

# UBS (Lux) Institutional Fund

## Investment fund under Luxembourg law

("fonds commun de placement")

## Sales prospectus

Units of UBS (Lux) Institutional Fund (hereinafter the "**Fund**") may be acquired on the basis of this sales prospectus, the Management Regulations, the latest annual report and, if already published, the subsequent semi-annual report.

Only the information contained in the sales prospectus and the aforementioned documents shall be deemed to be valid. In addition, a document with key investor information (the "**KIID**") shall be made available to potential investors prior to their investment in the Fund.

Information on whether a sub-fund of the Fund is listed on the Luxembourg Stock Exchange can be obtained from the Administrative Agent or the Luxembourg Stock Exchange website ([www.bourse.lu](http://www.bourse.lu)).

The issue and redemption of Fund units are subject to the regulations prevailing in the country concerned. The Management Company of the Fund keeps all investor information confidential, unless otherwise required by statutory or regulatory provisions.

Units of this Fund may not be offered, sold or delivered within the United States.

Units of this Fund may not be offered, sold or delivered to investors who are US Persons. A US Person is any person who:

- (i) is a United States person within the meaning of Section 7701(a)(30) of the US Internal Revenue Code of 1986, as amended, and the Treasury Regulations promulgated thereunder;
- (ii) is a US person within the meaning of Regulation S under the US Securities Act of 1933 (17 CFR § 230.902(k));
- (iii) is not a Non-United States person within the meaning of Rule 4.7 of the US Commodity Futures Trading Commission Regulations (17 CFR § 4.7(a)(1)(iv));
- (iv) is in the United States within the meaning of Rule 202(a)(30)-1 under the US Investment Advisers Act of 1940, as amended; or
- (v) is any trust, entity or other structure formed for the purpose of allowing US Persons to invest in the Fund.

## Management and administration

### **Management Company**

UBS Fund Management (Luxembourg) S.A., R.C.S. Luxembourg B 154.210 (the "**Management Company**").

The Management Company has been established, on 1 July 2010, as a public limited company in Luxembourg for an unlimited duration. Its registered office is at 33A avenue J.F. Kennedy, L-1855 Luxembourg.

The articles of incorporation of the Management Company were published on 16 August 2010 by way of a notice of deposit in the "*Mémorial, Recueil des Sociétés et Associations*" (the "**Mémorial**").

The consolidated version is deposited at the Register of Trade and Companies (*Registre de Commerce et des Sociétés*) in Luxembourg. The corporate object of the Management Company is, inter alia, the management of Luxembourg undertakings for collective investment as well as the issue and redemption of units of these products. At the date of this sales prospectus, in addition to the Fund, the Management Company also manages other undertakings for collective investment.

The share capital of the Management Company amounts to 13,000,000 EUR and is fully paid-in.

### **Board of Directors of the Management Company (the "Board of Directors")**

Chairman	André Valente, CEO, UBS Fund Management (Switzerland) AG, Basel, Switzerland
Members	Francesca Prym, CEO, UBS Fund Management (Luxembourg) S.A., Luxembourg, Grand Duchy of Luxembourg
	Christian Maurer, Head of Product Management, UBS Asset Management Switzerland AG, Zurich, Switzerland
	Gilbert Schintgen, Independent Director,

**Conducting Officers of the Management Company**

Valérie Bernard,  
UBS Fund Management (Luxembourg) S.A.,  
Luxembourg, Grand Duchy of Luxembourg

Geoffrey Lahaye,  
UBS Fund Management (Luxembourg) S.A.,  
Luxembourg, Grand Duchy of Luxembourg

Federica Ghirlandini,  
UBS Fund Management (Luxembourg) S.A.,  
Luxembourg, Grand Duchy of Luxembourg

Olivier Humbert,  
UBS Fund Management (Luxembourg) S.A.,  
Luxembourg, Grand Duchy of Luxembourg

**Portfolio Manager**

Sub-funds	Portfolio Manager
UBS (Lux) Institutional Fund - Emerging Markets Equity	UBS Asset Management Switzerland AG, Zurich
UBS (Lux) Institutional Fund - Euro Bonds	
UBS (Lux) Institutional Fund - Euro Corporate Bonds	
UBS (Lux) Institutional Fund - Global Convertible Bonds	
UBS (Lux) Institutional Fund – Equities Europe (ex UK ex Switzerland) Passive	
UBS (Lux) Institutional Fund - Equities Europe (ex UK ex Switzerland) Passive II	UBS Asset Management (UK) Ltd, London
UBS (Lux) Institutional Fund - Key Selection European Equity	
UBS (Lux) Institutional Fund - Key Selection Global Equity	

The Portfolio Manager is commissioned to manage the securities portfolio under the supervision and responsibility of the Management Company, and carries out all relevant transactions while adhering to the prescribed investment restrictions. The Portfolio Management units of UBS Asset Management may transfer their mandates, fully or partially, to associated Portfolio Managers within UBS Asset Management. Responsibility in each case remains with the aforementioned Portfolio Manager assigned by the Management Company.

**Depositary and main paying agent**

UBS Europe SE, Luxembourg Branch, 33A, avenue J.F. Kennedy, L-1855 Luxembourg (B.P. 2, L-2010 Luxembourg)  
UBS Europe SE, Luxembourg Branch has been appointed as depositary of the Fund (the "**Depositary**"). The Depositary will also provide paying agent services to the Fund.

The Depositary is a Luxembourg established branch of UBS Europe SE, a European Company (Societas Europaea, SE), having its registered office in Frankfurt am Main, Germany, registered with the commercial register of the District Court Frankfurt am Main under number HRB 107046. The Depositary has its address at 33A, avenue J.F. Kennedy, L-1855 Luxembourg, registered with the Luxembourg trade and companies register under number B 209.123.

The Depositary has been appointed for the safe-keeping of financial instruments of the Fund that can be held in custody, for the record keeping and verification of ownership of other assets of the Fund as well as to ensure for the effective and proper monitoring of the Fund's cash flows in accordance with the provisions of the law of 17 December 2010 on undertakings for collective investment ("**Law of 2010**") and the Depositary Agreement as amended from time to time (the "**Depositary Agreement**"). Assets held in custody by the Depositary shall not be reused by the Depositary, or any third party to which the custody function has been delegated, for their own account, unless such reuse is expressly allowed by the Law of 2010.

In addition, the Depositary shall also ensure that (i) the sale, issue, repurchase, redemption and cancellation of units are carried out in accordance with Luxembourg law, the Prospectus and the Management Regulations, (ii) the value of the units is calculated in accordance with Luxembourg law, the Prospectus and the Management Regulations, (iii) the instructions of the Management Company are carried out, unless they conflict with applicable Luxembourg law, the Prospectus and/or the Management Regulations, (iv) in transactions involving the Fund's assets any consideration is remitted to the Fund within the usual time limits, and (v) the Fund's incomes are applied in accordance with Luxembourg law, the Prospectus and the Management Regulations.

In compliance with the provisions of the Depositary Agreement and the Law of 2010, the Depositary may, subject to certain conditions and in order to effectively conduct its duties, delegate part or all of its safe-keeping duties in relation to financial instruments that can be held in custody, duly entrusted to the Depositary for custody purposes, and/or all or part of its duties regarding the record keeping and verification of ownership of other assets of the Fund to one or more sub-custodian(s), as they are appointed by the Depositary from time to time. The Depositary does not allow its sub-custodians to make use of sub-delegates which have not been approved by the Depositary in advance.

Prior to the appointment of any sub-custodian and sub-delegate and on an ongoing basis based on applicable laws and regulations as well as its conflict of interests policy the Depositary shall assess potential conflicts of interests that may arise

from the delegation of its safekeeping functions. The Depositary is part of the UBS Group, a worldwide, full-service private banking, investment banking, asset management and financial services organization which is a major participant in the global financial markets. As such, potential conflicts of interest from the delegation of its safekeeping functions could arise as the Depositary and its affiliates are active in various business activities and may have differing direct or indirect interests. Unitholders may obtain additional information free of charge by addressing their request in writing to the Depositary.

In order to avoid any potential conflicts of interest, the Depositary does not appoint any sub-custodians and does not allow the appointment of any sub-delegate which is part of the UBS Group, unless such appointment is in the interest of the unitholders and no conflict of interest has been identified at the time of the sub-custodian's or sub-delegate's appointment. Irrespective of whether a given sub-custodian or sub-delegate is part of the UBS Group or not, the Depositary will exercise the same level of due skill, care and diligence both in relation to the selection and appointment as well as in the on-going monitoring of the relevant sub-custodian or sub-delegate. Furthermore, the conditions of any appointment of a sub-custodian or sub-delegate that is member of the UBS Group will be negotiated at arm's length in order to ensure the interests of the Fund and its unitholders. Should a conflict of interest occur and in case such conflict of interest cannot be mitigated, such conflict of interest as well as the decisions taken will be disclosed to the unitholders. An up-to-date description of any safekeeping functions delegated by the Depositary and an up-to-date list of these delegates and sub-delegate(s) can be found on the following webpage: <https://www.ubs.com/global/en/legalinfo2/luxembourg.html>. Where the law of a third country requires that financial instruments are held in custody by a local entity and no local entity satisfies the delegation requirements of article 34bis, paragraph 3, lit. b) i) of the Law of 2010, the Depositary may delegate its functions to such local entity to the extent required by the law of that third country for as long as there are no local entities satisfying the aforementioned requirements. In order to ensure that its tasks are only delegated to sub-custodians providing an adequate standard of protection, the Depositary has to exercise all due skill, care and diligence as required by the Law of 2010 in the selection and the appointment of any sub-custodian to whom it intends to delegate parts of its tasks and has to continue to exercise all due skill, care and diligence in the periodic review and ongoing monitoring of any sub-custodian to which it has delegated parts of its tasks as well as of any arrangements of the sub-custodian in respect of the matters delegated to it. In particular, any delegation is only possible when the sub-custodian at all times during the performance of the tasks delegated to it segregates the assets of the Fund from the Depositary's own assets and from assets belonging to the sub-custodian in accordance with the Law of 2010. The Depositary's liability shall not be affected by any such delegation, unless otherwise stipulated in the Law of 2010 and/or the Depositary Agreement.

The Depositary is liable to the Fund or its unitholders for the loss of a financial instrument held in custody within the meaning of article 35 (1) of the Law of 2010 and article 12 of the Commission Delegated Regulation (EU) 2016/438 of 17 December 2015 supplementing the UCITS Directive with regard to obligations of depositaries (the "**Fund Custodial Assets**") by the Depositary and/or a sub-custodian (the "**Loss of a Fund Custodial Asset**").

In case of Loss of a Fund Custodial Asset, the Depositary has to return a financial instrument of an identical type or the corresponding amount to the Fund without undue delay. In accordance with the provisions of the Law of 2010, the Depositary will not be liable for the Loss of a Fund Custodial Asset, if such Loss of a Fund Custodial Asset has arisen as a result of an external event beyond its reasonable control, the consequences of which would have been unavoidable despite all reasonable efforts to the contrary.

The Depositary shall be liable to the Fund and to the unitholders for all other direct losses suffered by them as a result of the Depositary's negligence or intentional failure to properly fulfil its duties in accordance with applicable law, in particular the Law of 2010 and the Depositary Agreement.

The Management Company and the Depositary may terminate the Depositary Agreement at any time by giving three (3) months' notice by registered letter. In case of a voluntary withdrawal of the Depositary or of its removal by the Management Company, the Depositary must be replaced before maturity of such notice period by a successor depositary to whom the Fund's assets are to be delivered and who will take over the functions and responsibilities of the Depositary. If the Management Company does not name such successor depositary in time the Depositary may notify the Luxembourg supervisory authority "Commission de Surveillance du Secteur Financier" ("**CSSF**") of the situation.

#### ***Administrative Agent***

Northern Trust Global Services SE, 10, rue du Château d'Eau, L-3364 Leudelange

The administrative agent (the "**Administrative Agent**") is responsible for the general administrative duties involved in managing the Fund and prescribed by Luxembourg law. These administrative services mainly include calculation of the net asset value per unit and the keeping of the Fund's accounts as well as reporting.

#### ***Auditor of the Fund***

Ernst & Young S.A., 35E, avenue John F. Kennedy, L-1855 Luxembourg (the "**Auditor**")

#### ***Auditor of the Management Company***

Ernst & Young S.A., 35E, avenue John F. Kennedy, L-1855 Luxembourg

#### ***Paying agents***

UBS Europe SE, Luxembourg Branch, 33A, avenue J.F. Kennedy, L-1855 Luxembourg (B.P. 2, L-2010 Luxembourg) and other paying agents in the various distribution countries (the "**Paying Agents**").

#### ***Distributors and other sales agents, referred to as "distributors" in the sales prospectus***

UBS Asset Management Switzerland AG, Zurich, and other distributors in the various distribution countries.

#### ***Profile of the typical investor***

#### **UBS (Lux) Institutional Fund- Emerging Market Equity**

The sub-fund is suitable for institutional investors who wish to invest in an actively managed diversified portfolio of equities and equity rights of companies from emerging market countries. Investors should be prepared to assume the risk associated with investing in emerging market assets.

#### **UBS (Lux) Institutional Fund – Equities Europe (ex UK ex Switzerland) Passive**

The sub-fund is suitable for institutional investors who wish to invest in a diversified, passively managed portfolio of shares from European companies represented in MSCI Europe ex UK ex Switzerland Total Return Net Index (net div. reinv.)

, and who are prepared to accept the risks inherent in shares.

#### **UBS (Lux) Institutional Fund – Equities Europe (ex UK ex Switzerland) Passive II**

The sub-fund is suitable for institutional investors who wish to invest in a diversified, passively managed portfolio of shares from European companies represented in MSCI Europe ex UK ex Switzerland Total Return Net Index (net div. reinv.) and who are prepared to accept the risks inherent in shares. Additionally the investor wants to avoid the credit risk inherent to security lending activities.

#### **UBS (Lux) Institutional Fund - Euro Bonds**

The sub-fund is suitable for institutional investors who wish to invest in an actively managed diversified portfolio of debt securities and claims, mainly denominated in EUR and issued by international and supranational organizations, semi-public or public borrowers.

#### **UBS (Lux) Institutional Fund - Euro Corporate Bonds**

The sub-funds are suitable for institutional investors who wish to invest in an actively managed diversified portfolio of corporate bonds denominated in EUR.

#### **UBS (Lux) Institutional Fund - Global Convertible Bonds**

The sub-fund is suitable for institutional investors who wish to invest in an actively managed globally diversified convertible bond portfolio.

#### **UBS (Lux) Institutional Fund - Key Selection European Equity**

The sub-fund is suitable for investors who wish to invest in an actively managed diversified portfolio of European equities and equity rights and who are prepared to accept the risks inherent in shares.

#### **UBS (Lux) Institutional Fund - Key Selection Global Equity**

The sub-fund is suitable for institutional investors who wish to invest worldwide in an actively managed diversified portfolio of corporate equities and equity rights and who are prepared to accept the risks inherent in shares.

#### ***Historical performance***

The historical performance of the individual sub-funds is outlined in the KIID.

#### ***Risk profile***

Sub-fund investments may be subject to substantial fluctuations and no guarantee can be given that the value of a unit in the Fund will not fall below its value at the time of acquisition.

Factors that can trigger such fluctuations or influence their extent include but are not limited to:

- Company-specific changes
- Changes in interest rates
- Changes in exchange rates
- Credit risk: degradation of the credit quality of a determined security.
- Changes affecting economic factors such as employment, public expenditure and indebtedness, inflation
- Changes in the legal environment
- Changes in investor confidence in investment classes (e.g. equities), markets, countries, industries and sectors
- Changes in the prices of raw materials

By diversifying investments, the Portfolio Manager seeks to partially reduce the negative impact of these risks on the value of the sub-fund.

The Portfolio Manager may use special techniques and financial instruments whose underlyings are securities, money market instruments and other financial instruments. These instruments may be of crucial importance for certain sub-funds. The risks associated with such techniques are described in this sales prospectus in the section entitled "Risks connected with the use of derivatives" and "Use of derivatives".

#### **The Fund**

##### ***Fund Structure***

The Fund offers investors various sub-funds ("**umbrella structure**") which invest in accordance with the investment policy described in this sales prospectus. The specific details on each sub-fund are defined in this sales prospectus which will be updated on the inception of each new sub-fund.

### Unit classes

The Management Company can issue several classes of units for each of the sub-funds. All unit classes presently in issue are reserved to institutional investors having concluded an agreement (such as, but not limited to a portfolio management agreement) with UBS Asset Management Switzerland AG or one of its authorised delegates. All unit classes are issued in registered form only.

Currently, the following unit classes are offered in all sub-funds of the Fund:

AA	BA	CA	DA	FA	XA	YA
AD	-	-	-	-	-	-
AA-T1		CA-T1				
AD-T2						

- Unit class XA, YA for which the portfolio management, custody, distribution and administration fees are charged outside the Fund, directly at the level of the agreement concluded by the investor.

- Unit class FA, for which the portfolio management, custody, distribution and administration fees are charged outside the Fund, directly at the level of the agreement concluded by the investor. These units will have an issue price of 10 000 (in each fund's reference currency). This class aims exclusively at financial products (i.e. Fund-of-Funds or other pooled structures according to various legislations). This unit class has a high initial value aiming at facilitating day-to-day operations of these pooled structures. In addition, it features the same characteristics as the unit class XA.

- Unit class BA, for which the portfolio management and distribution fees are charged outside the Fund, directly at the level of the agreement concluded by the investor. Unit class BA only bears operational and administrative expenses.

- Unit class DA, for which the portfolio management and distribution fees are charged outside the Fund, directly at the level of the agreement concluded by the investor. Unit class DA only bears operational and administrative expenses. Unit class DA hedges the foreign currency exposure of the respective sub-fund against their respective reference currency.

- Unit classes AA, AD, AA-T1, AD-T2 and CA for which the flat fee is directly deducted from the Fund's NAV and covers all expenses.

- Unit class CA-T1, for which the portfolio management and distribution fees are charged at the sub-fund's level, in addition to the normal operational and administrative expenses. Unit class CA-T1 hedges the foreign currency exposure of the respective sub-fund against their respective reference currency.

- Unit classes CA and YA hedge the foreign currency exposure of the respective sub-fund against their respective reference currency.

- Unit classes AA, BA, DA, XA, FA, YA, AA-T1, CA-T1 and CA are reinvesting their dividends and other income, rather than distributing it on a regular basis.

- Units of class AD-T2 are distributing units, which entitle the unitholder to an annual distribution.

- Units class AD are distributing units, which entitle the unitholder to a quarterly distribution.

Additional characteristics of unit classes:	
Currency	The unit classes may be denominated in AUD, CAD, CHF, CZK, EUR, GBP, HKD, JPY, PLN, RMB, RUB, SEK, SGD or USD.
hedging	For unit classes whose reference currencies are not identical to the currency of account of the sub-fund (" <b>unit classes in foreign currencies</b> "), the fluctuation risk of the reference currency price for those unit classes is hedged against the currency of account of the sub-fund. Provision is made for the amount of the hedging to be between 95% and 105% of the total net assets of the unit class in foreign currency. Changes in the market value of the portfolio, as well as subscriptions and redemptions of unit classes in foreign currencies, can result in the hedging temporarily surpassing the aforementioned range. The Management Company and the Portfolio Manager will then take all the necessary steps to bring the hedging back within the aforementioned limits. The hedging described has no effect on possible currency risks resulting from investments denominated in a currency other than the sub-fund's currency of account.
RMB denominated unit classes	Investors should note that the Renminbi (ISO 4217 currency code: CNY), abbreviated RMB, the official currency of the People's Republic of China (the " <b>PRC</b> "), is traded on two markets, namely as onshore RMB (CNY) in mainland China and offshore RMB (CNH) outside mainland China. Unit classes denominated in RMB are units whose net asset value is calculated in offshore RMB (CNH). Onshore RMB (CNY) is not a freely convertible currency and is subject to foreign exchange control policies and repatriation restrictions imposed by the PRC government. Offshore RMB (CNH), on the other hand, may be traded freely against other currencies, particularly EUR, CHF and USD. This means the exchange rate between offshore RMB (CNH) and other currencies is determined on the

	<p>basis of supply and demand relating to the respective currency pair.</p> <p>RMB convertibility between offshore RMB (CNH) and onshore RMB (CNY) is a regulated currency process subject to foreign exchange control policies and repatriation restrictions imposed by the PRC government in coordination with offshore regulatory or governmental agencies (e.g. the Hong Kong Monetary Authority).</p> <p>Prior to investing in RMB classes, investors should bear in mind that the requirements relating to regulatory reporting and fund accounting of offshore RMB (CNH) are not clearly regulated. Furthermore, investors should be aware that offshore RMB (CNH) and onshore RMB (CNY) have different exchange rates against other currencies. The value of offshore RMB (CNH) can potentially differ significantly from that of onshore RMB (CNY) due to a number of factors including, without limitation, foreign exchange control policies and repatriation restrictions imposed by the PRC government at certain times, as well as other external market forces. Any devaluation of offshore RMB (CNH) could adversely affect the value of investors' investments in the RMB classes. Investors should therefore take these factors into account when calculating the conversion of their investments and the ensuing returns from offshore RMB (CNH) into their target currency.</p> <p>Prior to investing in RMB classes, investors should also bear in mind that the availability and tradability of RMB classes, and the conditions under which they may be available or traded, depend to a large extent on the political and regulatory developments in the PRC. Thus, no guarantee can be given that offshore RMB (CNH) or the RMB classes will be offered and/or traded in future, nor can there be any guarantee as to the conditions under which offshore RMB (CNH) and/or RMB classes may be made available or traded. In particular, since the currency of account of the relevant sub-funds offering the RMB classes would be in a currency other than offshore RMB (CNH), the ability of the relevant sub-fund to make redemption payments in offshore RMB (CNH) would be subject to the sub-fund's ability to convert its currency of account into offshore RMB (CNH), which may be restricted by the availability of offshore RMB (CNH) or other circumstances beyond the control of the Management Company.</p> <p>The hedging of the fluctuation risk will be carried out as described above under "hedging".</p> <p>Potential investors should be aware of the risks of reinvestment, which could arise if the RMB class has to be liquidated early due to political and/or regulatory circumstances. This does not apply to the reinvestment risk due to liquidation of a unit class and/or the sub-fund in accordance with the section "Liquidation and merging of the Fund and its sub-funds or unit classes".</p>
"seeding"	<p>Units in classes with "seeding" in their name are only offered for a limited period of time. At the end of this period, no further subscriptions are permitted unless the Management Company decides otherwise. However, these units may still be redeemed in accordance with the conditions for the redemption of units. Unless the Management Company decides otherwise, the smallest tradeable unit, the initial issue price and the minimum subscription amount are those of the aforementioned asset classes.</p>

## Legal aspects

The Fund was established as an open-ended investment fund without legally independent status in the form of a collective investment fund (fonds commun de placement, FCP) pursuant to Part I of the Luxembourg law relating to Undertakings for Collective Investment of 20 December 2002. The Fund was originally established under the title UBS Brinson Portfolio and has been approved on 28 December 1998. The Management Regulations were first published in the Mémorial on 21 January 1999 by way of a notice of deposit. The most recent amendments to the Management Regulations were published in the "Recueil Electronique des Sociétés et Associations" ("**RESA**") on 20 June 2017.

The activities of UBS Institutional Fund Management Company S.A. in its function as Management Company of the Fund expired with effect as of 30 September 2010.

On 1 October 2010, UBS Fund Management (Luxembourg) S.A. took over the function of the Management Company.

The Fund's Management Regulations may be amended in observance of the provisions of the law. Each amendment will be published by means of a notice of deposit in "RESA" and as further described below in section "Regular reports and publications". The new Management Regulations enter into force upon by signing by the Management Company and the Depositary. The consolidated version is deposited at the Registre de Commerce et des Sociétés in Luxembourg.

The Fund has no legal personality as an investment fund. The entire assets of each sub-fund are the undivided property of all unitholders who have equal rights in proportion to the number of units they hold. These assets are separate from the assets of the Management Company. The securities and other assets of the Fund are managed by the Management Company as separate trust assets in the interest and for the account of the unitholders.

The Management Regulations give the Management Company the authority to establish different sub-funds for the Fund as well as different unit classes with specific characteristics within these sub-funds. This sales prospectus will be updated each time a new sub-fund or an additional unit class is issued.

There is no limit on the size of the net assets, the number of units, number of sub-funds or unit classes or the duration of the Fund or its sub-funds.

The Fund forms an indivisible legal entity. With respect to the unitholders, each sub-fund is regarded as being separate from the others. The assets of a sub-fund can only be used to offset the liabilities, which the sub-fund concerned has assumed. Given that there is no segregation of liabilities between unit classes, there is a risk that, under certain circumstances, currency hedging transactions in relation to unit classes which hedge the foreign currency exposure of the respective sub-fund against their respective reference currency could result in liabilities which might affect the net asset value of the other unit classes of the same sub-fund.

The acquisition of fund units implies acceptance of the Management Regulations by the unitholder.

The Management Regulations do not provide for a general meeting of the unitholders.

The financial year of the Fund ends on 31 December.

