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# Wrap Fee Program Brochure (Form ADV Part 2A) *For Client-Directed Programs*

of

UBS Swiss Financial Advisers AG  
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This Wrap Fee Program Brochure for Client-Directed Programs (the "**Brochure**") provides information about the qualifications and business practices of UBS Swiss Financial Advisers AG ("**UBS-SFA**"). If you have any questions about the contents of this Brochure, please contact us at +41-44-237 88 00 or at [sh-sfa-info@ubs.com](mailto:sh-sfa-info@ubs.com). This Brochure has not been approved or verified by the United States Securities and Exchange Commission ("**SEC**"), any state securities authority, or any other governmental body.

UBS-SFA is registered as an investment adviser ("**RIA**") in the United States with the SEC but such registration does not suggest or imply a certain level of skill or training.

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

The information contained in this Brochure is current as of the above date and is subject to change at UBS-SFA's discretion. On an annual basis, UBS-SFA will provide each Client with a list of material changes and an "offer-to-deliver" with respect to the full and updated version of this Brochure.

## 2. Material Changes

UBS Swiss Financial Advisers AG  
as of 30 March 2012

The following is a summary of material changes that have occurred at UBS-SFA since the last annual update of our Brochure, dated 31 March 2011:

Markus Kameisis was appointed as new Chief Financial Officer as of January 2012. Dr. Andreas Przewloka will become new Chairman of the Board of Directors pending confirmation in an extraordinary shareholder meeting taking place in April 2012 and replace Dr. Juerg Wicki who will resign from the Board of Directors.

The broker selected by UBS-SFA for this program and IT-banking platform and operational service provider, Wegelin & Co. Private Bankers in St. Gallen, was acquired by another Swiss financial institution in January 2012 and changed its name to Notenstein Privatbank.

Pursuant to SEC rules, Clients will receive a summary of any material changes to this and subsequent Brochures. We may further provide other ongoing disclosure information about material changes as necessary.

We will further provide you with a new Brochure as necessary based on changes or new information, at any time, without charge.

Currently, our Brochure may be requested by contacting us at +41-44-237 88 00 or at [sh-sfa-info@ubs.com](mailto:sh-sfa-info@ubs.com). Our Brochure is also available on our *website* [www.ubs.com/swiss-financial-advisers](http://www.ubs.com/swiss-financial-advisers), also free of charge.

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UBS Swiss Financial Advisers AG  
as of 30 March 2012

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## 4. Services, Fees and Compensation

UBS Swiss Financial Advisers AG  
as of 30 March 2012

### 4.1. The Firm (a short description, principal owners)

Since 2004, UBS-SFA has offered investment advisory services from its office in Zurich, Switzerland, employing approximately 60 staff. UBS-SFA is a registered investment adviser ("**RIA**") with the SEC in the United States, and has a license in Switzerland from the Swiss Financial Market Supervisory Authority ("**FINMA**") as an Effektenhaendler (which roughly translates to "Securities Trader" in English). UBS-SFA is also a Qualified Intermediary under agreement with the United States Internal Revenue Service ("**IRS**").

UBS-SFA is a wholly-owned subsidiary of UBS AG, an internationally diversified organization with operations in many areas of the financial services industry. UBS AG, and its various affiliates, act as one of the world's largest wealth managers for private as well as institutional clients and has a significant investment banking and institutional asset management business. UBS AG is a bank and securities trader licensed and supervised in Switzerland by FINMA. UBS-SFA is a member of UBS AG's Wealth Management & Swiss Bank Division.

As an RIA, UBS-SFA completes a Form ADV Part 1 which contains additional information about its business and its affiliates, such as legal or disciplinary events involving UBS-SFA or UBS AG. Form ADV Part 1 is filed with the SEC and is publicly available through the SEC's website:

<http://www.adviserinfo.sec.gov>

(UBS-SFA's IARD/CRD Number is 130668 and its SEC number is 801-63660)

Form ADV Part 1 can be provided to Clients in paper form upon request.

**Scope of this Brochure:** This Brochure addresses only the non-discretionary programs offered at UBS-SFA where UBS-SFA makes investment recommendations to Clients, but does not make investment decisions for the Client, i.e. the Client retains the ultimate investment decision on the Client account which is sometimes also referred to as Client portfolio ("**Client-Directed Programs**"). For information regarding UBS-SFA's discretionary programs, see UBS-SFA's Wrap Fee Program Brochure (Form ADV Part 2A) for Managed Programs; for those programs UBS-SFA manages the assets in Client accounts (i.e. Client portfolios) on a fully-discretionary basis ("**Managed Programs**").

### 4.2. Our services in general

**Types of advisory services:** UBS-SFA provides investment advice and international wealth management services. UBS-SFA offers both **Client-Directed** (non-discretionary) and **Managed** (discretionary) investment advisory Programs in generally three reference currencies, i.e. United States Dollars ("**USD**"), Swiss Francs ("**CHF**") and Euro ("**EUR**").

These programs can encompass investments in stocks, bonds, funds exchange traded funds and other products (such as structured products, alternative investments) in various currencies. Furthermore, UBS-SFA also provides United States tax reporting services in regard to its investment advisory programs.

UBS-SFA is an RIA, but is not registered as a securities broker-dealer in the United States. Absent limited exceptions as described further in the next paragraph, UBS-SFA *does not facilitate or carry out execution-only transactions for any of its advisory Clients*. Rather, for each Client-Directed Program, UBS-SFA provides investment advice and recommendations to the Client. For example, UBS-SFA advises Clients regarding the impact of a securities transaction based on: (i) the asset allocation in relation to the Client Risk Profile ("**CRP**") or the Portfolio Risk Profile ("**PRP**"), (ii) the liquidity of an investment instrument, (iii) the concentration risk by the counterparty; (iv) the Client's circumstances; (v) the global economic financial market environment; or (vi) potential Client restrictions.

In limited cases, and for persons domiciled outside the United States only, UBS-SFA facilitates or carries out execution-only transactions under its license as an Effektenhaendler in Switzerland.

UBS-SFA offers two Client-Directed Programs: (a) the UBS Investment Advisory Program ("**UBS-IA**") and (b) the UBS Active Portfolio Advisory Program ("**UBS-APA**");

**UBS-IA's** main objective is to seek to achieve Client investment objectives by providing the Client with investment advice and recommendations with regard to each and every security transaction, which has to be in line with the Client's PRP. The Client has direct access to a member of the Central Advisory Team ("**CAT**"). The *investment universe is in principle limited to instruments that are used by UBS-SFA's Investment Solution Team ("**IS**") in Managed Programs (discretionary) as well as investments that are chosen by CAT to form part of that universe and are therefore regularly reviewed and monitored*. While UBS-SFA provides investment advice, the final investment decision remains entirely with the Client. There might be specific Client preferences for investments that fall outside of the investment universe and are not monitored. This program is available for initial and ongoing investments of min. CHF 1 million (for more detail see Section 4.2.1 below).

**UBS-APA** is a premium investment program for Clients with sophisticated investment needs. The main objective is to seek to achieve Client investment objectives by providing the Client with investment advice and recommendations with regard to each and every security transaction which has to be in line with the Client's PRP. The Client has direct access to either a member of CAT or a Portfolio Manager of **IS** and the *investment universe is in principle open*. While UBS-SFA provides investment advice, the final investment decision remains entirely with the Client. This program is available for initial and ongoing investments of min. CHF 5 million (for more detail see Section 4.2.2 below).

For both Client-Directed Programs, although UBS-SFA does not have investment discretion over Client assets, it does have the discretion to select the broker-dealer to effect the recommended, Client-Directed transactions.

Assets held by UBS-SFA in Client-Directed Programs (non-discretionary) as per 31 December 2011:  
CHF 1,978,226,000.

Assets held by UBS-SFA in Managed Programs (discretionary) as per 31 December 2011:  
CHF 1,867,932,000.

The above figures correspond to the "Regulatory Assets under Management" figures as disclosed in Form ADV Part 1A.

