OFFERING CIRCULAR
Puerto Rico Fixed Income Fund IV, Inc.
Tax-Free Secured Obligations

The Tax-Free Secured Obligations (the "Notes") are offered by Puerto Rico Fixed Income Fund IV, Inc. (the "Fund") which is a non-diversified, closed-end management investment company organized under the laws of the Commonwealth of Puerto Rico ("Puerto Rico") and registered as an investment company under the Puerto Rico Investment Companies Act of 1954, as amended (the "1954 Investment Company Act"). The Notes will be issued in three (3) series consisting of (i) Notes which are collateralized in an amount equal to their full outstanding principal amount and have a maturity date of up to 270 days after the date of issuance thereof, or be payable on demand on a date not later than 270 days after the issuance thereof (such series referred to herein as the "100% Principal Protection Short-Term Notes"); (ii) Notes which are collateralized in an amount equal to their full outstanding principal amount and have a maturity date of over 270 days after the date of issuance thereof (such series referred to herein as the "100% Principal Protection Medium-Term Notes" and collectively with the 100% Principal Protection Short-Term Notes referred to herein as the "100% Principal Protection Notes"); and (iii) Notes the terms of which do not obligate the Fund to the full repayment of the original principal amount at maturity and which may or may not be collateralized in an amount equal to their outstanding principal amount (such series referred to herein as the "Contingent / Partial Principal Protection Notes"). Each series of Notes may be separately collateralized by a pledge of certain Eligible Securities (as defined below), in the form, manner, and amount described herein and in the applicable supplement to this Offering Circular (each, a "Product Supplement"). The collateral will be held by UBS Trust Company of Puerto Rico ("UBS Trust PR"), as collateral agent for the benefit of the holders of the applicable series of Notes. See "SECURITY FOR THE NOTES" in the main body of this Offering Circular. The proceeds from the issuance of the Notes will be used by the Fund for investment purposes consistent with its investment objective.

- The Fund's investment objective is to provide investors in its Common Stock with current income, consistent with the preservation of capital.
- The Fund normally invests at least 67% of its total assets in securities issued by Puerto Rico entities. These include securities issued by the Commonwealth of Puerto Rico and its political subdivisions, organizations, agencies, and instrumentalities, Puerto Rico mortgage-backed and asset-backed securities, corporate obligations and preferred stock of Puerto Rico entities (which may include entities organized under the laws of other jurisdictions, provided such entities meet a Puerto Rico source of income test), and other Puerto Rico securities that the Fund's Investment Adviser may select, consistent with the Fund's investment objective and policies.
- The Fund may invest up to 33% of its total assets in securities issued by non-Puerto Rico entities. These include securities issued or guaranteed by the U.S. Government, its agencies and instrumentalities, non-Puerto Rico mortgage-backed and asset-backed securities, corporate obligations and preferred stock of non-Puerto Rico entities, municipal securities of issuers within the U.S., and other non-Puerto Rico securities that the Fund's Investment Adviser may select, consistent with the Fund's investment objective and policies.
- At least 80% of the Fund's total assets are invested in securities that, at the time of purchase, are rated investment grade by a nationally recognized statistical rating organization (a "Credit Rating Agency"), or if not so rated, that the Fund's Investment Adviser determines to be of comparable credit quality. **Currently, most of the bonds issued by the Government of Puerto Rico and its instrumentalities do not carry an investment-grade credit rating.** See the section entitled "RISK FACTORS AND SPECIAL CONSIDERATIONS - General" in the main body of this Offering Circular.
- Up to 20% of the Fund's total assets may be invested in (i) preferred stock, subordinated debt, trust preferred securities, and other securities that may be unrated or rated below investment grade, provided (A) the issuer of such securities, or the entity that is the ultimate source of cash to pay such securities, has senior unsecured debt securities rated investment grade by a Credit Rating Agency or (B) if such entity does not have senior unsecured debt securities rated investment grade, the Fund's Investment Adviser determines that such entity's senior unsecured debt securities are of comparable credit quality and (ii) debt securities rated below investment grade, or that the Fund's Investment Adviser determines to be below investment grade quality, and that do not meet the requirements of clause (i), provided that the amount invested in such debt securities may not exceed 5% of the Fund's total assets.

See "INVESTMENT OBJECTIVE AND POLICIES OF THE FUND" in the main body of this Offering Circular. No assurance can be given that the Fund will achieve its investment objective.

The Fund has obtained a credit rating of "F1" for the 100% Principal Protection Short-Term Notes and "A" for the 100% Principal Protection Medium-Term Notes by Fitch Ratings ("Fitch"). **However, Fitch has not assigned a credit rating to the Contingent / Partial Principal Protection Notes.** See "RATINGS ON THE 100% PRINCIPAL PROTECTION NOTES" and "DESCRIPTION OF THE NOTES" in the main body of this Offering Circular.

An investment in the Notes entails certain risks, including the risk of loss of some or all amounts invested. You should be aware that certain conflicts of interest exist among the Fund, its Investment Adviser, and/or their affiliates. Although the Notes are secured by certain collateral, the Fund is not guaranteeing the creditworthiness of any particular security comprising such collateral or the issuer of such security. You should not view the Notes as a vehicle for trading purposes. See "RISK FACTORS AND SPECIAL CONSIDERATIONS" commencing on page 1 and "SPECIAL LEVERAGE CONSIDERATIONS" commencing on page 21. This Offering Circular contains important information about the Notes. You should read this Offering Circular in its entirety before deciding whether to invest and retain it for future reference.

The Notes will be issued only in registered form, without coupons, from time to time in minimum denominations of $1,000 or as may otherwise be specified in the relevant confirmation for any given transaction or the applicable Product Supplement and will bear interest, if any, at a fixed, variable, or floating rate or at a rate determined by reference to an index, determined at the time of issuance. Such interest will be payable (i) in the case of the 100% Principal Protection Medium-Term Notes, as will be specified in the relevant Note and in the confirmation for any given transaction or the applicable Product Supplement; (ii) in the case of the 100% Principal Protection Short-Term Notes, periodically or at maturity, as will be specified in the relevant Note and in the confirmation for any given transaction or the applicable Product Supplement; and (iii) in the case of the Contingent / Partial Principal Protection Notes, periodically or at maturity, as will be specified in the relevant Note and in the applicable Product Supplement. The 100% Principal Protection Medium-Term Notes and the Contingent / Partial Principal Protection Notes may be redeemable prior to their stated maturity at the option of the Fund as provided in the relevant Note and in the confirmation for any given transaction or the applicable Product Supplement. The 100% Principal Protection Short-Term Notes will not be redeemable prior to their stated maturities unless otherwise provided in the relevant Note and in the confirmation for any given transaction or the applicable Product Supplement.

This Offering Circular sets forth certain information about the Notes that you need to know before making an investment decision. You are encouraged to read this Offering Circular carefully and retain it for future reference.

THESE SECURITIES HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE OFFICE OF THE COMMISSIONER OF FINANCIAL INSTITUTIONS OF PUERTO RICO. THE OFFICE OF THE COMMISSIONER OF FINANCIAL INSTITUTIONS HAS NOT MADE ANY DETERMINATION REGARDING THE ACCURACY OR ADEQUACY OF THIS OFFERING CIRCULAR. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

The Notes will be offered on behalf of the Fund by the following dealer and other dealers as may be appointed from time to time.

UBS Financial Services Incorporated of Puerto Rico

The date of this Offering Circular is June 29, 2016.

THESE NOTES HAVE NOT BEEN REGISTERED WITH THE SECURITIES AND EXCHANGE COMMISSION UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED, THE PUERTO RICO UNIFORM SECURITIES ACT, AS AMENDED, OR THE SECURITIES LAWS OF ANY JURISDICTION, AND THE FUND HAS NOT BEEN REGISTERED UNDER THE U.S. INVESTMENT COMPANY ACT OF 1940, AS AMENDED. THE NOTES ARE OFFERED EXCLUSIVELY TO INDIVIDUALS HAVING THEIR PRINCIPAL RESIDENCE WITHIN PUERTO RICO AND TO PERSONS OTHER THAN INDIVIDUALS WHOSE PRINCIPAL OFFICE AND PRINCIPAL PLACE OF BUSINESS ARE LOCATED WITHIN PUERTO RICO, PROVIDED THAT IF SUCH ENTITY IS A NON-BUSINESS TRUST, THE TRUSTEE AND ALL THE TRUST BENEFICIARIES MUST BE RESIDENTS OF PUERTO RICO.

AN INVESTMENT IN THE NOTES IS NEITHER INSURED NOR GUARANTEED BY THE U.S. GOVERNMENT OR BY THE GOVERNMENT OF PUERTO RICO. PROSPECTIVE INVESTORS SHOULD BE AWARE THAT THE NOTES ARE NOT AN OBLIGATION OF OR GUARANTEED BY UBS FINANCIAL SERVICES INCORPORATED OF PUERTO RICO, UBS TRUST COMPANY OF PUERTO RICO, UBS AG, OR ANY OF THEIR AFFILIATES. IN ADDITION, THE NOTES ARE NOT DEPOSITS OR OBLIGATIONS OF, OR GUARANTEED OR ENDORSED BY, ANY BANK OR OTHER INSURED DEPOSITARY INSTITUTION NOR ARE THEY INSURED BY THE FEDERAL DEPOSIT INSURANCE CORPORATION, THE U.S. FEDERAL RESERVE BOARD, OR ANY OTHER GOVERNMENT AGENCY OR INSTRUMENTALITY.

The Fund consists of an actively managed portfolio of investment securities. UBS Asset Managers of Puerto Rico, a division of UBS Trust PR, acts as investment adviser for the Fund. UBS Financial Services Incorporated of Puerto Rico acts as dealer for the Notes. The address of the Fund is American International Plaza Building - Tenth Floor, 250 Muñoz Rivera Avenue, San Juan, Puerto Rico 00918, and its telephone number is (787) 773-3888.

You should rely only on the information contained in this Offering Circular. The Fund has not authorized anyone to provide you with different information. You should not assume that the information provided by this Offering Circular is accurate as of any date other than the date on the front of this Offering Circular. This Offering Circular does not constitute an offer to sell or a solicitation of an offer to buy such securities in any circumstances in which such offer or solicitation is unlawful.

SUMMARY

The following summary is qualified in its entirety by reference to the more detailed information included in the main body of this Offering Circular, and unless otherwise specified, cross-references are to such information. This Offering Circular speaks only as of its date, and the information contained herein is subject to change. No person is authorized to detach this Summary from this Offering Circular or otherwise use it without the entire Offering Circular. You should carefully consider information set forth under the heading "RISK FACTORS AND SPECIAL CONSIDERATIONS" in the main body of this Offering Circular.

The Fund

The Puerto Rico Fixed Income Fund IV, Inc. (the "Fund") is a corporation organized under the laws of the Commonwealth of Puerto Rico ("Puerto Rico"), which is duly registered as a non-diversified, closed-end management investment company under the Puerto Rico Investment Companies Act of 1954, as amended (the "1954 Investment Company Act"). The Fund was incorporated on December 29, 2004 and is subject to a ruling issued by the Office of the Commissioner of Financial Institutions (the "Commissioner's Ruling"). See "THE FUND" in the main body of this Offering Circular.

Leverage Program

The Fund may increase amounts available for investment through the issuance of preferred stock, debt securities, or other forms of leverage, representing not more than 50% of its total assets immediately after any such issuance. As part of such leverage program, the Fund is offering the Tax-Free Secured Obligations (the "Notes"). Such offerings will be made only to individuals who have their principal residence in Puerto Rico and to persons, other than individuals, that have their principal office and principal place of business in Puerto Rico (collectively, the "Puerto Rico Residents"). Moreover, the Fund may only issue preferred stock, debt securities, or other forms of leverage to the extent that immediately after any such issuance, the value of its total assets, less all the Fund's liabilities and indebtedness that are not represented by preferred stock, debt securities, or other forms of leverage being issued or already outstanding, is equal to or greater than the total of 200% of the aggregate par value of all outstanding preferred stock (not including any accumulated dividends or other distributions attributable to such preferred stock) and the total amount outstanding of debt securities and other forms of leverage issued by the Fund. See "LEVERAGE PROGRAM" and "SPECIAL LEVERAGE CONSIDERATIONS" in the main body of this Offering Circular.

Description of the Notes

Type of Notes	Maturity	Rating	Principal Protection	Collateral
100% Principal Protection Short-Term Notes	up to 270 days from their date of issuance	"F1" by Fitch	100%	Collateralized in an amount equal to full outstanding amount
100% Principal Protection Medium-Term Notes	over 270 days from their date of issuance	"A" by Fitch	100%	Collateralized in an amount equal to full outstanding amount
Contingent / Partial Principal Protection Notes	any term	None	As set forth in the applicable Product Supplement	Collateralized in the manner set forth in the applicable Product Supplement

Limitations on the Offering and Transfer of the Notes. The Notes will not be registered under the U.S. Securities Act of 1933, as amended (the "1933 Act"), nor under the securities laws of any state or jurisdiction, and the Fund has not been registered under the U.S. Investment Company Act of 1940, as amended. Consequently, the Notes may be sold, pledged, hypothecated, or otherwise transferred exclusively to Puerto Rico Residents. All investors and transferees of the Notes (each a "Noteholder" and collectively, the "Noteholders") are required to represent in writing that the residency conditions to purchase are satisfied or, in the case of purchases through UBS Financial Services Incorporated of Puerto Rico ("UBS Financial Services Puerto Rico"), to follow such other procedures as required by UBS Financial Services Puerto Rico for determining residency. Appendix C to this Offering Circular contains, in letter form, the substance of representations that must be made by dealers (other than UBS Financial Services Puerto Rico) that may be appointed in the future (each a "Dealer"). The Dealers will be contractually obligated to the Fund to obtain such letter of representation in proper form. Any sale or transfer of the Notes to an investor or transferee (other than transfers by operation of law) who (i) has not provided such a letter or (ii) in the case of transfers effected through UBS Financial Services Puerto Rico, has not complied with such procedures as may be required by UBS Financial Services Puerto Rico to establish Puerto Rico residency, will be null and void. See "THE NOTES" in the main body of this Offering Circular.

Maturities. The 100% Principal Protection Short-Term Notes have maturities of up to 270 days from their date of issuance, including notes payable on demand (but not later than 270 days) and the 100% Principal Protection Medium-Term Notes have maturities of over 270 days from their date of issuance. The Contingent / Partial Principal Protection Notes may have maturities of any length of time.

Ratings on the 100% Principal Protection Notes. Upon issuance, the 100% Principal Protection Short-Term Notes and the 100% Principal Protection Medium-Term Notes will be rated "F1" and "A" respectively, by Fitch Ratings ("Fitch"). **FITCH HAS NOT ASSIGNED A CREDIT RATING TO THE FUND OR THE CONTINGENT / PARTIAL PRINCIPAL PROTECTION NOTES.**

Form and Minimum Denominations. The Notes will only be issued in registered form without coupons and in minimum denominations of $1,000 or as may otherwise be specified in the relevant confirmation for any given transaction or the applicable Product Supplement.

Interest Rate. The Notes will bear interest, if any, at a rate determined at the time of issuance of each Note and which will be set forth on the relevant Note and in the applicable Product Supplement.

Redemption. The 100% Principal Protection Medium-Term Notes and the Contingent / Partial Principal Protection Notes may be redeemable prior to their stated maturities at the option of the Fund, as provided in the relevant Note and the applicable Product Supplement. The 100% Principal Protection Short-Term Notes will not be redeemable prior to their stated maturities, unless otherwise provided in the relevant Note and the applicable Product Supplement.

Collateral. Each series of Notes may be separately collateralized by a pledge of certain Eligible Securities (as further described herein), including among others, P.R. Mortgage-Backed Securities, P.R. Governmental Obligations, U.S. Treasury Securities, and U.S. Government Agency Securities (as described herein), in the form, manner, and amount described herein and in the applicable Product Supplement. See "SECURITY FOR THE NOTES" in the main body of this Offering Circular.

The terms of the 100% Principal Protection Notes will obligate the Fund to fully repay the original principal amount at maturity and will be collateralized in an amount equal to their full outstanding principal amount, while the terms of the Contingent / Partial Principal Protection Notes do not obligate the Fund to the full repayment of the original principal amount at maturity and may or may not be collateralized in an amount equal to their outstanding principal amount, as described herein and more specifically in the applicable Product Supplement.

Agent

UBS Trust Company of Puerto Rico ("UBS Trust PR") will act as issuing, paying, and transfer agent on behalf of the Fund and as collateral agent (the "Agent") on behalf of the Noteholders. See "THE AGENT" in the main body of this Offering Circular.

Dealer

UBS Financial Services Puerto Rico, an affiliate of UBS Trust PR, will offer the Notes on behalf of the Fund and may purchase the Notes in a principal capacity and use its best efforts to sell such Notes on behalf of the Fund. The Fund may appoint other Dealers from time to time. Each Dealer may be paid a fee to be negotiated from time to time equal to a percentage of the principal amount of the Notes sold by such Dealer and may be reimbursed for certain out-of-pocket expenses incurred. The Fund will also indemnify the Dealers against certain liabilities, including liabilities under the 1933 Act. The Fund may also sell Notes directly to investors from time to time.

Investment Objective and Policies

The Fund's investment objective is to provide investors in its Common Stock with current income, consistent with the preservation of capital.

The Fund normally invests at least 67% of its total assets in securities issued by Puerto Rico entities. These include securities issued by the Commonwealth of Puerto Rico and its political subdivisions, organizations, agencies, and instrumentalities, Puerto Rico mortgage-backed and asset-backed securities, corporate obligations and preferred stock of Puerto Rico entities (which may include entities organized under the laws of other jurisdictions, provided such entities meet a Puerto Rico source of income test), and other Puerto Rico securities that the Investment Adviser (as defined below) may select, consistent with the Fund's investment objective and policies.

The Fund may invest up to 33% of its total assets in securities issued by non-Puerto Rico entities. These include securities issued or guaranteed by the U.S. Government, its agencies and instrumentalities, non-Puerto Rico mortgage-backed and asset-backed securities, corporate obligations and preferred stock of non-Puerto Rico entities, municipal securities of issuers within the U.S., and other non-Puerto

Rico securities that the Investment Adviser may select, consistent with the Fund's investment objective and policies.

At least 80% of the Fund's total assets are invested in securities that, at the time of purchase, are rated investment grade by a nationally recognized statistical rating organization (a "Credit Rating Agency"), or if not so rated, has the Investment Adviser determines to be of comparable credit quality. **Currently, most of the bonds issued by the Government of Puerto Rico and its instrumentalities do not carry an investment-grade credit rating.**

Up to 20% of the Fund's total assets may be invested in (i) preferred stock, subordinated debt, trust preferred securities and other securities that may be unrated or rated below investment grade, provided (A) the issuer of such securities, or the entity that is the ultimate source of cash to pay such securities, has senior unsecured debt securities rated investment grade by a Credit Rating Agency or (B) if such entity does not have senior unsecured debt securities rated investment grade, the Investment Adviser determines that such entity's senior unsecured debt securities are of comparable credit quality and (ii) debt securities rated below investment grade, or that the Investment Adviser determines to be below investment grade quality, and that do not meet the requirements of clause (i), provided that the amount invested in such debt securities may not exceed 5% of the Fund's total assets.

See "RISK FACTORS AND SPECIAL CONSIDERATIONS" and "INVESTMENT OBJECTIVE AND POLICIES OF THE FUND" in the main body of this Offering Circular. **No assurance can be given that the Fund will achieve its investment objective.**

Management of the Fund

UBS Asset Managers of Puerto Rico, a division of UBS Trust PR serves as the Fund's investment adviser (in such capacity, UBS Trust PR is referred to herein as the "Investment Adviser"). UBS Trust PR also serves as the Fund's administrator (in such capacity, the "Administrator"), as well as its transfer agent, registrar, dividend disbursing, and shareholder servicing agent and custodian of its assets. See "MANAGEMENT OF THE FUND" in the main body of this Offering Circular.

UBS Trust PR is an affiliate of UBS Financial Services Puerto Rico and UBS AG. You should be aware that certain conflicts of interest exist among the Fund, its Investment Adviser, and their affiliates. See "PORTFOLIO TRANSACTIONS — Transactions Involving Affiliates" in the main body of this Offering Circular.

Risk Factors

See "RISK FACTORS AND SPECIAL CONSIDERATIONS" in the main body of this Offering Circular for the risk considerations that may be relevant to prospective investors in the Notes.

Transactions Involving Affiliates

Transactions with affiliates take place. All transactions with affiliates are subject to procedures adopted by the Fund's Board of Directors, including its independent directors, in an effort to address potential conflicts of interest, including but not limited to, valuation procedures. No assurance can be given that these procedures are or will be effective. Portfolio transactions between the Fund and UBS Financial Services Puerto Rico and/or its affiliates are executed pursuant to terms and conditions comparable to those with unrelated third parties in the ordinary course of its investment activities. See "RISK FACTORS AND SPECIAL CONSIDERATIONS" and "PORTFOLIO TRANSACTIONS — Transactions Involving Affiliates" in the main body of this Offering Circular.

Taxation

See "TAXATION" in the main body of this Offering Circular for a summary of the material Puerto Rico and U.S. tax considerations that may be relevant to prospective investors in the Notes.

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This Offering Circular is qualified in its entirety by reference to the resolutions of the Board of Directors (the "Board of Directors") of Puerto Rico Fixed Income Fund IV, Inc. (the "Fund") providing the terms and conditions of the Tax-Free Secured Obligations (the "Notes") as well as by any supplement thereto (collectively, the "Resolutions"), the terms of which are incorporated herein by reference and which are available for inspection at the Fund's principal office. All capitalized terms used but not otherwise defined herein will have the meanings given to such terms in the Resolutions. This Offering Circular speaks only as of its date, and the information contained herein is subject to change. You should carefully consider the information set forth under the headings "RISK FACTORS AND SPECIAL CONSIDERATIONS" below as well as "SPECIAL LEVERAGE CONSIDERATIONS" and "GENERAL INFORMATION" contained in the main body of this Offering Circular.

RISK FACTORS AND SPECIAL CONSIDERATIONS

The main risks of investing in the Notes are described below. **Any of these risks may cause you to lose money.**

General. The Fund's investments may be harmed by the performance of U.S., Puerto Rico, and foreign investment securities markets, which may be influenced by factors including interest rates, inflation, politics, fiscal policy, and current events. Because the Fund invests in investment securities, the Fund's net asset value may fluctuate due to market conditions, and the Fund may be unable to pay the principal and accrued interest on the Notes. You may lose money.

Starting near the end of the second quarter of 2013, municipal securities in the United States and Puerto Rico began trading at lower prices and higher yields compared to benchmarks of the prior three (3) years. This is likely the result of several factors, including a downgrade of certain municipalities by independent credit rating agencies, with some observers believing the default on certain interest and principal payments and the bankruptcy protection sought by the City of Detroit may have been a contributing factor, as well as the tapering of purchases of fixed-income securities by the U.S. Federal Reserve. Puerto Rico municipal securities have also experienced a decline in prices due, in part, to concerns about the Puerto Rico economy and the fiscal position of the Government of Puerto Rico.

On June 29, 2015, the Government of Puerto Rico presented the report "Puerto Rico- A Way Forward," which identified a deteriorating cash flow position and very large out-year central government budget gaps that approach the size of current full year general fund revenues. Subsequently, the newly created Working Group for the Fiscal and Economic Recovery of Puerto Rico (the "Working Group") released the Puerto Rico Fiscal and Economic Growth Plan, which among other things, recommended the restructuring of all tax-backed debt, including general obligation bonds ("GOs") and sales tax debt issued by the Puerto Rico Sales Tax Financing Corporation ("COFINA"). In furtherance of its intention to defer and/or restructure such $72 billion debt load, the Government of Puerto Rico enacted the Puerto Rico Public Corporations Debt Enforcement and Recovery Act (the "Recovery Act") and also lobbied the U.S. Congress to amend the provisions of Chapter 9 of the U.S. Bankruptcy Code, to cover the central government and its instrumentalities. To date, the Government of Puerto Rico has been unsuccessful in its lobbying efforts. The U.S. Supreme Court has also declared the Recovery Act unconstitutional.

On October 2015, the U.S. Department of Treasury has also presented a legislative proposal titled "Addressing Puerto Rico's Economic and Fiscal Crisis and Creating a Path to Recovery: Roadmap for Congressional Action" before the U.S. Congress, outlining a series of legislative actions to address Puerto Rico's urgent fiscal crisis. Such legislative proposal encompasses a four-step plan that includes the creation of a new class of bankruptcy under the U.S. Bankruptcy Code only available to U.S. territories, but such proposal has failed to gain sufficient Congressional support. Moreover, on December 8, 2015, the Governor of Puerto Rico signed Senate Bill 1513 into law, which provides for the creation of the Puerto Rico Fiscal Oversight and Economic Recovery Board, which would have fiscal oversight authority over the central government and most of its instrumentalities and requires the submission by the Working Group to the Board of a government-wide consolidated five-year Fiscal and Economic Growth Plan (the "Plan").

As a result and in light of deteriorating government revenues and liquidity, the Puerto Rico Public Finance Corporation ("PFC") failed to make the required $58 million payment on its debt, representing the first default on Puerto Rico agency debt on August 3, 2015. Thereafter, on November 30, 2015, the Puerto Rico Governor redirected available revenues from certain government instrumentalities, namely the Puerto Rico Highways and Transportation Authority ("HTA"), the Puerto Rico Infrastructure Financing Authority ("AFI," by its Spanish acronym), the Metropolitan Bus Authority, and the Integrated Transport Authority, to make principal and interest payments on GOs, the payment of which is guaranteed by the Puerto Rico Constitution. The Puerto Rico Tourism Company was also ordered to transfer amounts collected on certain taxes to the Department of the Treasury, for the payment of certain obligations of the Puerto Rico Convention Center District Authority. The Puerto Rico Legislature may also consider new fiscal emergency measures, in order to provide additional resources to Puerto Rico's general fund. On December 30, 2015, the Governor of Puerto Rico announced that the Commonwealth would make all bond payments due on January 4, 2016, except for $37.3 million in interest corresponding to $35.9 million of AFI bonds and $1.4 million of PFC bonds.

On February 16, 2016, the Department of the Treasury of Puerto Rico issued a draft of the Commonwealth's unaudited Basic Financial Statements (the "Draft") for the fiscal year ending June 30, 2014. Although they are still subject to completion and audit, the Draft's preliminary results for fiscal year 2014 reflect that the Commonwealth's "Primary Government" reported an increase in its net deficit position of approximately $2.5 billion, from $46.7 billion as of June 30, 2013 to $49.2 billion as of June 30, 2014. The explanatory notes to the Draft explain that there is substantial doubt as to the ability of the Commonwealth and most of its public corporations and retirement systems to continue as going concerns, in accordance with Governmental Accounting Standards Board's Statement Number 56. Subsequently, the Working Group released a presentation wherein it reiterated the need for a substantial restructuring of the Commonwealth's existing debt to allow the Commonwealth to bring its fiscal accounts into balance and to provide the time and financial flexibility to implement the Plan's structural reforms and growth initiatives. The final audited financial statements have not been issued yet.

On April 6, 2016, the Governor signed the Puerto Rico Emergency Moratorium and Financial Rehabilitation Act (the "Moratorium Act"), which allows him to declare a moratorium on any debt payment deemed necessary, and also alters the structure of the Government Development Bank ("GDB"). Shortly thereafter, the Governor signed Executive Order OE-2016-010 on April 8, 2016 (i) declaring GDB to be in a state of emergency and announcing the commencement of an emergency period (as defined in the Moratorium Act) for GDB, (ii) establishing restrictions on

the withdrawal of deposits from GDB, and (iii) implementing other measures that were reasonable and necessary to allow GDB to continue carrying its operations. Under the Moratorium Act and the executive order(s) issued thereunder, remedies with respect to GDB's or any other government agency to which the provisions of the Moratorium Act may be applied, may be suspended temporarily.

Subsequently, the Governor signed additional executive orders under the Moratorium Act. Executive Order OE-2016-014 declared (i) AFI to be in a state of emergency and announced the commencement of an emergency period (as such term is defined under the Moratorium Act) for AFI, and (ii) a moratorium on the payment of all covered obligations of GDB. Thereafter, on May 2, 2016, GDB defaulted on a $370 million principal payment that was due but announced that it had reached an agreement with various Puerto Rico credit unions in Puerto Rico, exchanging about $33 million of notes maturing on May 1, 2016 for newly-issued, similar GDB notes maturing on May 1, 2017. GDB bondholders filed a complaint in the United States District Court for the District of Puerto Rico challenging the constitutionality of certain aspects of the Moratorium Act and certain Executive Orders issued thereunder.

The Governor also signed Executive Order OE-2016-018 on May 17, 2016, declaring the HTA to be in a state of emergency and announcing the commencement of an emergency period for HTA. Bond insurer National Public Finance Guarantee Corporation filed suit to overturn the Moratorium Act, while bond insurer Ambac Assurance Corp. filed suit to seek the appointment of a receiver at the HTA, alleging that the Puerto Rico Government was illegally disbursing money from the public corporation to pay other debt obligations. Moreover, on June 24, 2016, the Governor also signed Executive Order OE-2016-027 declaring a moratorium on the payment of all covered obligations of AFI.

Since March 2016, certain members of the U.S. Congress announced that they were in the process of preparing legislation to create a new fiscal oversight board with broad powers that would help the Commonwealth reign in its finances titled "Puerto Rico Oversight, Management, and Economic Stability Act" ("PROMESA"). A new draft of such legislation was released on May 18, 2016 and was later amended and approved in the U.S. House of Representatives on June 9, 2016. Moreover, on June 16, 2016, the House Committee on Financial Services approved legislation to extend the provisions of the U.S. Investment Company Act of 1940, as amended (the "1940 Act"),to Puerto Rico investment companies such as the Fund. There is no assurance as to whether this proposed legislation will be approved and signed into law or whether it will be modified prior thereto.

In this context, one could expect to see additional interruptions in cash flow on debt payments, in addition to more price volatility across Puerto Rico securities.

Fitch, Moody's, and S&P have downgraded the general obligation bonds ("GOs") of the Commonwealth of Puerto Rico, as well as the obligations of certain Commonwealth agencies and public corporations, including COFINA, on numerous occasions. On June 29, 2015, Fitch and S&P further downgraded the GOs and related debt ratings from "B" to "CC" and from "CCC+" to "CCC-," respectively. Moody's followed suit on July 1, 2015, downgrading the GOs and COFINA's senior bonds to "Caa3." Upon GDB's default, on May 3, 2016, S&P further lowered its credit rating on the senior unsecured debt of the GDB to "D" from "CC". Most recently, Fitch further downgraded the Commonwealth of Puerto Rico's Issuer Default Rating (IDR) and related debt ratings to "C" from "CC". All such ratings carry a negative outlook. As an investment policy, at least 80% of the Fund's total assets are invested in securities that, at the time of purchase, (i) are rated in one of the four highest investment categories (generally considered to be "investment grade") by Fitch (rating of "BBB" or higher); S&P (rating of "BBB" or higher); or Moody's (rating of "Baa"or higher), or have received an equivalent rating from another nationally recognized statistical rating organization (a "Credit Rating Agency"), or (ii) if not so rated, are in the opinion of the Investment Adviser (as defined below) to be of a credit quality comparable to such rated obligations (*i.e.*, those that are backed by a letter of credit or other forms of corporate or governmental guarantees, the issuer of which has received an equivalent short-term or long-term credit rating, as applicable). **Currently, most of the bonds issued by the Government of Puerto Rico and its instrumentalities do not carry an investment-grade credit rating. In view of this, the Fund's ability to comply with this investment policy will be constrained. The OCFI has granted temporary no-objection relief with respect to the Fund's continued investment in bonds issued by the Government of Puerto Rico and its instrumentalities notwithstanding that their current credit rating is below "investment-grade" through November 30, 2016 or such other later date which may be approved by the OCFI.**

Pledged Collateral; Credit Risk. Although the Notes may be secured by Pledged Collateral (as defined below) and the Fund believes such collateral will provide adequate security for the payment of the obligations arising under the Notes, the Fund cannot guarantee the creditworthiness of any particular security comprising the Pledged Collateral or of the issuer of any such security. The actual and perceived creditworthiness of the Fund or of the issuers of the securities constituting the Pledged Collateral will depend on various factors, such as general economic conditions or conditions specific to the respective issuer, all of which are beyond the control of the Fund and may affect the market value of the Notes or the Pledged Collateral.

Moreover, for purposes of determining the Pledged Collateral which will provide the security for the repayment of any Notes for which the Fund has obtained a credit rating from a Credit Rating Agency, the Fund has covenanted to abide by such Credit Rating Agency's rating criteria and guidelines, which specify the types of investment securities which may constitute Pledged Collateral and may also discount the value or limit the concentration of such securities. Such rating criteria and guidelines may be amended by such Credit Rating Agency at its sole discretion at any time, without the Fund's consent, thereby affecting the types and amounts of Pledged Collateral securing the repayment of any series of rated Notes at any given point in time. With respect to the credit ratings of "F1" and "A" assigned by Fitch to the 100% Principal Protection Short-Term Notes (as defined below) and the 100% Principal Protection Medium-Term Notes (as defined below), respectively, the rating criteria and guidelines for the assignment and maintenance of such rating are publicly available at www.fitchratings.com or by contacting Fitch at 33 Whitehall Street, New York, New York 10004; telephone number (212) 908-0500. See "SECURITY FOR THE NOTES" herein.

In the event that the Fund were unable to fulfill its obligations under the Notes, by reason of its insolvency, commencement of bankruptcy proceedings, or otherwise, any principal protection feature under the Notes and any interest payment thereon may be affected, if the proceeds derived from the Pledged Collateral were insufficient to pay

all amounts owed to the investor, and the payment of any such amounts would be delayed for the duration of any insolvency, bankruptcy or other proceedings.

The Contingent / Partial Principal Protection Notes do not guarantee any return of principal at maturity. The terms of the Contingent / Partial Principal Protection Notes do not obligate the Fund to the full repayment of the original principal amount at maturity and may or may not be collateralized in an amount equal to their outstanding principal amount. They differ from the ordinary debt securities in that you may receive nothing at maturity (including upon acceleration following an event of default) or you may receive an amount at maturity that is greater than or less than the face amount of your Note depending upon the formula used to determine the amount payable at maturity. In such regard, the Contingent / Partial Principal Protection Notes combine the features of debt and equity.