The Management Company draws the investors' attention to the fact that any investor will only be able to fully exercise his investor rights directly against the Fund if he is registered himself and in his own name in the unitholders' register of the Fund. In cases where an investor invests in the Fund through an intermediary investing into the Fund in its own name but on behalf of the investor, it may not always be possible for the investor to exercise certain unitholder rights. Investors are advised to take advice on their rights.

## **Investment objective and investment policy of the sub-funds**

### ***Investment objective***

The Fund provides investors with an opportunity for investment in all types of assets through professionally managed sub-funds, each with their own specific investment objective and policy as more fully described under investment policy in order to achieve long term capital growth. The Fund will seek maximum capital appreciation (income plus capital gains) without undue risk.

### ***General investment policy***

The assets of the sub-funds shall be invested following the principle of risk spreading. The sub-funds shall invest their net assets worldwide in debentures, notes (incl. Loan Participation Notes), similar fixed- and variable-rate interest-bearing transferable securities (debt securities and claims), convertible bonds, convertible notes, preferred convertible securities, exchangeable bonds, bonds cum warrant, warrants on transferable securities, equities, other certificates such as cooperative society shares and participation certificates (equities and equity rights), short-term transferable securities and other participation certificates as well as all other legally permissible assets. Additionally, the sub-funds can invest in American Depositary Receipts, Global Depositary Receipts and structured products linked to equities like for instance Equity Linked Notes.

In its effort to achieve this objective the Management Company must observe the investment restrictions as described in the Management Regulations.

The currency of account of the individual sub-funds indicates solely the currency in which the net asset value of the respective sub-fund is calculated and not the investment currency of the sub-fund concerned. Investments are made in those currencies which best benefit the performance of the sub-funds.

As set out in 1.1 g) and 4 of the investment guidelines, the Management Company may use, within the statutory limits defined for each sub-fund, special techniques and financial instruments whose underlyings are securities, money market instruments and other financial instruments as a central element of its efforts to achieve the investment policy.

The markets in derivative instruments are volatile; both the opportunity to achieve gains as well as the risk of suffering losses are higher than with investments in securities. These techniques and instruments will only be employed if they are in conformity with the investment policies of the individual sub-funds and do not adversely affect their quality. This also applies to options on securities.

The Fund can invest in all type of securitized assets, like mortgage backed securities and asset backed securities, where payments of coupons and principal are provided by the collateral assets rather than the issuing company itself. The issuing entity might have no or limited liabilities towards such securities impacting their credit risk.

The mortgage backed, mortgage-related and asset-backed securities are collateralized or backed by mortgages, other real property or any kind of notes/receivables against assets other than real estate and may have all types of interest rate payment and rest terms, including fixed rate, adjustable and floating rate, pay-in-kind and auction rate features. These fixed income securities may include:

- Government agency and privately issued mortgage-backed securities
- Commercial mortgage backed securities
- Collateralized mortgage and bond obligations
- Real Estate Mortgage Investment Conduits (REMICs) collateralized by agency and private label pass-through securities (Fixed and adjustable rate)
- Home equity loan asset-backed securities
- Manufactured housing asset-backed securities.

Commercial mortgage backed securities are issued by private companies and covered through mortgage loans on property. Payment of the individual property investments serves to settle interest and repay loans. Asset backed securities are used for refinancing purposes and valued by rating agencies. They are covered by a pool of loans and/or assets, the repayment of which is effected through yields from the pool. Loans in this context may include mortgages, credit card debts and corporate credit or lease charges. The aforementioned securities correspond to securities in accordance with Article 41 of the Law of 2010.

Each sub-fund may accessibly hold liquid assets in all currencies. The sub-funds pay special attention to reach a broad diversification of all investments among industries, debtors and ratings. For this purpose, they may - unless defined otherwise in the investment policy of the concerned sub-fund -, invest no more than 10% of the net assets of a sub-fund in units of a UCITS or other UCI.

## **The sub-funds and their special investment policies**

### **UBS (Lux) Institutional Fund - Emerging Markets Equity**

The Sub-Fund is actively managed in reference to the MSCI Emerging Markets Total Return Net Index (net div. reinv.). The benchmark is used for portfolio composition, performance comparison and investment risk management. A significant portion of the Sub-Fund's assets will be components of and have similar weightings to the Benchmark. The Investment Manager may use its discretion to invest in companies or sectors not included in the Benchmark in order to take advantage of specific investment opportunities. The fund performance may considerably differ from the benchmark performance during volatile markets.

The objective is to achieve an excess performance relative to the benchmark. Investments are primarily made in common and preferred stocks including ADR's, warrants on transferable securities and rights convertible into common stocks. The sub-fund may hold short-term fixed income transferable securities on an ancillary basis. The term "emerging markets" is used to describe those markets included in the International Finance Corporation Composite Index and/or the MSCI Emerging Markets Index (net div. reinv.) and other countries which are at a comparable level of economic development or in which there are new capital markets. Investors should note that the sub-fund's investment exposure may also include Chinese A-shares traded via Shanghai-Hong Kong Stock Connect or Shenzhen-Hong Kong Stock Connect. Chinese A-shares are renminbi-denominated A-shares of companies domiciled in mainland China; these are traded on Chinese stock exchanges such as the Shanghai Stock Exchange and the Shenzhen Stock Exchange.

**This sub-fund may invest in emerging market countries (Emerging Markets). The risks associated therewith are described in the section "General risk information". In addition to the aforementioned, investors should read, be aware of and take into account the risks associated with investments traded via Shanghai-Hong Kong Stock Connect or Shenzhen-Hong Kong Stock Connect. Information on this topic is provided after the section "General risk information".**

**For these reasons, the sub-fund is especially suitable for risk-conscious investors.**

The sub-fund may also buy or sell futures, swaps, non-deliverable forwards and options on currencies in order to:

- partially or entirely secure the foreign currency risk of the investments contained in the sub-fund's assets in respect of that sub-fund's currency of account. This can be achieved either directly (hedging a currency against the reference currency) or indirectly (hedging the currency against a third currency which is then hedged against the currency of account);
- build up currency positions against the currency of account, other freely convertible currencies or currencies included in the benchmark.

The non-deliverable forward market allows building up currency positions and to hedge exchange rate exposures on currencies, without any physical transfer of these currencies and without having to deal in the local market. Therefore, the local counterparty risk and the cost of holding accounts in local currencies can be avoided. Further, US dollar-settled NDF between two offshore counterparties are not generally subject to local monetary controls.

**Currency of account:** USD

### **UBS (Lux) Institutional Fund - Euro Bonds**

The Sub-Fund is actively managed in reference to the Bloomberg Barclays Euro Aggregate 500MM Index: LBE5TREU. The benchmark is used for portfolio composition, performance comparison and investment risk management.

A significant portion of the Sub-Fund's assets will be components of and have similar weightings to the Benchmark. The Portfolio Manager may use its discretion to invest in countries, companies or sectors not included in the Benchmark in order to take advantage of specific investment opportunities. The fund performance may considerably differ from the benchmark performance during volatile markets.

The sub-fund invests mainly in fixed-term and floating rate debt securities and claims issued by public authorities and private borrowers and denominated or bearing an option in EUR (or its legacy currencies) and showing a credit quality of at least investment grade.

**Currency of account:** EUR

### **UBS (Lux) Institutional Fund - Euro Corporate Bonds**

The Sub-Fund is actively managed in reference to the Bloomberg Barclays Euro Aggregate Corporate 500MM Index: LE5CTREU. The benchmark is used for portfolio composition, performance comparison and investment risk management.

A significant portion of the Sub-Fund's assets will be components of and have similar weightings to the Benchmark. The Portfolio Manager may use its discretion to invest in companies or sectors not included in the Benchmark in order to take advantage of specific investment opportunities. The fund performance may considerably differ from the benchmark performance during volatile markets.

For currency hedged Share Classes, currency hedged benchmarks are used.

The sub-fund invests mainly in bond, notes and other fixed income and floating rate secured or unsecured investments issued by corporations and denominated in EUR. The credit quality covers the range from AAA to BBB- (Standard &

Poor's Rating) respective from Aaa to Baa3 (Moody's Rating).

**Currency of account:** EUR

### **UBS (Lux) Institutional Fund - Global Convertible Bonds**

The Sub-Fund is actively managed in reference to the Refinitiv Global Convertible Index - Global Vanilla hedged (EUR): UCBI15 (the "benchmark"). The benchmark is used for performance comparison and investment risk management. Although part of the Sub-Fund's assets will be components of and have similar weightings to the Benchmark, the Portfolio Manager may use its discretion to invest in securities or issuers not included in the Benchmark, or . The portfolio manager may, among others, invest in convertible, exchangeable and warrant-linked bonds as well as convertible debentures from issuers not in the benchmark in order to take advantage of specific investment opportunities. The fund performance may considerably differ from the benchmark performance during volatile markets.

For currency hedged Share Classes, currency hedged benchmarks are used.

The sub-fund invests mainly in convertible, exchangeable bonds and warrant bonds as well as in preferred convertible securities worldwide. The sub-fund invests in those currencies best suited to increase the sub-fund's net asset value. The investments can be implemented in any legal currency. The foreign exchange risk will be actively managed and if necessary completely hedged against EUR.

The sub-fund is suited for investors who wish to profit from the development of the global stock market but do not want to go without a certain level of security such as that afforded by the "bond floor" offered by a convertible bond.

The sub-fund can also invest directly in the aforementioned securities emitted by an issuer of the Russian Federation, provided that these securities are listed or traded on a securities exchange or another regulated market, which is recognized, open to the public and operating in a due and orderly fashion. Considered as a recognized market in the Russian Federation are at present "Russian Trading System Stock Exchange" and "Moscow Interbank Currency Exchange".

The sub-fund may not invest more than one third of its net assets in the above securities when these are issued or hedged by borrowers from emerging markets or borrowers who conduct a large proportion of their business operations on such markets or issue instruments that are associated with a credit risk in respect of emerging markets.

Investments in countries of the Commonwealth of Independent States (CIS), except the Russian Federation under provision for the aforementioned precondition, together with investments pursuing to Investment Principles, section 1.2, may not exceed 10% of the net assets of the sub-fund.

The sub-fund may invest no more than 20% of its net assets in fixed-income instruments denominated in RMB and traded on the China Interbank Bond Market ("CIBM") or via Bond Connect. These instruments may include securities issued by governments, quasi-public corporations, banks, corporations and other institutions in the People's Republic of China ("PRC" or "China") that are authorised to be traded directly on the CIBM or via Bond Connect. The associated risks are described in the section "Risk information on investments in China Interbank Bond Market" as well as "Risk information on investments in CIBM via Northbound Trading Link under Bond Connect".

The term "emerging markets" is used to describe those markets included in the International Finance Corporation Composite Index and/or the MSCI Emerging Markets Index and other countries which are at a comparable level of economic development or in which there are new capital markets.

This sub-fund may invest in emerging market countries (Emerging Markets). The risks associated therewith are described in the section "General risk information". For these reasons, the sub-fund is especially suitable for risk-conscious investors.

The sub-fund may also buy or sell futures, swaps, non-deliverable forwards and options on currencies in order to:

- partially or entirely secure the foreign currency risk of the investments contained in the sub-fund's assets in respect of that sub-fund's currency of account. This can be achieved either directly (hedging a currency against the reference currency) or indirectly (hedging the currency against a third currency which is then hedged against the currency of account);
- build up currency positions against the currency of account, or any other legal currencies.

The non-deliverable forward market allows building up currency positions and to hedge exchange rate exposures on currencies, without any physical transfer of these currencies and without having to deal in the local market. Therefore, the local counterparty risk and the cost of holding accounts in local currencies can be avoided. Further, US dollar-settled NDF between two offshore counterparties are not generally subject to local monetary controls.

**Currency of account:** EUR

### **UBS (Lux) Institutional Fund - Equities Europe (ex UK ex Switzerland) Passive**

This sub-fund replicates as closely as possible - to the extent market conditions permit - MSCI Europe ex UK ex Switzerland Total Return Net Index (net div. reinv.) (the "benchmark"). The objective is to return the performance of the benchmark. The index administrator is included in the public register of EU benchmark administrators and third country benchmarks established and maintained by ESMA. Further information on the index and the Management Company's use of indices is set out in the section "Benchmark Regulation" of this sales prospectus. Investments are primarily made in common and preferred stocks including ADRs, warrants on transferable securities and rights convertible into stocks .

As part of its investment strategy, the sub-fund may use derivatives in order to manage net flows in connection with subscriptions/redemptions or for the purpose of benchmark replication. The sub-fund may hold short-term fixed income transferable securities on an ancillary basis. The sub-fund may make use of securities lending as further outlined in the section "Exposure to securities financing transactions".

*Direct investments in index securities:*

the sub-fund holds a portfolio mainly composed of securities of the underlying index. The use of derivatives is allowed in order to get exposure to the securities in the underlying index. Exceptions to this may arise due to various factors, such as the costs and expenses incurred. This can also be affected by the concentration limits and other legal or regulatory restrictions set out in the "Investment principles" section. The illiquidity of certain securities is another reason why it may not be possible to acquire all index securities in their respective weightings, or to even acquire them at all. In these cases, the sub-fund seeks to hold a representative selection of securities comprising the underlying index selected by the portfolio manager through quantitative methods (stratified sampling strategy). This can include considering the inclusion of individual securities in the sub-fund on the basis of their investment characteristics and liquidity.

Exposure to the index through physical replication may be affected by the cost of rebalancing, especially if the index undergoes a significant rebalancing or if the securities it contains are not very liquid or not fully accessible. The cost of rebalancing shall depend on the frequency at which the underlying index undergoes rebalancing, the weighting adjustments in respect of the securities it contains and/or the number of securities replaced on each rebalancing date, and the transaction costs incurred in implementing such changes. High rebalancing costs generally mean that the sub-fund will generate a lower relative performance compared to the index.

The frequency of rebalancing for each sub-fund is set out in the "Description of the index" section.

*Tracking error:*

the sub-fund's portfolio manager shall endeavour, under normal market conditions, to keep the tracking error (the divergence between the yield of the sub-fund and that of the tracked index) below 1%. However, this may exceed 1% in exceptional circumstances.

*Description of the index:*

The MSCI Europe ex UK ex Switzerland Total Return Net Index (net div. reinv.) is a market capitalisation-weighted index. The Index captures large and mid cap representation across 13 Developed Markets countries in Europe. With 310 constituents, the index covers approximately 85% of the free float-adjusted market capitalization across European Developed Markets excluding Switzerland and UK (data from August 2020).

The index methodology is based on the MSCI Global Investable Market Indexes (GIMI) Methodology. This is a comprehensive and consistent approach to index construction that allows for meaningful global views and cross regional comparisons across all market capitalization size, sector and style segments and combinations. This methodology aims to provide exhaustive coverage of the relevant investment opportunity set with a strong emphasis on index liquidity, investability and replicability. The index is reviewed quarterly: in February, May, August and November, with the objective of reflecting change in the underlying equity markets in a timely manner, while limiting undue index turnover. During the May and November semi-annual index reviews, the index is rebalanced and the large and mid capitalization cutoff points are recalculated.

*Index methodology:*

The index construction methodology is available at <https://www.msci.com/index-methodology>

*Index factsheet:*

The index factsheet is available at <https://www.msci.com/index-solutions>

*Publication of the index value:*

The closing price of the underlying index is available on Bloomberg.

*Publication of the index composition:*

The composition of the underlying index is available at <https://www.msci.com/constituents>

**Currency of the account :** CHF

**UBS (Lux) Institutional Fund – Equities Europe (ex UK ex Switzerland) Passive II**

This sub-fund replicates as closely as possible - to the extent market conditions permit - the MSCI Europe ex UK ex Switzerland Total Return Net Index (net div. reinv.). The objective is to return the performance of the benchmark. The index administrator is included in the public register of EU benchmark administrators and third country benchmarks established and maintained by ESMA. Further information on the index and the Management Company's use of indices is set out in the section "Benchmark Regulation" of this sales prospectus. Investments are primarily made in common and preferred stocks including ADRs, warrants on transferable securities and rights convertible into stocks. As part of its investment strategy, the sub-fund may use derivatives in order to manage net flows in connection with subscriptions/redemptions or for the purpose of benchmark replication. The sub-fund may hold short-term fixed income

transferable securities on an ancillary basis. The sub-fund does not make use of securities lending as further outlined in the section "Exposure to securities financing transactions".

*Direct investments in index securities:*

The sub-fund holds a portfolio mainly composed of securities of the underlying index. The use of derivatives is allowed in order to get exposure to the securities in the underlying index. Exceptions to this may arise due to various factors, such as the costs and expenses incurred. This can also be affected by the concentration limits and other legal or regulatory restrictions set out in the "Investment principles" section. The illiquidity of certain securities is another reason why it may not be possible to acquire all index securities in their respective weightings, or to even acquire them at all. In these cases, the sub-fund seeks to hold a representative selection of securities comprising the underlying index selected by the portfolio manager through quantitative methods (stratified sampling strategy). This can include considering the inclusion of individual securities in the sub-fund on the basis of their investment characteristics and liquidity.

Exposure to the index through physical replication may be affected by the cost of rebalancing, especially if the index undergoes a significant rebalancing or if the securities it contains are not very liquid or not fully accessible. The cost of rebalancing shall depend on the frequency at which the underlying index undergoes rebalancing, the weighting adjustments in respect of the securities it contains and/or the number of securities replaced on each rebalancing date, and the transaction costs incurred in implementing such changes. High rebalancing costs generally mean that the sub-fund will generate a lower relative performance compared to the index.

The frequency of rebalancing for each sub-fund is set out in the "Description of the index" section.

*Tracking error:*

The sub-fund's portfolio manager shall endeavour, under normal market conditions, to keep the tracking error (the divergence between the yield of the sub-fund and that of the tracked index) below 1%. However, this may exceed 1% in exceptional circumstances.

*Description of the index:*

The MSCI Europe ex UK ex Switzerland Total Return Net Index (net div. reinv.) is a market capitalisation-weighted index. The Index captures large and mid cap representation across 13 Developed Markets countries in Europe. With 310 constituents, the index covers approximately 85% of the free float-adjusted market capitalization across European Developed Markets excluding Switzerland and UK (data from August 2020).

The index methodology is based on the MSCI Global Investable Market Indexes (GIMI) Methodology. This is a comprehensive and consistent approach to index construction that allows for meaningful global views and cross regional comparisons across all market capitalization size, sector and style segments and combinations. This methodology aims to provide exhaustive coverage of the relevant investment opportunity set with a strong emphasis on index liquidity, investability and replicability. The index is reviewed quarterly: in February, May, August and November, with the objective of reflecting change in the underlying equity markets in a timely manner, while limiting undue index turnover. During the May and November semi-annual index reviews, the index is rebalanced and the large and mid capitalization cutoff points are recalculated.

*Index methodology:*

The index construction methodology is available at <https://www.msci.com/index-methodology>

*Index factsheet:*

The index factsheet is available at <https://www.msci.com/index-solutions>

*Publication of the index value:*

The closing price of the underlying index is available on Bloomberg.

*Publication of the index composition:*

The composition of the underlying index is available at <https://www.msci.com/constituents>

**Currency of the account : CHF**

**UBS (Lux) Institutional Fund - Key Selection European Equity**

The Sub-Fund is actively managed in reference to MSCI Europe Total Return Net Index (net div. reinv.). The benchmark is used for portfolio composition, performance comparison and investment risk management.

A significant portion of the Sub-Fund's assets will be components of and have similar weightings to the Benchmark. The Portfolio Manager may use its discretion to invest in companies or sectors not included in the Benchmark in order to take advantage of specific investment opportunities. The fund performance may considerably differ from the benchmark performance during volatile markets.

The sub-fund invests mainly in common and preferred stocks including ADR's, warrants on transferable securities and rights convertible into common stocks from companies domiciled or which are chiefly active in European Countries. The objective is to achieve an excess performance relative to the MSCI Europe Index (net div. reinv.) (the "benchmark"). This may result in investments in smaller and/or unlisted companies in compliance with Article 2 of the Management

Regulations.

The markets of smaller and/or unlisted companies are more volatile and the possibility to realise gains, as well as the risk to suffer losses are higher.

The sub-fund may hold short-term fixed income transferable securities on an ancillary basis. The sub-fund aims at an active equity portfolio, which invests in a narrow selection of shares out of the investment universe. The focus is on consequent price/value ratio and follows a global, disciplined investment process. The research is based on a worldwide network of analysts. The portfolio construction process is done by a team of strategists, which integrates the analyst's findings in the portfolio construction process.

The sub-fund may also buy or sell futures, swaps, non-deliverable forwards and options on currencies in order to:

- partially or entirely secure the foreign currency risk of the investments contained in the sub-fund's assets in respect of that sub-fund's currency of account. This can be achieved either directly (hedging a currency against the reference currency) or indirectly (hedging the currency against a third currency which is then hedged against the currency of account);
- build up currency positions against the currency of account, other freely convertible currencies or currencies included in the benchmark.

The non-deliverable forward market allows building up currency positions and to hedge exchange rate exposures on currencies, without any physical transfer of these currencies and without having to deal in the local market. Therefore, the local counterparty risk and the cost of holding accounts in local currencies can be avoided. Further, US dollar-settled NDF between two offshore counterparties are not generally subject to local monetary controls.

**Currency of account:** EUR

### **UBS (Lux) Institutional Fund - Key Selection Global Equity**

The Sub-Fund is actively managed in reference to MSCI World Total Return Net Index (net div. reinv.). The benchmark is used for portfolio composition, performance comparison and investment risk management.

A significant portion of the Sub-Fund's assets will be components of and have similar weightings to the Benchmark. The Portfolio Manager may use its discretion to invest in companies or sectors not included in the Benchmark in order to take advantage of specific investment opportunities. The fund performance may considerably differ from the benchmark performance during volatile markets.

The sub-fund actively invests mainly in common and preferred stocks including ADR's, warrants on transferable securities and rights convertible into common stocks of companies with domicile or which are chiefly active in the developed countries included in the MSCI World Index (net div. reinv.) (the "benchmark"). The objective is to achieve an excess performance relative to the benchmark. This may result in investments in smaller and/or unlisted companies in compliance with Article 2 of the Management Regulations.

The markets of smaller and/or unlisted companies are more volatile and the possibility to realise gains, as well as the risk to suffer losses are higher.

The sub-fund may hold short-term fixed income securities on an ancillary basis. The sub-fund aims at an active equity portfolio, which invests in a narrow selection of shares out of the investment universe. The focus is on consequent price/value ratio and follows a global, disciplined investment process. The research is based on a worldwide network of analysts. A team of strategists, which integrate the analyst's findings in the portfolio construction process, is responsible for the portfolio construction process.

The sub-fund may also buy or sell futures, swaps, non-deliverable forwards and options on currencies in order to:

- partially or entirely secure the foreign currency risk of the investments contained in the sub-fund's assets in respect of that sub-fund's currency of account. This can be achieved either directly (hedging a currency against the reference currency) or indirectly (hedging the currency against a third currency which is then hedged against the currency of account);
- build up currency positions against the currency of account, other freely convertible currencies or currencies included in the benchmark.

The non-deliverable forward market allows building up currency positions and to hedge exchange rate exposures on currencies, without any physical transfer of these currencies and without having to deal in the local market. Therefore, the local counterparty risk and the cost of holding accounts in local currencies can be avoided. Further, US dollar-settled NDF between two offshore counterparties are not generally subject to local monetary controls.

**Currency of account:** USD

### **General risk information**

#### ***Investments in emerging markets***

**Emerging markets are at an early stage of development and suffer from increased risk of expropriation, nationalisation and social, political and economic insecurity.**

**The following is an overview of the general risks entailed by investing in the emerging markets:**

- **Counterfeit securities** - due to the weakness in supervisory structures, securities purchased by the sub-fund may be counterfeit. Hence it is possible to suffer losses.

- **Liquidity difficulties** - the buying and selling of securities can be costlier, lengthier and in general more difficult than is the case in more developed markets. Difficulties with liquidity can also increase price volatility. Many emerging markets are small, have low trading volumes and suffer from low liquidity and high price volatility.

- **Volatility** Investments in emerging markets may have a more volatile performance.

- **Currency fluctuations** - the currencies of countries in which the sub-fund invests, compared with the currency of account of the sub-fund, can undergo substantial fluctuations once the sub-fund has invested in these currencies. Such fluctuations may have a significant effect on the sub-fund's income. It is not possible to apply currency risk hedging techniques to all currencies in emerging market countries.

- **Currency export restrictions** - it cannot be excluded that emerging markets may limit or temporarily suspend the export of currencies. Consequently, it would not be possible for the sub-fund to draw any sales proceeds without delays. To minimise the possible impact on redemption applications, the sub-fund will invest in a large number of markets.

- **Settlement and custody risks** - the settlement and custody systems in emerging market countries are not as well developed as those in developed markets. Standards are not as high and the supervisory authorities not as experienced. Consequently, settlement may be delayed, thereby posing disadvantages for liquidity and securities.

- **Restrictions on buying and selling** - in some cases, emerging markets can place restrictions on the buying of securities by foreign investors. Some equities are thus not available to the sub-fund because the maximum number allowed to be held by foreign unitholders has been exceeded. In addition, the participation of foreign investors in the net income, capital and distributions may be subject to restrictions or government approval. Emerging markets may also limit the sale of securities by foreign investors. Should the sub-fund be barred due to such a restriction from selling its securities in an emerging market, it will try to obtain an exceptional approval from the relevant authorities or to counter the negative impact of this restriction through its investments in other markets. The sub-fund will only invest in markets in which the restrictions are acceptable. However, it is not possible to prevent additional restrictions from being imposed.