**Account opening basics:** When UBS-SFA acts as the Client's investment adviser, it will enter into a written agreement with the Client expressly acknowledging the investment advisory relationship with the Client, describing its obligations to the Client and the services to be performed by UBS-SFA. At the beginning of the investment advisory relationship, UBS-SFA will provide the Client with this Brochure. UBS-SFA will also provide a list of material changes and an "offer-to-deliver" with respect to the full and updated version of this Brochure annually.

**Fees in general:** As described in more detail in Sections 4.2.1 and 4.2.2 below, UBS-SFA charges a so-called all-in fee for all of its investment advisory programs referred to as the **Wrap Fee** throughout this Brochure. The Wrap Fee covers the following services:

- 1) investment advisory services with respect to the Client-Directed Programs (typically between 15% and 50% of the Wrap Fee is allocated to this service);
- 2) custody account maintenance (including costs associated with the delivery of securities to UBS-SFA and corporate actions);
- 3) securities trading (including primary market transactions in investment fund units);
- 4) money market and fiduciary deposit transactions, which are intended as cash management tools;
- 5) payment services if the payments are to a payee in Switzerland or Liechtenstein and in CHF or EUR;
- 6) payment services to UBS AG in Switzerland (any currency);
- 7) periodic Client reporting (in electronic or paper form);
- 8) regulatory tax reports (Annual Form 1099 report to Clients, Swiss tax statement for Swiss-resident Clients);
- 9) periodic meetings with and access to investment advisory personnel; and
- 10) transmittal of Form 1099 information to the IRS.

For services provided under the Client-Directed Programs, UBS-SFA is compensated on the basis of a Wrap Fee calculated as a percentage of assets under management, subject to a minimum fee charge. The Wrap Fee is dependent on not only the amount of assets under management: for the UBS-APA the Wrap Fee also depends on the selected investment strategy (see Section 4.2.2 below).

There are supplementary services offered by UBS-SFA to Clients with Client-Directed Programs which are not included in the Wrap Fee. An overview of these supplementary services and fees can be found in Section 4.3 below.

**Negotiation of Fees:** It is generally UBS-SFA's policy not to negotiate the Wrap Fee. If, however, the amount invested with UBS-SFA is more than CHF 5,000,000 (or the equivalent) or UBS-SFA determines, in its sole discretion, that other circumstances warrant an exception, UBS-SFA may adjust the Wrap Fees listed in the schedules below. The same applies to supplementary service fees.

**Fee calculation:** The Wrap Fee is calculated monthly in CHF based on the market value (in CHF) of the assets under management three business days before month end. The market value, i.e. the valuation of the investments in a Client's account, is provided by Notenstein Privatbank AG in St. Gallen, Switzerland ("**Bank Notenstein**"). At the end of each quarter (March, June, September and December), the Wrap Fees for the three months in that quarter are summed up and debited from the account in the Client's reference currency at the beginning of the following quarter. If the Client's reference currency is not CHF but USD or EUR, then the debiting of the Wrap Fee to the USD or EUR account will result in a foreign-exchange transaction (CHF are bought against USD or EUR), on which there is additional revenue for UBS-SFA (for further details, see sec. 4.6.2 below).

If the Client's participation in a Client-Directed Program is terminated before the end of a quarter, the Wrap Fee will be pro rated, except that if the Client terminates with three or fewer business days remaining before month end, then the full monthly Wrap Fee will be charged.

Participation in a Client-Directed Program may cost the Client more or less than purchasing the services included in a Client-Directed Program separately. Factors bearing upon the relative cost of the Client-Directed Program include:

- 1) the estimated cost of the services if provided separately outside of the Client-Directed Program (in certain circumstances, these costs may be lower than those incurred through the program);
- 2) the level of trading activity in the Client's account (the lower the activity, the less the Client may benefit, and the more UBS-SFA may benefit, from the Wrap Fee);
- 3) the size of the account (the Wrap Fee is an asset-based fee, which generally decreases as asset size increases);
- 4) the types of investment advisory services provided, and
- 5) the types of investments (the lower the number of different investment types, the more UBS-SFA may benefit from the Wrap Fee; also certain investments may involve more transaction costs than others).

**Reference Currencies:** This is the currency in which the account's investment performance is measured over a specific period of time. The reference currencies available for both UBS-IA and UBS-APA are CHF, USD and EUR.

**Rendition of services:** All investment advisory services for Self-Directed Program Clients are provided by UBS-SFA. This means that all personnel providing investment advisory services for UBS-SFA and its Clients are supervised persons, i.e. officers, directors or employees of UBS-SFA and that there are no external investment advisers and no affiliated entities (or employees of affiliates), such as UBS AG that act as investment adviser (i.e. portfolio manager) for UBS-SFA. In addition, UBS-SFA also provides related non-investment advisory services, and certain of its affiliates and other third parties also provide other services, each as described in this Brochure.

In the limited case for which UBS-SFA provides execution-only transactions for persons who are domiciled outside the United States, investment advisory services for such Clients may be provided by external investment advisers or affiliated entities (or employees of affiliates). Such investment advisory services are not provided in the name or under the supervision of UBS-SFA.

**Reporting to the IRS on Forms 1099:** UBS-SFA has entered into a Qualified Intermediary Agreement ("**QI Agreement**") with the IRS. Under the QI Agreement, UBS-SFA is obligated to provide all relevant 1099 Forms to the IRS and to its

clients subject to taxation in the United States on an annual basis. UBS-SFA provides IRS Form 1042 reporting to the IRS and satisfies any withholding tax obligations on behalf of all non-United States Clients.

#### 4.2.1 UBS Investment Advisory Program ("**UBS-IA**")

UBS-IA is an investment advisory program for Clients who wish to retain the final investment decision over their assets, but want advice and a recommendation for each such decision from UBS-SFA. The Wealth Management Consultant ("**WMC**") handles the overall Client relationship and establishes the Client Risk Profile ("**CRP**") and Portfolio Risk Profile ("**PRP**"). However, under the UBS-IA Program, the Client also has direct access to member of CAT, who is specialized in providing investment advisory services for UBS-IA Clients.

The CRP and PRP are determined in a discussion between the Client and the WMC at the beginning of the Client relationship and thereafter reviewed on at least an annual basis. Based on the PRP, the Client is considered a 'conservative' (PRP 'minimal' or 'low'), a 'moderate' (PRP 'modest' or 'average') or an 'aggressive' (PRP 'above average' or 'high') investor. The CAT member, in turn, will review with the Client whether each securities transaction fits within the Client's PRP and provide investment advice and a recommendation.

Investment strategies available in the UBS-IA:

Strategy	Investment Objectives
Conservative (equivalent to a PRP of minimal or low)	Equity and Special Investments (" <b>SP</b> ") Allocation Ranges  The objective of the conservative strategy is to seek to preserve long term assets and to obtain recurrent income. Capital volatility is low. Equity and SP allocation range: 0% to 40%
Moderate (equivalent to a PRP of medium or average)	The objective of the moderate strategy is to seek to achieve long-term appreciation of capital, recurrent income and dividend yield, supplemented by capital gains. Capital volatility is medium. Equity and SP allocation range: 0% to 70%
Aggressive (equivalent to a PRP of above average or high)	The objective of the aggressive strategy is to seek to achieve substantial long-term appreciation of capital. The major yield element is driven by capital gains, complemented by interest and dividends. Capital volatility is high. Equity and SP allocation range: 0% to 100%

There are two types of investments which are considered as securities with respect to the asset allocation range as mentioned above: a) equity and b) SP, because SP normally entail a risk profile that is similar to, or higher than, the risk associated with an equity investment. SP can be commodities, high-yield bond funds, emerging market bond funds and other riskier investments.

UBS-IA Wrap Fees per annum:

Amount of Assets Under Management (in CHF)	Wrap Fee
1 to 2.5 million	1.10%
more than 2.5 to 5 million	1.00%
more than 5 to 10 million	0.90%
more than 10 to 25 million	0.80%
more than 25 million	0.70%
minimum Wrap Fee in CHF	11,000

#### 4.2.2 UBS Active Client account Advisory Program ("UBS-APA")

UBS-APA is a premium investment program for Clients with sophisticated investment needs. While the Client's WMC handles the overall Client relationship, the Client also has direct access to either a member of CAT or a portfolio manager of IS, who is responsible for research, monitoring and proactive

investment advice on the Client's investment strategy, while all investment decisions remain with the Client. The relevant investment strategy is determined based on the Client's PRP, which is established at the beginning of the Client relationship and thereafter reviewed on at least an annual basis.