Conflicts of Interest. While the Fund is subject to the terms and conditions of a ruling issued by the Office of the Commissioner of Financial Institutions (the "OCFI") to the Fund (the "Commissioner's Ruling"), including provisions regarding transactions with affiliates, it is not registered under the 1940 Act. Therefore, the Fund is not subject to the restrictions contained in the 1940 Act regarding, among other things, transactions between the Fund and UBS Financial Services Incorporated of Puerto Rico ("UBS Financial Services Puerto Rico") or its affiliates. The Fund has engaged, and it is anticipated that the Fund will continue to engage, in such transactions, including securities purchases and sale transactions and repurchase agreement transactions, directly with UBS Financial Services Puerto Rico and possibly, with other of its affiliates. For most securities purchased by the Fund, one of those entities may be the only dealer, or one of only a few dealers, in the securities being purchased or sold by the Fund. In that event, independent sources for valuation or liquidity of a security may be limited or nonexistent. The Fund invests a substantial portion of its assets in those securities. The Fund may also invest in securities issued by its affiliates, or make deposits with those affiliates. As a result of the above transactions and other dealings, the interests of affiliates of the Investment Adviser (as defined below) may conflict with those of the Fund, as to the price and other terms of transactions that they engage in. Portfolio transactions between the Fund and UBS Financial Services Puerto Rico and/or its affiliates are executed pursuant to terms and conditions comparable to those with unrelated third parties in the ordinary course of the Fund's investment activities. In addition, the investment advisory fee payable to the Investment Adviser during periods in which the Fund is utilizing leverage will be higher than when it is not doing so because the fee is calculated as a percentage of average weekly gross assets, including assets purchased with leverage. Because the assets base used for calculating the investment advisory fee is not reduced by aggregate indebtedness incurred in leveraging the Fund, the Investment Adviser may have a conflict of interest in formulating a recommendation to the Fund as to whether and to what extent to use leverage.

UBS Asset Managers of Puerto Rico ("UBS Asset Managers"), a division of UBS Trust Company of Puerto Rico ("UBS Trust PR," and in its capacity as investment adviser, the "Investment Adviser"), UBS Financial Services Puerto Rico, and their affiliates have engaged and may engage, in business transactions with or related to any one of the issuers of the Fund's investment assets, or with competitors of such issuers, as well as provide them with investment banking, asset management, trust, or advisory services, including merger and acquisition advisory services. These activities may present a conflict between any such affiliated party and the interests of the Fund. Any such affiliated party may also publish or may have published research reports on one or more of such issuers and may have expressed opinions or provided recommendations inconsistent with the purchasing or holding of the securities of such issuers. Moreover, the Investment Adviser is not registered under the U.S. Investment Advisers Act of 1940, as amended (the "Advisers Act"), and therefore, is not subject to the restrictions imposed on investment advisers thereunder, including restrictions on transactions with affiliates.

Liquidity and Restrictions on the Transfer of the Notes. The Notes have not been registered with the U.S. Securities and Exchange Commission under the U.S. Securities Act of 1933, as amended (the "1933 Act"), and the Fund has not been registered under the 1940 Act. Consequently, the Notes may only be offered, sold, or otherwise transferred exclusively to individuals whose principal residence is in the Commonwealth of Puerto Rico ("Puerto Rico"), or to corporations and other business organizations whose principal office and place of business are in Puerto Rico (the "Puerto Rico Residents"), provided that if such entity is a non-business trust, the trustee and all trust beneficiaries must be Puerto Rico Residents. All investors and transferees of the Notes are required to represent in writing that the residency conditions to purchasing are satisfied or, in the case of purchases through UBS Financial Services Puerto Rico, to follow such other procedures as required by UBS Financial Services Puerto Rico for determining residency. Appendix C to this Offering Circular contains, in letter form, the substance of the representations that must be made prior to the purchase and delivery of the Notes. Such restrictions shall remain in effect until such time, if any, as the Fund shall determine, based on an opinion of legal counsel, that they are no longer necessary in order to preserve an exemption for the Notes from the registration requirements of the 1933 Act and for the Fund under the 1940 Act. Holders of the Notes (the "Noteholders") who cease to be Puerto Rico Residents have an obligation to liquidate their investments in the Notes as soon as it becomes economically feasible to do so.

No assurance can be given as to the liquidity of, or the trading market for, the Notes. The market price of the Notes will be determined by such factors as relative demand for and supply of the Notes in the market, general market, and economic conditions and other factors beyond the control of the Fund. The Fund cannot predict whether the Notes will trade at, below or above their stated principal amount. That conclusion is further affected by the fact that there may be few or no market-makers in the Notes. The Notes may not be suitable to all investors, and investors in the Notes should not view the Fund as a vehicle for trading purposes.

The 100% Principal Protection Notes may be subject to risks associated with a Credit Rating Agency. Fitch has issued a credit rating of "F1" to the 100% Principal Protection Short-Term Notes and "A" to the 100% Principal Protection Medium-Term Notes. These credit ratings reflect only Fitch's view and any explanation of the significance of the credit rating must be obtained from Fitch directly. No assurance can be given that the credit ratings assigned to the 100% Principal Protection Notes (as defined below) will remain in effect for any given period of time or that it will not be revised downward or withdrawn entirely by Fitch if, in its sole judgment, circumstances so warrant. Any such downward revision or withdrawal of the credit rating may have an adverse effect on the market value of the 100% Principal Protection Notes. The Fund may, at its sole discretion, seek a credit rating from another Credit Rating Agency, provided such credit rating is within the two highest rating categories with respect to the 100% Principal Protection Short-Term Notes, or within the four highest rating categories with respect to the 100% Principal Protection Medium-

Term Notes. **FITCH HAS NOT ASSIGNED A CREDIT RATING TO THE FUND OR THE CONTINGENT / PARTIAL PRINCIPAL PROTECTION NOTES.**

U.S. federal tax law; no U.S. federal tax ruling. Under regulations issued under Section 937(b) of the U.S. Internal Revenue Code of 1986, as amended (the "U.S. Code"), income that is otherwise treated as income from sources within Puerto Rico under the general source of income rules is treated as income from sources outside Puerto Rico and not excludable from gross income under Section 933 of the U.S. Code if it consists of income derived in a "conduit arrangement." Based on the current language of the regulations and the guidance offered therein, it is more likely than not that an investment in the Notes is not the type of transaction intended to be covered by these rules, and in accordance with this interpretation, it is more likely than not that interest and OID on the Notes is to be treated as income from sources within Puerto Rico. The Fund does not plan to request a ruling from the U.S. Internal Revenue Service (the "IRS") with respect to the U.S. federal income tax treatment to be accorded to an investment in the Notes, and no assurance can be given that the IRS or the courts will agree with the tax treatment described herein. You should read carefully the section entitled "TAXATION," for a more detailed description of the tax implications an investment on the Notes entails as well as pertinent U.S. Treasury disclosure. You should also consult your tax advisor about your tax situation.

On March 18, 2010, the U.S. Congress adopted the Foreign Account Tax Compliance Act (commonly known as "FATCA") to amend the U.S. Code to, among other things, impose a 30% withholding tax at the source to certain "foreign financial institutions" or "non-financial foreign entities" (each, a "NFFE") upon most payments of U.S. source income and gross proceeds from the disposition of property that can produce U.S. source dividends or interest made, unless certain certification and reporting requirements are satisfied by such NFFE, including providing information with respect to its respective investors. In the case of most payments of U.S. source income, the 30% withholding will apply to payments made after June 30, 2014, and in the case of gross proceeds from the disposition of property that can produce U.S. source dividends or interest, IRS Notice 2015-66 provides that withholding will apply to payments made after December 31, 2018. Final regulations issued by the U.S. Treasury and the IRS on January 17, 2013 and which became effective on January 28, 2013, provide that the Fund is to be treated as a NFFE. Furthermore, under certain procedures included in temporary regulations issued by the U.S. Treasury and the IRS that became effective on March 6, 2014, the Fund was registered with the IRS as a "direct reporting NFFE", and with such registration, it will not be subject to the 30% withholding. Under these procedures, the Fund will be required to provide to the IRS (instead of the payor of the income) certain information with respect to its investors that, directly or indirectly, own more than 10% (by vote or value) of the Fund's stock. If the Fund were to be unable to provide such investor information to the IRS or otherwise fail or be unable to comply with the legal and regulatory requirements of the U.S. Code, the Fund's U.S. source income may be reduced, inasmuch as it would be subject to such 30% withholding tax at the source. This reduction may negatively affect the Fund's ability to fulfill its obligations under the Notes.

UBS research reports may be inconsistent with purchasing or holding the Notes. UBS or any of its affiliates may, at present or in the future, publish research relating to an underlying to which the performance of the Notes is linked that may be inconsistent with purchasing or holding the Notes. This research may be modified from time to time without notice. Any of these activities may affect the market value of the Notes.

Political Risk. Political or regulatory developments in Puerto Rico and in the U.S. could adversely affect the tax-exempt status of interest or dividends paid on securities or the tax-exempt status of the Fund's dividends. These developments could also cause the value of the Fund's investments to fall.

Risks Associated with the Fund's Investment Securities. Following is a summary of the risks attributable to the Fund's investment in its underlying securities:

Geographic Concentration Risk. The Fund is exposed to certain risks resulting from the reduced geographic diversification of its portfolio. The Fund's assets are invested primarily in securities of Puerto Rico issuers. Consequently, the Fund in general is more susceptible to economic, political, regulatory or other factors adversely affecting issuers in Puerto Rico than an investment company that is not so concentrated in Puerto Rico issuers. In addition, securities issued by the Government of the Commonwealth of Puerto Rico or its instrumentalities are affected by the central government's finances. That includes, but is not limited to, general obligations of Puerto Rico and revenue bonds, special tax bonds, or agency bonds. The effect on each specific debt may not be the same; it depends on exactly what part of the government's money or revenue is supposed to pay the interest. Over the past few years, many Puerto Rico government bonds as well as the securities issued by several Puerto Rico financial institutions have been downgraded as a result of several factors, including without limitation, the downturn experienced by the Puerto Rico economy and the strained financial condition of the Puerto Rico government. Currently, the Puerto Rico bond market is experiencing a period of volatility, with Puerto Rico bonds trading at lower prices and higher yields compared to benchmarks of the past three (3) years. **Because the Fund invests a substantial portion of its assets in Puerto Rico bonds, the Fund's net asset value may fluctuate due to market conditions affecting these securities, and the Fund's ability to pay the principal and accrued interest on the Notes may be consequently affected.**

Industry Concentration Risk. The Fund's investments may be concentrated in the Puerto Rico financial services industry. To the extent that the Fund's investments are heavily concentrated in a particular sector of the economy, it may be adversely affected more than an investment company that is more diversified across various sectors of the economy should that sector suffer a downturn. The financial services industry is subject to various material business risks. For example, changes in the prevailing interest rates or stock market conditions can have significant effects on the industry and the results of business operations in such industry. Some of the risks to which this industry is subject may become more acute in periods of economic slowdown or recession. During such period, loan delinquencies and foreclosures generally increase and could result in an increased incidence of losses and/or claims and legal actions. In addition, such conditions could lead to a potential decline in demand for the securities of the financial services industry. Changes in the legal or regulatory environment could also have adverse effects, such as changing the nature of activities in which the industry may engage or by increasing competition from other sources.

Non-Diversification Risk. A relatively high percentage of the Fund's assets may be invested in obligations of a limited number of Puerto Rico issuers. Consequently, the Fund's net asset value and its yield may

increase or decrease more than that of a more diversified investment company as a result of changes in the market's assessment of the financial condition and prospects of such Puerto Rico issuers. The Fund may also be more susceptible to any single economic, political, or regulatory occurrence in Puerto Rico than a more widely diversified investment company.

Interest Rate Risk. Interest rate risk is the risk that interest rates will rise, so that the value of the Fund's investments will fall. Current low long-term rates present the risk that interest rates may rise and that as a result the Fund's investments will decline in value. Also, the Fund's yield will tend to lag behind changes in prevailing short-term interest rates. In addition, during periods of rising interest rates, the average life of certain types of securities may be extended because of the right of the issuer to defer payments or make slower than expected principal payments. This may lock in a below market interest rate, increase the security's duration (the estimated period until the security is paid in full) and reduce the value of the security. This is known as extension risk. The Fund is subject to extension risk. Conversely, during periods of declining interest rates, the issuer of a security may exercise its option to prepay principal earlier than scheduled in order to refinance at lower interest rates, forcing the Fund to reinvest in lower yielding securities. This is known as prepayment risk. The Fund is subject to prepayment risk. This tendency of issuers to refinance debt with high interest rates during periods of declining interest rates may reduce the positive effect of declining interest rates on the market value of the Fund's securities. Finally, the Fund's use of leverage by the issuance of preferred stock, debt securities and other instruments, as discussed below, may increase the risks described above. See "SPECIAL LEVERAGE CONSIDERATIONS" herein.

Credit Risk. Credit risk is the risk that debt securities or preferred stock in the Fund's portfolio will decline in price or fail to make dividend or interest payments when due because the issuer of the security experiences a decline in its financial condition. The risk is greater in the case of securities that are rated below investment grade. The Fund is authorized to invest up to 20% of its total assets in (i) preferred stock, subordinated debt, trust preferred securities, and other securities that may be rated below investment grade at the time of purchase or which the Investment Adviser may determine to be below investment grade quality, provided certain credit requirements are met, and (ii) debt securities rated below investment grade, or that the Investment Adviser determines to be below investment grade credit quality, and that do not meet the credit requirements referred to in clause (i), provided that these debt securities may not exceed 5% of the Fund's total assets. These securities are of lower credit quality and pose greater credit risk (risk of loss of income and principal) to the Fund than investment grade securities. They involve substantial risk of loss, are considered highly speculative with respect to the issuer's ability to pay dividends and any required redemption or liquidation payments and are more susceptible to default or decline in market value due to adverse economic and business developments than more highly rated securities. In addition, investment grade securities rated in the lowest investment grade category are considered to have some speculative characteristics, and changes in economic conditions are more likely to lead to a weakened capacity to pay interest and repay principal than is the case with higher grade securities. The market value of speculative securities is also more sensitive to changes in interest rates than the market value of more highly rated securities, and may be adversely affected by negative perceptions of the market for speculative securities. These securities may also be substantially less liquid (they may have a more limited secondary market and may therefore be more difficult to sell) than more highly rated securities. A decline in the financial condition of certain issuers of fixed income securities may also result in such issuers seeking protection from creditors under bankruptcy, insolvency, and other laws affecting the rights and remedies of creditors, or in creditors seeking such protection on behalf of the issuer. This may result in delays and costs to the Fund. See Appendix D for further information regarding the ratings of securities.

The Investment Adviser has the responsibility of determining whether an unrated security is of a credit quality comparable to that of a security rated investment grade by a Credit Rating Agency and can, therefore, be purchased by the Fund without regard to the 20% limitation on securities rated below investment grade. To the extent the Investment Adviser incorrectly assesses the credit quality of an unrated security, the Fund will be exposed to a greater degree of credit risk.

Fixed Income Securities Generally. The yield on fixed income securities of the type that the Fund may invest in depends on a variety of factors, including general market conditions for such securities, the financial condition of the issuer, the size of the particular offering, the maturity, credit quality and rating of the security. Generally, the longer the maturity of those securities, the higher its yield and the greater the changes in its yields both up and down. The market value of fixed income securities normally will vary inversely with changes in interest rates. Such changes in the Fund's net asset value, in particular, also might affect the price of the Notes. The unique characteristics of certain types of securities also may make them more sensitive to changes in interest rates.

Certain issuers of fixed income securities are subject to the provisions of bankruptcy, insolvency, and other laws affecting the rights and remedies of creditors that may result in delays and costs to the Fund if a party becomes insolvent. It is also possible that, as a result of litigation or other conditions, the power or ability of such issuers to meet their obligations for the repayment of principal and payment of interest, respectively, may be materially and adversely affected.

Risks of Preferred Stock. Investments in preferred stock present certain special risks. One of them is that the issuers of preferred stock are not legally required to pay dividends when scheduled, even if they have sufficient funds to do so, and therefore these securities have greater payment risk than other securities in which the Fund may invest. In the case of cumulative preferred stock, missed dividends only have to be paid upon the liquidation of the company, and only after payment of the company's creditors. In the case of non-cumulative preferred stock, missed dividends never have to be paid. However, the issuer is normally prohibited from paying dividends on its common stock unless all or some of its preferred dividends have been paid. Preferred stock is subordinated in right of payment to all other creditors of the issuer, and therefore is subject to greater credit risk than debt instruments. Also, holders of preferred stock usually have no voting rights, except in very limited circumstances. Shares of preferred stock may be substantially less liquid (they may have a more limited secondary market and may therefore be more difficult to sell) than other securities in which the Fund could invest, such as U.S. government securities. Shares of preferred stock are usually redeemable at the option of the issuer. As with any fixed income security, a redemption may negatively impact the return of the security to the holder. The Fund may invest up to 20% of its total assets in preferred stock that is unrated or rated below investment grade quality.

Risks of Repurchase and Reverse Repurchase Agreements. The Fund may engage in reverse repurchase agreements, which are transactions in which the Fund sells a security to a counterparty and agrees to buy it back at a specified time and price in a specified currency. Reverse repurchase agreements involve the risk that the buyer of the securities sold by the Fund might be unable to deliver the securities when the Fund seeks to repurchase them and may be unable to replace the securities or only at a higher cost. If the buyer of securities under a reverse repurchase agreement files for bankruptcy or becomes insolvent, the buyer may receive an extension of time to determine whether to enforce the Fund's obligation to repurchase the securities, and the Fund's use of the proceeds of the reverse repurchase agreement may be severely restricted during that extension period. The Fund may also engage in repurchase agreements, which are transactions in which the Fund purchases a security from a counterparty and agrees to sell it back at a specified time and price in a specified currency. If a repurchase agreement counterparty defaults, the Fund may suffer time delays and incur costs or possible losses in connection with the disposition of the securities underlying the repurchase agreement. In the event of a default, instead of the contractual fixed rate of return, the rate of return to the Fund will depend on intervening fluctuations of the market values of the underlying securities and the accrued interest thereon. In such an event, the Fund would have rights against the counterparty for breach of contract with respect to any losses resulting from those market fluctuations.

Additionally, while there is authority generally supporting the treatment of repurchase and reverse repurchase agreements as collateralized loans for Puerto Rico income tax purposes, that authority does not specifically address the tax treatment of the repurchase agreements that the Fund typically enters into, which contain provisions that grant the buyer the right to sell, transfer, pledge, or hypothecate the securities that are the object of such agreements. Although the Treasury Department of Puerto Rico (the "P.R. Treasury Department") has never pronounced itself as to whether this type of arrangement should be viewed as a transfer of ownership of the underlying securities, it is possible that the P.R. Treasury Department could take that position in the future and that Puerto Rico courts could agree with that view. In such event, the tax exempt interest paid on such underlying securities could be deemed not to constitute tax exempt income for the seller of such securities. To the extent that the Fund was such a seller, the amount of tax exempt income which the Fund may allocate towards the payment of tax exempt interest on the Notes and tax exempt dividends on the shares of Common Stock under the Puerto Rico Internal Revenue Code of 1994, as amended (the "1994 P.R. Code"), or the Puerto Rico Internal Revenue Code of 2011, as amended (the "2011 P.R. Code"), may be reduced. If any interest payments on the Notes were not to qualify as tax exempt interest, they could be subject to Puerto Rico income tax. See "TAXATION - PUERTO RICO TAXATION" herein.

Municipal Obligations Risk. Certain of the municipal obligations in which the Fund may invest, present their own distinct risks. These risks may depend, among other things, on the financial situation of the government issuer, or in the case of industrial development bonds and similar securities, on that of the entity supplying the revenues that are intended to repay the obligations. It is also possible that, as a result of litigation or other conditions, the power or ability of issuers or those other entities to meet their obligations for the repayment of principal and payment of interest may be materially and adversely affected.

Mortgage-Backed Securities Risk. Mortgage-backed securities have many of the risks of traditional debt securities but, in general, differ from investments in traditional debt securities in that, among other things, principal may be prepaid at any time due to prepayments by the obligors on the underlying obligations. As a result, the Fund may receive principal repayments on these securities earlier or later than anticipated by the Fund. In the event of prepayments that are received earlier than anticipated, the Fund may be required to reinvest such prepayments at rates that are lower than the anticipated yield of the prepaid obligation. The rate of prepayments is influenced by a variety of economic, geographic, demographic and other factors, including, among others, prevailing mortgage interest rates, local and regional economic conditions and home owner mobility. Generally, prepayments will increase during periods of declining interest rates and decrease during periods of rising interest rates. The decrease in the rate of prepayments during periods of rising interest rates results in the extension of the duration of mortgage-backed securities, which makes them more sensitive to changes in interest rates and more likely to decline in value (this is known as extension risk). Since a substantial portion of the assets of the Fund may be invested in mortgage-backed securities, the Fund may be subject to these risks and other risks related to such securities to a significant degree, which might cause the market value of the Fund's investments to fluctuate more than otherwise would be the case. In addition, mortgage-backed or other securities issued or guaranteed by the Federal National Mortgage Association, the Federal Home Loan Mortgage Corporation or a Federal Home Loan Bank are supported only by the credit of these entities and are not supported by the full faith and credit of the U.S.

CMO Risk. Collateralized mortgage obligations or "CMOs" exhibit similar risks to those of mortgage-backed securities but also present certain special risks. CMO classes may be specially structured in a manner that provides a variety of investment characteristics, such as yield, effective maturity and interest rate sensitivity. As market conditions change, however, particularly during periods of rapid or unanticipated changes in interest rates, the ability of a CMO class to provide the anticipated investment characteristics and performance may be significantly reduced. These changes may result in volatility in the market value, and in some instances reduced liquidity, of the CMO class.

Asset-Backed Securities Risk. Asset-backed securities present risks similar to those of mortgage-backed securities. However, in the case of many asset-backed securities, the prepayment rates on the underlying assets have historically been less influenced by market interest rate fluctuations and therefore have been more stable. The frequent absence of a government guarantee creates greater exposure to the credit risk on the underlying obligations and, depending on the structure, credit risk regarding the sponsor of such obligations.

Illiquid Securities. Illiquid securities are securities that cannot be sold within a reasonable period of time, not to exceed seven days, in the ordinary course of business at approximately the amount at which the Fund has valued the securities. There presently are a limited number of participants in the market for certain Puerto Rico securities or other securities or assets that the Fund may own. That and other factors may cause certain securities to have periods of illiquidity. Illiquid securities include, among other things, securities subject to legal or contractual restrictions on resale that hinder the marketability of the securities. Certain of the securities in which the Fund intends to invest, such as shares of preferred stock, may be substantially less liquid than other types of securities in which the Fund may invest. Illiquid securities may trade at a discount from comparable, more liquid investments.

There are no limitations on the Fund's investment in illiquid securities. The Fund may also continue to hold, without limitation, securities or other assets that become illiquid after the Fund invests in them. To the extent the Fund owns illiquid securities or other illiquid assets, the Fund may not be able to sell them easily, particularly at a time when it is advisable to do so to avoid losses.

Valuation Risk. There may be few or no dealers making a market in certain securities owned by the Fund, particularly with respect to securities of Puerto Rico issuers including, but not limited to, investment companies. Dealers making a market in those securities may not be willing to provide quotations on a regular basis to the Investment Adviser. It may therefore be particularly difficult to value those securities. When market quotations for securities held by the Fund are not readily available from any such independent dealers, UBS Trust PR as the Fund's Administrator (the "Administrator") is responsible for obtaining quotations for such securities from various sources, including UBS Financial Services Puerto Rico. As a result, the interests of UBS Financial Services Puerto Rico may conflict with those of the Fund as to the price and other terms of transactions among them.

Special Risks of Hedging Strategies. The Fund may use a variety of derivative instruments including securities options, financial futures contracts, options on futures contracts and other interest rate protection transactions such as swap agreements, to attempt to hedge its portfolio of assets and enhance its return. Successful use of most derivative instruments depends upon the Investment Adviser's ability to predict movements of the overall securities and interest rate markets. There is no assurance that any particular hedging strategy adopted will succeed or that the Fund will employ such strategy with respect to all or any portion of its portfolio. Some of the derivative strategies that the Fund may use to enhance its return are riskier than its hedging transactions and have speculative characteristics. Such strategies do not attempt to limit the Fund's risk of loss.

Derivative Instruments. In order to attempt to hedge various portfolio positions or to enhance its return, the Fund may invest up to 5% of its total assets in certain instruments which are or may be considered derivatives. Subject to the approval of the Board of Directors, such 5% limit may be exceeded only for the purpose of hedging. Derivative instruments, because of their increased volatility and potential leveraging effect (without being subject to the Fund's leverage limitations), may adversely affect the Fund. For example, investments in indexed securities, including, among other things, securities linked to an equities or commodities index and inverse floating rate securities, may subject the Fund to the risks associated with changes in the particular indices, which may include reduced or eliminated interest payments and losses of invested principal. Such investments, in effect, may also be leveraged, thereby magnifying the risk of loss. Even where such derivative investments are used for hedging purposes, there is no assurance that the hedging transactions will be successful or will not result in losses. Also, there is no assurance that the Investment Adviser will implement hedging strategies or that the hedging strategies will be successful or will not result in losses to the Fund. For example, utilization of options and futures transactions involves the risk of imperfect correlation in movements in the price of options and futures and movements in the price of the securities or interest rates, which are the subject of the hedge. Municipal derivatives may also be subject to the same risks as floating rate municipal obligations generally, risks of adverse tax determination or, in the case of municipal derivatives used for hedging purposes, risks similar to those for other hedging strategies.

Swap and other Transactions with Counterparties. The Fund may engage in swap and other financial transactions directly with other counterparties. This subjects the Fund to the credit risk that a counterparty will default on an obligation to the Fund. Such a risk contrasts with transactions done through exchange markets, wherein credit risk is reduced through the collection of variation margin and through the interposition of a clearing organization as the guarantor of all transactions. Clearing organizations transform the credit risk of individual counterparties into the more remote risk of the failure of the clearing organization.

Securities Lending. Securities lending involves the risk that there may be delay in recovery of securities or even the loss of rights in the collateral, among other things, should the borrower of the securities fail financially or become insolvent.

Short Sales. The Fund may engage in short sales of securities "against the box" to defer realization of gains or losses for tax or other purposes. A short sale "against the box" occurs when the Fund owns an equal amount of the securities sold short or owns securities convertible into or exchangeable, without payment of any further consideration, for securities of the same issue as, and equal amount to, the securities sold short.

Changes in Applicable Law. Legislation affecting Puerto Rico securities, assets other than Puerto Rico securities, Puerto Rico and U.S. investment companies, taxes, and other matters related to the business of the Fund are continually being considered by the Puerto Rico Legislature and the U.S. Congress. Moreover, the determinations made and the waivers and rulings previously granted by the OCFI and to the Fund do not constitute a precedent binding in the future on the OCFI. No assurance can be given that legislation enacted or regulations promulgated after the date hereof will not have an adverse effect on the operations of the Fund, the economic value of the Notes, or the tax consequences of the acquisition or redemption of the Notes.

On November 27, 2013 the Investment Companies Act of Puerto Rico, as amended (the "2013 Investment Company Act"), became effective. Subsequently, on May 6, 2014, the OCFI approved Regulation 8469 to implement the provisions of the 2013 Investment Company Act. The purpose of the Act and regulations issued thereunder is to revise the existing legal regime applicable to Puerto Rico investment companies, their shareholders, and investors in securities issued by the companies. However, investment companies created pursuant to the Puerto Rico Investment Companies Act of 1954, as amended (the "1954 Investment Company Act"), such as the Fund, are generally grandfathered. Except for certain provisions contained in the 2013 Investment Company Act pertaining to (i) restrictions on who may serve as an officer, director, or service provider to an investment company, (ii) the ability of the OCFI to issue orders pertaining to injunctive and economic relief, (iii) transactions with affiliates, and (iv) securities purchases, the Fund will continue to operate in accordance with the provisions of the 1954 Investment Company Act and the terms and conditions of the Commissioner's Ruling. To date, there has been no material impact on the Fund and its operations, by reason of the effectiveness of the 2013 Investment Company Act or the regulations issued thereunder, though no assurance can be given that such will continue to be the case. The Fund currently complies with many of the governance and financial reporting provisions of the 2013 Investment Company Act.

THE FUND

The Fund is organized as a corporation under the laws of Puerto Rico which operates as a non-diversified, closed-end management investment company under the 1954 Investment Company Act. The Fund was incorporated on December 29, 2004 and is subject to the Commissioner's Ruling. The principal office of the Fund is located at American International Plaza Building, Tenth Floor, 250 Muñoz Rivera Avenue, San Juan, Puerto Rico 00918, and its telephone number is (787) 773-3888.

USE OF PROCEEDS

The proceeds to the Fund from the offering of the Notes (net of dealer's commissions) will be invested in accordance with the Fund's investment objective and policies.

LEVERAGE PROGRAM

The Fund may increase amounts available for investment through the issuance of preferred stock, debt securities, or other forms of leverage, representing not more than 50% of its total assets immediately after the issuance of any such preferred stock, or other debt securities. Such offerings will be made exclusively to Puerto Rico Residents pursuant to one or more supplements to this Offering Circular or other offering documents to be delivered to investors prior to making an investment. Moreover, the Fund may only issue preferred stock, debt securities, or other forms of leverage to the extent that immediately after their issuance, the value of its total assets, less all its liabilities and indebtedness that are not represented by preferred stock, debt securities, or other forms of leverage being issued or already outstanding, is equal to or greater than the total of 200% of the aggregate par value of all outstanding preferred stock (not including any accumulated dividends or other distributions attributable to such preferred stock) and the total amount outstanding of debt securities and other forms of leverage issued by the Fund.

This asset coverage requirement must also be met any time the Fund pays a dividend or makes any other distribution on its issued and outstanding shares of Common Stock or any shares of its preferred stock (other than a dividend or other distribution payable in additional shares of Common Stock) as well as any time the Fund repurchases any shares of Common Stock, in each case after giving effect to such repurchase of shares of Common Stock or issuance of preferred stock, debt securities, or other forms of leverage in order to maintain asset coverage at the required 200% level. To the extent necessary, the Fund may purchase or redeem preferred stock, debt securities, or other forms of leverage in order to maintain asset coverage at the required 200% level. In such circumstances, the Fund may have to liquidate portfolio securities in order to meet redemption requirements and might also have to pay a premium. Any necessary liquidations could have the effect of reducing future net income of the Fund. Such liquidations could cause the Fund to incur related transactional costs. In addition, the Fund may also borrow for temporary or emergency purposes, in an amount of up to an additional 5% of its total assets.

Currently, the Puerto Rico bond market is experiencing a period of volatility, with Puerto Rico bonds trading at lower prices and higher yields compared to benchmarks of the past three (3) years. Inasmuch as the Fund invests a substantial portion of its assets in Puerto Rico bonds, the Fund may be forced to engage in borrowing for temporary or emergency purposes. In view of these volatile market conditions, the OCFI has granted to the Fund a temporary regulatory waiver from the Fund's leverage limitation of 50% of its total assets and 200% asset coverage requirement described above and in the section entitled "SPECIAL LEVERAGE CONSIDERATIONS" below, through July 31, 2016 or such other later date which may be approved by the OCFI.

CAPITALIZATION OF THE FUND

As of March 31, 2016, the Fund had total assets amounting to $200,743,298 and 30,379,257 shares of Common Stock (par value $0.01 per share) outstanding. The following table provides information regarding the audited Statement of Assets and Liabilities as of March 31, 2016 and the Financial Highlights for the fiscal year ended March 31, 2016. You should read this information in conjunction with the information in the Fund's Annual Report. Such Annual Report, including its audited financial statements as of March 31, 2016, as well as other financial and relevant information, is available upon request and may be obtained without charge by contacting the Fund's principal office.

STATEMENT OF ASSETS AND LIABILITIES			March 31, 2016
Assets:	Investments in securities:		
	Securities pledged as collateral on repurchase agreements and swaps, at value, which has the right to be repledged (identified cost - $97,359,250)		$ 104,884,998
	Other securities, at value (identified cost - $173,156,524)		93,535,953
	Cash		238,021
	Interest receivable		1,964,332
	Prepaid expenses and other assets		119,994
	Total assets		200,743,298
Liabilities:	Securities sold under repurchase agreements		89,630,564
	Dividends payable to common shareholders		1,253,144
	Interest rate swaps, at value (Note 1)		406,618
	Payables:		
	Interest and leverage expenses	65,015	
	Investment advisory fees	47,580	
	Administration, custody, and transfer agent fees	19,580	132,175
	Accrued expenses and other liabilities		257,329
	Total liabilities		91,679,830
Net Assets Applicable to Common Shareholders:			$ 109,063,468
Net Assets Applicable to Common Shareholders consist of:	Capital stock, $0.01 par value, 88,000,000 shares authorized, 30,379,257 shares issued and outstanding		$ 303,793
	Additional paid-in capital		392,798,388
	Undistributed net investment income (Note 1 and Note 10)		10,722,218
	Accumulated net realized loss from investments and swaps		(222,259,490)
	Unrealized net depreciation on investments and swaps		(72,501,441)
	Net assets applicable to common shareholders		$ 109,063,468
	Net asset value applicable to common shares - per share; 30,379,257 shares outstanding		$ 3.59

The following table includes selected data for a share outstanding throughout each period and other performance information derived from the financial statements. It should be read in conjunction with the Fund's financial statements and notes thereto.