- **Accounting** - the accounting, auditing and reporting standards, methods, practices and disclosures required by companies in emerging markets differ from those in developed markets in respect of content, quality and the deadlines for providing information to investors. It may thus be difficult to correctly evaluate the investment options.

The risks described above apply in particular to investments in the People's Republic of China ("**PRC**").

QFII / RQFII risk

QFII / RQFII investment

Under the provisions in force in the PRC, foreign investors can invest in the A share market and other QFII / RQFII eligible securities through institutions that have obtained qualified investor status in the PRC such as RQFII status. The current RQFII regulations impose strict restrictions (such as investment guidelines) on A share investments.

The sub-funds themselves are not a QFII / RQFIIs, but may invest directly in A shares and other QFII / RQFII eligible securities by means of the QFII / RQFII status of the Portfolio Manager. Potential investors should note that there is no guarantee that any of the sub-funds will continue to benefit from the QFII / RQFII status of the Portfolio Manager, nor that it will be made exclusively available to any of the sub-funds.

On 10 September 2019, the State Administration of Foreign Exchange of the PRC ("SAFE") has announced the cancellation of the investment quota limitations of QFII and RQFII (the "Notice"). As specified in the Notice, qualified QFII / RQFII will only need to go through the relevant registration procedure, so as to remit funds independently in order to make securities investments in accordance with relevant QFII / RQFII regulations. Although the Notice did not specify when the removal of investment quota limitations will take effect officially, the SAFE stated that it will amend the relevant rules and regulations as soon as possible to implement its decision, which has already been approved by China's State Council. It therefore remains uncertain on how the removal of quota limitations, as well as the revised QFII / RQFII investment procedure and restrictions, will be implemented and revised in the near future.

Should the Portfolio Manager lose its RQFII status, cease trading or be removed, the sub-fund may not be able to invest in A shares or other QFII / RQFII eligible securities through the Portfolio Manager's RQFII status, and the sub-fund may be required to sell its positions, which would likely have an adverse effect on the sub-fund.

Investors should note that despite the removal of investment quota limitations of QFII and RQFII pursuant to the Notice, investment through QFII / RQFII would still be subject to certain limitations, which are to be further clarified by the SAFE in its relevant implementation regulations or measures.

### **RQFII regulations**

The QFII / RQFII regulations that govern investments by QFII / RQFIIs in the PRC as well as repatriation and currency conversion are relatively new, especially taking into consideration the recent removal of investment quota limitations of QFII / RQFII. The application and interpretation of the QFII / RQFII regulations are therefore relatively untested and there is uncertainty about how they will be applied. The China Securities Regulatory Commission ("**CSRC**") and the State Administration of Foreign Exchange ("**SAFE**") in the PRC have been given broad discretionary powers in relation to the QFII / RQFII regulations and there is no precedent or certainty as to how these discretions might be exercised now or in the future. At this early stage of development, the RQFII regulations may be subject to further revisions in the future. It is uncertain whether such revisions will prejudice the QFII / RQFIIs, or whether the rules governing QFII / RQFII status of the Portfolio Manager may be revised substantially or entirely.

There are rules and restrictions under current QFII / RQFII regulations including rules on investment restrictions. Transaction sizes for QFIIs / RQFIIs are large and there can be restrictions on repatriation of principal invested by a QFII / RQFII in the PRC due to foreign exchange control and other related rules and policies.

In extreme circumstances, the sub-fund may incur significant loss due to limited investment capabilities, or may not be able to fully implement or pursue its investment objectives or strategy, due to QFII / RQFII investment restrictions, illiquidity of the A-share/bond market, and/or delay or disruption in execution of trades or in settlement of trades.

Investors should also note that direct investments in A-shares through QFIIs / RQFII are subject to compliance with various investment restrictions currently imposed under QFII / RQFII regulations in the PRC, as amended from time to time, which are applied on each QFII / RQFII and which will affect the ability of the sub-fund to invest in A-shares. Examples are as follows:

- shares held by each underlying foreign investor investing through a QFII / RQFII quota investment in one listed company should not exceed the regulatory limit (currently at 10% of the total outstanding shares of the company) as prescribed by applicable regulations or competent authorities from time to time;
- total shares held by all QFIIs / RQFIIs (and where applicable, other foreign institutions that have obtained relevant qualified status) in one listed company should not exceed the regulatory limit (currently at 30% of the total outstanding shares of the company) as prescribed by applicable regulations or competent authorities from time to time; and
- the investments should comply with the requirements as set out in the Guidance Catalogue on Industries for Foreign Investment.

It remains to be seen on whether these investment restrictions will be revised following the Notice announcing the cancellation of investment quota limitations of QFII / RQFII.

### **PRC Brokers**

In its capacity as RQFII, the relevant Portfolio Manager will also select brokers ("PRC Brokers") to execute transactions for the sub-fund in the markets in the PRC. The sub-fund may have difficulty obtaining best execution of transactions involving RQFII eligible securities due to restrictions/limits under the applicable RQFII regulations or operational constraints such as a restriction/limit on the number of brokers that the Portfolio Manager may appoint in its capacity as RQFII. If a PRC Broker offers the sub-fund standards of execution that the Portfolio Manager is satisfied are best practice in the marketplace in the PRC, the Portfolio Manager may determine that transactions consistently be executed with that PRC Broker (even if it is an affiliate), regardless of the fact that they might not be executed at the best price and the fact that there is no accountability towards the sub-fund for the difference between the price at which the sub-fund executes transactions and any other price that might have been available in the market at the relevant time.

## Custody

The Depositary of the sub-fund holds the sub-fund's assets in custody. The sub-fund and the Depositary will appoint a sub-custodian for the sub-fund (the "PRC Sub-Custodian"), and the PRC Sub-Custodian will hold in custody the assets of the sub-fund invested in the PRC through the Portfolio Manager's RQFII status. Any QFII / RQFII eligible securities acquired by the sub-fund through the Portfolio Manager's QFII / RQFII status will be kept by the PRC Sub-Custodian in separate securities accounts and will be registered for the sole benefit and use of the sub-fund or the Company (for account of the sub-fund) subject to the applicable laws. The assets will be segregated by the PRC Sub-Custodian such that the assets of the sub-fund do not form part of the assets of the Portfolio Manager in its capacity as RQFII, the PRC Sub-Custodian, or the PRC Brokers. However, subject to the investment regulations, the Portfolio Manager (in its capacity as RQFII) could be the party entitled to the securities in such securities accounts (even though this entitlement does not constitute an ownership interest or preclude the Portfolio Manager from purchasing the securities for the sub-fund), meaning that such securities may be vulnerable to a claim by a liquidator of the Portfolio Manager and may not be as well protected as if they were registered solely in the name of the sub-fund. In particular, there is a risk that creditors of the Portfolio Manager may incorrectly assume that the sub-fund's assets belong to the Portfolio Manager and such creditors could seek to gain control of the sub-fund's assets to meet the Portfolio Manager's liabilities to such creditors.

Following the Notice announcing the cancellation of investment quota limitations of QFII / RQFII, it remains to be seen if the SAFE and relevant authorities will revise or issue further details regarding custody.

Investors should note that cash deposited in the cash account of the sub-fund with the PRC Sub-Custodian will not be segregated but will be a liability of the PRC Sub-Custodian in respect of the sub-fund as a depositor. Such cash will be pooled with cash belonging to other clients of the PRC Sub-Custodian. In the event of bankruptcy or liquidation of the PRC Sub-Custodian, the sub-fund will not have any ownership rights to the cash deposited in such cash account, and the sub-fund will become an unsecured creditor, ranking *pari passu* with all other unsecured creditors of the PRC Sub-Custodian. The sub-fund may have difficulties and/or encounter delays recovering such debt, or might not be able to recover the debt in full or at all, in which case the sub-fund would suffer losses.

## Redemption restrictions

If the sub-fund is invested in the securities market in the PRC by investing through a Portfolio Manager's QFII / RQFII investment, the repatriation of invested principal and income from the PRC is subject to the QFII / RQFII regulations applicable at the time, including any regulatory requirements in relation to (including but not limited to) minimum investment amounts, lock-up periods, frequency and limits on repatriation or sale of investments in such A shares and other QFII / RQFII eligible securities.

On 12 June 2018, the People's Bank of China ("PBOC") and the SAFE issued Provisions on the Foreign Exchange Administration of the Securities Investment in the Mainland by Qualified Foreign Institutional Investors (SAFE Announcement 2018 No.1) and Circular of the People's Bank of China and the State Administration of Foreign Exchange on the Administration of the Securities Investment in the Mainland by RMB Qualified Foreign Institutional Investors (Yin Fa [2018] No.157), to facilitate the repatriation of capital and the management of foreign exchange risks in association with the securities investment by QFIIs and RQFIIs (the "**2018 Repatriation Rules**"). The 2018 Repatriation Rules have removed the restrictions on (i) the three-months lock-up period whereby a QFII could only repatriate principal and profits of its securities investments by instalments after the lapse of a three-month lock-up period) and (ii) 20% repatriation restriction where the aggregate amount (including principal and profits) repatriated by a QFII within any month must not exceed 20% of the total assets held by the QFII in China in the previous year. However, under the 2018 Repatriation Rules, the SAFE retains its power to exercise macro prudential supervision over the repatriation of capital by QFIIs / RQFIIs, based on China's financial situation, foreign exchange market supply and demand and international balance of payment position. This means, if needed, the SAFE may continue to impose temporary restriction on QFII / RQFII repatriation by the means of the so-called "window guidance".

Investors should be aware that owing to investment restrictions and potential repatriation control, the sub-fund may need to maintain relatively high cash balances. This may result in lesser amounts being invested than would otherwise be the case if such investment and repatriation restrictions did not apply.

## Clearing reserve fund risk

Under the QFII / RQFII regulations, the PRC Sub-Custodian is required to deposit a minimum clearing reserve fund, the percentage amount of which is determined from time to time by China Securities Depository and Clearing Corporation Limited (Shanghai and Shenzhen branches) (the "CSDCC"). The PRC Sub-Custodian will deposit a portion of the assets of the sub-fund as part of the minimum clearing reserve fund. The minimum clearing reserve percentage is determined by the CSDCC from time to time and will be deposited by the PRC Sub-Custodian into the minimum clearing reserve fund. If the value of securities in the PRC increases, the sub-fund's assets held in the clearing reserve fund could have a negative effect on the performance of the sub-fund. On the other hand, the performance of the sub-fund can be better than it otherwise would have been during periods when the value of securities falls in the PRC.

## ***Risk information on investments traded via Shanghai-Hong Kong Stock Connect or Shenzhen-Hong Kong Stock Connect ("Stock Connect"):***

### ***Risks relating to securities trading in mainland China via Stock Connect***

If the sub-fund's investments in mainland China are traded via Stock Connect, there are additional risk factors in relation to these transactions. In particular, investors should note that Stock Connect is a relatively new trading program. There is currently no empirical data. Furthermore, the corresponding provisions could change in future. Stock Connect is subject to quota limits that could restrict the sub-fund's ability to perform transactions in a timely manner via Stock Connect. This could impair the sub-fund's ability to effectively implement its investment strategy. The scope of Stock Connect initially encompasses all securities included on the SSE 180 Index and SSE 380 Index, as well as all Chinese A-shares listed on both the Shanghai Stock Exchange ("**SSE**") which have corresponding H shares listed on the Hong Kong Stock Exchange ("**SEHK**") (with the exception of the SSE-listed shares which are not traded in RMB and SSE-listed shares which are under risk alert). It also extends to all securities included in the SZSE Component Index and the SZSE Small/Mid Cap Innovation Index with a market capitalisation of at least RMB 6 billion, as well as to all Chinese A-shares listed on the Shenzhen Stock Exchange ("**SZSE**") which have corresponding H shares listed on SEHK (with the exception of the SSE-listed shares which are not traded in RMB and SSE-listed shares which are under risk alert). Investors should also note that under the applicable regulations, a security can be removed from the Stock Connect programme. This could have an adverse effect on the sub-fund's ability to achieve its investment objective, for example if the Portfolio Manager wishes to acquire a security that has been removed from the Stock Connect programme.

### ***Beneficial owner of SSE and/or SZSE shares***

Stock Connect consists of the northbound link, through which investors in Hong Kong and abroad – such as the sub-fund – may acquire and hold Chinese A-shares listed on the SSE ("**SSE shares**") and/or SZSE ("**SZSE shares**"), and the southbound link, through which investors in mainland China may acquire and hold shares listed on the **SEHK**. The sub-fund trades in SSE shares and/or SZSE shares through its broker, which is associated with the Fund's sub-custodian and admitted to the SEHK. After settlement by brokers or depositaries (the clearing agents), these SSE shares and/or SZSE shares shall be held in accounts in the Hong Kong Central Clearing and Settlement System ("**CCASS**") maintained by Hong Kong Securities and Clearing Company Limited ("**HKSCC**"), the central securities depository in Hong Kong and the nominee. HKSCC in turn holds the SSE shares and/or SZSE shares of all participants in a "Single Nominee Omnibus Securities Account", which is registered in its name with ChinaClear, the central securities depository in mainland China. Since HKSCC is only the nominee and not the beneficial owner of the SSE shares and/or SZSE shares, if HKSCC were to be wound down in Hong Kong, the SSE shares and/or SZSE shares would not be deemed part of HKSCC's general assets available for distribution to creditors, even under PRC law. However, HKSCC is not required to take legal measures or initiate legal proceedings to enforce rights on behalf of investors in SSE shares and/or SZSE shares in mainland China. Foreign investors – such as the sub-fund in question – who invest through Stock Connect and hold SSE shares and/or SZSE shares via HKSCC are the beneficial owners of the assets and are therefore entitled to exercise their rights exclusively through the nominee.

### ***Not protected by the Investor Compensation Fund***

Investors should note that neither northbound nor southbound transactions via Stock Connect are covered by the Investor Compensation Fund in Hong Kong or the China Securities Investor Protection Fund. Investors are therefore not protected against these measures.

The Investor Compensation Fund in Hong Kong was set up to compensate investors of any nationality who sustain monetary damages as a result of a licensed intermediary or an authorised financial institution defaulting on payments in connection with exchange-traded products in Hong Kong. Examples of payment defaults are insolvency, bankruptcy or winding up, breach of fiduciary duty, misappropriation, fraud or unlawful transactions.

### ***Risk of quotas being used up***

Once the daily quotas for northbound and southbound transactions have been reached, acceptance of corresponding purchase orders will be immediately suspended and no further purchase orders will be accepted for the rest of the day. Purchase orders that have already been accepted are not affected in the event the daily quota is used up. Sell orders will continue to be accepted.

### ***Risk of ChinaClear payment default***

ChinaClear has set up a risk management system and has taken measures that have been approved by the **CSRC** and that are subject to its supervision. Under the general CCASS rules, should ChinaClear (as the central counterparty) not meet its obligations, HKSCC shall attempt, where applicable, in good faith to claim the outstanding Stock Connect securities and ChinaClear funds via the available legal channels and during the winding up of ChinaClear.

HKSCC shall, in turn, distribute the Stock Connect securities and/or funds that can be reclaimed pro rata to qualified participants in accordance with the regulations of the competent Stock Connect authority. Investors should be aware of these regulations and the potential risk of a payment default by ChinaClear before investing in the sub-fund and its participation in northbound trading.

### ***Risk of HKSCC payment default***

Should HKSCC be delayed in fulfilling its obligations, or even fail to do so altogether, this could lead to settlement default or the loss of Stock Connect securities and/or associated funds. The sub-fund and its investors could incur losses as a result. Neither the sub-fund nor the Portfolio Manager is responsible or liable for such losses.

### ***Ownership of Stock Connect securities***

Stock Connect securities are unsecuritised and held by HKSCC on behalf of their holders. The physical deposit and withdrawal of Stock Connect securities are not available to the sub-fund under northbound trading.

The ownership and ownership rights of the sub-fund and entitlements to Stock Connect securities (regardless of the legal nature thereof, in equity jurisprudence or otherwise) are subject to the applicable requirements, including the laws on the disclosure of interests and the restrictions on foreign share ownership. It is unclear whether the Chinese courts recognise investors and would grant them standing to initiate legal proceedings against Chinese companies in the event of disputes. This is a complex legal area and investors should seek independent professional advice.

### ***Currency risk of the RMB***

If the currency of account of the sub-fund is USD, the sub-fund will be directly exposed to any fluctuation in the exchange rate between USD and RMB.

In this scenario, the sub-fund invests primarily in securities denominated in RMB but its net asset value, subscription and redemption will be quoted in USD.

The PRC government's control of currency exposure and future movements in exchange rates may adversely affect the operations and financial results of companies invested in by the sub-fund. RMB is not a freely convertible currency and it is subject to foreign exchange control policies of and repatriation restrictions imposed by the PRC government. If such policies or restrictions change in the future, the position of the sub-fund or its investors may be adversely affected.

Conversion between RMB and other currencies is subject to policy restrictions and promulgations relating to RMB and relevant regulatory requirements. Relevant policies may have an impact on the ability of the sub-fund to convert between RMB and other currencies in respect of its onshore and offshore investments, applicable exchange rate and cost of conversion. There is no assurance that conversion will not become more difficult or impossible, or that the RMB will not be subject to devaluation, revaluation or shortages in its availability.

### ***Risk information on investments in China Interbank Bond Market***

The bond market in mainland China comprises the interbank bond market and the listed bond market. The China Interbank Bond Market ("**CIBM**") was established in 1997 as an over-the-counter ("**OTC**") market, and it accounts for 90% of all bond trades in China. Primarily, government bonds, corporate bonds, bonds issued by state-owned banks and medium term debt instruments are traded on this market. Under the prevailing regulations in Mainland China, foreign institutional investors who wish to invest directly in CIBM may do so via an onshore settlement agent, who will be responsible for making the relevant filings and account opening with the relevant authorities. There is no quota limitation. The CIBM is undergoing a phase of development and internationalisation. Market volatility and a potential lack of liquidity due to low trade volumes can lead to dramatic fluctuations in certain debt securities traded on this market. Sub-funds that invest in this market are therefore exposed to liquidity and volatility risk, and may suffer losses from mainland Chinese bond trades. In particular, the bid and offer spread of mainland Chinese bonds may be wide, and selling such investments may thus generate considerable trading and realisation costs for the sub-fund in question. The sub-fund may also incur risks in connection with settlement processes and counterparty default. It is possible that the sub-fund may enter into transactions with counterparties who are then unable to fulfil their obligations by delivering or paying for the appropriate securities.

The CIBM is also subject to regulatory risk.

### ***Risk information on investments in CIBM via Northbound Trading Link under Bond Connect***

Bond Connect is a new initiative launched in July 2017 for mutual bond market access between Hong Kong and Mainland China ("**Bond Connect**") established by China Foreign Exchange Trade System & National Interbank Funding Centre ("**CFETS**"), China Central Depository & Clearing Co. Ltd ("**CCDC**"), Shanghai Clearing House ("**SCH**"), Hong Kong Stock Exchange ("**HKEx**") and Central Money Markets Unit ("**CMU**"). Under the prevailing regulations in Mainland China, eligible foreign investors will be allowed to invest in the bonds circulated in the CIBM through the northbound trading of Bond Connect ("**Northbound Trading Link**"). There will be no investment quota for Northbound Trading Link. Under the Northbound Trading Link, eligible foreign investors are required to appoint the CFETS or other institutions recognised by the People's Bank of China ("**PBC**") as registration agents to apply for registration with the PBC.

The Northbound Trading Link refers to the trading platform that is located outside of Mainland China and is connected to CFETS for eligible foreign investors to submit their trade requests for bonds circulated in the CIBM through Bond Connect. HKEx and CFETS will work together with offshore electronic bond trading platforms to provide electronic trading services and platforms to allow direct trading between eligible foreign investors and approved onshore dealer(s) in Mainland China through CFETS.

Eligible foreign investors may submit trade requests for bonds circulated in the CIBM through the Northbound Trading Link provided by offshore electronic bond trading platforms (such as Tradeweb and Bloomberg), which will in turn transmit their requests for quotation to CFETS. CFETS will send the requests for quotation to a number of approved onshore dealer(s) (including market makers and others engaged in the market making business) in Mainland China. The approved onshore dealer(s) will respond to the requests for quotation via CFETS and CFETS will send their responses to those eligible foreign investors through the same offshore electronic bond trading platforms. Once the eligible foreign investor accepts the quotation, the trade is concluded on CFETS.

On the other hand, the settlement and custody of bond securities traded in the CIBM under Bond Connect will be done through the settlement and custody link between the CMU, as an offshore custody agent, and the CCDC and SCH, as onshore custodian and clearing institutions in Mainland China. Under the settlement link, CCDC or SCH will effect gross settlement of confirmed trades onshore and the CMU will process bond settlement instructions from CMU members on behalf of eligible foreign investors in accordance with its relevant rules.

Pursuant to the prevailing regulations in Mainland China, the CMU, being the offshore custody agent recognised by the Hong Kong Monetary Authority ("**HKMA**") opens omnibus nominee accounts with the onshore custody agent recognised by the PBC (i.e. the CCDC and the Hong Kong Interbank Clearing Limited). All bonds traded by eligible foreign investors will be registered in the name of CMU, which will hold such bonds as a nominee owner.

### ***Asset Segregation***

Under Bond Connect, assets are distinctly segregated into three levels across the onshore and offshore central depositories ("CSD"). It is mandatory for investors using Bond Connect to hold their bonds in a segregated account at the offshore depository in the name of the end investor. Bonds purchased through Bond Connect will be held onshore with the CCDC in the name of the HKMA. Investors will be the beneficial owners of the bonds via a segregated account structure in the CMU in Hong Kong.

### ***Clearing and Settlement Risk***

CMU and CCDC have established the clearing links and each has become a participant of the other to facilitate clearing and settlement of cross-boundary trades. For cross-boundary trades initiated in a market, the clearing house of that market will on one hand clear and settle with its own clearing participants, and on the other hand undertake to fulfil the clearing and settlement obligations of its clearing participants with the counterparty clearing house. As the national central counterparty of the PRC's securities market, CCDC operates a comprehensive network of clearing, settlement and bond holding infrastructure. CCDC has established a risk management framework and measures that are approved and supervised by the PBC. The chances of CCDC default are considered to be remote. In the remote event of a CCDC default, CMUs liabilities in Bond Connect bonds under its market contracts with clearing participants will be limited to assisting clearing participants in pursuing their claims against CCDC. CMU should in good faith, seek recovery of the outstanding bonds and monies from CCDC through available legal channels or through CCDC's liquidation. In that event, the relevant sub-fund may suffer delay in the recovery process or may not fully recover its losses from CCDC.

### ***Regulatory Risk***

The Bond Connect is a novel concept. The current regulations are untested and there is no certainty as to how they will be applied. In addition, the current regulations are subject to change which may have potential retrospective effects and there can be no assurance that the Bond Connect will not be abolished. New regulations may be issued from time to time by the regulators in the PRC and Hong Kong in connection with operations, legal enforcement and cross-border trades under the Bond Connect. The relevant sub-fund may be adversely affected as a result of such changes. Reforms or changes in macro-economic policies, such as the monetary and tax policies might affect interest rates. Consequently, the price and the yield of the bonds held in a portfolio would/could also be affected.

### ***Conversion Risk***

The sub-fund, whose base currency is not RMB, may also be exposed to currency risk due to the need for the conversion into RMB for investments in CIBM bonds via Bond Connect. During any such conversion, the relevant sub-fund may also incur currency conversion costs. The currency exchange rate may be subject to fluctuation and where RMB has depreciated, the relevant sub-fund may incur a loss when it converts the sale proceeds of CIBM bonds into its base currency.

Further information about Bond Connect is available online at the website: <http://www.chinabondconnect.com/en/index.htm>

### ***Investments in other UCITS and UCIs***

Sub-funds which invest at least half of their net assets in existing UCI and UCITS in accordance with their particular investment policies have the structure of a fund of funds.

The general advantage of these funds as compared with funds investing directly is broader diversification and the fact that they spread the risk. A fund of funds diversifies the investment portfolio not just in respect of its own investments, since the investments objects (target funds) are also subject to strict risk diversification rule; a fund of funds therefore gives the investor access to a product, which spreads the risk at two levels and thereby minimises the risks inherent in the individual investments.

Certain commission payments and expenses may occur more than once when investing in existing funds (for example, commission for the Depository and the Administrative Agent, management/consultation fees and issue/redemption commission for UCI and/or UCITS investments). These commissions and payments are charged at the level of the target fund as well as at the level of the fund of funds.

The sub-funds may also invest in UCIs and UCITS managed by UBS Fund Management (Luxembourg) S.A. or by a company with which it is associated by the virtue of joint management or control or through a substantial direct or indirect holding. In this case subscription or redemption of shares would not entail any issue or redemption commission.

The general expenses as well as costs incurred when investing in existing funds are dealt with in the sections "Investment principles" under 2.7) and "Costs paid by the Fund".