Investment strategies available in the UBS-APA:

Strategy	Investment Objectives Equity and Special Investments ("SP") Allocation Ranges
Conservative (equivalent to a PRP of minimal or low)	The objective of the conservative strategy is to seek to preserve long term assets and to obtain recurrent income. Capital volatility is low. Equity and SP allocation range: 0% to 40%
Moderate (equivalent to a PRP of medium or average)	The objective of the moderate strategy is to seek to achieve long-term appreciation of capital, recurrent income and dividend yield, supplemented by capital gains. Capital volatility is medium. Equity and SP allocation range: 0% to 70%
Aggressive (equivalent to a PRP of above average or high)	The objective of the aggressive strategy is to seek to achieve substantial long-term appreciation of capital. The major yield element is driven by capital gains, complemented by interest and dividends. Capital volatility is high. Equity and SP allocation range: 0% to 100%

There are two types of investments which are considered as securities with respect to the asset allocation range as mentioned above: a) equity and b) SP, because SP normally entail a risk profile that is similar to, or higher than, the risk associated with an equity investment. SP can be commodities, high-yield bond funds, emerging market bond funds and other riskier investments.

UBS-APA Wrap Fees per annum:

Amount of Assets Under Management (in CHF)	Wrap Fee for the respective Investment Strategies		
	Conservative	Moderate	Aggressive
5 to 10 million	1.60%	1.80%	2.00%
more than 10 to 25 million	1.50%	1.70%	1.90%
more than 25 million	1.30%	1.50%	1.70%
<b>minimum Wrap Fee in CHF</b>	<b>80,000</b>	<b>90,000</b>	<b>100,000</b>

#### 4.3. Supplementary Services – Fee Schedule

The following services are not included in the Wrap Fee. UBS-SFA reserves the right to change the fees for supplementary services at any time upon notice to Clients.

Service	Supplementary Services Fee
Delivery of securities <b>from</b> UBS-SFA Note: There is no charge for non-physical delivery of securities <b>to</b> UBS-SFA (regardless at which point in time):	CHF 100 per security (third-party fees not included)
Physical delivery of securities <b>to</b> UBS-SFA	CHF 250 for Swiss stocks CHF 500 for non-Swiss stocks
Re-registration of shares (when there is a change in the name of the owner)	CHF 30 for Swiss shares CHF 50 for non-Swiss shares (third-party fees not included)
Payment services to a payee in Switzerland other than CHF and EUR or to a payee outside of Switzerland	CHF 25 per payment order plus fees charged by financial institutions outside of Switzerland CHF 10 surcharge for European payments if the International Bank Account Number (IBAN) is not provided



Checks: Deposit	CHF 50
Checks: Issuing	CHF 50 Courier delivery fees are not included and can cost between CHF 10 and CHF 20
Numbered accounts	5% surcharge on Wrap Fee CHF 500 minimum per year
Segregated account with third-party for specific instruments (upon Client request)	CHF 500 minimum per year
United States tax statements (see Section 4.2 for tax-related statements that are covered by the Wrap Fee)	CHF 700 for annual detailed tax statement CHF 200 for each quarterly or semi-annual detailed tax statement.
Tax reclaim services: for each country that has entered into a double-taxation treaty with the United States, UBS-SFA will assist United States residents reclaim taxes withheld in such foreign countries	CHF 300 per application form Minimum reclaimable amount: CHF 400 for Switzerland (CHF 420 for Belgium; CHF 450 for France; CHF 500 for Italy and Spain; CHF 600 for Canada)
Physical delivery of precious metals <b>from</b> UBS-SFA	CHF 250 per position (fees for insurance and shipping are not included)

#### 4.4. Third-party Fees and Duties

The Wrap Fee does not cover third-party fees and duties (e.g. stamp duty levied by a government, fees levied by an exchange or fees for segregated sub-accounts which may need to be opened in the country of the selected investment for regulatory reasons) which have to be **borne by the Client**, and are charged separately. Below is an overview of these types of fees.

This overview does only covers the more relevant exchanges. Furthermore, the information contained in this overview is subject to change at any time and without notice (for smaller updates) because it is generally updated on an annual basis only. Material changes, however, are communicated immediately to Clients. Clients can request any of the fee schedules at any time.

Exchange / Government		Ticket Fee	Usage-bound	Floor	Cap	Special Fees	
SWX – Switzerland	Equities		0.002%	CHF 0.50	CHF 55	Stamp	0.075 – 0.15%
Switzerland						VAT	8% (*)
Deutsche Boerse			0.0096%	EUR 0.60	EUR 72		
XETRA - Germany		EUR 0.48 – 0.60	0.0048%		EUR 18		
London Stock Exchange		GBP 1 for trades > GBP 10,000				Stamp	buys: 0.5%
Greece			buys/sales: 0.0325% on sales, add: 0.27%				
NYSE			sales: 0.00224%	USD 0.01			
Hong Kong			0.1087%				
Singapore			0.04%		SGD 600		
Thailand						VAT	0.01750%
Korea			sales: 0.3%				

(\*) Clients residing in Switzerland or Liechtenstein are subject to 8% Swiss Value Added Tax ("VAT") on a portion of the Wrap Fee. This portion is agreed upon with the Swiss Federal Tax Authorities and represents that part of the Wrap Fee that can be allocated to the investment advisory service (as opposed to the portion which represents compensation for custody, securities trading and account maintenance, etc.). The VAT is also due on trades of "white metals" i.e. silver, platinum and palladium.



#### 4.5. Fees with regard to Funds

The Client may elect to invest in funds (i.e. mutual funds shares or in shares of exchange traded funds) within his or her Client-Directed Program. In such a case, the Client may, in addition to the Wrap Fee charged by UBS-SFA, also indirectly pay fees charged based on the particular instruments held as part of the Client-Directed Program and in the Client's account (e.g. investment advisory fees and distribution fees (also referred to as 12b-1 fees<sup>1</sup>) paid by mutual funds and indirectly borne by fund investors).

UBS-SFA recommends investments in funds for Clients based on the suitability of those investments for the individual Client. However, the Client should be aware that fund shares may be purchased directly without using UBS-SFA's services.

UBS AG, UBS-SFA's parent company, may have a distribution or similar arrangement with the issuer of funds. *Under substantially all such arrangements, UBS AG receives distribution fees and/or other forms of monetary compensation, such as 12b-1 fees, which vary in amount and type from issuer to issuer and from fund to fund.* Those fees are disclosed in the respective fund's prospectus or other legal documents. They typically are calculated as a percentage of the average annual value of the fund shares held in a Client account with UBS-SFA. The rates of the fees vary but typically range from 10 to 100 basis points ("bps"; 100 bps equal 1%). In general, UBS AG passes on to UBS-SFA the fees it receives related to UBS-SFA Client fund holdings.

Neither UBS AG nor UBS-SFA receives any front-end or contingent deferred sales loads with respect to a Client's investments in mutual funds. Further, although UBS AG may receive non-monetary compensation from issuers of fund shares, the only type of compensation that UBS AG passes on to UBS-SFA is the cash compensation as described above.

Generally, only one share class of a fund is available to UBS AG (and therefore to UBS-SFA for use with its Clients) under the contractual arrangements with the fund and/or its service providers. This share class may not be the fund's least expensive share class. It is possible that a Client may qualify for a share class that is less expensive than the share class made available to UBS-SFA (and that is ultimately used in such Client's account).

Although UBS-SFA does not serve as an investment adviser, principal underwriter, transfer agent, custodian, administrator or other service provider of any fund in which Client assets may be invested, an affiliate of UBS-SFA may earn fees for

providing services (such as investment advisory, distribution, transfer agency, administration or custody services) to funds which UBS-SFA recommends to Clients. These service arrangements and the fees paid by the funds for the services provided are disclosed in the respective fund's prospectus. UBS-SFA does not directly or indirectly receive any portion of these fees. UBS-SFA does not invest Client assets in funds that are sponsored by UBS AG or any of its affiliates (i.e. in UBS "proprietary" funds).