FINANCIAL HIGHLIGHTS

		For the fiscal year ended March 31, 2016	For the fiscal year ended March 31, 2015	For the fiscal year ended March 31, 2014	For the fiscal year ended March 31, 2013	For the fiscal year ended March 31, 2012
Increase (Decrease) in Net Asset Value:						
Per Share Operating Performance:	Net asset value applicable to common stock, beginning of period	$ 4.22	$ 5.04	$ 8.67	$ 9.36	$ 8.49
	Net investment income (a)	0.53	0.67	0.78	0.87	0.89
	Net realized (loss) gain and unrealized (depreciation) appreciation from investments and swaps (a)	(0.72)	(0.89)	(3.73)	(0.61)	0.78
	Total from investment operations	(0.19)	(0.22)	(2.95)	0.26	1.67
	Less: Dividends from net investment income to common shareholders	(0.56)	(0.67)	(0.73)	(0.95)	(0.80)
	Discount on repurchase of common stock	0.12	0.07	0.05	-	-
	Net asset value applicable to common stock, end of period	$ 3.59	$ 4.22	$ 5.04	$ 8.67	$ 9.36
	Market value, end of period (b)	$ 2.71	$ 3.94	$ 4.75	$ 9.35	$ 10.05
Total Investment Return:	(b) (f) Based on market value per share	(19.92)%	(4.95)%	(42.66)%	3.12%	20.13%
	(f) Based on net asset value per share	(0.99)%	(4.02)%	(34.38)%	2.67%	20.31%
Ratios:	(c) (d) (e) Expenses to average net assets applicable to common shareholders - net of waived fees	2.04%	1.48%	1.82%	1.85%	1.88%
	(c) (e) Operating expenses to average net assets applicable to common shareholders - net of waived fees	1.37%	0.98%	1.27%	1.30%	1.33%
	(c) Interest and leverage related expenses to average net assets applicable to common shareholders	0.67%	0.50%	0.55%	0.55%	0.55%
	(c) (e) Net investment income to average net assets applicable to common shareholders - net of waived fees	14.26%	13.58%	11.97%	9.41%	9.78%
Supplemental Data:	Net assets applicable to common shareholders, end of period (in thousands)	$ 109,063	$ 151,958	$ 210,690	$ 429,086	$ 454,255
	Portfolio turnover	29.82%	2.39%	5.83%	12.35%	24.54%
	Portfolio turnover excluding the proceeds from calls and maturities of portfolio securities and the proceeds from mortgage-backed securities paydowns	29.82%	2.39%	5.83%	0.94%	4.43%

(a) Based on average outstanding common shares of 31,777,987; 39,041,968; 47,732,397; 49,001,033; and 48,098,892 for the fiscal years ended March 31, 2016; March 31, 2015; March 31, 2014; March 31, 2013; and March 31, 2012, respectively.

(b) Period-end market values provided by UBS Financial Services Incorporated of Puerto Rico, a dealer of the Fund's shares and an affiliated party. The market values shown may reflect limited trading in the shares of the Fund.

(c) Based on average net assets applicable to common shareholders of $116,959,479; $192,996,412; $312,176,473; $454,930,841; and $438,525,257 for the fiscal years ended March 31, 2016; March 31, 2015; March 31, 2014; March 31, 2013; and March 31, 2012, respectively.

(d) Expenses include both operating and interest and leverage related expenses.

(e) The effect of the expenses waived for the fiscal years ended March 31, 2016; March 31, 2015; March 31, 2014; March 31, 2013; and March 31, 2012 was to decrease the expense ratios, thus increasing the net investment ratio to average net assets by 0.96%; 0.93%; 0.68%; 0.46%; and 0.47%, respectively.

(f) Dividends are assumed to be reinvested at the per-share net asset value on the ex-dividend date.

DESCRIPTION OF THE NOTES

The Notes will be issued by the Fund from time to time pursuant to the terms of a certain Depositary and Pledge Agreement (the "Depositary Agreement") between the Fund and UBS Trust PR, as issuing, paying, and transfer agent, on behalf of the Fund, and as collateral agent, on behalf of the Noteholders (in both such capacities, the "Agent"). The 100% Principal Protection Short-Term Notes have maturities of up to 270 days from their date of issuance, including notes payable on demand (but not later than 270 days) and the 100% Principal Protection Medium-Term Notes have maturities of over 270 days from their date of issuance. The Contingent / Partial Principal Protection Notes may have maturities of any length of time.

The Notes whose terms provide that the Fund will be obligated to fully repay the original principal amount at maturity and will be collateralized in an amount equal to their full outstanding principal amount shall hereinafter be referred to, with respect to such Short-Term Notes, as the "100% Principal Protection Short-Term Notes;" with respect to the Medium-Term Notes, hereinafter referred to as the "100% Principal Protection Medium-Term Notes;" and both collectively, the "100% Principal Protection Notes." The Notes whose terms do not obligate the Fund to the full repayment of the original principal amount at maturity and may or may not be collateralized in an amount equal to their outstanding principal amount (as will be further specified in the applicable Product Supplement) shall be referred to as the "Contingent / Partial Principal Protection Notes."

This Offering Circular includes a summary of certain provisions of the Depositary Agreement and is qualified in its entirety by reference to the actual provisions thereof. The Depositary Agreement may be inspected by Noteholders during business hours and upon reasonable notice at the office of the Agent. See "THE AGENT" herein.

Types of Notes the Fund May Issue

The Fund may issue different types of Notes, as described below. Any given Note may have elements of each of the type of debt securities described below. For example, a Note may bear interest at a fixed rate for some periods and at a floating rate in others. Similarly, a Note may provide for a payment of principal at maturity linked to an index and also bear interest at a fixed or floating rate.

Fixed Rated Notes

A Note of this type will bear interest at a fixed rate described in a supplement to this Offering Circular (each a "Product Supplement"). This type includes zero coupon Notes, which bear no interest and are instead issued at a price lower than the principal amount. See "Original Issue Discount Debt Securities" below for more information about zero coupon and other original issue discount Notes.

Each fixed rate Note, except any zero coupon Note, will bear interest from its original issue date or from the most recent date to which interest on the Note has been paid or made available for payment. Interest will accrue on the principal of a fixed rate Note at the fixed yearly rate stated in the applicable Product Supplement, until the principal is paid or made available for payment or the security has been converted or exchanged. Each payment of interest due on an interest payment date or the date of maturity will include interest accrued from and including the last date to which interest has been paid, or made available for payment, or from the issue date if none has been paid or made available for payment, to but excluding the interest payment date or the date of maturity. The Fund will compute interest on fixed rate Notes on the basis of a 360-day year of twelve 30-day months and the actual number of days elapsed in any period of less than one month, unless otherwise specified in the applicable Product Supplement. The Fund will pay interest on each interest payment date and at maturity.

Floating Rate Notes

Interest Rate Formulas. A Note of this type will bear interest at rates that are determined by reference to an interest rate formula. In some cases, the rates may also be adjusted by adding or subtracting a spread or multiplying by a spread multiplier and may be subject to a minimum rate or a maximum rate. If your Note is a floating rate debt security, the formula and any adjustments that apply to the interest rate will be specified in the relevant confirmation for any given transaction or the applicable Product Supplement.

Each floating rate Note will bear interest from its original issue date or from the most recent date to which interest on the Note has been paid or made available for payment. Interest will accrue on the principal of a floating rate Note at the yearly rate determined according to the interest rate formula stated in the applicable Product Supplement, until the principal is paid or made available for payment. The Fund will pay interest on each interest payment date and at maturity.

Calculation of Interest. Calculations relating to floating rate Notes will be made by UBS Trust PR, as calculation agent or any other calculation agent selected by the Fund (the "Calculation Agent"). Absent manifest error, all determinations of the calculation will be final and binding on you and us, without any liability on the part of the Calculation Agent.

For each floating rate Note, the Calculation Agent will determine, on the corresponding interest calculation or determination date, as described in the applicable Product Supplement, the interest rate that takes effect on each interest reset date. In addition, the Calculation Agent will calculate the amount of interest that has accrued during each interest period (*i.e.*, the period from and including the original issue date, or the last date to which interest has been paid or made available for payment, to but excluding the payment date). For each interest period, the Calculation Agent will calculate the amount of accrued interest by multiplying the face or other specified amount of the floating rate Note by an accrued interest factor for the interest period. This factor will equal the sum of the interest factors calculated for each day during the interest period. The interest factor for each day will be expressed as a decimal and will be calculated by dividing the interest rate, also expressed as a decimal, applicable to that day by 360 or by the actual number of days in the year, as will be specified in the relevant confirmation for any given transaction or the applicable Product Supplement.

Upon the request of the holder of any floating rate Note, the Calculation Agent will provide the interest rate then in effect for that Note and, if determined, the interest rate that will become effective on the next interest reset date. The Calculation Agent's determination of any interest rate, and its calculation of the amount of interest for any interest period, will be final and binding in the absence of manifest error.

All percentages resulting from any calculation relating to a Note will be rounded upward or downward, as appropriate, to the next higher or lower one hundred-thousandth of a percentage point, *e.g.*, 9.876541% (or 0.09876541) being rounded down to 9.87654% (or 0.0987654) and 9.876545% (or 0.09876545) being rounded up to 9.87655% (or 0.0987655). All amounts used in or resulting from any calculation relating to a floating rate Note will be rounded upward or downward, as appropriate, to the nearest cent, in the case of U.S. dollars, or to the nearest corresponding hundredth of a unit, in the case of a currency other than U.S. dollars, with one-half cent or one-half of a corresponding hundredth of a unit or more being rounded upward.

In determining the base rate that applies to a floating rate Note during a particular interest period, the Calculation Agent may obtain rate quotes from various banks or dealers active in the relevant market, as described in the applicable Product Supplement. Those reference banks and dealers may include the Calculation Agent itself and its affiliates, as well as any underwriter, dealer or agent participating in the distribution of the relevant floating rate Notes and its affiliates, and they may include the Fund or its affiliates.

Indexed Notes

A Note of this type provides that the principal amount payable at its maturity, and/or the amount of interest payable on an interest payment date, will be determined by reference to the following:

- securities of one or more issuers;
- one or more currencies;
- one or more commodities;
- any other financial, economic or other measure or instrument, including the occurrence or nonoccurrence of any event or circumstance; and/or
- one or more indices or baskets of the items described above.

If you are a holder of an indexed Note, you may receive an amount at maturity (including upon acceleration following an event of default) that is greater than or less than the face amount of your Note depending upon the formula used to determine the amount payable and the value of the applicable index at maturity. The value of the applicable index will fluctuate over time.

An indexed Note may provide either for cash settlement or for physical settlement by delivery of the underlying property or another property of the type listed above. An indexed Note may also provide that the form of settlement may be determined at our option or at the holder's option. Some indexed Notes may be convertible, exercisable or exchangeable, at our option or the holder's option, into or for securities of an issuer other than the Fund. If you purchase an indexed Note, your Product Supplement will include information about the relevant index, about how amounts that are to become payable will be determined by reference to the price or value of that index and about the terms on which the security may be settled physically or in cash. The Product Supplement will also identify the calculation agent that will calculate the amounts payable with respect to the indexed Note and may exercise significant discretion in doing so.

Original Issue Discount Notes

A fixed rate Note, a floating rate Note, or an indexed Note may be an original issue discount Note. A Note of this type is issued at a price lower than its principal amount and provides that, upon redemption or acceleration of its maturity, an amount less than its principal amount will be payable. An original issue discount Note may be a zero coupon Note.

100% Principal Protection Short-Term Notes

Maturities. The 100% Principal Protection Short-Term Notes will have maturities of up to 270 days from their date of issuance, and may include Notes payable on demand (but not later than 270 days).

Form and Minimum Denominations. The 100% Principal Protection Short-Term Notes will only be issued in registered form without coupons. The 100% Principal Protection Short-Term Notes will be issued in minimum denominations of $1,000 or as may otherwise be specified in the relevant confirmation for any given transaction or the applicable Product Supplement.

Payment of Principal and Interest. The principal of the 100% Principal-Protection Short-Term Notes shall be paid on the maturity date thereof upon presentation and surrender by the registered holder thereof or its duly authorized representative at the principal office of the Agent prior to 12:00 noon, Atlantic Standard Time, or as otherwise provided in the 100% Principal Protection Short-Term Note and in the relevant confirmation for any given transaction or the applicable Product Supplement.

If presentation occurs after 12:00 noon, such payment shall be made on the next succeeding Business Day. "Business Day" shall mean any day of the year, other than a Saturday or Sunday, on which commercial banks are open for business in San Juan, Puerto Rico and in New York, New York or as may be otherwise defined in the applicable Product Supplement. Payment shall be by check mailed or delivered to such holder, or by wire transfer of immediately available funds to the account designated by the holder, in the case of holders of at least $1,000,000 in principal amount of the 100% Principal Protection Short-Term Notes which are part of the same issue.

Interest on the 100% Principal Protection Short-Term Notes shall be paid periodically or at maturity, as will be specified in the relevant 100% Principal Protection Short-Term Note and in the relevant confirmation for any given transaction or the applicable Product Supplement. In the case of interest payable prior to the maturity of a 100%

Principal Protection Short-Term Note, such interest shall be paid to the person who is the registered holder of such Note on the date specified in the Note and in the relevant confirmation for any given transaction or the applicable Product Supplement. In the case of interest payable at the maturity of a 100% Principal Protection Short-Term Note, such interest shall be paid together with the principal of such Short-Term Note upon presentation and surrender of such Short-Term Note. In the case of the 100% Principal Protection Short-Term Notes sold with a stated interest rate, such interest shall be computed on the basis of a 360-day year of twelve 30-day months and the actual number of days elapsed in any period of less than one month, unless otherwise specified in the Note and in the relevant confirmation for any given transaction or the applicable Product Supplement.

Whenever any payment hereunder shall be stated to be due on a day which is not a Business Day, such payment shall be made on the next succeeding Business Day, and with respect to payments of principal (but not with respect to payments of interest), such extension of time shall in such case be included in computing interest in connection with such payment.

Redemption. The 100% Principal Protection Short-Term Notes will not be redeemable prior to their stated maturities, unless otherwise provided in the corresponding Note and in the relevant confirmation for any given transaction or the applicable Product Supplement.

Ratings on the 100% Principal Protection Short-Term Notes. Upon issuance, the 100% Principal Protection Short-Term Notes will be rated "F1" by Fitch. As of the date hereof, there is no other Credit Rating Agency that rates the 100% Principal Protection Short-Term Notes. No assurance can be given that the credit ratings assigned to the 100% Principal Protection Short-Term Notes will remain in effect for any given period of time or that it will not be revised downward or withdrawn entirely by Fitch if, in its sole judgment, circumstances so warrant. The Fund may, at its sole discretion, seek a credit rating from another Credit Rating Agency, provided such credit rating is within the two highest rating categories with respect to the 100% Principal Protection Short-Term Notes. See "RATINGS ON THE 100% PRINCIPAL PROTECTION NOTES" herein and Appendix D herein, for a description of such credit ratings.

100% Principal Protection Medium-Term Notes

Maturities. The 100% Principal Protection Medium-Term Notes will have maturities of over 270 days from their date of issuance.

Form and Minimum Denominations. The 100% Principal Protection Medium-Term Notes will only be issued in registered form without coupons. The 100% Principal Protection Medium-Term Notes will be issued in minimum denominations of $1,000 or as may otherwise be specified in the relevant confirmation for any given transaction or the applicable Product Supplement.

Payment of Principal and Interest. The principal of the 100% Principal Protection Medium-Term Notes shall be paid on the maturity date thereof upon presentation and surrender by the registered holder thereof or its duly authorized representative at the principal office of the Agent prior to 12:00 noon, Atlantic Standard Time, or as otherwise provided in the 100% Principal Protection Medium-Term Notes and in the relevant confirmation for any given transaction or the applicable Product Supplement.

If presentation occurs after 12:00 noon, such payment shall be made on the next succeeding Business Day. Payment shall be by check mailed or delivered to such holder, or by wire transfer of immediately available funds to the account designated by the holder, in the case of holders of at least $1,000,000 in principal amount of the 100% Principal Protection Medium-Term Notes which are part of the same issue.

Interest on the 100% Principal Protection Medium-Term Notes shall be paid periodically or at maturity, as will be specified in the relevant 100% Principal Protection Medium-Term Note and the applicable Product Supplement. In the case of interest payable prior to the maturity of a 100% Principal Protection Medium-Term Note, such interest shall be paid to the person who is the registered holder of such 100% Principal Protection Medium-Term Note on the date specified in the 100% Principal Protection Medium-Term Note and the applicable Product Supplement. In the case of interest payable at the maturity of a 100% Principal Protection Medium-Term Notes, such interest shall be paid together with the principal of such 100% Principal Protection Medium-Term Note upon presentation and surrender of such 100% Principal Protection Medium-Term Note. In the case of the 100% Principal Protection Medium-Term Notes sold with a stated interest rate, such interest shall be computed on the basis of a 360-day year of twelve 30-day months and the actual number of days elapsed in any period of less than one month, unless otherwise specified in the 100% Principal Protection Medium-Term Note or in the relevant confirmation for any given transaction or the applicable Product Supplement.

Whenever any payment hereunder shall be stated to be due on a day which is not a Business Day, such payment shall be made on the next succeeding Business Day, and with respect to payments of principal (but not with respect to payments of interest), such extension of time shall in such case be included in computing interest in connection with such payment.

Redemption. The 100% Principal Protection Medium-Term Notes may be redeemed prior to their stated maturity at the option of the Fund at such times and at such prices as is provided in the corresponding Medium-Term Note and in the relevant confirmation for any given transaction or the applicable Product Supplement.

Ratings on the 100% Principal Protection Medium-Term Notes. Upon issuance, the 100% Principal Protection Medium-Term Notes will be rated "AA" by Fitch. As of the date hereof, there is no other Credit Rating Agency that rates the 100% Principal Protection Medium-Term Notes. No assurance can be given that the credit ratings assigned to the 100% Principal Protection Medium-Term Notes will remain in effect for any given period of time or that it will not be revised downward or withdrawn entirely by Fitch if, in its sole judgment, circumstances so warrant. The Fund may, at its sole discretion, seek a credit rating from another Credit Rating Agency, provided such credit rating is within the four highest rating categories with respect to the 100% Principal Protection Medium-Term Notes. See "RATINGS ON THE 100% PRINCIPAL PROTECTION NOTES" herein and Appendix D herein, for a description of such credit ratings.

Contingent / Partial Principal Protection Notes

Maturities. The Contingent / Partial Principal Protection Notes may have maturities of any length of time.

Form and Minimum Denominations. The Contingent / Partial Principal Protection Notes will only be issued in registered form without coupons. The Contingent / Partial Principal Protection Notes will be issued in minimum denominations of $1,000 or as may otherwise be specified in the applicable Product Supplement.

Payment of Principal and Interest. The principal of the Contingent / Partial Principal Protection Notes may pay an amount that is greater than or less than the principal amount on the maturity date thereof upon presentation and surrender by the registered holder thereof or its duly authorized representative at the principal office of the Agent prior to 12:00 noon, Atlantic Standard Time, or as otherwise provided in the Contingent / Partial Principal Protection Note and in the applicable Product Supplement.

If presentation occurs after 12:00 noon, such payment shall be made on the next succeeding Business Day. Payment shall be by check mailed or delivered to such holder, or by wire transfer of immediately available funds to the account designated by the holder, in the case of holders of at least $1,000,000 in principal amount of the Contingent / Partial Principal Protection Notes which are part of the same issue.

Interest on the Contingent / Partial Principal Protection Notes shall be paid periodically or at maturity, as will be specified in the relevant corresponding Contingent / Partial Principal Protection Note and the applicable Product Supplement. In the case of interest payable prior to the maturity of a Contingent / Partial Principal Protection Note, such interest shall be paid to the person who is the registered holder of such Contingent / Partial Principal Protection Note on the date specified in the Contingent / Partial Principal Protection Note and the applicable Product Supplement. In the case of interest payable at the maturity of a Contingent / Partial Principal Protection Note, such interest shall be paid upon presentation and surrender of such Contingent / Partial Principal Protection Note. In the case of the Contingent / Partial Principal Protection Notes sold with a stated interest rate, such interest shall be computed on the basis of a 360-day year of twelve 30-day months and the actual number of days elapsed in any period of less than one month, unless otherwise specified in the Contingent / Partial Principal Protection Note or in the applicable Product Supplement.

Whenever any payment hereunder shall be stated to be due on a day which is not a Business Day, such payment shall be made on the next succeeding Business Day, and with respect to payments of principal (but not with respect to payments of interest), such extension of time shall in such case be included in computing interest in connection with such payment.

Redemption. The Contingent / Partial Principal Protection Notes may be redeemed prior to their stated maturity at the option of the Fund at such times and at such prices as is provided in the corresponding Contingent / Partial Principal Protection Note and in the applicable Product Supplement.

No Ratings on the Contingent / Partial Principal Protection Notes. NEITHER THE FUND NOR THE CONTINGENT / PARTIAL PRINCIPAL PROTECTION NOTES ARE RATED BY ANY CREDIT RATING AGENCY.

Collateral for the Notes

Each series of the Notes issued by the Fund may be separately collateralized by a pledge of certain Eligible Securities , including among others, P.R. Mortgage-Backed Securities, P.R. Governmental Obligations, U.S. Treasury Securities, and U.S. Government Agency Securities (each term as defined below). In the case of the 100% Principal Protection Notes, they will be collateralized as to their full outstanding principal amount as provided before. In the case of the Contingent / Partial Principal Protection Notes, they will be collateralized in the manner provided in the applicable Product Supplement. See "SECURITY FOR THE NOTES" herein.

Limitations on the Offering and Transfer of the Notes

The Notes will not be registered under the 1933 Act, nor under the securities laws of any state or jurisdiction, and the Fund has not been registered under the 1940 Act. Consequently, the Notes may be sold, pledged, hypothecated, or otherwise transferred exclusively to Puerto Rico Residents. All investors and transferees of the Notes are required to represent in writing that the residency conditions to purchase are satisfied or, in the case of purchases through UBS Financial Services Puerto Rico, to follow such other procedures as required by UBS Financial Services Puerto Rico for determining residency. Appendix C to this Offering Circular contains, in letter form, the substance of representations that must be made by dealers appointed by the Fund (other than UBS Financial Services Puerto Rico; each hereinafter, a "Dealer"). The Dealers will be contractually obligated to the Fund to obtain such letter of representation in proper form. Any sale or transfer of the Notes to an investor or transferee (other than transfers by operation of law) who (i) has not provided such a letter or (ii) in the case of transfers effected through UBS Financial Services Puerto Rico, has not complied with such procedures as may be required by UBS Financial Services Puerto Rico to establish Puerto Rico residency, will be null and void. Noteholders who cease to be Puerto Rico Residents will no longer have available the tax benefits that make the Fund an attractive investment, and within 30 days from ceasing to be Puerto Rico Residents, such Noteholders have an obligation to notify the respective Dealer to liquidate their investment in the Notes as soon as it becomes economically feasible to do so and to agree not to purchase more Notes. These restrictions shall remain in effect until such time if any, as the Fund, the Dealer or the Investment Adviser shall determine, based on an opinion of counsel, that the restrictions are no longer necessary in order to preserve an exemption for the Notes from the registration requirements of the 1933 Act and for the Fund from the 1940 Act.

Upon due presentment for registration of transfer of any Note at the Agent's principal office, subject to the restrictions set forth in the preceding paragraph, the Agent shall authenticate and deliver in the name of the transferee or transferees a new Note or Notes of like tenor, of authorized denominations, bearing the same interest rate (if any), and for a like aggregate principal amount, unless otherwise provided for in the Notes and in the applicable Product Supplement. All Notes presented for registration of transfer shall be (i) duly endorsed or accompanied by a written

instrument or instruments of transfer in form satisfactory to the Agent, and duly executed by the registered holder thereof or by the registered holder's duly authorized attorney-in-fact, and (ii) accompanied by the representation letter described above from the purported transferee of such Notes or, in the case of purchases through UBS Financial Services Puerto Rico, in accordance with such other procedures as may be required by UBS Financial Services Puerto Rico to establish Puerto Rico residency. Any holder desiring to transfer a Note shall be required to indemnify the Fund and the Agent against any liability that may result if the transfer is not made in accordance with the provisions of the Note and of the Depositary Agreement. Any such registration of transfer shall be without charge, except that the Agent may require payment of a sum sufficient to cover any tax or other governmental charge that may be imposed in relation thereto.

Certain Covenants

Under the Depositary Agreement, the Fund has covenanted with the Agent for the benefit of Noteholders, among other things, as follows:

Negative Pledge. The Fund will not create any lien or encumbrance on any of the securities owned by it other than (i) the liens created pursuant to the Depositary Agreement for the benefit of the holders of each series of Notes, and (ii) liens on securities (other than securities pledged pursuant to the Depositary Agreement) created in connection with reverse repurchase agreements and other borrowings by the Fund and in connection with hedging transactions.

Maximum Amount of the Notes. The Fund may not issue Notes of a series on any day if, after giving effect to such issuance and to any payment of the Notes of such series to be made on that day, the sum of (i) the aggregate principal amount of outstanding Notes of such series on such day, plus (ii) the aggregate principal amount of other borrowings by the Fund, including borrowings resulting from the issuance of any other debt securities, preferred stock, and other forms of leverage, borrowings for temporary or emergency purposes, and borrowings in the form of reverse repurchase agreements (such an amount the "Aggregate Borrowing Base"), exceeds an amount equal to 50% of the fair market value of the assets of the Fund on such day, plus an additional 5% of total assets for temporary or emergency purposes. In the case of certain zero-coupon or indexed Notes in connection with which the Fund hedges its exposure, only the principal amount of such Notes may be required to be included in such calculation. Any such hedges would be described in the applicable Product Supplement. Under its investment policies, which may be changed by the Fund's holders of Common Stock without the consent of the Noteholders, the Fund may not issue preferred stock, debt securities, and other forms of leverage which represent over 50% of its total assets immediately after the issuance of such securities provided that the Fund may borrow an additional 5% of total assets for temporary or emergency purposes, as specified under "INVESTMENT RESTRICTIONS" section herein.

In addition to the covenants contained in the Depositary Agreement, the Fund has undertaken to comply with additional covenants established by a Credit Rating Agency, in order to satisfy its requirements for purposes of issuing or maintaining a credit rating on the Notes. These covenants may be changed at any time by agreement between the Fund and a Credit Rating Agency then rating the Notes.

Events of Default; Remedies

If (i) on any Cure Date (as defined below), the sum of the Discounted Value (as defined below) of the Pledged Collateral (as defined below) securing any series of Notes issued by the Fund plus cash on deposit in the Liquidity Account (as defined below), if any, is less than the corresponding Collateral Maintenance Amount (as defined below); (ii) certain events of bankruptcy or insolvency with respect to the Fund shall occur; or (iii) the Fund shall fail to pay interest on or the principal of any Note of such series as it becomes due (each an "Event of Default"), then (A) the Fund may not issue any additional Notes, and (B) the Agent may exercise in respect of the Pledged Collateral securing such series all the rights and remedies of a secured party under the Puerto Rico Commercial Transactions Act, as amended, including selling the Pledged Collateral in accordance with Puerto Rico law, to the extent required to pay Notes as they become due. The maturities of the Notes are not subject to acceleration upon the occurrence of an Event of Default. Holders of a majority in aggregate principal amount of the issued and outstanding Notes of the affected series may waive any Event of Default and its consequences, other than a failure to pay interest on or the principal of any Note. As used herein, the term "Liquidity Account" shall mean any segregated account established by the Fund at its sole discretion and maintained with the Agent in the name of the Agent for the benefit of the holders of any single series of Notes.

Amendment of the Depositary Agreement

The Depositary Agreement may be amended through an agreement between the Fund and the Agent, provided that no amendment may adversely affect the rights of the corresponding holders of outstanding Notes, except as described under "SECURITY FOR THE NOTES - Maintenance of Minimum Amount of Collateral." The covenants described above (except the limitation on debt imposed by the Fund's investment policies) are subject to change or elimination by the Fund (with the consent of Fitch or any other Credit Rating Agency rating the Notes in the future, with respect to the 100% Principal Protection Notes), without notice to, or with the consent of, any Noteholder. In the case of the 100% Principal Protection Notes, their ratings may be revised downward or withdrawn if Fitch, does not agree to any such change or elimination of the covenants described above.

The Fund has agreed to indemnify the Agent with respect to certain liabilities, in connection with the performance of its duties under the Depositary Agreement.

SECURITY FOR THE NOTES

Pursuant to the Depositary Agreement, the Fund has covenanted to comply, so long as any Notes are outstanding, with certain collateral and credit requirements applicable to the Notes as well as certain operational covenants. Moreover, so long as any credit rating assigned to any of the Notes by any Credit Rating Agency is in effect, the Fund must comply with the rating criteria and guidelines, which corresponds to the credit rating assigned to any of the Notes; accordingly, the Fund will also comply with the Fitch rating criteria and guidelines which correspond to an "F1" and "A" credit rating assigned to the 100% Principal Protection Short-Term Notes and the 100% Principal

Protection Medium-Term Notes, respectively. Such Fitch rating criteria and guidelines are publicly available at www.fitchratings.com or by contacting Fitch at 33 Whitehall Street, New York, New York 10004; telephone number (212) 908-0500.

No assurance can be given that the credit ratings assigned to the 100% Principal Protection Notes will remain in effect for any given period of time or that it will not be revised downward or withdrawn entirely by Fitch if, in its sole judgment, circumstances so warrant. The Fund may, at its sole discretion, seek a credit rating from another Credit Rating Agency, provided such credit rating is within the two highest rating categories with respect to the 100% Principal Protection Short-Term Notes, or within the four highest rating categories with respect to the 100% Principal Protection Medium-Term Notes.

With regards to any series of Contingent / Partial Principal Protection Notes which are collateralized as to all or a portion of their outstanding principal amount, the Fund will comply with the collateral requirements provided in the applicable Product Supplement. **NEITHER THE FUND NOR THE CONTINGENT/PARTIAL PRINCIPAL PROTECTION NOTES ARE RATED BY ANY RATING AGENCY**.

Eligible Securities. In accordance with the terms and conditions of the Depositary Agreement, the Fund may grant a security interest over certain collateral (the "Pledged Collateral") to secure the payment of each specific series of Notes issued by it. Each pool of Pledged Collateral will secure only the corresponding series of Notes for the benefit of which such collateral has been pledged and not any other series of Notes or other debt security issued by the Fund. **In the case of the 100% Principal Protection Notes, they will be collateralized in an amount equivalent to their full outstanding principal amount. In the case of the Contingent / Partial Principal Protection Notes, they will be collateralized in the manner provided in the applicable Product Supplement**.

The Pledged Collateral will consist of one or more of the following types of investment securities (the "Eligible Securities"), which will be subject to the application of discount factors and concentration limits designed to take into consideration the relative credit risk and market risk of each type of security, as provided by the rating criteria and guidelines applicable to the specific credit ratings assigned to the 100% Principal Protection Notes by any Credit Rating Agency or, solely in the case of the Contingent / Partial Principal Protection Notes, as specified in the applicable Product Supplement:

(i) U.S. Treasury Securities, defined as direct obligations of, and obligations fully guaranteed by, the U.S. Government;

(ii) U.S. Government Agency Securities, defined as direct obligations of, and obligations fully guaranteed by, any agency or instrumentality of the U.S. Government, including Puerto Rico GNMA Mortgage-Backed Securities;

(iii) U.S. Municipal Securities, defined as securities issued by a state of the U.S. and its political subdivisions, agencies and instrumentalities;

(iv) U.S. Taxable Mortgage-Backed Securities ("U.S. Taxable MBS"), defined as mortgage-backed securities issued by the Federal National Mortgage Association ("FNMA") or guaranteed by the Federal Home Loan Mortgage Corporation ("FHLMC");

(v) P.R. Mortgage-Backed Securities, defined as securities representing interests in pools of mortgages on residential real property located in Puerto Rico, insured by the Federal Housing Administration or the Veterans Administration, which securities are guaranteed as to the timely payment of principal and interest by the Government National Mortgage Association ("GNMA"), FNMA, or FHLMC, and the interest of which may or may not be exempt from taxation under Section 1022(b) of the 1994 P.R. Code or Section 1031.02 of the 2011 P.R. Code;

(vi) P.R. Governmental Obligations, defined as obligations issued by Puerto Rico and its political subdivisions and instrumentalities;

(vii) Collateralized Mortgage Obligations ("CMOs"), defined as securities representing interests in or collateralized by mortgages on residential real estate;

(viii) preferred stock, defined as capital stock of a class that is preferred as to the payment of dividends or as to the distribution of assets upon liquidation or dissolution over any other class of capital stock; and

(ix) other securities which may be designated as "Eligible Securities" in the future by the Fund, with the approval of the Credit Rating Agency.

Additional information with respect to the types of investment securities acceptable as Eligible Securities and the discount factors and concentration limits applicable to an "F1" credit rating assigned to the 100% Principal Protection Short-Term Notes and an "AA" credit rating assigned to the 100% Principal Protection Medium-Term Notes, is publicly available from Fitch at www.fitchratings.com or by contacting Fitch at 33 Whitehall Street, New York, New York 10004; telephone number (212) 908-0500.

Maintenance of Minimum Amount of Collateral. Pursuant to the Depositary Agreement, the Fund has covenanted that, so long as any Notes are outstanding, the Discounted Value (as defined below) of the Pledged Collateral securing the Notes of the same series issued by the Fund will not be less than the corresponding "Collateral Maintenance Amount," defined as (i) in the case of the 100% Principal Protection Medium-Term Notes of any such series, the principal amount of all outstanding 100% Principal Protection Medium-Term Notes of such series plus the amount of interest, if any, accrued or accruing during the 90-day period following the date on a weekly basis on which the Pledged Collateral is valued (the "Valuation Date") and unpaid on all such outstanding 100% Principal Protection Medium-Term Notes of such series; (ii) in the case of the 100% Principal Protection Short-Term Notes, the principal amount of all

outstanding 100% Principal Protection Short-Term Notes for such series plus the amount of interest, if any, accrued or accruing during and unpaid on all such outstanding 100% Principal Protection Short-Term Notes of such series; and (iii) with respect to both the 100% Principal Protection Short-Term Notes and the 100% Principal Protection Medium-Term Notes, any other amounts which may be established by the rating criteria and guidelines established by a Credit Rating Agency.

In the case of certain zero-coupon or indexed 100% Principal Protection Notes in connection with which the Fund hedges its exposure, only the principal amount of such 100% Principal Protection Notes will be required to be included in such calculation. As a result, it is not required that the Collateral Maintenance Amount include accrued interest on such zero-coupon or indexed 100% Principal Protection Notes, and therefore, such accrued interest is not secured by the Pledged Collateral.