### **Tracking accuracy of passively managed sub-funds**

The sub-fund is not expected to track the relevant underlying index with the same accuracy as an instrument that invests in each security comprising the index. However, the difference between the performance of the shares of a sub-fund (before costs) and that of the index should generally not exceed 1%, but this is not guaranteed. Most sub-funds are expected to have a difference of less than 1%; however, exceptional circumstances may arise which can cause this figure to exceed 1%. In addition, due to the composition of the respective index of certain sub-funds, it may be virtually impossible to achieve such a degree of accuracy, for example as a result of the Company's investment restrictions. For sub-funds where such tracking accuracy is virtually impossible, the normal annual difference is expected not to exceed 5%. Since the different share classes of a sub-fund will each have different fee structures, the tracking accuracy may vary with respect to different share classes of the same sub-fund. The following factors may adversely affect the tracking of a sub-fund's index:

- the sub-fund is subject to various expenses that are not incurred by the underlying index (this may include costs for derivative transactions);
- in certain sub-funds, the securities held are not identical to those in the underlying index. However, these other securities were selected with the aim of achieving as close a performance as possible. Their investment performance may differ from that of the index;
- the management of certain sub-funds may be limited to a representative selection of index securities. This method may, in some cases, adversely affect the replication of the index. The "Investment principles" section lists concentration limits for index securities and other securities. This limitation may also have an adverse effect on the replication of the index, as the sub-fund may not be able to hold the optimal percentage of certain securities;
- a sub-fund must comply with statutory restrictions, such as the Company's investment restrictions, which do not affect the calculation of the relevant index;
- the existence of uninvested assets in the sub-funds (including cash and prepaid expenses);
- the fact that a sub-fund may be subject to foreign withholding tax different from that applicable to the index;
- Income from securities lending where applicable.
- Although the portfolio manager will regularly monitor the tracking accuracy of the share classes of the sub-fund in question, no assurance can be given as to how accurately any share class of the sub-fund replicates the performance of the underlying index.

### **Index risk**

No assurance can be given that each index will continue to be calculated and published in the manner described in this Sales Prospectus, or that it will not be substantially altered. The past performance of the individual indices is no guarantee of future performance. An index provider is not obliged to take into account the needs of the Company or the shareholders when determining, composing or calculating an index. An index provider is neither responsible for nor involved in determining the launch date or the prices and quantities at the time of listing the shares. Nor does it have any influence on the determination or calculation of the equation according to which the shares can be redeemed for cash or in kind.

### ***Use of financial derivative transactions***

Financial derivative transactions are not in themselves investment instruments but rights whose valuation mainly derives from the price and the price fluctuations and expectations of an underlying instrument. Investments in financial derivative transactions are subject to the general market risk, settlement risk, credit and liquidity risk.

Depending on the specific characteristics of financial derivative transactions, however, the aforementioned risks may be of a different kind and occasionally turn out to be higher than the risks with an investment in the underlying instruments.

That is why the use of financial derivative transactions not only requires an understanding of the underlying instrument but also in-depth knowledge of the financial derivative transactions themselves.

The risk of default in the case of financial derivative transactions traded on an exchange is generally lower than the risk associated with financial derivative transactions that are traded over-the-counter on the open market, because the clearing agents, which assume the function of issuer or counterparty in relation to each financial derivative transaction traded on an exchange, assume a performance guarantee. To reduce the overall risk of default, such guarantee is supported by a daily payment system maintained by the clearing agent, in which the assets required for cover are calculated. In the case of financial derivative transactions traded over-the-counter on the open market, there is no comparable clearing agent guarantee and in assessing the potential risk of default, the Management Company must take account of the creditworthiness of each counterparty.

There are also liquidity risks since it may be difficult to buy or sell certain financial derivative instruments. When financial derivative transactions are particularly large, or the corresponding market is illiquid (as may be the case with financial derivative transactions traded over-the-counter on the open market), it may under certain circumstances not always be possible to fully execute a transaction or it may only be possible to liquidate a position by incurring increased costs.

Additional risks connected with the use of financial derivative transactions lie in the incorrect determination of prices or valuation of financial derivative transactions. There is also the possibility that financial derivative transactions do not completely correlate with their underlying assets, interest rates or indices. Many financial derivative transactions are complex and frequently valued subjectively. Inappropriate valuations can result in higher demands for cash by counterparties or in a loss of value for the Fund. There is not always a direct or parallel relationship between a financial derivative transaction and the value of the assets, interest rates or indices from which it is derived. For these reasons, the use of financial derivative transactions by the Management Company is not always an effective means of attaining the Fund's investment objective and can at times even have the opposite effect.

### ***Swap Agreements***

A sub-fund may enter into swap agreements (including total return swaps and contracts for differences) with respect to various underlyings, including currencies, interest rates, securities, collective investment schemes and indices. A swap is a contract under which one party agrees to provide the other party with something, for example a payment at an agreed rate, in exchange for receiving something from the other party, for example the performance of a specified asset or basket of assets. A sub-fund may use these techniques for example to protect against changes in interest rates and currency exchange rates. A sub-fund may also use these techniques to take positions in or protect against changes in securities indices and specific securities prices.

In respect of currencies, a sub-fund may utilise currency swap contracts where the sub-fund may exchange currencies at a fixed rate of exchange for currencies at a floating rate of exchange or vice versa. These contracts allow a sub-fund to manage its exposures to currencies in which it holds investment but also to obtain opportunistic exposure to currencies. For these instruments, the sub-fund's return is based on the movement of currency exchange rates relative to a fixed currency amount agreed by the parties.

In respect of interest rates, a sub-fund may utilise interest rate swap contracts where the sub-fund may exchange a fixed rate of interest against a variable rate (or the other way round). These contracts allow a sub-fund to manage its interest rate exposures. For these instruments, the sub-fund's return is based on the movement of interest rates relative to a fixed rate agreed by the parties. The sub-fund may also utilise caps and floors, which are interest rate swap contracts in which the return is based only on the positive (in the case of a cap) or negative (in the case of a floor) movement of interest rates relative to a fixed rate agreed by the parties.

In respect of securities and securities indices a sub-fund may utilise total return swap contracts where the sub-fund may exchange interest rate cash flows for cash flows based on the return of, for example, an equity or fixed income instrument or a securities index. These contracts allow a sub-fund to manage its exposures to certain securities or securities indices. For these instruments, the sub-fund's return is based on the movement of interest rates relative to the return on the relevant security or index. The sub-fund may also use swaps in which the sub-fund's return is relative to the volatility of price of the relevant security (a volatility swap, which is a forward contract whose underlying is the volatility of a given product. This is a pure volatility instrument allowing investors to speculate solely upon the movement of a stock's volatility without the influence of its price) or to the variance (the square of the volatility) (a variance swap which is a type of volatility swap where the payout is linear to variance rather than volatility, with the result that the payout will rise at a higher rate than volatility).

Where a sub-fund enters into total return swaps (or invests in other financial derivative instruments with the same characteristics) it will only do so on behalf of the sub-fund with counterparties that will be entities with legal personality typically located in OECD jurisdictions and will be subject to a credit assessment. Where the counterparty is subject to a credit rating by any agency registered and supervised by ESMA, that rating shall be taken into account in the credit assessment. Where a counterparty is downgraded to A2 or below (or comparable rating) by such a credit rating agency, a new credit assessment in respect of the counterparty will be undertaken without delay. Subject to compliance with those conditions, the Portfolio Manager has full discretion as to the appointment of counterparties when entering into total return swaps in furtherance of the relevant sub-fund's investment objective and policies.

A credit default swap ("CDS") is a derivative instrument which is a mechanism for transferring and transforming credit risk between purchaser and seller. The protection buyer purchases protection from the protection seller for losses that might be incurred as a result of a default or other credit event in relation to an underlying security. The protection buyer pays a premium for the protection and the protection seller agrees to make a payment to compensate the protection buyer for losses incurred upon the occurrence of any one of a number of possible specified credit events, as set out in the CDS agreement. In relation to the use of CDS, the sub-fund may be a protection buyer and/or a protection seller. A credit event is an event linked to the deteriorating credit worthiness of an underlying reference entity in a credit derivative. The occurrence of a credit event usually triggers full or partial termination of the transaction and a payment from protection seller to protection buyer. Credit events include, but are not limited to, bankruptcy, failure to pay, restructuring, and obligation default.

#### ***Insolvency risk on swap counterparties***

Margin deposits made in relation to swap contracts will be held with brokers. Though there are provisions in the structure of these contracts intended to protect each party against the insolvency for the other, these provisions may not be effective. This risk will further be mitigated by the exclusive choice of reputable swap counterparties.

#### ***Potential illiquidity of exchange traded instruments and swap contracts***

It may not always be possible for the Management Company to execute a buy or sell order on exchanges at the desired price or to liquidate an open position due to market conditions including the operation of daily price fluctuation limits. If trading on an exchange is suspended or restricted, the Management Company may not be able to execute trades or close out positions on terms which the Portfolio Manager believes are desirable.

Swap contracts are over-the-counter contracts with a single counterparty and may as such be illiquid. Although swap contracts may be closed out to realize sufficient liquidity, such closing out may not be possible or very expensive for the Fund in extreme market conditions.

#### **Liquidity Risk**

A sub-fund may invest in certain securities that subsequently become difficult to sell because of reduced liquidity which may have an adverse impact on their market price and consequently the net asset value of the sub-fund. Reduced liquidity for such securities may be driven by unusual or extraordinary economic or market events, such as the deterioration in the creditworthiness of an issuer or the lack of efficiency of a given market. In extreme market situations, there may be few willing buyers and the investments cannot be readily sold at the desired time or price, and those sub-funds may have to accept a lower price to sell the investments or may not be able to sell the investments at all. Trading in particular securities or other instruments may be suspended or restricted by the relevant exchange or by a governmental or supervisory

authority and a sub-fund may incur a loss as a result. An inability to sell a portfolio position can adversely affect those sub-funds' value or prevent those sub-funds from being able to take advantage of other investment opportunities. To meet redemption requests, those sub-funds may be forced to sell investments, at an unfavourable time and/or conditions.

## Bonds

Bonds are subject to both actual and perceived measures of creditworthiness. Bonds, and especially high yield bonds, could be affected by adverse publicity and investor perception, which may not be based on fundamental analysis, and would have a negative effect on the value and liquidity of the bond.

## High Yield Bonds

Investment in debt securities is subject to interest rate, sector, security and credit risks. Compared to investment grade bonds, high yield bonds are normally lower-rated securities and will usually offer higher yields to compensate for the reduced creditworthiness or increased risk of default that these securities carry. With high yield bonds there is an increased risk of capital erosion through default or where the redemption yield is below the income yield and economic conditions and changes to interest levels may significantly impact the value of such bonds. High yield bonds may also be subject to greater levels of credit or default risk than high-rated bonds. Such bonds are more likely to react to developments affecting market and credit risk than more highly rated securities. The value of high yield bonds can be adversely affected by overall economic conditions, such as an economic downturn or a period of rising interest rates, and high yield bonds may be less liquid and more difficult to sell at an advantageous time or price or to value than higher-rated bonds. In particular, high yield bonds are often issued by smaller, less creditworthy companies or by highly leveraged (indebted) firms, which are generally less able than more financial stable firms to make scheduled payments of interest and principal.

## Risks connected with the use of efficient portfolio management techniques

A sub-fund may enter into repurchase agreements and reverse repurchase agreements as a buyer or as a seller subject to the conditions and limits set out in Section 5 entitled "Special techniques and instruments relating to transferable securities and money market instruments". If the other party to a repurchase agreement or reverse repurchase agreement should default, the sub-fund might suffer a loss to the extent that the proceeds from the sale of the underlying securities and/or other collateral held by the sub-fund in connection with the repurchase agreement or reverse repurchase agreement are less than the repurchase price or, as the case may be, the value of the underlying securities. In addition, in the event of bankruptcy or similar proceedings of the other party to the repurchase agreement or reverse repurchase agreement or its failure otherwise to perform its obligations on the repurchase date, the sub-fund could suffer losses, including loss of interest on or principal of the security and costs associated with delay and enforcement of the repurchase agreement or reverse repurchase agreement.

A sub-fund may enter into securities lending transactions subject to the conditions and limits set out in Section 5 entitled "Special techniques and instruments relating to transferable securities and money market instruments". If the other party to a securities lending transaction should default, the sub-fund might suffer a loss to the extent that the proceeds from the sale of the collateral held by the Fund in connection with the securities lending transaction are less than the value of the securities lent. In addition, in the event of the bankruptcy or similar proceedings of the other party to the securities lending transaction or its failure to return the securities as agreed, the sub-fund could suffer losses, including loss of interest on or principal of the securities and costs associated with delay and enforcement of the securities lending agreement.

The sub-funds will only use repurchase agreements, reverse repurchase agreements or securities lending transactions for the purpose of either reducing risks (hedging) or generating additional capital or income for the relevant sub-fund. When using such techniques, the sub-fund will comply at all times with the provisions set out in Section 5 entitled "Special techniques and instruments relating to transferable securities and money market instruments". The risks arising from the use of repurchase agreements, reverse repurchase agreements and securities lending transactions will be closely monitored and techniques (including collateral management) will be employed to seek to mitigate those risks. Although it is expected that the use of repurchase agreements, reverse repurchase agreements and securities lending transactions will generally not have a material impact on a sub-fund's performance, the use of such techniques may have a significant effect, either negative or positive, on a sub-fund's net asset value.

## Exposure to securities financing transactions

The sub-funds' exposure to total return swaps, repurchase agreements/reverse repurchase agreements and securities lending transactions is set out below (in each case as a percentage of Net Asset Value):

Sub-fund	Total Return Swaps		Repurchase Agreements/ Reverse Repurchase Agreements		Securities Lending	
	Expected	Maximum	Expected	Maximum	Expected	Maximum
UBS (Lux) Institutional Fund - Emerging Markets Equity	0%	15%	0%	100%	0-50%	100%
UBS (Lux) Institutional Fund - Euro Bonds	0%	15%	0%	100%	0-50%	100%
UBS (Lux) Institutional Fund - Euro Corporate Bonds	0-10%	50%	0%	100%	0-50%	100%
UBS (Lux) Institutional Fund - Global Convertible Bonds	0%	15%	0%	100%	0-50%	100%
UBS (Lux) Institutional Fund - Key Selection European Equity	0%	15%	0%	100%	0-50%	100%
UBS (Lux) Institutional Fund - Key Selection Global Equity	0-10%	50%	0%	100%	0-50%	100%
UBS (Lux) Institutional Fund – Equities Europe (ex UK ex Switzerland) Passive	0%	15%	0%	0%	0-50%	100%
UBS (Lux) Institutional Fund – Equities Europe (ex UK ex Switzerland) Passive II	0%	15%	0%	0%	0%	0%

### **Risk management**

Risk management in accordance with the commitment approach and the value-at-risk approach is applied pursuant to the applicable laws and regulatory provisions. Pursuant to CSSF circular 14/592 (on the ESMA Guidelines on ETFs and other UCITS issues), the risk management procedure is also applied within the scope of collateral management (see section "Collateral Management" below) and the techniques and instruments for the efficient management of the portfolio (see section 5 "Special techniques and instruments relating to transferable securities and money market instruments").

### **Leverage**

Leverage on UCITS under the Value-at-Risk approach ("VaR" or "VaR approach") is defined pursuant to CSSF circular 11/512 as the "sum of notional" values of the derivatives used by the respective sub-fund. Unitholders should note that this definition may result in artificially high levels of leverage which may not reflect the actual economic risk inter alia for the following reasons:

- Whether or not a derivative is used for exposure or hedging purposes, it will increase the leverage calculated as per the "sum of notional" approach;
- Duration of interest rate derivatives is not taken into account. One consequence is that short term interest rate derivatives will generate the same level of leverage as long term interest rate derivatives despite the fact that short term interest rate derivatives generate significantly lower economic risk.

Economic risk of UCITS under the VaR approach is captured through a UCITS risk control framework. This framework includes, amongst others, restrictions on VaR which captures market risk on all positions, including derivatives. The VaR is supplemented by a comprehensive Stress Testing program.

The average level of leverage per sub-fund under the VaR approach is expected to lie within a bandwidth as outlined in the table below. Leverage is expressed as a ratio between the "sum of notional" and the net asset value of the respective sub-fund. Greater leverage amounts may be attained for all sub-funds, under certain circumstances.

<b>Sub-funds</b>	<b>Global risk calculation method</b>	<b>Expected leverage bandwidth</b>	<b>Reference portfolio</b>
UBS (Lux) Institutional Fund - Emerging Markets Equity	Commitment approach	n.a.	n.a.
UBS (Lux) Institutional Fund - Euro Corporate Bonds	Commitment approach	n.a.	n.a.
UBS (Lux) Institutional Fund - Global Convertible Bonds	Commitment approach	n.a.	n.a.
UBS (Lux) Institutional Fund - Key Selection European Equity	Commitment approach	n.a.	n.a.
UBS (Lux) Institutional Fund - Key Selection Global Equity	Commitment approach	n.a.	n.a.
UBS (Lux) Institutional Fund - Euro Bonds	Commitment approach	n.a.	n.a.
UBS (Lux) Institutional Fund – Equities Europe (ex UK ex Switzerland) Passive	Commitment approach	n.a.	n.a.
UBS (Lux) Institutional Fund – Equities Europe (ex UK ex Switzerland) Passive II	Commitment approach	n.a.	n.a.

### **Collateral Management**

When the Fund enters into over-the-counter (OTC) transactions, it may be exposed to risks related to the creditworthiness of the OTC counterparties: when the Fund enters into futures contracts or options or uses other derivative techniques it is subject to the risk that an OTC counterparty may not meet (or cannot meet) its obligations under a specific or multiple contracts. Counterparty risk can be reduced by depositing a security ("**collateral**") (see above).

Collateral may be provided in the form of liquid assets in highly liquid currencies, highly liquid equities and high-quality government bonds. The Fund will only accept such financial instruments as collateral that would allow it (after objective and appropriate valuation) to liquidate these within an appropriate time period. The Fund, or a service provider appointed by the Fund, must assess the collateral's value at least once a day. The collateral's value must be higher than the value of the position of the respective OTC counterparty. However, this value may fluctuate between two consecutive valuations. After each valuation, however, it is ensured (where appropriate, by requesting additional collateral) that the collateral is increased by the desired amount to meet the value of the respective OTC counterparty's position (mark-to-market). In order to adequately take into account the risks related to the collateral in question, the Management Company determines whether the value of the collateral to be requested should be increased, or whether this value should be depreciated by an appropriate, conservatively measured amount (haircut). The larger the collateral's value may fluctuate, the higher the markdown.

Securities deposited as collateral may not have been issued by the corresponding OTC counterparty or have a high correlation with this OTC counterparty. For this reason, shares from the finance sector are not accepted as collateral. Securities deposited as collateral are held by the Depositary in favour of the Fund and may not be sold, invested or pledged by the Fund.

The Fund shall ensure that the collateral transferred to it is adequately diversified, particularly regarding geographic dispersal, diversification across different markets and diversification of the concentration risk. The latter is considered to be sufficiently diversified if securities and money market instruments held as collateral and issued by a single issuer do not exceed 20% of the Fund's net assets. Moreover, collateral is subject to the restrictions set out in points 3.1-3.3 of the section entitled "Investment restrictions".

By way of derogation from the aforementioned sub-paragraph and in accordance with the revised para. 43(e) of the ESMA Guidelines on ETFs and other UCITS issues dated 1 August 2014 (ESMA/2014/937), the Fund may be fully collateralised in different transferable securities and money market instruments issued or guaranteed by a EU Member State, one or more of its local authorities, a third country, or a public international body to which one or more EU Member States belong. In such case, the Fund shall ensure that it receives securities from at least six different issues, whereas securities from any single issue should not account for more than 30% of the sub-fund's net assets.

**The Board of Directors of the Management Company has decided to make use of the aforementioned derogation and to accept a collateralisation in transferable securities and money market instruments, issued or guaranteed by a EU Member State, one or more of its local authorities, a third country, or a public international body to which one or more EU Member States belong, of up to 50% of the following countries: United States, Japan, United Kingdom, Germany and Switzerland.**

Collateral that is deposited in the form of liquid funds may be invested by the Fund. Investments may only be made in: deposits which are repayable on demand or have the right to be withdrawn in accordance with point 1.1(f) of Section 1 "Investment instruments"; high-quality government bonds; repurchase transactions within the meaning of Section 4 "Special techniques and instruments that have securities and money market instruments as underlying assets", provided that the counterparty to this transaction is a credit institution within the meaning of point 1.1(f) of Section 1 "Investment instruments" and the Fund has the right to recall at any time the full amount of cash on accrued basis; short-term money-market instruments within the meaning of CESR Guidelines 10-049 regarding the definition of European money-market instruments. The restrictions listed in the previous paragraph also apply to the diversification of the concentration risk.

If the Fund is owed a security pursuant to an applicable agreement, such security shall be held in custody by the Depositary in favour of the Fund. Bankruptcy and insolvency events or other credit events with the Depositary or within their sub-custodian/correspondent bank network may result in the rights of the Fund in connection with the security to be delayed or restricted in other ways. If the Fund is owed a security pursuant to an applicable agreement, then any such security is to be transferred to the OTC counterparty as agreed between the Fund and the OTC counterparty. Bankruptcy and insolvency events or other credit events with the OTC counterparty, the Depositary or within their sub-custodian/correspondent bank network may result in the rights or recognition of the Fund in connection with the security to be delayed, restricted or even eliminated, which would go so far as to force the Fund to fulfil its obligations in the framework of the OTC transaction, in spite of any security that had previously been made available to cover any such obligation.

The Board of Directors of the Management Company shall decide on an internal framework agreement that determines the details of the above-mentioned requirements and values, particularly regarding the types of acceptable collateral, the amounts to be added to and subtracted from the respective collateral, as well as the investment policy for liquid funds that are deposited as collateral. This framework agreement is reviewed and adapted where appropriate by the Board of Directors of the Management Company on a regular basis.

The Board of Directors of the Management Company has approved instruments of the following asset classes as collateral from OTC derivative transactions and determined the following haircuts to be used on these instruments:

Asset class	Minimal haircut (% deduction from market value)
<b>Fixed- and variable-rate interest-bearing instruments</b>	
Liquid funds in the currencies CHF, EUR, GBP, USD, JPY, CAD and AUD.	0%
Short-term instruments (up to 1 year) issued by one of the following countries (Australia, Austria, Belgium, Denmark, Germany, France, Japan, Norway, Sweden, UK, USA) and the issuing country has a minimum rating of A	1%
Instruments which fulfil the same criteria as above and have an average duration (1 – 5 years).	3%
Instruments which fulfil the same criteria as above and have a long duration (5 – 10 years).	4%
Instruments which fulfil the same criteria as above and have a very long duration (more than 10 years).	5%
US TIPS (Treasury inflation protected securities) with a duration of up to 10 years	7%
US Treasury strips or zero coupon bonds (all durations)	8%
US TIPS (Treasury inflation protected securities) with a duration of more than 10 years	10%

The haircuts eligible to be used as collateral from securities lending are, insofar as they are usable, described in section 5 "Special techniques and instruments relating to transferable securities and money market instruments".

## Investments in UBS (Lux) Institutional Fund

### *Conditions for the issue and redemption of units*

Sub-fund units are issued and redeemed on every business day. In this context, "**business day**" refers to the normal bank business days in Luxembourg (i.e. each day on which banks are open during normal business hours), with the exception of 24 and 31 December and of individual, non-statutory rest days and days on which stock exchanges in the main countries in which the sub-fund invests are closed or 50% or more sub-fund investments cannot be adequately valued.

**"Non-statutory rest days"** are days, on which several banks and financial institutions are closed. No issue or redemption will take place on days on which the Management Company has decided not to calculate net asset value as described in the section "Suspension of the net asset value calculation and of the issue, redemption and conversion of units". In addition, the Management Company is empowered to:

- Reject a subscription application at its discretion and to discretionary decide to accept subscription and conversion requests on any other valuation date
- At any time redeem Fund units held by unitholders who are not qualified to purchase or hold Fund units. Such redeemed shares are reimbursed to the shareholder and thereby cease to be valid.

**Subscription and redemption applications ("orders") for the sub-funds UBS (Lux) Institutional Fund – Euro Bonds, UBS (Lux) Institutional Fund – Key Selection European Equity and UBS (Lux) Institutional Fund – Key Selection Global Equity registered with the Administrative Agent no later than 14:00 hours Central European Time ("cut-off time") on a business day ("Order Date") will be processed on the basis of the net asset value calculated as per that day after cut-off time ("Valuation Date"). For all other sub-funds the cut-off-time is 15:00 hours Central European Time.**

In derogation therefrom, orders for the sub-fund **UBS (Lux) Institutional Fund – Emerging Markets Equity**, registered with the Administrative Agent or with UBS Investment Bank – a unit of UBS AG – no later than by the cut-off time on a

business day ("**Order Date**") will be processed on the basis of the net asset value calculated as per the business day ("**Valuation Date**") immediately following the Order Date.

