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## **UBS INSTITUTIONAL CONSULTING**

**This brochure provides information about the qualifications and business practices of UBS Financial Services Inc. and the UBS Institutional Consulting Group that you should consider before becoming a client of this program.**

**If you have any questions about the content of this brochure, please contact us at 888-526-7454. The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission or by any state securities authority.**

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

**Please note that registration as an investment adviser does not imply a certain level of skill or training.**

## **ITEM 2. MATERIAL CHANGES**

This section describes the material changes to our UBS Institutional Consulting Services since the last amendment of our Form ADV on August 15, 2012.

### **Disciplinary History**

- Please see Item 9 of this Brochure for updates to the disciplinary events reported for UBS Financial Services and its management personnel. These events were not focused on services provided by the UBS Institutional Consulting Group.

### **Fees**

- Please see Item 5 of this Brochure for the following updates to our fees and how our fees may be paid: (i) an updated fee schedule and minimum fee have been added; (ii) the use of brokerage commissions to offset our consulting fees has been eliminated.

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**References in this brochure to:**

- **"Programs"** means our investment advisory programs.
- **"Agreement"** or **"IC Program Agreement"** means the UBS Institutional Consulting Agreement.
- **"ERISA"** means the Employee Retirement Income Security Act (ERISA) of 1974, as amended.
- **"IC Consultant"** means your UBS Institutional Consulting Services Financial Advisor.
- **"IC Program"** means the UBS Institutional Consulting Services Program.
- **"IC Program Fee"** means the fee payable under the UBS Institutional Consulting Services Agreement.
- **"IC Eligible Investments"** means the securities and strategies your IC Consultant may identify as part of an investment search: investment managers, mutual funds, exchange traded funds, exchange traded notes, collective trusts, stable value funds, alternative investments and other managed investments.
- **"Plan"** or **"plan"** mean: a retirement plan for self-employed individuals, or an employee benefit plan subject to ERISA or a nonqualified retirement plan.
- **"UBS"** unless otherwise noted, means UBS Financial Services Inc.
- **"You"** and **"your"** refer to the IC Program client.

## About UBS Financial Services Inc.

UBS Financial Services Inc. ("UBS") 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 is a global, integrated investment services firm and one of the world's leading banks. We are registered to act as a broker-dealer, investment adviser, and futures commission merchant.

As a registered investment adviser, we complete a Part I of Form ADV, which contains additional information about our business and our affiliates. This information is publicly available through our filings with the U.S. Securities and Exchange Commission (SEC) at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

The information in this brochure 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 wealth management firm providing 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.<sup>1</sup>

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. Most of our Financial Advisors are qualified and licensed to provide both brokerage as well as advisory services depending on the services as you have 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 a designation 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 fee-based financial planning, discretionary account management, non-discretionary investment advisory programs, and advice on the selection of investment managers, mutual funds, exchange traded funds and other securities offered through our investment advisory programs.

<sup>1</sup> Examples of our advisory programs and services include our fee-based financial planning services and our ACCESS, Portfolio Management Program, Managed Accounts Consulting, UBS Institutional Consulting, DC Advisory Program, UBS Strategic Advisor, UBS Strategic Wealth Portfolio, UBS Managed Portfolio Program, Mutual Fund Discretionary Program and PACE programs. Examples of our brokerage accounts include our Resource Management Account® and the International Resource Management Account.

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) to you for our advisory program(s) 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**

We may charge for our investment advisory services in any of the following ways:

- A percentage of the amount of assets held in your advisory account
- A flat annual fee
- A combination of asset based fee and commissions
- Periodic fees
- Financial planning services are available for a fee

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

### **Our Fiduciary Responsibilities as an Investment Adviser**

When you participate in one of our investment advisory programs, we are considered to have a fiduciary relationship with you.<sup>2</sup> 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.

Termination of your advisory account 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.

### **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.

<sup>2</sup> Fiduciary status under the Investment Advisers Act is different from fiduciary status under ERISA or the Internal Revenue Code. While in our investment advisory programs we act as a fiduciary under the Investment Advisers Act, we do not act as a fiduciary under ERISA or the Internal Revenue Code unless we expressly agree to do so in writing.

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 services 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. Instead, 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 (RMA). If you choose to pay on a transaction-by-transaction basis, we can act as either your agent or "broker," or as a "dealer."
- When acting as your agent or broker, we will charge a commission to you each time we buy or sell a security for you.
- When acting 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-dealer we are subject to the following:

- The Securities Exchange Act of 1934
- The Securities Act of 1933
- The rules of the Financial Industry Regulatory authority (FINRA)
- The rules of the New York Stock Exchange
- State laws, where applicable

These laws and regulatory agencies have established certain standards for broker-dealers which include:

- As your broker-dealer, we have a duty to deal fairly with you. Consistent with our duty of fairness, we must ensure 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 a fiduciary relationship with you.



## **ITEM 4. ADVISORY BUSINESS**

This brochure describes our UBS Institutional Consulting Services Program which is an investment advisory service. We will acknowledge the extent of our fiduciary responsibilities when providing Institutional Consulting services in our UBS Consulting Services Agreement, including, for retirement plans, the extent of our fiduciary responsibilities under ERISA.

### **A. Our Firm and Corporate Structure**

UBS Financial Services Inc. was organized as a Delaware corporation on June 30, 1969. It is a wholly owned subsidiary of UBS Americas Inc., which in turn is a wholly owned subsidiary of UBS AG. UBS AG is a publicly held company. UBS Financial Services became a registered investment adviser on January 22, 1971.

### **B. Our Advisory Services**

#### **UBS Institutional Consulting – Description of Services**

UBS Institutional Consulting (the “IC Program”) is a program designed primarily to provide advisory services to institutional clients as described under a UBS Institutional Consulting Services Agreement, although we also provide services to family offices and high net worth individuals. The ongoing advice of your UBS Institutional Consultant is one of the key components and services provided by the Program. Generally, the IC Program is designed for clients that seek:

- advice on the establishment of strategic investment goals and assistance in the development and review of an investment policy statement,
- advice on the development and analysis of a strategic asset allocation for an overall investment portfolio,
- to delegate investment discretion to a professional money manager(s), and value the ongoing advice of a financial advisor,
- assistance in the search and implementation of a medium- to long-term investment plan,
- portfolio evaluation and review, including performance analysis of the overall investment portfolio and the professional money managers who have been retained,
- for retirement plan clients that seek assistance with the search and selection of retirement plan program providers, facilitation of plan conversions, coordination of administrative vendor and recordkeeper support, plan program liaison; fiduciary support, and benchmarking reviews.

**We do not provide legal, tax or actuarial advice. We will not be responsible for ensuring that your Investment Policy Statement and/or your retirement plan complies with the requirements under ERISA, federal, state or municipal law or other regulations. This responsibility rests solely with you, and you should consult with your legal and tax advisors regarding those matters.**

The IC Program offers the following services:

- (1) **Investment Policy Assistance.** We can assist you in the development and review of an investment policy statement that describes your overall investment objectives and guidelines. On a periodic basis we will assist you in reviewing the investment policy statement and incorporating

any changes you determine appropriate. On an exception basis the IC Program Agreement may also provide for investment monitoring services whereby your Institutional Consultant will assist you on a quarterly basis in monitoring your portfolio's adherence to asset allocation and investment parameters identified in your investment policy statement.

- (2) **Asset Allocation Studies and Analysis.** We can provide periodic asset allocation studies and analysis of your IC Eligible Investments. Our asset allocation studies and analysis may also include investment managers or investments which you retained or purchased without our recommendation. Our inclusion of these investments is solely for the purpose of providing the asset allocation study and does not constitute an endorsement that you continue to hold those investments or retain those managers. In addition, assets held in other UBS programs may also be included in our allocation studies in order to provide a holistic analysis of your portfolio, but those assets are included for informational purposes only and are not part of the assets for which Institutional Consulting services are provided.
- (3) **Searches:** We can identify and present IC Eligible Investments approved for sale or recommendation at the firm which can include:
- investment managers,
  - mutual funds,
  - Exchange Traded Funds (ETFs)
  - Exchange Traded Notes (ETNs)
  - Collective trusts,
  - Unit Investment Trusts (UITs)
  - stable value funds
  - alternative investments, and
  - other managed investments

For defined contribution plans, in determining which share classes to recommend for an investment fund, we will consider the limitations of the plan's recordkeeper platform and/or custodian and the plan fiduciary's discretion regarding plan expenses. Our role is to identify investments which, in our professional judgment, are appropriate to help you pursue your financial goals. We gather information regarding IC Eligible Investments from the Firm's proprietary databases, third-party databases, directly from investment managers and/or from various commercially available means.

**Affiliated/Proprietary Investments Managers and Investments:** For Non-ERISA clients and non-retirement accounts, we may, upon your request and after a review of your needs and available options, identify affiliated/proprietary investment managers or investments. Identifying proprietary or affiliated managers and investments raises a conflict of interest because, if such investments are retained or purchased, we or our affiliates will earn additional compensation from management and other fees. Your Account's actual investment return will be reduced by those fees, plus any related expenses and the Program Fees. Please review the applicable prospectus, offering documents or disclosure brochure carefully for a detailed description of the fees associated with these investments.

We address the conflicts of interest presented by identifying affiliated investment managers and investments and by disclosing our practices to you to ensure you make fully informed decisions in your selection of investment strategies.

- (4) **Portfolio Evaluation and Review.** We can provide periodic portfolio evaluation, review and analysis of your IC Eligible Investments and your other assets as agreed upon for your convenience. We will assist you in evaluating your portfolio including the review of your

investment performance on an absolute and relative basis. We can also assist you in determining whether and how an adjustment should be made and implemented. We can also provide reports which include performance information, comparisons, portfolio characteristic and style attribution analysis, and the historical asset evaluation for a variety of investment strategies. For accounts held at other institutions, those reports and evaluations will be based on information provided by your custodian. For assets held in a UBS account, those reports and evaluations will be based on the information that appears on your UBS account statement. The past performance of an investment does not guarantee or indicate future results.

Our portfolio evaluation and review may also include investment managers or investments which you retained or purchased without our recommendation. Our inclusion of these investments is solely for the purpose of providing the portfolio evaluation and review and does not constitute an endorsement that you continue to hold those investments or retain those managers. In addition, assets held in other UBS programs may also be included in our portfolio evaluation and review in order to provide a holistic evaluation of your portfolio, but those assets are included for informational purposes only and are not part of the assets for which Institutional Consulting services are provided.

For certain client types (for example, defined contribution plans), we can provide a review of mutual funds and other securities held within your plan and assistance to sponsors in evaluating the type and number of investment alternatives offered to plan participants. Our review may include graphic and tabular presentations of performance (including comparisons to appropriate market indices, inflation and stated goals), as well as market cycle comparisons, and risk/return analyses. When evaluating the performance of the funds available to the plan, we will review the funds' performance and not the specific investment performance of plan participant accounts.

If you also maintain an account(s) in one of our investment advisory programs, you will receive performance reporting for each advisory account through that program, unless otherwise agreed.

(5) **Retirement Plan Consulting for Participant Directed Retirement Plans.**

**Program Provider Search.** At your request, we can assist you in the search and selection of a program provider. The services may include an analysis of your current program; evaluation of the relative merits of bundled or unbundled recordkeeping/investment service providers, development of criteria used in selecting service providers; evaluation of proposals received from prospective service providers..

Searches may include program providers who are available through the UBS Select for Corporate Plans program ("UBS Select program"). We may also include program providers who are not available through the UBS Select program and for whom UBS does not conduct due diligence.

**Plan Conversion Assistance.** We can assist you with your conversion/transition to a new program provider including investment fund mappings and planning employee education strategies.

**Fiduciary Support.** We can provide you with the UBS Defined Contribution Plan Fiduciary Kit as well as periodic newsletters and/or whitepapers which address retirement plan issues for plan fiduciaries.

**Plan Feature Review.** We can assist you in benchmarking and reviewing various plan features. The services may include a review of plan features to determine whether they are meeting the needs of the plan and the plan participants.

**Plan Program Liaison.** We can assist you in communicating with recordkeepers and other third party service providers regarding plan features, investments, services and fees.

**Fee Analysis and Benchmarking.** We can provide assistance in conducting a benchmarking analysis of your Plan's fees and provide an evaluation, review and analysis of your fees in relation to other retirement plans.