The compensation arrangements described above may create conflicts of interest for UBS-SFA (or the appearance of such conflicts). UBS-SFA may have or appear to have an incentive to recommend that Clients invest in funds for which it, UBS AG or an affiliate receives fees or other forms of compensation, and to keep Client assets invested in that manner. Through Client investments in these funds, Clients indirectly pay these fees and other forms of compensation, in addition to the Wrap Fee UBS-SFA charges for its services (which is not offset or reduced by any compensation that UBS-SFA or its affiliates may receive from funds or their service providers). UBS-SFA also may have or appear to have an incentive to recommend that Client maintain his or her assets in funds that pay (or that have service providers that pay) fees that are higher than those other funds (or their service providers) pay. However, based on such compensation arrangements, Clients may at the same time also benefit that such funds may not charge any front end-load or early redemption fees.

Subscription/redemption of funds or related investment instruments in general and in particular the ones not covered by compensation agreements as described above may be subject to payment of a front end-load/redemption fee, including but not limited to early redemption fees/penalties, as defined in the relevant fund regulations, sales prospectus, offering memorandum or equivalent document. The Wrap Fee does not cover such additional charges or fees which have to be **borne by the Client**, and are charged separately.

#### 4.6. Revenue sharing arrangements with UBS AG

UBS-SFA may recommend transactions to a Client in which UBS-SFA or an affiliate has a financial or other interest or that result in the receipt of compensation by UBS-SFA or an affiliate that is in addition to the Wrap Fee paid to UBS-SFA by the Client. These and the below types of transactions or arrangements may present a potential conflict between the interests of the Client and the interests of UBS-SFA, in that they provide UBS-SFA a direct or indirect financial or other incentive to recommend or effect the transaction when it may not be in the best interests of the Client to do so.

<sup>1</sup> Distribution [and/or Service] (12b-1) fees are fees paid by the fund out of fund assets to cover distribution expenses and sometimes shareholder service expenses. "12b-1 fees" get their name from the SEC rule that authorizes a fund to pay them. The rule permits a fund to pay distribution fees out of fund assets only if the fund has adopted a plan (12b-1 plan) authorizing their payment. "Distribution fees" include fees paid for marketing and selling fund shares, such as compensating brokers and others who sell fund shares, and paying for advertising, the printing and mailing of prospectuses to new investors, and the printing and mailing of sales literature. The SEC does not limit the size of 12b-1 fees that funds may pay." (source: SEC website at <http://www.sec.gov/answers/mffees.htm#distribution> on 30 March 2012).

Any compensation received by UBS-SFA as a result of the arrangement or investments made by a Client in the products discussed below is **in addition to the Wrap Fee**, and is paid directly or indirectly to UBS-SFA by Clients (often through the product issuer or service provider). This additional compensation is not applied to reduce or offset any fees paid by the Client and it may create an incentive for UBS-SFA to recommend or make these types of investments or arrangements for the Client.

#### 4.6.1 Loans

From time to time, UBS-SFA Clients may request lending assistance from UBS-SFA or its affiliates. UBS AG would act as a lender to any such Clients and as such UBS AG charges interest on the loans it provides. In connection with these loans, UBS-SFA provides services to UBS AG such as administering part of the loan documentation and monitoring collateral held with UBS-SFA which is used to secure such loans. For these services, UBS-SFA receives a service fee from UBS AG which is calculated as a portion of the interest UBS AG earns on the loans it provides to UBS-SFA Clients; UBS-SFA receives half of the profit UBS AG earns (such profit to fluctuate over time). Clients are not required to use UBS AG as lender, and the terms of loans offered by UBS AG may be more or less favorable to Clients than those that may be obtained from an unaffiliated third-party lender.

#### 4.6.2 Foreign Exchange

All foreign exchange transactions are executed exclusively through UBS AG's Investment Bank Division. UBS AG and UBS-SFA earn a margin on these transactions. Although foreign exchange transactions are included in the Wrap Fee, UBS AG and UBS-SFA earn additional revenue from each foreign exchange transaction placed by UBS-SFA for execution. Specifically, UBS-SFA retains 85% of the margin in connection with such transactions and passes on the remaining 15% to UBS AG. Clients should be aware that the margin applied by UBS-SFA for these transactions may be more or less favorable to Clients than those that may be obtained from an unaffiliated third-party. If Clients do not wish for UBS-SFA to use UBS AG to engage in foreign exchange transactions, UBS-SFA will not be able to provide such services for the Client's relationship and Clients would need to seek such services from a third-party. The margin applied by UBS-SFA to execute a foreign exchange transaction are based on the applicable rate and spread as follows:

Foreign exchange spot transactions **below CHF 100,000** (or the equivalent in other currencies): If a Client wants to buy/sell a currency, UBS-SFA sells/buys such currency to/from the Client at the so-called system rate it receives through the bank-system. The system rate is the early morning interbank rate, which may be adjusted during the day, plus a margin which depends on the currency the Client buys/sells; the margin ranges from 110bps to 150bps. Such margin is additional revenue for UBS-SFA.

Foreign exchange spot transactions for **CHF 100,000 or more** (or the equivalent in other currencies): If a Client wants to buy/sell a currency, UBS-SFA sells/buys such currency to/from the Client at the interbank rate UBS-SFA receives from UBS AG plus a margin. Such margin depends on (i) the transaction size and (ii) the currency the Client buys/sells. The margin ranges from 12bps to 100bps. Such margin is additional revenue for UBS-SFA.

#### 4.6.3 Precious Metals

All precious metals transactions for Clients are executed directly through UBS AG's Investment Bank Division. UBS AG (and indirectly UBS-SFA) earns a margin on these transactions. Although precious metals transactions except physical deliveries from UBS-SFA are included in the Wrap Fee, UBS AG (and indirectly UBS-SFA) earns additional revenue from each precious metals transaction placed by UBS-SFA for execution. Specifically, UBS AG retains 15% of the margin in connection with precious metals transactions and passes on the remaining 85% to UBS-SFA. Clients should be aware that the margin applied by UBS AG for these transactions may be more or less favorable to Clients than those that may be obtained from an unaffiliated third-party. If Clients do not wish for UBS-SFA to use UBS AG to engage in precious metals transactions, UBS-SFA will not be able to provide such services for the Client's relationship and Clients would need to seek such services from a third-party.

#### 4.6.4 Fiduciary Deposits

Fiduciary call and time/term deposits are investments made by a bank in its own name, but in response to a written order, exclusively for the Client's account and at the risk of the Client. Fiduciary deposits are placed by UBS-SFA with UBS (Luxembourg) SA ("**UBS-LUX**"). Such fiduciary deposits for Clients are subject to the credit risk of UBS-LUX and ultimately of UBS AG, of which UBS-LUX is a wholly owned subsidiary. However, at the Client's request, UBS-SFA will place fiduciary deposits with other financial institutions with which UBS-SFA has a relationship in connection with fiduciary deposits; namely BNP Paribas Amsterdam and Rabobank Utrecht. The rate of interest paid on UBS-SFA Client fiduciary deposits placed with UBS-LUX ("**UBS-LUX Rate**") contains a 0-50 bps margin.

As a consequence, the final interest rate of UBS-LUX could be lower than the interest rates paid by other financial institutions ("**Market Rates**"). 90% of the profit UBS-LUX earns on the difference between the UBS-LUX Rate and the Market Rates is passed on to UBS-SFA.

#### 4.7. Compensation regarding Other Products

UBS-SFA may also receive compensation, directly or indirectly, when Client accounts include products other than equity shares, bonds or mutual fund shares (e.g. structured products). Such compensation could be in the form of a retrocession or distribution fee. Upon a Client's express request, UBS-SFA will provide additional details to its Clients regarding the methodology for calculating such compensation.