Below is a summary of the cut-off times for orders:

sub fund	cut-off time (Central European Time)
UBS (Lux) Institutional Fund - Emerging Markets Equity	15:00 CET
UBS (Lux) Institutional Fund - Euro Corporate Bonds	15:00 CET
UBS (Lux) Institutional Fund - Global Convertible Bonds	15:00 CET
UBS (Lux) Institutional Fund - Key Selection European Equity	14:00 CET
UBS (Lux) Institutional Fund - Key Selection Global Equity	14:00 CET
UBS (Lux) Institutional Fund - Euro Bonds	14:00 CET
UBS (Lux) Institutional Fund – Equities Europe (ex UK ex Switzerland) Passive	15:00 CET
UBS (Lux) Institutional Fund – Equities Europe (ex UK ex Switzerland) Passive II	15:00 CET

All orders sent by fax must be received by the Administrative Agent one hour prior to the stated cut-off time of the respective sub-fund on a business day, at the latest. However, cut-off times earlier than those specified above may be applied by the central settling agent of UBS AG in Switzerland, distributors or other intermediaries vis-à-vis their clients in order to ensure a proper submission of subscription orders to the Administrative Agent. Information on these may be obtained at the central settling agent of UBS AG in Switzerland, the distributors concerned or other intermediaries.

For orders received by the Administrative Agent after the respective cut-off time, the following business day will be treated as the order date. Earlier closing times for receipt of orders can apply to orders placed with sales agencies in Luxembourg or abroad to ensure punctual forwarding to the Administrative Agent or central processing unit of UBS Investment Bank in Switzerland. The earlier closing times can be requested from the relevant sales agencies.

This means that net asset value for settlement purposes is not known when the order is placed (forward pricing). It will be calculated on the basis of the last-known market prices (i.e. at the most recent market prices available or closing market prices if they are available at the time of calculation). The individual valuation principles applied are described in the section that follows.

Investors are informed that the Management Company is entitled to take adequate measure in order to prevent practices known as "Market-Timing" in relation to investments in the Fund. The Management Company will also ensure that the relevant cut-off time for requests for subscription, redemption and conversion are strictly complied with and will therefore take adequate measures to prevent practices known as "Late Trading". In the event of recourse to distributors, the Management Company will ensure that the distributor duly complies with the relevant cut-off time.

The Management Company is entitled to reject requests for subscription and conversion in the event that it has knowledge or suspicions of the existence of such practices. In addition, the Management Company is authorized to take any further measures deemed appropriate to prevent the above mentioned practices, without prejudice however to the provisions under Luxembourg law.

### ***Net asset value, issue, redemption and conversion price***

The net asset value and the issue, redemption and conversion price per unit of the different classes of any sub-fund are expressed in the currency of account of the sub-fund or the unit class concerned and are calculated every bank business day by dividing the overall net assets of the sub-fund to which the respective unit class is assigned by the number of units issued in the relevant class of this sub-fund. However, the net asset value of a unit may also be calculated on days on which no units are issued or redeemed in accordance with the preceding section. Such net asset value may be published but may only be used for performance calculations and statistics or fee calculations, but in no case as a basis for subscription and redemption orders. The percentage of the overall net asset value to be assigned to a sub-fund's unit class is determined by the relationship between the units issued in each class and the total number of units issued by the sub-fund. This percentage rate changes in accordance with distributions made and the issue and redemption of units as follows:

- Each time a distribution is made on units of the following classes "AD-T2", the net asset value and issue and redemption price of units in this class are reduced by the amount of the distribution (which leads to a reduction in the percentage of the net asset value attributed to the class concerned). Meanwhile the net asset value of the other unit classes remains the same (leading to an increase in the percentage of the net asset value attributed to these classes).
- Each time units are issued or redeemed, the net asset value attributable to the unit class concerned is increased or reduced by the amount received or paid out.

The value of the assets held by each sub-fund is calculated as follows:

- a) The value of any cash - either in hand or on deposit - as well as bills and demand notes and accounts receivable, prepaid expenses, cash dividends and interest declared or accrued as aforesaid and not yet received is deemed to be the full amount thereof, unless in any case the same is unlikely to be paid or received in full, in which case the value thereof is arrived at after making such discount as may be considered appropriate in such case to reflect the true value thereof.
- b) Securities, derivatives and other investments listed on an official stock exchange are valued at the last known market prices. If the same security, derivative or other investment is quoted on several stock exchanges, the last available quotation on the stock exchange that represents the major market for this investment will apply. In the case of securities, derivatives and other investments where trading of these assets on the stock exchange is thin but which are traded between securities dealers on a secondary market using standard market price formation methods, the Management Company can use the prices on this secondary market as the basis for

their valuation of these securities and other investments. Securities, derivatives and other investments that are not listed on a stock exchange, but that are traded on another regulated market which is recognised, open to the public and operates regularly, in a due and orderly fashion, are valued at the last available price on this market.

- c) Securities and other investments that are not listed on a stock exchange or traded on any other regulated market, and for which no reliable and appropriate price can be obtained, will be valued by the Management Company according to other principles chosen by it in good faith on the basis of the likely sales prices.
- d) Units or shares of other undertakings for collective investment in transferable securities ("UCITS") and/or undertakings for collective investment ("UCI") will be valued at their last net asset value. Certain units or shares of other UCITS and/or UCI may be valued based on an estimate of the value provided by a reliable price provider independent from the target fund's investment manager or investment adviser (Estimated Pricing).
- e) The valuation of derivatives that are not listed on a stock exchange (OTC derivatives) is made by reference to independent pricing sources. In case only one independent pricing source of a derivative is available, the plausibility of the valuation price obtained will be verified by employing methods of calculation recognised by the Management Company and the Auditor, based on the market value of the underlying instrument from which the derivative has been derived.
- f) Securities, money market instruments, derivatives and other investments that are denominated in a currency other than the reference currency of account of the relevant sub-fund and which are not hedged by means of currency transactions are valued at the middle currency rate (midway between the bid and offer rate) known in Luxembourg or, if not available, on the most representative market for this currency.
- g) The value of swap transactions is calculated by an external service provider, and a second independent valuation is made available by another external service provider. The calculation is based on the net present value of all cash flows, both inflows and outflows. In some specific cases, internal calculations based on models and market data available from Bloomberg and/or broker statement valuations may be used. The valuation methods depend on the respective security and are determined pursuant to the applicable UBS valuation policy.
- h) Time deposits and fiduciary investments are valued at their nominal value plus accrued interest.
- i) The value of money market instruments which are not listed on a stock exchange or traded on another regulated market open to the public is based on the appropriate curves. The valuation based on the curves refers to the interest rate and credit spread components. The following principles are applied in this process: for each money market instrument, the interest rates nearest the residual maturity are interpolated. The interest rate calculated in this way is converted into a market price by adding a credit spread that reflects the underlying borrower. This credit spread is adjusted if there is a significant change in the credit rating of the borrower.

The actual costs of purchasing or selling assets and investments for a sub-fund may deviate from the latest available price or net asset value used, as appropriate, in calculating the net asset value per unit due to duties and charges and spreads from buying and selling prices of the underlying investments. These costs have an adverse effect on the value of a sub-fund and are known as "dilution". To mitigate the effects of dilution, the Board may, at its discretion, make a dilution adjustment to the net asset value per unit ("swing pricing").

Units will in principle be issued and redeemed on the basis of a single price, i.e., the net asset value per unit. However – to mitigate the effect of dilution – the net asset value per Unit will be adjusted on any Valuation Day in the manner set out below depending on whether or not a Sub-fund is in a net subscription position or in a net redemption position on such Valuation Day. Where there is no dealing on a Sub-fund or Class of a Sub-fund on any Valuation Day, the applicable price will be the unadjusted net asset value per Unit. The Board retains the discretion in relation to the circumstances under which to make such a dilution adjustment. As a general rule, the requirement to make a dilution adjustment will depend upon the volume of subscriptions or redemptions of units in the relevant sub-fund. The Board may make a dilution adjustment if, in its opinion, the existing unitholders (in case of subscriptions) or remaining unitholders (in case of redemptions) might otherwise be adversely affected. In particular, the dilution adjustment may be made where, for example but without limitation:

- (a) a sub-fund is in continual decline (i.e. is experiencing a net outflow of redemptions);
- (b) a sub-fund is experiencing large levels of net subscriptions relevant to its size;
- (c) a sub-fund is experiencing a net subscription position or a net redemption position on any Valuation Day; or
- (d) in any other case where the Board is of the opinion that the interests of unitholders require the imposition of a dilution adjustment.

The dilution adjustment will involve adding to, when the sub-fund is in a net subscription position, and deducting from, when the sub-fund is in a net redemption position, the net asset value per unit such figure as the Board considers represents an appropriate figure to meet duties and charges and spreads. In particular, the net asset value of the relevant sub-fund will be adjusted (upwards or downwards) by an amount which reflects (i) the estimated fiscal charges, (ii) dealing costs that may be incurred by the sub-fund and (iii) the estimated bid/offer spread of the assets in which the sub-fund invests. As certain stock markets and jurisdictions may have different charging structures on the buy and sell sides, the resulting adjustment may be different for net inflows than for net outflows. Adjustments will generally be limited to a maximum of 2% of the then applicable net asset value per unit. The Board may decide, in respect of any sub-Fund and/or Valuation Day, to apply on a temporary basis a dilution adjustment greater than 2% of the then applicable net asset value per unit in exceptional circumstances (e.g. high market volatility and/or illiquidity, exceptional market conditions, market disruptions, etc.) where the Board can justify that this is representative of prevailing market conditions and that this is in

the best interests of unitholders. Such dilution adjustment is calculated in conformity with the procedures established by the Board. Unitholders shall be notified at the introduction of the temporary measures as well as at the end of the temporary measures via the usual communication channels.

For UBS (Lux) Institutional Fund – Equities Europe (ex UK ex Switzerland) Passive and UBS (Lux) Institutional Fund – Equities Europe (ex UK ex Switzerland) Passive II instead of a swing pricing the investors are subject to a transaction fee of maximum 2% of all purchases and redemptions of units. The proceeds of the transaction fee are retained by the sub-fund to offset trading costs associated with purchases and redemptions to protect the other investors from asset dilution. The transaction fee will be waived in case of a subscriptions or redemptions in kind.

The net asset value of each class in the sub-fund will be calculated separately but any dilution adjustment will in percentage terms affect the net asset value of each class in an identical manner. The dilution adjustment will be applied on the capital activity at the level of the sub-fund and will not address the specific circumstances of each individual investor transaction.

### ***Issue of units***

The issue prices of units of the sub-funds are calculated according to the paragraph "Net asset value, issue, redemption and conversion price".

Units are issued as registered units only. This means that the unitholder status of the investor in the Fund with all associated rights and obligations will be based on the respective investor's entry in the Fund's register. Bearer units shall be converted into the registered units. A conversion of registered units into bearer units may not be requested. The unitholders should bear in mind that the registered units may be also cleared via recognised external clearing houses like Clearstream.

The issue price is based on the net asset value per unit plus an issuing commission of maximum 3% of the net asset value in favour of the sales agencies. In case of a subscription the fees (brokerage fees, etc.), which arise on average for the fund in order to invest the amount subscribed, can be invoiced to the investor. Any taxes, commissions and other fees incurred in the respective countries in which fund units are sold will also be charged.

A local Paying Agent will submit transactions on behalf of the final investor on a nominee basis. Costs incurred for such services may be charged to the investor.

Subscriptions for Fund units are accepted at the issue price at the Management Company, the Administrative Agent as well as any other sales agencies.

Subject to applicable laws and regulations, the Depositary and/or the agents entrusted with receiving subscription payments may, at their discretion and upon investors' request, accept such payments in currencies other than the currency of account of the respective sub-fund and the subscription currency of the unit class to be subscribed. The exchange rate used will be determined by the respective agent on the basis of the bid-ask spread of the relevant currency pair. Investors shall bear all fees associated with currency exchange.

Payment must be received by the Depositary of the Fund at the latest three days (for the sub-fund **UBS (Lux) Institutional Fund - Emerging Markets Equity** at the latest four days) after the Order Date (the "**Settlement Date**").

If, on the Settlement Date or any date between Order Date and Settlement Date, banks in the country of the currency of the relevant unit class are not open for business or the respective currency is not traded on an interbank settlement system, these days are disregarded for the purposes of calculating the settlement date. The settlement date can only be a day on which these banks are open or these settlement systems are available for transactions in the relevant currency. The Fund units will be transferred to the investors concerned without delay upon payment of the full issue price. Fractions of units will be issued up to the third decimal. Upon request and against payment by the unitholder of all incurred expenses, the Management Company may also decide to issue unit certificates in physical form. The Management Company reserves the right to issue unit certificates in denominations of 1 or more units, however fractions of units, will not be issued in certificate form. All units issued and still outstanding have the same rights. However, the Management Regulations envisage the possibility of establishing within a sub-fund various unit classes with specific features.

Upon request of the investors, the Management Company at its discretion may accept subscriptions in kind, in whole or in part. However in this case the investments in kind must be in accordance with the respective sub-fund's investment policy and restrictions. In addition these investments will be audited by the Fund's appointed auditor. The related costs are borne by the investor.

### ***Redemption of units***

Redemption applications, accompanied by any certificates that may have been issued, are accepted by the Management Company, the Administrative Agent, the Depositary or another suitably authorised sales agency or paying agent.

The countervalue for redeemed sub-fund units is paid no later than on the third day (for the sub-fund **UBS (Lux) Institutional Fund - Emerging Markets Equity** no later than on the fourth day) after the Order Date (the "**Settlement Date**"), unless legal provisions, such as foreign exchange controls or restrictions on capital movements, or other circumstances beyond the control of the Depositary, make it impossible to transfer the redemption amount to the country in which the redemption application was submitted.

If, on the Settlement Date or any date between Order Date and Settlement Date, banks in the country of the currency of the relevant unit class are not open for business or the respective currency is not traded on an interbank settlement system, these days are disregarded for the purpose of calculating the settlement date. The settlement date can only be a day on which these banks are open or these settlement systems are available for transactions in the relevant currency. Any taxes, commissions and other fees incurred in the respective countries in which fund units are sold will be charged. A local Paying Agent will submit transactions on behalf of the final investor on a nominee basis. Costs incurred for such services may be charged to the investor.

The development of the net asset value determines whether the redemption price is higher or lower than the issue price paid by the investor.

The Management Company reserves the right not to be bound to completely execute applications for redemptions or conversions on any order date when the aggregated applications amount in an outflow of more than 10% of the total net assets of the sub-fund on such order date (redemption gate). In these circumstances the Management Company may scale down pro rata all redemptions and conversions and defer in priority the non-executed redemptions and conversions of the order date for a period normally not exceeding 20 business days.

In the event of an excessively large volume of redemption applications, the Depositary and the Management Company may decide to delay execution of the redemption applications until the corresponding assets of the Fund are sold without unnecessary delay. If such a measure is necessary, all redemption orders received on the same day will be settled at the same price.

Upon request of the unitholders, the Management Company at its discretion may accept redemptions in kind, in whole or in part. However in this case the redemptions in kind must be in accordance with the respective sub-fund's investment policy and restrictions. In addition these redemptions will be audited by the Fund's appointed auditor. The related costs are borne by the investor.

If the value of the portion of a unit class on the total net asset value of a sub-fund falls below or has not reached a certain level set by the Board of Directors as the minimum level for an economically efficient management of this unit class, the Board of Directors may decide to redeem all units of this class - upon payment of the redemption price - on a business day to be determined by the Board of Directors. In no event, investors of both the class concerned and other investors in the relevant sub-fund shall bear any additional costs or suffer any other financial disadvantages as a result of this redemption. Where applicable, the swing pricing described in the section "Net asset value, issue, redemption and conversion price" shall apply.

For sub-funds with several unit classes denominated in different currencies, unitholders may, in principle, receive the equivalent value of their redemption in the currency of the respective unit class only.

Subject to applicable laws and regulations, the Depositary and/or the agents entrusted with paying the redemption proceeds may, at their discretion and upon investors' request, make the payment in currencies other than the currency of account of the respective sub-fund and the currency of the unit class redeemed. The exchange rate used will be determined by the respective agent on the basis of the bid-ask spread of the relevant currency pair. Investors shall bear all fees associated with currency exchange. These commissions, as well as any taxes, commissions and other fees incurred in the respective distribution countries will be charged to the relevant investor and deducted from the redemption proceeds.

### Conversion of units

Generally, the unitholder of a sub-fund may convert any time into another sub-fund or unit class of the same sub-fund.

However, the following exceptions apply:

- The conversion is only possible into units issued; no conversion is possible if the issue of units by the sub-fund has been suspended
- The right to convert units is subject to compliance with any conditions applicable to the class or category of unit into which conversion is to be effected
- Conversions can only be made for a definite number of units.
- Due to technical restrictions conversions from the following classes: AA, AD, CA, YA, DA, BA and XA units into the following classes: AA-T1, CA-T1 and AD-T2 units and vice versa are not possible.
- Conversions into Classes BA, DA, YA, XA units will only be executed at the Management Company's discretion, under the condition that the investor has signed an agreement as defined previously in this prospectus (page 4).

The same procedures apply to the submission of conversion applications as apply to the issue and redemption of units. The number of units to convert into is calculated with the following formula:

$$\alpha = \frac{\beta * \chi * \delta}{\varepsilon}$$

where:

- $\alpha$  ▶ number of units of the new sub-fund or the unit class in which to convert
- $\beta$  ▶ number of units of the sub-fund or the unit class from which to convert
- $\chi$  ▶ net asset value of the units presented for conversion
- $\delta$  ▶ foreign exchange rate between the sub-funds or the unit classes concerned. If both sub-funds or unit classes are valued in the same currency of account, this coefficient equals 1
- $\varepsilon$  ▶ net asset value per unit of the sub-fund and/or unit class in which the conversion shall be performed plus any taxes, commissions or other fees.

In case of conversion, based on the net asset value, the fees (brokerage fees, etc.) which arise on an average for the sub-fund in order to invest/disinvest the amount converted, can be invoiced to the investor.

Subject to applicable laws and regulations, the Depositary and/or the agents entrusted with receiving conversion payments may, at their discretion and upon investors' request, accept the payment in currencies other than the currency of account of the respective sub-fund and/or the subscription currency of the unit class, in which the conversion will take place. The exchange rate used will be determined by the respective agent on the basis of the bid-ask spread of the relevant currency pair. These commissions, as well as any fees, taxes and stamp duties incurred in the individual countries for a sub-fund conversion are charged to the unitholders.

#### ***Prevention of money laundering and terrorist financing***

The Fund's sales agencies must observe the provisions of the Luxembourg law of 12 November 2004 on the prevention of money laundering, as amended, as well as the statutory instruments and the applicable circulars of the CSSF.

Accordingly, investors must provide proof of their identity to the sales agency or Distributor that accepts their subscription. The sales agency or Distributor must request, at a minimum, the following identification documents from subscribers: for individuals – a certified copy of the passport/identity card (certified by the sales agency or Distributor or by the local administrative authority); for companies or other legal entities – a certified copy of the articles of incorporation, a certified copy of the extract from the Commercial Register, a copy of the most recently published annual accounts and the full name of the beneficial owner.

The sales agency or Distributor must request, depending on the subject, further identification documents from subscribers or redeemers of units. The sales agency must ensure that the Distributors adhere strictly to the aforementioned identification procedures. The Administrative Agent and the Management Company may, at any time, demand assurance from the sales agency that the procedures are being adhered to. The Administrative Agent will monitor compliance with the aforementioned provisions for all subscription and redemption applications they receive from sales agencies or Distributors in countries in which such sales agencies or Distributors are not subject to requirements equivalent to Luxembourg or EU law on fighting money laundering and terrorist financing.

Furthermore, the sales agency and its Distributors must obey all regulations to prevent money laundering and terrorist financing which are in force in the respective countries.

#### ***Suspension of the net asset value calculation and of the issue, redemption and conversion of units***

The Management Company may temporarily suspend calculation of the net asset value and hence the issue and redemption of units for one or more sub-funds and the switching between the individual sub-funds:

- during any period when any of the stock exchanges or other markets on which the valuation of a significant and substantial part of any of the investments of the Fund attributable to such sub-fund from time to time is based, or any of the foreign-exchange markets in whose currency the net asset value or any of the investments of the Fund attributable to such sub-fund from time to time or a significant portion of them is denominated, are closed – except on customary bank holidays – or during which trading and dealing on any such market is suspended or restricted or if such markets are temporarily exposed to severe fluctuations, provided that such restriction or suspension affects the valuation of the investments of the Fund attributable to such sub-fund quoted thereon;
- during the existence of any state of affairs which constitutes an emergency in the opinion of the Management Company as a result of which disposal or valuation of assets owned by the Fund attributable to such sub-fund would be impracticable;
- during any breakdown in the means of communication or computation normally employed in determining the price or value of any of the investments of such sub-fund or the current price or value on any stock exchange or other market in respect of the assets attributable to such sub-fund;
- during any period when the Management Company is unable to repatriate funds for the purpose of making payments on the redemption of units of such sub-fund, or during which any transfer of funds involved in the realisation or acquisition of investments or payments due on redemption of units cannot, in the opinion of the Management Company, be effected at normal rates of exchange;
- if political, economic, military or other circumstances beyond the control or influence of the Management Company make it impossible to access the sub-fund's assets under normal conditions without seriously harming the interests of the unitholders;
- when for any other reason, the prices of any investments owned by the Fund attributable to such sub-fund cannot promptly or accurately be ascertained;
- upon the publication of a decision by the Management Company for the purpose of the liquidation of the Fund;
- to the extent that such suspension is justified by the necessity to protect the unitholders, upon publication of a notice informing the unitholders of the decision of the Board of Directors to merge the Fund or one or more of its sub-fund(s); or
- when restrictions on foreign exchange transactions or other transfers of assets render the execution of transactions for the Fund's account impossible.

A suspension of the calculation of the net asset value, a suspension of the issue or redemption of units and a suspension of the switching between sub-funds will be notified without delay to all the responsible authorities in those countries in which units of the Fund are approved for sale to the public and will be published as further described below in section "Regular reports and publications".

In addition, the Management Company is at any time empowered:

- a) to refuse purchase applications at its own discretion;
- b) to redeem units which were purchased in defiance of an exclusion order.

### ***Distributions***

In accordance with article 10 of the Management Regulations, once the annual accounts are closed the Management Company will decide whether and to what extent distributions are to be paid out by each sub-fund. The payment of distributions must not result in the net assets of the fund falling below the minimum amount of fund assets prescribed by law. If a distribution is made, payment will be effected no later than two months after the end of the financial year.

The Management Company is authorized to pay interim dividends and to suspend the payment of distributions.

Entitlements to distributions and allocations not claimed within five years of falling due shall lapse and be paid back into the sub-fund concerned. If the sub-fund in question has already been liquidated, the distributions and allocations will accrue to the remaining sub-funds of the fund in proportion to their respective net assets. The Management Company may decide, in connection with the appropriation of net investment income and capital gains, to issue bonus units. An income equalization amount will be calculated so that the distribution corresponds to the actual income entitlement.

Where physical certificates have been issued, distributions are made upon submission of the relevant coupons. The Management Company determines the method of payment.

### **Taxes and expenses**

#### ***Tax***

The Fund is subject to Luxembourg legislation. In accordance with current legislation in the Grand Duchy of Luxembourg, the Fund is not subject to any Luxembourg withholding, income, capital-gains or wealth taxes.

From the total net assets of each sub-fund, however, a tax of 0.01% p.a. ("taxe d'abonnement") payable to the Grand Duchy of Luxembourg is due at the end of every quarter. This tax is calculated on the net assets of each sub-fund at the end of every quarter.

The following are exempt from this "taxe d'abonnement":

- sub-funds, categories and/or classes:

- (i) whose securities are listed or traded on at least one stock exchange or another regulated market operating regularly, recognised and open to the public; and
- (ii) whose exclusive object is to replicate the performance of one or more indices.

Where several classes of securities exist within the sub-fund, the exemption only applies to classes fulfilling the conditions as above. The taxable values shown are based on the most recently available data at the time they were calculated.

The taxable values shown are based on the most recently available data at the time they were calculated.

The unitholders are not required, under current tax law, to pay any income, gift, inheritance or other tax in Luxembourg unless they are domiciled in Luxembourg, have a residence in Luxembourg or maintain a permanent establishment there, or were previously domiciled in Luxembourg and hold more than 10% of the units in the Fund.

The aforementioned represents a summary of the fiscal effects and makes no claim to be exhaustive. It is the responsibility of purchasers of units to seek information on the laws and regulations governing the purchase, possession and sale of units in connection with their place of residence and their nationality.

### **DAC6 – Disclosure requirements for reportable cross-border tax arrangements**

On 25 June 2018, Council Directive (EU) 2018/822 ("DAC6") entered into force introducing rules regarding the mandatory automatic exchange of information in the field of taxation in relation to reportable cross-border arrangements ("RCBAs"). DAC6 is intended to provide the tax authorities of EU member states with comprehensive and relevant information about potentially aggressive tax-planning arrangements with the aim that this information will enable the authorities to react promptly against harmful tax practices and close loopholes by enacting legislation or by undertaking adequate risk assessments and carrying out tax audits.

The DAC6 obligations apply from 1 July 2020, but may require reporting of arrangements implemented between 25 June 2018 and 30 June 2020. The Directive generally requires EU intermediaries to report to their local tax authorities information about RCBAs, including details of the arrangement as well as identification information about the involved intermediaries and relevant taxpayers, i.e. the persons to whom the RCBA is made available. Subsequently, the local tax authorities exchange the information with the tax authorities of other EU member states. As such, the Fund may be legally required to file information that is within its knowledge, possession or control on any RCBA to the respective tax authorities. This legislation is capable of applying to arrangements that do not necessarily constitute aggressive tax planning.

