

Understanding unit investment trusts

Highlights

- A unit investment trust (UIT) offers redeemable shares of an investment portfolio created for a specific length of time, using a buy-and-hold approach
- The stocks, bonds or other securities in a UIT are chosen to meet a specific investment objective, although achieving that objective is not guaranteed
- UITs are not actively managed investments
- The fees and costs associated with buying and holding UITs are disclosed in each UIT's prospectus
- Understanding a particular UIT's specific costs and discounts can help you identify investments for your needs
- It is important to understand how UBS and your Financial Advisor are compensated for your UIT purchase

While this disclosure provides general background on costs and discounts, please note that sales charges, expenses, fees and discounts vary among UITs. We recommend that you review cost and discount details in each UIT's prospectus and discuss them with your Financial Advisor.

This disclosure applies to registered UITs owned by clients of UBS Financial Services Inc. and UBS International Inc.

What is a unit investment trust?

A unit investment trust (UIT) is an investment company that offers shares, or units, of a portfolio of stocks, bonds or other securities. The securities in the portfolio are generally fixed over the life of the UIT. These securities are chosen to meet a specific investment objective, which is described in the trust's prospectus, although achieving that objective is not guaranteed.

A UIT has a set termination date, generally anywhere from one to 50 years after it is created. At that time, the trust is dissolved, and proceeds are either paid to investors or reinvested in another UIT.

What are some risks associated with a UIT?

- Unit values will fluctuate with the portfolio of underlying securities
- Investors may lose some or all value in units upon redemption or sale
- Investments in UITs should be made with an understanding of the risks associated with the underlying securities
- UITs may be concentrated to a few securities, industries, sectors or asset classes
- UITs are not actively managed
- UITs may terminate earlier than the specified termination date as stated in the prospectus

How do UITs compare with mutual funds?

- Like many mutual funds, UITs may offer a diversified portfolio of securities that are selected by professional investment managers
- Unlike mutual funds, UITs are not actively managed; securities in the trust generally will not be sold or replaced in an effort to improve the trust's net asset value
- Annual fees and expenses for UITs may be lower than those of actively managed mutual funds, because the UITs are not buying and selling securities throughout the year

Why choose a UIT?

Investors may choose a UIT for consistency and transparency. Before you invest, you know what securities a portfolio will hold over the life of an investment and what the costs of investing will be.

You should also consider whether a particular UIT's investment objectives are compatible with your risk tolerance and long-term goals.

Sales charges and discounts

Sales charges. UITs typically impose two types of sales charges:

- An upfront sales charge is taken from your investment at the time of purchase, reducing the dollar amount available to purchase trust units
- A deferred sales charge is typically withheld from trust assets over several months during the life of the trust. If you redeem your investment before all of the deferred sales charge is deducted from the trust assets, unpaid amounts are typically deducted from your redemption proceeds

Breakpoints/volume discounts. Like mutual funds, UITs may offer volume discounts, or “breakpoints,” that reduce the upfront sales charge based on the number of units you purchase. For example, a UIT’s upfront sales charge could be:

- 1.00% for purchases of less than 50,000 units
- 0.75% for 50,000 to 100,000 units
- 0.25% for 100,000 to 250,000 units
- No charge for more than 250,000 units

Unlike most mutual funds, most UITs may:

- Offer these discounts only on transactions that take place on a single day through the same broker-dealer
- Allow investors to qualify for a breakpoint discount by aggregating same-day, same-broker-dealer purchases made by the investor’s spouse or minor child
- Offer additional, limited rights of accumulation

Please review the UIT’s prospectus for specific breakpoint terms and policies.

More information on UIT breakpoints is available from the Financial Industry Regulatory Authority (FINRA), an independent regulator, at www.finra.org.

Changing your investment

Rollover. Instead of redeeming units or receiving liquidation proceeds when the term of the trust expires, you may be able to exchange your units for units of the sponsor’s next UIT series—with no upfront sales charge, although a deferred sales charge may apply. Sponsors reserve the right not to offer new series of the UITs, and there is no guarantee a new series will be available on or after the rollover date.

