set forth in the offering documents for the respective products, which are available for no charge through your Financial Advisor. Certain securities, for example, mutual funds are sold by prospectus only. Please read the prospectus carefully before investing.

Our affiliates receive fees for providing investment management and other services ancillary to the execution of purchases of shares in affiliated funds, including, administration and shareholder services to the affiliated funds in the Program.

Mutual Funds: We receive trailers and 12b-1 fees from affiliated funds and non-affiliated funds available in our advisory programs which are intended to compensate us for effecting purchases of shares of Funds or for other services ancillary thereto. The current annual rate of 12b-1 fees paid from affiliated funds in our advisory programs to us is generally 0.25% per year of the respective funds' assets. The current rate of 12b-1 fees paid from non-affiliated funds in our advisory programs to us ranges generally from 0% to 0.50%, per year, but on average the current annual rate is approximately 0.25% per year.

Alternative Investment Funds: We receive compensation as a distributor of proprietary and third-party hedge funds and funds of funds. Your Financial Advisor is credited a percentage of the following fees based on his or her payout rate: (i) 90 basis points annually of the total management fee paid to UBS Financial Services Inc. as distributor of affiliated funds plus the sales charges, if any, imposed on your investments. Financial Advisors will not share in the performance fees, if any, we receive from affiliated funds; and (ii) 80% annually of the total management fee paid to UBS Financial Services Inc. as distributor of unaffiliated funds plus the sales charges, if any, imposed on your investments. Financial Advisors will not share in the performance fees, if any, we receive from these funds. These payments are subject to a maximum of 90 basis points of the total amount you invest.

Mutual Fund Networking Fees; Omnibus Processing Fees. We also receive networking fees in consideration for certain other services, which are ancillary to the effecting of mutual fund transactions that we provide on behalf of mutual funds. These fees generally are paid from investor assets in mutual funds, but in some cases may be subsidized in part by affiliates of the mutual funds, and are generally calculated by applying our standard networking rate of \$12 to each mutual fund position that exceeds \$500 and is held at UBS Financial Services, though some fund companies may choose to calculate this rate expressed in basis points on assets. As of the date of this brochure, we are in the process of transitioning the manner in which we transact our mutual fund business from a NSCC level 3 processing (fully disclosed individual accounts) to an Omnibus sub-accounting processing (one or more master accounts per fund company). The fees mutual fund vendors pay for these services will vary based on the networking level of the Mutual Fund Position (Omnibus or fully disclosed individual accounts) and the associated additional account services provided by UBS. Fees for Omnibus processing are higher than networking payments. These payments, which usually range from \$16-20 per position are assessed per client and can vary by share class. A portion of the payments we receive for Omnibus processing is paid to the transfer agent. **Your Financial Advisor does not receive a portion of this compensation.**

Account Services Fee. We also receive fees in connection with account support services for certain Affiliated Funds. The amount of such fees may vary depending on the fund, but generally average \$12 per account per year, billed quarterly. We do not share these fees with our Financial Advisors.

Class Y Shares. Generally, shareholders pay no front-end sales charges on Class Y shares nor does that share class pay ongoing 12b-1 distribution or service fees. We have entered into an agreement with our affiliate, UBS Global Asset Management (US) Inc., pursuant to which UBS Global Asset Management (US) Inc., as principal underwriter of its funds, may make payments out of its own resources for sales of Class Y shares to eligible purchasers. The payments consist of a one time finder's fee consistent with the Fund's Class A share Reallowance to Selected Dealers' schedule as indicated in the relevant funds' prospectus and, beginning in the 13th month after purchase, an annual fee in an amount up to 20 basis points for an equity fund, an asset allocation

fund or a balanced fund, 15 basis points for a fixed income fund, and 5 basis points for an index fund. UBS Global Asset Management (US) Inc. does not make these payments on accounts holding Class Y shares for employees or employee-related clients. The one time finder's fee is calculated on the date of purchase and may be paid in four equal installments over the first 12 months of ownership. UBS Global Asset Management (US) Inc. reserves the right to suspend these payments at any time in its sole discretion. We pay a portion of these payments to the Financial Advisor originating the sale. **These payments may create a financial incentive for our brokers to recommend Class Y shares of UBS proprietary funds over non-proprietary products.**

Revenue Sharing Compensation. The revenue sharing information below is current as of the date of this brochure and is subject to change in our discretion. Updated and current information on these arrangements is available at our website, www.ubs.com/mutualfundrevenuesharing.

In UBS Institutional Consulting, we generally receive revenue sharing compensation in connection with all mutual fund assets that are held in custody at UBS Financial Services Inc., excluding those mutual fund assets held by Qualified Plans directly at another financial institution. To the extent we receive revenue sharing compensation for Qualified Plans participating in UBS Institutional Consulting with accounts held at UBS Financial Services Inc. that compensation will be rebated to the Plan. This revenue sharing is not paid to Consultants in UBS Institutional Consulting.

In addition to sales loads, 12b-1 fees and processing fees, UBS Financial Services Inc. receives other compensation from certain distributors or advisors of mutual funds that we sell. These separate compensation amounts (commonly referred to as "revenue sharing") are based on two components (i) the amount of sales by UBS Financial Services Inc. of a particular mutual fund family to our clients (excluding sales through wrap-fee programs), and (ii) the asset value of a particular mutual fund family's shares held by our clients at UBS Financial Services Inc. We require that these payments be made directly from the distributor or advisor, and not from the mutual funds or indirectly through mutual fund portfolio trading commissions, because revenue sharing payments are intended to compensate us for ancillary services in connection with effecting sales of mutual fund shares. **Except as noted below, none of these amounts are rebated to you or paid to the Financial Advisor or his or her branch office.**

Many mutual funds companies pay revenue sharing to us, including our affiliate, UBS Global Asset Management. UBS Financial Services determines the level of access to our branches based on our own review and evaluation of mutual funds and fund families. There are multiple factors involved in determining a particular mutual fund's level of access to our branches. Although revenue sharing may be one factor, others include understanding of business goals, quality of sales personnel and marketing material, range of products, level of service to Financial Advisors and Branch Managers, participation of funds in researched investment models, and branch discretion.

In general, we charge each mutual fund family the following amounts: (i) 0.05% per year (paid quarterly) on all sales of mutual fund shares (excluding sales through wrap-fee programs); (ii) up to 0.10% per year (paid quarterly) of the asset value of all equity mutual fund shares held at UBS Financial Services Inc.; and, (iii) up to 0.075% per year (paid quarterly) of the asset value of all fixed income mutual fund shares held at UBS Financial Services Inc. (other than money market, institutional, and offshore funds). Except as noted below, this calculation includes shares of affiliated and non-affiliated funds in our wrap-fee programs, but does not include UBS PACE Money Market investments or mutual fund assets held at other financial institutions. Further, we may institute caps at certain asset and sales levels, as well as comprehensive caps, and may exclude certain mutual fund shares from the above calculations. And although we seek to apply a level, standard payment schedule for all of the mutual fund companies whose funds we sell, we recognize that mutual fund companies approach revenue sharing in a variety of ways, and that some mutual fund companies may decline to pay revenue sharing exactly at the levels listed above or at all, which may present a financial disincentive for us to promote the sale of those funds that do not pay us at the levels listed above.

Revenue sharing payments may present a conflict between our interests and those of our customers, because the payments give us a financial incentive to recommend that our customers buy and hold shares of those funds that we maintain on our distribution platform and for which we receive revenue sharing payments. Although mutual funds from over 200 different mutual fund families are available through our distribution platform, this is only part of the universe of mutual funds that are available to our customers in the marketplace. Certain other mutual funds may be purchased by our customers through the FundConnect system at a charge of \$20 per transaction, plus other customary sales charges.

Exchange Trade Note (ETN) compensation. For ETNs purchased within our advisory programs, neither UBS Financial Services Inc. nor our Financial Advisors receive any underwriting compensation. For ETNs purchased outside of our advisory programs, UBS Financial Services Inc. may receive an underwriting concession from the issuer and your Financial Advisor may be credited a percentage of the underwriting compensation.

The amount of fees and compensation that UBS entities generate with respect to the issuance and sale of affiliated ETNs is generally greater than the amount generated by the organization as a whole from the sale of unaffiliated ETNs.

The nature of the services provided by us, and the compensation paid to us and our affiliates, are set forth in the prospectus for each ETN, available for no charge through your Financial Advisor. Please read the prospectus carefully before investing."

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

managers, insurance vendors, and sponsors of products we distribute in the form of: (i) occasional gifts; (ii) occasional meals, tickets or other entertainment; (iii) sponsorship support of training events for our employees; and/or (iv) various forms of marketing support.

Other Compensation. In addition, our affiliates receive trading commissions and other compensation from mutual funds and insurance companies whose products we distribute. You also understand that we or certain of our affiliates may engage in a variety of transactions with or provide other services to the investment managers and mutual funds or to their affiliates or service providers presented to you or already held by you for which we receive compensation. Those transactions and services may include but will not be limited to effecting transactions in securities or other instruments, as broker or as dealer for our own account and research, consulting, performance evaluation, investment banking, banking or insurance services.

VII. Methods Of Analysis, Sources Of Information And Investment Strategy Used For Investment Management Purposes

Our investment advisory services generally rely on a variety of fundamental, technical, quantitative and statistical tools and valuation methodologies. As a result of these different methodologies employed, technical or quantitative research recommendations may differ from, or be inconsistent with, fundamental opinions for the same security. We may use computer technology to more readily display these factors and to create asset allocation recommendations. Personnel involved in providing investment advisory services may have access to specialists or other information for all major industry groups.