With respect to the Contingent / Partial Principal Protection Notes, the Collateral Maintenance Amount will include the portion of the aggregate principal amount of any series of any Contingent / Partial Principal Protection Notes (as well as any interest to accrue or accrued thereon) which the Fund has specified will be collateralized in the applicable Product Supplement.

The "Discounted Value" of any item of Eligible Securities will be equal to (i) its fair market value, determined by the Fund in accordance with its customary valuation procedures described in the section entitled "VALUATION OF THE FUND'S ASSETS" herein, (ii) divided by certain discount factors, and (iii) as further adjusted by certain concentration limits designed to take into consideration the relative credit and market risks of each type of the Eligible Securities. Such discount factors and concentration limits are established in the rating criteria and guidelines applicable to the specific credit ratings assigned to the 100% Principal Protection Notes by any Credit Rating Agency or, solely in the case of the Contingent / Partial Principal Protection Notes, in the applicable Product Supplement. They may also be amended by such Credit Rating Agency at its sole discretion at any time, without the Fund's consent, thereby affecting the types and amounts of Pledged Collateral securing the repayment of any series of rated Notes at any given point in time.

In order to ensure compliance with this "Collateral Maintenance Amount" covenant, the Agent is required to determine on each Valuation Date, whether the Discounted Value of the Pledged Collateral securing any specific series of Notes issued by the Fund equals or exceeds the corresponding Collateral Maintenance Amount. In the event that the Agent determines that the Discounted Value of such Pledged Collateral is less than the corresponding Collateral Maintenance Amount, the Fund will be required, on or before the fifth (5^{th}) business day after such Valuation Date, to deliver additional Eligible Securities to the Agent or direct the Agent to sell Pledged Collateral and deposit the proceeds or any portion thereof with the Agent so as to cause the Discounted Value of such Pledged Collateral as of a date not later than such fifth (5^{th}) business day (the "Cure Date") to be equal to or greater than the corresponding Collateral Maintenance Amount.

In the event that on any Cure Date the Discounted Value of the Pledged Collateral securing a particular series of Notes issued by the Fund is less than the corresponding Collateral Maintenance Amount applicable to that series, the Fund shall be required to liquidate Pledged Collateral as necessary to pay all outstanding Notes of the series as they become due. The Fund shall also be prohibited from issuing additional 100% Principal Protection Notes unless and until it shall have received a letter from a Credit Rating Agency confirming that such Notes will be rated within the two highest rating categories with respect to the 100% Principal Protection Short-Term Notes, or within the four highest rating categories with respect to the 100% Principal Protection Medium-Term Notes**. The different maturities of the Notes are not subject to acceleration under these or any other circumstances**.

Proceeds from the sale or other disposition of such Pledged Collateral will be apportioned and paid on a pro-rata basis to all Noteholders of a specific series of Notes, such proration calculation taking into consideration (i) in the case of the 100% Principal Protection Notes, solely the aggregate principal amount outstanding and accrued interest, if any, of all Notes of any specific series at the time of sale or other disposition of Pledged Collateral; or (ii) in the case of the Contingent / Partial Principal Protection Notes, the collateralization amount for any specific issue of Contingent / Partial Principal Protection Notes divided by the aggregate collateralization amount for all issues of Contingent / Partial Principal Protection Notes, at the time of sale of other disposition of the Pledged Collateral.

Substitution and Sale of Collateral. The Fund is permitted to substitute Pledged Collateral with other Eligible Securities and to direct the Agent to sell Pledged Collateral and deliver the proceeds thereof to the Fund free and clear of the lien created under the Depositary Agreement, so long as the Discounted Value of the Pledged Collateral securing the affected series as of the immediately preceding Valuation Date or Cure Date is at least equal to the corresponding Collateral Maintenance Amount, after giving effect to such substitution or sale and to other substitutions and sales since the immediately preceding Valuation Date or Cure Date.

INVESTMENT OBJECTIVE AND POLICIES OF THE FUND

The Fund's investment objective is to provide investors in its Common Stock with current income, consistent with the preservation of capital. **No assurance can be given that the Fund will achieve its investment objective.**

In seeking to achieve its investment objective, the Fund normally invests at least 67% of its total assets in securities issued by Puerto Rico entities. These include securities issued by the Commonwealth of Puerto Rico and its political subdivisions, organizations, agencies, and instrumentalities, Puerto Rico mortgage-backed and asset-backed securities, corporate obligations and preferred stock of Puerto Rico entities (which may include entities organized under the laws of other jurisdictions, provided such entities meet a Puerto Rico source of income test), and other Puerto Rico securities that the Investment Adviser may select, consistent with the Fund's investment objective and policies (all such types of securities collectively referred to as the "Puerto Rico Securities").

Currently, the Puerto Rico bond market is experiencing a period of increased volatility, with Puerto Rico bonds trading at lower prices and higher yields compared to benchmarks of the prior three (3) years. It is expected that such increased volatility will continue in view of the continuing deterioration of the Puerto Rico economy and the fiscal

stability of the Government of Puerto Rico, as well as its intention to restructure its debt. **Because the Fund invests a substantial portion of its assets in Puerto Rico bonds, the Fund's investment in securities issued by Puerto Rico entities may currently account for less than 67% of its total assets. The OCFI has granted to the Fund a temporary regulatory waiver from such Puerto Rico investment requirement through July 31, 2016 or such other later date which may be approved by the OCFI. It is the Fund's intention to maintain compliance therewith as market conditions permit, though there is no assurance the Fund will be able to do so.**

The Fund may invest up to 33% of its total assets in securities issued by non-Puerto Rico entities. These include securities issued or guaranteed by the U.S. Government, its agencies and instrumentalities, non-Puerto Rico mortgage-backed and asset-backed securities, corporate obligations and preferred stock of non-Puerto Rico entities, municipal securities of issuers within the U.S., and other non-Puerto Rico securities that the Investment Adviser may select, consistent with the Fund's investment objective and policies.

At least 80% of the Fund's total assets are invested in securities that, at the time of purchase, (i) are rated in one of the four highest investment categories (generally considered to be "investment grade") by Fitch (rating of "BBB" or higher); S&P (rating of "BBB" or higher); or Moody's (rating of "Baa" or higher), or have received an equivalent rating from another Credit Rating Agency, or (ii) if not so rated, are in the opinion of the Investment Adviser to be of a credit quality comparable to such rated obligations (*i.e.*, those that are backed by a letter of credit or other forms of corporate or governmental guarantees, the issuer of which has received an equivalent short-term or long-term credit rating, as applicable). **Currently, most of the bonds issued by the Government of Puerto Rico and its instrumentalities do not carry an investment-grade credit rating. In view of this, the Fund's ability to comply with this investment policy will be constrained. Based on the representations and opinion of the Investment Adviser and consistent with the Fund's investment objective, the OCFI has granted no-objection relief with respect to the Fund's investment-grade credit rating requirement for Puerto Rico securities, thereby permitting the Fund to continue to invest in non-investment grade Puerto Rico municipal securities under certain conditions, at the discretion of the Investment Adviser. This no-objection relief is effective through November 30, 2016 or such other later date which may be approved by the OCFI. See "RISK FACTORS AND SPECIAL CONSIDERATIONS - General" above.**

The Fund may invest up to 20% of its total assets in (i) preferred stock, subordinated debt, trust preferred securities and other securities that may be unrated or rated below investment grade, provided (A) the issuer of such securities, or the entity that is the ultimate source of cash to pay such securities, has senior unsecured debt securities rated investment grade by a Credit Rating Agency, or (B) if such entity does not have a senior unsecured debt rating, the Investment Adviser determines that such entity's senior unsecured debt securities are of comparable credit quality and (ii) debt securities rated below investment grade (also known as "junk bonds"), or that the Investment Adviser determines to be below investment grade quality, and that do not meet the requirements of clause (i), provided that the amount invested in such debt securities may not exceed 5% of the Fund's total assets. See Appendix D for further information regarding Fitch's, S&P's, and Moody's ratings.

Changes in economic conditions or other circumstances are more likely to lead to a weakened capacity for issuers of lower-rated securities to make principal and interest payments than is the case for issuers of higher grade securities. Subsequent to its purchase by the Fund, an issue of securities may cease to be rated or its rating may be reduced below the minimum rating required for purchase by the Fund. The Investment Adviser will consider such an event in determining whether the Fund should continue to hold the obligation. In making such a determination, the Investment Adviser will consider such factors in its assessment of the credit quality of the issuer of the security and the price at which the security could be sold.

The average maturity and duration of the Fund's portfolio securities will vary based upon the Investment Adviser's assessment of economic and market conditions. The net asset value of the shares of common stock of a closed-end investment company, such as the Fund, which invests primarily in fixed-income securities, changes as the general levels of interest rates fluctuate. When interest rates decline, the value of fixed-income securities can be expected to rise. Conversely, when interest rates rise, the value of fixed-income securities can be expected to decline. Prices of longer-term securities generally fluctuate more in response to interest rate changes than do those of short-term or medium-term securities. These changes in net asset value might be greater in the case of an investment company having a leveraged capital structure, such as the Fund. See "SPECIAL LEVERAGE CONSIDERATIONS" herein.

The Fund's investment objective and certain investment policies are fundamental policies that may not be changed unless authorized by a majority (or in some cases, a supermajority) of the holders of the Fund's outstanding shares of Common Stock and by the OCFI. However, subject to Puerto Rico law, all other investment policies and limitations may be changed by the Board of Directors without the approval of either the holders of Common Stock or the OCFI. See "INVESTMENT RESTRICTIONS" herein.

Set forth below is a description of the various types of securities in which the Fund may invest.

Mortgage-Backed Securities. Mortgage-backed securities represent direct or indirect participations in, or are secured by and are payable from, mortgage loans secured by real property ("Mortgage-Backed Securities"). Investors in Mortgage-Backed Securities typically receive interest and principal on the underlying mortgage loans (and/or any related credit support). The Fund's investments in Mortgage-Backed Securities will be considered as Puerto Rico Securities when the underlying assets are substantially comprised of mortgages over real property located within Puerto Rico. See "Appendix B - Mortgage- Backed Securities" herein.

Investments in Mortgage-Backed Securities include those issued or guaranteed by GNMA, FNMA, or FHLMC, as well as Mortgage-Backed Securities that are not guaranteed or issued by GNMA, FNMA, FHLMC, or any other government agency ("Private Label Mortgage-Backed Securities"), and in either case may include CMOs. Private Label Mortgage-Backed Securities are issued in connection with a securitization and represent a beneficial interest in a privately sponsored trust or other entity, the assets of which are mortgage loans or GNMA, FNMA, FHLMC, or other Mortgage-Backed Securities, including CMOs. See "RISK FACTORS AND SPECIAL CONSIDERATIONS" herein.

GNMA Mortgage-Backed Securities include securities which are backed by mortgage loans insured by the Federal Housing Administration or guaranteed by the Veterans Administration, and which consist of mortgage-backed certificates with respect to pools of such mortgages guaranteed as to the timely payment of principal and interest by the GNMA. That guarantee is backed by the full faith and credit of the U.S.

FNMA Mortgage-Backed Securities represent a beneficial ownership interest in one or more pools of mortgage loans, which may be insured by the Federal Housing Administration or the Veterans Administration, or which may not be insured or guaranteed by any governmental agency. FHLMC Mortgage-Backed Securities represent direct or indirect participations in, and are payable from, conventional residential mortgage loans. FNMA's and FHLMC's obligations with respect to their Mortgage-Backed Securities are not backed by the full faith and credit of the U.S., but are considered to present minimal credit risks.

CMOs are multiple-class Mortgage-Backed Securities. Some CMOs are directly supported by other CMOs, which in turn are supported by pools of mortgage loans. Investors in such securities typically receive payments out of the interest and principal on the underlying mortgage loans. The portions of these payments that investors receive, as well as the priority of their rights to receive payments, are determined by the specific terms of the CMO class. CMOs involve special risks. See "RISK FACTORS AND SPECIAL CONSIDERATIONS — Mortgage-Backed Securities" herein.

The type of GNMA, FNMA, FHLMC and certain other Mortgage-Backed Securities in which the Fund may invest are described in more detail in "Appendix B — Mortgage-Backed Securities." Not all types of Mortgage-Backed Securities are currently available in Puerto Rico.

Municipal Obligations. Municipal obligations are debt obligations or similar securities issued by or on behalf of Puerto Rico, a State of the U.S., or any of their respective political subdivisions, organizations, agencies, or instrumentalities, or by multi-state agencies or authorities, the interest on which is, in the opinion of Fund counsel, wholly or partially exempt from income tax (the "Municipal Obligations"). Municipal Obligations are issued for various public purposes, including construction of public or privately-operated facilities, such as airports, bridges, hospitals, housing, mass transportation, schools, streets, and water and sewer works. Other public purposes for which Municipal Obligations may be issued include refinancing outstanding obligations and obtaining funds for general operating expenses and for loans to other public institutions and facilities. Puerto Rico Municipal Obligations encompass various types of Puerto Rico tax-exempt obligations including, for example, both general obligation bonds and revenue bonds, as well as industrial development bonds issued for the benefit of Puerto Rico or non-Puerto Rico corporations in connection with projects located inside or outside of Puerto Rico. The types of Municipal Obligations in which the Fund may invest, and certain of the risks attached thereto, are described in Appendix A to this Offering Circular. Not all of such types of Municipal Obligations are currently available in Puerto Rico. See "Appendix A – Types of Municipal Obligations" herein.

U.S. Government Securities. The Fund may invest in U.S. Government securities. These include securities that are issued or guaranteed by the U.S. Government, such as U.S. Treasury bills, U.S. Treasury notes, and U.S. Treasury bonds, or that are issued or guaranteed by its agencies or instrumentalities, such as obligations of the Federal Home Loan Bank, which are supported by the right of the issuer to borrow from the U.S. Treasury, and obligations of the Federal Intermediate Credit Banks, which are supported only by the credit of the issuer. The Fund may also invest in repurchase agreements secured by such securities, as further described herein.

Asset-Backed Securities. The Fund may invest in various types of asset-backed securities ("Asset-Backed Securities"). The securitization techniques used in the context of Asset-Backed Securities are similar to those used for Mortgage-Backed Securities. The receivables supporting Asset-Backed Securities presently are primarily home equity mortgage loans and automobile and credit card receivables, but may also consist of other types of obligations. Asset-Backed Securities and the underlying receivables are not generally insured or guaranteed by any government agency. However, in certain cases, such securities are collateralized by loans guaranteed by the U.S. Small Business Administration ("SBA"). SBA is an independent agency of the U.S.

SBA guarantees the payment of principal and interest on portions of loans made by private lenders to certain small businesses. The loans are generally commercial loans such as working capital loans and equipment loans. SBA is authorized to issue from time to time, through its fiscal and transfer agent, SBA-guaranteed participation certificates evidencing fractional undivided interests in pools of these SBA-guaranteed portions of loans made by private lenders. SBA's guarantee of such certificates, and its guarantee of a portion of the underlying loan, are backed by the full faith and credit of the U.S.

Asset-Backed Securities will be considered Puerto Rico Asset-Backed Securities when the securitization vehicle is organized under the laws of Puerto Rico or, regardless of where organized, when a majority of the underlying assets are obligations of Puerto Rico Residents.

Preferred Stock. Preferred stock generally has priority over common stock with respect to payment of dividends and upon liquidation, but does not have the seniority of a debt instrument in an issuer's capital structure in terms of claims to corporate income and liquidation payments. Preferred stock may have a fixed dividend rate and may not participate in any profits of the issuer above such dividend rate, in which case it is referred to as "non-participating," or it may participate in some or all of the profits of the issuer, in which case it is referred to as "participating." Preferred stock may be perpetual, with no mandatory redemption date, or issued with a mandatory redemption date. It may also be callable or redeemable at the option of the issuer after a certain period of time. Issuers of preferred stock are not required to pay dividends on the preferred stock, even if they have sufficient funds to pay dividends, although they are usually prohibited from paying dividends on their common stock unless all or some preferred dividends have been paid. Preferred dividends may be "cumulative" or "non-cumulative." If dividends are cumulative and they are not declared and paid at their regularly scheduled time, such dividends must generally be paid when the issuer is liquidated, before any assets may be distributed to holders of the issuer's common stock. If dividends are non-cumulative, they never have to be paid if they are not declared; however, as mentioned above, the issuer may be prohibited from paying dividends on their common stock unless all or some preferred dividends have been paid. Holders of preferred stock do not have

the right to precipitate bankruptcy filings or collection activities in the event of missed dividend payments. Preferred stock may be convertible into common stock of the issuer or into some other security, or it may non-convertible. Holders of preferred stock usually have no voting rights, except in cases where preferred dividends have been unpaid for a certain period, in which case holders of preferred stock usually have the right to elect certain representatives to the board of directors of the issuer. Most of the preferred stock of Puerto Rico issuers currently available in the market is non-cumulative, non-voting, non-convertible, and non-participating, and pays dividends at a fixed dividend rate on a monthly basis. Most of the preferred stock of Puerto Rico issuers currently available in the market is issued by bank holding companies.

Corporate Obligations. Corporate obligations are debt obligations or similar securities issued by or on behalf of a corporation.

Other Investment Practices. Certain of the other investment practices in which the Fund may engage are described below. If the Fund issues preferred stock, debt securities, and other forms of leverage and seeks to obtain a credit rating of such preferred stock, debt securities, and other forms of leverage, any credit rating agency issuing such rating may, as a condition thereof, impose additional asset coverage or other requirements, which may restrict the Fund's ability to engage in these investment practices.

When-Issued Securities and Delayed Delivery Transactions. The purchase of securities on a when-issued or delayed delivery basis involves the risk that, as a result of an increase in yields available in the marketplace, the value of the securities purchased will decline prior to the settlement date. The sale of securities for delayed delivery involves the risk that the prices available in the market on the delivery date may be greater than those obtained in the sale transaction. At the time the Fund enters into a transaction on a when-issued or delayed delivery basis, it will segregate with the Custodian (as defined below) cash or liquid instruments with a value not less than the value of the when-issued or delayed delivery securities. The value of these assets will be monitored daily to ensure that their marked to market value will at all times exceed the obligations of the Fund. There is always a risk that the securities may not be delivered, and the Fund may incur a loss.

Short-Term Temporary Investments. Subject to the requirements of the Commissioner's Ruling and if in the opinion of the Investment Adviser, no suitable Puerto Rico Securities, other Municipal Obligations, or long-term U.S. Government securities are available or if the Investment Adviser believes unusual circumstances warrant a defensive posture, the Fund may temporarily commit all or any portion of its assets to short-term instruments. Such instruments may include securities issued or guaranteed by the U.S. Government, its agencies or instrumentalities, commercial paper rated at least F1 by Fitch, A-1 by S&P or Prime-1 by Moody's, bank certificates of deposit, bankers' acceptances, and repurchase agreements secured by any of the foregoing, as described below.

Dollar Rolls and Reverse Repurchase Agreements. The Fund may enter into dollar rolls, in which the Fund sells mortgage-backed or other securities for delivery in the current month and simultaneously contracts to purchase substantially similar securities on a specified future date. In the case of dollar rolls involving mortgage-backed securities, the mortgage-backed securities that are purchased will be of the same type and will have the same interest rate as those sold, but will be supported by different pools of mortgages. The Fund forgoes principal and interest paid during the roll period on the securities sold in a dollar roll, but the Fund is compensated by the difference between the current sales price and the lower price for the future purchase as well as by any interest earned on the proceeds of the securities sold. The Fund also could be compensated through the receipt of fee income equivalent to a lower forward price. The Fund may also enter into reverse repurchase agreements in which a member bank of the Federal Reserve System or a securities dealer who is a member of a national securities exchange or is a market-maker in U.S. Government securities purchases portfolio securities from the Fund, coupled with an agreement to resell them to the Fund at a specific date and price. The Fund may enter into reverse repurchase agreements with UBS Financial Services Puerto Rico or its affiliates, under the circumstances described herein and if specifically approved by its Board of Directors and made subject to procedures adopted by them. See "PORTFOLIO TRANSACTIONS—Transactions Involving Affiliates" herein.

Dollar rolls and reverse repurchase agreements generally will be considered to be leverage and, accordingly, will be subject to the Fund's limitations on leverage, which will restrict the aggregate of such transactions, together with the issuance of preferred stock, debt securities, and other forms of leverage, to 50% of the Fund's total assets. See "SPECIAL LEVERAGE CONSIDERATIONS" herein. However, dollar rolls and reverse repurchase agreements will not be subject to such limitation if a separate account is established and maintained with respect to the value of the Fund's commitments thereunder. In addition, certain of the dollar rolls and reverse repurchase agreements entered into by the Fund will be arbitrage transactions in which the Fund will maintain an offsetting position in securities or repurchase agreements that mature on or before the settlement date on the related dollar roll or reverse repurchase agreement. The Investment Adviser believes that such arbitrage transactions do not present the risks to the Fund that are associated with other types of leverage.

The market value of securities sold under reverse repurchase agreements typically is greater than the proceeds of the sale, and accordingly, the market value of the securities sold is likely to be greater than the value of the securities in which the Fund invests those proceeds. Reverse repurchase agreements involve the risk that the buyer of the securities sold by the Fund might be unable to deliver them when the Fund seeks to repurchase. In the event the buyer of securities under a reverse repurchase agreement files for bankruptcy or becomes insolvent, such buyer or its trustee or receiver may receive an extension of time to determine whether to enforce the Fund's obligation to repurchase the securities and the Fund's use of the proceeds of the reverse repurchase agreement may effectively be restricted pending such decision.

Repurchase Agreements. The Fund may enter into repurchase agreements. Repurchase agreements consist of transactions in which the Fund purchases securities from a member bank of the Federal Reserve System or a securities dealer who is a member of a national securities exchange or is a market-maker in U.S. Government securities, and simultaneously commits to resell the securities to such original seller at an agreed-upon date and price reflecting a market rate of interest unrelated to the coupon rate or maturity of the purchased securities. Although repurchase agreements carry certain risks not associated with direct investments in securities, including possible declines in the market value of the underlying securities and delays and costs to the Fund if the other party to the repurchase agreement becomes bankrupt, it is the intention of the Fund to only enter into repurchase agreements with banks and dealers in transactions believed

by the Investment Adviser to present minimum credit risks. In addition, each repurchase agreement must be collateralized at least at 102% with U.S. Government or other appropriate liquid high grade securities, held at a third party custodian, and marked-to-market daily. Entities with whom the Fund may enter into repurchase agreements may include UBS Financial Services Puerto Rico or its affiliates, subject to procedures adopted by its Board of Directors. See "SPECIAL LEVERAGE CONSIDERATIONS" and "PORTFOLIO TRANSACTIONS — Transactions Involving Affiliates" herein.

Other Practices

Call Rights. The Fund may purchase a Puerto Rico security or other Municipal Obligation issuer's right to call all or a portion of such obligation for mandatory tender for purchase (a "Call Right"). A holder of a Call Right may exercise such right to require a mandatory tender for the purchase of related obligations, subject to certain conditions. A Call Right that is not exercised during the maturity of the related obligation will expire without value. The economic effect of holding both a Call Right and the related obligation is identical to holding an obligation as a non-callable security.

Options and Futures. The Fund may use securities options (both exchange-traded and over-the-counter) to attempt to enhance income (which would be taxable income) and may also attempt to reduce the overall risk of its investments (*i.e.*, hedge) by using securities options, financial futures contracts and other interest rate protection transactions such as swap agreements. However, the Fund will not enter into financial futures contracts or options thereon unless UBS Financial Services Puerto Rico qualifies for an exclusion or exemption or comparable relief from applicable registration requirements contained in the regulations administered by the U.S. Commodity Futures Trading Commission. See Appendix E to this Offering Circular for a more complete discussion of the types of derivative and related income strategies the Fund may use and the risks thereof.

Short Sales. The Fund may engage in short sales of securities "against the box" to defer realization of gains or losses for tax or other purposes. A short sale "against the box" occurs when the Fund owns an equal amount of the securities sold short or owns securities convertible into or exchangeable, without payment of any further consideration, for securities of the same issue as, and equal amount to, the securities sold short.

Securities Lending. Although it has not done so, the Fund may also engage in securities lending, subject to procedures adopted by its Board of Directors.

SPECIAL LEVERAGE CONSIDERATIONS

Issuance of Preferred Stock and Debt Securities. The Fund may increase amounts available for investment through the issuance of preferred stock, debt securities, and other similar forms of leverage, representing not more than 50% of its total assets immediately after the issuance of any such securities. Such offerings are made solely to Puerto Rico Residents.

The OCFI has restricted the Fund's leveraging activities. The Fund may only issue preferred stock, debt securities, or other forms of leverage to the extent that immediately after their issuance, the value of its total assets, less all the Fund's liabilities and indebtedness that are not represented by preferred stock, debt securities, or other forms of leverage being issued or already outstanding, is equal to or greater than the total of 200% of the aggregate par value of all outstanding preferred stock (not including any accumulated dividends or other distributions attributable to such preferred stock) and the total amount outstanding of debt securities and other forms of leverage issued by the Fund. This asset coverage requirement must also be met any time the Fund pays a dividend or makes any other distribution on its issued and outstanding shares of Common Stock or any shares of its preferred stock (other than a dividend or other distribution payable in additional shares of Common Stock) as well as any time the Fund repurchases any shares of Common Stock, in each case after giving effect to such repurchase of shares of Common Stock or issuance of preferred stock, debt securities, or other forms of leverage in order to maintain asset coverage at the required 200% level. To the extent necessary, the Fund may purchase or redeem preferred stock, debt securities, or other forms of leverage in order to maintain asset coverage at the required 200% level.

The Fund, subject to the above percentage limitations, may also engage in certain additional borrowings from banks or other financial institutions through reverse repurchase agreements. The Fund presently engages in borrowings from, and other similar forms of leverage with, UBS Financial Services Puerto Rico or its affiliates through reverse repurchase agreements, dollar rolls, or otherwise upon the approval of and subject to procedures as established by the Board of Directors, in order to address, among other things, the potential conflicts of interest in setting interest or dividend rates. No assurance can be given that the procedures are or will be effective. UBS Financial Services Puerto Rico may act as underwriter, dealer, or placement agent in connection with other offerings of debt securities by the Fund. See "PORTFOLIO TRANSACTIONS — Transactions Involving Affiliates" herein. In addition, the Fund may also borrow for temporary or emergency purposes, in an amount of up to an additional 5% of its total assets.

Use of leverage through the issuance of preferred stock, debt securities, and other similar forms of leverage, as well as borrowings through reverse repurchase agreements, is a speculative investment technique and involves increased risk for holders of the Fund's securities. Short-term, medium-term, and long-term interest rates change from time to time as does their relationship to each other (*i.e.*, the slope of the yield curve) depending upon such factors as supply and demand forces, monetary and tax policies, and investor expectations. Changes in any or all of such factors could cause the relationship between short-term, medium-term, and long-term rates to change (*i.e.*, to flatten or to invert the slope of the yield curve) so that short-term and medium-term rates may substantially increase relative to the long-term obligations in which the Fund may be invested. Should the then-current dividend or interest rate, as the case may be, on any more senior preferred stock, debt securities, and other similar forms of leverage exceed the net return on the Fund's assets purchased with the proceeds of the leverage, the Fund's leveraged capital structure could present additional risks to the holders of its securities than if the Fund were not so leveraged. Nevertheless, the Investment Adviser may determine to maintain the Fund's leveraged position if they deem such action to be appropriate under the circumstances.

Payments on preferred stock, debt securities, and other similar forms of leverage issued by the Fund for investment may be indexed to equity or other indices unrelated to the assets held by the Fund. While the Fund enters into hedging transactions to minimize the risks inherent in those transactions, no assurance can be given that those

transactions are or will be successful. Accordingly, the effect of leverage in a declining market could adversely affect the Fund's ability to make dividend payments and other distributions on its preferred stock, debt securities, and other forms of leverage. The issuance of any preferred stock, debt securities, and other similar forms of leverage entails certain costs and expenses, such as underwriting discounts, credit rating agency fees, legal and accounting fees, printing costs, and certain other ongoing expenses, such as administrative and accounting fees. These costs and expenses are borne by the Fund.

Currently, the Puerto Rico bond market is experiencing a period of volatility, with Puerto Rico bonds trading at lower prices and higher yields compared to benchmarks of the past three (3) years. Inasmuch as the Fund invests a substantial portion of its assets in Puerto Rico bonds, the Fund may be forced to engage in borrowing for temporary or emergency purposes within the limitation of 5% of its total assets discussed above. In view of these volatile market conditions, the OCFI has granted to the Fund a temporary regulatory waiver from the Fund's leverage limitation of 50% of its total assets and 200% asset coverage requirement described above through July 31, 2016 or such other later date which may be approved by the OCFI. It is the Fund's intention to maintain compliance therewith as market conditions permit, though there is no assurance the Fund will be able to do so.

INVESTMENT RESTRICTIONS

The Fund may not change its investment objective or fundamental policies without the approval of either (i) a majority of the outstanding shares of Common Stock, if the proposed change has previously been recommended by its Board of Directors, or (ii) at least 75% of the outstanding shares of Common Stock, upon the failure of the Board of Directors to approve a proposal submitted by a shareholder or a group of shareholders that hold in the aggregate at least 20% of the shares of Common Stock outstanding. Under current law, the OCFI also must approve any change in such investment objective or fundamental policies.

As its fundamental policy, the Fund may not issue debt securities or borrow money from banks or other entities (including borrowings through dollar rolls and reverse repurchase agreements), in excess of 50% of its total assets (including the amount of borrowings and debt securities issued). In addition, the Fund may also borrow from banks or other financial institutions for temporary or emergency purposes (including, among others, financing repurchases of the Notes and tender offers), in an amount of up to an additional 5% of its total assets.

In addition, the Fund may not change the following investment limitations without the approval of a majority of its Board of Directors and prior written notice to the holders of the Fund's Common Stock:

(a) purchase the securities of any one issuer, if after such purchase it would own more than 75% of the voting securities of such issuer, provided that securities issued or guaranteed by the U.S. Government, its agencies or instrumentalities are not subject to this limitation;

(b) make an investment in any one industry if, at the time of purchase, the investment would cause the aggregate value of all of the Fund's investments in such industry to equal 25% or more of the Fund's total assets; provided that this limitation shall not apply to the following: (i) investments in securities issued or guaranteed by the U.S. Government, its agencies or instrumentalities; (ii) Municipal Obligations, including Puerto Rico Municipal Obligations, other than those backed only by the assets or revenues of a non-governmental entity; and (iii) investments in mortgage-backed securities and asset-backed securities (whether or not issued or guaranteed by an agency or instrumentality of the U.S. Government). For purposes of this restriction, the intended or designated use of real estate shall determine its industry;

(c) purchase securities on margin, except for short term credits necessary for clearance of portfolio transactions, and except that the Fund may make margin deposits in connection with its use of options or future contracts (as described in Appendix E hereto);

(d) engage in the business of underwriting securities of other issuers, except to the extent that, in connection with the disposition of portfolio securities, the Fund may be deemed an underwriter under U.S. securities laws and except that the Fund may write options;

(e) make short sales of securities or maintain a short position, except that the Fund may sell short "against the box." A short sale "against the box" occurs when the Fund owns an equal amount of the securities sold or owns securities convertible into or exchangeable for, without payment of any further consideration, securities of the same issue as, and equal in amount to, the securities sold short;

(f) purchase or sell real estate (including real estate limited partnership interests), provided that the Fund may invest in securities secured by real estate or interests therein or issued by entities that invest in real estate or interests therein (including mortgage-backed securities), and provided further that the Fund may exercise rights under agreements relating to such securities, including the right to enforce security interests and to liquidate real estate acquired as a result of such enforcement; provided, however, that such securities and any such real estate securing a security acquired by the Fund shall not be a "U.S. real property interest" within the meaning of Section 897 of the U.S. Code;

(g) purchase or sell commodities or commodity contracts, except that the Fund may enter into swap agreements, options, futures contracts (as described in Appendix E hereto) and options on futures contracts subject to certain restrictions;

(h) make loans, except through repurchase agreements, provided that for purposes of this restriction the acquisition of bonds, debentures or other debt instruments or interests therein and investment in government obligations, shall not be deemed to be the making of a loan;

(i) purchase securities of other investment companies, unless immediately thereafter not more than (i) 3% of the total outstanding voting stock of such investment company is owned by the Fund, (ii) 5% of the Fund's total assets,

valued at market value, would be invested in such investment company, (iii) 10% of the Fund's total assets, valued at market value, would be invested in such securities, and (iv) the Fund, together with other investment companies having the same investment adviser and companies controlled by such companies, owns not more than 10% of the total outstanding stock of any one closed-end investment company;

(j) make investments for the purpose of effecting control of management; or

(k) lend portfolio securities, except to the extent that such loans, if and when made, do not exceed $33^{1}/_{3}$% of the total assets of the Fund, valued at market value.

MANAGEMENT OF THE FUND

The overall management of the business and affairs of the Fund is vested with its Board of Directors. The Board of Directors approves all significant agreements between the Fund and persons or companies furnishing services to it, including the Fund's agreements with its Investment Adviser, Administrator, Custodian, and Transfer Agent (all such terms as defined below). The Fund's day-to-day operations are delegated to its officers and to the Administrator, subject to the Fund's investment objective and policies and to general supervision by its Board of Directors.

The Board of Directors. The Board of Directors consists of nine (9) persons. Eight (8) of these are "Independent Directors," as defined in the Fund's Code of Ethics, and one (1) is considered interested Director as a result of his employment as an officer of the Fund, its Investment Adviser, or an affiliate thereof (the "Interested Director").

The eight (8) Independent Directors are the following: Messrs. Mario S. Belaval, Agustín Cabrer, Gabriel Dolagaray, Vicente J. León, Carlos Nido, Luis M. Pellot, and José J. Villamil and Mrs. Clotilde Pérez. The Interested Director is Mr. Carlos V. Ubiñas.