### ***Automatic Exchange of Information - FATCA and the Common Reporting Standard***

As an investment entity established in Luxembourg, the Fund is required by automatic exchange of information regimes, such as those described below (and others as may be introduced from time to time), to collect certain information about

each investor and their tax status and to share that information with the Luxembourg tax authorities, who may then exchange it with tax authorities in the jurisdictions in which the investor is tax resident.

Pursuant to the U.S. Foreign Account Tax Compliance Act and associated legislation ("**FATCA**"), the Fund is required to comply with extensive due diligence and reporting requirements designed to inform the U.S. Department of the Treasury of financial accounts of "Specified U.S. Persons", as defined by the Intergovernmental Agreement ("**IGA**") concluded between Luxembourg and the U.S. Failure to comply with these requirements may subject the Fund to U.S. withholding taxes on certain U.S. sourced income and gross proceeds. Pursuant to the IGA, the Fund will be deemed compliant and not subject to withholding tax if it identifies and reports financial accounts held by Specified U.S. Persons directly to the Luxembourg tax authorities, who will then provide it to the U.S. Internal Revenue Service.

Drawing extensively on the intergovernmental approach to implementing FATCA, the OECD developed the Common Reporting Standard ("**CRS**") to address the issue of offshore tax evasion on a global basis. Pursuant to the CRS, financial institutions based in participating CRS jurisdictions (such as the Fund) must report to their local tax authorities personal and account information of investors and, where appropriate, controlling persons resident in other participating CRS jurisdictions which have an agreement in place with the financial institution's jurisdiction to exchange information. Tax authorities in participating CRS jurisdictions will exchange such information on an annual basis. Luxembourg has enacted legislation to implement the CRS. As a result, the Fund will be required to comply with the CRS due diligence and reporting requirements adopted by Luxembourg.

Prospective investors will be required to provide to the Fund information about themselves and their tax status prior to investment in order to enable the Fund to satisfy its obligations under FATCA and the CRS, and to update that information on a continuing basis. Prospective investors should note the Fund's obligation to disclose such information to the Luxembourg tax authorities. Each investor acknowledges that the Fund may take such action as it considers necessary in relation to such investor's holding in the Fund to ensure that any withholding tax suffered by the Fund and any other related costs, interest, penalties and other losses and liabilities arising from such investor's failure to provide the requested information to the Fund is economically borne by such investor. This may include subjecting an investor to liability for any resulting U.S. withholding taxes or penalties arising under FATCA or the CRS and/or the compulsory redemption or liquidation of such investor's interest in the Fund.

Prospective investors should consult their own tax advisor with regard to FATCA and the CRS and the potential consequences of such automatic exchange of information regimes.

#### ***"Specified U.S. Person" for FATCA purposes***

The term "Specified U.S. Person" means a U.S. citizen or resident individual, a partnership or corporation organised in the U.S. or under the laws of the U.S or any State thereof, a trust if i) a court within the U.S would have authority under applicable law to render orders or judgments concerning substantially all issues regarding administration of the trust, and ii) one or more Specified U.S. Persons have the authority to control all substantial decisions of the trust, or an estate of a decedent that is a citizen or resident of the U.S. This section shall be interpreted in accordance with the U.S. Internal Revenue Code.

#### ***Investments in Chinese A-shares via Stock Connect***

On 14 November 2014, the Chinese authorities published Caishui circular [2014] No. 81, stating that with effect from 17 November 2014, capital gains made by foreign investors from trading in Chinese A-shares via the Stock Connect exchange connection would be temporarily exempt from the corporation tax applicable in the PRC as well as personal income and trade taxes. Foreign investors are obliged to pay the 10% dividends withholding tax applicable in the PRC. This will be withheld by companies listed in the PRC and remitted to the competent tax authorities in the PRC. Investors resident for tax purposes in a jurisdiction that has a tax treaty with the PRC can apply for a refund of excess withholding tax paid, provided that the tax treaty in question provides for a lower withholding tax on dividends in the PRC.

The Fund is subject to the stamp duty of 0.1% applicable in the PRC when disposing of Chinese A-shares via Stock Connect.

#### **PRC tax considerations**

For the purposes of this section of the sales prospectus: (i) "sub-fund" refers to the sub-funds investing directly or indirectly in QFII/RQFII eligible securities through the Portfolio Manager's QFII and/or RQFII status or status of any other entity within the UBS group; and (ii) "Portfolio Manager" refers to the Portfolio Manager and any other entity within the UBS group, as the context may require. Pursuant to the current provisions in the PRC, foreign investors, including the sub-funds, generally invest in Chinese A shares and certain other investment products through a QFII or RQFII, or via Stock Connect.

#### PRC Corporate Income Tax ("CIT")

If the sub-fund is considered tax resident in the PRC, it will be subject to corporate income tax ("CIT") of 25% on its worldwide taxable income. If the sub-fund is considered non-tax resident in the PRC with a place of establishment ("PE") in the PRC, the profits attributable to that PE are subject to CIT of 25%. Under the CIT Act in force in the PRC since 1 January 2008, a company that is non-tax resident in the PRC without a PE in the PRC will generally be subject to withholding income tax ("WIT") of 10% on the income earned in the PRC, including but not limited to passive income (e.g. dividends, interest, gains arising from transfer of assets, etc.). The Portfolio Manager intends to manage and operate the sub-fund in such a manner that the sub-fund will not be treated as tax resident in the PRC or non-tax resident with a PE in the PRC for CIT purposes. although due to uncertainty surrounding the tax laws and practices in the PRC, this result cannot be guaranteed.

(i) Interest and dividends Under current PRC tax laws and regulations, QFIs/RQFIs are subject to PRC WIT of 10% on cash and bonus dividends, profits distributions and interest payments from companies listed in the PRC. Such WIT levied in the PRC may possibly be reduced under an applicable double tax treaty or exempt from tax pursuant to a provision of domestic tax law. On 22 November 2018, the Ministry of Finance ("MOF") and the State Administration of Taxation ("SAT") of the PRC jointly released the Caishui [2018] No 108 circular ("Circular 108") to address the tax issues in relation to interest income on bonds earned by foreign institutional investors from investments in the PRC bond market. In accordance with Circular 108, interest income on bonds earned by foreign institutional investors with no PE in the PRC (or with a PE in the PRC, but where such income generated in the PRC is not effectively related to that PE) between 7 November 2018 and 6 November 2021 is temporarily exempt from CIT. As this exemption is only temporary according to Circular 108, it remains unclear whether such an exemption will also apply after 6 November 2021. Interest on government bonds issued by the competent Finance Bureau of the State Council and/or local government bonds approved by the State Council is exempt from PRC CIT under the CIT Act in force in the PRC.

## (ii) Capital gains

Based on the CIT Act and its implementation rules, "income from the transfer of property" earned in the PRC by companies that are non-tax resident in the PRC should be subject to 10% WIT in the PRC unless exempt or taxable at a reduced rate under an applicable tax treaty.

On 14 November 2014, the **MOF**, the State Administration of Taxation ("**SAT**") and the CSRC of the PRC jointly released Caishui [2014] No. 79 ("Circular 79") to address the tax issues in relation to capital gains on equity investments earned by QFIs and RQFIs. Under Circular 79, for QFIs/RQFIs (without a PE in the PRC or with a PE in the PRC but the income earned in China is effectively not connected with that PE) such capital gains were temporarily exempt from WIT in the PRC if they were realised on or after 17 November 2014, and subject to 10% WIT in the PRC in accordance with the applicable law if they were realised before 17 November 2014. Circular 79 did not offer any further guidance concerning the question as to whether the temporary exemption applies to securities other than A shares. In the absence of specific regulations, the application of CIT is governed by the general tax provisions of CIT law in the PRC. With regard to the capital gains on the disposal of PRC debt instruments, the PRC tax authorities have on numerous occasions said that such gains are not considered to have been made in the PRC and are therefore not subject to the WIT applicable in the PRC. However, there is no specific written tax provision confirming this. In practice, no WIT is currently applied to capital gains made by foreign investors from trading PRC debt instruments. Should the PRC tax authorities decide to tax such income in the future, the portfolio manager would request the PRC tax authorities to treat the sub-fund as tax resident in Luxembourg and invoke the capital gains tax exemption provided for in the double taxation treaty between the PRC and Luxembourg, although this cannot be guaranteed.

## Value added tax ("VAT") in the PRC

According to Caishui [2016] No. 36 circular ("Circular 36") on the last phase of the VAT reform that came into force on 1 May 2016, gains on the transfer of PRC onshore securities became subject to VAT as of 1 May 2016. According to Circular 36 and Caishui [2016] No. 70 circular ("Circular 70"), gains realised by QFIs/RQFIs from the transfer of PRC debt instruments have been exempt from value added tax since 1 May 2016. According to Circular 36, interest income earned by QFIs/RQFIs on investments in PRC onshore bonds are subject to 6% VAT where no special exemption applies (see notes to Circular 108 below). Pursuant to Circular 36, interest income on deposits is not subject to VAT and interest income on government bonds is VAT-exempt. Circular 108 regulates the exemption from VAT on interest income on bonds earned by foreign institutional investors investing in the Chinese bond market between 7 November 2018 and 6 November 2021. As this exemption is only temporary according to Circular 108, it remains unclear whether such an exemption will also apply after 6 November 2021. Where VAT is payable, additional taxes also apply (including the urban construction and maintenance tax, the education surcharge and the regional education surcharge) amounting to up to 12% of the applicable VAT.

## Stamp duty in the PRC

The seller will be liable for stamp duty at the rate of 0.1% of the proceeds on the sale of shares listed in the PRC. No stamp duty is expected to be imposed on holders of government and corporate bonds who are non-tax resident in the PRC, either upon issuance or upon subsequent transfer of such bonds.

## Investments in Chinese A shares via Stock Connect

On 14 November 2014 and 2 December 2016, the MOF, the SAT and the CSRC jointly released Caishui [2014] No. 81 and Caishui [2016] No. 127 ("Circular 127") in order to clarify questions concerning taxation in the PRC in relation to Stock Connect. According to Circular 81 and Circular 127, capital gains realised by foreign investors from trading in A shares through Stock Connect are temporarily exempt from CIT applicable in the PRC and from VAT. Foreign investors are obliged to pay the 10% WIT on dividends applicable in the PRC. This will be withheld by companies listed in the PRC and remitted to the competent tax authorities in the PRC. Investors resident for tax purposes in a country that has concluded a tax treaty with the PRC can apply for a refund of any excess WIT paid in the PRC, provided the relevant tax treaty stipulates a lower rate of WIT for dividends in the PRC than the one paid. The sub-fund is subject to stamp duty applicable in the PRC of 0.1% of the sales proceeds from the disposal of A shares through Stock Connect.

## **Tax-related risk factors in the PRC**

## Tax considerations for Chinese A shares and other securities

There are risks and uncertainties associated with the applicable tax laws and regulations and the current tax practice in the PRC for capital gains and interest income realised for the sub-fund's investments in PRC securities (that may apply retroactively). A high tax liability for the sub-fund may have a negative effect on the sub-fund's value. The following principles formed on the basis of independent, professional tax advice apply to the creation of tax provisions for the sub-fund:

(i) For the 10% WIT, a provision is made for non-government PRC onshore bonds for any interest income received before 7 November 2018 that was not subject to the WIT as a withholding tax by the issuer in the PRC.

(ii) For the 6.3396% VAT (including surcharges), a provision is made for non-government PRC onshore bonds for any interest income received before 7 November 2018 that was not subject to the VAT as a withholding tax by the issuer in the PRC (this VAT regime is applicable since 1 May 2016).

In the event of any further changes to tax law or regulations, as soon as practicable, the Board of Directors (in consultation with the Portfolio Manager) will make the adjustments to the amount of tax provision they consider necessary. The amount of any such tax provision will be disclosed in the accounts of individual sub-funds.

Investors should take account of the following: if the actual tax levied by the PRC tax authorities is greater than that set aside by the Portfolio Manager so that there is a shortfall in the tax provision amount, the net asset value of the sub-fund may fall by more than the tax provision amount as the sub-fund ultimately has to bear the additional tax liabilities. In this case, the current and new shareholders will be placed at a disadvantage. If the actual applicable tax levied by the PRC tax authorities is less than that set aside by the Board of Directors so that there is a surplus in the tax provision amount, shareholders who have redeemed their shares before the PRC tax authorities' ruling, decision or guidance in this respect will be disadvantaged as they would have borne the loss from the overprovision. In this case, the current and new shareholders may benefit if the difference between the tax provision and the actual tax liability can be returned to the sub-fund.

### **Partial exemption in accordance with the German Investment Tax Act (InvStG)**

In addition to the investment restrictions set out in the special investment policies of the sub-fund, the following sub-funds will also invest at least 51% of their relevant net asset value in equity investments (the "equity investment quota") in order to establish eligibility for the partial exemption provided for under the German Investment Tax Act:

UBS (Lux) Institutional Fund - Emerging Markets Equity  
UBS (Lux) Institutional Fund - Key Selection European Equity  
UBS (Lux) Institutional Fund - Key Selection Global Equity  
UBS (Lux) Institutional Fund – Equities Europe (ex UK ex Switzerland) Passive  
UBS (Lux) Institutional Fund – Equities Europe (ex UK ex Switzerland) Passive II

For the purposes of this investment restriction, "equity investments" includes:

- 1) shares in a company (other than depository receipts) that are admitted to trading on a stock exchange or admitted to trading or traded on another organised market that fulfils the criteria of a "regulated market" pursuant to Directive 2014/65/EU of the European Parliament and of the Council of 15 May 2014 on markets in financial instruments; and/or
- 2) shares in company other than a real estate company that (i) is based in a Member State of the European Union or in a Member State of the European Economic Area, in which it is subject to corporate income tax and does not benefit from any exemption; or (ii) is based in another country and subject to corporation tax of at least 15%; and/or
- 3) units in an undertaking for collective investment in transferable securities (UCITS) and/or an alternative investment fund (AIF) not organised as a partnership that – as stated in the relevant terms of investment – invests on an ongoing basis at least 51% of its value in equity investments (an "equity fund"), in which case 51% of the units in the equity fund held by the fund are deemed to constitute an equity investment; and/or
- 4) units in a UCITS and/or an AIF not organised as a partnership that – as stated in the relevant terms of investment – invests on an ongoing basis at least 25% of its value in equity investments (a "mixed fund"), in which case 25% of the units in the mixed fund held by the fund are deemed to constitute an equity investment; and/or
- 5) units of equity funds or of mixed funds that disclose their equity investment ratios in their relevant terms of investment; and/or
- 6) units of equity funds or of mixed funds that disclose their equity investment ratios on a daily basis.

Except in the situations described above in paragraphs (3), (4), (5) and (6), units in a UCITS and/or an AIF that is a partnership are not deemed to constitute equity investments. For the purposes of this paragraph, the equity investment ratio does not contain any equity investments that are lent through a securities lending programme – as specified in the Sales Prospectus. Investors should consult qualified experts for tax advice regarding their individual situation.

### ***Investors in the United Kingdom*** **Reporting sub-funds**

Within the meaning of the UK Taxation (International and Other Provisions) Act 2010 (hereinafter the "TIOPA"), special provisions apply to investments in offshore funds. The individual share classes of these offshore funds are treated as separate offshore funds for this purpose. The taxation of shareholders in a reporting share class is different to the taxation

of shareholders in non-reporting share classes. The individual taxation systems are explained below. The Board of Directors reserves the right to apply for the status of reporting fund for individual share classes.

#### Shareholders in non-reporting share classes

Each individual share class is an offshore fund within the meaning of the TIOPA and the UK Offshore Funds (Tax) Regulations 2009 that came into force on 1 December 2009. Within this framework, all income from the sale, disposal or redemption of offshore fund units held by persons resident or ordinarily resident in the United Kingdom at the time of the sale, disposal or redemption are taxed as income and not as capital gains. However, this is not the case if the fund is approved as a reporting fund by the UK tax authorities for the period in which units are held. Shareholders who are resident or ordinarily resident in the United Kingdom for tax purposes and invest in non-reporting share classes may be obliged to pay income tax on the income from the sale, disposal or redemption of shares. Such income is therefore taxable, even if investors would be exempt from capital gains tax under general or special provisions, which may lead to some UK investors bearing a comparatively higher tax burden. Shareholders who are resident or ordinarily resident in the United Kingdom can offset losses on the disposal of shares in non-reporting share classes against capital gains.

#### Shareholders in reporting share classes

Each individual share class is an offshore fund within the meaning of the TIOPA. Within this framework, all income from the sale, disposal or redemption of offshore fund units at the time of the sale, disposal or redemption are taxed as income and not as capital gains. These provisions do not apply if the fund is accorded reporting fund status and maintains this status during the period in which units are held. For a share class to qualify as a reporting fund, the Company must apply to the UK tax authorities for the inclusion of the sub-fund in this category. The share class must then report 100% of the income of the share class for each financial year. The corresponding report can be consulted by investors on the UBS website. Private investors resident in the United Kingdom should include the reportable income in their income tax return. They will then be assessed on the basis of the declared income, whether the income was distributed or not. In determining the income, the income for accounting purposes is adjusted for capital and other items and is based on the reportable income of the corresponding sub-fund. Shareholders are hereby informed that income from trading (but not from investment activities) is classified as reportable income. The key criteria is the business activity. Given the lack of clarity in the guidelines concerning the difference between trading and investment activities, there is no guarantee that the proposed activities are not trading activities. Should the activities of the Company be partly or wholly classified as trading activities, then the annual reportable income for shareholders and the corresponding tax burden would probably be significantly higher than would otherwise be the case. Provided that the relevant share class fulfils the status of a reporting sub-fund, the income from this share class will be taxed as a capital gain and not as income, unless the investor is a securities trader. Such gains may therefore be exempt from capital gains tax under general or special provisions, which may lead to some UK investors bearing a comparatively lower tax burden. In accordance with Part 3 Chapter 6 of the Offshore Funds (Tax) Regulations 2009 (hereinafter the "2009 Regulations"), certain transactions of a regulated sub-fund such as the Company are generally not treated as trading activities in the calculation of reportable income for reporting sub-funds that fulfil a genuine diversity of ownership condition. In this respect, the Board of Directors confirms that all share classes are primarily for private and institutional investors and are offered to these target groups. Regarding the 2009 Regulations, the Board of Directors confirms that the shares of the Company can be easily acquired and are marketed and made available in order to reach and attract the targeted categories of investors.

The attention of persons ordinarily resident in the United Kingdom is drawn to the provisions of Part 13 Chapter 2 of the Income Tax Act 2007 ("Transfer of Assets Abroad") which provide that under certain circumstances they may be subject to income tax in relation to income and profits arising within a sub-fund(s) which is not received or receivable in the United Kingdom by those persons.

In addition, it is important to note the provisions of Section 13 of the Taxation of Chargeable Gains Act 1992, which govern the distribution of chargeable gains of companies which are not resident in the United Kingdom and which would be "close companies" if they were resident in the UK. These gains are distributed to unitholders who are domiciled or have their ordinary place of abode or residence in the UK. Profits distributed in this manner are taxable for all unitholders who hold a share of more than 10% of the distributed profit either individually or together with associated persons. The Management Company intends to make all reasonable efforts to ensure that the sub-fund(s) would not be classed as a "close company" if domiciled in the United Kingdom. Moreover, when examining the effects of Section 13 of the Taxation of Chargeable Gains Act 1992, it is important to ensure that the regulations of the double taxation agreement between the United Kingdom and Luxembourg are taken into account.

#### Expenses paid by the Fund

For the management, administration, portfolio management and distribution of the Fund (if applicable), as well as for all the tasks of the Depositary, such as the safekeeping and supervision of the Fund's assets, the handling of payment transactions and all other tasks listed in the section "Depositary and main paying agent", a maximum flat fee based on the net asset value of the Fund is charged to the Fund in accordance with the following provisions: this fee is charged to the Fund's assets on a pro rata basis upon every calculation of net asset value and paid on a monthly basis (maximum flat fee). The relevant maximum flat fee will only be charged upon launch of the corresponding unit classes. The actual rate applied to the maximum flat fee can be found in the annual and semi-annual reports.

Name of sub-fund UBS (Lux) Institutional Fund (alphabetical order)	Unit class	Maximum flat fee p.a. <sup>4)</sup>
	AA <sub>1)</sub> and AA-T1 <sub>1)</sub>	max. 0.85%
	BA <sub>2)</sub>	max. 0.18%
Emerging Markets Equity	FA <sub>3)</sub> and XA <sub>3)</sub>	none

	AD-T2 <sub>1)</sub>	max. 0.70%
	AA <sub>1)</sub> and AA-T1 <sub>1)</sub>	max. 0.465%
	BA <sub>2)</sub>	max. 0.065%
Euro Bonds	FA <sub>3)</sub> and XA <sub>3)</sub>	none
	AD-T2 <sub>1)</sub>	max. 0.365%
	CA <sub>1)</sub> , AA <sub>1)</sub> and AA-T1 <sub>1)</sub>	max. 0.615%
Euro Corporate Bonds	DA <sub>2)</sub> , BA <sub>2)</sub>	max. 0.065%
	YA <sub>3)</sub> , FA <sub>3)</sub> and XA <sub>3)</sub>	none
	AD-T2 <sub>1)</sub>	max. 0.465%
	AA <sub>1)</sub> , CA <sub>1)</sub> , CA-T1 <sub>1)</sub> and AA-T1 <sub>1)</sub>	max. 0.665%
Global Convertible Bonds	BA <sub>2)</sub> and DA <sub>2)</sub>	max. 0.065%
	FA <sub>3)</sub> , YA <sub>3)</sub> and XA <sub>3)</sub>	none
	AD-T2 <sub>1)</sub>	max. 0.515%
	AA <sub>1)</sub> and AA-T1 <sub>1)</sub>	max. 0.815%
Key Selection European Equity	BA <sub>2)</sub>	max. 0.065%
	FA <sub>3)</sub> and XA <sub>3)</sub>	none
	AD-T2 <sub>1)</sub>	max. 0.515%
	AA and AA-T1 <sub>1)</sub>	max. 0.815%
Key Selection Global Equity	BA	max. 0.065%
	FA <sub>3)</sub> and XA <sub>3)</sub>	none
	AD-T2 <sub>1)</sub>	max. 0.565%
	AA <sub>1)</sub>	max. 0.22%
Equities Europe (ex UK ex Switzerland) Passive*, **	BA <sub>2)</sub>	max. 0.065%
	FA <sub>3)</sub> and XA <sub>3)</sub>	none
	AA <sub>1)</sub>	max. 0.22%
Equities Europe (ex UK ex Switzerland) Passive II*, **	BA <sub>2)</sub>	max. 0.065%
	FA <sub>3)</sub> and XA <sub>3)</sub>	none

<sup>1)</sup> For this unit class, the portfolio management and distribution fees are charged at the sub-fund's level, in addition to operational and administrative expenses, calculated on the average net assets attributable to class AA units and payable monthly.

<sup>2)</sup> For this unit class, the portfolio management and distribution fees are charged outside the Fund, directly at the level of the agreement concluded by the investor with UBS Asset Management Switzerland AG or one of its authorised delegates. Unit class BA only bears operational and administrative expenses. If a unitholder terminates the agreement with UBS Asset Management Switzerland AG or one of its authorised delegates, the net asset value of the units will be redeemed to the unitholder.

<sup>3)</sup> For these unit classes, the fees for portfolio management, custody and administration and distribution are charged outside the fund, directly at the level of the agreement concluded by the investor with UBS Asset Management Switzerland AG or one of its authorised delegates. If a unitholder terminates the agreement with UBS Asset Management Switzerland AG or one of its authorised delegates, the net asset value of the units will be redeemed to the unitholder.

<sup>4)</sup> Calculated on the average total net assets of the sub-fund and paid monthly

\* Instead of a swing pricing the investors are subject to a transaction fee of maximum 2% of all purchases and redemptions of shares. The proceeds of the transaction fee are retained by the sub-fund to offset trading costs associated with purchases and redemptions to protect the other investors from asset dilution. The transaction fee will be waived in case of a subscriptions or redemptions in kind

\*\* Costs in connection with index license payments may be occurred and will be charged at sub-fund's level.