- (6) **Investment Education for 401(k) plan participants.** We can provide a review of the Plan's current education program, recommend strategies for improvement and develop goals with you. We can assist with the implementation of new communication and education strategies and work with your program provider to deliver enrollment meetings and seminars. We can provide general investment education, which may include educational newsletters, seminars and other materials which have been reviewed and approved for use by our Firm. These materials are intended to help the recipients understand the important financial issues they face and may cover topics such as investing, saving for retirement, distribution planning and retirement planning and transition. They are generic in nature and do not contain recommendations to invest in a particular security.
- (7) **Additional Consulting.** On an ongoing basis, we may also consult with you on matters related to news and developments in the capital markets and asset classes based on information generally available from us or our affiliates, or more specifically prepared for you based on publicly available information. Additional services may be available as agreed to between us.
- (8) **Various Other Services.** The Program offers other consulting services, including assistance in identifying custodial services, third-party administrators, and/or record keepers.

### Limitations on Our Services

- We do not provide legal, tax or actuarial advice.
- We are not responsible for ensuring:
  - that your investment policy statement, asset allocation or investment choices comply with specific legal requirements (including ERISA, federal, state or municipal law, or other regulations), actuarial or other requirements that apply to you,
  - that your investment manager is provided with a copy of your investment policy statement
  - that your investment manager complies with your investment policy statement, asset allocation or other investment restrictions.

These responsibilities rest solely with you, and you should consult with your other advisers as needed.

- **Investment Searches:**
  - While we can conduct our investment searches for an extensive list of investment options, investment managers, and investment strategies, our searches are limited to those available through, or reviewed by, the firm. We do not search for every investment strategy or investment manager available in the industry.
  - **Employer Securities:** If the plan assets include employer securities, our services do not include a review of the performance or recommendations regarding whether the plan should offer or continue to offer employer securities as an investment option under the plan.

- **Investment Managers Hired and Investments Purchased which are not Identified by UBS:** The services you select may include asset allocation and performance reporting of investment managers and investments which you retained or purchased without our recommendation. In such cases, we will ask you to acknowledge, in writing, that the manager or investment has not been reviewed or recommended by our Firm.
- **Third-Party Information.** In connection with the provision of our services, we rely on third party information. We obtain this information from publicly available sources or from your third party custodian or your plan providers.

While we believe the information and analyses obtained from external sources is accurate, we do not independently verify or guarantee the information presented or its accuracy.

## Implementation

Unless specifically agreed to in the IC Program Agreement, Institutional Consulting services do not include advice with respect to how to implement the results of the investment searches or whether to hold an account at UBS. In addition, the services, costs and contracting process for retaining an investment manager are separate from the services provided through Institutional Consulting. Where you have retained the services of an investment manager and utilize UBS to effect transactions in securities upon that manager's instructions, we and our affiliates will be acting solely as a broker or dealer in connection with such transactions and not as an investment adviser. You are responsible for negotiating the terms, fees and conditions of your agreement with such manager and providing them with investment instructions via an IPS or as otherwise agreed. In addition, these investment managers may request that we provide them with information regarding the transactions in your account (e.g., electronic data download of all transactions they effected on your behalf, copies of your account statements, etc.) and you will need to authorize us to provide this information. You may revoke this authorization at any time by notifying us in writing.

The following describes the various account structures that may be used to implement the result of Institutional Consulting investment searches.

- **Implementation Through an IC Account.**

You can decide to implement the results of investment searches performed as part of Institutional Consulting through a UBS Institutional Consulting Account that provides for an asset-based fee arrangement. ("IC Account"). The annual fee for the IC Account includes Institutional Consulting services as well as custody of securities and all brokerage and execution services for the purchase and sale of securities at our Firm but not the fees for investment managers retained by or for you.

The IC Account fee does not include (i) commission charges and mark-ups/mark-downs for transactions for your account that your investment manager may effect through other broker-dealers; (ii) custody fees imposed by other financial institutions if you chose 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 or real estate investment trusts (vii) mutual fund redemption fees for active trading and (viii) other specialized charges, such as transfer taxes, exchange and certain account fees.

Mutual funds available for purchase through an IC Account include, as appropriate affiliated and non-affiliated mutual funds. We will provide you with mutual fund prospectuses and other fund information as you may reasonably request to assist you in completing appropriate forms for purchases, redemptions, account designations, address changes and other transactions involving these investments.

Generally, Class A shares of mutual funds will be available and are sold on a no-load or load-waived basis (i.e., no upfront sales charge). In addition to offering no-load or load-waived Class A shares, we may also offer institutional, advisor or fee-based share classes (where available) in the future, either as "hold only" investments or for additional purchases for some or all of the funds available in our Advisory programs. As with the no-load or load-waived Class A Shares, these share classes do not impose a sales charge at the time of purchase.

We may, in the future, convert some or all of our Programs to offer exclusively (where available) the Institutional, Advisor or Fee-Based share classes. We will notify you of these changes. If you hold Class A shares at the time we convert each Program Fund to a new share class, then we will attempt to convert your Class A shares on a tax-free basis if possible into the institutional, advisor or fee-based share class. At our discretion, we may allow existing clients to hold Class A shares. Class A shares that are used to fund accounts subsequent to the share class conversion will be automatically converted, on a tax-free exchange basis, (subject to availability of that service) to the new share class available for the relevant fund.

- **Implementation Outside of an IC Account.**

Alternatively, you can decide to implement the results of investment searches performed as part of Institutional Consulting through an account held at any other financial institution or through an account at UBS that is not an IC Account. It is important that you understand that such implementation is not part of the Institutional Consulting service.

If you decide to implement at UBS the results of investment searches performed as part of Institutional Consulting through another UBS investment advisory program (e.g., ACCESS, Managed Account Consulting (MAC), Strategic Advisor, Portfolio Management Program (PMP), PACE, SWP etc.) it is important that you understand that these programs are separate and distinct from Institutional Consulting. **Unless otherwise agreed in our Institutional Consulting Services Agreement, while we may include these assets in consolidated performance reports and/or asset allocation studies, the inclusion of such assets is done solely as an accommodation and such assets are not subject to the terms and conditions of our Institutional Consulting Services Agreement.** You will be charged a separate investment advisory fee for these other programs, which may be greater or lesser than the fee you pay for Institutional Consulting services, and the terms and conditions of the respective contracts and disclosure statements for these other programs will be applicable.

## **Termination**

You may terminate UBS Institutional Consulting services 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. You should note that termination of your UBS Institutional Consulting Agreement will end our investment advisory fiduciary relationship and as applicable our ERISA fiduciary relationship with you as it pertains to the UBS Institutional Consulting Agreement.

With respect to the IC Account, your UBS Institutional Consulting Agreement will no longer apply to that account and the account will be governed solely by the terms of a UBS RMA brokerage account. In addition, terminating your IC Account will result in the sale of your 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 or if the cash in your IC Account is swept into a money market fund that is exclusively for in advisory accounts.

In certain cases, your assets may be invested in securities, special mutual funds or shares of mutual funds that have been created for use or are eligible exclusively within certain investment advisory programs. Most of these investments contain restrictions that limit their use exclusively in wrap fee

Advisory programs, and may be unavailable for purchase or holding outside of wrap fee programs. If you end your participation in the IC Account and do not move such assets to a UBS wrap-fee Advisory program, that termination results in the **automatic redemption** of shares or investments held by or on your behalf—which will have tax consequences for you. When you select one of these types of strategies or investments for your portfolio, you agree to the automatic sale of the investments upon termination of your account, and you direct us to execute these sales. We recommend that you consider the potential impact of such sales and restrictions carefully before participating in these types of strategies.

### **Qualifications of Financial Advisors Who Provide Institutional Consulting Services**

Most of our Financial Advisors are registered as broker-dealer and investment adviser representatives. Financial Advisors who provide institutional consulting services are given the UBS firm designation of Institutional Consultant and are usually required to have at least five years of industry experience, meet certain client asset thresholds at UBS and have either the CIMA designation from the Investment Management Consultants Association or the CFA designation from the CFA Institute. Waivers of the education requirements may be granted for Financial Advisors who have sufficient industry experience. The timeframe to meet the requirements may be extended under certain circumstances including recruitment situations. Certain Financial Advisors holding other firm designations may also provide institutional consulting services.

When you enter into a UBS Institutional Consulting Services Agreement, we will provide to you a Brochure Supplement for your Financial Advisor, and if applicable, any specialist involved in providing investment advisory services to you. The Brochure Supplement includes information regarding their education, business experience, disciplinary history, outside business activities, their compensation and supervision. You may also 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 FINRA at <http://www.finra.org>, or from the Securities and Exchange Commission at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

You can also contact your state securities regulator through the North American Securities Administrators Association's website at <http://www.nasaa.org> and request information about our firm and your Financial Advisor.

### **Advisory Services and Programs Other than the UBS Institutional Consulting Program**

We offer other Advisory services separate from the UBS Institutional Consulting Program and not described in this brochure. If you would like more information please ask your Financial Advisor for the Form ADV Disclosure Brochure for those programs and services.

We do not hold ourselves out as specializing in a particular type of advisory service or strategy. Instead, our advisory programs and services offer a broad variety of strategies, investment options and asset allocations and features.

- Wrap Fee Programs:

<b><u>Program type</u></b>	<b><u>Programs included</u></b>
Discretionary Programs	UBS Managed Portfolio Programs, Portfolio Management Program and Mutual Fund Discretionary Program
Separately Managed Accounts (SMA) Programs	ACCESS and Managed Accounts Consulting
Unified Managed Accounts Program	UBS Strategic Wealth Portfolio

- Financial Planning Services.
- Financial education program: an employer or other sponsoring entity can contract with UBS to have a UBS 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.
- Consulting Services: available to retirement plans, institutions and corporate clients.

There are important differences among these Programs in terms of services, structure and administration, the depth of research conducted on the managers available in the programs, Program Fees and the compensation that Financial Advisors receive. Please review the details of each service and program carefully as you decide which program is appropriate for your investment needs.

### **C. How We Tailor Our Advisory Services**

All of our Investment Consulting Services are customized based on information you provide regarding your particular needs, goals and circumstances.

We tailor our services, reports, asset allocations and investment policy statement services to your specific investment objectives, risk tolerance and goals in various ways, including the following:

- Reports. The reports and analysis we provide can be tailored to meet your particular needs and goals. You and your Financial Advisor can determine which types of analysis to include in your reports. See "Our Advisory Services" for details about the services offered in the Institutional Consulting Services Program.
- Asset Allocations and Strategies. Our asset allocations are based on a proprietary process which offers (depending on the software program) various customized asset allocations.
- Investment Searches. Searches are based on your needs and are aligned with your Investment Policy Statement.

### **D. Participation in Wrap Fee Programs**

Our services under the IC Program do not include portfolio management services.

### **E. Assets Under Management**

Our assets under management in wrap fee programs as of February 28, 2013 are listed below. Values for DVP accounts are as of 12/31/12. Although this information does not apply to our Institutional Consulting Program, it provides you additional background regarding our activities as an investment adviser.

• Non-discretionary Programs:	<b>146,227,216,131</b>
• Discretionary Programs:	<b>83,767,225,561</b>
<b>Total:</b>	<b>229,994,441,692</b>



## ITEM 5. FEES AND COMPENSATION

The fee that you pay in the Institutional Consulting Program covers the specific services agreed to in your IC Program Agreement.

The following is a description of the available fees for our services. Our fees may differ from client to client based on a number of factors which include, but are not limited to:

- type and size of the institution,
- other eligible relationships,
- the number and type of services selected,
- the scope of the engagement,
- the complexity of the services provided and preferences of the institution,
- the expected frequency with which services may be needed, and
- the nature and amount of client assets involved.

Fees, as well as other account requirements, may vary as a result of the application of prior policies depending upon when you engaged us to provide advisory services. In addition, we reserve the right, in our sole discretion, to institute special pricing features, or to waive or discount annual minimum fees.

For assets custodied at another financial institution fee may be a specific dollar amount fee or an asset-based fee (expressed as a percentage of the market value of the assets under advisement). For assets custodied at UBS in an IC Account: an asset-based fee which includes the cost of custody and trading for trades executed at UBS.

Following rates are the maximum annual program fees:

Assets	Maximum Program Fee
\$10-25 mil	1.50%
\$25-50 mil	1.30%
\$50-100 mil	1.10%
\$100-250 mil	0.90%
\$250-500 mil	0.70%
\$500-1 Billion	0.50%
> \$1 Billion	0.30%

Individual projects may be provided for a negotiated fee.