## 5. Account Requirements and Types of Client

UBS Swiss Financial Advisers AG  
as of 30 March 2012

### 5.1. Types of Clients

UBS-SFA serves natural persons who are subject to United States federal income tax, i.e. United States citizens, United States permanent residents (green card holders), and persons who meet the "substantial physical presence" test, commonly referred to as the 183 day test. In addition to natural persons, UBS-SFA serves clients that are US trusts, US estates, US charitable organizations, and US business entities such as corporations, limited partnerships as well as limited liability companies. UBS-SFA does not serve nor does it provide investment advice to investment companies, pension plans or profit sharing plans. On an exceptional basis, UBS-SFA may serve so-called offshore Clients, i.e. non-US trusts, non-US foundations, non-US partnerships and non-operating non-US companies where the ultimate beneficial owner(s) and/or beneficiary is/are a natural person(s) who is/are subject to United States federal income tax as described before.

### 5.2. Account Requirements

The required initial and ongoing **investment minimums** for UBS-IA and for UBS-APA are as follows:

UBS-IA	CHF 1,000,000
UBS-APA	CHF 5,000,000

UBS-SFA's has sole discretion to accept a Client for a Client-Directed Program where the minimum required investment amount is not met. UBS-SFA has the right to terminate a Client's participation in a Client-Directed Program if the assets in the respective program fall below

the minimum size required by UBS-SFA as described above. Under normal circumstances, UBS-SFA will not do so if such decrease in value is attributable to the performance of the Client-Directed Program.

### 5.3. Special Disclosure Requirements for selected Countries

When trading, registering, holding or processing financial investment instruments (e.g. shares, bonds, structured products) issued in certain markets such as Norway, Hong Kong or South Korea, the local regulator may require the financial intermediary acting on behalf of an investor to disclose, either as a prerequisite before any transaction or on express request at any time after a transaction took place, personal information about the investor. We strive to identify all such markets and to notify clients in advance should such disclosure be required in connection with any transaction UBS-SFA is acting on Client's behalf. Please note that Client's may be required to provide UBS-SFA with a respective disclosure consent prior to such transactions.

The table below provides a reference of the type of information requested by some countries that UBS-SFA may, if required by local law and regulations, need to disclose to local intermediaries, authorities or regulators. **A disclosure would only be made if required in advance or upon specific request, i.e. there is no automatic disclosure.** This table is being updated each time that a change occurs in such country or if countries are added or deleted.

Norway	Investors are required to disclose identifying information to the Norwegian regulator Kredittilsynet if they are holding (a) Norwegian or non-Norwegian financial instruments which are registered, safe kept, or processed by the Norwegian Central Securities Depositories (e.g. shares, bonds, funds, warrants, etc); and/or (b) Norwegian instruments traded outside of Norway. Identifying information includes, but is not limited to the name, address, domicile, International Securities Identification Number ("ISIN"), ISIN description, and number of applicable financial instruments held.
South Korea	Investments in South Korean securities made by foreign investors have to be made through the holder of an Investment Registration Card ("IRC"). The holder of the IRC must at all times be in a position to disclose beneficiary details of the investment. Beneficiary details may include, but are not limited to the name, address, domicile, name of beneficial owner, and a copy of the passport or excerpt from the Commercial Register/Certificate of Incorporation. This information may be requested by the IRC, South Korean Financial Services Commission, or any other competent authority, custodian bank, broker, and local or international central securities depositories.
Hong Kong	The Client Identity Rule Policy instituted by the Securities and Futures Commission of Hong Kong ("SFC") requires UBS-SFA to provide upon the request of its Hong Kong brokers, SFC, or any other Hong Kong regulator Client identity information including beneficiary details. Such information may include details of the person or entity responsible for originating the instruction, including the ultimate and intermediate originators and/or the persons or entities that stand to gain the commercial or economic benefit of the transaction and/or bear its commercial or economic risks.
United States of America	The SEC adopted Rule 22c-2 under the United States Investment Company Act of 1940 to help address abuses associated with short-term trading of SEC registered open-end mutual fund shares. Rule 22c-2 requires most funds to enter into written agreements with financial intermediaries who hold fund shares on behalf of their clients. Under such shareholder information agreements, the financial intermediaries must consent to provide the funds upon request with certain client identity and transaction information. Clients have authorized UBS-SFA with the form "Basic Document for Business Relationships" to disclose all information required under Rule 22c-2 to the funds or to any intermediary between UBS-SFA and the funds, such as UBS AG. Such information may include, but is not limited to, the Client's (Clients') name(s), address(es), Taxpayer Identification Number(s) ("TIN"), the number of fund shares held.

## 6. Portfolio Manager Selection and Evaluation

### 6.1. Portfolio Managers

As described in Section 4.2, all investment advisory services for Self-Directed Program Clients are provided by UBS-SFA and there are no external investment advisers or portfolio managers and no affiliates (such as UBS AG) that act as investment adviser or portfolio manager for such UBS-SFA Clients.

### 6.2. Performance-based fees and Side-by-Side Management

UBS-SFA does not charge performance-based fees. However, UBS-SFA recognizes that side-by-side management issues may exist for other reasons.

UBS-SFA may manage Client accounts that have objectives that are similar to, or which overlap with, those of other Clients. However, as discussed further in Section 9.7.4 below, UBS-SFA strives to allocate investment opportunities among similarly-managed Client accounts on a fair and equitable basis over time.

The investment advisory strategies UBS-SFA uses for certain Clients could conflict with the transactions and strategies employed for other Clients and may affect the prices and availability of the securities and other financial instruments in which Clients invest. For example, on a regular basis, and in particular after investment strategy changes have been approved by the Investment Committee ("IC"), the Chief Investment Officer informs the members of the Investment Solutions Team ("IS") and the Central Advisory Team ("CAT") of investment recommendations or changes in investment strategies. As a consequence, Clients should understand that transactions recommended to Clients of Client-Directed Programs may have already been effected for one or more Managed Programs Clients prior to communication of any investment recommendation to Clients with a Client-Directed Program. These previous Managed Programs transactions may result in changes to the prices of instruments from those obtained in later transactions on behalf of Client-Directed Programs. Accordingly, the prices received for Client-Directed Programs, if Clients in such programs choose to act on investment advice UBS-SFA provides, may not be advantageous relative to the prices previously received on behalf of Managed Programs, or in general. The same may apply to transactions effected by UBS-SFA on behalf of Managed Programs if such transactions are effected after that Clients of Client-Directed Programs choose to act on investment advice UBS-SFA provided to them.

### 6.3. Methods of Analysis, Investment Strategies and Risk of Loss

#### Methods of Analysis

It is of highest importance to UBS-SFA to apply sound methods and analysis in formulating investment advice. UBS-SFA has adopted a "top-down" approach: The IC agrees on a global macro and market environment view by taking into account gross domestic product, inflation, short term interest rates, currencies, long term interest rates, equities. Based on that, the IC formulates an asset allocation. IS and CAT then select individual securities (bonds, equities, mutual funds, structured products, etc.) to implement the asset allocation based on the Client's CRP and PRP.

#### Investment Strategies

UBS-SFA applies the following four-step investment process for Client-Directed Programs and Managed Programs:

- 1) Definition of the Client's profile:** In-depth analysis of the Client's risk tolerance, investment needs and goals and identification of investment objectives which is captured in the Client's CRP and PRP
- 2) Developing the investment strategy:** the investment strategy is defined in co-operation with the Client in light of the CRP and PRP and stated investment objectives
- 3) Implementation of the investment strategy:** UBS-SFA recommends to the Client a strategic and tactical asset allocation, as well as specific securities, in furtherance of the Client's stated investment objectives
- 4) Monitoring the investments and keeping the Client informed:** UBS-SFA monitors investments in UBS-IA provided that they are within UBS-SFA's recommended investment universe and recommends changes from time to time. With respect to UBS-APA, UBS-SFA monitors investments beyond UBS-SFA's recommended investment universe. For Managed Programs, UBS-SFA implements the necessary changes on the Client's account and portfolio on a discretionary basis.