The Board of Directors has three (3) standing committees: the Audit Committee, the Dividend Committee, and the Nominating Committee. The Board has adopted a written Audit Committee Charter, and the Audit Committee's role is to oversee the Fund's accounting and financial reporting policies and practices and to recommend to the Board of Directors any action to ensure that the Fund's accounting and financial reporting are consistent with accepted accounting standards applicable to the mutual fund industry. Messrs. Belaval, Cabrer, León and Pellot serve on the Audit Committee. The Audit Committee met five (5) times during the fiscal year ended March 31, 2016. The aggregate remuneration by the Fund to Independent Directors then serving in such capacity for attendance at such meetings during the fiscal year ended March 31, 2016, amounted to $10,000. The Audit Committee is comprised solely of Independent Directors and represented by independent legal counsel in connection with its duties.

According to the Fund's charter, the role of the Dividend Committee is to determine the amount, form, and record date of any dividends to be declared and paid by the Fund. Messrs. Ubiñas, Belaval, Cabrer, and Pellot serve on the Dividend Committee.

Pursuant to the adoption of a written charter, the Fund has created a Nominating Committee comprised of one (1) Interested Director and three (3) Independent Directors. The principal responsibilities of the Nominating Committee are to identify individuals qualified to serve as Independent Directors and to recommend its nominees for consideration by the entire Board of Directors. The Independent Directors have retained independent legal counsel to assist them in connection with these duties. While the Nominating Committee is solely responsible for the selection and nomination of the Independent Directors, the Nominating Committee may consider nominations for the office of Director made by Fund shareholders as it deems appropriate. Shareholders who wish to recommend a nominee should send nominations to the Fund's Secretary that include biographical information and set forth the qualifications of the proposed nominee. The Nominating Committee evaluates nominees from whatever source using the same standard.

Independent Directors. Certain biographical and other information relating to the Independent Directors is set forth below, including their ages and their principal occupations for at least five (5) years. Messrs. Nido and Pellot and Mrs. Pérez are members of the boards of directors of all the other funds that have engaged UBS Trust PR as their investment adviser (the "UBS Advised Funds") or as their co-investment adviser (the "UBS Co-Advised Funds" and, together with the UBS Advised Funds, the "Affiliated Funds"). Messrs. Belaval, Cabrer, Dolagaray, León, and Villamil are members solely of the board of directors of each of the UBS Advised Funds.

Name, Age, and Address*	Position(s) Held with the Fund	Term of Office and Length of Time Served**	Principal Occupation(s) During Past Five Years	Number of Affiliated Funds Overseen	Public Directorships
Mario S. Belaval (77)	Director	Director since 2005	Former Member and Vice Chairman of the Board of Directors of Triple S Management, Corp. and Triple S, Inc.; former Chairman of the Board of Bacardi Corp; former Executive Vice-president of Bacardi Corp; former Director of the Make-A-Wish Foundation.	18 funds consisting of 29 portfolios	None
Agustín Cabrer (67)	Director	Director since 2005	President of Starlight Development Group, Inc.	18 funds consisting of 29	None

Name, Age, and Address	Position(s) Held with the Fund	Term of Office and Length of Time Served**	Principal Occupation(s) During Past Five Years	Number of Affiliated Funds Overseen	Public Directorships
			from 1995 to 2014 (real estate development); President of Antonio Roig Sucesores since 1995 (real estate development); Partner of Desarrollos Roig since 1995, Desarrollos Agrícolas del Este S.E. since 1995, and El Ejemplo, S.E. since 1995 (real estate development); Partner, Pennock Growers, Inc. since 1998; Partner and Managing Director of RERBAC Holdings, LLP since 2004 (real estate development); Director of V. Suárez & Co. since 2002, V. Suárez Investment Corporation since 2002, V. Suárez International Banking Entity, Inc. since 2002, Villa Pedres, Inc. since 2002, and Caparra Motor Service since 1998; Director of TC Management from 2002 to 2013; Officer of Candelero Holdings & Management, Inc. from 2001 to 2013; 100% owner, President and Registered Principal (Agent) of Starlight Securities Inc. since 1995 (registered broker-dealer); former Member of the Board of Trustees of the University of Puerto Rico; Partner and Officer of Grupo Enersol, LLC since 2013 (solar photovoltaic developer); President of Libra Government Building, Inc. since 1997; Partner of Cometa 74, LLC since 1998; Vice-President of Candelario Point Partners, Inc. since 1998; Officer of Marbella Development, Corp. from 2001 to 2014.	portfolios	
Gabriel Dolagaray (79)	Director	Director since 2005	Former President of the Cooperativa de Seguros de Vida; former President of the Association of Insurance Companies of Puerto Rico, Inc.; former member of the Executive Committee of the North American Association of the International Cooperative Insurance Federation; Member, Advisory Board to the Commissioner of Insurance of Puerto Rico; former President of the Puerto Rico Chamber of Commerce.	18 funds consisting of 29 portfolios	None
Vicente J. León (77)	Director	Director since 2008	Independent business consultant since 1999; former Member and Vice Chairman of the Board of Directors of Triple S	18 funds consisting of 29 portfolios	None

Name, Age, and Address	Position(s) Held with the Fund	Term of Office and Length of Time Served**	Principal Occupation(s) During Past Five Years	Number of Affiliated Funds Overseen	Public Directorships
			Management Corp. from 2000 to 2012; former consultant with Falcón Sánchez and Associates, a Certified Public Accounting Firm; former Partner at KPMG LLP.		
Carlos Nido (52)	Director	Director since 2007	President of Josefina LLC, real estate ownership and development company; former Senior Vice President of Sales of El Nuevo Día, from 2002 to 2015, and President of Del Mar Events from 2007 to 2015; former President and founder of Virtual, Inc. and Zona Networks from 1999 to 2002; Member of the Board of Directors of GFR Media LLC, Infinity Laser, PSC, Grupo Ferré Rangel, B. Fernandez & Hnos. Inc., and the San Jorge Children's Foundation; former Member of the Board of Directors of Grupo Guayacán, Inc., Baldwin School, the Muscular Dystrophy Association, Puerto Rico Venture Forum, Puerto Rico Tennis Association, and of Solomon Smith Barney Family of Funds; former Special Assistant to the President of Government Development Bank for Puerto Rico.	27 funds consisting of 38 portfolios	None
Luis M. Pellot (68)	Director	Director since 2005	President and Tax attorney at Pellot-González, PSC since 1989; Member of the Board of Directors of Empresas Santana, Guaraguao Properties, Inc. and JS Investment Company, Inc.; Secretary of AA-10,000 Corp.; Member of the Board of Directors and Secretary of Financiadora Primas; 98% Partner and Manager of Lepanto, S.E.; Member of the P.R. Bar Association, P.R. Manufacturers Association, P.R. Chamber of Commerce, P.R. General Contractors Association, and P.R. Hotel and Tourism Association.	27 funds consisting of 38 portfolios	None
Clotilde Pérez (64)	Director	Director since 2009	Partner of Infogerencia, Inc. since 1985; Vice President Corporate Development Officer of V. Suárez & Co., Inc. since 1999; Member of the Board of Trustees of the University of the Sacred Heart since 2005; Member of the Board of Directors of Campofresco Corp. since 2012; former Member of the Board of Directors of Grupo	27 funds consisting of 38 portfolios	None

Name, Age, and Address	Position(s) Held with the Fund	Term of Office and Length of Time Served**	Principal Occupation(s) During Past Five Years	Number of Affiliated Funds Overseen	Public Directorships
			Guayacán, Inc., EnterPrize, Inc. and Puerto Rico Venture Forum from 1999 to 2013; General Partner of the Guayacán Fund of Funds Family.		
José J. Villamil (76)	Director	Director since 2013	Chairman of the Board and Chief Executive Officer of Estudios Técnicos, Inc.; Member of the Board of Governors of United Way of Puerto Rico; Chairman of the Puerto Rico Manufacturer's Association's Committee on Competitiveness; Chairman of the Board of BBVA-PR from 1998 to 2012; founding Director of the Puerto Rico Community Foundation and the Aspen Institute's Non-Profit Sector Research Fund; former Member of the New York Federal Reserve Bank's Community Affairs Roundtable; former President of the Puerto Rico Chamber of Commerce, as well as former Chairman of its Economic Advisory Council; former President of the Inter-American Planning Society; former President of the Puerto Rico Economics Association; former Chairman of the Puerto Rico-2025 Commission (formerly, Alianza para el Desarrollo); former Chairman of the Commission on the Economic Future of Puerto Rico; former professor of the Economics Department of the University of Pennsylvania's Wharton School and Graduate School of Arts and Sciences and former Professor of Planning at the University of Puerto Rico. Mr. Villamil has served on numerous Boards such as, the Boards of the Ponce School of Medicine, St. John's School and the Ana G. Méndez University System, the Board of the National Puerto Rican Coalition in Washington, and on the Board of Economists of Hispanic Business. In 2009, Mr. Villamil was appointed as a Member of the Economic Advisory Council as well as Chairman of the Strategic Planning Committee of the State Human Resources and Occupational Development Council.	18 funds consisting of 29 portfolios	None

Name, Age, and Address	Position(s) Held with the Fund	Term of Office and Length of Time Served**	Principal Occupation(s) During Past Five Years	Number of Affiliated Funds Overseen	Public Directorships
*	The address of the Independent Directors is American International Plaza - Tenth Floor, 250 Muñoz Rivera Avenue, San Juan, Puerto Rico 00918.				
**	Each Director serves until his successor is elected and qualified, or until his death or resignation, or removal as provided in the Fund's by-laws or charter or by statute, or until December 31 of the year in which he or she turns 80.				

Interested Directors and Officers. Certain biographical and other information relating to the Interested Directors and to the other officers of the Fund, is set forth below, including their ages, their principal occupations for at least the last five (5) years, the length of time served, and the total number of Affiliated Funds overseen by them. These persons also serve as directors and officers of the UBS Advised Funds and, in some cases, of certain of the UBS Co-Advised Funds.

Name, Age, and Address*	Position(s) Held with the Fund	Term of Office and Length of Time Served**	Principal Occupation(s) During Past Five Years	Number of Affiliated Funds Overseen	Public Directorships
Carlos V. Ubiñas (61)	Director, Chairman of the Board of Directors, and President	President since 2015; Chairman of the Board of Directors since 2012; and Director since 2005	Chief Executive Officer since 2009, President since 2005, Managing Director, Head of Asset Management and Investment Banking of UBS Financial Services Incorporated of Puerto Rico since 2014; former Chief Operating Officer and Executive Vice President of UBS Financial Services Incorporated of Puerto Rico from 1989 to 2005.	18 funds consisting of 29 portfolios	None
Leslie Highley (69)	Senior Vice President	Senior Vice President since 2005	Managing Director of UBS Trust PR since 2006; Executive Vice President of UBS Trust PR since 2005 and Senior Vice President of UBS Financial Services Incorporated of Puerto Rico since 1994 and of the Puerto Rico Investors Tax-Free Family of Funds since 1995; Member of the Board of Directors of the Fund from 2009 to February 2013; President of Dean Witter Puerto Rico, Inc.	Not applicable	None
William Rivera (58)	First Vice President and Treasurer	First Vice President since 2005 and Treasurer since 2015	Executive Director of UBS Asset Managers since 2011; Director of UBS Asset Managers from 2006 to 2010; Assistant Portfolio Manager for UBS Asset Managers; First Vice President of Trading of UBS Trust PR since January 2002 and of UBS Financial Services Incorporated of Puerto Rico since 1987.	Not applicable	None
Javier Rodríguez (43)	Assistant Vice President and Assistant Treasurer	Assistant Vice President and Assistant Treasurer since 2005	Divisional Assistant Vice President, trader, and portfolio manager of UBS Trust PR since 2003; financial analyst with UBS Trust PR from 2002 to 2003; financial analyst with Popular Asset Management from 1998 to 2002.	Not applicable	None
Liana Loyola (55)	Secretary	Secretary since 2014	Attorney in private practice since 2009.	Not applicable	None
*	The address of the Interested Directors and Officers of the Fund is UBS Trust Company of Puerto Rico, American International Plaza - Tenth Floor, 250 Muñoz Rivera Avenue, San Juan, Puerto Rico 00918.				
**	Each Director serves until his successor is elected and qualified, or until his death or resignation, or removal as provided in the Fund's by-laws or charter or by statute, or until December 31 of the year in which he or she turns 80. Each officer is elected by and serves at the pleasure of the Board of Directors.				

Compensation of the Independent Directors. Each Independent Director receives a stipend from the Fund of up to $1,000 plus expenses, for attendance at each meeting of the Board of Directors, and $500 plus expenses, for attendance at each meeting of a committee thereof. The Independent Directors do not receive retirement or other benefits as part of their compensation.

Name of Independent Directors	Aggregate Compensation from the Fund[1]	Retirement Benefits Accrued as Part of Fund Expenses	Estimated Annual Benefits Upon Retirement	Total Compensation from the Affiliated Funds[2]
Mario S. Belaval	$6,632.53	None	None	$121,000
Carlos Nido	$4,132.53	None	None	$111,860
Luis M. Pellot	$6,632.53	None	None	$158,360
Agustín Cabrer	$6,632.52	None	None	$121,000
Gabriel Dolagaray	$4,132.53	None	None	$75,000
Vicente J. León	$6,632.53	None	None	$121,000
Clotilde Pérez	$4,099.20	None	None	$123,060
José J. Villamil	$4,132.53	None	None	$75,000
(1) Amount for the fiscal year ended March 31, 2016.				
(2) Amount for the calendar year ended December 31, 2015 and does not include amounts, if any, related to reimbursement for expenses related to attendance at such board meetings or meetings of committees thereof.				

As of June 8, 2016, based on information provided by each of the Independent Directors, none of them exercise control over the Fund as defined by Section 2(a)(9) of the 1940 Act.

Code of Ethics

The Board of Directors has adopted a Code of Ethics. The Code of Ethics requires directors and officers of the Fund who are officers or employees of UBS Financial Services Puerto Rico or UBS Trust PR to comply with various requirements in connection with the securities transactions by such officers or employees, including obtaining pre-authorization for certain transactions. It also imposes on these directors and officers certain confidentiality obligations, limitations on outside business activities, and certain other obligations. The Code of Ethics also requires Independent Directors to fully report securities transactions in their accounts and related accounts.

Investment Advisory Services and Other Service Providers to the Fund

Subject to the supervision of the Board of Directors, investment advisory services are provided to the Fund by UBS Asset Managers, pursuant to an investment advisory agreement with the Fund (the "Advisory Agreement"). UBS Asset Managers also serves as investment adviser to the other Affiliated Funds. As of May 29, 2016, the Affiliated Funds have combined portfolio assets of approximately $3.7 billion. UBS Asset Managers is located at American International Plaza, Tenth Floor, 250 Muñoz Rivera Avenue, San Juan, Puerto Rico 00918. UBS Asset Managers is not registered as an investment adviser under the Advisers Act.

Pursuant to the Advisory Agreement, the Investment Adviser provides a complete and continuous investment program for the Fund and makes investment decisions and place orders to buy, sell or hold particular securities and other investments for the Fund. As compensation for its investment advisory services related to the Fund, the Investment Adviser is entitled to an annual investment advisory fee (which is indirectly paid by shareholders) not to exceed an aggregate rate of 0.75% of the average weekly gross assets of the Fund, payable monthly. The Investment Adviser may choose to wholly or partially waive such fee.

Unless earlier terminated as described below, the Advisory Agreement will continue in effect for a period of two years from its date of execution and will remain in effect from year to year thereafter, if approved annually by a vote of a majority of the Independent Directors. The Advisory Agreement is not assignable, except to affiliates of the Investment Adviser and subject to certain conditions. The Advisory Agreement may be terminated, without penalty, (i) at any time by an unanimous vote of the Independent Directors, (ii) on sixty (60) days' written notice by the Investment Adviser or (iii) on sixty (60) days' written notice to the Investment Adviser by the vote of a majority of the outstanding voting securities of the Fund.

Pursuant to the Advisory Agreement, the Investment Adviser will not be liable for any loss, expense, cost, or liability arising out of any error in judgment or any action or omission, including any instruction given to the Custodian unless, (i) such action or omission involved an officer, director, employee, or agent of the Investment Adviser, and (ii) such loss, expense, cost, or liability arises out of the Investment Adviser's gross negligence, malfeasance, or bad faith. The Investment Adviser may rely on any notice or communication (written or oral) reasonably believed by it to be genuine. These limitations shall not relieve the Investment Adviser from any responsibility, obligation, or duty that an Investment Adviser may have under the laws of Puerto Rico or any federal securities law which is not waivable.

UBS Trust PR serves as the Fund's administrator. UBS Trust PR is a trust company organized under Puerto Rico Trust Companies Act, as amended, and duly licensed as such by the OCFI. It has its principal office and place of business at American International Plaza, Tenth Floor, 250 Muñoz Rivera Avenue, San Juan, Puerto Rico 00918. As mentioned previously, UBS Asset Managers is a division of UBS Trust PR. Pursuant to an Administration Agreement with the Fund and subject to the overall supervision of its Board of Directors, the Administrator is responsible for providing facilities and personnel to the Fund in the performance of certain services, including the weekly determination of the Fund's net

asset value and net income. As compensation for its services, the Administrator is entitled to receive an annual administration fee (which is indirectly paid entirely by shareholders) equivalent to a rate of 0.15% of the average weekly gross assets of the Fund, payable monthly.

The Advisory Agreement and the Administration Agreement were reviewed and approved by the Board of Directors and by a majority of the Independent Directors. In connection with such approval, the Board of Directors and the Independent Directors reviewed the nature and the quality of the services provided by UBS Trust PR and its affiliates pursuant to these agreements, determined that the nature and quality of these services are at least equal to the nature and quality of the services provided by other entities offering the same or similar services, and that the fees charged by UBS Trust PR for such services are fair and reasonable in light of the usual and customary charges made by other entities for services of the same nature and quality, and concluded that these agreements are in the best interests of the Fund and its shareholders.

The Fund's securities and cash are held under custody agreements between the Fund and UBS Trust PR, pursuant to which UBS Trust PR serves as custodian for the Fund's assets (in such capacity, the "Custodian"). As compensation for its custody services, the Custodian is entitled to receive a fee as agreed from time to time with the Fund. Such fee is set at a rate customarily paid to other custodians for the provision of similar services. In addition, the Fund has also retained JPMorgan Chase Bank, N.A. to perform certain custody functions.

Pursuant to the terms of a certain Transfer Agency, Registrar, and Shareholder Servicing Agreement between the Fund and UBS Trust PR, the latter is responsible for maintaining a register of the holders of record of the Fund's shares of Common and Preferred Stock and opening and maintaining shareholder accounts (in such capacity, the "Transfer Agent"). As compensation for its transfer agency, registrar, dividend disbursing, and shareholder services, the Transfer Agent is entitled to receive a fee as agreed from time to time with the Fund. Such fee is set at a rate customarily paid to other transfer agents for the provision of similar services.

VALUATION OF THE FUND'S ASSETS

The Fund's assets are valued by the Administrator on at least a weekly basis, with the assistance of the Investment Adviser, in good faith and under the supervision of the Board of Directors, based upon valuations provided by independent pricing services approved by the Board of Directors, when available. In arriving at their valuation, such independent pricing sources may use both a grid matrix of securities values as well as the evaluations of their staff. The valuations in either case are based on information concerning actual market transactions and quotations from dealers or a grid matrix performed by an outside vendor that reviews certain market and security factors to arrive at a bid price for a specific security. Certain Puerto Rico obligations have a limited number of market participants and thus, might not have a readily ascertainable market value and may have periods of illiquidity. Securities for which quotations are not readily available from any source, they are valued at fair value by or under the direction of the Investment Adviser utilizing market quotations and other information concerning similar securities obtained from recognized dealers. The Investment Adviser can override any price that it believes is not consistent with market conditions. The Investment Adviser has also established a Valuation Committee ("the Committee") which is responsible for overseeing the pricing and valuation of all securities held by the Fund. The Committee operates under pricing and valuation policies and procedures established by the Investment Adviser and approved by the Board of Directors. The policies and procedures set forth the mechanisms and processes to be employed on a weekly basis related to the valuation of portfolio securities with the purpose of determining the net asset value of the Fund's assets. The Committee reports to the Board of Directors on a regular basis.

The market value of the Fund's investments will depend on a variety of factors, including general municipal and fixed income security market conditions, the financial condition of the issuer, the size of the particular offering, the maturity, credit quality and rating of the issue, and changes in, and expectations regarding changes in, interest rates and income tax rates.

The net asset value of the Fund's shares of Common Stock is also calculated by the Administrator on at least a weekly basis. The net asset value per share of Common Stock is computed by dividing the value of the securities held by the Fund plus any cash or other assets (including interest and dividends accrued but not yet received and earned discount) minus all liabilities (including accrued expenses) by the total number of shares of Common Stock outstanding at such time.

PORTFOLIO TRANSACTIONS

Subject to policies established by the Board of Directors, the Investment Adviser will be responsible for the execution of the Fund's portfolio transactions. In executing portfolio transactions, the Investment Adviser will seek to obtain the best net price and most favorable execution for the Fund, taking into account such factors as the price (including the applicable dealer spread or brokerage commission), size of order, difficulty of execution, and operational facilities of the firm involved. Certain securities in which the Fund invests in are traded on a "net" basis without a stated commission through dealers acting for their own account and not as brokers. Prices paid to dealers in principal transactions of such securities generally include a "spread," which is the difference between the prices at which the dealer is willing to purchase and sell a specific security at that time.

In placing orders with dealers, the Investment Adviser generally will attempt to obtain the best net price and most favorable execution of its orders. The Investment Adviser may purchase and sell portfolio securities from and to dealers who provide the Fund with research analysis, statistical, or pricing advice or similar services. Portfolio transactions will not be directed by the Fund to dealers solely on the basis of research and advice provided. In selecting brokers and dealers, the Investment Adviser will consider the full range and quality of a broker's or dealer's services. Factors considered by the Investment Adviser in selecting brokers and dealers may include the following: price; the broker's or dealer's facilities; the broker's or dealer's reliability and financial responsibility; when relevant, the ability of the broker or dealer to effect securities transactions, particularly with regard to such aspects as timing, order size, and execution of orders; and the research and other services provided by that broker or dealer to the Investment Adviser(and the Investment Adviser's arrangements relating thereto) that are expected to enhance the Investment Adviser's general portfolio management capabilities, notwithstanding that the Fund may not be the direct or exclusive beneficiary of those services.

While the Investment Adviser generally seeks the best net price in placing orders, the Fund may not necessarily be paying the lowest price available. Commission rates are one factor considered together with other factors. The Investment Adviser will not be obligated to seek in advance competitive bidding for the most favorable commission rate applicable to any particular transaction for the Fund or to select any broker-dealer on the basis of its purported "posted" commission rate. The Investment Adviser, in its discretion, may cause the Fund to pay a commission in excess of the amount another broker or dealer would have charged for effecting that transaction, provided the Investment Adviser has determined in good faith that such commission is reasonable in relation to the value of the brokerage and/or research provided by the broker to the Investment Adviser. Research services furnished by the brokers or dealers through which or with which the Fund effects securities transactions may be used by the Investment Adviser in advising its other accounts (including the Affiliated Parties as defined below); and conversely, research services furnished to the Investment Adviser in connection with their other accounts or such other investment companies may be used in advising the Fund.

The Investment Adviser seeks to allocate on a fair and equitable basis among advisory clients, including all the Affiliated Funds, the opportunity to purchase or sell a security or investment that may be both desirable and suitable for one or more of their clients, but for which there is a limited supply or demand, although there is no assurance of equality of treatment according to any particular or predetermined standards or criteria. Where, because of prevailing market conditions it is not possible to obtain the same price or time of execution for all of the securities or other investments purchased or sold for the Fund, transactions for the Fund may be reported with the average price of these transactions.

The Investment Adviser may, on an aggregated basis, purchase or sell the same security for more than one client to obtain a favorable price to the extent permitted by applicable law. These orders may be averaged as to price and allocated as to amount according to each client's daily purchase or sale orders or upon some other basis believed to be equitable in accordance with procedures adopted by the Board of Directors.

Transactions Involving Affiliates. The Fund is not registered under the 1940 Act, and therefore, is not subject to the restrictions contained therein regarding, among other things, transactions between the Fund and UBS Financial Services Puerto Rico and its affiliates (an "Affiliated Party," and each such transaction, an "Affiliated Transaction"). UBS Trust PR is also affiliated with UBS Financial Services Puerto Rico.

Secondary market transactions with Affiliated Parties include many securities for which one of their affiliates has acted as lead manager or senior manager in the initial offering. In addition, there may be many instances in which an Affiliated Party may be the only dealer in a particular portfolio security being purchased or sold by the Fund. In that event, independent sources for valuation or liquidity of the security may be limited or nonexistent. The Fund may invest a substantial portion of its assets in those securities. The Fund may also purchase securities that are offered in underwritings in which one or more of such entities is a member of the underwriting or selling group. All Affiliated Transactions are subject to procedures adopted by the Board of Directors, and specifically by its Independent Directors, in an effort to address potential conflicts of interest. These conflicts of interest may include, for example, issues as to price in the case of secondary market transactions or issues as to the desirability or liquidity of securities purchased by the Fund in an underwriting by UBS Financial Services Puerto Rico. In addition, the Fund may sell its portfolio securities to, or buy portfolio securities from, any of the Affiliated Funds (or any investment company advised in the future by the Investment Adviser) and vice versa, subject to procedures to be established by the board of directors of each of those investment companies. No assurance can be given that any of the procedures mentioned herein are or will be effective. The procedures may also be amended from time to time at the discretion of the Board of Directors, including the Independent Directors.

An Affiliated Party may act as agent in connection with the placement of the Fund's preferred stock, debt securities, and other forms of leverage. Such activities will be carried out in accordance with procedures as established by the Board of Directors in an effort to address potential conflicts of interest including, among other things, the potential conflicts of interest in setting interest or dividend rates. Affiliated Parties may also directly provide some or all of such leverage.

Other conflicts of interest may arise in the future, which will be addressed by the Board of Directors at such time.

TAXATION

THIS SECTION IS NOT TO BE CONSTRUED AS A SUBSTITUTE FOR CAREFUL TAX PLANNING. PROSPECTIVE INVESTORS IN THE NOTES ARE URGED TO CONSULT THEIR OWN TAX ADVISORS WITH SPECIFIC REFERENCE TO THEIR OWN TAX SITUATIONS, INCLUDING THE APPLICATION AND EFFECT OF OTHER TAX LAWS AND ANY POSSIBLE CHANGES IN THE TAX LAW AFTER THE DATE OF THIS OFFERING CIRCULAR. THIS TAX DISCUSSION WAS PREPARED TO SUPPORT THE PROMOTION AND MARKETING BY THE FUND OF THE NOTES. SPECIFIC TAX CONSEQUENCES MAY VARY DEPENDING ON A PARTICULAR TAXPAYER'S INDIVIDUAL CIRCUMSTANCES. POTENTIAL INVESTORS IN THE NOTES ARE URGED TO CONSULT, AND MUST DEPEND UPON, THEIR OWN INDEPENDENT TAX ADVISORS CONCERNING THE TAX CONSEQUENCES OF AN INVESTMENT IN THE NOTES IN CONNECTION WITH THEIR OWN TAX SITUATION AND POTENTIAL AND PROPOSED CHANGES IN APPLICABLE LAW. NOTWITHSTANDING ANYTHING TO THE CONTRARY CONTAINED IN THIS OFFERING CIRCULAR, ANY INVESTOR OR POTENTIAL INVESTOR MAY DISCLOSE TO ANY AND ALL PERSONS, WITHOUT LIMITATION OF ANY KIND, THE U.S. FEDERAL, STATE AND LOCAL TAX TREATMENT OF THE SECURITIES AND THE ISSUER, ANY FACT THAT MAY BE RELEVANT TO UNDERSTANDING THE U.S. FEDERAL, STATE, AND LOCAL TAX TREATMENT OF THE SECURITIES AND THE ISSUER, AND ALL MATERIALS OF ANY KIND (INCLUDING OPINIONS OR OTHER TAX ANALYSES) RELATING TO SUCH U.S. FEDERAL, STATE, AND LOCAL TAX TREATMENT THAT MAY BE RELEVANT TO UNDERSTANDING SUCH TAX TREATMENT.

The discussion in connection with the Puerto Rico income tax considerations is based on (a) the current regulations (the "P.R. Code Regulations") issued by the P.R. Treasury Department under the Puerto Rico Internal Revenue Code of 1994, as amended (the "1994 P.R. Code") and the Puerto Rico Internal Revenue Code of 2011, as amended (the "2011 P.R. Code"), which could be retroactively changed at any time and any such revocation could significantly modify

the statements and opinions expressed herein; (b) a ruling letter issued on November 29, 2007 (the "Ruling") by the P.R. Treasury Department stating, amongst others, that fixed and contingent interest paid or accrued on certain instruments issued by the Fund and described by the Ruling as "Contingent Payment Notes" constitute interest for purposes of the 1994 P.R. Code; (c) a ruling letter issued on March 20, 2012 by the P.R. Treasury Department stating that the Fund and the Noteholders may continue to rely on the Ruling to determine their income tax treatment of the Notes under the 2011 P.R. Code; and (d) the Fund's representation to the effect that to the Fund's best understanding (i) as of the date of the issuance of the Notes, the Ruling has not been modified or revoked by the P.R. Treasury Department; and (ii) the Fund has not amended the Ruling. Investors should also note that any ruling issued by the P.R. Treasury Department can be revoked if it is found to be in error or not to be in accord with the P.R. Treasury Department's current views. Any such revocation would generally apply on a prospective basis under the terms and conditions set forth in Circular Letters Nos. 99-01 and 05-07 issued by the P.R. Treasury Department, and the occurrence of such an event could significantly modify the statements and opinions expressed herein.

The U.S. federal income tax discussion is based on the current provisions of the U.S. Internal Revenue Code of 1986, as amended (the "U.S. Code"), and the regulations promulgated thereunder (the "U.S. Code Regulations"), any of which could be retroactively changed at any time and any such revocation could significantly modify the statements and opinions expressed herein.

This discussion assumes that (a) the Noteholders will be (i) "Puerto Rico Individual(s)," as herein defined, or (ii) corporations, limited liability companies, and partnerships organized under the laws of Puerto Rico, excluding corporations, limited liability companies, and partnerships having in effect an election and qualifying as "corporations of individuals," entities that are subject to the new "partnership" taxation rules of the 2011 P.R. Code, or "special partnerships" under the 1994 P.R. Code or the 2011 P.R. Code, as the case may be, or subject to any other special tax regime under the 1994 P.R. Code or the 2011 P.R. Code, as the case may be (the "Puerto Rico Entities"); (b) the Puerto Rico Individual will acquire the Note after having qualified as a bona fide resident of Puerto Rico, within the meaning of Section 937(a) of the U.S. Code; and (c) the Note does not constitute inventory property in the hands of the Noteholder. The term "Puerto Rico Individual" means an individual that (i) for purposes of the 1994 P.R. Code or the 2011 P.R. Code, is a resident of Puerto Rico as determined under Section 1411(a)(25) of the 1994 P.R. Code or Section 1010.01(a)(30) of the 2011 P.R. Code, as the case may be; (ii) is a bona fide resident of Puerto Rico (as determined under Section 937(a) of the U.S. Code) during the entire taxable year for purposes of Section 933 of the U.S. Code (including the taxable year in which the Notes are acquired by such individual); (iii) does not own, at any time, directly or indirectly 10% or more of the voting stock of the Fund issuing the Note, as such determination is made under Section 937(b) of the U.S. Code and the U.S. Code Regulations issued thereunder; and (iv) does not maintain an office or fixed place of business in the U.S., within the meaning of Section 865 (e)(2) of the U.S. Code. Section 937(a) of the U.S. Code establishes a definition of the term "bona fide resident of Puerto Rico" for purposes of Section 933 of the U.S. Code. In general terms and except as provided in the U.S. Code regulations, in order to be treated as a "bona fide resident of Puerto Rico," Section 937(a) of the U.S. Code requires that the taxpayer (i) be present in Puerto Rico for at least 183 days during the taxable year; (ii) not have a tax home outside Puerto Rico during any part of the taxable year; and (iii) not have a closer connection to the U.S. or a foreign country than to Puerto Rico during any part of the taxable year. Prospective investors in the Notes should consult their tax advisers with respect to whether they qualify as "bona fide residents of Puerto Rico" for Section 933 purposes.

This discussion does not purport to deal with all aspects of Puerto Rico and U.S. federal income taxation that may be relevant to other types of investors in the Notes, particular investors in light of their investment circumstances, or to certain types of investors subject to special treatment under the 1994 P.R. Code, the 2011 P.R. Code, or the U.S. Code (e.g., banks, insurance companies, tax-exempt organizations, "controlled foreign corporations" or "passive foreign investment companies").

The existing provisions of the statutes, regulations, judicial decisions, and administrative pronouncements on which this discussion is based are subject to change (even with retroactive effect).

The statements herein have been opined on by López Sánchez & Pirillo LLC as counsel to the Fund. A prospective investor should be aware that an opinion of counsel represents only such counsel's best legal judgment and that it is not binding on the P.R. Treasury Department, the IRS, or the courts. Accordingly, no assurance can be given that the opinions set forth herein, if challenged, would be sustained.

PUERTO RICO TAXATION

Puerto Rico Individuals and Puerto Rico Entities.