**Minimum Annual Fee:** A minimum annual program fee of \$20,000 may be imposed. If your assets decline, imposing the minimum fee may result in you paying a higher fee than your contractual fee rate.

**Similar Services Available at No Charge.** Our 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. 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, as a brokerage service, Financial Advisors 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 your mutual funds.

**Please discuss our various product offerings, their features and costs with your Financial Advisor for more information on the other services available to retirement plans.**

You should consider these factors carefully before participating in the UBS Institutional Consulting Services Programs.

**B. Billing Practices**

Clients may cancel the IC Program Agreement and receive a full refund of fees paid by contacting their Financial Advisor within 5 business days from the date the Agreement is accepted by us. After that period, if you terminate your IC Program Agreement, any fees billed in advance will be refunded to you on a pro-rata basis.

The billing process described below is subject to change upon prior written notice to you.

**Valuation.** If we are your custodian, we rely on third party quotation services to determine the value of securities in your UBS accounts. 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 or program provider, we will rely on the last reported value provided by that custodian or program provider. We do not review or verify the valuation information provided to us.

If your investment strategy includes mutual funds, 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. The valuation for certain alternative investments may not be provided to us in a timely manner, resulting in valuations that are not current in your statements and Performance Reviews.

**Calculation of Fees.**

- For assets custodied at another financial institution, asset based fees will have the initial fee prorated from the date that your IC Program Agreement is effective or as otherwise agreed. The fees will thereafter be calculated based on the asset value of the account at the end of the preceding quarter or if not available the last reported value provided by your custodian and billed in arrears at the beginning of the current quarter.
- For assets custodied at UBS in an IC Account, fees will be billed in advance and your initial fee will be due in full as soon as your IC Program Agreement is effective or as otherwise agreed to by us. The fee will be calculated on the value of the eligible assets on that date, pro-rated to cover the period your agreement is in effect through the end of the current calendar quarter. Thereafter the fee will be based on the value of your investments on the last business day of each calendar quarter and billed in advance for the next calendar quarter.

The following assets are not subject to our UBS Institutional Consulting Agreement and therefore will be excluded from the asset value for purposes of calculating our fees:

- the value of the employer securities
- individual stocks, bonds and other securities held in a brokerage account
- for ERISA clients only: (i) the value of UBS affiliate/proprietary investments purchased prior to our engagement; (ii) the value of outstanding participant loans; and (iii) the value of self

directed brokerage accounts

If you decide to invest all or portion of your assets in one or more of our UBS separately managed account programs (i.e. Managed Account Consulting, ACCESS, PMP, PACE, Strategic Adviser, SWP), that portion of your assets will be excluded from the fee calculation under your UBS Institutional Consulting Services Agreement and instead you will be subject to a fee under the respective managed account program. You will be billed separately according to the billing practices in those programs.

### **Payment of Fees**

**Debiting Program Fees.** For assets custodied at UBS in an IC Account, IC Program Fees are debited from your UBS IC account unless you have designated another one of your eligible UBS accounts to pay the Program fee. Payment of your Program Fee will be reflected on your monthly account statement. If you direct us to automatically debit your Program fees from another UBS account, at the time billing is processed, we will confirm that your other UBS account has sufficient funds to cover your Program Fee. If that account does not have sufficient funds, we will directly debit the IC Account.

**Invoicing Program Fees.** Qualified employee benefit plans may choose to be invoiced for the Program fee by directing us to do so in the IC Program Agreement. 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.

Plan fiduciaries for defined contribution plans may be able to direct the plan provider to automatically calculate and pay our fees from the assets of, or generated by, the plan. In those situations in which your program provider automatically calculates and remits the program fees to us, we will provide you with a quarterly statement, rather than an invoice, with details on the amount of fees we have received. We will not independently verify the calculations made by the plan provider.

**For clients with an IC Account and Accounts in other UBS Wrap Fee Programs: Relating Accounts for Billing Purposes.** You may choose to have your IC Account related to other eligible advisory accounts for the purposes of taking the IC Account assets into consideration in order to calculate the fees for such other eligible advisory accounts. Relating the IC Account for billing purposes can provide the opportunity for price reductions at certain breakpoints for those other advisory accounts. Please contact your Financial Advisor for more information on the definition of eligible accounts and the forms needed to choose this billing option. Retirement accounts may not be linked where a prohibited transaction under ERISA or the Internal Revenue Code may result.

### **Paying your IC Program Fees Through Mutual Fund and/or Alternative Investment**

**Compensation Offsets.** With respect to an IC Account, where the Firm receives a 12b-1 fee or other similar compensation (including on an exception basis finders fees), such amounts will be deposited into your IC account, unless otherwise agreed, which in effect will reduce your Program Fee.. If a credit remains in your account at the time of billing, it will be subject to the Program Fee.

If you elect to implement the results of investment searches performed as part of Institutional Consulting at another financial institution, you may also elect to pay some or all of your IC Program fee through certain mutual fund compensation and/or alternative investment compensation offsets.

For mutual funds held at another financial institution, where UBS receives a 12b-1 fee or similar compensation in connection with the purchase or sale of mutual funds, such amounts will be used as a fee off-set on a dollar for dollar basis. For alternative investments, any sales charges, commissions, or trail received by us after the commencement date of this Agreement will be credited against your fee on a dollar for dollar basis. If the annual IC Program fee has been fully satisfied through such mutual fund compensation and/or such alternative investment compensation, additional amounts received by the Firm will be paid to you as a credit against fees paid in prior years.

If the amount of your fee is greater than the credit for mutual fund compensation and/or alternative investment compensation received, you will be billed for the difference. The bill must be paid within thirty (30) days of receipt.

As of December 31, 2012, we no longer accept brokerage commissions to offset our institutional consulting fee. Previously generated commission credits will be applied as an offset to the Program Fee until such time as the credit is fully utilized.

**C. Fees/Other Charges Not Covered by Your IC Program Fee**

The IC Program Fee does not cover:

- Any other services, accounts or products we provide to you.
- Our expenses in delivering UBS Institutional Consulting services to you, such as travel expenses, unless we specifically agree otherwise IC Program Agreement.
- Unless you utilize an IC Account, the transaction based charges or commissions, account maintenance fees or any other charges you may incur in implementing investment searches performed as apart of the Institutional Consulting services.
- Commission charges for transaction that your investment manager may effect through other broker-dealers. Your investment manager has the option to trade through us or with other financial institutions, in accordance with best execution obligations. **If you elect to utilize the IC Account and your investment manager will not be executing transactions with UBS, the IC Account may not be an appropriate option as you will be incurring redundant costs.** You should direct your inquiries regarding these costs to your Financial Advisor.
- Custody fees imposed by other financial institutions if you choose to custody your assets at other financial institutions.
- Fees for recordkeeping, trust and plan administration charges.
- Precious metals custody fees imposed by affiliates, or other financial institutions
- Mark-ups/mark-downs on principal transactions with us or other broker-dealers.
- Internal trust fees.
- Costs relating to trading in foreign securities (other than commissions otherwise payable to us).
- Internal administrative, management, redemption and performance fees that may be imposed by collective investment vehicles such as open-end and closed-end mutual funds, UITs, hedge funds and other alternative investments, exchange-traded funds or real estate investment trusts.
- Redemption fees for active trading imposed by mutual fund sponsors.
- Other specialized charges, such as transfer taxes, and fees we charge to customers to off-set fees we pay to exchanges and/or regulatory agencies on certain transactions.

Either UBS Financial Services or UBS Credit Corp. will also charge interest on any outstanding loan balances (including margin loans) to clients who borrow money from us or UBS Credit Corp. Clients also may be charged additional fees for specific account services, such as:

- Account Transfer Fee
- Wire Transfer Charges
- Annual Account Service Fees for Retirement Accounts
- Physical Security Safekeeping for RMAs or Business Services Accounts (BSAs)

**For IC Eligible Investments other than investment managers, please review the applicable prospectus and offering documents for a detailed description of the additional fees associated with these securities.**

- **You have the option to invest in or retain IC Eligible Investments through other broker-dealers or agents not affiliated with us. You may also be able to invest in or retain these investments directly in the open market without incurring the fee under an IC Account.**

#### **D. Compensation to Financial Advisors**

As with other UBS advisory programs, if you obtain services through the Institutional Consulting program, portion of the fees you pay to us in connection with this program are allocated on an on-going basis to your Financial Advisor. For advisory fee programs, the payout ranges from 20% to 48% of the fees credited to the Financial Advisor by the firm.

In general, we pay our Financial Advisors a percentage of the commissions and fees (called a payout or grid rate), that each Financial Advisor generates from the clients he or she serves, minus certain adjustments that are requested by our Financial Advisors, according to an established schedule.

**The percentage of firm revenues credited to Financial Advisors in advisory programs is higher than the percentage of firm revenues credited on most other products and services, including the compensation they would receive if you paid separately for advice, brokerage and other services. The difference in compensation creates an incentive for Financial Advisors to recommend products for which they receive higher compensation.**

For brokerage transaction-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. Generally, for stock and option transactions, the payout is adjusted downward to account for a \$12 per transaction fee. In general, Financial Advisors earn more for products sold in initial offerings than for those purchased and sold in secondary offerings.

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.

Under certain circumstances (e.g., acquisitions and recruitment), some Financial Advisors or producing Branch Office Managers may be compensated differently. Financial Advisors also receive certain awards based on their production amount, business mix and net new assets. We reserve the right, at our discretion and without prior notice, to change the methods by which we compensate our Financial Advisors.

## ITEM 6. PERFORMANCE BASED FEES AND SIDE BY SIDE MANAGEMENT

Neither we nor our Financial Advisors receive performance-based fees for Institutional Consulting Services. Where we are a distributor of alternative investments, including hedge funds and fund of funds, UBS receives a portion of the performance fees charged by the investment adviser to those funds. Financial Advisors who sell those alternative investments receive a portion of those fees, except where these investments are purchased through an IC Account.

## ITEM 7. TYPES OF CLIENTS

### A. Type of Clients

The Institutional Consulting Program is designed to provide advisory services principally, but not exclusively to, institutional clients such as:

- sponsors of qualified retirement plans,
- corporations,
- endowments and foundations,
- municipalities,
- Taft-Hartley plans,
- religious and charitable organizations

We may also agree to provide Consulting Services to individuals and other client types. .

### B. Requirements for Participation in the Institutional Consulting Program

1. **Minimum Asset Requirement.** Typically Consulting services are provided to clients with investable assets in excess of \$10 million, although we may provide Consulting services to clients with less than \$10 million in investable assets under certain conditions.
2. **Agreements and Account Documentation.** As a UBS Institutional Consulting client, you will enter into a written agreement with us.

If you decide to open an IC Account, you will also be required to execute a brokerage agreement. It is important to note that once you open the IC Account, that account is included as part a UBS Institutional Consulting Services Agreement, our obligation to you will be that of an investment adviser instead of a broker-dealer. ***See "Conducting Business with UBS: Investment Advisory and Broker Dealer Services."***

3. **Custody:** Please see Item 15 "Custody" for a description of custody requirements.
4. **Information Provided.** In providing UBS Institutional Consulting services to you, we rely on the information you provide to us. This means that:
  - 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.

- You should notify us promptly of any material changes in the financial condition, risk tolerance, needs or investment objectives that impact our IC services or the manner in which your assets are invested.

5. **Your Responsibilities:** It is your responsibility to determine if, and how, the advice and suggestions we provide to you should be implemented or otherwise followed. You should carefully consider all relevant factors in making these decisions, and we encourage you to:

- consult with your legal counsel
- consult with your accountant or tax professional regarding the legal or tax implications of a particular recommendation, strategy or investment, **before you invest or implement a particular strategy.**

You should also understand that UBS Institutional Consulting is not a portfolio management program. Neither we nor your UBS Institutional Consultant:

- manage your assets or exercise any investment discretion or control over your account.
- 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 identified in an investment search.
- provide any legal, tax, accounting or actuarial advice to you or prepare any legal, accounting or actuarial document.

**You are not required to establish accounts, purchase products that we distribute or otherwise transact business with UBS Financial Services or any of our affiliates to implement any of the suggestions made in connection with the IC Program services we provide.**

6. **Electronic delivery of documents.** To the extent permissible by applicable law, we may, with your prior consent, deliver trade confirmations, Form ADV Disclosure brochures, performance monitors, prospectuses, offering documents and other documents and notices related to your accounts, trades and relationship with us via electronic format.