Our Financial Advisors and clients have access to research from UBS Wealth Management Research ("WMR"), which is part of UBS Wealth Management Americas and UBS Wealth Management and Swiss Bank. WMR is designed specifically for use by private clients and UBS Financial Services Inc. Financial Advisors. As a result, subject to certain exceptions, we expect that product areas in UBS Financial Services Inc. will incorporate insights and economic perspectives of WMR, where appropriate, in their products and services.

Clients and Financial Advisors also have access to certain categories of UBS Investment Research ("INV Research") issued by UBS Investment Bank, a separate business group of UBS. Because both sources of research reflect the different assumptions, views and analytical methods of the analysts who prepared them, there may exist a difference of opinions between WMR and INV Research. Neither source is necessarily more reliable than the other. The various research content provided does not take into account the unique investment objectives, financial situation, or particular needs of any specific individual investor.

You should be aware that we or our affiliates (or employees thereof) may have conflicts of interest in connection with the research reports we publish. UBS Financial Services Inc., and its affiliates (or employees thereof)

may have long or short positions, or deal as principal or agent, in relevant securities, or may provide advisory or other services to the issuer of relevant securities or to a company connected with an issuer covered in research reports issued by WMR and/or INV Research. Analyst compensation is not based on investment banking revenues, however, their compensation may relate to the revenues or profitability of UBS business groups as a whole, which may include investment banking, sales and trading services.

We obtain information from various sources, including financial publications, inspections of corporate activities, company press releases, research material prepared by our affiliates and third parties, rating or timing services, regulatory and self-regulatory reports and other public sources. In addition, we receive a broad range of research and information about the economy, industries, groups of securities and individual companies, statistical information, market data, accounting and tax law interpretations, political developments, pricing and appraisal services, credit analysis, risk measurement analysis, performance analysis and other information which may affect the economy or securities prices. Research can be received in the form of written reports, telephone contacts and personal meetings with research analysts, economists, government representatives and corporate and industry spokespersons. We may receive research, model portfolios and asset allocation services generated by third parties, by or through brokers or dealers or investment advisers, including research, model portfolios and asset allocation advice purchased through economic arrangements with such parties.

The asset allocation proposal(s) presented to you may be a UBS strategic asset allocation or an allocation developed by you and your Financial Advisor. For UBS strategic asset allocations, UBS uses a proprietary process to arrive at these allocations. UBS has changed its strategic asset allocations in the past and may do so in the future as circumstances warrant. In developing strategic asset allocations, UBS Financial Services Inc. considers asset class risk and return results that are based on estimated forward-looking return and risk assumptions, as measured by standard deviation, ("capital market assumptions"), which are based on UBS proprietary research. The development process includes a review of a variety of factors, including the return, risk, correlations and historical performance of various asset classes, inflation and risk premium. These capital market assumptions do not assume any particular investment time horizon. The process assumes a situation where the supply and demand for investments is in balance and in which expected returns of all asset classes are a reflection of their expected risk and correlations regardless of timeframe. Please note that these assumptions are not guarantees and are subject to change. UBS has changed its risk and return assumptions in the past and may do so in the future. Neither UBS nor your Financial Advisor is required to provide you with an updated proposal based upon changes to these or other underlying assumptions.

Financial Advisors also have access to proprietary models covering equities, fixed income, mutual funds, and municipal securities developed by our various business areas. Although our clients and Financial Advisors have access to

our research and that of certain affiliates, the third-party managers in our advisory programs are not required to use UBS research as the source of their investment decisions. Investment managers participating in our **UBS Institutional Consulting**, ACCESS, MAC, and Strategic Wealth Portfolios programs may utilize various fundamental, technical, quantitative or statistical research, tools and valuation methodologies in order to determine which securities to purchase for your Program account(s). They may rely on their proprietary research, and/or they may receive research from a variety of sources, including UBS Financial Services Inc. or one of our affiliates, as part of their investment process. Any research that we or one of our affiliates may provide to an investment manager is separate and apart from our advisory programs and does not affect or otherwise limit the manager's discretionary investment responsibility with respect to your Program account.

VIII. Education And Business Standards

Generally, we require our professional personnel who provide investment advisory services to clients to have a college degree or securities industry experience. Most of our Financial Advisors are registered as broker-dealer and investment adviser representatives. **UBS Institutional Consultants** are typically required to meet certain minimum standards demonstrating their expertise in the consulting industry.

You may obtain information about your Financial Advisor, their licenses, educational background, employment history, and if they have had any problems with regulators or received serious complaints from investors through the FINRA BrokerCheck service available from the FINRA. You can also contact your state securities regulator through the North American Securities Administrators Association, Inc.'s website at <http://www.nasaa.org> and request information about our firm and your Financial Advisor.

You can view the disciplinary history reported on our Form ADV by reviewing Part I of our ADV available on www.adviserinfo.sec.gov.

IX. Consulting, Other Business Activities And Affiliations

As a full service broker-dealer and investment adviser, we offer our customers and investment advisory clients a broad range of financial services and products, and we are engaged in various aspects of the securities and investment business. Our financial services include underwriting securities offerings; acting as a market maker in securities; trading for our own account; acting as a clearing firm for other broker-dealers; buying or selling securities, commodity futures contracts and other financial instruments for customers as their broker or buying them from or selling them to clients, acting as principal for our own account; providing investment advice and managing investment accounts or portfolios; and acting as a commodity pool operator, futures commission merchant or commodity

trading advisor and providing custodial services. Through our affiliates, we provide clients with trust and custodial services; and we manage, sponsor and distribute registered investment companies and other public and private pooled investment vehicles, including hedge funds, whose shares or other interests are sold to clients. Currently, our principal business, in terms of its revenues and personnel, is that of a broker-dealer in securities.

Financial Planning Services: Financial planning is an investment advisory service. These services are separate and distinct from our brokerage services and other investment advisory services. Clients may select among three distinct financial planning services based on their objectives, levels of wealth and the overall complexity of financial needs. These services are designed for use with persons who are U.S. citizens or residents and subject to U.S. taxes. A fourth service is available only to Puerto Rico residents. We provide clients with a personalized report to help them assess their current and projected financial situation and their ability to pursue specific financial goals. Our financial planning services **do not** include initial or ongoing advice regarding specific securities or other investments. Recommendations and types of analysis (including asset allocation strategies) may vary depending on the asset allocation model and the software used for the analysis. Some services are provided free of charge. For those services where a fee is assessed, the fee is negotiable.

Although we act as an investment adviser in providing a client with a financial plan, this does not affect any other relationship the client may have with UBS or one of our Financial Advisors. The nature of any existing UBS accounts, the rights and obligations relating to these accounts, and the terms and conditions of any UBS account agreement in effect do not change in any way. Financial planning services end upon our delivery of the plan to the client. Clients are not required to establish accounts, purchase products that UBS distributes, or otherwise transact business with UBS Financial Services Inc. or any of our affiliates. If a client decides that they would like UBS to help them implement an investment strategy, the capacity in which we act will depend on, and vary by, the nature of the accounts (i.e., brokerage or advisory accounts) used for such implementation.

Please contact your Financial Advisor with questions about these services.

Financial Education Program. We also offer a financial education program where an employer or other sponsoring entity, such as an adult education organization, can contract with UBS-FS to have a UBS-FS Financial Advisor provide one or more of a series of financial education seminars to their employees or members (generally, but not always, at no charge to the employee or member) or to the public for a fee. Seminars can be developed in-house or purchased from outside vendors. The seminars focus on topics such as asset allocation, the definition of various asset classes, potential risks and rewards, the advantages of tax-deferred or tax-free investing, options available when receiving a retirement

plan distribution and other similarly generic subject matter. Seminars offered through FEP are generic in nature and do not contain recommendations to invest in any particular security.

Retirement Consulting Services. Consulting services may also be available to retirement plan clients from Financial Advisors in their capacity as brokers for mutual fund distribution and finder's fees, brokerage commissions or insurance commissions on group annuity sales. These consulting services may include, but are not limited to, assisting in asset allocation modeling; providing asset/liability analysis for defined benefit plans through third party vendors; providing investment evaluation and education materials including enrollment seminars; assisting clients in determining the number and type of investment alternatives to be offered to plan participants; assisting clients in developing criteria to select and evaluate service providers; and providing basic performance evaluations, for example Morningstar reports. Where Financial Advisors provide the consulting services described above, all investment decisions are made by the client.

We offer a variety of products each with different features and cost structures. Since consulting services are available to retirement plans, institutions and corporate clients for an asset-based fee, a fixed fee, mutual fund distribution and finder's fees or brokerage commissions, as well as a combination of a consulting fee with a brokerage offset or transaction fee, the compensation structure may create financial incentives for Financial Advisors to encourage clients to purchase multiple products and services, or to choose a method of payment for products and services that generate compensation in excess of that for other products. In addition, Financial Advisors' compensation may be connected to the referral or cross-selling of additional UBS Financial Services Inc. products and services to clients.

UBS Financial Services Inc. Subsidiaries & Other Affiliates

We have a number of related persons that may provide investment management and other financial services and products to our investment advisory clients that may be material to our advisory business.

We, our subsidiaries or affiliates act in one or more capacities, including investment adviser, subadviser, consultant, administrator and principal underwriter (as applicable) to a number of open-end and closed-end investment companies with varying investment objectives. As a futures commission merchant, commodity pool operator and commodity trading advisor, we or an affiliate also provide advice on commodities and commodity related products. Certain of our subsidiaries, affiliates and related entities include the following:

- PaineWebber Properties Incorporated creates, markets, distributes or acts as general partner for a number of limited partnerships which invest in commercial and residential properties, oil and gas interests and research and development activities.
- UBS Financial Services Insurance Agency, Inc.
- UBS Financial Services Incorporated of Puerto Rico, a separately registered broker-dealer

- UBS Insurance Agency of Puerto Rico Incorporated
- UBS International Hong Kong Limited
- Trust related services are available through the UBS Trust Company, N.A. and the UBS Trust Company of Puerto Rico.
- UBS Credit Corp. provides loans to clients that are either unsecured or secured by securities or other financial instruments. These loans may be used to buy securities or for other purposes. These loans are not subject to the maintenance requirements and potential capital charges that are imposed on broker-dealers.