#### Risk of Loss

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

It all starts with working with the Client step-by-step through the CRP and PRP. The purpose and goal of this process is to determine the Client's risk tolerance and finding the right balance between the opportunity for financial gain and the tolerance for financial loss. Once the CRP and PRP have been determined, the following discussions take place:

**Risk of various strategies:** The selection of an appropriate investment strategy from conservative to average and high risk must fit the Client's CRP and PRP. In addition, each strategy involves investment in a certain type or types of securities, each of which have their own risks. For example:

*Market risk:* The market price of securities may go up or down, sometimes rapidly or unpredictably, and can lead Clients to lose up to their whole investment. Market risk exists in all types of investments.

*Interest rate risk:* Fixed income securities fluctuate in value as interest rates change. The general rule is that if interest rates rise, the market prices of fixed income securities will usually decrease. The reverse is also true: if interest rates fall, the market prices of fixed income securities will generally increase. A fixed income security with a longer maturity (or a fund holding fixed income securities with a longer average maturity) will typically be more sensitive to changes in interest rates and it will fluctuate more in price than a shorter term security.

*Credit risk:* The risk that the issuer of a fixed income security could default on its obligation to pay interest and/or principal, or go bankrupt, which could cause the holder of such a security to lose money.

*Currency risk:* Each considered strategy is then reviewed for the currency risk, i.e. the risk (or opportunity) for additional financial loss (or profit) depending on how much of the investments will occur in the Clients domestic versus foreign currency and on how much the foreign currencies is relative to the Client's domestic currency.

*Bulk risk:* The risk of being invested in a single security or issuer is considered and while diversification in general is sought by UBS-SFA, there is no assurance that this will necessarily mitigate or eliminate the risk of loss in every market environment.

*Geographical and sector risk:* The same applies as stated under bulk risk, where there is risk in concentrating investments in geographic regions or business or industry sectors. While geographic and sector diversification is in general sought, there is no assurance that this will necessarily mitigate or eliminate risk of loss. Also, certain strategies necessarily require concentration in a geographic region, and thus those Client accounts invested in accordance with that strategy will be subject to increased risk associated with that region (e.g. Asia).

On a yearly or more frequent basis, the Client's risk awareness is reviewed. The Client is informed of securities which are not within UBS-SFA's recommended investment universe and (for UBS-IA) therefore also not monitored, bulk risks and the overall allocation discrepancies that are not fulfilling the PRP.

There is no assurance that any investment risk mitigation efforts, or any hedging strategies, undertaken by UBS-SFA will be successful or otherwise eliminate the relevant risk. Further, there is no assurance that a Client will achieve his or her stated investment objective.

#### **6.4. Voting Client Securities (Proxies)**

UBS-SFA does not vote or provide any advice about the voting of proxies solicited by, or with respect to, the issuers of any securities held for any Client in a Client Directed Program. Client's whose Swiss shares are registered in Switzerland in their name with the respective companies receive their proxies directly from such companies. Clients who have questions about proxies of non-Swiss registered shares may contact UBS-SFA for further information.

## 7. Client Information provided to Portfolio Managers

UBS Swiss Financial Advisers AG  
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Because UBS-SFA is the sole portfolio manager for all Self-Directed Program Clients, it is already in possession of all Client information. Within UBS-SFA, its employees have full access to all Client information.

## 8. Client Contact with Portfolio Managers

There are no restrictions for a Client to contact the WMC for their Client relationship. For investment advice, a Client with a UBS-IA can directly access a member of CAT. For Clients with a UBS-APA, the Client can directly contact either a member of CAT or a portfolio manager of IS.



## 9.1. Disciplinary Information

There is no disciplinary information to report.

## 9.2. Other Financial Industry Activities and Affiliations

### 9.2.1 General Remark

As explained in Section 4.1 above, UBS-SFA is a wholly-owned subsidiary of UBS AG, an internationally diversified organization with operations in many areas of the financial services industry. UBS AG is a bank and securities trader licensed and supervised in Switzerland by FINMA. UBS-SFA is part of UBS AG's Wealth Management & Swiss Bank Division.

There are various forms of relationships and cooperation between UBS-SFA and its parent company UBS AG and affiliated or third-party companies. Whilst Section 9.2.2 lists services which have been outsourced to UBS AG and its divisions or affiliates, Section 9.2.3 describes various functions which have been outsourced to third parties. Section 9.2.4 explains potential conflicts of interest and issues which may arise out of additional compensation.

### 9.2.2 Relationships with UBS AG (parent company) and UBS-LUX (affiliate)

**General Remark:** As stated above, the revenue sharing and other arrangements described in this Brochure may provide UBS-SFA with an incentive to engage UBS AG or other affiliates to provide certain services to, or enter into certain transactions with, Clients. In these cases, UBS-SFA Clients may pay more for those services or may incur higher costs for those transactions than they would otherwise.

**Fiduciary Deposits:** Unless otherwise instructed by the Client, UBS-SFA places fiduciary deposits with UBS-LUX, a wholly owned subsidiary of UBS AG. Such placement exposes the Client to the credit risk of UBS-LUX and therefore ultimately of UBS AG.

**Cash:** All cash placed with UBS-SFA and to be held in cash, is deposited by UBS-SFA in its name for the benefit of Clients, in an omnibus cash account with UBS AG. UBS-SFA and ultimately its Clients are exposed to UBS AG's credit risk.

**Precious Metal Accounts:** All precious metals in account form, i.e. not in physical form, are held by UBS-SFA in its name, for the benefit of Clients, in an omnibus precious metal account with UBS AG. UBS-SFA and ultimately its Clients are exposed to UBS AG's credit risk.

**Client Loans:** UBS AG provides loan services to UBS-SFA's Clients. For that purpose, UBS-SFA Clients must maintain a separate and independent client relationship with UBS AG.

**IT Services/IT Framework:** UBS AG provides part of UBS-SFA's IT infrastructure.

**Tax Reclaim Services:** UBS-SFA uses UBS AG's tax reclaim services. This service entails filing a tax reclaim form with Swiss and other countries' tax authorities in order to reclaim certain amounts of taxes paid that are refundable under the available dual taxation treaties in place between the United States and the country of the respective investments.

**Telephone Services:** UBS AG absorbs the cost of services used by UBS-SFA. The administrative costs for billing UBS-SFA for this service would outweigh the benefits to UBS AG of doing so.

**Fund Order Placement Services:** As described in Section 4.5 above, UBS-SFA uses the order placement services of UBS AG's Investment Bank Division to purchase or redeem shares of funds for Clients, generally at net asset value ("**NAV**").

**Foreign Exchange and Precious Metals Services:** UBS AG's Investment Bank Division provides UBS-SFA with foreign exchange and precious metals execution services.

**Yield Optimized Deposits ("**YODs**"):** YODs to UBS-SFA Clients are provided by UBS AG's Investment Bank Division in the United States. A YOD is a fixed-term bank deposit that offers an enhanced fixed yield when compared to deposit instruments of similar maturity and credit quality. In return for the enhanced yield, the investor must accept repayment of principal and interest in either the original currency (referred to as the "deposit currency") or an alternative pre-agreed currency (referred to as the "alternative currency").

### 9.2.3 Relationships with unaffiliated third-party providers

**Broker Services:** As explained in more detail in Section 9.7 below, Bank Notenstein executes most Client equity and bond transactions. Bank Notenstein serves UBS-SFA as an IT-banking platform and operational service provider. This includes "UBS-SFA Online", the application which gives Clients electronic access to their account(s) and other information. Bank Notenstein is a Swiss-based bank and securities trader, licensed and supervised by FINMA.

**United States Tax Reporting Services:** UBS-SFA uses Convey Compliance Systems Inc., a US-based tax reporting company, to satisfy tax reporting obligations under UBS-SFA's QI Agreement (e.g. IRS Form 1099) and provide Clients with other tax reports (e.g. annual tax statement).

**Mailing Services:** For the preparation of certain paper mailings to Clients, UBS-SFA uses a Swiss-based firm, Koelliker Bueroautomation AG in Zurich, Switzerland, specialized in packaging mail.



**Settlement/Security Depository Services:** For the settlement and custody of Swiss securities, as well as securities from the rest of the world, UBS-SFA uses SIX SIS AG ("SIS"), a Swiss-based bank. See also Section 9.2.4 below.