UBS offers certain communications through electronic delivery. Examples include: statements, trade confirmations and notices; shareholder communications, including fund reports, prospectuses and proxies; quarterly performance reports; tax reporting documents; Client and account information documents; other firm documents that may be available now or in the future.

For IC Accounts:

- We will automatically enroll you in electronic delivery for your Advisory account if you select this option in your brokerage account agreement.
- **You may change your delivery preferences at any time by logging into UBS Online Services at: <http://www.ubs.com/edelivery>. You may also change your delivery preferences by contacting your Financial Advisor.**
- As applicable, when a new prospectus is available, we will send you an email notification to the email address you have provided to us. The email will include a link that will take you directly to where the prospectus can be viewed and downloaded. Prospectuses contain important information regarding your investments. We recommend that you read them carefully and consider investment objectives, risks, charges and expenses before investing, and maintain them in your files for future reference. If you have any questions, please contact your Financial Advisor. If your email address becomes outdated or we receive messages that a prospectus sent

to you is not deliverable to the email address you provided, we will send the document to you via regular mail.

## **7. Trading, Execution and Custody Practices Applicable to IC Accounts**

Where you have elected to participate in an IC Account, the following provides a general summary of our trading, execution and custody practices.

### **Execution of transactions for your account**

You should note that in order to comply with principal trade restrictions, orders for 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 does not analyze or evaluate whether your manager is meeting its best execution obligations on trades executed for your account.

All trading in your Accounts is at your risk. Accounts are subject to a variety of market and other risks, including illiquidity and volatility. Investment performance of any kind can never be and is not guaranteed—nor is past performance an indicator of future results. In executing transactions for your Accounts, we will not be liable for losses caused directly or indirectly by government restrictions, exchange controls, exchange or market rulings, suspension of trading, acts of war, strikes or other conditions beyond our control, including but not limited to, extreme market volatility or trading volumes.

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 or in the case of large ETF orders, an Authorized Participant for that ETF. 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 the following:

- The speed and certainty of execution
- The price and size improvement
- The overall execution quality

### **Exchange-listed securities, NASDAQ and OTC securities**

The vast majority of our exchange-listed securities and over-the-counter (OTC) orders are executed through our affiliate, UBS Securities LLC—which executes orders as either 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 OTC 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.

### **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, with very minor exceptions. The firm maintains an error account to facilitate handling trading errors. Gains may be offset by losses in the error account. To the extent permitted by applicable law, at the end of the calendar year, gains in the error account will be kept by the Firm. That practice can result in additional compensation to the Firm. 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.

### **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 result 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 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.

### **Confirmation of Your Account Record.**

If we are custodian for your assets, after a new account is opened or whenever your investment objectives or financial information is updated, we confirm your personal information to verify that our records are correct. Please review those materials carefully and report any discrepancies to your Financial Advisor as soon as possible. Updates to existing accounts are reflected in your next account statement. Information for new accounts is confirmed and sent promptly after account acceptance. It is your responsibility to inform us of any material changes in your objectives, financial condition or other changes that could affect how your Program Assets are being invested.

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 will continue to be invested in the existing positions when permissible given the nature of the securities, and will be held in a brokerage account. Your Advisory agreement with us no longer applies. Any securities that cannot be held in a brokerage account will be liquidated.

In certain cases, the Advisory and consulting services available in our programs may be provided by Financial Advisors that are registered with companies that are affiliated with us.

### **Ownership of Securities and Investment Discretion.**

You are the beneficial owner of all securities in your accounts and, you retain all rights related the ownership of those securities including trading authority and proxy voting. Please note that securities transactions in your account(s), liquidations, redemptions, rebalancing and other portfolio changes may result in you incurring gains or losses for income tax purposes. Neither UBS Financial Services Inc. nor its employees provide legal or tax advice. Please consult with your legal and tax advisors regarding this matter.

### **Trade Confirmations and Account Statements.**

We will send trade confirmations and monthly account statements in any month in which there is activity in your UBS account.

To the extent permitted by applicable law and regulation, you may elect to have all trade confirmation information for trades placed by your investment manager(s) provided to you on your UBS account statement. Doing so will waive your right to receive immediate trade confirmations for transactions directed by your investment manager(s). You are not required to select this option in order to receive or continue to receive consulting services. In addition, you will not pay any additional fee for your election. You may change this instruction at any time by giving UBS Financial Services Inc. written notice.

### **Cash Balances in your IC Account.**

Generally, some portion of your advisory account will be held in cash, cash equivalents or money market mutual funds as part of an overall investment strategy. You should consider the following in connection with the investment vehicles into which such cash is "swept":

- UBS Proprietary Investments: When permitted by law, available cash in your advisory account is swept into UBS money market funds for which we or our affiliates receive compensation for services in addition to the Program Fees you pay us. Please see *"Participation or Interest in Client Transactions -- Additional sources of compensation - Affiliated Money Market Funds available as sweep vehicles in Advisory Accounts"* for a description of the Advisory fees that we and our affiliate receive from the money market funds.
- If you close your advisory account, we will sell the assets held in certain money market funds. Please see section *"Closing Your Advisory Accounts; Terminating Your Agreement – Automatic Liquidation of Certain Assets at Account Termination"* for details.
- When your advisory account is closed, it becomes a brokerage account and is subject to the terms and conditions of your brokerage account agreement. 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. This may result in additional compensation to UBS, its Financial Advisors and UBS affiliates. The sweep options for the cash held in brokerage accounts are defined in the brokerage account agreement.

- Your Program Fee applies to the cash and cash equivalents in your account, including cash that is swept into the various sweep funds or International Deposit Accounts (IDAs). Certain programs may limit the amount of cash that is subject to the Program Fee. Please see section *"Billing Practices – Billing on Cash and Cash Equivalents in Your Strategic Advisor, UBS Managed Portfolio and PACE Accounts"* for details.
- **Domestic accounts.** We will automatically invest cash balances in your Advisory accounts in UBS money market mutual funds including, as permitted by law, those affiliated with UBS for which we or our affiliates receive compensation for services in addition to the Program fees you pay us.
- **Retirement accounts.** For certain programs, cash balances in accounts subject to ERISA or IRAs may also be invested in funds serviced by UBS or our affiliates. Our compensation from these funds will be limited to reimbursement of our direct costs and expenses for providing services to the funds, excluding overhead costs or profits. All fees and reimbursements for direct costs and expenses paid to us by a fund are in addition to the fees you pay us.
- **Sweep vehicle for NRA clients – International Deposit Account (IDA).** Cash held in Program accounts of clients who are non-resident aliens (NRA) of the U.S is automatically swept into a demand deposit account at the New York Branch of UBS AG (UBS NY), from which the cash is then swept and re-deposited each business day into an interest-bearing overnight deposit account (or IDA) at the Cayman Islands Branch of UBS AG (UBS Cayman). The cash swept from the UBS NY account becomes payable only at the UBS Cayman account, and not at the UBS NY account, and is thus temporarily exposed to the sovereign risk of the Cayman Islands. **Funds on deposit in the accounts at UBS NY and UBS Cayman are not eligible for federal deposit insurance from the Federal Deposit Insurance Corporation (FDIC).** For more detailed information on the IDA for NRA clients, please see the International Deposit Account Sweep Program Disclosure Statement.

For more information about these funds and sweep options please contact your Financial Advisor for a copy of the prospectuses. If your sweep option changes as a result of your Advisory selection, the prospectus will be sent to you as part of your welcome package when we confirm that your account has been accepted.

Other sweep options may be available, and you should discuss your options with your Financial Advisor. We offer a sweep feature for your IC Account as a service to you. We may change or discontinue the sweep feature, programs or specific sweep options at any time in our sole discretion. We will notify you of material changes to this account feature.

## **ITEM 8. METHODS OF ANALYSIS, INVESTMENT STRATEGIES AND RISK OF LOSS**

### **A. Our Asset Allocation and Portfolio Evaluation Services**

We may provide you with asset allocation and portfolio analyses generated by UBS, UBS affiliates, third parties, by or through brokers or dealers or investment advisers.

Our asset allocations may be based upon on a proprietary methodology or customized based on your investment policy statement. UBS employs a variety of asset allocation models and tools. As a result, our modeling outside of the Institutional Consulting Program may vary depending upon the asset allocation model, amount invested and software program used for analysis.

## B. Our Investment Search Services

**Investment Manager Searches.** To help you evaluate investment managers, we identify managers that have been reviewed by us for presentation to Institutional Consulting or other Advisory program clients. Our Manager Research Group conducts a thorough review process of each SMA Manager that is identified to Institutional Consulting clients. This process is described in further detail in our brochure, **Selecting an Investment Manager: the Manager Research Process.** The review process is carried out by experienced investment professionals who specialize in specific asset classes and types of investment strategies.

The review processes typically includes an examination of the manager's investment philosophy and process, and can also include interviews with principals and key staff members, a review of trading practices and portfolio performance, another criteria. We may use third parties to help gather and analyze information used in the review process. Managers are reviewed initially when made available for consideration by Institutional Consulting clients and periodically thereafter.

In addition, at your request we may also include publically available information on managers that you currently hold or that you have requested.

**Investment Managers No Longer Reviewed.** We may discontinue reviewing an investment manager at any time. Circumstances under which we may discontinue review include (but are not limited to) persistent underperformance, significant departure from the manager's stated investment discipline, or material changes in the manager's organization. Your Institutional Consultant will notify you if we discontinue our review of an investment manager you have retained.

**Mutual Fund, Exchange Traded Fund, Stable Value Funds and Collective Trusts Searches.** To help you evaluate mutual funds, exchange traded funds, stable value funds and collective trusts, we identify such investments that have been reviewed by us, and/or included in our Firm's databases and made available for use in UBS-IC.

**Alternative Investment Searches.** To help you evaluate alternative investments, we identify such investments reviewed by us, and offered by us or third parties. With respect to alternative investments not offered by us, you must request offering documents, performance or other materials directly from the alternative investment manager. In addition, at your request we may also include publically available information on alternative managers that you currently hold or that you have requested. Similarly, you may request publically available information regarding alternative investment managers that meet certain investment criteria.

**Information Provided to you Regarding Investment Searches.** To help you evaluate investment searches provided through the Institutional Consulting services, we will provide information from third party or proprietary databases regarding different managers. We do not verify or guarantee this information, including past performance information, which may not be calculated on a uniform or consistent basis.

We may make available descriptive profiles of selected investment strategies that include past performance information. Profiles are not available for every investment manager or investment strategy identified in our search services. We may also include composite investment performance. We believe that composite performance information is meaningful. Composites that we provide may be prepared by us, or, in the case of some investment managers or alternative investment funds, by the managers or funds, or obtained from third party sources.

**As with other investments, past performance does not guarantee or indicate future results.**

In addition, our Financial Advisors and clients have access to research from UBS Wealth Management Research Americas (WMR), which is part of UBS Wealth Management Americas. WMR is designed specifically for use by private clients and our 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) that is issued by UBS Investment Bank. Because both sources of research reflect the different assumptions, views and analytical methods of the analysts who prepared them, there may be 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.

**C. Limitations on Statistical Analysis.**

Historical statistical data, based on the performance of various market indices, may be provided to show relative historic risk and return information regarding the asset allocation strategies presented. In addition, forward looking analyses are presented based upon various risk and return assumptions, including those developed by UBS Financial Services Inc. Forward looking analyses, including probabilistic modeling (which presents the likelihood that the client may be able to achieve certain goals) are hypothetical in nature, do not reflect actual investments results and are not a guarantee of future results. These analyses do not analyze specific securities. Rather, the asset allocation presented is analyzed. Actual market conditions may result in outcomes significantly different than those illustrated. With respect to probabilistic modeling, the results may vary over time and with each use if any of the underlying assumptions or profile data is adjusted. In addition, the analysis does not present the results that could occur from an extreme market event, either positive or negative, due to the low probability of such an occurrence.

**D. Risks Associated with IC Eligible Investments**

All investments involve risk, the amount of which will vary, and that your ability to implement any financial strategy may be affected by a number of factors including:

- market fluctuations
- the actual value of assets held at other financial institutions
- your ability to make the contributions required, and
- the impact of your other investment decisions.