UBS AG (UBS Financial Services Inc.'s ultimate parent) offers investment advisory services through a variety of direct and indirect subsidiaries. These entities are separately registered investment advisors and, in some cases, registered broker-dealers and commodity trading advisers. Their principal lines of business range from developing and distributing investment products including wrap fee products, mutual funds, closed-end funds, privately placed funds and other pooled investment products, providing investment advice to individuals, pension and other employee benefit plans; other tax-exempt organizations, insurance companies, investment companies, commingled trust funds, corporations, and other institutional investors, and serving as an investment managers, administrators, distributors and/or placement agents for a number of funds, including (in the case of UBS Global Asset Management (US) Inc., the PACE Select Advisors Trust and a number of UBS Financial Services Inc. and UBS Global Asset Management-advised mutual funds. Certain of the investment advisers listed below may serve as investment manager for clients participating in our Managed Accounts Consulting Program ("MAC") our ACCESS program or our SWP program.

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

- Alternative Investment Solutions;
- UBS Agrivest LLC;
- UBS Global Asset Management (Americas) Inc.;
- UBS Global Asset Management (US) Inc.;
- UBS O'Connor LLC;
- UBS Realty Investors LLC;
- UBS Securities LLC;
- UBS Swiss Financial Advisers; and
- UBS Fund Advisor, LLC, a separately registered investment adviser, is the managing member of four additional registered investments. These are UBS Juniper Management, L.L.C.; UBS Tamarack Management, L.L.C.; UBS Eucalyptus Management, LLC; and UBS Willow-Management, LLC. These entities manage the assets of or serve as general partners or managers of registered investment companies and private investment funds that may be offered and sold to our advisory clients. Information on those investment vehicles can be found on the respective Form ADV of each affiliated adviser.

X. Code Of Ethics And Participation Or Interest In Client Transactions

Code of Ethics. The firm maintains and enforces a written Code of Ethics ("Code") pursuant to Rule 204A-1 under the Investment Advisers Act of 1940. The Code, and any

subsequent amendments, is provided to all employees of the firm and each employee is responsible for acknowledging receipt.

The Code, which supplements the firm's WM US Code of Conduct, has a dual purpose: to set forth standards of conduct that apply to all employees of the firm including the firm's fiduciary obligation to its clients; and, to address conflicts of interest associated with the personal trading activities of a subset of employees defined as "access persons."⁶ Employees are required to promptly report any suspected violation of the Code. Violations of the Code may result in discipline, up to and including termination. Clients or prospective clients may obtain a copy of the Investment Adviser Code of Ethics upon request.

Trading and Execution Practices. This section is a general summary of our execution practices as they relate to brokerage and advisory accounts. You should note that in order to comply with principal trade restrictions, orders for most of our advisor programs, including **UBS Institutional Consulting**, are routed for agency execution. Where permissible by applicable law, and after complying with applicable regulatory requirements, we may route orders for our advisory clients for execution as principal.

If your account is managed by a third-party investment manager, your manager is solely responsible for meeting its best execution obligations to you, and you should review carefully the manager's trading for your account. UBS Financial Services Inc. does not analyze or evaluate whether your manager is meeting its best execution obligations on trades executed for your account.

Execution of Transactions for Your Account. We use automated systems to route and execute orders for the purchase and sale of securities for all advisory accounts, unless you direct us otherwise. Generally, an order is routed to an execution center that we believe will provide the best execution. Certain large orders that may require special handling may be routed to a market center for execution via the telephone. We regularly monitor existing and potential execution venues and may route orders in exchange listed or OTC securities to other venues if we believe that such routing is consistent with best execution principles.

In determining the best way to execute an order for a client, we evaluate (i) speed and certainty of execution; (ii) price and size improvement; and (iii) overall execution quality.

Exchange Listed Securities, NASDAQ and OTC Securities. The vast majority of our exchange listed securities and over the counter (OTC) order flow is routed for execution to our affiliate, UBS Securities LLC. Orders routed to UBS Securities LLC are executed by UBS Securities LLC as principal or as agent, depending on the circumstances and type of program involved. These orders will be executed by UBS Securities LLC as principal when there is an opportunity for execution at a price equal to or superior to the price quoted on the primary exchange. If

that is not the case, the order will be routed immediately to the primary exchange for execution. UBS Securities LLC may have a profit or loss when executing orders as principal. For orders requiring agency execution, UBS Securities LLC routes the orders to unaffiliated market makers for execution. In some instances, however, for certain securities, we place over-the-counter orders directly with unaffiliated market makers for execution. All routing decisions are in accordance with the principles of best execution.

If we (or another investment manager managing the portfolio) execute securities transactions through other broker-dealers, we may choose brokers who provide us with research services if the commissions charged by these broker-dealers are reasonable in relation to the value of the brokerage and/or research services. If your account is a commission-based account, you may pay higher commissions if we obtain research in this manner. We do not try to place specific dollar value on the research or brokerage services of any broker-dealer or to allocate the relative costs or benefits of research, because we believe that the research we receive is beneficial in fulfilling our overall responsibilities to clients. Accordingly, research received for a particular client's brokerage commissions may not be used for that client's account or may be useful not only for that client but for other clients' accounts as well. Similarly, clients may benefit from the research received for the commission of other clients.

Aggregation of Trades for Advisory Clients. We may aggregate transactions for advisory clients for execution under appropriate circumstances. This practice will not ordinarily affect or otherwise reduce fees, commissions or other costs charged to clients for these transactions but may provide price improvement. Partial fill of a block security transaction may be allocated among advisory clients' accounts randomly, pro rata, or by some other equitable procedure adopted by the investment manager. In certain cases, investment managers may use a computer system that allocates purchases and sales transactions either on a random or pro rata basis. In any case, clients may pay higher or lower prices for securities than may otherwise have been obtained.

Payment for Order Flow. At this time, we have determined not to direct the order flow from our advisory programs to specific destinations in exchange for payment for that order flow (payment for order flow is defined to include any monetary payment, service, property or benefit that results from remuneration, compensation or consideration to a broker-dealer from another broker-dealer in return for routing customer orders to that broker-dealer.) We may route orders to electronic communication networks ("ECNs") or similar enterprises in which we may have a minority ownership interest. If we direct orders for our advisory programs accounts to such a trading network, we may receive indirect compensation from the ECN with respect to these trades due to our ownership interest. These arrangements will not cause you to pay additional fees directly to us. We believe that, in the course of executing trades for our clients, we may be able to obtain best

⁶ Access Person: all branch office employees, regardless of their job function, and any other firm employee who works from a branch location or home office employees who place trades on behalf of money managers who participate in the firm's advisory programs and home office employees that develop, manage or place trades for the home office centrally managed portfolios.

execution through other exchanges or trading networks. We may direct order flow for these programs to trading networks in which we have an interest in the future if we determine that it is in the interest of our clients and consistent with our obligations under applicable laws.

Margin and Lending. You may choose to engage in leverage strategies involving the assets in your eligible non-retirement, non-custodial accounts. Margin is generally not recommended or permitted in managed accounts. However, we may from time to time, approve margin on an exception basis when requested by a client or for use in specialized strategies available in our managed programs. . You may also use your managed account assets to collateralize margin lending in your brokerage account or non-purpose loans referred to as Credit Line Loans below.

Margin. Using margin in a managed account or using the 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 managed account or to use such assets as collateral for margin, you must carefully consider whether or not you can afford, and want, to assume the additional risks that losses in your account may be significantly greater than if you decide not to invest with borrowed funds (i.e., not to use leverage). The use of leverage will increase your costs of investing, as well as your risks, and depending upon the return achieved through the use of margin, may make your investment objectives more difficult to realize.

If we provide a margin loan to you, you will pay us interest on the outstanding loan balance. Since the wrap fee is calculated as a percentage of assets under management, the use of margin to purchase securities in a managed account generally will increase the amount of (but not the percentage of) the wrap fee that you pay to us. This will result in additional compensation to us, the Financial Advisor and your selected investment manager. However, we deduct the amount of the margin loan from the total value of the investments when determining the account value for fee purposes.

The decision to use leverage in a managed account rests with you and should only be made if you understand the risks of margin borrowing, the impact of the use of borrowed funds on a managed account, and how the use of margin may affect your ability to achieve investment objectives. Specifically, you may lose more than your original investment, likewise a positive or negative performance of a margined managed account, net of interest charges and other account fees, will be magnified by virtue of using borrowed money. Thus, gains or losses in a leveraged managed account will be greater than would be the case with an unleveraged managed account. You may not benefit from using margin in a managed account if the performance of your managed account does not exceed the interest expense being charged on the loan plus the additional managed account fees incurred by your account as a result of the deposit of the loan proceeds.

Credit Lines. You also may apply to borrow money from our affiliate, UBS Bank USA ("Bank USA") using an eligible securities account, including one or more eligible

accounts in the programs described in this brochure (each a "Managed Account"), as collateral pursuant to the UBS Credit Line Program. The proceeds of this loan may not be used to purchase, trade or carry securities or to repay debt (a) used to purchase, trade or carry securities or (b) to any affiliate of Bank USA. In order for a Managed Account to be eligible to serve as collateral for the Premier Variable Credit Line, Premier Fixed Credit Line or Prime Credit Line (each a "Credit Line Loan") products, the Managed Account cannot serve as collateral for any margin lending.