1. The maximum flat fee does not include the following fees and additional expenses, which are also charged to the Fund's assets:
  - a) all additional expenses related to management of the Fund's assets for the sale and purchase of assets (bid/offer spread, brokerage fees in line with the market, commissions, fees, taxes, levies, etc.). These expenses are generally calculated upon the purchase or sale of the respective assets. In derogation hereto, these additional expenses, which arise through the sale and purchase of assets in connection with the settlement of the issue and redemption of units, are covered by the application of the single swing pricing principle pursuant to the sections "Net asset value" and "Conditions for the issue and redemption of units";
  - b) fees of the supervisory authority for the establishment, amendment, liquidation and merger of the Fund, as well as all fees of the supervisory authorities and any stock exchanges on which the sub-funds are listed;
  - c) auditor's fees for the annual audit and certification in connection with the establishment, amendment, liquidation and merger of the Fund, as well as any other fees paid to the auditor for the services it provides in relation to the administration of the Fund and as permissible by law;
  - d) fees for legal and tax advisers, as well as notaries, in connection with the establishment, registration in distribution countries, amendment, liquidation and merger of the Fund, as well as for the general safeguarding of the interests of the Fund and its investors, insofar as this is not expressly prohibited by law;
  - e) costs for the publication of the Fund's net asset value and all costs for notices to investors, including translation costs;
  - f) costs for the Fund's legal documents (prospectuses, KIID, annual and semi-annual reports, as well as all other documents legally required in the countries of domiciliation and distribution);
  - g) costs for the Fund's registration with any foreign supervisory authorities, if applicable, including fees, translation costs and fees for the foreign representative or paying agent;
  - h) expenses incurred through use of voting or creditors' rights by the Fund, including fees for external advisers;
  - i) costs and fees related to any intellectual property registered in the Fund's name or usufructuary rights of

- the Fund;
- j) all expenses arising in connection with any extraordinary measures taken by the Management Company, Portfolio Manager or Depositary for protecting the interests of the investors;
- k) if the Management Company participates in class-action suits in the interests of investors, it may charge the Fund's assets for the expenses arising in connection with third parties (e.g. legal and Depositary costs). Furthermore, the Management Company may charge for all administrative costs, provided these are verifiable and disclosed, and taken into account in the disclosure of the Fund's total expense ratio.

The Management Company may pay retrocessions in order to cover the distribution activities of the Fund. All taxes levied on the income and assets of the Fund, particularly the tax d'abonnement, will also be borne by the Fund. The costs involved in launching new sub-funds will be written off over a period of up to five years in the respective sub-funds only.

Operational and administrative expenses are allocated among the sub-funds, the categories and the classes of units pro rata to their respective net assets (or in a fair and reasonable manner as determined by the Management Company).

When investing in shares of funds which are managed by UBS Fund Management (Luxembourg) S.A. or a company it controls, no issue or redemption commission is chargeable on subscription to or redemption of these shares. The upper limit for management fees of target funds in which the sub-funds' assets are invested amounts to a maximum of 3%, taking into account any trail fees.

If sub-funds invest in funds which refund either entirely or partly the fees charged to their assets by means of payment, such payments will be added in full to the assets of the sub-funds concerned.

The details of expenses paid by the relevant sub-fund are disclosed in the KIID.

## **Information to unitholders**

### ***Regular reports and publications***

An annual report is published for each sub-fund and the Fund as a whole on 30 April and a semi-annual report on 31 August.

These reports contain a breakdown of each sub-fund or each unit class in the relevant currency of account. The consolidated breakdown of assets for the fund as a whole is given in EUR.

The annual report, which is published within four months of the end of the financial year, contains the annual accounts audited by the Auditor. It also contains details on the underlying assets focused on by the respective sub-fund through the use of derivative financial instruments, the counterparties to these derivative transactions, as well as the collateral (and its scope) provided in favour of the sub-fund by its counterparties, in order to reduce credit risk. These reports are available to unitholders at the registered office of the Management Company and the Depositary.

The issue and redemption price of the units of each sub-fund is announced in Luxembourg at the registered office of the Management Company and the Depositary.

Notices to unitholders are published on the website [www.ubs.com/lu/en/asset\\_management/notifications](http://www.ubs.com/lu/en/asset_management/notifications) and may be sent via e-mail to those unitholders who have provided an e-mail address for this purpose. If unitholders have not provided an e-mail address, or if stipulated in Luxembourg law, by the Luxembourg supervisory authority or in the respective distribution countries, notices will be sent by post to the unitholder's address stated in the register of unitholders and/or published in any other manner permitted by Luxembourg law.

### ***Keeping of documents***

The following documents are available from the registered office of the Management Company:

1. the Management Regulations
2. the latest annual and semi-annual reports of the Fund

The following documents are lodged at the registered office of the Management Company, where they are available for inspection:

1. the articles of incorporation of the Management Company;
2. the Depositary Agreement;
3. the portfolio management agreement(s);
4. the central administration agreement.

These agreements may be amended by common consent of the parties involved.

### ***Handling complaints, strategy for exercising voting rights and best execution***

In accordance with Luxembourg laws and regulations, the Management Company provides additional information on handling complaints, the strategy for exercising voting rights and best execution on the following website:

[http://www.ubs.com/lu/en/asset\\_management/investor\\_information.html](http://www.ubs.com/lu/en/asset_management/investor_information.html)

### ***Remuneration policy of the Management Company***

The Board of Directors has adopted a remuneration policy, the objectives of which are to ensure that the remuneration is in line with the applicable regulations, and more specifically with the provisions defined under (i) the UCITS Directive 2014/91/EU, the ESMA final report on sound remuneration policies under the UCITS Directive and AIFMD published on 31 March 2016, (ii) the Alternative Investment Fund Managers (AIFM) Directive 2011/61/EU, transposed into the Luxembourg

AIFM Law dated from 12 July 2013, as amended from time to time, the ESMA guidelines on sound remuneration policies under the AIFM published on 11 February 2013 and (iii) the CSSF Circular 10/437 on Guidelines concerning the remuneration policies in the financial sector issued on 1 February 2010; and to comply with the UBS Group AG remuneration policy framework. Such remuneration policy is reviewed at least annually.

The remuneration policy promotes a sound and effective risk management environment, is in line with the interests of the investor and discourages risk-taking which is inconsistent with the risk profiles, rules or instruments of incorporation of such UCITS/AIFs. The remuneration policy furthermore fosters compliance with the Management Company's and the UCITS/AIFs' strategies, objectives, values and interests including measures to avoid conflicts of interest.

This approach furthermore focuses amongst others on:

- The assessment of performance which is set in a multi-year framework appropriate to the holding periods recommended to the investors of the Sub-Funds in order to ensure that the assessment process is based on the longer-term performance of the Fund and its investment risks and that the actual payment of performance-based components of remuneration is spread over the same period;
- The remuneration of all staff members is appropriately balanced between fixed and variable elements. The fixed component of the remuneration represents a sufficient high proportion of the total remuneration and allows a fully flexible bonus strategy, including the possibility to pay no variable remuneration component. The fixed remuneration is determined by taking into consideration the role of the individual employee, including responsibility and job complexity, performance and local market conditions. It is also to be noted that the Management Company may, on its own discretion, offer fringe benefits to some employees which are an integral component of the fixed remuneration.

Any relevant disclosures shall be made in the annual reports of the Management Company in accordance with the provisions of the UCITS Directive 2014/91/EU. Unitholders can find more details about the up-to-date remuneration policy of the Management Company, including, but not limited to, a description of how remuneration and benefits are calculated, the identity of persons responsible for awarding the remuneration and benefits, including the composition of the remuneration committee (if any), are available on [http://www.ubs.com/lu/en/asset\\_management/investor\\_information.html](http://www.ubs.com/lu/en/asset_management/investor_information.html)

A paper copy of such document is available free of charge from the Management Company upon request.

### **Conflicts of interest**

The Management Company, the Portfolio Manager, the Depositary, the Administrative Agent and the other service providers of the Fund, and/or their respective affiliates, members, employees or any person connected with them may be subject to various conflicts of interest in their relationships with the Fund.

The Management Company, the Portfolio Manager, the Administrative Agent and the Depositary have adopted and implemented a conflicts of interest policy and have made appropriate organisational and administrative arrangements to identify and manage conflicts of interests so as to minimise the risk of the Fund's interests being prejudiced, and if they cannot be avoided, ensure that the Fund's unitholders are treated fairly.

The Management Company, the Depositary, the Portfolio Manager and the main distributor are part of the UBS Group (the "**Affiliated Person**").

The Affiliated Person is a worldwide, full-service private banking, investment banking, asset management and financial services organization and a major participant in the global financial markets. As such, the Affiliated Person is active in various business activities and may have other direct or indirect interests in the financial markets in which the Fund invests. The Affiliated Person including its subsidiaries and branches may act as counterparty and in respect of financial derivative contracts entered into by the Fund. A potential conflict may further arise as the Depositary is related to a legal entity of the Affiliated Person which provides other products or services to the Fund.

In the conduct of its business, the Affiliated Person's policy is to identify, manage and where necessary prohibit any action or transaction that may pose a conflict between the interests of the Affiliated Persons' various business activities and the Fund or its unitholders. The Affiliated Person strives to manage any conflicts in a manner consistent with the highest standards of integrity and fair dealing. For this purpose, the Affiliated Person has implemented procedures that shall ensure that any business activities involving a conflict which may harm the interests of the Fund or its unitholders, are carried out with an appropriate level of independence and that any conflicts are resolved fairly. Unitholders may obtain additional information on the Management Company and/or Fund's policy related to conflict of interests free of charge by addressing their request in writing to the Management Company.

Notwithstanding its due care and best effort, there is a risk that the organizational or administrative arrangements made by the Management Company for the management of conflicts of interest are not sufficient to ensure with reasonable confidence, that risks of damage to the interests of the Fund or its unitholders will be prevented. In such case these non-mitigated conflicts of interest as well as the decisions taken will be reported to the unitholders on the following website of the Management Company: [http://www.ubs.com/lu/en/asset\\_management/investor\\_information.html](http://www.ubs.com/lu/en/asset_management/investor_information.html).

Respective information will also be available free of charge at the registered office of the Management Company.

In addition, it has to be taken into account that the Management Company and the Depositary are members of the same group. Thus, both have put in place policies and procedures ensuring that they (i) identify all conflicts of interests arising from that link and (ii) take all reasonable steps to avoid those conflicts of interest.

Where a conflict of interest arising out of the group link between the Management Company and the Depositary cannot be avoided, the Management Company or the Depositary will manage, monitor and disclose that conflict of interest in order to prevent adverse effects on the interests of the Fund and of the unitholders.

A description of the safekeeping functions delegated by the Depositary, the list of delegates and sub-delegates of the Depositary can be found on the following webpage: <https://www.ubs.com/global/en/legalinfo2/luxembourg.html>, and up-to-date information in relation thereto will be made available to the unitholders upon request.

## **Benchmark Regulation**

The indices used as benchmarks by the sub-funds (as "use" is defined in Regulation (EU) 2016/1011 (the "Benchmark Regulation")) are, as at the date of this sales prospectus, provided by benchmark administrators who appear on the register of administrators and benchmarks maintained by ESMA pursuant to Article 36 of the Benchmark Regulation. Updated information whether the benchmark is provided by an administrator included in the ESMA register of EU benchmark administrators and third country benchmarks is available from <https://registers.esma.europa.eu/publication/>. The Management Company maintains a written plan setting out the actions that will be taken in the event that a benchmark materially changes or ceases to be provided (the "Contingency Plan"), as required by Article 28 (2) of the Benchmark Regulation. Unitholders may access the Contingency Plan free of charge upon request at the registered office of the Management Company.

## **Data protection**

In accordance with the provisions of the Luxembourg Law of 1 August 2018 on the organisation of the National Data Protection Commission and the general data protection framework, as amended, and Regulation (EU) 2016/679 of 27 April 2016 on the protection of natural persons with regard to the processing of personal data and on the free movement of such data (the "data protection legislation"), the Fund acts as a data controller and collects, stores and processes, by electronic or other means, the data provided by investors for the purpose of performing the services required by investors and in order to meet the Fund's legal and supervisory obligations.

The data processed includes in particular the investor's name, contact details (including their postal or email address), bank account details, the amount and the nature of the investments in the Fund (and if the investor is a legal entity, the data of natural persons connected with this legal entity, such as its contact person(s) and/or beneficial owner(s)) ("**personal data**").

Investors may decline to transfer personal data to the Fund at their own discretion. However, in this case the Fund is entitled to reject orders to subscribe units.

Investors' personal data is processed when they enter into a relationship with the Fund and in order to carry out the subscription of units (i.e. to fulfil a contract), to safeguard the Fund's legitimate interests and to meet the Fund's legal obligations. Personal data is processed for the following purposes in particular: (i) to carry out subscriptions, redemptions and conversions of units, pay dividends to investors and administer client accounts; (ii) to manage client relationships; (iii) to carry out checks relating to excess trading and market timing practices and for tax identification that may be mandated by Luxembourg or foreign legislation and regulations (including laws and regulations relating to FATCA and the CRS); (iv) to comply with applicable anti-money laundering regulations. Data provided by unitholders is also processed, (v) to administer the Fund's register of unitholders. In addition, personal data may be used (vi) for marketing purposes.

The above-mentioned legitimate interests include:

- the purposes listed in points (ii) and (vi) of the previous paragraph of this data protection section for which data may be processed;
- meeting the accounting and supervisory obligations of the Fund in general;
- carrying out the Fund's business in accordance with appropriate market standards.

For this purpose and in accordance with the provisions of the Data Protection Act, the Fund may transmit personal data to its data recipients (hereinafter "recipients"), which are related and third-party companies providing support for the Fund's activities as regards the previously mentioned purposes. These include in particular the management company, the administrative agent, the distributors, the depositary, the paying agent, the investment manager, the domiciliary agent, the global distributor, the auditor and the legal advisor of the Fund.

The recipients may pass on the personal data on their own responsibility to their representatives and/or agents (the "sub-recipients"), who may process the personal data solely for the purpose of assisting the recipients in performing their services for the Fund and/or in meeting their legal obligations.

The recipients and sub-recipients may be located in countries inside or outside the European Economic Area (EEA) where data protection legislation may not provide an appropriate level of protection.

When transferring personal data to recipients and/or sub-recipients located in a country outside the EEA which does not have appropriate data protection standards, the Fund shall establish contractual safeguards to ensure that investors' personal data is afforded the same protection as that provided by the data protection legislation and may use the model clauses approved by the European Commission to do so. Investors are entitled to request copies of the relevant documents that enable the transfer of personal data to these countries by sending a written request to the Management Company's address listed above.

When subscribing to units, every investor is explicitly reminded that their personal data may be transferred to and processed by the above-mentioned recipients and sub-recipients, including companies located outside the EEA and in particular in countries that may not offer an appropriate level of protection.

The recipients and sub-recipients may process the personal data as processors when handling the data on the Fund's instructions, or as controllers in their own right when processing the personal data for their own purposes, i.e. to meet their own legal obligations. The Fund may also transfer personal data to third parties in accordance with the applicable legislation and regulations, such as government and supervisory authorities, including tax authorities inside or outside the EEA. In particular, personal data may be passed on to the Luxembourg tax authorities which in turn act as controllers and can forward this data to foreign tax authorities.

In accordance with the provisions of the data protection legislation, every investor has the right, by sending a written request to the Management Company's address listed above, to the following:

- Information on their personal data (i.e. the right to a confirmation from the Fund about whether their personal data is being processed, the right to certain information about how the fund is processing their personal data, the right to access this data and the right to a copy of the personal data that has been processed (subject to statutory exemptions));

- To have their personal data corrected if it is incorrect or incomplete (i.e. the right to request the Fund to update and correct incomplete or incorrect personal data or errors);

· To restrict usage of their personal data (i.e. the right to demand that the processing of their personal data is restricted under certain circumstances until they have given consent for this data to be stored);

To object to the processing of their personal data, including prohibiting processing of their personal data for marketing purposes (i.e. the right to prohibit the Fund, for reasons relating to the investor's particular situation, from processing data in order to carry out a task in the public interest or based on its legitimate interests; the Fund will then cease to process this data, unless it can demonstrate that there are legitimate and overriding grounds for processing the data which take precedence over the interests, rights and freedoms of the investor, or that processing the data is necessary to enforce, implement or defend legal claims);

· To have their personal data deleted (i.e. the right to request the deletion of their personal data in certain circumstances, in particular if the Fund no longer needs to process this data for the purpose for which it was collected or processed);

· Data portability (i.e. the right, if technically feasible, to request the transfer of the data to the investor or another controller in a structured, widely-used and machine-readable format).

Investors also have the right to lodge a complaint with the National Data Protection Commission at 1, avenue du Rock'n'Roll, L-4361 Esch-sur-Alzette, Grand Duchy of Luxembourg, or with another national data protection authority if they are resident in another Member State of the European Union.

Personal data will not be stored for longer than required for the purpose for which the data is being processed. The relevant statutory time limits for data storage shall apply.

## **Index provider**

### **Bloomberg Barclays**

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### **Refinitiv**

Refinitiv Global Convertible Index - Global Vanilla Hedged EUR UCBI15 Index powered by Refinitiv information and calculated by Refinitiv.

### **MSCI**

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## **Liquidation of the Fund and its sub-funds, merging of sub-funds**

### ***Liquidation of the Fund and its sub-funds***

Unitholders, their heirs or other beneficiaries may not demand the division or liquidation of the entire fund or one or more individual sub-funds or unit classes. The Management Company is empowered, however, to liquidate the Fund or existing sub-funds provided that, taking into account the interests of the unitholders, such liquidation is considered reasonable or necessary for the protection of the Management Company and the fund or for reasons of investment policy.

If the total net asset value of a sub-fund or of a unit class within a sub-fund has fallen below a value or has not reached that value, which is required for the economically efficient management of that sub-fund or that unit class, or in the event of a substantial change in the political, economic and monetary environment, or as part of a rationalisation, the Management Company may decide to redeem and cancel all units of the corresponding unit class(es) at the net asset value (taking into account the actual realisation prices and realisation costs of the investment) as at the Valuation Date or date on which the decision takes effect.

The decision to liquidate a sub-fund or its unit classes shall be published as further described above in section "Regular reports and publications". No units may be issued after the date of such a decision and any conversion into the concerned sub-fund shall be suspended. The redemption of units or conversion out of the concerned sub-fund will still be possible even after this decision is implemented, so that it will be ensured that any liquidation costs will be taken into account by the sub-fund and are thus borne by all investors holding units of the sub-fund at the time the decision to liquidate is made. In the event of liquidation, the Management Company will dispose of the fund's assets in the best interests of the unitholders and instruct the Depositary to distribute the net proceeds from the liquidation of the sub-funds to the unitholders of said sub-funds in proportion to their respective holdings. Any liquidation proceeds which cannot be

distributed to the unitholders at the end of the liquidation procedure (which can last up to nine months) will be immediately deposited with the "Caisse de Consignation" in Luxembourg.

Liquidation of the fund is mandatory in the cases prescribed by law and in the event of the Management Company being liquidated. Notice of such liquidation is published in at least two daily newspapers (one of them being a Luxembourg daily newspaper) as well as in "RESA".

### ***Merger of the Fund or sub-funds with another undertaking for collective investment or with its sub-funds***

"Mergers" are transactions in which:

- a) one or more UCITS or sub-funds of such UCITS, the "**absorbed UCITS**", upon whose winding up without liquidation transfers all assets and liabilities to another existing UCITS or a sub-fund of that UCITS, the "**absorbing UCITS**", and whose unitholders receive in return units in the absorbing UCITS and, if applicable, a cash payment not exceeding 10% of the net asset value of such units;
- b) two or more UCITS or sub-funds of such UCITS, the "**absorbed UCITS**", upon whose winding up without liquidation transfers all assets and liabilities to another UCITS or a sub-fund of that UCITS formed by it, the "**absorbing UCITS**", and whose unitholders receive in return units in the absorbing UCITS and, if applicable, a cash payment not exceeding 10% of the net asset value of such units;
- c) one or more UCITS or sub-funds of such UCITS, the "**absorbed UCITS**", that continue to exist until liabilities have been paid off, transfers its net assets to another sub-fund of the same UCITS, to another UCITS formed by it or to another existing UCITS or a sub-fund of that UCITS, the "**absorbing UCITS**".

Mergers are permissible under the conditions provided for in the Law of 2010. The legal consequences of a merger are based on the Law of 2010.

Under the conditions described in the section "Liquidation of the Fund and its sub-funds or unit classes", the Management Company may decide to allocate the assets of a sub-fund or of a unit class to another existing sub-fund or unit class of the Fund or to another undertaking for collective investment pursuant to Part I of the Law of 2010, be it domiciled either in Luxembourg or any other member state of the European Union, and the redesignation of the units of the sub-fund(s) or unit class in question as units of another sub-fund or of another unit class (as a result of the scission, if necessary, and through the payment of an amount that corresponds to the pro rata entitlement of the unitholders).

The unitholders will be informed of the decision by the Management Company to merge in the same way as described above in section "Regular reports and publications". Should the Management Company take such a decision, the merger shall be binding for all unitholders of the sub-fund concerned after expiry of a 30-day period commencing on the date on which the decision is communicated. During this period, unitholders may submit their units for redemption without having to pay any redemption fee or administration costs. Units not presented for redemption will be exchanged on the basis of the net asset value of the units of the sub-fund concerned, calculated for the day on which the merger takes effect.

Applicable law, place of performance and authoritative language

The Luxembourg District Court is the place of performance for all legal disputes between the unitholders, the Management Company and the Depositary. Luxembourg law applies. However, in matters concerning the claims of investors from other countries, the Management Company and/or the Depositary can elect to make themselves and the Fund subject to the jurisdiction of the countries in which the Fund units were bought and sold.

The English version of this sales brochure is the authoritative version. However, in the case of units sold to investors from the other countries in which Fund units can be bought and sold, the Management Company and the Depositary may recognize approved translations (i.e. approved by the Management Company and the Depositary) into the languages concerned as binding upon themselves and the Fund.

## **Investment principles**

The following terms shall also apply to the investments of each sub-fund:

### **1 Investment instruments**

1.1 The sub-fund's investments principally consist of:

- a) transferable securities and money market instruments that are listed or traded on a regulated market, as defined in Article 4 point 1 (14) of Directive 2004/39/EC of the European Parliament and of the Council of 21 April 2004;
- b) transferable securities and money market instruments that are traded on another regulated market in a Member State which operates regularly and is recognised and open to the public. The term "**Member State**" refers to a Member State of the European Union, it being understood that the States that are contracting parties to the Agreement creating the European Economic Area other than the Member States of the European Union, within the limits set forth by that agreement and related acts, are considered as equivalent to Member States of the European Union;
- c) transferable securities and money market instruments admitted to official listing on a stock exchange in a non-Member State of the European Union or traded on another regulated market in a non-Member State of the European Union which operates regularly and is recognised and open to the public, such stock exchange or market being located within any European, American, Asian, African, Australasian or Oceania country (hereinafter referred to as an "**approved state**");
- d) recently issued transferable securities and money market instruments, provided that the terms of issue include an undertaking that application will be made for admission to official listing on a stock exchange or to another regulated market referred to under paragraphs a) to c) above and that such admission is secured within one year of issue;
- e) units of UCITS authorised according to Directive 2009/65/EC and/or other UCIs within the meaning of the first

and second indent of Article 1(2), points a) and b) of Directive 2009/65/EC, whether or not established in a Member State, provided that:

- (i) such other UCIs have been approved in accordance with a law subjecting them to supervision which is considered by the CSSF as equivalent to that laid down in Community law, and that co-operation between authorities is sufficiently ensured.
- (ii) the level of guaranteed protection for unitholders in such other UCIs is equivalent to the level of protection provided for the unitholders in a UCITS, and in particular that the rules on asset segregation, borrowing, lending, and uncovered sales of transferable securities and money-market instruments that are equivalent to the requirements of Directive 2009/65/EC;
- (iii) the business operations of the other UCIs is reported in semi-annual and annual reports to enable an assessment to be made of the assets and liabilities, income, transactions and operations during the reporting period;
- (iv) no more than 10% of the UCITS or other UCIs whose acquisition is envisaged can, in accordance with their respective sales prospectus, management regulations or articles of incorporation, be invested in aggregate in units of other UCITS or UCIs.

If not otherwise provided in the investment policy of the relevant sub-fund, each sub-fund will not invest more than 10% of its assets in other UCITS or UCI.

- f) deposits with credit institutions which are repayable on demand or have the right to be withdrawn, and maturing in no more than 12 months, provided that the credit institution has its registered office in a Member State or, if the registered office of the credit institution is situated in a non-Member State, provided that it is subject to prudential rules considered by the CSSF as equivalent to those laid down in Community law;
- g) derivative financial instruments ("**derivatives**"), including equivalent cash instruments, which are traded on one of the stock exchanges listed in a), b) and c) above, and/or derivatives which are not traded on a stock exchange ("**OTC derivatives**"), provided that:
  - (i) the use of derivatives is in accordance with the investment purpose and investment policy of the respective sub-fund, and is suited towards achieving these; the underlying securities constitute instruments as defined by Article 41(1) of the Law of 2010 are financial indices, such as macroeconomic indices, interest rates, exchange rates or currencies in which investments may be made in line with the investment policy of the Sub-fund directly or indirectly via other existing UCI/UCITS;
  - (ii) the sub-funds ensures, through adequate diversification of the underlying assets, that the diversification requirements applicable to them and listed in the section entitled "Risk diversification" are adhered to;
  - (iii) the counterparties in transactions involving OTC derivatives are institutions that are subject to official supervision, belonging to the categories admitted by the CSSF, and have been specially approved by the Board of Directors. The approval process by the Board of Directors is based on the principles drawn up by UBS AM Credit Risk and relating to inter alia the credit worthiness, reputation and experience of the counterparty in question in settling transactions of this type, as well as their willingness to provide capital. The Board of Directors maintains a list of counterparties it has approved;
  - (iv) the OTC derivatives are subject to reliable and verifiable valuation on a daily basis and can be sold, liquidated or closed by an offsetting transaction at any time at their fair value upon the Management Company's initiative; and
  - (v) the respective counterparty is not granted discretion regarding the composition of the portfolio managed by the respective sub-fund (e.g. in the case of a total return swap or a derivative financial instrument with similar characteristics) or the underlying of the respective OTC derivative.
- h) money market instruments within the meaning of Article 1 of the Law of 2010, which are not traded on a regulated market, provided that the issuance or issuer of these instruments is governed by rules providing protection for investors and investments and on condition that such instruments are:
  - (i) issued or guaranteed by a central, regional or local authority, a central bank of a Member State, the European Central Bank, the European Union or the European Investment Bank, a non-Member State or, in the case of a Federal State, by one of the members making up the federation, or by a public international body to which one or more Member States belong; or
  - (ii) issued by an undertaking any securities of which are dealt in on regulated markets referred to in paragraphs a), b) or c) above; or
  - (iii) issued or guaranteed by an establishment subject to prudential supervision in accordance with criteria defined by Community law or by an establishment which is subject to and comply with prudential rules considered by the CSSF to be at least as stringent as those laid down by Community law; or
  - (iv) issued by other bodies belonging to the categories approved by the CSSF provided that investments in such instruments are subject to investor protection equivalent to that laid down in the first, the second or the third indent of this paragraph h) and provided that the issuer is a company whose capital and reserves amount at least to ten million Euros (EUR 10,000,000.-) and which presents and publishes its annual accounts in accordance with fourth Directive 78/660/EEC, is an entity which, within a group of companies which includes one or several listed companies, is dedicated to the financing of the group or is an entity which is dedicated to the financing of securitisation vehicles which benefit from a banking liquidity line.