This section is not intended to enumerate all the risks associated with the following investments:

Mutual funds, ETFs and ETNs are sold by prospectus. To determine whether a particular investment is an appropriate investment for you, carefully consider the important information on the investment objectives, risks, charges and expenses. Please read the prospectus and offering documents carefully before you invest. Your Financial Advisor can provide a copy of the prospectus. You should be aware that the return and principal value of the Fund, ETF and ETN will fluctuate so that shares, when redeemed, may be worth more or less than their original cost.

Shareholders of these investments pay fees to the service providers of the funds, for example, management and administrative fees. The actual returns of your investment will be reduced by those fees and expenses.

There are risks involved with investing, including possible loss of principal. There is no guarantee that the investments will appreciate during the time that you hold them and some or all may depreciate in price. The risks for each investment will vary depending on the investment objective and underlying investments of each mutual fund, ETF and ETN. The prospectus lists the applicable risks. Please review those risks carefully before investing.

- **Exchange Traded Funds**

When you purchase an ETF share, you purchase an interest in an underlying basket of securities, designed to obtain investment results that correspond generally to price and yield performance of a particular index of securities, such as the S&P 500 index. There is no assurance that the ETF investments will match the index it aims to replicate. Investors in ETFs are subject to different risks than investors in mutual funds, as some of these instruments do not issue and redeem shares on a continuous basis. As a result, these securities may not be as liquid as open-end mutual funds. The price of these securities trading on an exchange can move independently of, and at a discount to, the net asset value (NAV) of securities comprising the fund's portfolio.

- **Exchange Traded Notes**

Exchange Traded Notes, or "ETNs", are unsecured debt obligations of a particular issuer with returns that generally track the total return of an underlying index. Unlike standard debt securities, ETNs may not return the principal amount at maturity and, therefore, depending on the specific terms of the product, investors could lose all or a substantial portion of their investment based on the performance of the underlying index. Investors could also lose their entire investment if the issuer becomes insolvent.

UBS Financial Services Inc. does not guarantee in any way the obligations or the financial condition of any issuer or the accuracy of any financial information provided by any issuer of ETNs.

ETNs are not traditional investments and investing in ETN is not equivalent to investing directly in the underlying asset. ETNs may contain a call feature which allows the issuer to repurchase the ETN at its option prior to maturity. If this call feature is exercised, investors may not be able to reinvest the proceeds received at a comparable rate of return. While ETNs are generally listed on an exchange, the issuer is not obligated to maintain such listing or to ensure that there is a secondary market for the ETNs. As a result, there may be limited or no liquidity in the ETNs and investors should be prepared to hold their investment to maturity.

- **Collective Investment Trusts or Funds**

A collective fund is not open to individual investors. The strategies may be speculative and involve significant risk. Unlike a mutual fund, the only way that an investor can gain access to a collective fund is through a retirement plan such as a 401(k) plan. Additionally, regulation of mutual and collective funds varies. For instance, the mutual fund industry is governed by the Securities and Exchange Commission (SEC). Mutual funds lay out an investment strategy in legal documents that are filed with financial regulators in a region so investors are aware of the risks and rewards that are likely with a fund.

Managers of collective funds are not regulated by the SEC. Instead, these investment advisers adhere to less stringent guidelines and are overseen by the U.S. Office of the Comptroller of the Currency or by a state banking authority. As a result of less stringent governance, managers of collective funds have to disclose fund performance and the components of a portfolio only once a year, although most fund managers communicate performance to investors on a more frequent basis.

- **Stable Value Funds**

The objective of most stable value funds is to provide safety of principal and an investment return that is generally higher than a money market return, while providing participants the ability to withdraw their assets for ordinary transactions at book rather than market value. The ability to withdraw stable value assets at book value has limitations based on the insurance contracts that wrap the underlying assets. In

addition, most stable value funds require a hold period before assets can be withdrawn from the fund by the plan sponsor at book value and may refuse to honor book value withdrawals after communications from a plan sponsor or plan fiduciaries that it determines caused participants withdrawals. Additionally, the plan is often restricted from offering investment alternatives or plans that are viewed as competitive with the stable value offering. Stable value funds are subject to counterparty risk of the insurers that provide the fund's book value liquidity.

- **Alternative Investments**

Interests of Alternative Investment Funds (are sold only to qualified investors, and only by means of offering documents that include information about the risks, performance and expenses of the Funds, and which clients are urged to read carefully before subscribing and retain.

An investment in a Fund is speculative and involves significant risks as the Funds:

- are not mutual funds and are not subject to the same regulatory requirements as mutual funds,
- performance may be volatile, and investors may lose all or a substantial amount of their investment in a Fund,
- may engage in leveraging and other speculative investment practices that may increase the risk of investment loss. Interests of the Funds typically will be illiquid and subject to restrictions on transfer, and
- may not be required to provide periodic pricing or valuation information to investors.

Fund investment programs generally involve complex tax strategies and there may be delays in distributing tax information to investors. The Funds are subject to high fees, including management fees and other fees and expenses, all of which will reduce profits. The Funds may fluctuate in value. An investment in the Funds is long-term, there is generally no secondary market for the interests of the Fund, and none is expected to develop. Interests in the Funds are not deposits or obligations of, or guaranteed or endorsed by, any bank or other insured depository institution, and are not federally insured by the Federal Deposit Insurance Corporation, the Federal Reserve Board, or any other governmental agency.

**Prospective investors should understand these risks and have the financial ability and willingness to accept them for an extended period of time before making an investment in a Fund. Investors should consider a Fund as a supplement to an overall investment program.**

**ITEM 9. ADDITIONAL INFORMATION.**

**A. Executive Officers and Board of Directors**

- **Robert J. McCann** is Chief Executive Officer of UBS Group Americas, Chief Executive Officer of UBS Wealth Management Americas (WMA) and a member of the Group Executive Board of UBS AG.

As regional CEO, he works closely with the business division heads in the Americas to leverage UBS's integrated platform for the benefit of individuals, corporations, institutions and governments. He is also CEO of WMA, which comprises the registered broker-dealer, UBS Financial Services Inc., as well as the Private Banking operation.

- **Rosemary T. Berkery** is Chairman of UBS Bank USA and Vice Chairman of UBS Wealth Management Americas, which comprises the registered broker- dealer, UBS Financial Services Inc., as well as the Private Banking operation. She is also the head of the Banking Group for UBS

Wealth Management Americas.

- **Daniel C. Cochran** is a member of the Board of Directors of UBS Financial Services and the Chief of Staff for Operating Officer of UBS Wealth Management Americas.
- **Kathleen Lynch** is the Chief Operating Officer for Wealth Management Americas.
- **John Dalby** is Chief Financial Officer and Chief Risk Officer of UBS Wealth Management Americas.
- **William Frey** is a Managing Director and Chief Financial Officer of UBS Financial Services Inc. He is also the head of Business Accounting and Controlling for UBS Wealth Management Americas, which principally comprises the registered broker-dealer, UBS Financial Services Inc., UBS Bank USA as well as the Private Banking operation.
- **Brian P. Hull** is a Group Managing Director and Vice Chairman of UBS Wealth Management Americas, which comprises the registered broker-dealer, UBS Financial Services Inc., as well as the Private Banking operation. He is also the head of Strategic Clients & Partnerships for UBS Financial Services Inc.
- **Robert E. Mulholland** is a Group Managing Director and the head of Wealth Management & Investment Solutions for UBS Wealth Management Americas, which comprises the registered broker-dealer, UBS Financial Services Inc., as well as the Private Banking operation.
- **Paula D. Polito** is a Group Managing Director and Client Strategy Officer for UBS Wealth Management Americas, which comprises the registered broker-dealer, UBS Financial Services Inc., as well as the Private Banking operation.
- **Anita Sands** is a Group Managing Director and the head of Change Leadership for UBS Wealth Management Americas, which comprises the registered broker-dealer, UBS Financial Services Inc., as well as the Private Banking operation.

#### **CIO Wealth Management Research Americas**

- **Mike Ryan** is a Managing Director, Regional Chief Investment Officer for the US and Chief Investment Strategist for UBS Wealth Management Americas, which comprises the registered broker-dealer, UBS Financial Services Inc., as well as the Private Banking operation.

#### **Management for the Investment Advisory Products Covered in this Brochure**

- **Jim Hausmann** is a Managing Director and Head of the Corporate Solutions & Retirement Services Business for UBS Wealth Management Americas.
- **Peter Prunty** , is an Executive Director and Head of the Institutional Consulting Group.

#### **General Counsel, Director of Compliance and Chief Compliance Officer**

- **Jonathan Eisenberg** is a Group Managing Director and General Counsel of UBS Wealth Management Americas, which includes the registered broker-dealers, UBS Financial Services Inc. and UBS Financial Services Incorporated of Puerto Rico, as well as UBS Bank USA, UBS National Trust Company N.A., UBS Trust Company of Puerto Rico, and the Private Banking Operation which is comprised of UBS AG branches in the United States.



- **Douglas T. Siegel** is a Managing Director and Head of Compliance for UBS Wealth Management Americas, which includes UBS Financial Services Inc. and the Private Banking Operation as well as UBS Bank USA, UBS National Trust Company N.A. and UBS Trust Company of Puerto Rico. Mr. Siegel is also the Chief Compliance Officer of UBS Financial Services of Puerto Rico, Inc. a registered broker-dealer.
- **Lisa M. Francomano** is an Executive Director, Deputy Director of Compliance and Chief Compliance Officer for UBS Financial Services' advisory business.

## B. Disciplinary History

Below is a summary of the material legal and disciplinary events against UBS Financial Services Inc. during the last ten years. As of the date of this brochure, there are no reportable legal and disciplinary events for our senior management personnel or those individuals in senior management responsible for determining the general investment advice available to our clients.

The disciplinary reporting requirements for broker-dealers and investment advisers differ in some ways, with FINRA requiring broker-dealers to report on matters (for example, pending complaints and arbitrations) which are not required to be reported by investment advisers. Since our firm operates as both broker-dealer and investment adviser we file the information as required by each entity. The information in this report is not the only resource you can consult. You can access additional information about our firm and our management personnel on the Securities and Exchange Commission's website, located at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov), as well as the Financial Industry Regulatory Authority's website, [www.finra.org/brokercheck](http://www.finra.org/brokercheck).

**The UBS Institutional Consulting Group was not involved in any of the instances described below.**

**Please note that in each instance described below, the Firm entered into the various orders, consents and settlements without admitting or denying any of the allegations.**

### Disciplinary History

1 Date of Action: December 12, 2012

Brought By: FSA, FINMA, CFTC

Entity: UBS AG

On 19 December 2012, UBS AG entered into settlements with the US Department of Justice (DOJ), UK Financial Services Authority, and the Commodity Futures Trading Commission (CFTC) in connection with their investigations of manipulation of LIBOR and other benchmark interest rates. The Swiss Financial Market Supervisory Authority (FINMA) also issued an order concluding its formal proceedings with respect to UBS. UBS agreed to pay a total of approximately CHF 1.4 billion in fines and disgorgement. UBS will pay GBP 160million in fines to the FSA and CHF 59million as disgorgement of estimated profits to FINMA.

FINMA: Reprimand and disgorgement of estimated profits CHF 59 million

FSA: Fine GBP 160 million

CFTC: Fine, USD 700 million

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2 Date of Action: November 12, 2012

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## Disciplinary History

Brought By: FSA, FINMA

Entity: UBS AG London

The UBS AG London branch was fined by the FSA for (1) failure to establish and maintain systems and control appropriate to its business, and (2) failure to act with due skill, care and diligence in conducting its business. The penalties were levied in connection with an unauthorized trading incident.

Disposition: FSA Fine GBP £29.7 million

FINMA: Disposition: Reprimand; Additional measure re: business conduct and capital until effective remediation is demonstrated.

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3 Date of Action: May 1, 2012

Brought By: SEC

Entity: UBS Financial Services of Puerto Rico

UBS Financial Services of Puerto Rico, a subsidiary of UBS Financial Services, settled with the SEC without admitting or denying charges regarding misrepresentations and omissions of material facts to numerous retail customers during the period 2008 and 2009 regarding the secondary market liquidity and pricing of UBS PR affiliated closed end funds. The Firm is required to retain an independent consultant to review its sales and trading policies, procedures and practices in connection with such funds. "

Disposition and Fines: Censure \$14,000,000; Disgorgement \$11,500,000; Interest \$1,109,739

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4 Date of Action: May 1, 2012

Brought By: FINRA

FINRA Rule 2010, NASD Rules 2110, 2310, 3010 -

Allegations: FINRA alleged that the Firm failed to establish and maintain a supervisory system, including written procedures, reasonably designed to achieve compliance with NASD and FINRA rules in connection with the sale of non-traditional exchange-traded funds (ETFs) in accounts where the firm provided brokerage services to certain retail customers and the firm failed to provide adequate formal training and guidance to its registered representatives and supervisors regarding non-traditional ETFs.