As a result, if you wish to collateralize a Credit Line Loan with a Managed Account, we will automatically discontinue the margin for that Managed Account. In addition, since your Managed Account will be pledged to support any loans extended under the UBS Credit Line Program you will not be permitted to withdraw any of the assets in the Managed Account unless there is a sufficient amount of collateral otherwise supporting the loans (as determined by Bank USA in its sole discretion). If you participate in the UBS Credit Line Program, you will pay interest to Bank USA in addition to any Managed Account fees charged. We and your Financial Advisor will receive additional compensation as a result of your participation in the UBS Credit Line Program. Neither we nor our Financial Advisors will act as an investment manager to you with respect to the liquidation of securities to meet a call in connection with the UBS Credit Line Program and, as a creditor, Bank USA may have interests that are adverse to a client in the UBS Credit Line Program. Additional limitations and availability may vary by state.

Failure to promptly meet a request for additional collateral or repayment or other circumstances (e.g., a rapidly declining market) could cause Bank USA to instruct us to liquidate some or all of the collateral supporting the Credit Line Loan. Any required liquidations may interrupt your long-term investment strategies and may result in adverse tax consequences. We and Bank USA do not provide legal or tax advice. You should consult your legal and tax advisors regarding the legal and tax implications of borrowing using securities as collateral for a loan.

Defaults. Clients with margin accounts may need to deposit additional cash or collateral or repay part or all of the margin loan if the value of the portfolio declines below the required loan-to-value ratio. Failure to promptly meet a request for additional collateral or repayment or other circumstances (for example, a rapidly declining market) could cause us or an affiliate, in their sole discretion, to liquidate or instruct us to liquidate some or all of the securities in the collateral account or accounts to meet the margin requirement.

Likewise, Credit Line Loans extended under the UBS Credit Line Program are demand loans and are subject to collateral maintenance requirements. Bank USA may demand repayment at any time. If the required collateral value is not maintained, Bank USA can require you to post additional collateral, repay part or all of your loan and/or sell your securities.

In these circumstances, failure to promptly meet a request for additional collateral or repayment or other circumstances (e.g., a rapidly declining market) could cause us or our

affiliate, as applicable, to liquidate some or all of the collateral. Depending on market circumstances, the prices obtained for the securities may be less than favorable. Any required liquidations may interrupt your long-term investment strategies and may result in adverse tax consequences. We and our affiliates do not provide legal or tax advice. You should consult your legal and tax advisors regarding the legal and tax implications of margin borrowing and using securities as collateral for a loan.

Neither we, our affiliates or our Financial Advisors, will act as investment manager to you with respect to the liquidation of securities held in a managed account to meet a margin call or Credit Line Loan demand and, as creditors, we and our affiliate may have interests that are adverse to you.

There are substantial risks associated with the use of (i) borrowed funds for investment purpose and (ii) securities as collateral for a loan. For further information, please see the UBS Financial Services Inc. Loan Disclosure Statement which is available from your Financial Advisor.

Documentation. You must meet certain eligibility requirements and complete loan documentation prior to using margin in your managed account or applying for a UBS Credit Line Loan. Specifically, you will be required to execute a separate margin agreement with us or loan documents with Bank USA, as applicable.

Principal Transactions and Agency Cross Trades. We may enter into principal transactions for some investment advisory clients after making appropriate disclosure and obtaining client consent when necessary. In accordance with the provisions of Section 11(a) of the Securities Exchange Act of 1934, we may execute transactions on the floors of national or regional securities exchanges for managed client accounts where appropriate. For MAC accounts, we may execute transactions in our capacity as broker-dealer on a routine basis, as agent or principal, and may charge commissions or mark-ups and mark-downs as appropriate, unless we or one of our affiliates is acting as investment manager.

Additionally, if appropriate client consent is obtained and required disclosure is made, "agency cross" transactions may be effected for customer accounts to the extent permitted by law. "Agency cross" transactions are transactions in which we or our affiliates act as broker for the party or parties on both sides of the transactions. In these circumstances, we will receive compensation from parties on both sides of these transactions (the amount of which may vary) and, consequently, we will have a potentially conflicting division of loyalties and responsibilities. Consent to "agency cross" transactions may be revoked at any time by written notice to us. For MAC accounts, we may execute agency cross transactions on a routine basis, consistent with best execution, unless we or one of our affiliates is acting as investment manager.

Sweep Vehicles; Money Market Funds. We may use affiliated money market funds for our managed client

accounts as permitted by law, in "sweep" arrangements, for cash allocation, temporary investment purposes or otherwise. We or our affiliates, including our Financial Advisors earn advisory, distribution or other fees for providing services to these funds. This compensation is in addition to the fees paid by clients for investment advice described in this Brochure. We or an affiliated broker-dealer may also benefit from our possession and temporary investment of cash balances in client accounts prior to investment or other use. Please see **"Additional Compensation—Affiliated Money Market Funds"** for a summary of advisory compensation receive under these arrangements. **Termination of your advisory account may result, under certain circumstances, in the liquidation of your holdings in the UBS money market funds. Please see the "General Information About Our Wrap Fee Programs termination" for more information.**

Other Activities. We and our affiliates provide investment banking, research, brokerage, investment advisory and other services for different types of clients, and may give advice to or take actions for those clients or for our or our affiliates own accounts that differs from advice given to, or the timing and nature of actions taken for you. We and our affiliates may buy and sell securities for our own or other accounts or act as market maker or an underwriter for securities recommended, purchased or sold. We and our affiliates, from time to time, may not be free to divulge or act upon certain information in their possession on behalf of investment advisory or other clients. We are not obligated to effect any transaction for your account that we believe to be improper under applicable law or rules or contrary to our own policies. In particular, you should note that some of our programs may recommend asset allocations or analyze markets and the economy in a different way than would be recommended by some of our research, trading or other departments.

We have adopted policies and procedures that limit transactions for our proprietary accounts and the accounts of our employees. These policies and procedures are designed to prevent, among other things, improper or abusive conduct when there may be a potential conflict with the interests of a client.

XI. Additional Information

Compensation to Financial Advisors. In general, we pay our Financial Advisors a percentage of clients' commissions and fees (called a payout rate), less certain adjustments requested by our Financial Advisors, according to an established schedule based on the revenues the Financial Advisor generates with the clients he or she services. For transactions-based accounts, which hold products such as stocks, bonds, options and mutual funds, the payout rate ranges from 20% to 45% of the commissions or sales charges paid to the firm. Generally, for stock and option transactions, the payout is adjusted to account for \$12 per transactions. For insurance and annuity products and asset-based fee programs, the payout ranges from 20% to 48% of the commissions or sales charges paid to the firm.

We may reduce or abolish the above payouts to Financial Advisors in connection with accounts they service that do not meet certain prescribed asset levels on a household basis.

In general, Financial Advisors earn more for products sold in initial offerings than for those purchased and sold in secondary offerings.

The percentage of firm revenues credited to Financial Advisors in asset-based programs and insurance products is higher than the percentage of firm revenues credited on most other products and services. The differences in compensation may create an incentive for Financial Advisors to recommend products for which they receive higher compensation.

Under certain circumstances (for example, acquisitions), some Financial Advisors or producing Branch Office Managers may be compensated differently. We reserve the right, at our discretion and without prior notice, to change the methods by which we compensate our Financial Advisors.

Commissions and Directed Brokerage. In light of the variety of services we provide, including research, supplemental advisory and client-related services that may be offered through Financial Advisors, the wrap fees and/or commissions charged may exceed those of other broker-dealers and/or investment advisers. When we receive compensation in connection with execution services (other than under a wrap fee), the commissions charged may exceed those that other broker-dealers may charge. Generally, the commission rate payable by a client may be negotiated between the client and the Financial Advisor. However, the commission rate you negotiate may not be as advantageous as the rate(s) available to an investment manager. Accordingly, you should consider requiring your investment manager(s) to negotiate all commission charges, consistent with their duties of best execution.

If you participate in a managed account program, your investment manager or other agent may effect transactions through broker/dealers other than us when the manager or agent reasonably believes that the other broker or dealer may effect the transactions at a price, including any commissions or dealer mark-ups or mark-downs, that is more favorable than would be the case if transacted through us.

If the UBS Financial Services Inc. program in which you participate permits the payment of program fees through directed brokerage (for example, MAC Fee Plus Commission and **UBS Institutional Consulting**) and you choose that option, you must instruct your investment manager with responsibility for investment of your assets to effect securities transactions for the assets through us, subject to best execution, your needs and, if applicable, the requirements of ERISA. It is your responsibility to monitor the level of directed commission transactions in relation to your payment obligations. If an investment manager placing transactions on your behalf directs more commissions to us than necessary to satisfy your fee obligation, we will assume that the investment manager has determined that it is advisable for execution purposes to direct these

transactions to us. Your brokerage direction may cause us to earn substantially more than the fee quoted to you and may result in a financial incentive for your Financial Advisor to advocate the use of directed brokerage instead of hard dollars to pay for services due to the potential for increased compensation in the form of brokerage commissions, and to recommend managers who will direct client trades to us.

As a general matter in these types of arrangements, you may use directed brokerage to pay our fees for a period of not longer than one year from the date the fee was earned. Gross brokerage commissions may be credited against fees at a negotiated rate, but generally at a 2-to-1 conversion rate. Similarly, distribution and finder's fees (in the case of mutual fund searches) will generally be credited against fees at a 1-to-1 conversion rate. For programs other than MAC, if your investment manager directs insufficient brokerage to us (or in the case of services related to mutual funds, distribution fees and/or finder's fees received by us are insufficient) to pay fees in full, you will be billed for the difference. The bill must be paid within thirty (30) days of receipt, or, we as the custodian, will debit the outstanding balance from your account.

Referral Arrangements. We have referral agreements with our affiliates pursuant to which we refer clients to them and/or they refer clients to us. Under those agreements, we share fees with our affiliates for the referral or solicitation of clients or for services provided to clients. These payments may vary, depending on the type of agreement, product or the nature and extent of the services provided, and may continue as long as the client account is maintained with UBS Financial Services Inc. or our affiliate.