Exchange. Most UIT sponsors allow unit holders to exchange units of one UIT for units of the sponsor’s other UITs. You may choose to take advantage of this option if your investment objectives change and the UIT in your portfolio no longer meets your needs.

In general, the upfront sales charge is reduced or waived when you exchange UITs, but a deferred sales charge still applies. These exchanges normally constitute a taxable event, producing a tax gain or loss; please discuss your situation with your tax advisor.

The exchange option may be restricted based on the holding period and the availability of units in the primary or secondary market. Sponsors generally reserve the right to modify, suspend or terminate the exchange option without notice.

Conversion. Some UIT sponsors let unit holders of another sponsor’s registered UIT use the proceeds from selling or redeeming those units to acquire available units of the sponsor’s trusts at a reduced upfront sales charge.

Units acquired through this conversion option are generally subject to the deferred sales charge remaining on those units. These conversions normally constitute a taxable event, producing a tax gain or loss. As with exchanges, please discuss your situation with your tax advisor.

Other fees and expenses

Creation and development fee. Most UITs charge a creation and development (C&D) fee to compensate the sponsor for the costs of building the trust. This fee is computed based on the trust’s average daily net asset value through the date of collection, typically at the end of the trust’s initial offering period. The C&D fee is specified in the UIT prospectus and paid from the trust’s assets.

Annual operating expenses. UITs generally have annual operating expenses that are paid from the assets of the trust. Typical operating expenses include trustee fees and portfolio, bookkeeping, administrative and other expenses. The UIT prospectus generally includes estimates of these expenses.

Understanding a UIT’s cost structure, including sales charges, fees and expenses, and breakpoint discounts, helps you determine whether an investment is appropriate for you, whether you can purchase units at a lower price, and how many units you can purchase. We recommend that you review the UIT prospectus and discuss the availability of breakpoint discounts with your Financial Advisor.

How UBS and your Financial Advisor are compensated

A general description follows of how UBS and your Financial Advisor are compensated when you purchase a UIT. As with any other matter, please contact your Financial Advisor with questions about compensation.

Sales charges. UBS receives a portion of the sales charge from the company sponsoring the UIT. We pay a portion of that amount to your Financial Advisor, following a compensation formula. Our formula treats all UITs equally, regardless of the sponsor.

Volume concessions. Most UIT sponsors make additional payments to the firms that sell their UITs, typically calculated as a percentage of sales volume. Detailed

descriptions of these additional payment programs are provided in a UIT's prospectus.

Other sales compensation. UIT sponsors may also pay UBS fixed amounts for marketing, promotion and related expenses to increase sales or to defray costs associated with sales, such as the costs of UIT trading systems. Payment rates and amounts vary from sponsor to sponsor. These payments are made by the UIT sponsor and not out of UIT assets. None of these amounts are paid to the Financial Advisor or his or her branch office.

Other compensation. UIT sponsors may also reimburse UBS for expenses we incur in connection with training and educational meetings, conferences or seminars. Also,

in the ordinary course of business, our Financial Advisors may receive promotional items, meals or entertainment, or similar non-cash compensation from representatives of the UIT sponsors with whom we do business.

Additional information is available in "[Understanding our fees, charges and other compensation](#)." (www.ubs.com/guidetofees)

Questions

If you have questions about UITs or any other matter, please contact your Financial Advisor.

An investment in a unit investment trust should be made with an understanding of the risks associated with an investment in a specified portfolio of securities. The market value of units will fluctuate and may be worth less than the original cost upon redemption, and, accordingly, you can lose money investing in a unit investment trust. Investors should carefully consider the investment objectives, risks, charges and expenses associated with unit investment trusts and should carefully review the prospectus containing this and other information before investing. To obtain a prospectus, contact your Financial Advisor.

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