Disposition: Letter of Acceptance, Waiver and Consent, Censure and Fine

Fine: 1.5 million; \$431,488 in restitution

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5 Date of Action: Feb. 22, 2012

Brought By: Pennsylvania Securities Commission

Allegations: The Pennsylvania Securities Commission alleged that the Firm failed to reasonably supervise three agents in one branch office relating to the sale of certain structured products issued by Lehman Brothers to two investors and that such conduct formed a basis to sanction the Firm under Section 305 (A)(VII) of the Pennsylvania Securities Act of 1972, 70 P.S. Section 1-305(A)(VII)

Disposition: Consent to the Commission's Findings of Fact, Conclusion of Law, and Order. Administrative Assessment of \$200,000

Legal and investigation costs of \$75,000

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6 Date of Action: Sept. 30, 2011

Brought By: FINRA

Allegations: FINRA alleged that during the period of November 2004 to September 2006, the Firm violated Municipal Securities Rulemaking Board Rule G-27 by failing to reasonably supervise certain cross-trading of municipal bonds by retail customers, in that the Firm lacked adequate policies and procedures to monitor this type of trading and did not conduct adequate follow-up on

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## Disciplinary History

red flags which put it on notice that one of its registered representatives may have been exercising discretion in customer accounts to engage in unsuitable cross-trading of municipal bonds.

Acceptance, Waiver and Consent

Censure and Monetary Fine: \$300,000

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7 Date of Action: August 22, 2011

Brought By: New Hampshire Bureau of Securities Regulation

Allegations: UBS sold Lehman Structured Products to clients (specifically referencing three particular investors), who were not made aware of the risks of these products and failed to inform clients of Lehman's financial condition prior to Lehman's bankruptcy. It was also alleged that the firm's recommendations to a small number of New Hampshire residents to purchase Lehman Structured Products were unsuitable.

Disposition: Consent Order

Administrative fine of \$100,000; Investigation costs of \$200,000; Administrative payment of \$700,000

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8 Date of Action: May 4, 2011

Brought By: SEC, Internal Revenue Service (IRS), Dept. of Justice (DOJ), State Attorney General of 24 States

UBS AG and UBS Financial Services Inc. reached settlements with the SEC, the IRS, the DOJ and a group of State Attorneys General regarding investigations into the conduct of certain former employees in UBS Financial Services' former municipal reinvestment and derivatives group from 2001 to 2006. Allegations included violations of: Section 15(c)(1)(A) of the Securities Exchange Act of 1934, Section 1 of the Sherman Act, and IRS regulations in bidding practices and representations made involving the investment of proceeds of municipal securities transactions.

Disposition: SEC: Waiver and Consent to Final Judgment enjoining UBS from violating Section 15(c) of the Act, disgorgement of profits, interest and civil penalty; IRS: Closing Agreement; DOJ: Non-prosecution Agreement

SEC: Disgorgement of \$9,606,543 plus interest of \$5,100,637 and civil penalty of \$32,500,000; IRS: penalty of \$18 million and restitution of 4.3 million; States: \$70.8 million plus \$20 million credited from the SEC settlement

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9 Date of Action: April 11, 2011

Brought By: FINRA

Allegations: Violations of NASD Rules 2110, 2010, 2210, 2211, 2310, 3010 and IM2310-2 with regard to Lehman Brothers Holdings Inc. 100% Principal Protection Notes ("Notes"): violated NASD Rule 2110 by making statements and omitting certain facts through communications through some financial advisors that may have misled certain customers, failed to disseminate adequately to financial advisors certain market information relating to Lehman's financial condition, violated NASD Rules 3010 and 2110 by failing to maintain and establish adequate supervisory systems in connection with marketing and sale of the Notes, violated NASD Rules 2310 and 2110 and IM-2310-2 by not adequately analyzing the suitability of sales to certain customers, and use of advertising and marketing materials and training and education materials that were not fair and balanced in violation of Rules 2210(d)(1) (A) and (B), 2211 and 2110.

Disposition: Letter of Acceptance Waiver & Consent.; Censure, Fine, and Restitution to specific classes of customers

Fine: \$2.5 million; Restitution: \$8.5 Million

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10 Date of Action: Jan. 5, 2011

Brought By: FINRA

Allegations: From October 1, 2007 through December 31, 2007, the Firm 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 five of its customers was as favorable as

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## Disciplinary History

possible under prevailing market conditions.

Disposition: AWC Censure, Fine

Monetary/Fine: \$30,000 Disgorgement/ Restitution

11 Date of Action: January 2011

Disposition: SIX Swiss Exchange Regulation

UBS AG was fined for (i) publishing too late internally available information related to expected losses in the summer of 2007 and (2) breaching rules on the provision of information about corporate governance in the 2008 UBS annual report.

Disposition: Fine

CHF100,000

12 Date of Action: Nov. 3, 2010

Brought By: FINRA

Allegations: Violation of NASD Rules 1021, 1031, 2110 and 3010, FINRA Rule 2010 by permitting 70 individuals to act as principals without registration, and inadequate supervisory procedures.

Disposition: Letter of Acceptance, Waiver & Consent.; Censure, Fine.; Establish supervisory procedures

Fine: \$200,000 - Test of Supervisory procedures with written report within 120 days and certification of supervisory changes and written report within 90 days

13 Date of Action: Sept. 29, 2010

Brought By: FINRA

Allegations: Violation of NASD Rules 2110, 3010(a) and 3010(b), FINRA Rule 2010 by lending customer securities to facilitate short selling without disclosing certain facts to customers and failing to adequately supervise.

Disposition: Letter of Acceptance, Waiver & Consent, Censure, Fine, Establish supervisory procedures

Fine: \$175,000

14 Date of Action: June 26, 2009

Brought By: FINRA

Allegations: Inadequate systems/procedures, to detect patterns of unsuitable short-term trading of Closed-End Funds.

Disposition: Letter of Acceptance, Waiver & Consent, Censure & Fine

Fine: \$100,000

15 Date of Action: February 2009

Brought By: SEC and US Department of Justice

Allegations: UBS entered into a Deferred Prosecution Agreement with the D.O.J. and a Consent Order with the SEC in connection with an investigation into the firms Cross-Border business. UBS AG agreed to disgorge profits and pay back taxes. UBS AG will terminate cross-border business serving private clients out on non SEC registered entities.

Disposition: Disgorgement (\$200,000,000 is to the SEC); Back Taxes Payment, Monetary Sanctions: \$380,000,000; \$400,000,000

## Disciplinary History

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- 16     Date of Action: Feb. 26, 2009  
Brought By: FINRA  
Allegations: Violated NASD Rules 2110, 3010, 2320, 3110, 3360, 3370, 6130, 6955(A) by failing to find the best inter-dealer market, did not obtain a favorable price, did not mark short-sales as such, did not note delivery instructions. The supervisory procedures were not adequate to achieve compliance.  
Disposition: Letter of Acceptance, Waiver & Consent, Censure and Fine Restitution to customer and revision of firm procedures  
Fine: \$110,000; Restitution: \$2,719.65
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- 17     Date of Action: Jan. 9, 2009  
Brought By: CFTC  
Allegations: UBS FA violated Sections 6(c) and 6(d) of Commodities Exchange Act and did not file with the National Futures Association the commodity pools' annual reports in a timely manner or deliver to pool participants.  
Disposition: Cease & Desist from violating Regulation 4.7(b)(3)(i) and CFR 4.7(b)(3)(i)(2008) and pay a civil penalty  
Civil Penalty: \$50,000
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- 18     Date of Action: December 2008  
Brought By: Swiss Federal Banking Commission  
Allegations: The cross-border business of UBS AG private clients was investigated and the firm was required to cease operating its non-W9 relationships, and to establish an adequate risk management and control system for this business.  
Disposition: Injunction
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- 19     Date of Action: Dec. 22, 2008  
Brought By: SEC and the 50 states  
Auction Rate Securities (ARS): UBS is permanently enjoined from violations of the broker/dealer anti-fraud provisions.  
Allegations: Violations of 34 Act Section 15(c) regarding the marketing and sale of Auction Rate Securities.  
Disposition: Cease & Desist Injunction; Civil Penalty; Consent Judgment  
Cease & Desist, and Fines in varying amounts currently being paid to all 50 states out of a total fine of \$75 million
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- 20     Date of Action: Feb. 28, 2008  
Brought By: FINRA  
Allegations: UBS effected transactions in Mutual Fund shares where other share classes were advantageous, or within the NAV transfer program, Failure to maintain supervisory procedures designed to identify NAV Programs.  
Disposition: Letter of Acceptance, Waiver & Consent, Censure and Fine. Firm to undertake initiative to provide remediation to certain customers who purchased Class B or C shares or who did not receive benefit of the NAV transfer program.  
Fine:\$1,000,000
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- 21     Date of Action: Dec. 3, 2007
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## Disciplinary History

Brought By: State of Missouri

Allegations: Firm failed to supervise former FA's for public seminars and recommendations to customers re: mutual fund share sales.

Disposition: Consent Order, Censure, Fine & Disgorgement

Civil : \$ 75,000; Investor Restitution: \$247,680; Disgorge: \$135,946; Investor Education: \$230,000; Cost to Investigate: \$8,584

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22 Date of Action: Oct. 24, 2007

Brought By: FINRA

Allegations: Firm did not file certain amendments to U-4's and U-5's during the period 1.1.02 to 12.31.04 and did not have adequate supervisory procedures re: late filings.

Disposition: Letter of Acceptance Waiver & Consent & Fine

Fine: \$370,000

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23 Date of Action: Oct. 2, 2007

Brought By: FINRA

Allegations: Violations of NYSE Rule 401(a) and 342 by failing to deliver prospectuses and failing to maintain supervisory and control procedures.

Disposition: Letter of Acceptance, Waiver & Consent, Censure & Fine Certification to NYSE re: policy & procedure revisions within 90 days.

Fine: \$500,000

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24 Date of Action: July 16, 2007

Brought By: Attorney General State of NY

Allegations: Non-discretionary fee-based brokerage accounts were unsuitable for certain clients and fees/commissions were higher than non- fee based accounts

Disposition: Remediation to Customers & Penalty to State of NY

Remediation: \$21,300,000; Penalty: \$2,000,000

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25 Date of Action: April 16, 2007

Brought By: State of Connecticut Department of Banking

Allegations: Failure to keep certain books & records pertaining to sub-account transfers with insurance products & failure to supervise agents re: market timing.

Fine, Financial

Literacy Initiatives, Education Initiatives

Fine: \$1,500,000; (Public School Initiative: \$1,250,000; Public College Initiative: \$1,000,000; Dept of Social Service Initiative: \$1,500,000; CT Law Enforcement: \$250,000

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26 Date of Action: May 26, 2006

Brought By: NYSE

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## Disciplinary History

Allegations: Sales Practice exams in 2003 and 2004 revealed overcharges and the Firm violated Section 17(a)(2) of the '33 Act, and Rule 10b- 10 of the '34 Act.

Disposition: Stipulation of Facts & Consent to Penalty

Fine: \$175,000

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27 Date of Action: Jan. 11, 2006

Brought By: NYSE

Allegations: Failure to supervise brokers who engaged in deceptive market timing of mutual funds and varied insurance products.

Disposition: Fine, Consent Order, Censure, Civil Penalty

Fine: \$23,700,000; Fine State of NJ: \$24,700,000

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28 Date of Action: March 7, 2005

Brought By: State of Illinois

Allegations: Failure to provide investors with accurate information re: callable CD's and failure to supervise.

Disposition: Fine

Fine: \$95,000

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29 Date of Action: June 28, 2004

Brought By: NASD

Allegations: Violation of MSRB Rules G-17 and G-30, unfair pricing of bond sales.

Disposition: Censure & Fine

Fine: \$100,000

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30 Date of Action: Dec. 10, 2003

Brought By: Secretary of State of 47 States and Washington D.C.

Allegations: Violation of Securities Act regulations regarding research practices and conflicts of interest arising from those practices.