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

#### **9.2.4 Potential Conflicts of Interest and Additional Compensation**

##### **9.2.4.1 Potential Conflicts with Affiliates in General**

Except as prohibited by law or written Client instruction, UBS-SFA, its personnel, and its affiliates may purchase, sell or recommend for purchase or sale to and for its Clients, securities issued by companies

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

UBS-SFA may give investment advice and take action in the performance of its duties for a Client that differ from the advice given, or the timing and nature of actions taken, for other Client accounts which may invest in some of the same securities recommended to Clients. In addition, investment advice provided by UBS-SFA may differ from investment advice given by its affiliates. Please see Section 4.6 for more details.

##### **9.2.4.2 Potential Conflicts with SIX SIS AG**

The vast majority of equity and bond trades for UBS-SFA Clients are settled through SIX SIS AG ("SIS"). SIS is a Swiss-based bank, licensed and supervised by FINMA. SIS is an internationally active service provider. Its core business, as a central securities depository, is the settlement and custody of Swiss securities, as well as securities from the rest of the world. To enable settlement against payment, UBS-SFA is required to hold cash accounts in different currencies with SIS. Furthermore, UBS-SFA is required to maintain sufficient cash balances on these accounts. The cash in these accounts belongs to UBS-SFA Clients and not to UBS-SFA itself. If there is insufficient cash in the currency accounts, SIS will charge interest. However, if the cash balances in the major currencies (USD, EUR, CHF and GBP) exceed a

certain limit, SIS will pay interest on the amount by which the cash balances exceed the limit. UBS-SFA endeavors to consistently have cash balances in its currency accounts below the threshold for which SIS pays interest and above the threshold for which SIS charges interest. Should UBS-SFA not meet its target, i.e. interest is either charged or paid by SIS, UBS-SFA will not pass on SIS interest charges or interest payments to its Clients. The rationale for this policy is that it is operationally too cumbersome to do so given the amounts typically involved.

##### **9.2.4.3 Potential Conflicts with UBS-SFA Employees**

From time to time, directors, officers and employees of UBS-SFA may have acquired or sold, or may subsequently acquire or sell, for their personal accounts, securities that may also be held or have been purchased or sold, for the accounts of Clients. The below Section 9.3 explains the precautions taken in an effort to prevent conflicts of interest in this area.

#### **9.3. Code of Ethics, Participation or Interest in Client Transactions and Personal Trading**

UBS-SFA has adopted a Code of Ethics which has a dual purpose:

- 1) To set forth standards of conduct that apply to all UBS-SFA employees and reflect UBS-SFA's fiduciary obligations towards its Clients; and
- 2) To address and prevent conflicts of interest associated with the personal trading activities of UBS-SFA employees and certain members of their families.

In an effort to prevent such conflicts, employees and certain of their family members (referred to as access persons) are prohibited from conducting any transaction or issuing any recommendation, investment advice or instruction to any third-party (including but not limited to spouses, partners and children) with the aim to circumvent the personal account dealing rules. Specifically, access persons have to submit their securities holding reports, must avoid trading in securities that are on the "Restricted List" (a list of securities and issuers that are subject to restrictions in trading for employees), must obtain pre-approvals before trading in certain securities and must observe stated holding periods.

Although UBS-SFA, its officers and employees, and its affiliates generally do not engage in principal trades with Clients, they may occur under the limited circumstances described in Section 9.7.6 below.

In addition, as more fully described in Section 4.5 above, UBS AG may have distribution or similar arrangements with the issuers of funds that UBS-SFA recommends to Clients, under which UBS AG receives distribution fees or other monetary compensation such as 12b-1 fees. These payments to our affiliate may create conflicts of interest for UBS-SFA, or the appearance of such conflicts.

UBS-SFA also has policies and procedures that are designed to prevent the misuse of material, non-public information. Material, non-public information may become available to UBS-SFA through its Client relationships or for any other reason and will not knowingly be passed on to Clients or used for their benefit, or for any other purpose. As a result, UBS-SFA may be prohibited from recommending that a Client purchases or sells an instrument even when it might otherwise do so.

A copy of UBS-SFA's current Code of Ethics can be provided to Clients and prospective Clients upon request.

#### 9.4. Review of Client Relationships (Client Accounts)

**Annual Review:** WMCs are responsible for the periodic review of Client accounts (at least annually). The annual review, which is either conducted during a personal meeting or by way of a telephone call, covers all key aspects of the Client relationship, including among other things any changes in the Client's personal and financial situation, the Client's risk profile and the suitability of the chosen investment program.

**Other Reviews:** UBS-SFA Chief Compliance Officer and other compliance officers and supervisors of WMCs perform periodic reviews of Client relationships. Such reviews can be triggered by unusual events in a Client's account or by UBS-SFA's internal policies and procedures which require conducting checks on various aspects of the Client relationship. On a regular basis, internal audit and external audit may select a group of topics and Client relationships and conduct a check.

**Reports provided to Clients:** Section 9.8 below describes which reports and information Clients receive on a regular basis for their Client relationship and how this information is delivered to Clients. These written reports allow the Client on a regular basis to review and verify their investments held with UBS-SFA. Clients may furthermore request a copy of the SOC 1 Report issued by Ernst & Young.

Other information with regard to the review of Client relationships:

While WMCs remain fully responsible for the Client relationship, they work in close contact with the members of CAT (for UBS-IA) and/or the responsible member (i.e. portfolio manager) of IS (for UBS-APA). These CAT and/or IS members have full access to Client information. As stated in Section 6.1 above, there are **no external investment advisers or portfolio managers** used in connection with the Client-Directed Program. There are also **no affiliated entities (or employees of affiliates)**, e.g. employees of UBS AG, that act as investment managers or portfolio managers for UBS-SFA's Self-Directed Program Clients. All investment advisers and portfolio managers are employees of UBS-SFA.

Members of CAT and/or IS for a particular Client relationship are selected based on the type of Client-Directed Programs or Managed Programs and based on the Client investment strategy or objective (e.g. conservative versus aggressive) selected within such programs.

The individual performance of a CAT and IS member is not calculated or reviewed by UBS-SFA and is therefore not used in allocating team members to particular Client relationships. CAT and IS act together as a group within UBS-SFA and UBS-SFA calculates composite rather than individual strategy performances; these are regularly reviewed by the IC.

#### 9.5. Client Referrals and Other Compensation

UBS-SFA may compensate affiliated and unaffiliated persons for referring Clients to the programs, in accordance with applicable law. The costs of any referral fees are paid entirely by UBS-SFA, and are not borne by UBS-SFA's Clients. Currently, there are several Solicitation/Referral Agreements in place, including with our affiliate UBS Financial Services Inc. in the United States. Upon a Client's request, UBS-SFA can provide additional details of any referral arrangement that covers that Client.

If a prospective Client is referred by an UBS AG client advisor to UBS-SFA, the UBS AG client advisor will receive part of the net new money credit. The net new money accrued is merely a factor in determining the client advisor's yearly bonus paid by UBS AG. However, no cash payments are made by UBS-SFA to UBS AG (or its client advisors) for referring Clients to UBS-SFA.

#### 9.6. Financial Information

UBS-SFA will provide its Annual Report to Clients upon request.

#### 9.7. Brokerage Practices

UBS-SFA normally uses two firms to effect Client transactions: (1) Bank Notenstein (for most Client transactions); and (2) UBS AG (for mutual fund shares, precious metals and foreign currency transactions). Bank Notenstein itself uses sub-brokers for the execution on the different exchanges globally. In addition, certain financial products such as structured products, hedge funds, specific closed-end funds, interests in Limited Partnerships and Limited Liability Companies and similar products are usually purchased directly from the issuer or an affiliate of the issuer.

- 1) **Bank Notenstein** is used for most equity and bond transactions. The compensation Bank Notenstein receives from UBS-SFA for executing these transactions is covered by the Wrap Fee paid by the Clients to UBS-SFA. The Wrap Fee includes any so-called order ticket fee Bank Notenstein may charge UBS-SFA for the execution of such transactions.
- 2) **UBS AG**, acting through its Investment Bank Division, is normally used for mutual fund shares transactions, generally on a net asset value ("**NAV**") basis,

transactions in precious metals and foreign exchange transactions. UBS AG's compensation for executing these transactions for UBS-SFA's Clients are covered by the Wrap Fee paid by the Clients to UBS-SFA.