We also have a referral program pursuant to which we enter into solicitation arrangements with third parties who we compensate for referring or soliciting clients to participate in our advisory or trust services programs. We also have solicitation arrangements under which either we and/or our Financial Advisor may receive compensation for referring clients to a third party who will provide investment advisory or other services to the client.

As a result of these arrangements, fees paid by clients may differ from the prevailing retail rate. It is our practice to disclose to the client being referred the terms of the arrangement, including the maximum compensation payable to us and/or our Financial Advisors or a third party, as the case may be.

We and our affiliates also have arrangements with some third party investment managers under which we and/or certain of our Financial Advisors provide research (within the meaning of Section 28(e) of the Securities Exchange Act of 1934), and in return, the investment manager places brokerage transactions with us for execution, subject to best execution practices and requirements. The research services provided generally may be in the form of written reports or telephone contacts or personal meetings with security analysts, economists, or meetings hosted by our Financial Advisors with corporate or industry spokespersons. We or our Financial Advisors also may recommend or refer clients to third party investment managers that place brokerage

transactions with us. The differences in the form or amount of compensation paid to us by different investment managers for client referrals or research products create a conflict between our interests and the interests of the clients referred because of the incentive to make referrals to those investment managers that offer us greater compensation than others.

Referral Arrangements for Financing Business

We have certain agreements pursuant to which we refer our customers to certain lenders, on a non-exclusive basis, for specific financing opportunities not available at UBS Financial Services Inc. or its affiliates. These lenders may be able to assist clients secure financing for specialized borrowing needs. It is our practice to disclose to the client being referred the roles of UBS Financial Services Inc. and the lender in connection with such referral and that we receive a referral fee from the lender. Upon the successful completion of a transaction, the lender will pay us a referral fee, which will vary depending upon the lender and/or the amount of the financing. A portion of the fee we receive is paid to the Financial Advisor.

XII. Regulatory Orders

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

1. On January 20, 2010, the firm, without admitting or denying the allegations, consented to the findings that in transactions for or with a customer the firm violated NASD Rules 2110 and 2320 by failing to use reasonable diligence to ascertain the best inter-dealer market and did not buy or sell in such market so that the resultant price to its customer was as favorable as possible. The firm was censured and fined \$11,500.
2. On June 26, 2009, without admitting or denying the allegations, UBS consented to findings that between January 2004 and December 2005 ("Relevant Period") the firm did not have adequate systems and/or procedures, including supervisory procedures, reasonably designed to detect and prevent unsuitable patterns of short-term trading of Closed End Funds ("CEFS") purchased at the initial public offering or to supervise its registered representatives' sales of new issue CEFS to their customers. As a result, during the Relevant Period, the firm failed to detect and prevent certain registered representatives from engaging in unsuitable short-term trading of CEFS purchased at the initial public offering. The firm was fined \$100,000.
3. On or about June 16, 2009, The firm, without admitting or denying the allegations, consented to the findings that it violated NASD Rule 6955(a) in that it transmitted to the Order Audit Trail System (OATS) Reportable Order Events (ROES) that were rejected by OATS for context or syntax errors and the firm failed to repair many of the rejected ROES. The firm was censured and fined \$7,500.
4. On May 20, 2009, UBS entered into a consent order with the State of Missouri, pursuant to which the firm, without admitting or denying the allegations, consented to findings that UBS Financial Advisors made unsuitable recommendations related to Variable Annuity and Closed End Mutual Fund transactions and that the firm failed to supervise one Financial Advisor related to conduct that ended in 2005. The firm was (1) censured, (2) ordered to disgorge \$652,675.54, (3) ordered to pay \$80,000 to the Missouri Investor Education and Protection Fund, (4) ordered to pay \$20,000 civil penalty, and (5) ordered to pay \$7,500 which was the cost of the investigation.
5. On or about April 6, 2009, UBS, without admitting or denying the allegations, consented to the findings that it failed to report to the Trade Reporting and Compliance Engine (TRACE) certain large block transactions in TRACE-eligible securities within 15 minutes of the time of execution during the time periods of April 1 to June 30, 2007 and from April 1 to June 30, 2008. The firm was censured and fined \$8,000.
6. On February 26, 2009, the firm settled with FINRA for violations of NASD Rules 2110, 2320, 3010, 3110, 3360, 3370, 6130, 6955(A) in that for certain transactions with customers, the firm did not use reasonable diligence to ascertain the best inter-dealer market and did not buy or sell in such market so that the resultant price to its customers was as favorable as possible under prevailing market conditions; the firm executed short sale orders and did not properly mark the order tickets as short for the orders; the firm accepted customer short sale orders in certain securities and, for each order, did not make/annotate an affirmative determination that the firm would receive delivery of the security on behalf of the customer or that the firm could borrow the security on behalf of the customer for delivery by settlement date; the firm executed short sale transactions and did not report each of the transactions to the trade reporting facility with a short sale modifier. The firm's supervisory system did not provide for supervision reasonably designed to achieve compliance with applicable securities laws, regulations and NASD rules concerning short sales and short interest reporting. The firm submitted incorrect short interest reports to NASD nka FINRA. The firm transmitted reports to OATS (Order Audit Trail System) which contained inaccurate, incomplete or improperly formatted data in that the reports erroneously reported, or did not report, display flags to OATS. Without admitting or denying the findings, the firm consented to the described sanctions and to the entry of findings; therefore, the firm was censured, fined \$110,000, ordered to pay \$2,719.65, plus interest, in restitution to certain public customers and required to revise its written supervisory procedures regarding short sales and short interest reporting within 30 business days of acceptance of the order.

7. On January 9, 2009, the Commodity Futures Trading Commission ("CFTC") entered an Order ("Order") Instituting Proceedings Pursuant to Sections 6(c) and 6(d) of the Commodity Exchange Act, Making Findings and Imposing Remedial Sanctions against UBS Fund Advisor, LLC ("UBSFA"). UBSFA consented to the entry of the Order without admitting or denying any of the CFTC's findings. The CFTC found that UBSFA did not, in its capacity as a registered commodity pool operator, distribute to pool participants and file with the National Futures Association one or more of its commodity pools' annual reports in a timely manner, in violation of Regulation 4.7(b)(3)(i), 17 C.F.R. § 4.7(b) (3)(i)(2008). The CFTC ordered UBSFA to cease and desist from violating Regulation 4.7(b)(3)(i), 17 C.F.R. § 4.7(b)(3)(i)(2008) and pay a civil penalty in the amount of \$50,000.
8. On December 12, 2008 the Attorney General of the State of New York Investor Protection Bureau issued an Assurance of Discontinuance of its investigation concerning the firm's marketing, sale and distribution of auction rate securities. UBS, without admitting or denying the findings set out in the Assurance of Discontinuance, agreed to buy back at par value auction rate securities ("ARS") from UBS investors who (1) held those ARS at UBS or in DVP accounts in which UBS had bidding rights as of February 13, 2008 or (2) purchased the ARS at UBS between October 1, 2007 and February 12, 2008 and transferred the ARS out of UBS prior to February 12, 2008. Individual investors and IRS 501(c)3 qualified charities, endowments and foundations with less than \$1 million in funds on deposit at UBS were eligible for repurchase of their ARS on October 31, 2008. Individual investors and IRS 501(c)3 qualified charities, endowments and foundations with more than \$1million in funds on deposit at UBS, as well as entities with less than \$10 million in assets at UBS as of August 8, 2008 (excluding clients with \$50 million in total assets) were eligible for repurchase of their ARS on January 2, 2009. For the remaining non-bank and non-broker-dealer institutional investors that (1) held ARS at UBS or in DVP accounts in which UBS had bidding rights as of February 13, 2008 or (2) purchased the ARS at UBS between October 1, 2007 and February 12, 2008 and transferred the ARS out of UBS prior to February 12, 2008, the firm has until June 30, 2010 at the latest to repurchase the ARS. In addition the New York Attorney General required the firm to: proceed with its announced plans for the repurchase of tax-exempt auction rate securities held by certain UBS investors; refund refinancing fees to municipal issuers of auction rate securities where the ARS was issued in an initial primary market between August 1, 2007 and February 12, 2008 and then refinanced after February 13, 2008; pay the difference between the sale price and par value to UBS investors who sold ARS positions below par value between February 13, 2008 and September 15, 2008, who would otherwise be eligible under the terms of the Consent Order; reimburse investors who participated in UBS ARS related loan programs the amount of interest paid on such loans that was in excess of the interest paid to the investor on the ARS; agree to special arbitration procedures for ARS investors to seek consequential damages related to the illiquidity of their ARS; agree that in cases brought by ARS investors for consequential damages the firm will
9. On or about October 31, 2008, the firm, without admitting or denying the allegations or findings, agreed to a Consent Judgment with the United States Securities and Exchange Commission regarding allegations related to UBS' sale and marketing of auction rate securities. The Consent Judgment permanently restrains and enjoins the firm from violations of Section 15(c) of the Securities and Exchange Act of 1934 [15 U.S.C. §78o(c)] and, upon motion by the Commission and order by the Court, orders the payment of a civil penalty pursuant to SEC 21(d)(3) of the Exchange Act [15 U.S.C. §78u(d) (3)]. Under the Consent Order the firm undertook to buy back at par value auction rate securities ("ARS") from UBS investors who (1) held those ARS at UBS or in DVP accounts in which UBS had bidding rights as of February 13, 2008 or (2) purchased the ARS at UBS between October 1, 2007 and February 12, 2008 and transferred the ARS out of UBS prior to February 12, 2008. Individual investors and IRS 501(c)3 qualified charities, endowments and foundations with less than \$1 million in funds on deposit at UBS were eligible for repurchase of their ARS on October 31, 2008. Individual investors and IRS 501(c)3 qualified charities, endowments and foundations with more than \$1million in funds on deposit at UBS, as well as entities with less than \$10 million in assets at UBS as of August 8, 2008 (excluding clients with \$50 million in total assets) were eligible for repurchase of their ARS on January 2, 2009. For the remaining non-bank and non-broker-dealer institutional investors that (1) held ARS at UBS or in DVP accounts in which UBS had bidding rights as of February 13, 2008 or (2) purchased the ARS at UBS between October 1, 2007 and February 12, 2008 and transferred the ARS out of UBS prior to February 12, 2008, the firm has until June 30, 2010 at the latest to repurchase the ARS. Additional requirements under the Consent Order required the firm to: proceed with its announced plans for the repurchase of tax-exempt auction rate securities held by certain UBS investors; refund refinancing fees to municipal issuers of auction rate securities where the ARS was issued in an initial primary market between August 1, 2007 and February 12, 2008 and then refinanced after February 13, 2008; pay the difference between the sale price and par value to UBS investors of ARS that sold ARS positions below par value between February 13, 2008 and September 15, 2008, who would otherwise be eligible under the terms of the Consent Order; reimburse investors who participated in UBS ARS related loan programs the amount of interest paid on such loans that was in excess of the interest paid to the investor on the ARS; agree to special arbitration procedures for ARS investors to seek consequential damages related to the illiquidity of their ARS; and agree that in cases brought by ARS investors for consequential damages the firm will