Disposition: Cease & Desist, Fine, Penalty, Disgorgement, Investor Education

Disgorgement: \$25,000,000; Procurement: \$25,000,000; Education: \$5,000,000; Fines varied by State

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31 Date of Action: August 2003

Brought By: SEC

Allegations: Failure to supervise former RR who committed fraud and caused extensive client losses.

Disposition: Consented to an Order Instituting Proceedings, Censure under '34 Act Section 15(b), Civil Penalties

Civil: \$500,000

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32 Date of Action: June 29, 2003

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### Disciplinary History

Brought By: NYSE

Allegations: Failure to provide investors with accurate information re: callable CD's and failure to supervise.

Disposition: Censure & Fine

Fine: \$174,000

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## ITEM 10. OTHER FINANCIAL INDUSTRY ACTIVITIES AND AFFILIATIONS

UBS Financial Services Inc. is 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. We are registered to act as a broker-dealer, investment adviser and a futures commission merchant. Please note that registration as an investment adviser does not imply a certain level of skill or training.

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
- 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
- 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.

### UBS Financial Services Inc. Subsidiaries & Other Affiliates

There are a number of related persons that provide investment management and other financial services and products to our investment advisory clients, which may be material to our advisory business. UBS, our subsidiaries or affiliates act in one or more capacities, including investment adviser, sub-adviser, 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, and through affiliates registered as commodity pool operators and commodity trading advisors, we or an affiliate also provide advice on commodities and commodity-related products. Certain of our subsidiaries, affiliates and related entities include the following:

- Sydling Futures Management LLC.



- UBS Financial Services Insurance Agency Inc.
- UBS Financial Services Inc. (Puerto Rico) LLC, a separately registered broker-dealer
- UBS Insurance Agency of Puerto Rico Inc.
- 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 Bank USA is an FDIC-insured Utah industrial bank. UBS Bank USA provides deposit services and loans to clients that are secured by securities or real estate. These loans may be used for purposes other than buying, trading or carrying securities. 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 advisors. 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 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 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 MAC, ACCESS program or SWP programs.

The UBS AG subsidiaries registered as investment advisers in the United States include the entities below. These companies 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 advisor.

- Alternative Investment Solutions
- UBS Agrivest LLC
- UBS Global Asset Management (Americas) Inc.
- UBS O'Connor LLC
- UBS Realty Investors LLC
- UBS Swiss Financial Advisers
- UBS Fund Advisor, LLC
- UBS Juniper Management LLC
- UBS Eucalyptus Management LLC, and
- UBS Willow-Management LLC.

## **ITEM 11. CODE OF ETHICS, PARTICIPATION OR INTEREST IN CLIENT TRANSACTIONS AND PERSONAL TRADING**

### **A. Code of Ethics**

The Firm maintains and enforces a written code of ethics in accordance with 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 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
- To address conflicts of interest associated with the personal trading activities of a subset of employees defined as "access persons."<sup>3</sup>

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.

## **B. Participation or Interests in Client Transactions**

**Unless otherwise noted, UBS Institutional Consultants do not receive the compensation identified in the tables below with respect to assets subject to an Institutional Consulting Agreement, however, these fees may be received in connection with other client assets.**

1. Sources of Compensation from Third Parties in Connection with Investments in Advisory Accounts

**The following information summarizes the various sources of compensation that may be received by the Firm, or its affiliates and Financial Advisors in addition to the fees charged under an investment advisory program.**

UBS, 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. Instead, this compensation is a result of distribution, shareholder servicing, administration, marketing, investment management, revenue sharing or referral agreements we and/or affiliates have with vendors or sponsors of those securities and other services. We also receive additional compensation as a result of inter-company profit sharing and servicing agreements. For certain alternative investments, the compensation may also include performance fees. The nature of the services provided by, and the compensation paid to, us and our affiliates are described 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.

**Not all advisory programs permit the purchase and sale of domestic mutual funds, offshore 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 fees paid to us, and therefore your Financial Advisors, may vary depending on the arrangement between us and the vendors/sponsors and, if applicable for mutual funds, and the terms and conditions of the relevant fund's 12b-1 or trailing commission 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

<sup>3</sup> 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 UBS Managed Portfolio Program.

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.

For UBS proprietary products, 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 Programs.

Unless otherwise noted, we receive the payments described below for affiliated and non-affiliated products.

Domestic Mutual Funds			
Payment Type	Current Rate	Source of Payment	Do Financial Advisors Receive a Portion of These Fees?
Trailers & 12b-1 Fees	<ul style="list-style-type: none"> <li>Affiliated funds: 0.25% of the fund's assets per year.</li> <li>Non-affiliated funds: Fees generally range from 0% to 0.50% per year—although the average current annual rate is approximately 0.25%.</li> </ul>	<p>Investors/Shareholders pay these fees to the sponsors of the Funds.</p> <p>We receive these payments from the sponsors for distribution and shareholder services we provide in connection with the purchase and sale of mutual fund shares.</p>	Yes
Networking Fees	<ul style="list-style-type: none"> <li>Typically \$12-\$15 for each mutual fund position that is held at UBS. Some fund companies may choose to calculate this rate expressed in basis points on assets. Exclusions may apply to positions below \$500.</li> </ul>	<p>These fees are paid by mutual fund sponsors from investor assets, but in some cases may be subsidized, in part, by affiliates of the mutual fund.</p> <p>Networking fees are paid in consideration for services provided by us ancillary to effecting mutual fund transactions including transmission of shareholder data between UBS and the fund companies.</p>	No
Omnibus Processing Fees	<ul style="list-style-type: none"> <li>These payments, which usually range from \$16 to \$22 per position are assessed per client and can vary by share class. Some fund companies may choose to calculate this rate expressed in basis points on assets, which may result in payments in excess of \$22 per position. Exclusions may apply to positions below an asset level mutually agreed upon by UBS and the fund company. A portion of the payments we receive for Omnibus processing is paid to a sub-account vendor contracted by UBS.</li> </ul>	<p>These fees are paid by mutual fund sponsors from investor assets.</p> <p>Omnibus fees are paid in consideration for sub-accounting services we provide.</p> <p>A portion of this fee is paid to the transfer agent.</p>	No

Domestic Mutual Funds			
Payment Type	Current Rate	Source of Payment	Do Financial Advisors Receive a Portion of These Fees?
UBS Global Asset Management Y Shares	<p>Prior to June 16, 2010 (and, for certain funds May 25, 2010), UBS Global AM (US), the principal underwriter of the funds, made the following payments out of its own resources:</p> <ul style="list-style-type: none"> <li>• a one-time finder's fee consistent with the fund's Class A share.</li> <li>• Beginning in the 13th month after purchase, an annual fee in an amount up to (1) 20 basis points for an equity fund, an asset allocation fund or a balanced fund; (2) 15 basis points for a fixed-income fund; and (3) 5 basis points for an index fund.</li> </ul> <p>These payments are not available for purchases of Y shares after June 16, 2010 (or, May 25, 2010, as applicable), but continue to be made for investments prior to that date.</p>	UBS Global Asset Management (US) pays these fees out of its resources.	Yes
Account Services Fees For Affiliated Funds	The amount of such fees may vary depending on the fund, but generally average \$12 per account per year, billed quarterly.	Fees are paid by the fund sponsor out of investor assets.	No
Revenue Sharing Payments	(see below for details)	Fees are paid by the fund sponsor or investment adviser out of their legitimate profits and resources.	No

**Mutual Fund 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](http://www.ubs.com/mutualfundrevenuesharing).

***UBS Financial Services generally receives revenue sharing compensation in connection with all mutual fund assets custodied at UBS Financial Services Inc. subject to certain exceptions. Typically, revenue sharing is not received for mutual funds custodied in an IC Account. . On an exception basis, 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 or returned to the fund company.***

In addition to sales loads, 12b-1 fees and processing fees, UBS receives other compensation from certain distributors or advisors of mutual funds that we sell. These separate compensation amounts (commonly referred to as revenue sharing) may be a negotiated flat fee or may be based on two components:

- The amount of sales by UBS of a particular mutual fund family to our clients (excluding sales through wrap-fee programs and the IC Program)
- The asset value of a particular mutual fund family's shares held by our clients at UBS.

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 assisting with the 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 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 up to the following amounts:

- Up to 0.15% per year (paid quarterly) on all sales of mutual fund shares (excluding sales through wrap-fee programs)
- Up to 0.20% per year (paid quarterly) of the asset value of all equity mutual fund shares held at UBS
- Up to 0.20% per year (paid quarterly) of the asset value of all fixed-income mutual fund shares held at UBS (other than money market, institutional or offshore funds)
- Some mutual fund families may be subject to a minimum annual payment which, in some instances, may result in a fee that exceeds the percentages described above.

Except as noted below, and for the Multi-Select Securities Puerto Rico Fund, which does not pay revenue-sharing to us, 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 250 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 "no load" and "institutional" mutual fund shares may be purchased by our customers at a charge of \$75 per transaction, plus other customary sales charges.

Offshore Funds			
Payment Type	Current Rate	Source of Payment	Do Financial Advisors Receive a Portion of These Fees?
Trail Commissions	<ul style="list-style-type: none"> <li>Equity offshore funds: generally range from 75 to 90 basis points.</li> <li>Fixed income offshore funds: 50 to 60 basis points.</li> </ul> <p>Please ask your Financial Advisor for our fee schedule that shows the specific trail commissions that are paid to your Financial Advisor as these amounts are typically not clearly disclosed in the offering materials of offshore funds.</p>	Asset-based fees typically paid by the distributor or advisor of the offshore fund.	Yes
Revenue Sharing	<p>Most all offshore funds pay revenue sharing to UBS.</p> <p>Affiliated Offshore Funds: Where revenue-sharing compensation is paid, we receive an amount that ranges from 0.05% to 0.60% per annum of the average daily net asset value of the fund attributable to the shares owned by our clients, during each month.</p> <p>Unaffiliated Offshore Funds: When revenue-sharing compensation is paid, we receive an amount that ranges from 0.10% to 0.50% per annum of the average daily net asset value of the fund attributable to the shares owned by our clients, during each month. Alternately, this could be paid as a percentage of the fund's stated management fees and could be up to 65% of these fees.</p>	Revenue-sharing compensation is made directly from the distributor or advisor, and not from the offshore funds or indirectly through fund portfolio trading commissions because revenue-sharing compensation is intended to compensate us for ancillary services related to the sales of offshore fund shares.	No

Alternative Investment Funds			
Payment Type	Current Rate	Source of Payment	Do Financial Advisors Receive a Portion of These Fees?
<ul style="list-style-type: none"> <li>• Referral Fees</li> <li>• Distribution Fees</li> <li>• Management Fees</li> <li>• Administrative Fees</li> <li>• Performance (incentive-based fees)</li> </ul>	<p><b>Proprietary Funds:</b></p> <p>SWP Program: The funds that were previously offered in the SWP program are managed or administered by an affiliate. The management/administrative fees range between 1.25 and 1.75 bps. Our affiliate pays us approximately 90 bps for distribution of these funds. These payments are shared with your Financial Advisor.</p> <p>The management/administration fee paid to our affiliate may be waived in their entirety for certain classes of investors (for example, ERISA plans investing through an advisory program).</p> <p>Master/Feeder funds: UBSFS may receive a one-time service fee of 50 bps from the sponsor of a fund into which a proprietary feeder fund invests.</p> <p>Placement Fees: of up to 2% from its clients.</p> <p><b>Non-Proprietary Funds:</b></p> <p>UBSFS receives a trail or service fee ranging between 15 to 125 bps of the assets of UBSFS investors in the non-proprietary funds. Financial advisors receive compensation of up to 90 bps.</p> <p>Incentive Fees: UBSFS may receive a portion of the incentive allocation of up to 2.5%.</p> <p>Placement Fees: UBSFS receives a fee of up to 2% from its clients.</p> <p><b>Referrals:</b> UBSFS may refer a client to a third party manager for investment into one of the manager's funds for a negotiable referral fee.</p>	<p>These fees are usually paid by the fund sponsor out of investor assets. The management, administrative, distribution and performance based fees are paid by investors/shareholders of the funds to the sponsor/adviser.</p>	<p>Yes</p>

**Unit Investment Trusts.** Most UIT sponsors make additional payments to the firms that sell their UITs, including UBS. These payments are typically calculated as a percentage of the total volume of sales of the sponsor's UITs made by the firm during the UIT's initial offering period. That percentage typically increases as higher sales volume levels are achieved. Detailed descriptions of the terms of these additional payment programs are provided in a UIT's prospectus. UIT sponsors may also pay UBS fixed

amounts for marketing, promotional or related expenses intended to result in additional sales of a sponsor's products, or to defray a portion of the costs incurred to facilitate UIT sales, such as the costs of developing or purchasing UIT trading systems. Payment rates and total payment amounts vary from sponsor to sponsor. These payments are made by the UIT sponsor and not out of UIT assets. None of these amounts are paid to the Financial Advisor or his or her branch office.