Fixed and Contingent Interest. Based on the foregoing and subject to the qualifications set forth herein (1) fixed and contingent interest on the Notes received or accrued by a Puerto Rico Individual or a Puerto Rico Entity will be exempt from Puerto Rico income taxes imposed by the 1994 P.R. Code or the 2011 P.R. Code, as the case may be, provided that (i) the Fund is exempt from Puerto Rico income tax pursuant to the provisions of Section 1361 of the 1994 P.R. Code or Section 1112.01 of the 2011 P.R. Code; (ii) the interest is attributable to income derived by the Fund during the taxable year that is totally exempt from Puerto Rico income taxes under any provision of the 1994 P.R. Code, other than by virtue of Section 1361(a)(2) thereof, or under any provision of the 2011 P.R. Code, other than by virtue of Section 1112.01 thereof (the "Exempt Income"), and such interest on the Notes is designated by the Fund as tax exempt interest; and (iii) the total amount of interest paid by the Fund during a taxable year on obligations that have been issued to qualify under Article 1361-2(b)(2) of the P.R. Code Regulations is not greater than the excess of the Exempt Income received or accrued by the Fund prior to any date that interest is paid on such obligations over the sum of (a) "Exempt Dividends" (as defined in Section 1361 of the 1994 P.R. Code or Section 1112.01 of the 2011 P.R. Code, as the case may be) distributed by the Fund during the taxable year and prior to such date; and (b) interest paid by the Fund during the taxable year and prior to such date qualified as exempt interest under Article 1361-2(b) of the P.R. Code Regulations; and (2) in accordance with the P.R. Code Regulations and the Ruling, interest on the Notes that is not designated by the Fund as tax exempt interest will be subject to a 10% withholding tax in lieu of any other tax imposed by the 1994 P.R. Code or the 2011 P.R. Code, as the case may be, unless the Noteholder elects not to be subject to the 10% withholding tax. To the extent that interest on the Notes does not qualify as tax exempt interest under the 1994 P.R. Code or the 2011 P.R. Code

and is not otherwise subject to the 10% withholding tax provided by the Ruling, it could be subject to tax at the ordinary income tax rates provided thereunder. The maximum ordinary income tax rate under the 1994 P.R. Code and the 2011 P.R. Code for individuals is 33%, and the maximum ordinary income tax rate for corporation is 39% under the 1994 P.R. Code as well as the 2011 P.R. Code. In addition, interest on the Notes that does not qualify as tax exempt interest ("Taxable Interest") must be taken into account in computing a Noteholder's Puerto Rico income tax as follows: (a) Taxable Interest received by a Puerto Rico Individual must be taken into account in computing such Noteholder's ABT (as defined below) or New ABT (as defined below), as the case may be, (b) Taxable Interest received by a Puerto Rico Entity (other than a "financial business," as defined by the 2011 P.R. Code for these purposes) must be taken into account by the Puerto Rico Entity in computing the "additional gross income tax" components that form part of its tentative minimum tax computation for taxable years beginning before January 1, 2014, and (c) Taxable Interest received by a Puerto Rico Entity that is a "financial business" must be taken into account by the Puerto Rico Entity in computing the "additional gross income tax" that is imposed as a tax to be paid by the "financial business," in addition to any regular or alternative minimum tax that it may be subject to. A "financial business" that is subject to the "additional gross income tax" may credit 50% of the "additional gross income tax" against the regular or alternative minimum tax imposed on the financial institution.

Act No. 77-2014 ("Act 77") amended the 2011 P.R. Code and changed the rules with respect to the "additional gross income tax" of Puerto Rico Entities for taxable years commencing after December 31, 2013. Under Act 77, the "additional gross income tax" of a Puerto Rico Entity that is not a "financial business" will not form part of the components that are taken into account in determining its tentative minimum tax computation but will be imposed as an additional tax, in addition to any regular or alternative minimum tax that it may be subject to. Furthermore, a Puerto Rico Entity that is not a "financial business" will be entitled to deduct the "additional gross income tax" in determining its taxable income, provided it is paid by the due date for filing the income tax return for the corresponding taxable year. Under Act 77, a Puerto Rico Entity that is a "financial business" will continue to be subject to substantially the same rules that apply for taxable years beginning before January 1, 2014. Subsequently, Act No. 238-2014 repealed the "additional gross income tax" for taxable years beginning after December 31, 2014.

The 1994 P.R. Code provides for an "alternate basic tax" ("ABT") that is imposed on the "alternate basic taxable income" ("ABTI") of a Puerto Rico Individual for taxable years commencing prior to January 1, 2011. The ABT must be paid by a Puerto Rico Individual to the extent such tax exceeds the regular income tax imposed by the 1994 P.R. Code. Act 7 of March 9, 2009 and Act 37 of July 10, 2009 amended the ABT rules of the 1994 P.R. Code to provide that for purposes of determining a Puerto Rico Individual's ABTI for taxable years commencing after December 31, 2008, the Puerto Rico Individual must take into account as gross income certain items of income that are exempt from the regular income tax. However, based on the current language of the ABT rules of the 1994 P.R. Code, interest on the Notes that qualifies as exempt interest under Article 1361-2(b) of the P.R. Code Regulations should not be treated as an item of gross income for purposes of determining a Puerto Rico Individual's ABTI, and therefore, such interest should be exempt from the ABT.

The 2011 P.R. Code also provides for an "alternate basic tax" ("New ABT") that is imposed on the "alternate basic taxable income" ("New ABTI") of a Puerto Rico Individual for taxable years commencing after December 31, 2010. The New ABT must be paid by a Puerto Rico Individual to the extent such tax exceeds the regular income tax imposed by the 2011 P.R. Code. The 2011 P.R. Code provides that in determining New ABTI, a Puerto Rico Individual is entitled to reduce gross income for items of income received from the Fund, to the extent such income is exempt under Section 1112.01 of the 2011 P.R. Code. Accordingly, to the extent interest received by a Puerto Rico Individual on the Notes in taxable years commencing after December 31, 2010 qualifies as exempt interest under Article 1361-2(b) of the P.R. Code Regulations, such interest will qualify as income that is exempt under Section 1112.01 of the 2011 P.R. Code and, therefore, will not be subject to the New ABT.

The 1994 P.R. Code and the 2011 P.R. Code contain various provisions disallowing a deduction for expenses incurred by a taxpayer that are directly or indirectly attributable or allocable to interest that is exempt from Puerto Rico income tax. These provisions would be applicable to interest on the Notes received by a Noteholder, provided such interest is exempt under Article 1361-2(b) of the P.R. Code Regulations. The 1994 P.R. Code and the 2011 P.R. Code do not provide any rules with respect to the treatment that applies to the excess of the "principal" amount due at maturity of a Note and its initial offering price to the public. This difference is generally referred to as "original issue discount." Under the current administrative practice followed by the P.R. Treasury Department, original issue discount is treated as interest.

Payment of Notes at maturity. In general, no gain or loss shall be recognized by a Noteholder upon the payment of a Note at maturity if the basis of such Note in the hands of the Noteholder is equal to the sum of the amount of cash and fair market value of any property paid by the Fund to the Noteholder as payment of the principal amount of the Note. If the basis of a Note in the hands of the Noteholder exceeds the sum of the amount of cash and the fair market value of any property paid by the Fund to the Noteholder as payment of the principal amount of the Note, then any such excess shall be treated by the Noteholder as a short term or long term capital loss, provided the Note is a capital asset in the hands of the Noteholder and depending on whether the Note has been held by the Noteholder for more than six months or more than one year period, as further explained herein.

Act 77 also amended the 2011 P.R. Code to (a) change the holding period for determining whether a capital gain or loss is either short or long-term for sales and exchanges effected after June 30, 2014, from the holding periods of six months or less (for short-term) and more than six months (for long-term) that continue to apply to sales and exchanges effected before July 1, 2014, to holding periods of one year or less (for short-term) and more than one year (for long-term); (b) limit the amount that a corporation may deduct on account of capital losses to 90% of capital gains; (c) limit the amount that an individual may deduct on account of capital losses to 90% of capital gains, plus the lesser of taxpayer's net income or $1,000; (d) establish a seven (7) year carry forward period for net capital losses incurred in taxable years beginning after December 31, 2013; and (e) increase the long-term capital gains rate for sales or exchanges effected after June 30, 2014, from 10% to 15%, in the case of individuals, estates, and trusts; and from 15% to 20%, in the case of corporations. Furthermore, Act 72-2015 amended the 2011 P.R. Code to provide that: (a) the amount that a corporation may deduct on account of capital losses in a taxable year beginning after December 31, 2014 is limited to 80% of capital gains, and (b) capital losses derived by an individual in a taxable year beginning after December 31, 2014, may be

deducted against capital gains generated in the taxable year and that if the capital losses exceed capital gains, the amount of the excess that may be claimed as a deduction is an amount equal to the individual's net income or $1,000, whichever is less.

UNITED STATES TAXATION

THE FOLLOWING U.S. TAX DISCUSSION IS GENERAL IN NATURE AND IS NOT INTENDED TO BE TAX ADVICE. THE TAX DISCUSSION IS NOT INTENDED OR WRITTEN TO BE USED AND CANNOT BE USED BY ANY TAXPAYER FOR THE PURPOSE OF AVOIDING PENALTIES THAT MAY BE IMPOSED ON THE TAXPAYER. THE TAX DISCUSSION WAS PREPARED TO SUPPORT THE PROMOTION AND MARKETING BY THE FUND OF THE NOTES. SPECIFIC TAX CONSEQUENCES MAY VARY DEPENDING ON A PARTICULAR TAXPAYER'S INDIVIDUAL CIRCUMSTANCES. EVERY POTENTIAL INVESTOR IN THE NOTES IS URGED TO CONSULT, AND MUST DEPEND UPON, THEIR OWN INDEPENDENT TAX ADVISORS CONCERNING THE TAX CONSEQUENCES OF AN INVESTMENT IN THE NOTES IN CONNECTION WITH THEIR OWN TAX SITUATION AND POTENTIAL AND PROPOSED CHANGES IN APPLICABLE LAW.

Treatment of the Fund

For purposes of the U.S. Code, the Fund is treated as a foreign corporation. The status of the Fund as a foreign corporation for purposes of the U.S. Code is relevant in determining the source of income of payments made by the Fund on the Notes that are treated as interest for purposes of the U.S. Code. The source of income of these payments is determined by examining a number of requirements, including a requirement that they are not treated as paid by a trade or business conducted by the Fund outside of Puerto Rico, as such determination is made under Section 884(f)(1)(A) of the U.S. Code and the U.S. Code Regulations issued thereunder. Based on certain representations made by the Fund, it should not be treated as engaged in the conduct of a trade or business outside Puerto Rico and, therefore, payments made by the Fund that are treated as interest for purposes of the U.S. Code should meet the above described requirement.

100% Principal Protection Notes

An investment in a 100% Principal Protection Note that provides for the payment of a fixed rate of interest or a floating rate of interest should be treated in its entirety as an investment in a debt instrument for purposes of the U.S. Code. Therefore, any fixed or floating rate interest paid or accrued on such Notes as well as any original issue discount ("OID") accrued thereon, if any, within the meaning of sections 1272 and 1273 of the U.S. Code, should be treated as interest for U.S. federal income tax purposes.

The U.S. Code does not clearly establish the characterization of an investment in a 100% Principal Protection Note that provides for contingent interest. These Notes could be treated as a debt instrument, another type of investment or any combination thereof. In view of the fact that the Fund will have an unqualified obligation to pay at maturity the principal amount of a 100% Principal Protection Note, an investment in these Notes should be treated in its entirety as an investment in a debt instrument for purposes of the U.S. Code. Therefore, all contingent interest payable on such Notes as well as any original issue OID accruing thereon, should be treated as interest for U.S. federal income tax purposes.

Puerto Rico Individuals. Based on the provisions of the U.S. Code and the U.S. Code Regulations, interest on the 100% Principal Protection Notes, including OID, if any, received by a Puerto Rico Individual will constitute gross income from sources within Puerto Rico, and therefore excludable from gross income for purposes of the U.S. Code under Section 933 thereof, if the interest and OID on the Notes are not in the hands of the Puerto Rico Individual effectively connected with the conduct of a trade or business within the U.S.

Puerto Rico Individuals should note that regulations under Section 937(b) of the U.S. Code provide an exception to the general source of income rules that apply to Puerto Rico Individuals by establishing an exception for income derived in "conduit arrangements." Under the rules of the regulations, income that is otherwise treated as income from sources within Puerto Rico under the general source of income rules is treated as income from sources outside Puerto Rico and not excludable from gross income under Section 933 of the U.S. Code if it consists of income derived in a "conduit arrangement." In general, the regulations describe a "conduit arrangement" as one in which pursuant to a plan or arrangement income is received by a person in exchange for consideration provided to another person and such other person provides the same consideration (or consideration of a like kind) to a third person in exchange for one or more payments constituting income from sources within the U.S. Based on the current language of the regulations and the guidance offered therein, it is more likely than not that an investment in the Notes is not the type of transaction intended to be covered by these rules, and therefore, it is more likely than not that interest and OID on the Notes is to be treated as income from sources within Puerto Rico under the rules and conditions of the preceding paragraph. Puerto Rico Individuals should note that the IRS may reach a different conclusion as to the applicability of the "conduit arrangement" rules to the Notes. Accordingly, Puerto Rico Individuals may want to seek the advice of their own tax advisors.

Puerto Rico Entities. Interest and OID on the 100% Principal Protection Notes derived by a Puerto Rico Entity that is not treated as a partnership for purposes of the U.S. Code will not be subject to taxation under the U.S. Code, provided that (i) such Puerto Rico Entity is not a controlled foreign corporation or a passive foreign investment company under the U.S. Code; (ii) such Puerto Rico Entity is not treated as a domestic corporation for purposes of the U.S. Code; and (iii) interest and OID on the 100% Principal Protection Notes is not effectively connected with the conduct of a trade or business in the U.S. by such Puerto Rico Entity. Puerto Rico Entities that are treated as partnerships for purposes of the U.S. Code are subject to special rules which, in general, require a partner to report its distributive share of the income generated by the Puerto Rico Entity and to determine the tax consequences under the U.S. Code of such amounts based on such treatment.

Contingent / Partial Principal Protection Notes

The U.S. federal income tax consequences of an investment in a Contingent / Partial Principal Protection Note are uncertain, and there is no direct legal authority as to the proper tax treatment of these Notes. Based on the terms and conditions under which a Contingent / Partial Principal Protection Note will be issued, an investment in a such a Note could be treated for U.S. federal income tax purposes as an investment unit consisting of (1) an option written by the Noteholder to the Fund (the "option") to enter into a forward contract to acquire at maturity the applicable underlying stock or property or to receive a cash settlement which on exercise settles the forward contract in cash in lieu of the underlying stock or property (the "forward contract"), and (2) a debt instrument with a principal amount equal to the principal amount of the Contingent / Partial Principal Protection Note (the "debt instrument"). Under this view, the option would be deemed to have been exercised by the Fund if the closing or final price of the applicable underlying stock or property falls below the trigger price on the applicable measuring date and the interest payments on the Contingent / Partial Principal Protection Notes would be treated in part as payments of interest on the debt instrument and in part as payments on the option (the "option premium").

Puerto Rico Individuals. Assuming the tax treatment described above is respected, the U.S. federal tax consequences to a Puerto Rico Individual who holds a Note should be (a) the portion of the interest paid or accrued on Contingent / Partial Principal Protection Note that is not treated as a payment of an option premium should be treated as interest on the debt instrument and should be subject to the same U.S. federal income tax treatment as that described above under the section entitled "100% Principal Protection Notes" under "UNITED STATES TAXATION" for an investment in a 100% Principal Protection Note; (b) the portion of the interest payment treated as option premium should not be treated as an item of gross income until the sale, exchange or retirement (including at maturity) of the Contingent / Partial Principal Protection Note; (c) any gain that may be realized by a Puerto Rico Individual upon a sale or exchange of Notes prior to maturity and that is attributable to the debt instruments, the option or the forward contract, should be treated as a gain from the sale or exchange of personal property and, therefore, such gain should be treated as income from sources within Puerto Rico and excludable from gross income pursuant to Section 933 of the U.S. Code; (d) at maturity, if a Noteholder receives from the Fund cash in settlement of the forward contract, then (1) the aggregate amount of option premium should be treated as a gain from the sale or exchange of a capital asset held for not more than 1 year and such gain should be treated as income from sources within Puerto Rico and excludable from gross income pursuant to Section 933 of the U.S. Code; and (2) any gain that may be realized by the Puerto Rico Individual on account of the retirement of a Note at maturity should be treated as income from sources within Puerto Rico and excludable from gross income pursuant to Section 933 of the U.S. Code; and (e) at maturity, if a Noteholder receives the applicable underlying stock or property under the forward contract, the Noteholder should not recognize gain or loss with respect to the receipt of the stock or underlying property and the Noteholder's basis in the stock or underlying property should be an amount equal to such Noteholder's basis in the Contingent / Partial Principal Protection Note, reduced by the aggregate amount of option premium received.

Puerto Rico Entities. Assuming the tax treatment described above is respected, the U.S. federal tax consequences to a Puerto Rico Entity which holds a Note and that is not treated as a partnership for purposes of the U.S. Code should be (a) the portion of the interest paid or accrued on Contingent / Partial Principal Protection Note that is not treated as a payment of an option premium should be treated as interest on the debt instrument and should be subject to the same U.S. federal income tax treatment as that described above under the section entitled "100% Principal Protection Notes" under "UNITED STATES TAXATION" for an investment in a 100% Principal Protection Note; (b) the portion of the interest payment treated as option premium should not be treated as an item of gross income until the sale, exchange or retirement (including at maturity) of the Contingent / Partial principal Protection Note; (c) any gain that may be realized by a Puerto Rico Entity upon a sale or exchange of Notes prior to maturity and that is attributable to the debt instruments, the option or the forward contract, should be treated as a gain from the sale or exchange of personal property and such gain should not be subject to U.S. federal income tax provided the gain does not constitute income effectively connected with the conduct of a trade or business in the U.S., as such determination is made under Section 864 of the U.S. Code; (d) at maturity, if a Noteholder receives from the Fund cash in settlement of the forward contract, then (1) the aggregate amount of option premium should be treated as a gain from the sale or exchange of a capital asset held for not more than 1 year and such gain should not be subject to U.S. federal income tax provided the gain does not constitute income effectively connected with the conduct of a trade or business in the U.S., as such determination is made under Section 864 of the U.S. Code; and (2) any gain that may be realized by the Puerto Rico Entity on account of the retirement of a Note at maturity should not be subject to U.S. federal income tax provided the gain does not constitute income effectively connected with the conduct of a trade or business in the U.S., as such determination is made under Section 864 of the U.S. Code; and (e) at maturity, if a Noteholder receives the applicable underlying stock or property under the forward contract, the Noteholder should not recognize gain or loss with respect to the receipt of the stock or underlying property and the Noteholder's basis in the stock or underlying property should be an amount equal to such Noteholder's basis in the Contingent / Partial Principal Protection Note, reduced by the aggregate amount of option premium received. Puerto Rico Entities that are treated as partnerships for purposes of the U.S. Code are subject to special rules which, in general, require a partner to report its distributive share of the income generated by the Puerto Rico Entity and to determine the tax consequences under the U.S. Code of such amounts based on such treatment.

It should be noted that the Fund does not plan to request a ruling from the IRS with respect to the U.S. federal income tax treatment to be accorded to an investment in a Contingent / Partial Principal Protection Note, and no assurance can be given that the IRS or the courts will agree with the tax treatment described herein. The Internal Revenue Service may assert an alternative treatment for the Notes, and therefore, the timing and/or character of income on the Contingent / Partial Principal Protection Notes might differ materially from that described herein. In addition, on December 7, 2007, the U.S. Treasury and the IRS released a notice requesting comments on a number of possible U.S. federal income tax treatments for "prepaid forward contracts" and similar instruments. While it is not entirely clear whether the Notes are among the instruments described in the notice, it is possible that any U.S. Code Regulations or other guidance could materially affect the tax consequences of ownership and disposition of the Notes.

RATINGS ON THE 100% PRINCIPAL PROTECTION NOTES

Upon issuance, the 100% Principal Protection Short-Term and 100% Principal Protection Medium-Term Notes will be rated "F1" and "A" respectively, by Fitch. No assurance can be given that the credit ratings assigned to the 100% Principal Protection Notes will remain in effect for any given period or that it will not be revised downward or withdrawn entirely by Fitch if, in its sole judgment, circumstances so warrant. Any such revision or withdrawal may have an adverse effect on the market price of the 100% Principal Protection Notes. The credit ratings issued to the 100% Principal Protection Notes reflect only the views of Fitch. Any explanation of the significance of such credit ratings may be obtained from Fitch at www.fitchratings.com or by contacting Fitch at 33 Whitehall Street, New York, New York 10004; telephone number (212)908-0500. **FITCH HAS NOT ASSIGNED A CREDIT RATING TO THE FUND OR THE CONTINGENT / PARTIAL PRINCIPAL PROTECTION NOTES.**

Appendix D herein provides a more detailed description of such credit ratings. The credit ratings do not constitute a recommendation to buy, sell or hold the 100% Principal Protection Notes. Fitch was provided with materials relating to the Fund, the 100% Principal Protection Notes, and other information, and no application has been made to any other credit rating agency for purposes of obtaining a credit rating on the 100% Principal Protection Notes. However, another Credit Rating Agency could decide to rate the 100% Principal Protection Notes. In such event, no assurance can be given as to what credit rating any such Credit Rating Agency would issue to the 100% Principal Protection Notes. See also "RISK FACTORS AND SPECIAL CONSIDERATIONS - General" above.

THE AGENT

UBS Trust PR will act as issuing, paying and transfer agent and registrar on behalf of the Fund, and as collateral agent on behalf of the Noteholders, pursuant to the Depositary Agreement.

The Fund will pay the Agent a fee to be negotiated from time to time in connection with its services under the Depositary Agreement. In addition, the Fund has agreed to indemnify the Agent against any liabilities and expenses arising out of the performance of the Agent's obligations under the Depositary Agreement, except those involving the negligence or misconduct of the Agent. The Agent will not act as a trustee on behalf of the Noteholders, and may resign at any time by giving written notice thereof to the Fund.

DISTRIBUTION OF THE NOTES

UBS Financial Services Puerto Rico, an affiliate of UBS Trust PR, will offer the Notes on behalf of the Fund and use its best efforts to sell such Notes on behalf of the Fund. UBS Financial Services Puerto Rico may also purchase the Notes as principal. The Fund may appoint other Dealers from time to time. Each Dealer may be paid a fee to be negotiated from time to time, equal to a percentage of the principal amount of the Notes sold by such Dealer, and may be reimbursed for certain out-of-pocket expenses incurred. The Fund will also indemnify the Dealers against certain liabilities, including liabilities under the Securities Act. The Fund may also sell Notes directly to investors from time to time.

UBS Financial Services Puerto Rico may also agree to purchase, and the Fund may agree to sell, certain Notes in an aggregate amount to be specified in the applicable Product Supplement. The Fund may pay an underwriting discount to UBS Financial Services Puerto Rico upon delivery of the Notes and payment therefor (the "Settlement Date"). UBS Financial Services Puerto Rico will initially offer the Notes directly to the public at the public offering price set forth in such applicable Product Supplement. UBS Financial Services Puerto Rico may resell the Notes to securities dealers at a discount from the original issue price up to the fees and commissions set forth in such Product Supplement.

In certain instances, UBS Financial Services Puerto Rico may deliver the Notes against payment therefor at a date subsequent to a purchaser placing an order therefor (the "Trade Date"). Under Rule 15c61 under the U.S. Exchange Act of 1934, as amended, trades in the secondary market generally are required to settle in three (3) business days, unless the parties to a trade expressly agree otherwise. Accordingly, in such specific instances, purchasers who wish to trade their notes on the Trade Date or thereafter but prior to the Settlement Date, will be required by virtue of the fact that UBS Financial Services Puerto Rico expects the Notes initially to settle after the Trade Date, to specify alternative settlement arrangements to prevent a failed settlement.

The underwriting arrangements for each such offering will comply with the requirements of Rule 2720 of the Conduct Rules of the Financial Industry Regulatory Authority ("FINRA") regarding a FINRA member firm's underwriting of securities of an affiliate. In accordance with Rule 2720, no underwriter may make sales in each offering to any discretionary account without the prior approval of the customer. The underwriting arrangements for each such offering will also comply with the filing requirements of FINRA Rule 5110 or pursuant to an exemption therefrom. In such regard, the Contingent / Partial Principal Protection Notes will only be offered pursuant to a Product Supplement to this Offering Circular.

UBS Financial Services Puerto Rico may also make a market for the Notes, although it is not required to do so and may stop making a market at any time. UBS Financial Services Puerto Rico may act as principal or agent in connection with offers and sales of the Notes in the secondary market. Secondary market offers and sales will be made at prices related to market prices at the time of such offer or sale. Accordingly, UBS Financial Services Puerto Rico or a dealer may change the public offering price, fees, and commissions after such offering has been completed.

As an additional means of facilitating such offerings, UBS Financials Services Puerto Rico may bid for, and purchase, Notes in the open market to stabilize the price of the Notes. Any of these activities may raise or maintain the market price of the Notes above independent market levels or prevent or retard a decline in the market price of the Notes, UBS Financial Services Puerto Rico is not required to engage in these activities, and may end any of theses activities at any time.

To the extent the total aggregate principal amount of Notes offered pursuant to the applicable Product Supplement is not purchased by investors, one or more of the Fund's affiliates may agree to purchase for investment the unsold portion. As a result, upon completion of an offering, the Fund's affiliates may own Notes offered in such offerings.

No action has been or will be taken by the Fund, UBS Financial Services Puerto Rico, or any dealer that would permit a public offering of the Notes or possession or distribution of the applicable Product Supplement where action for that purpose is required, other than within the Commonwealth of Puerto Rico. No offers, sales, or deliveries of the Notes, or distribution of the applicable Product Supplement or any other offering material relating to the Notes, may be made in or from any jurisdiction except under circumstances which will result in compliance with any applicable laws and regulations and will not impose any obligations on the Fund, UBS Financial Services Puerto Rico, or any dealer.

Recent Developments. On April 26, 2012, UBS Financial Services Puerto Rico settled an administrative proceeding with the U.S. Securities and Exchange Commission (the "SEC") related to disclosures and secondary market trading involving shares of closed-end funds, including the Fund, managed by the Investment Adviser (the "Funds"), and sold by UBS Financial Services Puerto Rico during 2008 and 2009. The order implementing the settlement was issued by the SEC on May 1, 2012. Under the terms of the settlement, and without admitting or denying the findings, UBS Financial Services Puerto Rico has paid a penalty, disgorgement and prejudgment interest totaling $26.6 million. UBS Financial Services Puerto Rico also consented to a censure and an order to cease and desist from future violations of various provisions of the federal securities laws and has hired an independent consultant to review UBS Financial Services Puerto Rico's closed-end fund disclosures and trading policies and procedures. The consultant completed the review on June 2013, and UBS Financial Services Puerto Rico advised that the firm has implemented all of the recommendations effective September 2013. Neither the Funds nor the Investment Adviser is a party to the settlement, and there is no allegation of any wrongdoing by the Funds or the Investment Adviser. In a related matter, on May 1, 2012, the SEC filed an administrative proceeding against two (2) senior employees of UBS Financial Services Puerto Rico, who contested the SEC's claims. One (1) of the employees, Miguel A. Ferrer, was also a director of the Funds. The administrative proceeding was completed on December 2012, and an initial decision was entered on October 29, 2013, in which the Administrative Law Judge held that no remedial action was appropriate pursuant to Section 8A of the Securities Act of 1933, Sections 15(b) and 21c of the Securities Exchange Act of 1934, and Section 9(b) of the Investment Company Act of 1940, and ordered that the proceeding be dismissed. The decision dismissing the complaint became final on December 17, 2013. The SEC proceeding relative to Mr. Ferrer did not relate to his role with the Funds, nor does it relate to the management of the Funds themselves.

Following UBS Financial Services Puerto Rico's settlement of the administrative proceeding described above, two (2) class actions were filed in the U.S. District Court for the District of Puerto Rico and subsequently consolidated into a single action. Plaintiffs plead claims, related to disclosures and secondary market trading involving shares of the Fund, on behalf of a putative class of purchasers of securities issued by the Fund during the period from May 2008 to October 2009. Plaintiffs seek damages in an undetermined amount not less than $10 million against all defendants. The Fund is named as a defendant but has not been served with the summons and complaint. Other defendants that have been served moved to dismiss the consolidated class action complaint. On September 30, 2014, the court denied the motion to dismiss. On May 4, 2015, the court denied plaintiffs' motion for class certification without prejudice to renewal by June 30, 2015 after certain discovery has been completed. On June 30, 2015, plaintiffs renewed their motion for certification of a class of investors who purchased or acquired fifteen (15) closed-end funds (but not the Fund) from UBS Puerto Rico between January 2008 and September 2013. On March 1, 2016, the Magistrate Judge to whom the District Court Judge referred the motion recommended that the District Court deny the motion. No estimate of an amount of potential loss can reasonably be made at this time. Management believes that the allegations lack merit and, if and when it is served, the Fund intends to defend itself vigorously. Although management of the Fund cannot determine the outcome of this matter, it reasonably believes that there are no loss contingencies that should be accrued in the Fund's financial statements.

On February 5, 2014, a shareholder derivative action was filed in Puerto Rico local court against the Fund, UBS Financial Services Inc., UBS Financial Services Puerto Rico, UBS Trust PR, and all current and certain former Fund directors, alleging that the Fund suffered hundreds of millions of dollars in losses due to alleged mismanagement, concealment of conflicts of interest, and improper recommendations by certain defendants to retail customers to use credit lines to purchase Fund shares. On May 5, 2015, the court denied defendants' motion to dismiss. On June 2015, defendants filed petitions for certiorari with the Puerto Rico Court of Appeals, requesting interlocutory review of the lower court's denial of the motion to dismiss. On July 2015, the Puerto Rico Court of Appeals denied defendants' petitions for certiorari, and on September 21, 2015, denied defendants' motion for reconsideration of that denial. On January 22, 2016, the Puerto Rico Supreme Court denied defendants' petition for certiorari. Defendants filed two motions for reconsideration of the petition, both of which the Supreme Court denied, most recently on May 24, 2016. Also, on August 24, 2015, defendants answered the complaint. While the outcome of these allegations is currently not determinable, management does not expect that the ultimate outcome of these matters will have a material adverse effect on the Fund's financial position, results of operations, or cash flows. Moreover, management of UBS Financial Services Puerto Rico and UBS Trust PR has informed the Fund of its belief that the resolution of such matter is not likely to have a material adverse effect on the ability of the Investment Adviser and UBS Trust PR to perform under their respective contracts with the Fund.

INDEPENDENT AUDITORS

The Fund's independent auditors are PricewaterhouseCoopers LLP, located at 254 Muñoz Rivera Avenue, Suite 900, San Juan, Puerto Rico 00918.

PRIVACY POLICY

Attached as Appendix F is a copy of the Privacy Policy as to the information the Fund compiles and maintains on its respective investors.

GENERAL INFORMATION

Claims against the Fund. A claim by an investor against the Fund, its directors, or officers will be subject to the jurisdiction of the Puerto Rico courts, and therefore, arbitration proceedings will not be the sole forum to resolve any claims.

Reports to Noteholders. The fiscal year for the Fund ends on March 31st of each year. An annual report, containing financial statements audited by the Fund's independent auditors, will be sent to the Noteholders each year.

Additional Information. Additional information regarding the Fund is on file with the OCFI and is also available from the Fund at its principal offices. The Fund's address is American International Plaza Building, Tenth Floor, 250 Muñoz Rivera Avenue, San Juan, Puerto Rico 00918, and telephone number is (787) 773-3888.

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APPENDIX A

TYPES OF MUNICIPAL OBLIGATIONS

The Fund may invest in the following types of Municipal Obligations, subject to their availability in Puerto Rico, and other types of Municipal Obligations as they become available in the Puerto Rico market from time to time. Not all of the described Municipal Obligations are presently available in Puerto Rico.

Municipal Bonds, Industrial Development Bonds, and Private Activity Bonds

Municipal bonds are debt obligations issued to obtain funds for various public purposes. The two principal classifications of municipal bonds are "general obligation" and "revenue" bonds. General obligation bonds are secured by the issuer's pledge of its full faith, credit, and taxing power for the payment of principal and interest. Revenue bonds are payable only from the revenues derived from a particular facility or class of facilities or, in some cases, from the proceeds of a special excise tax or from another specific source, such as the user of the facility being financed. Certain municipal bonds are "moral obligation" issues, which normally are issued by special purpose public authorities. In the case of such issues, an express or implied "moral obligation" of a related government unit is pledged to the payment of the debt service but is usually subject to annual budget appropriations. The Fund may invest in industrial development bonds ("IDBs") and private activity bonds ("PABs"), which are municipal bonds issued by or on behalf of public authorities to finance various privately operated facilities, such as airports or pollution control facilities. IDBs and PABs are generally revenue bonds and thus are not payable from the unrestricted revenue of the issuer. The credit quality of IDBs and PABs is usually directly related to the credit standing of the user of the facilities being financed.

As generally described in this Offering Circular, the Fund may not presently concentrate its investments, *i.e.*, invest a relatively high percentage of its assets in Municipal Obligations (*e.g.*, revenue bonds) issued by entities which may pay their debt service obligations from the revenues derived from similar projects such as hospitals, multifamily housing, nursing homes, continuing care facilities, commercial facilities (including hotels), electric utility systems, or industrial companies. That limitation may in the future be changed by the Fund's Board of Directors. Any future determination to allow concentration of the Fund's investments may make the Fund more susceptible to similar economic, political, or regulatory occurrences. As the similarity in issuers increases, the potential for fluctuation of the net asset value of shares of the Fund also increases. Also, it is anticipated that a significant percentage of the Municipal Obligations (*e.g.*, revenue bonds) in the Fund's portfolio may be issued by entities or secured by facilities with a relatively short operating history. Therefore, investors should also be aware of the risks which these investments might entail, as discussed below.

Health Care Revenue Bonds. These securities include Municipal Obligations (*e.g.*, revenue bonds) issued to finance hospitals, nursing homes, and continuing care facilities and which are generally secured by the revenues of particular facilities. The ability of the issuers of such securities to meet their obligations is dependent upon, among other things, the revenues, costs, and occupancy levels of the subject facilities and the competitive nature of these industries. In addition, a major portion of hospital and nursing home revenues typically is derived from federal or state programs such as Medicare and Medicaid and from various insurers. Changes in such programs or in the rates paid by insurers may reduce revenues available for the payment of principal of or interest on such bonds. New governmental legislation or regulations and other factors, such as the inability to obtain sufficient malpractice insurance, may also adversely affect the revenues or costs of these issuers. Moreover, in the case of life care facilities, since a portion of the services provided may be financed by an initial lump-sum deposit paid by occupants of the facility, there may be risk if the facility does not maintain adequate financial resources to secure estimated actuarial liabilities.