not argue against liability for ARS illiquidity and will not assert as a defense the investors decision not to borrow from UBS prior to September 15, 2008.

10. On July 30, 2008, a Final Consent Judgment was entered against the firm, pursuant to its consent and without admitting any liability or findings of fact, in an action brought by the Massachusetts Attorney General relating to the permissibility of the sale of auction rate securities to Massachusetts public entities. Pursuant to the Final Consent Judgment, the firm offered to repurchase at par value auction rate securities that were impermissible investments for public entities under Massachusetts state law, paid Massachusetts \$750,000 and contributed \$250,000 for education and training of public entity treasurers and other financial officials.
11. On February 28, 2008, FINRA accepted a Letter of Acceptance, Waiver, and Consent ("AWC") in which the firm, without admitting or denying the allegations or findings consented to the finding that from January 1, 2002 through May 31, 2003, the firm effected transactions in Class B share mutual funds to certain customers, where an equal investment in Class A share mutual funds would have been more advantageous to these customers. The firm also consented to the finding that, from January 1, 2002 through September 30, 2003, the firm effected transactions in Class C share mutual funds to certain customers, where an equal investment in Class A share mutual funds would have been more advantageous to these customers. Also included within this AWC, yet unrelated to the Class B and Class C share matter, the firm consented to the finding that, from January 1, 2002 through June 30, 2004, the firm did not provide certain investors the opportunity to purchase Class A shares of certain mutual funds at Net Asset Value ("NAV") where the relevant mutual funds had a NAV transfer program applicable to those particular transactions. In addition, the firm consented to the finding that, from January 1, 2002 through June 30, 2004, the firm did not establish, maintain and enforce supervisory systems and procedures reasonably designed to identify NAV transfer programs offered by the mutual funds that the firm sold to its customers, and provide, on a consistent basis, consideration to the benefits of the various mutual fund share classes as they applied to individual customers. The firm consented to a censure, fine of \$1,000,000, and an undertaking to provide remediation to certain customers who either purchased Class B or Class C shares of mutual funds, or who did not receive the benefit of the NAV transfer program. The firm further agreed to augment its training relative to the receipt and handling of customer inquiries concerning the NAV transfer program, or Class B/C share mutual fund purchases. The firm also consented to engage a third-party to review the firm's compliance with these remediation efforts.
12. In February 2008, the firm settled with FINRA for violations of NASD rules 2110, 2320, 3010, 3110, 3360, 3370, 6130, 6955(a) in that for certain transactions for or with customers, the firm did not use reasonable diligence to ascertain the best inter-dealer market and did not buy or sell in such market so that the resultant price to its customers was as favorable as possible under prevailing market conditions; the firm executed short sale orders and did not properly mark the order tickets as short for the orders; the firm accepted customer short sale orders in certain securities and, for each order, did not make/annotate an affirmative determination that the firm would receive delivery of the security on behalf of the customer or that the firm could borrow the security on behalf of the customer for delivery by settlement date; the firm executed short sale transactions and did not report each of the transactions to the trade reporting facility with a short sale modifier. The firm's supervisory system did not provide for supervision reasonably designed to achieve compliance with applicable securities laws, regulations and NASD rules concerning short sales and short interest reporting. The firm submitted incorrect short interest reports to NASD NKA FINRA. The firm transmitted to oats reports that contained inaccurate, incomplete or improperly formatted data in that the reports erroneously reported, or did not report, display flags to oats. Without admitting or denying the findings, the firm consented to the described sanctions and to the entry of findings; therefore, the firm was censured, fined \$110,000, ordered to pay \$2,719.65, plus interest, in restitution to certain public customers and required to revise its written supervisory procedures regarding short sales and short interest reporting within 30 business days of acceptance of this AWC by the NAC.
13. On December 3, 2007, the firm, without admitting or denying the allegations or findings, accepted a Consent Order from the State of Missouri alleging that from January 1999 to May 2001, the firm failed to reasonably supervise two former Financial Advisors regarding seminars offered to the public, and certain recommendations to their customers concerning B-share mutual funds. The firm was 1) censured, 2) required to pay \$247,680 to the Missouri Secretary of State's Investor Restitution Fund, 3) required to disgorge commissions received from certain purchases of B-share mutual funds in the amount of \$135,946 paid directly to the Missouri Secretary of State's Investor Restitution Fund, 4) required to pay a civil penalty of \$75,000, 5) required to pay \$230,000 to the Investor Education and Protection Fund, and 6) required to pay \$8,584 for the cost of the investigation.
14. On October 24, 2007, FINRA accepted a Letter of Acceptance, Waiver, and Consent wherein the firm, without admitting or denying the allegations or findings consented to the finding that, from January 1, 2002 to December 31, 2004, it did not file, or did not file on a timely basis certain amendments to Forms U4 and U5, and did not have adequate supervisory systems in place to achieve compliance with the rules requiring that it do so. The firm also consented to a finding that, from January 1, 2002 to June 18, 2003, it did not file certain Forms U5 on a timely basis and with accurate termination dates. The firm consented to a censure and a fine of \$370,000 and an undertaking to conduct an audit of its reporting procedures.

15. On October 2, 2007, the firm, without admitting or denying guilt, consented to NYSE findings that it a) violated NYSE Rule 401(a) by not ensuring delivery of prospectuses in connection with sales of certain registered securities and b) violated NYSE Rule 342 by not providing for, establishing or maintaining appropriate procedures of supervision and control. The firm consented to a censure and fine of \$500,000 and an undertaking to provide enforcement, within 90 days, with a written certification that the firm's current policies and procedures are reasonably designed to ensure compliance with the federal securities laws and NYSE rules applicable to the delivery of prospectuses and product descriptions.
16. On September 7, 2007, without admitting or denying the findings by FINRA that during the period January 1, 2005 – March 31, 2005 in five customer transactions, UBS Financial Services Inc. did not use reasonable diligence to ascertain the best inter-dealer market, the firm signed a Letter of Acceptance, Waiver and Consent and consented to the following sanctions: a censure, a \$30,000 fine and restitution to the five customers in the total amount of \$11,630, plus interest.
17. On July 16, 2007, the firm entered into a settlement agreement with the Attorney General of the State of New York relating to a civil complaint filed on December 12, 2006. The complaint alleged that non-discretionary fee-based brokerage accounts were unsuitable for certain clients based on the fees generated in relation to the potential commissions those clients would have been assessed in a strictly commission-based brokerage account. The firm denied the allegations in the complaint and was not sanctioned. The firm, however, agreed to pay \$21,300,000 towards a remediation pool for approximately 3,100 current and former customers of the firm that maintained fee-based brokerage accounts. The firm further agreed to pay a penalty of \$2,000,000 to the Attorney General of the State of New York.
18. On April 16, 2007, the firm, without admitting or denying the allegations or findings, signed a Consent Order with the State of Connecticut Department of Banking relating to the market timing of mutual funds and variable insurance products. It was alleged that the firm failed to keep certain books and records pertaining to sub-account transfers within variable insurance products and that the firm failed to reasonably supervise agents regarding market timing. The firm paid fines in total of \$1,500,000, and was ordered to make the following additional payments: \$1,250,000 to the State of Connecticut Department of Education in order to promote financial literacy initiatives in public schools, \$1,000,000 to the State of Connecticut Department of Higher Education in order to promote financial literacy initiatives in colleges and universities, \$1,500,000 to the State of Connecticut Department of Social Services in order to promote financial literacy initiatives for the benefit of lower income and elderly persons, and \$250,000 to the National White Collar Crime Center for the purpose of training Connecticut Regulatory and Law Enforcement personnel.
19. On February 1, 2007, the firm, without admitting or denying allegations made by the State of Virginia, accepted a Settlement Order with the State for \$100,000 (\$83,000 penalty/\$17,000 cost of investigation) in connection with the activities of a former Financial Advisor during the period of 2000 and 2001. The allegations include failure to properly maintain certain books and records in the branch office and inadequate supervision of the Financial Advisor.
20. On November 3, 2006, the NASD's Office of Disciplinary Affairs and the National Adjudicatory Council accepted a Letter of Acceptance, Waiver, and Consent ("AWC"), wherein the firm, without admitting or denying the findings, consented to the entry of the findings that it violated NASD Conduct Rules 2110 and 2320, in that, in 27 transactions it failed to use reasonable diligence to ascertain the best inter-dealer market and failed to buy or sell in such market so that the resultant price to its customer was as favorable as possible under prevailing market conditions. The firm consented to a censure, a fine of \$10,000 and restitution in the amount of \$938.99, plus interest.
21. On May 26, 2006, the firm, without admitting or denying any allegations or findings, entered into a Stipulation of Facts and Consent to Penalty with the New York Stock Exchange ("NYSE") relating to discrete issues identified in various branch offices during the NYSE Member firm Regulation's annual sales practice examinations in 2003 and 2004. The Stipulation resulted in NYSE Hearing Board Decision 06-116, which was finalized on August 2, 2006, and which censures the firm and imposes a fine of \$175,000. The Decision indicates that, during 2003 and 2004 in certain branches, the firm did not: 1) exercise reasonable supervision and control, including a separate system of follow-up and review, with respect to the review of certain communications, trade corrections, review of trades in customer accounts, records of customer addresses, and restrictions of accounts in which customer had reneged on trades; 2) obtain appropriate supervisory approval for certain account designation changes prior to effecting such changes; 3) freeze or restrict certain customer accounts in which customers had reneged on trades; 4) maintain adequate memoranda of certain orders that contained all of the required elements; and 5) exercise due diligence in certain accounts that used post office box addresses, and where account documents were sent to a third party.
22. On January 11, 2006, the firm, without admitting or denying the findings, signed a Stipulation of Facts and Consent to Penalty with the relating to the market timing of mutual funds and variable insurance products. NYSE alleged that the firm failed to supervise brokers who with their clients engaged in deceptive marketing timing of mutual funds. Through the Stipulation and Consent Order, the firm was fined \$23.7 million which included censure and civil penalty of \$5 million for failure to supervise, plus \$750,000 for books and records violations and \$18 million in disgorgement. At the same time, UBS Financial Services Inc. entered into an Agreed