For "private label UITs" (UITs only offered to UBS clients), the sponsor may pay UBS an additional concession within a reasonable time following the initial offering period. This additional payment generally ranges from 0.10% to 0.40% of the public offering price per unit sold by UBS during the initial offering period, excluding units sold to Fee Accounts subject to a Wrap Fee.

### **Affiliated Money Market Funds Available as Sweep Vehicles in Advisory Accounts**

**Domestic Money Market Funds.** Effective March 1, 2011, UBS Financial Services Inc. transferred its investment advisory and administration contracts for the money market funds offered as sweep vehicles in our Advisory Programs to UBS Global Asset Management.

Our affiliate, UBS Global Asset Management, now serves as advisor, administrator and principal underwriter for the money market funds used as sweep vehicles in Program accounts.<sup>4</sup> Under the terms of our agreement with UBS Global Asset Management, we will receive service or 12b-1 fees related to these funds (except UBS Cashfund) as well as revenue sharing payments from UBS Global Asset Management related to these funds. Service or 12b-1 fees for these funds are paid at an annual rate of up to 0.15% of the fund's average daily net assets (0.12% in the case of UBS RMA New Jersey Municipal Money Fund). Revenue sharing payments related to these funds are paid to us out of the legitimate profits of UBS Global Asset Management and may be up to annual rate of up to 0.37% of the fund's average daily net assets. **Your Financial Advisor receives a portion of the service fees paid to us in connection with these money market funds. Your Financial Advisor does not receive a portion of the revenue sharing payments paid to us in connection with these money market funds.**

### **International accounts: international deposit account (IDA)**

Cash held in your Program Account is automatically swept into a demand deposit account at the New York Branch of UBS AG (UBS NY), from which the cash is then swept and re-deposited each business day into an interest-bearing overnight deposit account (i.e., the IDA) at UBS Cayman. The cash swept from the UBS NY account becomes payable only at the UBS Cayman account, and not at the UBS NY account, and, as a result, is temporarily exposed to the sovereign risk of the Cayman Islands. **Funds on deposit in the accounts at UBS NY and UBS Cayman are not eligible for federal deposit insurance from the Federal Deposit Insurance Corporation (FDIC).** UBS Cayman earns revenue from cash swept into the IDA, which is greater than the interest you receive on your cash. The difference between the rate that UBS Cayman earns on your cash and what you receive is shared between UBS AG and UBS. Your Financial Advisor receives a share of UBS' portion of such excess revenue. For more detailed information on the IDA for NRA clients, please see the **International Deposit Account Sweep Program Disclosure Statement** given to you with the documentation for your program account.

### **Sweep vehicle for Puerto Rico residents**

The Puerto Rico Short Term Investment Fund is available as a sweep option only for customers who hold accounts with UBS Financial Services Inc. of Puerto Rico and who are Puerto Rico residents. UBS Asset Managers of Puerto Rico, a Division of UBS Trust Company of Puerto Rico, serves as investment advisor

<sup>4</sup> UBS RMA Money Market Portfolio, UBS RMA U.S. Government Portfolio, UBS Retirement Money Fund, 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 Cashfund.



to the fund and receives management fees of 0.500%. UBS Trust Company of Puerto Rico also acts as administrator, transfer agent and custodian to the fund and receives fees for those services, which are included in the fund's other expenses and estimated at 0.219%. UBS Trust Company of Puerto Rico is an affiliate of UBS Financial Services Inc.

In addition, distribution and/or service (12b-1) fees of 0.125% are deducted from the fund's assets and a portion may be paid to Financial Advisors in connection with their sale of fund shares.

## 2. Sources of Compensation from Third Parties

### **Contributions to Training and Education Expenses**

**Contributions are not received towards training and education provided exclusively to Institutional Consultants. Institutional Consultants may attend general training and education that is subject to the contributions identified below.**

Investment managers, mutual fund vendors, unit investment trust sponsors, retirement platform providers, annuity, life insurance companies or their affiliates and sponsors of ETFs 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, Branch Office Managers, Field Leadership, and other personnel 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, Financial Advisor and Client 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.

Your Financial Advisor does not receive a portion of these payments.

### **Directed brokerage compensation from managers available in our advisory programs.**

As of July 2013 UBS Institutional Consulting does not receive brokerage commissions, fees or soft dollars from investment managers in connection with UBS Institutional Consulting services. Previously generated commission credits will be applied as an offset to the Program Fee until such time as the credit is fully utilized.

### **Non-Cash Compensation**

In addition to the revenue-sharing payments described above, we and our Financial Advisors, may, from time to time, receive non-cash compensation from mutual fund companies, investment managers, insurance vendors, and sponsors of products that we distribute. This compensation may include the following:

- Occasional gifts
- Occasional meals, tickets or other entertainment
- Sponsorship support of training events for our employees
- Various forms of marketing support

These payments do not relate to any particular transactions or investments made by Institutional Consulting clients.

### **Other Compensation**

In addition, our affiliates receive trading commissions and other compensation from mutual funds and insurance companies whose products we distribute.

UBS or our affiliates may engage in a variety of transactions with (or provide other services to) the investment managers, mutual funds, their affiliates or service providers with which you are doing business. We may, in turn, receive compensation from these entities. Those transactions and services that we provide may include:

- Executing transactions in securities or other instruments
- Broker-dealer services for our own account
- Research services
- Consulting services
- Performance evaluation services
- Investment banking services
- Banking or insurance services

### **3. Other Interests in Client Transactions**

**Margin Loans and Credit Lines.** You may choose to engage in leverage strategies involving the assets in your eligible non-retirement, non-custodial accounts. You must meet certain eligibility requirements and complete loan documentation prior to using margin 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 UBS Bank USA.

When you trade on margin or obtain a credit line, either we or our affiliate will act as your creditor. As a creditor we will charge interest on the loans we extend to you and can take certain actions in the case you default. Failure to promptly meet a request for additional collateral or repayment or other circumstances (e.g., a rapidly declining market) could cause us, in the case of margin loans, or our affiliate, in the case of credit lines, and in our discretion, to liquidate or instruct us to liquidate some or all of the collateral account or accounts to meet the margin loan or credit line requirements. 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. UBS 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.

Margin is not recommended or permitted in certain advisory programs. **There are substantial risks associated with the use of borrowed funds for investment purpose and securities as collateral for a loan. For further information, please see the UBS Financial Services Inc. Loan Disclosure Statement, which is available from your Financial Advisor.**

### **Principal Transactions and Agency Cross Trades**

If we act as your broker, we and/or our affiliates may execute transactions on your behalf as your agent or as principal for our own account on the other side of the transaction from you. Similarly, we or our affiliates may, in transactions involving clients' securities, act as agent while also representing another client on the other side of the transaction. We may also have a position in, or enter purchase or sale orders for, securities recommended to clients in the normal course of its business as a broker-dealer. We and/or our affiliates may profit from such positions or transactions in securities.

In certain advisory programs, 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. 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. Client consent to "agency cross" transactions may be revoked at any time by written notice to us.

### **Advice/Services to Other Clients and Activities in our Proprietary Accounts**

We and our affiliates provide investment banking, research, brokerage, investment advisory and other services for different types of clients. In providing those services, we and our affiliates 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.
- buy and sell securities for our own or other accounts,
- act as a market maker or an underwriter for securities recommended, purchased or sold.

UBS and our affiliates occasionally 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 execute 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.

### **Trading Activity**

The vast majority of our exchange-listed securities and over-the-counter (OTC) orders are executed through our affiliate, UBS Securities LLC—which executes orders as either principal or as agent, depending on the circumstances and type of program involved and receives compensation for those services.

## **ITEM 12. BROKERAGE PRACTICES**

Our UBS Institutional Consulting Program services do not include the review or recommendation of broker-dealers for client transactions. Clients may choose to implement our advice through UBS or through other financial institutions. However, we will not review or otherwise make recommendations on broker-dealers.

## **ITEM 13. REVIEW OF ACCOUNTS**

We have various policies and procedures applicable to the review and supervision of consulting services provided through the IC Program. Those policies are designed to comply with the requirements of the Investment Advisers Act of 1940, and where applicable, ERISA and other applicable rules and regulations.

IC Program clients meet with the Institutional Consultants periodically (usually, quarterly). Items generally reviewed include, but are not limited to the following:

- portfolio evaluation, review and analysis of your investment holdings
- review of performance and style drift of investments
- consistency of the client's investments with the Investment Policy Statement
- determination whether a portfolio adjustment should be made

Branch Office Managers are responsible for the supervision of Institutional Consultants who provide IC Program services, while home office Program Managers are responsible for enforcing the various program guidelines.

#### **ITEM 14. CLIENT REFERRALS AND OTHER COMPENSATION**

- Arrangements with Affiliates: We have referral agreements with our affiliates that outline:
  - how we refer clients to them
  - how they refer clients to us
  - how we act as solicitor for their advisory services and/or wrap fee programs
  - how we refer clients to them for services other than advisory services.
  - In certain cases, the advisory and consulting services available in our Programs may be provided by Financial Advisors registered with companies affiliated with us through a solicitation agreement with us or we may serve as a clearing broker for those affiliated entities.

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

- Third Party Arrangements: We also have a referral program that allows UBS to enter into solicitation arrangements with third parties that we compensate for referring or soliciting clients to participate in our advisory or trust services programs. Solicitors receive a portion of the advisory fees we receive.
  - 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. The compensation we receive is usually a portion of the advisory fee the third party receives from its clients. In certain circumstances we may also receive commission revenue for transactions those third parties execute through our firm.

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. UBS 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 whereby we refer our customers to certain lenders, on a non-exclusive basis, for specific financing opportunities not available at UBS or its affiliates. These lenders may be able to assist clients in securing financing for specialized borrowing needs. It is our practice to disclose to the client being referred the roles of UBS 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.

## **ITEM 15. CUSTODY**

UBS Financial Services Inc. is a qualified custodian and has custody of client funds and securities.

Clients electing to utilize the IC Account are required to custody their account assets with UBS.

For assets custodied at another financial institution subject to an IC Agreement, you understand that you will be incurring additional costs in excess of any program fees (for example, custody and trading costs). Also, billing for any of your accounts, including the accurate processing of rebates if applicable, is the responsibility of your custodian.

If you do not custody your advisory account assets with us, you agree to use only a qualified custodian that is a bank, a U.S. registered broker-dealer, a futures commission merchant or a foreign financial institution. This custodian must meet the definition of a "qualified custodian" that is established in Rule 206(4)-3(c)(3) under the Investment Advisers Act of 1940.

We will send you periodic account statements for IC Accounts custodied at UBS you set up at our Firm reflecting the transactions in your account.

## **ITEM 16. INVESTMENT DISCRETION**

Our Institutional Consulting Program does not typically include the exercise of discretion on our part over your assets. On an exception basis, however, the IC Program Agreement may also provide for discretionary services whereby your Institutional Consultant will implement an investment strategy comprised of IC Eligible investments utilizing IC Accounts.

Apart from the Institutional Consulting Program, we also offer discretionary portfolio management services which are described in a separate brochure. Please contact your Financial Advisor with questions

## **ITEM 17. VOTING CLIENT SECURITIES**

**Proxy Voting, Corporate Actions and Other Related Events.** Our IC Program services do not include proxy services. Neither the Firm nor your UBS Institutional Consultant will vote or provide any advice about the voting of proxies solicited by, or with respect to, the issuers of any securities you hold. 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.

If you retain the services of an investment manager, your agreement with your investment manager will govern whether you or your investment manager will vote proxies or on corporate actions relating to the securities covered by your UBS Institutional Consulting Agreement.

**ITEM 18. FINANCIAL INFORMATION**

UBS Financial Services, Inc. is a qualified custodian (as defined in SEC Rule 206(4)-2). As a result, we have not included the balance sheet required under the "Financial Information" of this Form ADV.

- As of the date of this Brochure, there is no financial condition that is reasonably likely to impair our ability to meet our contractual commitment to our clients.
- Our Firm has not been the subject of a bankruptcy petition at any time during the last ten years.

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