A number of legislative proposals concerning health care have been introduced in the U.S. Congress in recent years or have been reported to be under consideration. These proposals include or may lead to a wide range of topics, including cost controls, national health insurance, incentives for competition in the provision of health care services, tax incentives and penalties related to health care insurance premiums, and promotion of prepaid health care plans. The Fund is unable to predict the effect of any of these proposals, if enacted.

Single Family Housing Bonds and Multifamily Housing Bonds. Single family housing bonds and multifamily housing bonds are obligations of state and local housing authorities that have been issued in connection with a variety of single and multifamily housing projects. Economic developments, including fluctuations in interest rates, increasing construction and operating costs, increasing real estate taxes and declining occupancy rates, and real estate investment risks may have an adverse effect upon the revenues of such projects and such housing authorities. Multifamily housing bonds may be subject to mandatory redemption prior to maturity, including redemption upon a non-completion of the project or upon receipt of Federal Housing Administration or certain other insurance proceeds. Housing bonds may also be subject to changes in creditworthiness due to potential weaknesses of mortgage insurance companies providing various policies; fluctuations in the valuation of invested funds and the strengths of banks and other entities which may provide investment agreements; and smaller than expected mortgage portfolios due to the inability to originate mortgages.

Public Power Revenue Bonds. Risks that may arise with respect to the electric utility industry include difficulty in financing large construction programs during an inflationary period; restrictions on operations and increased costs attributable to environmental considerations; the difficulty of the capital markets in absorbing utility securities; the availability of fuel for electric generation at reasonable prices, including among other considerations the potential rise in fuel costs and the costs associated with conversion to alternate fuel sources; technical cost factors and other problems associated with construction, licensing, regulation, and operation of nuclear facilities for electric generation, including among other considerations the problems associated with the use of radioactive materials and the disposal of radioactive waste; and the effects of energy conservation. Certain of the issuers of these bonds may own or operate nuclear generating facilities. Federal, state, and municipal governmental authorities may from time to time review and revise existing requirements and impose additional requirements on such facilities. Problems of the type referred to above could adversely affect the ability of the issuer of public power revenue bonds to make payments of principal and/or interest on such bonds. Certain municipal utilities or agencies may have entered into contractual arrangements with investor-owned utilities and large industrial users and consequently may be dependent in varying degrees on the performance of such contracts for payment of bond debt service. Also, the enforceability against municipalities of "take-and-pay" and "take-or-pay" contracts which secure bonds issued by other municipal issuers has been successfully challenged in recent years.

Transportation Revenue Bonds. Bonds in this category include bonds issued for airport facilities, bridges, turnpikes, port facilities, railroad systems, or mass transit systems. Generally, airport facility revenue bonds are payable from and secured by the revenues derived from the ownership and operation of a particular airport. Payment on other transportation bonds is often dependent primarily or solely on revenues from financed facilities, including user fees, charges, tolls, and rents. Such revenues may be adversely affected by increased construction and maintenance costs or taxes, decreased use, competition from alternative facilities, scarcity of fuel, reduction or loss of rents, or the impact of environmental considerations. Other transportation bonds may be dependent primarily or solely on federal, state or local assistance including motor fuel and motor vehicle taxes, fees, and licenses, and therefore may be subject to fluctuations in such assistance.

Water and Sewage Revenue Bonds. Bonds in this category include securities issued to finance public water supply treatment and distribution facilities, and sewage collection, treatment, and disposal facilities. Repayment of these bonds is dependent primarily on revenues derived from the billing of customers for water and sewer services, as well as, in some instances, connection fees and hook-up charges. Such revenue bonds may be adversely affected by the lack of availability of federal and state grants and by decisions of federal and state regulatory bodies and courts.

Solid Waste and Resource Recovery Revenue Bonds. Bonds in this category include securities issued to finance facilities for removal and disposal of solid waste. Repayment of these bonds is dependent on factors which may include revenues from appropriations from a governmental entity, the financial condition of the private project corporation and revenues derived from the collection of charges for disposal of solid waste. In addition, construction and operation of such facilities may be subject to cost overruns. Repayment of resource recovery bonds may also be dependent to various degrees on revenues from the sale of electric energy or steam. Bonds in this category may be subject to mandatory redemption in the event of project non-completion, if the project is rendered uneconomical, if the project fails to meet certain performance criteria, or if it is considered an environmental hazard.

Pollution Control Facility Revenue Bonds. Bonds in the pollution control facilities category include securities issued on behalf of private corporations (including utilities), to provide facilities for the treatment of air, water, and solid waste pollution. Repayment of these bonds is dependent upon income from and/or the financial condition of the project corporation. In addition, governmental entities may from time to time impose additional restrictions or regulations which could adversely affect the cost or operation of the facility.

Educational Facility Revenue Bonds. Educational facility revenue bonds include debt of state and private colleges, universities, and systems, and parental and student loan obligations. The ability of universities and colleges to meet their obligations is dependent on various factors, including the revenues, costs and enrollment levels of the institutions. In addition, their ability may be affected by declines in Federal, state, and alumni financial support, fluctuations in interest rates and construction costs, increased maintenance and energy costs, failure or inability to raise tuition or room charges, and adverse results of endowment fund investments.

Tax Increment Bonds. Tax increment bonds are issued to finance various public improvements and redevelopment projects in blighted areas. Interest on such bonds is payable from increases in real property taxes attributable to increases in assessed value resulting from the redevelopment of the blighted project area. Repayment risks include, among other things, a reduction in taxable value in the project areas, reduction in tax rates, delinquencies in tax payments, or a general shortfall in forecasted tax revenues.

Commercial Facility Revenue Bonds. The Fund may also invest in bonds for other commercial facilities (including hotels) and industrial enterprises. The viability of such facilities depends on, among other things, general economic factors affecting those industries and affecting those geographic areas in which such facilities are situated, as well as the ability of the individual management of those facilities to maximize earnings and to remain competitive within its service area.

Municipal Lease Obligations

Municipal lease obligations are Municipal Obligations that may take the form of leases, installment purchase contracts, or conditional sales contracts, or certificates of participation with respect to such contracts or leases. Municipal lease obligations are issued by state and local governments and authorities to purchase land or various types of equipment and facilities. Although municipal lease obligations do not constitute general obligations of the municipality for which the municipality's taxing power is pledged, they ordinarily are backed by the municipality's covenant to budget for, appropriate, and make the payments due under the lease obligation. The leases underlying certain Municipal Obligations, however, provide that lease payments are subject to partial or full abatement if, because of material damage or destruction of the leased property, there is substantial interference with the lessee's use or occupancy of such property. This "abatement risk" may be reduced by the existence of insurance covering the leased property, the maintenance by the lessee of reserve funds or the provision of credit enhancements such as letters of credit.

The liquidity of municipal lease obligations varies. Certain municipal lease obligations contain "non-appropriation" clauses which provide that the municipality has no obligation to make lease or installment purchase payments in future years unless money is appropriated for such purpose on a yearly basis. Some municipal lease obligations of this type are insured as to timely payment of principal and interest, even in the event of a failure by the municipality to appropriate sufficient funds to make payments under the lease. However, in the case of an uninsured municipal lease obligation, the Fund's ability to recover under the lease in the event of non-appropriation or default their affiliates limited solely to the repossession of the leased property, without recourse to the general credit of the lessee, and disposition of the property in the event of foreclosure might prove difficult. The Fund presently does not, and does not intend to, invest a significant portion of its assets in such uninsured "non-appropriation" municipal lease obligations. There is no limitation on the Fund's ability to invest in other municipal lease obligations.

Zero Coupon Obligations

The Fund may invest in zero coupon Municipal Obligations. Such obligations include "pure zero" obligations, which pay no interest for their entire life (either because they bear no stated rate of interest or because their stated rate of interest is not payable until maturity), and "zero/fixed" obligations, which pay no interest for an initial period and thereafter pay interest currently. Zero coupon obligations also include derivative instruments representing the principal-only components of Municipal Obligations from which the interest components have been stripped and sold separately by the holders of the underlying Municipal Obligations. Zero coupon securities usually trade at a deep discount from their face or par value and is subject to greater fluctuations in market value in response to changing interest rates than obligations of comparable maturities that make current distributions of interest.

Floating and Variable Rate Obligations

The Fund may also purchase floating and variable rate municipal notes and bonds, which frequently permit the holder to demand payment of principal at any time, or at specified intervals, and permit the issuer to prepay principal, plus accrued interest, at its discretion after a specified notice period. The issuer's obligations under the demand feature of such notes and bonds generally are secured by bank letters of credit or other credit support arrangements. There frequently is no secondary market for variable and floating rate obligations held by the Fund, although the Fund may be able to obtain payment of principal at face value by exercising the demand feature of the obligation.

Participation Interests

The Fund may invest in participation interests in municipal bonds, including IDBs, PABs, and floating and variable rate securities. A participation interest gives the Fund an undivided interest in a municipal bond owned by a bank. The Fund has the right to sell the instrument back to the bank. Such right is generally backed by the bank's irrevocable letter of credit or guarantee and permits the Fund to draw on the letter of credit on demand, after specified notice, for all or any part of the principal amount of the Fund's participation interest plus accrued interest. Generally, the Fund intends to exercise the demand under the letters of credit or other guarantees only upon a default under the terms of the underlying bond, or to maintain compliance with the investment objective and policies of the Fund. The ability of a bank to fulfill its obligations under a letter of credit or guarantee might be affected by possible financial difficulties of its borrowers, adverse interest rate or economic conditions, regulatory limitations, or other factors. The Fund's Administrator monitors the pricing, quality, and liquidity of the participation interests held by the Fund, and the credit standing of banks issuing letters of credit or guarantees supporting such participation interests on the basis of published financial information reports of rating services and bank analytical services.

Put Bonds

Put bonds are municipal bonds which give the holder an unconditional right to sell the bond back to the issuer or a remarketing agent at a specified price and exercise date, which is typically well in advance of the bond's maturity date. If the put is a "one time only" put, the Fund ordinarily sells the bond or put the bond, depending on the more favorable price. If the bond has a series of puts after the first put, the bond is held as long as, in the opinion of the Investment Adviser, it is in the best interests of the Fund to do so. The obligation to purchase the bond on the exercise date of the put may be supported by a letter of credit or other credit support agreement from a bank, insurance company, or other financial institution, the credit standing of which affects the credit standing of the obligation. There is no assurance that an issuer or remarketing agent for a put bond will be able to repurchase the bond on the put exercise date if the Fund chooses to exercise its right to put the bond back to the issuer or remarketing agent.

Tender Option Bonds

Tender option bonds are long-term municipal securities sold by a bank subject to a "tender option" that gives the purchaser the right to tender them to the bank at par plus accrued interest at designated times (the "tender option"). The tender option may be exercisable at intervals ranging from bi-weekly to semi-annually, and the interest rate on the bonds is typically reset at the end of the applicable interval in order to cause the bonds to have a market value that approximates their par value. The tender option generally would not be exercisable in the event of a default on, or significant downgrading of, the underlying municipal securities. Therefore, the Fund's ability to exercise the tender option may be affected by the credit standing of both the bank involved and the issuer of the underlying securities.

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APPENDIX B

MORTGAGE-BACKED SECURITIES

General

Mortgage-backed securities were introduced in the 1970's when the first pool of mortgage loans was converted into a mortgage pass-through security. Since the 1970's, the mortgage-backed securities market in general has vastly expanded and a variety of structures have been developed to meet investor needs.

New types of mortgage-backed securities are developed and marketed from time to time and, consistent with its investment limitations, the Fund expects to invest in those new types of mortgage-backed securities that the Investment Adviser believes may assist the Fund in achieving its investment objective. The Fund may invest in various types of P.R. Mortgage-Backed Securities, as described herein. Not all of the types of securities described below are available in Puerto Rico.

Government National Mortgage Association ("GNMA") Securities

GNMA is a wholly-owned corporate instrumentality of the U.S. within the Department of Housing and Urban Development. The National Housing Act of 1934, as amended (the "Housing Act"), authorizes GNMA to guarantee the timely payment of the principal of and interest on securities that are based on and backed by a pool of specified mortgage loans. To qualify such securities for a GNMA guarantee, the underlying mortgages must be insured by the Federal Housing Administration under the Housing Act, or Title V of the Housing Act of 1949 ("FHA Loans"), or be guaranteed by the Veterans Administration under the Servicemen's Readjustment Act of 1944, as amended ("VA Loans"); or be pools of other eligible mortgage loans. The Housing Act provides that the full faith and credit of the U.S. Government is pledged to the payment of all amounts that may be required to be paid under any guarantee. In order to meet its obligations under such guarantee, GNMA is authorized to borrow from the U.S. Treasury with no limitations as to amount.

GNMA pass-through mortgage-backed securities may represent a pro rata interest in one or more pools of the following types of mortgage loans: (i) fixed rate level payment mortgage loans; (ii) fixed rate graduated payment mortgage loans; (iii) fixed rate growing equity mortgage loans; (iv) fixed rate mortgage loans secured by manufactured (mobile) homes; (v) mortgage loans on multifamily residential properties under construction; (vi) mortgage loans on completed multifamily projects; (vii) fixed rate mortgage loans as to which escrowed funds are used to reduce the borrower's monthly payments during the early years of the mortgage loans ("buy down" mortgage loans); (viii) mortgage loans that provide for adjustments in payments based on periodic changes in interest rates or in other payment terms of the mortgage loans; and (ix) mortgage-backed serial notes.

Federal National Mortgage Association ("FNMA") Securities

FNMA is a federally chartered and privately owned corporation established under the Federal National Association Charter Act. FNMA was originally organized in 1938 as a U.S. Government agency to add greater liquidity to the mortgage market. FNMA was transformed into a private sector corporation by legislation enacted in 1968. FNMA provides funds to the mortgage market primarily by purchasing home mortgage loans from local lenders, thereby providing them with funds for additional lending. FNMA acquires funds to purchase such loans from investors that may not ordinarily invest in mortgage loans directly, thereby expanding the total amount of funds available for housing.

Each FNMA pass-through mortgage-backed security represents a pro rata interest in one or more pool of FHA Loans, VA Loans or conventional mortgage loans (*i.e.*, mortgage loans that are not insured or guaranteed by any governmental agency). The loans contained in those pools consist of the following: (i) fixed rate level payment mortgage loans; (ii) fixed rate growing equity mortgage loans; (iii) fixed rate graduated payment mortgage loans; (iv) variable rate mortgage loans; (v) other adjustable rate mortgage loans; and (vi) fixed rate mortgage loans secured by multifamily projects. FNMA guarantees timely payment of principal and interest on FNMA mortgage-backed securities. However, the obligations of FNMA are not backed by the full faith and credit of the U.S. Nevertheless, because of the relationship between FNMA and the U.S., it is widely believed that FNMA mortgage-backed securities present minimal credit risks.

Federal Home Loan Mortgage Corporation ("FHLMC") Securities

FHLMC is a corporate instrumentality of the U.S. established by the Emergency Home Finance Act of 1970, as amended (the "FHLMC Act"). FHLMC was organized primarily for the purpose of increasing the availability of mortgage credit to finance needed housing. The operations of FHLMC currently consist primarily of the purchase of first lien, conventional, residential mortgage loans and participation interests in such mortgage loans and the resale of the mortgage loans so purchased in the form of mortgage-backed securities.

The mortgage loans underlying the FHLMC mortgage-backed securities typically consist of fixed rate or adjustable rate mortgage loans with original terms to maturity of between 10 and 30 years, substantially all of which are secured by first liens on one to four family residential properties or multifamily projects. Each mortgage loan must meet the applicable standards set forth in the FHLMC Act. Mortgage loans underlying FHLMC mortgage-backed securities may include whole loans, participation interests in whole loans and undivided interests in whole loans and participations in another FHLMC mortgage-backed securities.

FHLMC guarantees: (i) the timely payment of interest on all FHLMC mortgage-backed securities; (ii) the ultimate collection of principal with respect to some FHLMC mortgage-backed securities; and (iii) the timely payment of principal with respect to other FHLMC mortgage-backed securities. However, the obligations of FHLMC are not backed by the full faith and credit of the U.S.

Collateralized Mortgage Obligations ("CMOs")

CMOs are multiple-class Mortgage-Backed Securities. Some CMOs are directly supported by other CMOs, which in turn are supported by pools of mortgage loans. Investors in such securities typically receive payments out of the interest and principal on the underlying mortgage loans. The portions of these payments that investors receive, as well

as the priority of their rights to receive payments, are determined by the specific terms of the CMO class acquired. CMOs involve special risks. The following are classes of CMOs:

Accretion Directed: A class that receives principal payments from the accreted interest from specified accrual classes. An accretion directed class also may receive principal payments from principal paid on the underlying mortgage assets or other assets of the trust fund for the related series.

Companion Class: A class that receives principal payments on any distribution date only if scheduled payments have been made on specified planned principal classes, targeted principal classes, or scheduled principal classes.

Component Certificates: A class consisting of "components." The components of a class of component certificates may have different principal and interest payment characteristics but together constitute a single class. Each component of a class of component certificates may be identified as failing into one or more of the categories in this chart.

Non-Accelerated Senior or NAS: A class that, for the period of time specified in the related prospectus or supplement, generally will not receive (in other words, is locked out of) (1) principal prepayments on the underlying mortgage assets that are allocated disproportionately to the senior certificates because of the shifting interest structure of the certificates in the trust and/or (2) scheduled principal payments on the underlying mortgage assets, as specified in the related prospectus or supplement. During the lock-out period, the portion of the principal distributions on the underlying mortgage assets that the NAS class is locked-out of will be distributed to the other classes of senior certificates.

Notional Amount Certificates: A class having no principal balance interest on the related notional amount. The notional amount is used for purposes of the determination of interest distributions.

Planned Principal Class or PACs: A class that is designed to receive principal payments using a predetermined principal balance schedule derived by assuming two constant prepayment rates for the underlying mortgage assets. These two rates are the endpoints for the "structuring range" for the planned principal class. The planned principal classes in any series of certificates may be subdivided into different categories (*e.g.*, primary planned principal classes, secondary planned principal classes and so forth) having different effective structuring ranges and different principal payments priorities. The structuring range for the secondary planned principal class of a series of certificates will be narrower than that for the primary planned principal class of the series.

Scheduled Principal Class: A class that is designed to receive principal payments using a predetermined principal balance but is not designated as a planned principal class or targeted principal class. In many cases, the schedule is derived by assuming two constant prepayments rates for the underlying mortgage assets. These two rates are the endpoints for the "structuring range" for the scheduled principal class.

Sequential Pay: Classes that receive principal payments in a prescribed sequence, that do not have predetermined principal balance schedules and that under all circumstances receive payments of principal continuously from the first distribution date on which they receive principal until they are retired. A single class that receives principal payments before or after all other classes in the same series of certificates may be identified as a sequential pay class.

Strip: A class that receives a constant proportion, or "strip," of the principal payments on the underlying mortgage assets or other assets of the trust fund.

Super Senior: A class that will not bear its proportionate share of realized losses (other than excess losses) as its share is directed to another class, referred to as the "support class" until the class balance of the support class is reduced to zero.

Support Class: A class that absorbs the realized losses other than excess losses that would otherwise be allocated to a Super Senior class after the related classes of subordinated certificates are no longer outstanding.

Targeted Principal Class or TACs: A class that is designed to receive principal payments using a predetermined principal balance schedule derived by assuming a single constant prepayment rate for the underlying mortgage assets.

The following are other classes of interest type mortgage-backed securities:

Fixed Rate: A class with an interest rate that is fixed throughout the life of the class.

Floating Rate: A class with an interest rate that resets periodically based upon a designated index and that varies directly with changes in the index.

Inverse Floating Rate: A class with an interest rate that resets periodically based upon a designates index and that varies inversely with changes in the index.

Variable Rate: A class with an interest rate that resets periodically and is calculated by reference to the rate or rates of interest applicable to specified assets or instruments (*e.g.*, the mortgage rates borne by the underlying mortgage loans).

Interest Only: A class that receives some or all of the interest payments made on the underlying mortgage assets or other assets of the trust fund and little or no principal. Interest only classes have either a nominal principal balance or a notional amount. A nominal principal balance represents actual principal that will be paid on the class. It is referred to as nominal since it is extremely small compared to other classes. A notional amount is the amount used as a reference to calculate the amount of interest due on an interest only class that is not entitles to any distributions of principal.

Principal Only: A class that does not bear interest and is entitled to receive only distributions of principal.

Partial Accrual: A class that accretes a portion of the amount of accrued interest on it, which amount will be added to the principal balance of the class on each applicable distributions date, with the remainder of the accrued interest to be distributed currently as interest on the class. The accretion may continue until a specified event has occurred or until the partial accrual class is retired.

Accrual: A class that accretes the amount of accrued interest otherwise distributable on the class, which amount will be added as principal balance of the class on each applicable distribution date. The accretion may continue until some specified event has occurred or until the accrual class is retired.

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APPENDIX C

FORMS OF REPRESENTATION LETTERS

[FOR USE BY CORPORATIONS OR OTHER BUSINESS ENTITIES]

TO: UBS Financial Services Incorporated of Puerto Rico
San Juan, Puerto Rico

RE: Puerto Rico Residency Status

To Whom It May Concern:

We provide the following information and representations in connection with opening and maintaining our account with UBS Financial Services Incorporated of Puerto Rico. In our account we may hold or purchase certain investments, including, but not limited to, closed-end and open-end mutual funds, preferred stock, and debt securities, that are not registered under the U.S. Securities Act of 1933 or the U.S. Investment Company Act of 1940 ("Puerto Rico Investments") and are exempt from registration under the U.S. Securities Act of 1933 and/or the U.S. Investment Company Act of 1940, based, in part, on the requirement that they be offered or sold only to individuals who have their principal residence in Puerto Rico or to corporations or other business organizations that have their principal office and principal place of business within Puerto Rico ("Puerto Rico Residents"), all as disclosed in their respective prospectuses or offering materials.

Accordingly, we hereby represent to you that:

1. We have acquired or propose to acquire Puerto Rico Investments for our own account and will be the sole beneficial owner thereof.

2. As of the date of this letter, we are a corporation, partnership or other form of business organization that has its principal office and principal place of business within Puerto Rico that has not been organized for the purpose of acquiring Puerto Rico Investments and, if organized as a trust, the trustee and all beneficiaries of the trust are residents of Puerto Rico.

3. If, as of the date of this letter we are organized as a non-business trust, the trust has its principal office and principal place of business within Puerto Rico and the trustee and all beneficiaries of the trust are Puerto Rico Residents.

4. If we cease to be a Puerto Rico Resident, we will (i) notify you within 30 days of ceasing to be a Puerto Rico Resident, (ii) liquidate our holdings in any Puerto Rico Investment when such liquidation becomes economically feasible, and (iii) not acquire additional Puerto Rico Investments.

5. We acknowledge that any purchases of Puerto Rico Investments will not be made on behalf of a retirement plan subject to ERISA.

6. We hereby acknowledge that if at the time of purchase of Puerto Rico Investments we are not Puerto Rico Residents, UBS may declare any such purchase to be null and void.

_____ _____

Signature Date

_____ _____

Name and Title Account Number

[FOR USE BY INDIVIDUALS]

TO: UBS Financial Services Incorporated of Puerto Rico
San Juan, Puerto Rico

RE: Puerto Rico Residency Status

To Whom It May Concern:

I provide the following information and representations in connection with opening and maintaining my account with UBS Financial Services Incorporated of Puerto Rico. In my account I may hold or purchase certain investments, including, but not limited to, closed-end and open-end mutual funds, preferred stock, and debt securities, that are not registered under the U.S. Securities Act of 1933 or the U.S. Investment Company Act of 1940 ("Puerto Rico Investments") and are exempt from registration under the U.S. Securities Act of 1933 and/or the U.S. Investment Company Act of 1940, based, in part, on the requirement that they be offered or sold only to individuals who have their principal residence in Puerto Rico ("Puerto Rico Residents"), all as disclosed in their respective prospectuses or offering materials.

Accordingly, I hereby represent to you that:

1. I have acquired or propose to acquire Puerto Rico Investments for my own account and will be the sole beneficial owner thereof.

2. As of the date of this letter, I am an individual whose principal residence is in Puerto Rico.

3. If I cease to be a Puerto Rico Resident, I will (i) notify you within 30 days of ceasing to be a Puerto Rico Resident, (ii) liquidate my holdings in any Puerto Rico Investment when such liquidation becomes economically feasible, and (iii) not acquire additional Puerto Rico Investments.

4. I hereby acknowledge that if at the time of purchase of Puerto Rico Investments I am not a Puerto Rico Resident, UBS may declare any such purchase to be null and void.

5. I acknowledge that any purchases of Puerto Rico Investments will not be made on behalf of a retirement plan subject to ERISA.

_____ _____
Signature Date

_____ _____
Name Account Number

APPENDIX D

RATINGS OF MUNICIPAL OBLIGATIONS AND DEBT SECURITIES

Description of Fitch Ratings' ("Fitch") Credit Rating Scales

Fitch Ratings' credit ratings provide an opinion on the relative ability of an entity to meet financial commitments, such as interest, preferred dividends, repayment of principal, insurance claims or counterparty obligations.

Credit ratings are used by investors as indications of the likelihood of receiving the money owed to them in accordance with the terms on which they invested. The agency's credit ratings cover the global spectrum of corporate, sovereign (including supranational and sub-national), financial, bank, insurance, municipal and other public finance entities and the securities or other obligations they issue, as well as structured finance securities backed by receivables or other financial assets.

The terms "investment-grade" and "speculative grade" have established themselves over time as shorthand to describe the categories "AAA" to "BBB" (investment grade) and "BB" to "D" (speculative grade). The terms "investment grade" and "speculative grade" are market conventions, and do not imply any recommendation or endorsement of a specific security for investment purposes. "Investment grade" categories indicate relatively low to moderate credit risk, while ratings in the "speculative" categories either signal a higher level of credit risk or that a default has already occurred.

Credit ratings express risk in relative rank order, which is to say they are ordinal measures of credit risk and are not predictive of a specific frequency of default or loss.

Fitch Ratings' credit ratings do not directly address any risk other than credit risk. In particular, ratings do not deal with the risk of a market value loss on a rated security due to changes in interest rates, liquidity and other market considerations. However, in terms of payment obligation on the rated liability, market risk may be considered to the extent that it influences the ability of an issuer to pay upon a commitment. Ratings nonetheless do not reflect market risk to the extent that they influence the size or other conditionality of the obligation to pay upon a commitment (for example, in the case of index-linked bonds).

In the default components of ratings assigned to individual obligations or instruments, the agency typically rates to the likelihood of non-payment or default in accordance with the terms of that instrument's documentation. In limited cases, Fitch Ratings may include additional considerations (*i.e.*, rate to a higher or lower standard than that implied in the obligation's documentation). In such cases, the agency will make clear the assumptions underlying the agency's opinion in the accompanying rating commentary.

Entities or issues carrying the same rating are of similar but not necessarily identical credit quality since the credit rating categories do not fully reflect small differences in the degrees of credit risk.

Fitch credit and other ratings are not recommendations to buy, sell, or hold any security. Ratings do not comment on the adequacy of market price, the suitability of any security for a particular investor, or the tax-exempt nature or taxability of any payments of any security. The credit ratings are based on information obtained from issuers, other obligors, Underwriters, their experts, and other sources Fitch believes to be reliable. Fitch does not audit or verify the truth or accuracy of such information. Ratings may be changed or withdrawn as a result of changes in, or the unavailability of, information or for other reasons.

Analytical Considerations

When assigning ratings, Fitch considers the historical and prospective financial condition, quality of management, and operating performance of the issuer and of any guarantor, any special features of a specific issue or guarantee, the issue's relationship to other obligations of the issuer, as well as developments in the economic and political environment that might affect the issuer's financial strength and credit quality.

Investment-grade ratings reflect expectations of timeliness of payment. However, ratings of different classes of obligations of the same issuer may vary based on expectations of recoveries in the event of a default or liquidation. Recovery expectations, which are the amounts expected to be received by investors after a security defaults, are a relatively minor consideration in investment-grade ratings, but Fitch does "notching" of particular issues to reflect their degree of preference in a winding up, liquidation, or reorganization as well as other factors. Recoveries do, however, gain in importance at lower rating levels, because of the greater likelihood of default, and become the major consideration at the "DDD" category. Factors that affect recovery expectations include collateral and seniority relative to other obligations in the capital structure.

Fitch bases the differential between preferred/preference stock and senior subordinated debt on the issuer's senior debt rating, the specific terms and conditions of the preferred instrument, the amount of preferred stock and subordinated debt in the capital structure, coverage ratios, the use of proceeds from a preferred issue, the issuer's rating outlook, and the influence of regulators on the issuer's ability to pay preferred dividends. For rating purposes, Fitch generally treats preferred stock in a manner similar to that it adopts for deeply subordinated debt. The degree of "notching," or number of rating grades below senior debt, will be narrowed for investment-grade entities and wider for those in the speculative grades.

Variable rate demand obligations and other securities which contain a demand feature will have a dual rating, such as "AAA/F1+." The first rating denotes long-term ability to make principal and interest payments. The second rating denotes ability to meet a demand feature in full and on time.

The following ratings scale applies to foreign currency and local currency ratings.

International Long-Term Rating Scales

Investment Grade

AAA — Highest credit quality. "AAA" ratings denote the lowest expectation of default risk. They are assigned only in cases of exceptionally strong capacity for payment of financial commitments. This capacity is highly unlikely to be adversely affected by foreseeable events.

AA — Very high credit quality. "AA" ratings denote expectations of very low default risk. They indicate very strong capacity for payment of financial commitments. This capacity is not significantly vulnerable to foreseeable events.

A — High credit quality. "A" ratings denote expectations of low default risk. The capacity for payment of financial commitments is considered strong. This capacity may, nevertheless, be more vulnerable to adverse business or economic conditions than is the case for higher ratings.

BBB — Good credit quality. "BBB" ratings indicate that expectations of default risk are currently low. The capacity for payment of financial commitments is considered adequate but adverse business or economic conditions are more likely to impair this capacity.

BB — Speculative. "BB" ratings indicate an elevated vulnerability to default risk, particularly in the event of adverse changes in business or economic conditions over time; however, business or financial flexibility exists which supports the servicing of financial commitments.

B — Highly speculative. "B" ratings indicate that material default risk is present, but a limited margin of safety remains. Financial commitments are currently being met; however, capacity for continued payment is vulnerable to deterioration in the business and economic environment.

CCC — Substantial credit risk. Default is a real possibility.

CC — Very high levels of credit risk. Default of some kind appears probable.

C — Exceptionally high levels of credit risk. Default is imminent or inevitable, or the issuer is in standstill. Conditions that are indicative of a "C" category rating for an issuer include the following:

a. The issuer has entered into a grace or cure period following non-payment of a material financial obligation;

b. The issuer has entered into a temporary negotiated waiver or standstill agreement following a payment default on a material financial obligation; or

c. Fitch Ratings otherwise believes a condition of "RD" or "D" to be imminent or inevitable, including through the formal announcement of a coercive debt exchange.

RD — Restricted default. "RD" ratings indicate an issuer that in Fitch Ratings' opinion has experienced an uncured payment default on a bond, loan or other material financial obligation but which has not entered into bankruptcy filings, administration, receivership, liquidation or other formal winding-up procedure, and which has not otherwise ceased business. This would include:

a. The selective payment default on a specific class or currency of debt;

b. The unsecured expiry of any applicable grace period, cure period or default forbearance period following a payment default on a bank loan, capital markets security or other material financial obligation;

c. The extension of multiple waivers or forbearance periods upon a payment default on one or more material financial obligations, either in series or in parallel; or

d. Execution of a coercive debt exchange on one or more material financial obligations.

D — Default. "D" ratings indicate an issuer that in Fitch Ratings' opinion has entered into bankruptcy filings, administration, receivership, liquidation, or other formal winding-up procedure, or which has otherwise ceased business.

Default ratings are not assigned prospectively to entities or their obligations; within this context, non-payment on an instrument that contains a deferral feature or grace period will generally not be considered a default until after the expiration of the deferral or grace period, unless a default is otherwise driven by bankruptcy or other similar circumstance, or by a coercive debt exchange.

"Imminent" default typically refers to the occasion where a payment default has been intimated by the issuer, and is all but inevitable. This may, for example, be where an issuer has missed a scheduled payment, but (as is typical) has a grace period during which it may cure the payment default. Another alternative would be where an issuer has formally announced a coercive debt exchange, but the date of the exchange still lies several days or weeks in the immediate future.

In all cases, the assignment of a default rating reflects the agency's opinion as to the most appropriate rating category consistent with the rest of its universe of ratings, and may differ from the definition of default under the terms of an issuer's financial obligations or local commercial practice.

Note: The modifiers "+" or "-" may be appended to a rating to denote relative status within major rating categories. Such suffixes are not added to the "AAA" Long-Term IDR category, or to Long-Term IDR categories below "B."

Rating Watch — Ratings are placed on Rating Watch to notify investors that there is a reasonable probability of a rating change and the likely direction of such change. These are designated as "Positive," indicating a potential upgrade, "Negative," for a potential downgrade, or "Evolving," if ratings may be raised, lowered or maintained. Rating Watch is typically resolved over a relatively short period.

Rating Outlook — An Outlook indicates the direction a rating is likely to move over a one to two-year period. Outlooks may be positive, stable or negative. A positive or negative Rating Outlook does not imply a rating change is inevitable. Similarly, ratings for which outlooks are 'stable' could be upgraded or downgraded before an outlook moves to positive or negative if circumstances warrant such an action. Occasionally, Fitch may be unable to identify the fundamental trend. In these cases, the Rating Outlook may be described as evolving.

Program ratings (such as those assigned to medium-term note shelf registrations) relate only to standard issues made under the program concerned; it should not be assumed that these ratings apply to every issue made under the program. In particular, in the case of non-standard issues, *i.e.* those that are linked to the credit of a third party or linked to the performance of an index, ratings of these issues may deviate from the applicable program rating.

Variable rate demand obligations and other securities which contain a short-term 'put' or other similar demand feature will have a dual rating, such as "AAA/F1+." The first rating reflects the ability to meet long-term principal and interest payments, whereas the second rating reflects the ability to honor the demand feature in full and on time.

Fitch's ratings on U.S. public finance debt securities measure credit quality relative of other U.S. public finance debt securities. Loss rates of most Fitch-rated U.S. public finance debt securities have historically been significantly lower, and are expected to continue to be significantly lower, than other debt instruments rated comparably by Fitch.