Consent Order with the New Jersey Bureau of Securities covering the same matters as that NYSE Order. Pursuant to the NJBS Order, the firm was fined \$24.7 million which included censure and civil penalty of \$12 million for failure to supervise, plus \$750,000 for books and records violations, \$12 million for investigation costs and investor education and other enforcement initiatives. Pursuant to both orders, the firm also agreed to retain outside counsel to review procedures related to the alleged failures and violations.

23. On May 6, 2005, UBS Financial Services, Inc., without admitting or denying the findings, signed a Letter of Acceptance, Waiver and Consent with the NASD relating to the firm's marketing and sale of a non-proprietary managed futures fund (the "Fund") to certain customers. The NASD reviewed the period January 2002 to December 2003, during which time more than 4,000 UBS customers purchased the Fund. The NASD found that 14 customers made investments in the fund that exceeded 10% of their net worth, which was not permitted by the prospectus. The NASD also found that the firm did not maintain certain records disclosing the basis upon which suitability determinations were made when the Fund was recommended to customers, did not establish and maintain a supervisory system related to maintaining these records and did not adequately describe certain of the risks of investing in managed futures on the firm's public website. To resolve this matter, the firm agreed to a censure, a fine of \$175,000, and agreed to offer restitution to the 14 affected customers. The firm also agreed to determine whether another group of customers' purchases of the Fund exceeded the net worth limitation set forth in the Fund's prospectus and, if so, to offer them restitution.
24. On July 7, 2004, the firm, without admitting or denying the findings, settled with the NASD an action relating to the firm's sales literature for privately placed registered investment companies. The NASD found that, between July 2002 and May 2003, UBS Financial Services Inc. distributed a number of pieces of sales literature to its customers that did not comply with NASD conduct Rules 2210(d)(1)(A) and 2110. These included one sales presentation which stated that the fund was seeking a targeted rate of return without providing a substantiated basis for the target, and 22 fund updates which did not contain adequate risk disclosure. To resolve these charges, the firm agreed to a censure, to a fine of \$85,000, and to submit certain sales literature relating to privately placed registered investment companies to the NASD for review within 30 days of July 7, 2004.
25. On June 28, 2004, the firm, along with seven other firms, without admitting or denying the findings, settled with the NASD an action concerning the firm's reliance on broker's brokers to determine the fair market value of certain of its customers' bonds. In particular, the NASD identified eleven instances during the period from August 6, 2002 through June 4, 2003 where a client requested that UBS Financial Services Inc. sell a bond in which the firm does not make a market. The firm, following industry practice, contacted a broker's broker and obtained bids for the customers' securities, and then bought the bonds from the customers at the bid price. Subsequent trading of the customer's bonds occurred at prices higher than the customers had originally received, indicating that the customers had not received fair prices for the bonds the customers sold. Along with other firms in the group settling with the NASD, UBS Financial Services Inc. was found to have violated MSRB Rules G-17 and G-30 by relying solely on the prices provided by the broker's brokers to determine the fair market values of the bonds. To resolve the actions, all eight firms agreed to make restitution, pay fines in an amount roughly equal to the restitution amount, and update their written supervisory procedures relating to the determination of the fair market value of municipal securities being bought or sold from a public customer. UBS Financial Services Inc. paid a fine of \$100,000, made restitution to the impacted customers and updated its written supervisory procedures.
26. On February 12, 2004, the firm, along with six other firms, without admitting or denying the findings, settled with both the SEC and the NASD actions relating to the firm's failure to uniformly provide breakpoint discounts to clients during 2001 and 2002. Breakpoint discounts are volume discounts applicable to front-end sales charges on Class A mutual fund shares. The SEC and NASD each brought cases against a group of seven firms, and the NASD separately brought actions against eight other firms. To resolve the actions, all 15 firms agreed to review all front-end load mutual fund trades in excess of \$2,500 between January 1, 2001, and November 3, 2003, to provide written notification of the breakpoints problem to each customer who purchased Class A shares from January 1, 1999, to November 3, 2002, to advise these customers that they may be entitled to a refund; to provide refunds where appropriate; and to pay a fine equal to the amount of the firm's projected overcharges. Along with other firms in the group settling with both the SEC and NASD, UBS Financial Services Inc. was found to have violated Section 17(a)(2) of the Securities Act of 1933 and Rule 10b-10 under the Securities Exchange Act of 1934. The NASD charged all 15 firms with violations of its just and equitable principles of trade rule. UBS Financial Services Inc. paid a fine of \$4,621,768, split evenly between the SEC and NASD.
27. In August 2003, the firm consented, without admitting or denying the matters set forth therein, to the entry by the SEC of an Order Instituting Proceedings, Making Findings and Imposing Remedial Actions. The Order alleges that, during the period from 1994 to 1998, the firm failed to reasonably supervise a former registered representative who had carried out an extended fraud that caused clients substantial losses. Pursuant to the Order, UBS Financial Services Inc. was censured under Section 15(b) of the Exchange Act and ordered to pay civil penalties of \$500,000 to the United States Treasury.

XIII. Personnel

The following are brief biographical descriptions of personnel who either function as our directors, principal executive officers or who have supervisory responsibility for the program(s) described in this Brochure. The information below is as of March 31, 2010:

Executive Officers and Directors

Robert J. McCann, born 1958, is Chief Executive Officer of Wealth Management Americas for UBS, which comprises the registered broker-dealer, UBS Financial Services Inc., as well as the Private Banking operation. He became a member of the UBS Group Executive Board in 2009. Mr. McCann joined UBS in 2009 with 26 years of financial services experience, primarily at Merrill Lynch.

In 1982, Mr. McCann joined Merrill Lynch as an Associate within the Associate Sales & Trading Program. From 1982 – 2003, he held various roles at Merrill Lynch, including: Director, Head Trader US listed Equity Desk (1983 – 1990); Managing Director, Head US Equity Markets (1990 – 1995); Senior Vice President and Global Head, Global Equity Markets (1995 – 1998); Senior Vice President and Global Head, Global Institutional Debt and Equity Sales (1998 – 2000); Senior Vice President and Chief Operating Officer, Global Markets and Investment Banking (2000 – 2001); and Senior Vice President and Director, Global Securities Research and Economics (2001 – 2003). After a year with AXA Financial as Vice Chairman, Distribution and Marketing in 2003, Mr. McCann returned to Merrill Lynch where he held the position of Vice Chairman and President, Global Wealth Management Group (2003 – 2009), which included Global Private Client and Merrill Lynch Investment Managers, providing investment banking and retirement services for individuals and businesses globally. Under his guidance and leadership, the business was one of the largest of its kind on the global financial platform with more than 16,600 financial advisors and \$1.6 trillion in client assets.

Mr. McCann has extensive experience with various Securities Associations and Exchanges, has been a governor of FINRA and a board member of the Securities Industry Association. Mr. McCann is a graduate of Bethany College, with a B.A. in economics, holds a master's degree in Business Administration from Texas Christian University and is a graduate of the Advanced Management Program at Harvard University.

John J. Brown, born 1958, is a Group Managing Director for Wealth Management Americas of UBS, which comprises the registered broker-dealer, UBS Financial Services Inc., as well as the Private Banking operation. He currently heads the Wealth Management Solutions business. He became a member of the Wealth Management Americas Executive Board in 2009. Mr. Brown joined UBS in 2009 with 30 years of financial services experience, primarily at Merrill Lynch.

In 1980, Mr. Brown joined Merrill Lynch as a junior trader on the Convertible Bond Desk. From 1980 – 1995, he held various roles at Merrill Lynch, including, Global Head of Convertible Trading & Sales (1990 – 1995). In 1995, Mr.

Brown joined UBS Securities LLC in Stamford, CT to run their Global Convertible Trading & Sales business. After 5 years with UBS, Mr. Brown returned to Merrill Lynch to head up the Global Securities Lending & Equity Financing division. Over the next 9 years, Mr. Brown held multiple positions including CEO of ML's Profession Clearing Corporation and Head of Prime Brokerage Americas.