1.2 However:

- each sub-fund may invest no more than 10% of its net assets in transferable securities and money market instruments other than those referred to in 1.1.
- a sub-fund may not acquire either precious metals or certificates representing them.

- 1.3 The Management Company must ensure that its global exposure relating to derivatives does not exceed the total net asset value of the Fund portfolio. As part of its investment strategy, each sub-fund, within the limits set out in 2.2 and 2.3, may use derivatives provided that its global exposure relating to the underlying assets does not exceed the investment limits cited in point 2 below.
- 1.4 Each sub-fund may hold liquid assets on an ancillary basis.

## **2 Risk diversification**

2.1 In accordance with the principle of risk diversification, the Management Company may not invest more than 10% of the net assets of a sub-fund in transferable securities or money market instruments issued by the same body. The risk exposure to a counterparty of a sub-fund in an OTC derivative transaction may not exceed 10% of its net assets when the counterparty is a credit institution as defined in 1.1 f) or 5% of its net assets in other cases.

2.2 The total value of the transferable securities and money market instruments held by the sub-fund in the issuing bodies in each of which it invests more than 5% of its net assets must not exceed 40% of the value of its net assets. This limitation does not apply to deposits and OTC derivative transactions made with institutions subject to prudential supervision.

Notwithstanding the individual limits laid down in paragraph (1), a sub-fund may not combine:

- investments in transferable securities or money market instruments issued by a single body,
- deposits made with a single body, and/or
- exposures arising from OTC derivative transactions undertaken with a single body, in excess of 20% of its net assets.

2.3 The limit laid down in the first sentence of paragraph 2.1 is raised to a maximum of 35% for transferable securities or money market instruments that are issued or guaranteed by an EU Member State or its central, regional and local authorities, by another approved country, or by international organisations with public-law character of which one or more EU states are members.

2.4 The limit laid down in the first sentence of 2.1 may be of a maximum of 25% for certain bonds when they are issued by a credit institution which has its registered office in a Member State of the European Union and is subject by law, to special legislative supervision designed to protect bondholders. In particular, sums deriving from the issue of these bonds must be invested in conformity with the law in assets which, during the whole period of validity of the bonds, are capable of covering claims attaching to the bonds and which, in the case of bankruptcy of the issuer, would be used on a priority basis for the repayment of principal and payment of the accrued interest.

If a sub-fund invests more than 5% of its net assets in the bonds referred to in the first sub-paragraph and issued by one issuer, the total value of such assets may not exceed 80% of the value of the assets of the sub-fund.

2.5 The transferable securities and money market instruments referred to in paragraphs 2.3 and 2.4 are not included in the calculation of the limit of 40% referred to in paragraph 2.2.

The limits set out in 2.1, 2.2, 2.3 and 2.4 may not be combined and thus investments in transferable securities or money market instruments issued by the same body, in deposits or derivative instruments made with this body carried out in accordance with paragraphs 2.1, 2.2, 2.3 and 2.4 may not exceed a total of 35% of the net assets of a given sub-fund.

Companies which are included in the same group for the purposes of consolidated accounts, as defined in accordance with Directive 83/349/EEC or in accordance with recognised international accounting rules, are regarded as a single body for the calculating limits set out in this section.

However, a sub-fund may cumulatively invest up to 20% of its net assets in transferable securities and money market instruments within the same group.

Without prejudice to the limits laid down in paragraph 3.1 to 3.3, the limits laid down in 2.1, 2.2, 2.3, 2.4 and 2.5 may be raised to a maximum of 20% for investments in shares and/or bonds issued by the same body when, according to the investment objective of a sub-fund, the aim of the sub-fund's investment policy is to replicate the composition of a certain stock or bond index which is recognised by the CSSF, on the following basis:

- the composition of the index is sufficiently diversified
- the index represents an adequate benchmark for the market to which it refers,
- it is published in an appropriate manner.

The before mentioned limit of 20% is raised to 35% where that proves to be justified by exceptional market conditions in particular in regulated markets where certain transferable securities or money market instruments are highly dominant. The investment up to this limit is only permitted for a single issuer.

**2.6 The Management Company is authorised, in the interests of risk diversification, to invest up to 100% of the net assets of a sub-fund in transferable securities and money market instruments from various offerings that are issued or guaranteed by an EU Member State or its central, regional and local authorities, by another OECD Member State, China, Russia, Brazil, Singapore, Indonesia or by international organisations with public-law character in which one or more EU Member States are**

**members.**

**These transferable securities or money market instruments must be divided into at least six different issues, with securities or money market instruments from one and the same issue not exceeding 30% of the total net assets of a sub-fund.**

2.7 A sub-fund may acquire the units of UCITS and or other UCIs referred to in 1.1 e), provided that no more than 20% of its net assets are invested in the units of a single UCITS or other UCI.

For the purpose of the application of this investment limit, compartment of a UCI with multiple compartments within the meaning of Article 181 of the Law of 2010 is to be considered as a separate issuer provided that the principle of segregation of the obligations of the various compartments vis-à-vis third parties is ensured.

Investments made in units of UCIs other than UCITS may not in aggregate exceed 30% of the net assets of the sub-fund.

The assets of these UCITS or other UCIs shall not be included in the calculation of the maximum limits set out in 2.

If a sub-fund invests a substantial proportion of its assets in other UCITS or UCIs the maximum level of the management fees that may be charged both in the sub-fund itself and to the other UCITS and/or UCI in which it intends to invest will be disclosed in the relevant description of the sub-fund in the sales prospectus. In its annual report it shall indicate the maximum proportion of management fees charged both to the sub-fund itself and to the other UCITS and/or other UCIs in which it invests.

A sub-fund needs not comply with the above-mentioned limits when exercising subscription rights attaching to transferable securities or money market instruments which form part of the assets.

If the above-mentioned limits are exceeded unintentionally or due to the exercise of subscription rights, the Management Company must attach top priority in its sales of securities to rectifying the situation while, at the same time, considering the best interests of the unitholders.

While ensuring observance of the principle of risk-spreading, recently authorized sub-funds may derogate from the investment restrictions stated above for a period of six months following the date of their authorisation.

2.8 Each sub-fund may also subscribe for, acquire and/or hold units issued or to be issued by one or more other sub-funds of the Fund subject to additional requirements which may be specified in the sales prospectus, if:

- a) the target sub-fund does not, in turn, invest in the sub-fund invested in this target sub-fund; and
- b) no more than 10% of the assets of the target sub-funds whose acquisition is contemplated may, pursuant to this sales prospectus or the articles of incorporation, be invested in aggregate in units/shares of other target sub-funds of the same UCITS or UCI; and
- c) voting rights, if any, attaching to the relevant securities are suspended for as long as they are held by the sub-fund concerned; and
- d) in any event, for as long as these securities are held by the relevant sub-fund, their value will not be taken into consideration for the purposes of verifying the minimum threshold of the net assets imposed by the Law of 2010; and
- e) there is no duplication of management/subscription or redemption fees between those at the level of the sub-fund having invested in the target sub-fund, and this target sub-fund.

### **3 Investment restrictions**

The Management Company is prohibited from:

3.1 acquiring equities with voting rights that would enable it to exert a significant influence on the management of the borrower in question;

- 3.2 acquiring more than
- 10% of the non-voting shares of the same issuer,
  - 10% of the debt securities of the same issuer,
  - 25% of the units of the same UCITS and/or other UCI,
  - 10% of the money market instruments of any single issuer.

The limits laid down in the second, third and fourth indents may be disregarded at the time of acquisition if at that time the gross amount of bonds or of the money market instruments or the net amount of the instruments in issue cannot be determined.

3.3 Paragraphs (1) and (2) are waived as regards:

- a) transferable securities and money market instruments issued or guaranteed by a Member State of the European Union or its local authorities;
- b) transferable securities and money market instruments issued or guaranteed by a non-Member State of the European Union or its local authorities;
- c) transferable securities and money market instruments issued by public international bodies of which one or more Member States of the European Union are members;
- d) shares held by sub-funds in the capital of a company incorporated in a non-Member State of the European Union which invests its assets mainly in the securities of issuing bodies having their registered office in that State, where under the legislation of that State, such holdings represents the only way in which the sub-fund can invest in the securities of the issuing bodies of that State. The provisions of the Law of 2010 have to be complied with;
- e) shares held by one or more investment companies in the capital of subsidiary companies, which,

exclusively on its or their behalf carry on only the business of management, advice or marketing in the country where the subsidiary is located, in regard to the redemption of units at the request of unitholders.

- 3.4 Neither:
- the Management Company, nor
  - the Depositary on behalf of a sub-fund may borrow.

However, a sub-fund may acquire foreign currency by means of a back-to-back loan.

By way of derogation the aforementioned, a sub-fund may borrow the equivalent of:

- a) up to 10% of its net assets provided that the borrowing is on a temporary basis;
- b) up to 10% of its net assets provided that the borrowing is to make possible the acquisition of immovable property essential for the direct pursuit of their business; In this case, these borrowings and those referred to in sub-paragraph a) may not in any case in total exceed 15% of its net assets.

- 3.5 Without prejudice to the application of 1, neither
- the Management Company, nor
  - the Depositary, acting on behalf of a sub-fund, may grant loans to or act as guarantor for third parties.

This restriction does not prevent the acquisition of transferable securities, money market instruments or the other instruments listed in 1.1 e), 1.1 g) and 1.1 h) if not fully paid up;

- 3.6 Neither:
- the Management Company; nor
  - the Depositary, acting on behalf of a sub-fund, may carry out uncovered sales of transferable securities, money market instruments or other financial instruments referred to in 1.1 e), 1.1 g) and 1.1 h)

#### **4 Pooling of assets**

The Management Company may permit internal pooling and/or joint management of assets from particular sub-funds in the interests of efficiency. In this case, assets from different sub-funds will be managed together. The assets under joint management are referred to as the "**pool**" and are used exclusively for internal management purposes. The pools are not separate units and cannot be accessed directly by unitholders.

##### ***Pooling***

The Management Company can invest and manage all or a part of the portfolio assets of two or more sub-funds (for this purpose, called "**participating sub-funds**") in the form of a pool. Such an asset pool is created by transferring cash and other assets (if these assets are in harmony with the investment policy of the pool concerned) from each participating sub-fund to the asset pool. The Management Company can then make further transfers to the individual asset pools. Assets up to the amount of its participation can also be transferred back to a participating sub-fund. The share of a participating sub-fund in the respective asset pool is evaluated by reference to imputed units of the same value. When an asset pool is created, the Management Company shall specify the initial value of the imputed units (in a currency that the Management Company considers appropriate) and allot to the participating sub-fund shares in the total value of the cash (or other assets) it has contributed. The value of the imputed units will then be determined by dividing the net assets of the asset pool by the number of existing imputed units.

If additional cash or assets are contributed to or withdrawn from an asset pool, the imputed units assigned to the participating sub-fund concerned increase or diminish by a number, which is determined by division of the contributed or withdrawn cash amount or assets by the current value of a unit. If cash is contributed to the asset pool, for calculation purposes it is reduced by an amount that the Management Company considers appropriate in order to take account of any tax expense and completion and acquisition and purchase costs relating to the investment of the cash concerned. If cash is withdrawn, a corresponding deduction may be made in order to take account of any costs related to the disposal of securities or other assets of the asset pool.

Dividends, interest and other income-like distributions, which are obtained from the assets of an asset pool, are allocated to the asset pool concerned and thus lead to an increase in the respective net assets. In the case of a liquidation of the Company, the assets of an asset pool are allocated to the participating sub-fund in proportion to their respective share in the asset pool.

##### ***Joint management***

To reduce the operating and management costs and at the same time to permit broader diversification of investments, the Management Company may decide to manage a part of or the entire assets of one or more sub-funds in combination with assets that belong to other sub-funds or to other undertakings for collective investment. In the following sections the term "**jointly managed entities**" is used to refer to the sub-funds and all units with or between which an arrangement for joint management would exist; the term "**jointly managed assets**" is used to refer to the entire assets of these jointly managed entities which are managed according to the aforementioned agreement concerning joint management.

As part of the agreement on joint management, the asset manager is entitled to make decisions on investments and sales of assets on a consolidated basis for the relevant jointly managed entities which have an influence on the composition of the Fund's portfolio. Each jointly managed entity holds a share in the jointly managed assets which is oriented to the share of its net assets in the aggregate value of the jointly managed assets. This proportionate holding applies to all categories of investment which are held or acquired in the context of joint management. Decisions regarding investments and/or sales of

investments shall have no effect on this participation arrangement and further investment will be allotted to the jointly managed units in the same proportions. In the event of a sale of assets, these will be subtracted proportionately from the jointly managed assets held by the individual jointly managed units.

In the case of new subscriptions for one of the jointly managed units, the subscription proceeds are to be allocated to the jointly managed units in accordance with the changed participation arrangement resulting from the increase in net assets of the jointly managed unit which has benefited from the subscriptions; the level of the investments will be modified by the transfer of assets from the jointly managed unit to the other, and thus adapted to suit the altered participation arrangement. Similarly, in the case of redemptions for one of the jointly managed units, the necessary liquid funds shall be taken from the liquid funds of the jointly managed units in accordance with the altered participation arrangement resulting from the reduction in net assets of the jointly managed unit which has been the subject of the redemptions, and in this case the particular level of all investments will be adjusted to suit the altered participation arrangement.

Investors are alerted to the fact that the agreement on joint management may result in the composition of the assets of the particular sub-fund being affected by events which concern other jointly managed units, e.g. subscriptions and redemptions, unless the Management Company or one of the entities commissioned by the Management Company resort to special measures. If all other aspects are unchanged, subscriptions received by a unit under joint management with the sub-fund will therefore result in an increase in the cash reserve of this sub-fund. Conversely, redemptions of a unit under joint management with the sub-fund will result in a reduction of the cash reserves of the sub-fund. However, subscriptions and redemptions can be carried out on the special account that is opened for each jointly managed unit outside the agreement concerning joint management and through which subscriptions and redemptions must pass. Because of the possibility of posting extensive subscriptions and redemptions to these special accounts, and the capability of the Management Company or the entities commissioned by it to decide at any time to terminate the participation of the sub-fund in the agreement concerning joint management, the sub-fund concerned may avoid having to re-arrange its portfolio if this could adversely affect the interests of the Fund and its unitholders.

If a change in the portfolio composition of the particular sub-fund as a result of redemptions or payments of fees and expenses referring to another jointly managed unit (i.e. which cannot be counted as belonging to the sub-fund) might result in a violation of the investment restrictions applying to the particular sub-fund, the relevant assets before implementing the change will be excluded from the agreement on joint management so that they are not affected by the resulting adjustments.

Jointly managed assets of sub-funds will only be managed in common with assets which are to be invested according to the same investment aims already applying to the jointly managed assets in order to ensure that investment decisions are reconcilable in all respects with the investment policy of the particular sub-fund. Jointly managed assets may only be managed in common with assets for which the same investment manager is authorised to make decisions in investments and the sale of investments, and for which the Depositary also acts as a depositary so as to ensure that the Depositary is capable of performing its functions and responsibilities assumed in accordance with the statutory requirements in all respects for the sub-fund. The Depositary must always keep the assets of the Fund separate from those of the other jointly managed units; this allows it to determine the assets of each individual sub-fund accurately at any time. Since the investment policy of the jointly managed units does not have to agree exactly with that of the individual sub-funds, it is possible that their common investment policy may be more restrictive than that of the other sub-funds.

The Management Company may decide to terminate the agreement on joint management at any time without giving prior notice.

Unitholders may enquire at any time at the registered offices of the Management Company to know the percentage of jointly managed assets and units with which there is an agreement on joint management at the time of their enquiry.

The composition and percentages of jointly managed assets must be stated in the annual reports.

Agreements on joint management with non-Luxembourg units are permissible if (1) the agreement on joint management in which the non-Luxembourg unit is involved is governed by Luxembourg law and Luxembourg jurisdiction or (2) each unit under joint management is equipped with such rights that no creditor and no insolvency or bankruptcy administrator of the non-Luxembourg unit has access to the assets or is authorised to freeze them.

## **5 Special techniques and instruments relating to transferable securities and money market instruments**

Subject to the conditions and limits set out in the Law of 2010, the Fund and its sub-funds may use repurchase agreements, reverse repurchase agreements, securities lending agreements and/or other techniques and instruments that have securities and money market instruments as underlying assets for efficient portfolio management purposes in accordance with the requirements defined by the CSSF (the "**techniques**"). If such transactions relate to the use of derivatives, then the terms and limits must accord with the provisions of the Law of 2010. The use of these techniques and instruments must be in accordance with the best interests of the investors.

Repurchase agreements are transactions in which one party sells a security to the other party with a simultaneous agreement to repurchase the security at a fixed future date at a stipulated price reflecting a market rate of interest unrelated to the coupon rate of the securities. A reverse repurchase agreement is a transaction whereby a sub-fund purchases securities from a counterparty and simultaneously commits to resell the securities to the counterparty at an agreed upon date and price. A securities lending agreement is an agreement whereby title to the "loaned" securities is transferred by a "lender" to a "borrower" with the borrower contracting to deliver "equivalent securities" to the lender at a later date ("**securities lending**").

Securities lending may be effected only via recognised clearing houses such as Clearstream International or Euroclear, or using first class financial institutions that specialise in such activities and following the procedure specified by them. In the case of securities lending transactions, the Fund must, in principle, receive collateral, the value of which must at least correspond to the total value of the securities lent out and any accrued interest thereon. This collateral must be issued in a form of financial collateral permitted by the provisions of Luxembourg law. Such collateral is not required if the transaction is effected via Clearstream International or Euroclear, or another organisation which guarantees the Fund that the value of the securities lent will be refunded. The provisions of the section entitled "Collateral management" shall apply accordingly

to the management of collateral that was left to the Fund within the scope of securities lending. In derogation from the provisions of the section entitled "Collateral management", shares from the finance sector are accepted as securities within the framework of securities lending.

Service providers that provide services to the Fund in the field of securities lending have the right to receive a fee in return for their services that is in line with the market standards. The amount of this fee is reviewed and adapted, where appropriate, by an independent body on an annual basis.

Furthermore, the Management Company has drawn up internal framework agreements regarding securities lending. These framework agreements contain, among other things, the relevant definitions, the description of the principles and standards of the contractual management of the securities lending transaction, the quality of the collateral, the approved counterparties, the risk management, the fees to be paid to third parties and fees to be received by the Fund, as well as the information to be published in the annual and semi-annual reports. The Board of Directors of the Management Company has approved instruments of the following asset classes as collateral from securities transactions and determined the following haircuts to be used on these instruments:

<b>Asset class</b>	<b>Minimum haircut (% deduction from market value)</b>
<b>Fixed- and variable-rate interest-bearing instruments</b>	
Instruments issued by a state belonging to the G-10 (apart from the USA, Japan, the UK, Germany and Switzerland, including their federal states and cantons as issuers) and with a minimum rating of A*	2%
Instruments issued by the USA, Japan, the UK, Germany and Switzerland, including their federal states and cantons**	0%
Bonds with a minimum rating of A	2%
Instruments issued by supranational organisations	2%
Instruments issued by an entity and belonging to an issue with a minimum rating of A	4%
Instruments issued by a local authority and with a minimum rating of A	4%
<b>Shares</b>	<b>8%</b>
Shares listed on the following indexes are accepted as permissible collateral:	Bloomberg ID
Australia (S&P/ASX 50 INDEX)	AS31
Austria (AUSTRIAN TRADED ATX INDEX)	ATX
Belgium (BEL 20 INDEX)	BEL20
Canada (S&P/TSX 60 INDEX)	SPTSX60
Denmark (OMX COPENHAGEN 20 INDEX)	KFX
Europe (Euro Stoxx 50 Pr)	SX5E
Finland (OMX HELSINKI 25 INDEX)	HEX25
France (CAC 40 INDEX)	CAC
Germany (DAX INDEX)	DAX
Hong Kong (HANG SENG INDEX)	HSI
Japan (NIKKEI 225)	NKY
Netherlands (AEX-Index)	AEX
New Zealand (NZX TOP 10 INDEX)	NZSE10
Norway (OBX STOCK INDEX)	OBX
Singapore (Straits Times Index STI)	FSSTI
Sweden (OMX STOCKHOLM 30 INDEX)	OMX
Switzerland (SWISS MARKET INDEX)	SMI
Switzerland (SPI SWISS PERFORMANCE IX)	SPI
U.K. (FTSE 100 INDEX)	UKX
U.S. (DOW JONES INDUS. AVG)	INDU
U.S. (NASDAQ 100 STOCK INDEX)	NDX
U.S. (S&P 500 INDEX)	SPX
U.S. (RUSSELL 1000 INDEX)	RIY

\* In this table, "rating" refers to the rating scale used by S&P. Ratings by S&P, Moody's and Fitch are used with their corresponding scales. If the ratings given by these rating agencies to a certain issuer are not uniform, then the lowest rating shall apply.

\*\* Non-rated issues by these states are also permissible. No haircut is applied to these either.

In general, the following requirements apply to repurchase/reverse repurchase agreements and securities lending agreements:

- (i) Counterparties to a repurchase/reverse repurchase agreement or securities lending agreement will be entities with legal personality typically located in OECD jurisdictions and will be subject to a credit assessment. Where the counterparty is subject to a credit rating by any agency registered and supervised by ESMA, that rating shall be taken into account in the credit assessment. Where a counterparty is downgraded to A2 or below (or comparable rating) by such a credit rating agency, a new credit assessment in respect of the counterparty will be undertaken without delay.
- (ii) The Management Company must be able at any time to recall any security that has been lent out or terminate any securities lending agreement into which it has entered.
- (iii) When the Management Company enters into a reverse repurchase agreement it must ensure that it is able at any time to recall the full amount of cash (including the interest incurred up to the time of being recalled) or to terminate the reverse repurchase agreement on either an accrued basis or a mark-to-market basis. When the

cash is recallable at any time on a mark-to-market basis, the mark-to-market value of the reverse repurchase agreement should be used for the calculation of the Net Asset Value of the relevant sub-fund. Fixed-term reverse repurchase agreements that do not exceed seven days should be considered as arrangements on terms that allow the assets to be recalled at any time by the Management Company.

- (iv) When the Management Company enters into a repurchase agreement it must ensure that it is able at any time to recall any securities subject to the repurchase agreement or to terminate the repurchase agreement into which it has entered. Fixed-term repurchase agreements that do not exceed seven days should be considered as arrangements on terms that allow the assets to be recalled at any time by the Management Company.
- (v) Repurchase/reverse repurchase agreements or securities lending do not constitute borrowing or lending for the purposes of the UCITS Directive.
- (vi) All the revenues arising from efficient portfolio management techniques, net of direct and indirect operational costs/fees, will be returned to the relevant sub-fund.
- (vii) Any direct and indirect operational costs/fees arising from efficient portfolio management techniques that may be deducted from the revenue delivered to the relevant sub-fund must not include hidden revenue. Such direct and indirect operational costs/fees will be paid to the entities outlined in the respective annual or semi-annual report of the Fund, which shall indicate the amounts of the respective fees and whether the entities are related to the Management Company or the Depositary.

The Fund and its sub-funds may under no circumstances deviate from their investment objectives for these transactions. Equally, the use of these techniques may not cause the risk level of the sub-fund in question to increase significantly with regard to its original risk level (i.e. without the use of these techniques).

With regards to the risks inherent to the use of these techniques, reference is made here to the information contained in the section entitled "Risks connected with the use of efficient portfolio management techniques".

The Management Company ensures that it or its appointed service providers will monitor and manage the risks incurred through the use of these techniques, particularly counterparty risk, as part of the risk management procedure. The monitoring of potential conflicts of interest arising from transactions with companies associated with the Fund. The Management Company and the Depositary is primarily carried out through reviewing the contracts and corresponding processes on a regular basis. Furthermore, the Management Company ensures that, despite the use of these techniques and instruments, the investors' redemption applications can be processed at any time.

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