All costs for executing transactions directly with product issuers or their agents are covered by the Wrap Fee.

The Wrap Fee, however, does not cover certain third-party fees and duties, or fees with regard to funds, as mentioned in Sections 4.4 and 4.5 above.

**Best execution:** UBS-SFA is obligated to seek "best execution" for Client transactions. Best execution generally refers to the execution of transactions in such a manner that total cost or proceeds in each transaction is the most favorable under the circumstances. The SEC defines best execution as "best qualitative execution", not merely the lowest possible execution cost. In evaluating the quality of execution and selecting broker-dealers to execute Client transactions, UBS-SFA may consider various factors, such as execution capability, commission rate (or spread) and responsiveness. UBS-SFA has adopted a best execution policy where UBS-SFA's execution desk responsible for securities transactions checks on at least a weekly basis the execution of trades, taking into account execution time and price. On a monthly basis (or more often if significant issues arise), UBS-SFA's execution desk reports its findings to UBS-SFA's Best Execution Committee. Through these mechanisms, UBS-SFA seeks "best execution" by monitoring Bank Notenstein's and UBS AG's trading activity for, and execution costs and quality obtained for, Clients, and their own best execution and related trading policies, procedures and practices. Consistent with seeking best execution, UBS-SFA selected Bank Notenstein and UBS AG to effect Client transactions (or in Bank Notenstein's case, to select the broker-dealers for Client transactions), as described more below.

**Selection of brokers:** Bank Notenstein was chosen because UBS-SFA believes that it offered an attractive IT-banking platform for UBS-SFA's business model while at the same time providing competitive securities brokerage services. Bank Notenstein selects the individual broker-dealers to effect Client transactions based on its own best execution policies, procedures and related controls. UBS AG was chosen due to UBS AG's global reach (i.e. global operational agreements in place with UBS AG) in the funds business is seen as an advantage. Furthermore, mutual fund shares are generally purchased and redeemed directly from the fund at net asset value ("NAV") only, so that best execution is not an issue.

#### 9.7.1 Research and Other Soft Dollar Benefits

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

UBS-SFA receives no research material from Bank Notenstein, other than periodic and publicly available newsletters. UBS AG, its affiliates and third parties may provide UBS-SFA with research material or services free of charge. This research may include written materials, bulletins, news letters, daily emails and also conference calls and personal visits with analysts etc.

UBS-SFA does not consider any such research or services when evaluating Bank Notenstein's or UBS AG's transaction execution services.

#### 9.7.2 Brokerage for Client Referrals

UBS-SFA does not consider, in its selection of a broker (e.g. Bank Notenstein or UBS AG), whether it or one of its affiliates receives client referrals from that broker. As mentioned in Section 9.5 above, there is a referral arrangement with UBS AG under which UBS-AG may refer clients to UBS-SFA. UBS-SFA does not consider those referrals in the selection of UBS AG for services related to its investment advisory programs.

#### 9.7.3 Directed Brokerage

As explained in Section 9.7 above, UBS-SFA currently uses Bank Notenstein, UBS AG, and product issuers for execution of all Client transactions. UBS-SFA does not permit its Clients to direct UBS-SFA to use any other specific broker for any Client transaction as brokerage commissions or other transaction costs charged by that broker would not be included in the Wrap Fee.

#### 9.7.4 Aggregation and Allocation

**Aggregation practices:** UBS-SFA currently does not aggregate transactions for execution with respect to its Client-Directed Programs.

**Allocation of investment opportunities:** There may be situations where a particular security may need to be purchased or sold for more than one investment advisory program or more than one Client, but the investment opportunity is limited. In those situations, UBS-SFA will allocate the opportunities among eligible Client accounts in a way that, over time, does not favor one Client relationship over another. In principle, UBS-SFA will use a pro rata allocation method (example: order for Clients A and B is for 2,500 shares each, order for Client C is for 5,000 shares, i.e., the total order is for 10,000 shares (= 100%, 25% for each Client A and B, 50% for Client C); in the market 4,000 shares can be obtained; Clients A and B receive each 1,000 (= each 25%) and Client C 2,000 (= 50%) shares). For possible side-by-side management issues, see also Section 6.2 above.

### 9.7.5 Trade Error Handling

UBS-SFA has a trade error procedure, pursuant to which UBS-SFA endeavors to timely resolve any identified trading errors that may occur from time to time for a Client relationship. UBS-SFA strives to correct and otherwise resolve trade errors in a manner that does not adversely affect the Client.

### 9.7.6 Principal Trades and Cross Trades

UBS-SFA generally does not engage in principal trades for its Clients. It might be the case, however, that in a specific bond UBS AG or another UBS-SFA affiliate is the only market maker, and under such circumstances that specific bond would have to be purchased from or sold to UBS AG or its affiliate by UBS-SFA on behalf of Clients. In such cases, UBS-SFA will not execute the transaction without a Client's prior written consent. UBS is not responsible for any price changes that may occur during the period of time required for UBS-SFA to obtain a Client's consent to the principal trade.

UBS-SFA does not "cross" Client trades in any security, even if doing so would be beneficial for Clients, as it does not currently have the operational ability to identify potential cross trades between Clients. Similarly, neither UBS-SFA, nor any affiliate, does engage in "agency cross" trades between UBS-SFA Clients and brokerage clients of such affiliates.

### 9.7.7 Trading Conflicts

Because most of a Clients' trading costs are included in the Wrap Fee UBS-SFA receives, UBS-SFA pays for these execution services itself. As a result, UBS-SFA may have an incentive to minimize trading for Clients (thereby reducing the amount of money it must pay for execution). However, UBS-SFA believes that this incentive is addressed through its investment decision-making process. For example, the Central Advisory Team ("CAT") and the Investment Solutions Team ("IS"), which are responsible for the selection and monitoring of securities for Client accounts, maintain a recommended list of securities (i.e. investment universe) and report large relative performance deviations against markets on a regular basis to the IC. The IC takes note of such decisions and has the power to override them.

## 9.8. Custody

**UBS-SFA is a "qualified custodian":** As a securities trader licensed and supervised by FINMA, UBS-SFA is allowed, under Swiss law and applicable SEC rules, specifically Rule 206(4)-2 of the Investment Advisers Act of 1940, which is commonly referred to as the "Custody Rule", to hold in custody financial assets for its Clients. UBS-SFA serves as the "Qualified Custodian" for all its Clients. All UBS-SFA Clients must establish a Client relationship and therefore custody account with UBS-SFA. Clients should be aware that the fraud potential with an investment adviser having custody of Clients' assets is higher than with an investment adviser which does not have custody of Client assets.

### UBS-SFA's sub-custodians:

**SIX SIS AG ("SIS")** is used by UBS-SFA as a sub-custodian for the large majority of Clients' assets. SIS is a Swiss-based bank, licensed and supervised by the FINMA. SIS is an internationally active service provider. Its core business, as a central securities depository and an international central securities depository, is the settlement and custody of Swiss securities, as well as securities from the rest of the world.

**UBS AG** is used as a sub-custodian for all mutual fund shares, certain equity types (such as equities that are physically delivered and held in custody or shares that are registered in the shareholders' registry of the issuing company) and precious metals.

**Client Reporting:** As a standard service, Clients receive periodic (at least quarterly) Client relationship (i.e. custody account) statements containing a description of all activity in the Client's relationship(s) either in paper or in electronic form. Settlement confirmation for individual transactions will be provided to all Clients, either in electronic form or in paper depending on the Client's preference. Clients who have chosen to access Client relationship information electronically via "UBS-SFA Online" no longer receive paper copies, except upon explicit request.

In fall of 2011 Ernst & Young conducted an examination of the controls related to the custody function for Client assets of UBS-SFA and will issue a **SOC 1 Report** (expected in April 2012). This report can be requested from UBS-SFA. UBS-SFA will also provide its Annual Report to Clients upon request.

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