Mr. Brown currently serves as a Chairman of No Greater Sacrifice, a non-for-profit corporation which raises funds to pay for college tuition and graduate degree program for the children of our nation's fallen servicemen and women. Mr. Brown is a graduate of St. John's University, with a B.S. in finance.

Brian P. Hull, born 1959, is Head of Wealth Management Partnerships for UBS, which is comprised of 3 units: Strategic Client Relationships, Investment Services and Client Development. Mr. Hull joined UBS as a member of the Wealth Management Americas Renewal team in November 2009, after 15 years at Merrill Lynch and 26 years overall in the financial services industry.

Mr. Hull joined Atalanta Sosnoff in 1983 as a trader and stayed until 1994, when he left as Head Trader, Senior Vice President and member of the Investment Committee.

In 1994, Mr. Hull joined Merrill Lynch in the Equity Capital Markets group, a role in which he stayed until 1998. From 1999 to 2003, Mr. Hull held various roles at Merrill Lynch including: Head of Equity Sales for the US (1999 – 2001); Head of Equities for the Americas (2001 – 2002); Co-Head, Global Cash Equities (2002 – 2003); Head, Global Investor Client Group (2003). In 2004, Mr. Hull was named Vice Chairman and a Member of the Executive Client Coverage Group of Merrill Lynch.

In 2005, Mr. Hull was named Head of the Institutional Advisory Division & Distribution of the Global Private Client Group. In 2008, Mr. Hull continued to serve as head of the Institutional Advisory Division, while also taking on two new roles as Head of Private Banking & Investment Group as well as the Head of Cross Organizational Coverage, where he was responsible for delivering the full breadth of the firm's capabilities to its clients.

Mr. Hull is a graduate of Fairfield University with a B.S. in Accounting. Mr. Hull is a member of the Board of Trustees at Fairfield University and is involved in a wide array of philanthropic organizations across the tri-state area.

Robert E. Mulholland, born 1952, is the Head of the Wealth Management Advisor Group for UBS Financial Services Inc. Mr. Mulholland joined UBS in 2009 and is a member of the Executive Committee. He joined UBS with 30 years of financial services experience, primarily at Merrill Lynch.

In 1979, Mr. Mulholland joined Merrill Lynch as a Financial Advisor in the Morristown, NJ branch. From 1984 – 2005, he held various roles at Merrill Lynch, including: Sales Manager for Lawrenceville, NJ (1984 – 1987); Branch Manager for Wayne, NJ (1987 – 1990); Eastern Division

Sales Manager (1990 – 1993); Branch Manager for 6th Avenue, NY (1993 – 1995); Branch Manager for World Financial Center, NY (1995 – 1998); Northern NJ District Director (1998 – 2000); Southeast Region Director (2000 – 2001); Senior Vice President and Head of Client Relationship Group (2001 – 2003); Senior Vice President and Co-Head of Americas Region and Global Private Client (2003 – 2005). Mr. Mulholland was a member of the Executive Committee of Merrill Lynch Global Private Client from 2001 – 2005 and was also a member of the Operating Committee of Merrill Lynch and Company from 2002 – 2005. From 2005 – 2009, Mr. Mulholland served as the Chairman and President of Sound Securities LLC, based out of Jericho, NY.

Mr. Mulholland graduated with honors from Lehigh University with a B.S. in Management and Marketing and is a graduate of the Advanced Management Program at Harvard University.

Thomas C. Naratil, born 1961, is Chief Financial Officer and Chief Risk Officer of Wealth Management Americas for UBS, which comprises the registered broker-dealer, UBS Financial Services Inc., as well as the Private Banking operation. Mr. Naratil joined Paine, Webber, Jackson & Curtis in 1983 as a Corporate Intern. In 1985 he took a position as a US Treasury and Agency debt trader for PaineWebber Private Client Group. In 1987 Mr. Naratil went on to co-manage the Taxable Fixed Income (TFI) Government and Federal Agency debt trading desk. In 1993 he took the position of manager, TFI Risk, Organization, Sales and Marketing, later becoming the Director of TFI in 1994, a position he held until 2000. After the merger with UBS, Mr. Naratil served as Director of the Investment Products Group. In 2002, he went on to found UBS Bank USA and was Director of Banking and Transactional Solutions for UBS Wealth Management USA as well as Chairman of UBS Bank USA, positions he held until 2005 when he took the role of Global Head of Market Strategy and Development for UBS Global Wealth Management & Business Banking. Mr. Naratil then served as Global Head of Marketing, Segment & Client Development. In 2008 Mr. Naratil headed the Auction Rate Solutions group until he was named to his current roles in 2009. He holds a B.A. in history from Yale University and an MBA from New York University.

Paula Polito, born 1959, is Chief Marketing Officer of Wealth Management Americas for UBS, which comprises the registered broker-dealer, UBS Financial Services Inc., as well as the Private Banking operation. She became a member of the UBS Group Executive Board in 2009. Ms. Polito joined UBS in 2009 with 15 years of financial services experience, as well as significant experience in broadcasting. In 1996, Ms. Polito joined Fidelity Investments as the Executive Vice President of Corporate Marketing. Prior to this, she spent 10 years as a Producer, News Editor and Managing Editor for WBZ TV in Boston followed by five years as a Senior Vice President at Hill, Holliday, Connors and Cosmopolis, Inc., Advertising. In 2000, she joined Merrill Lynch to be Head of Strategic Marketing and Brand Management. In 2003, she was appointed to be a member of the Executive Committee for Global Wealth Management

Group at Merrill Lynch. In this role, Ms. Polito was responsible for the ongoing development and management of consumer-focused marketing programs for the Global Wealth Management business including communications, advertising, events, public relations, relationship marketing, and key sales support for 16,000 Financial Advisors.

Ms. Polito is a graduate of Boston College with a B.A. in communications. Currently, Ms. Polito is a member of the Board of Trustees of Boston College. She is also a member of the Women's Health Leadership Council at Brigham and Women's Hospital in Boston.

David J. Satler, born 1957, is a Director, member of the Executive Committee and the Head of Human Resources of UBS Financial Services. He is also the Wealth Management Americas Chief of Staff. Mr. Satler joined UBS in 2005 and has held a variety of senior management positions during that time, including, Chief Administrative Officer, Products & Services (2005), Head of Global Sales Development (2006), Head of High Net Worth and Core Affluent Segments (2008). Prior to joining UBS, Mr. Satler was the Chief Executive Officer and Founder of Pulse Capital Advisors.

From 1988 to 2004, Mr. Satler was affiliated with Prudential Securities as Chief Operating Officer, Private Client Group (2003), Branch Office Manager (2001), Head of Strategic Initiatives (1999), and Chief of Staff to the President (1998), among other positions.

Mr. Satler graduated with a B.S. in Accounting from Bentley College and attended Harvard Business School Executive Education in 2000. Mr. Satler is a member of the American Institute of Certified Public Accountants.

General Counsel, Director of Compliance and Chief Compliance Officer

Mark Shelton, born 1967, is a Group Managing Director, General Counsel Americas, and General Counsel of UBS Financial Services Inc. He has been with the firm since 2003. Mr. Shelton currently is a member of the Board of Directors of the Securities Investor Protection Corporation. Prior to joining the firm, he was a partner at Wilmer, Cutler and Pickering, an adjunct professor at the Georgetown University Law Center, counsel to Dole/Kemp '96, and an attorney in the Office of General Counsel at the U.S. Securities and Exchange Commission. Mr. Shelton clerked on the United States Circuit Court of Appeals for the Eighth Circuit. He graduated from the University of Kansas and the University of Virginia School of Law.

Douglas T. Siegel, born 1963, is a Managing Director and Head of Compliance for UBS Wealth Management Americas, which includes UBS Financial Services, Inc. Mr. Siegel joined the firm in 1998 and has held a number of Senior Compliance positions with UBS. Previously, Mr. Siegel served as Senior Deputy Director of Compliance, Products and Services, Director of Compliance for UBS Financial Services of PR Inc., and a Deputy Director of Compliance, Surveillance and Branch Review. Prior to joining UBS, Mr. Siegel spent 13 years and held various Compliance

positions at Smith Barney or predecessor firms. Mr. Siegel graduated from Syracuse University in 1985.

Lisa M. Francomano, born 1969, is an Executive Director, Deputy Director of Compliance and Chief Compliance Officer for UBS Financial Services' advisory business. Ms. Francomano has been with the firm since 2001. Prior to her current role, she managed the compliance products group and was an investment advisory attorney in the legal department. Prior to joining the firm, Ms. Francomano was a Vice President at Lehman Brothers Inc. responsible for providing investment advisory legal support primarily to the firm's wrap fee and broker-managed programs. Ms. Francomano began her career at Prudential Securities Inc. in 1992 as an analyst in the legal department. Ms. Francomano graduated from Fairfield University and New York Law School, evening division.

Product Management for the Products Covered in this Brochure

Jim Hausmann, born 1967, is a Managing Director for Wealth Management Americas of UBS, which comprises the registered broker-dealer, UBS Financial Services Inc., as well as the Private Banking operation. He currently heads the Market Investments and Institutional Platforms group for Wealth Management Solutions business. Mr. Hausmann has been in the business for 21 years with 19 of those years spent with PaineWebber/UBS.

Mr. Hausmann began his career at Credit Suisse First Boston in their equity trading department. He joined PaineWebber in the fixed income department in 1991. Over the next 19 years, Mr. Hausmann held various roles in PaineWebber/UBS's wealth management business including: Manager Central Division, Taxable Fixed Income (1991 – 1993); National Sales Manager, Taxable Fixed Income (1996 – 2000); Director of Taxable Fixed Income (2000 – 2005); Head of Transaction Products (2005 – 2009). Most recently, Mr. Hausmann served as the Interim Head of Products & Services for Wealth Management Americas. Mr. Hausmann is a graduate of Lehigh University, with a B.S. in Finance.

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