Interest Only — Interest Only ratings are assigned to interest strips. These ratings do not address the possibility that a security holder might fail to recover some or all of its initial investment due to voluntary or involuntary principal repayments.

Principal Only — Principal Only ratings address the likelihood that a security holder will receive their initial principal investment either before or by the scheduled maturity date.

Rate of Return — Ratings also may be assigned to gauge the likelihood of an investor receiving a certain predetermined internal rate of return without regard to the precise timing of any cash flows.

"PIF" — This tranche has reached maturity and has been "paid-in-full," regardless of whether it was amortized or called early. As the issue no longer exists, it is therefore no longer rated.

"NR" — Used to denote securities not rated by Fitch where Fitch has rated some, but not all, securities comprising an issuance capital structure.

"WD" — Indicates that the credit rating has been withdrawn and is no longer maintained by Fitch.

International Short-Term Ratings

F1 — Highest short-term credit quality. Indicates the strongest intrinsic capacity for timely payment of financial commitments; may have an added "+" to denote any exceptionally strong credit feature.

F2 — Good short-term credit quality. Good intrinsic capacity for timely payment of financial commitments is adequate.

F3 — Fair short-term credit quality. The intrinsic capacity for timely payment of financial commitments is adequate.

B — Speculative short-term credit quality. Minimal capacity for timely payment of financial commitments, plus heightened vulnerability to near term adverse changes in financial and economic conditions.

C — High short-term default risk. Default is a real possibility.

RD — Restricted default. Indicates an entity that has defaulted on one or more of its financial commitments, although it continues to meet other financial obligations. Applicable to entity ratings only.

D — Default. Indicates a broad-based default event for an entity, or the default of a short-term obligation.

Rating Watch — Ratings are placed on Rating Watch to notify investors that there is a reasonable probability of a rating change and the likely direction of such change. These are designated as "Positive," indicating a potential upgrade, "Negative," for a potential downgrade, or "Evolving," if ratings may be raised, lowered or maintained. Rating Watch is typically resolved over a relatively short period.

Rating Outlook — An Outlook indicates the direction a rating is likely to move over a one to two-year period. Outlooks may be positive, stable or negative. A positive or negative Rating Outlook does not imply a rating change is inevitable. Similarly, ratings for which outlooks are 'stable' could be upgraded or downgraded before an outlook moves to positive or negative if circumstances warrant such an action. Occasionally, Fitch may be unable to identify the fundamental trend. In these cases, the Rating Outlook may be described as evolving.

Program ratings (such as those assigned to medium-term note shelf registrations) relate only to standard issues made under the program concerned; it should not be assumed that these ratings apply to every issue made under the program. In particular, in the case of non-standard issues, *i.e.* those that are linked to the credit of a third party or linked to the performance of an index, ratings of these issues may deviate from the applicable program rating.

Variable rate demand obligations and other securities which contain a short-term 'put' or other similar demand feature will have a dual rating, such as "AAA/F1+." The first rating reflects the ability to meet long-term principal and interest payments, whereas the second rating reflects the ability to honor the demand feature in full and on time.

Fitch's ratings on U.S. public finance debt securities measure credit quality relative of other U.S. public finance debt securities. Loss rates of most Fitch-rated U.S. public finance debt securities have historically been significantly lower, and are expected to continue to be significantly lower, than other debt instruments rated comparably by Fitch.

Interest Only — Interest Only ratings are assigned to interest strips. These ratings do not address the possibility that a security holder might fail to recover some or all of its initial investment due to voluntary or involuntary principal repayments.

Principal Only — Principal Only ratings address the likelihood that a security holder will receive their initial principal investment either before or by the scheduled maturity date.

Rate of Return — Ratings also may be assigned to gauge the likelihood of an investor receiving a certain predetermined internal rate of return without regard to the precise timing of any cash flows.

"PIF" — Paid-In-Full. This tranche has reached maturity, regardless of whether it was amortized or called early. As the issuer no longer exists, it is therefore no longer rated.

"NR" — Used to denote securities not rated by Fitch where Fitch has rated some, but not all securities comprising an issuance capital structure.

"WD" — Withdrawn. The rating has been withdrawn and the issue or issuer is no longer rated by Fitch Ratings.

Description of Issue Credit Rating Definitions of Standard & Poor's, a division of The McGraw-Hill Companies, Inc. ("S&P")

A S&P issue credit rating is a forward-looking opinion about the creditworthiness of an obligor with respect to a specific financial obligation, a specific class of financial obligations, or a specific financial program (including ratings on medium-term note programs and commercial paper programs). It takes into consideration the creditworthiness of guarantors, insurers, or other forms of credit enhancement on the obligation and takes into account the currency in which the obligation is denominated. The opinion reflects S&P's view of the obligor's capacity and willingness to meet its financial commitments as they come due, and may assess terms, such as collateral security and subordination, which could affect ultimate payment in the event of default.

Issue credit ratings can be either long-term or short-term. Short-term ratings are generally assigned to those obligations considered short-term in the relevant market. In the U.S., for example, that means obligations with an original maturity of no more than 365 days - including commercial paper. Short-term ratings are also used to indicate the creditworthiness of an obligor with respect to put features on long-term obligations. The result is a dual rating, in which the short-term rating addresses the put feature, in addition to the usual long-term rating. Medium-term notes are assigned long-term ratings.

Long-Term Issue Credit Ratings

Issue credit ratings are based, in varying degrees, on S&P's analysis of the following considerations:

I. Likelihood of payment-capacity and willingness of the obligor to meet its financial commitment on an obligation in accordance with the terms of the obligation;

II. Nature of and provisions of the obligations;

III. Protection afforded by, and relative position of, the obligation in the event of bankruptcy, reorganization, or other arrangement under the laws of bankruptcy and other laws affecting creditors' rights.

Issue ratings are an assessment of default risk but may incorporate an assessment of relative seniority or ultimate recovery in the event of default. Junior obligations are typically rated lower than senior obligations, to reflect the lower priority in bankruptcy, as noted above. (Such differentiation may apply when an entity has both senior and subordinated obligations, secured and unsecured obligations, or operating company and holding company obligations.)

AAA — An obligation rated "AAA" has the highest rating assigned by S&P. The obligor's capacity to meet its financial commitments on the obligations is extremely strong.

AA — An obligation rated "AA" differs from the highest-rated obligations only to a small degree. The obligor's capacity to meet its financial commitment on the obligation is very strong.

A — An obligation rated "A" is somewhat more susceptible to the adverse effects of changes in circumstances and economic conditions than obligations in higher-rated categories. However, the obligor's capacity to meet its financial commitment on the obligation is still strong.

BBB — An obligation rated "BBB" exhibits adequate protection parameters. However, adverse economic conditions or changing circumstances are more likely to lead to a weakened capacity of the obligor to meet its financial commitment on the obligation.

BB, B, CCC, CC, C — Obligations rated "BB," "B," "CCC," "CC," and "C" are regarded as having significant speculative characteristics. "BB" indicates the least degree of speculation and "C" the highest. While such obligations will likely have some quality and protective characteristics, these may be outweighed by large uncertainties or major exposures to adverse conditions.

BB — An obligation rated "BB" is less vulnerable to nonpayment than other speculative issues. However, it faces major ongoing uncertainties or exposure to adverse business, financial, or economic conditions which could lead to the obligor's inadequate capacity to meet its financial commitment on the obligation.

B — An obligation rated "B" is more vulnerable to nonpayment than obligations rated "BB," but the obligor currently has the capacity to meet its financial commitment on the obligation. Adverse business, financial, or economic conditions will likely impair the obligor's capacity or willingness to meet its financial commitment on the obligation.

CCC — An obligor rated "CCC" is currently vulnerable to nonpayment, and is dependent upon favorable business, financial, and economic conditions for the obligor to meet its financial commitment on the obligation. In the event of adverse business, financial, or economic conditions, the obligor is not likely to have the capacity to meet its financial commitment on the obligation.

CC — An obligation rated "CC" is currently highly vulnerable to nonpayment.

C — A "C" rating is assigned to obligations that are currently highly vulnerable to nonpayment, obligations that have payment arrearages allowed by the terms of the documents, or obligations of an issuer that is the subject of a bankruptcy petition or similar action which have not experienced a payment default. Among others, the "C" rating may be assigned to subordinated debt, preferred stock or other obligations on which cash payments have been suspended in accordance with the instrument's terms or when preferred stock is the subject of a distressed exchange offer, whereby some or all of the issue is either repurchased for an amount of cash or replaced by other instruments having a total value that is less than par.

D — An obligation rated "D" is in payment default. The "D" rating category is used when payments on an obligation, including a regulatory capital instrument, are not made on the date due even if the applicable grace period has not expired, unless S&P believes that such payments will be made during such grace period. The "D" rating also will be used upon the filing of a bankruptcy petition or the taking of similar action if payments on an obligation are jeopardized. An obligation's rating is lowered to "D" upon completion of a distressed exchange offer, whereby some or all of the issue is either repurchased for an amount of cash or replaced by other instruments having a total value that is less than par.

Plus (+) or minus (-) — The ratings from "AA" to "CCC" may be modified by the addition of a plus (+) or minus (-) sign to show relative standing within the major rating categories.

N.R. — This indicates that no rating has been requested, that there is insufficient information on which to base a rating, or that S&P does not rate a particular obligation as a matter of policy.

pi — Ratings with a "pi" subscript are based on an analysis of an issuer's published financial information, as well as additional information in the public domain. They do not, however, reflect in-depth meetings with an issuer's management and are therefore may be based on less comprehensive information than ratings without a "pi" subscript. Ratings with a "pi" subscript are reviewed annually based on a new year's financial statements, but may be reviewed on an interim basis if a major event occurs that may affect the issuer's credit quality.

Short-Term Issue Credit Ratings

A-1 — A short-term obligation rated "A-1" is rated in the highest category by S&P. The obligor's capacity to meet its financial commitment on the obligation is strong. Within this category, certain obligations are designated with a plus sign (+). This indicates that the obligor's capacity to meet its financial commitment on these obligations is extremely strong.

A-2 — A short-term obligation rated "A-2" is somewhat more susceptible to the adverse effects of changes in circumstances and economic conditions than obligations in higher rating categories. However, the obligor's capacity to meet its financial commitment on the obligation is satisfactory.

A-3 — A short-term obligation rated "A-3" exhibits adequate protection parameters. However, adverse economic conditions or changing circumstances are more likely to lead to a weakened capacity of the obligor to meet its financial commitment on the obligation.

B — A short-term obligation rated "B" is regarded as having significant speculative characteristics. Ratings of "B-1," "B-2," and "B-3" may be assigned to indicate finer distinctions within the "B" category. The obligor currently has the capacity to meet its financial commitment on the obligation; however, it faces major ongoing uncertainties which could lead to the obligor's inadequate capacity to meet its financial commitment on the obligation.

B-1 — A short-term obligation rated "B-1" is regarded as having significant speculative characteristics, but the obligor has a relatively stronger capacity to meet its financial commitments over the short-term compared to the other speculative-grade obligors.

B-2 — A short-term obligation rated "B-2" is regarded as having significant speculative characteristics, and the obligor has an average speculative-grade capacity to meet its financial commitments over the short-term compared to other speculative-grade obligors.

B-3 — A short-term obligation rated "B-3" is regarded as having significant speculative characteristics, and the obligor has a relatively weaker capacity to meet its financial commitments over the short-term compared to other speculative-grade obligors.

C — A short-term obligation rated "C" is currently vulnerable to nonpayment and is dependent upon favorable business, financial, and economic conditions for the obligor to meet its financial commitment on the obligation.

D — A short-term obligation rated "D" is in payment default. The "D" rating category is used when payments on an obligation, including a regulatory capital instrument, are not made on the date due even if the applicable grace period has not expired, unless S&P believes that such payments will be made during such grace period. The "D" rating also will be used upon the filing of a bankruptcy petition or the taking of a similar action if payments on an obligation are jeopardized.

Municipal Short-Term Note Ratings Definitions

A S&P U.S. municipal note rating reflects S&P's opinion about the liquidity factors and market access risks unique to the notes. Notes due in three years or less will likely receive a note rating. Notes with an original maturity of more than three years will most likely receive a long-term debt rating. In determining which type of rating, if any, to assign, S&P's analysis will review the following considerations:

- Amortization schedule – the larger the final maturity relative to other maturities, the more likely it will be treated as a note; and
- Source of payment – the more dependent the issue is on the market for its refinancing, the more likely it will be treated as a note.

Note rating symbols are as follows:

SP-1— Strong capacity to pay principal and interest. An issue determined to possess a very strong capacity to pay debt service is given a plus (+) designation.

SP-2 — Satisfactory capacity to pay principal and interest, with some vulnerability to adverse financial and economic changes over the term of the notes.

SP-3 — Speculative capacity to pay principal and interest.

Dual Ratings

S&P assigns "dual" ratings to all debt issues that have put option or demand feature as part of their structure. The first rating addresses the likelihood of repayment of principal and interest as due, and the second rating addresses only the demand feature. The long-term rating symbols are used for bonds to denote the long-term maturity and the short-term rating symbols for the put option (for example, "AAA/A-1+"). With U.S. municipal short-term demand debt, note rating symbols are used with the short-term issue credit rating symbols (for example, "SP-1+/A-1+").

Description of Moody's Investors Structured Finance Long-Term Ratings

Moody's ratings on long-term structured finance obligations primarily address the expected credit loss an investor might incur on or before the legal final maturity of such obligations vis-à-vis a defined promise. As such, these ratings incorporate Moody's assessment of the default probability and loss severity of the obligations. Such obligations generally have an original maturity of one year or more, unless explicitly noted. Moody's credit ratings address only the credit risks associated with the obligations; other non-credit risks have not been addressed, but may have a significant effect on the yield to investors. Moody's differentiates its ratings assigned to structured finance obligations by adding an (sf) indicator to all structured finance ratings.

Aaa - Obligations rated "Aaa" are judged to be of the highest quality, with minimal credit risk.

Aa - Obligations rated "Aa" are judged to be of high quality and are subject to very low credit risk.

A - Obligations rated "A" are considered upper-medium grade and are subject to low credit risk.

Baa -Obligations rated "Baa" are subject to moderate credit risk. They are considered medium-grade and as such may possess certain speculative characteristics.

Ba - Obligations rated "Ba" are judged to have speculative elements and are subject to substantial credit risk.

B - Obligations rated "B" are considered speculative and are subject to high credit risk.

Caa - Obligations rated "Caa" are judged to be of poor standing and are subject to very high credit risk.

Ca - Obligations rated "Ca" are highly speculative and are likely in, or very near, default, with some prospect of recovery of principal and interest.

C - Obligations rated "C" are the lowest rated class and are typically in default, with little prospect for recovery of principal or interest.

Note: Moody's appends numerical modifiers 1, 2, and 3 to each generic rating classification from Aa through Caa. The modifier 1 indicates that the obligation ranks in the higher end of its generic rating category; the modifier 2 indicates a mid-range ranking; and the modifier 3 indicates a ranking in the lower end of that generic rating category.

Description of Moody's Investors Service Short-Term Obligation Ratings

Moody's short-term ratings are opinions of the ability of issuers to honor short-term financial obligations. Ratings may be assigned to issuers, short-term programs or to individual short-term debt instruments. Such obligations generally have an original maturity not exceeding thirteen months, unless explicitly noted. Moody's employs the following designations to indicate the relative repayment ability of rated issuers:

P-1. Issuers (or supporting institutions) rated "Prime-1" have a superior ability to repay short-term debt obligations.

P-2. Issuers (or supporting institutions) rated "Prime-2" have a strong ability to repay short-term debt obligations.

P-3. Issuers (or supporting institutions) rated "Prime-3" have an acceptable ability to repay short-term obligations.

NP. Issuers (or supporting institutions) rated "Not Prime" do not fall within any of the "Prime" rating categories.

Description of Moody's Investors Service US Municipal Short-Term Debt and Demand Obligation Ratings - Short Term Obligation Ratings

There are three rating categories for short-term municipal obligations that are considered investment grade. These ratings are designated as Municipal Investment Grade (MIG) and are divided into three levels - "MIG1" through "MIG3." In addition, those short-term obligations that are of speculative quality are designated "SG," or speculative grade. "MIG" ratings expire at the maturity of the obligation.

MIG1. This designation denotes superior credit quality. Excellent protection is afforded by established cash flows, highly reliable liquidity support, or demonstrated broad-based access to the market for refinancing.

MIG2. This designation denotes strong credit quality. Margins of protection are ample, although not as large as in the preceding group.

MIG3. This designation denotes acceptable credit quality. Liquidity and cash-flow protection may be narrow, and market access for refinancing is likely to be less well-established.

SG. This designation denotes speculative-grade credit quality. Debt instruments in this category may lack sufficient margins of protection.

Description of Moody's Investors Service US Municipal Short-Term Debt and Demand Obligation Ratings

In the case of variable rate demand obligations (VRDOs), a two-component rating is assigned; a long or short-term debt rating and a demand obligation rating. The first element represents Moody's evaluation of the degree of risk associated with scheduled principal and interest payments. The second element represents Moody's evaluation of the degree of risk associated with the ability to receive purchase price upon demand ("demand feature"), using a variation of the MIG rating scale, the Variable Municipal Investment Grade or VMIG rating. When either the long- or short-term aspect of a VRDO is not rated, that piece is designated NR, *e.g.*, Aaa/NR or NR/VMIG1. VMIG rating expirations are a function of each issue's specific structural or credit features.

VMIG1. This designation denotes superior credit quality. Excellent protection is afforded by the superior short-term credit strength of the liquidity provider and structural and legal protections that ensure the timely payment of purchase price upon demand.

VMIG2. This designation denotes strong credit quality. Good protection is afforded by the strong short-term credit strength of the liquidity provider and structural and legal protections that ensure the timely payment of purchase price upon demand.

VMIG3. This designation denotes acceptable credit quality. Adequate protection is afforded by the satisfactory short-term credit strength of the liquidity provider and structural and legal protections that ensure the timely payment of purchase price upon demand.

SG. This designation denotes speculative-grade credit quality. Demand features rated in this category may be supported by a liquidity provider that does not have an investment grade short-term rating or may lack the structural and/or legal protections necessary to ensure the timely payment of purchase price upon demand.

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APPENDIX E

HEDGING AND RELATED INCOME STRATEGIES

General Description of Hedging and Related Income Strategies. As discussed in the Offering Circular, the Fund may use a variety of financial instruments ("Derivative Instruments"), including securities options, financial futures contracts ("futures contracts"), options on futures contracts, and other interest rate protection transactions such as swap agreements, to attempt to hedge its portfolio of assets. The use of these instruments for income enhancement purposes subjects the Fund to substantial risks of losses which would not be offset by gains on other portfolio assets or acquisitions. The Fund may invest up to 5% of its assets in Derivative Instruments. Such limit may be exceeded only for the purpose of hedging and subject to the approval of the Fund's Board of Directors. However, the Fund may not enter into futures contracts or options thereon unless an exclusion or exemption or comparable relief from applicable registration requirements contained in the regulations administered by the CFTC is obtained by the Investment Adviser. There is no assurance that such relief will be granted or that the strategies discussed in this Appendix can be implemented.

Hedging strategies can be broadly categorized as "short hedges" and "long hedges." A short hedge is a purchase or sale of a Derivative Instrument intended partially or fully to offset potential declines in the value of one or more investments held by the Fund. Thus, in a short hedge the Fund takes a position in a Derivative Instrument whose price is expected to move in the opposite direction of the price of the investment being hedged. For example, the Fund might purchase a put option on a security to hedge against a potential decline in the value of that security. If the price of the security declines below the exercise price of the put, the Fund could exercise the put and thus limit its loss below the exercise price to the premium paid plus transaction costs. In the alternative, because the value of the put option can be expected to increase as the value of the underlying security declines, the Fund might be able to close out the put option and realize a gain to offset the decline in the value of the security.

Conversely, a long hedge is a purchase or sale of a Derivative Instrument intended partially or fully to offset potential increases in the cost of one or more investments that the Fund may acquire. Thus, in a long hedge the Fund takes a position in the Derivative Instrument whose price is expected to move in the same direction as the price of the prospective investment being hedged. For example, the Fund might purchase a call option on a security it intends to purchase in order to hedge against an increase in the cost of the security. If the price of the security increased above the exercise price of the call, the Fund could exercise the call and thus limit its acquisition cost to the exercise price plus the premium paid and transaction costs. Alternatively, the Fund might be able to offset the price increase by closing out an appreciated call option and realizing a gain.

Derivative Instruments on securities generally are used to hedge against both price movements in one or more particular securities positions that the Fund owns or intends to acquire or fluctuations in interest rates. Derivative Instruments on bond indices, in contrast, generally are used to hedge against price movements in broad fixed income market sectors in which the Fund has invested or expects to invest.

In addition to the products, strategies and risks described below and in the Offering Circular, the Investment Adviser expects to seek additional opportunities in connection with securities options, futures contracts and other hedging techniques. These new opportunities may become available as regulatory authorities broaden the range of permitted transactions and as new options, futures contracts or other techniques are developed. The Investment Adviser may utilize these opportunities to the extent that they are consistent with the Fund's investment objective and permitted by the Fund's investment limitations and applicable regulatory authorities.

Special Risks of Hedging Strategies. The use of Derivative Instruments involves special considerations and risks, as described below. Risks pertaining to particular Derivative Instruments are described in the sections that follow:

(1) Successful use of most Derivative Instruments depends upon the Investment Adviser's ability to predict movements of the overall securities and interest rate markets, which requires different skills than predicting changes in the prices of individual securities. While the Investment Adviser is experienced in the use of Derivative Instruments, there is no assurance that any particular hedging strategy adopted will succeed.

(2) There might be imperfect correlation, or even no correlation, between price movements of a Derivative Instrument and price movements of the investments being hedged. For example, if the value of a Derivative Instrument used in a short hedge increased by less than the decline in value of the hedged investment, the hedge would not be fully successful. Such a lack of correlation might occur due to factors unrelated to the value of the investments being hedged, such as speculative or other pressures on the markets in which Derivative Instruments are traded. The effectiveness of hedges using Derivative Instruments on indices will depend on the degree of correlation between price movements in the index and price movements in the securities being hedged.

(3) Hedging strategies, if successful, can reduce risk of loss by wholly or partially offsetting the negative effect of unfavorable price movements in the investments being hedged. However, hedging strategies can also reduce opportunity for gain by offsetting the positive effect of favorable price movements in the hedged investments. For example, if the Fund entered into a short hedge because the Investment Adviser projected a decline in the price of a security in the Fund, and the price of that security increased instead, the gain from that increase might be wholly or partially offset by a decline in the price of the Derivative Instrument. Moreover, if the price of the Derivative Instrument declined by more than the increase in the price of the security, the Fund could suffer a loss. Depending on the degree of correlation between a Derivative Instrument and the security or interest rate being hedged, it is possible that the Fund could sustain losses on both positions. Similarly, transaction costs incurred in connection with a Derivative Instrument can exceed the amount of the benefits received. In any such case, the Fund would have been in a better position had it not hedged at all.

(4) As described below, the Fund might be required to maintain assets as "cover," maintain segregated accounts or make margin payments when it takes positions in Derivative Instruments involving obligations to third parties (*i.e.*, Derivative Instruments other than purchase options). If the Fund is unable to close out its positions in such Derivative Instruments, it might be required to continue to maintain such assets or accounts or make such payments until the position expired or matured. These requirements might impair the Fund's ability to sell a portfolio security or make an investment at a time when it would otherwise be favorable to do so, or require that the Fund sell a portfolio security at a disadvantageous time. The Fund's ability to close out a position in a Derivative Instrument prior to expiration or

maturity depends on the existence of a liquid secondary market or, in the absence of such a market, the ability and willingness of a counterparty to enter into a transaction closing out the position. Therefore, there is no assurance that any hedging position can be closed out at a time and price that is favorable to the Fund.

(5) Although the Fund presently does, and intends to, purchase or sell futures contracts only if there is an active market for such contracts, no assurance can be given that a liquid market will exist for the contracts at any particular time. Most futures exchanges limit the amount of fluctuation permitted in futures contract prices during a single trading day. Once the daily limit has been reached in a particular contract, no trades may be made that day at a price beyond that limit. Futures contract prices could move the daily limit for several consecutive trading days with little or no trading, thereby preventing prompt liquidation of futures positions and subjecting some futures traders to substantial losses. In such event and in the event of adverse price movements, the Fund will be required to make daily cash payments of variation margin. In such circumstances, an increase in the value of the portion of the portfolio assets being hedged, if any, may offset, partially or completely, losses on the futures contract.

(6) If the Fund has hedged against the possibility of an increase in interest rates adversely affecting the value of securities held in its portfolio and rates decrease instead, the Fund will lose part or all of the benefit of the increased value of the securities which it has hedged because it will have offsetting losses in its futures positions. In addition, in such situations, if the Fund has insufficient cash, it may have to sell securities to meet daily variation margin requirements at a time when it may be disadvantageous to do so. These sales of securities may, but will not necessarily be at increased prices which reflect the decline in interest rates.

(7) Because of the low margin deposits normally required in futures contract trading (typically between 2% and 5% of the value of the contract purchased or sold), an extremely high degree of leverage is typical of a futures contract trading account. As a result, a relatively small price movement in a futures interest contract may result in immediate and substantial losses to the investor. For example, if at the time of purchase 5% of the price of a contract is deposited as margin, a 5% decrease in the value of the contract would, if the contract is then closed out, result in a total loss of the margin deposit before any deduction for brokerage commissions. A decrease of more than 5% would result in a loss of more than the total margin deposit. Thus, like other leveraged investments, any purchase or sale of a futures interest contract may result in losses in excess of the amount invested.

(8) Most U.S. commodity exchanges limit fluctuations in certain futures interest contract prices during a single day by regulations referred to as "daily price fluctuation limits" or "daily limits." Pursuant to such regulations, during a single trading day no trades may be executed at prices beyond the daily limits. Once the price of a contact for a particular commodity has increased or decreased by an amount equal to the daily limit, positions in the commodity can neither be taken nor liquidated unless traders are willing to effect trades at or within the limit. Prices in various contracts have occasionally moved the daily limit for several consecutive days with little or no trading. Similar occurrences could prevent the Fund from promptly liquidating unfavorable positions and subject the Fund to substantial losses. While daily limits may reduce or effectively eliminate the liquidity of a particular market, they do not limit ultimate losses, and may in fact substantially increase losses because they may prevent the liquidation of unfavorable positions.

In addition, the Fund may not be able to execute trades at favorable prices if little trading in the contracts involved is taking place. Under some circumstances, the Fund may be required to accept or make delivery of the underlying financial instrument if the position cannot be liquidated prior to its expiration date. It also is possible that an exchange or the CFTC may suspend trading in a particular contract, order immediate liquidation and settlement of a particular contract, or order that trading in a particular contract be conducted for liquidation only.

(9) The CFTC and the U.S. commodity exchanges have established limits referred to as "speculative position limits" or "position limits" on the maximum net long or net short position which any person or group of persons may own, hold, or control in particular futures contracts.

Under currently applicable regulations, the Fund as a whole is required to comply with position limits as if it were a single trader. Position limits may prevent the Fund from acquiring positions which might otherwise have been highly profitable. Any violation of speculative position limits would lead to mandatory liquidation of positions, possibly on unfavorable terms.

Cover. Transactions using Derivative Instruments that are not transacted on or subject to the rules of a regulated futures contract exchange or securities exchange, other than purchased options, may expose the Fund to an obligation to another party. The Fund may not enter into any such transactions unless it owns either (1)an offsetting ("covered") position in securities or other options or futures contracts or (2)cash, receivables and/or short-term debt securities, with a value sufficient at all times to cover its potential obligations to the extent not covered as provided in(1) above.

Assets used as cover cannot be sold while the position in the corresponding Derivative Instrument is open, unless they are replaced with similar assets. As a result, the commitment of a large portion of the Fund's assets to cover could impede portfolio management or the Fund's ability to meet other current obligations.

Covered Straddles. The Fund may purchase and write (sell) covered straddles on securities or bond indices. A long straddle is a combination of a call and a put option purchased on the same security or on the same futures contract, where the exercise price of the put is less than or equal to the exercise price of the call. The Fund would enter into a long straddle when the Investment Adviser believes that it is likely that interest rates will be more volatile during the term of the option than the option pricing implies. A short straddle is a combination of a call and a put written on the same security where the exercise price of the put is less than or equal to the exercise price of the call. The Fund would enter into a short straddle when the Investment Adviser believes that it is unlikely that interest rates will be as volatile during the term of the options as the option pricing implies.

Options. The Fund may purchase put and call options, and write covered put and call options, on debt securities and bond indices. The purchase of call options serves as a long hedge, and the purchase of put options serves as a short hedge. Writing covered put options can enable the Fund to enhance income by reason of the premiums paid by the purchasers of such options. However, if the market price of the underlying security declines to less than the exercise price

on the option, minus the premium received, the Fund would expect to suffer a loss. Writing covered call options serves as a limited short hedge, because declines in the value of the hedged investment would be offset to the extent of the premium received for writing the option. However, if the security appreciates to a price higher than the exercise price of the call option, it can be expected that the option will be exercised, and the Fund will be obligated to sell the security at less than its market value.

The value of an option position will reflect, among other things, the current market value of the underlying investment, the time remaining until expiration, the relationship of the exercise price to the market price of the underlying investment, the historical price volatility of the underlying investment and general market conditions. Options normally have expiration dates of up to nine months. Options that expire unexercised have no value.

The Fund may effectively terminate its right or obligation under an option by entering into a closing transaction. For example, the Fund may terminate its obligations under a call option that it had written by purchasing an identical call option; that is known as a closing purchase transaction. Conversely, the Fund may terminate a position in a put or call option it had purchased by writing an identical put or call option; this is known as a closing sale transaction. Closing transactions permit the Fund to realize profits or limit losses on an option position prior to its exercise or expiration.

The Fund may purchase or write both exchange-traded and OTC options. Exchange markets for options on debt securities exist but are relatively new, and these instruments are primarily traded on the OTC market. Exchange-traded options in the U.S. are issued by a clearing organization affiliated with the exchange on which the option is listed which, in effect, guarantees completion of every exchange-traded option transaction. In contrast, OTC options are contracts between the Fund and a counterparty (usually a securities dealer or a bank) with no clearing organization guarantee. Thus, when the Fund purchases or writes an OTC option, it relies on the party from whom it purchased the option or to whom it has written the option (the "counterparty") to make or take delivery of the underlying investment upon exercise of the option. Failure by the counterparty to do so would result in the loss of any premium paid by the Fund as well as the loss of any expected benefit of the transaction.

Generally, the OTC debt options used by the Fund are European-style options. This means that the option is only exercisable immediately prior to its expiration. This is in contrast to American-style options, which are exercisable at any time prior to the expiration date of the option.

The Fund's ability to establish and close out positions in exchange-listed options depends on the existence of a liquid market. The Fund presently does, and intends to, purchase or write only those exchange-traded options for which there appears to be a liquid secondary market. However, there is no assurance that such a market will exist at any particular time. Closing transactions can be made for OTC options only by negotiating directly with the counterparty, or by a transaction in the secondary market if any such market exists. Although the Fund may enter into OTC options only with contra parties that are expected to be capable of entering into closing transactions with the Fund, there is no assurance that the Fund will in fact be able to close out an OTC option position at a favorable price prior to expiration. In the event of insolvency of the counterparty, the Fund might be unable to close out an OTC option position at any time prior to its expiration.

If the Fund were unable to effect a closing transaction for an option it had purchased it would have to exercise the option to realize any profit. The inability to enter into a closing purchase transaction for a covered call option written by the Fund could cause material losses because the Fund would be unable to sell the investment used as cover for the written option until the option expires or is exercised.

Guideline for Options on Securities. In view of the risks involved in using the options strategies described above, the Fund's Board of Directors has determined that the Fund may purchase a put or call option, including any straddles or spreads, only if the premium paid when aggregated with the premiums on all other options held by the Fund does not exceed 5% of its total assets. This guideline may be modified by the Fund's Board of Directors without shareholder vote. Adoption of this guideline does not limit the percentage of the Fund's assets at risk to 5%.

Futures. The Fund may purchase and sell interest rate futures contracts and bond index futures contracts. The Fund may also purchase put and call options, and write covered put and call options, on futures in which it invests. The purchase of futures or call options thereon can serve as a long hedge, and the sale of futures or the purchase of put options thereon can serve as a short hedge. Writing covered call options on futures contracts can serve as a limited short hedge, using a strategy similar to that used for writing covered call options on securities or indices. Similarly, writing covered put options on futures contracts can serve as a limited long hedge.

The Fund may also write put options on interest rate futures contracts while at the same time purchasing call options on the same futures contracts in order synthetically to create a long futures contract position. Such options would have the same strike prices and expiration dates. The Fund may engage in this strategy only when it is more advantageous to the Fund than is purchasing the futures contract.

No price is paid upon entering into a futures contract. Instead, at the inception of a futures contract the Fund is required to deposit in a segregated account with its Custodian, in the name of the futures broker through whom the transaction was effected, "initial margin" consisting of cash, U.S. Government securities or other liquid, high-grade debt securities, in an amount generally equal to 2% to 5% or less of the contract, in accordance with applicable exchange rules. Unlike margin in securities transactions, initial margin on futures contracts does not represent a borrowing, but rather is in the nature of a performance bond or good-faith deposit that is returned to the Fund at the termination of the transaction if all contractual obligations have been satisfied. Under certain circumstances, such as periods of high volatility, the Fund may be required by an exchange to increase the level of its initial margin payment, and initial margin requirements might be increased generally in the future by regulatory actions.

Subsequent "variation margin" payments are made to and from the futures broker daily as the value of the futures position varies, a process known as "marking to market." Variation margin does not involve borrowing, but rather represents a daily settlement of the Fund's obligations to or from a futures broker. When the Fund purchases an option on a futures contract, the premium paid plus transaction costs is all that is at risk. In contrast, when the Fund purchases

or sells a futures contract or writes a put or call option thereon, it is subject to daily variation margin calls that could be substantial in the event of adverse price movements. If the Fund has insufficient cash to meet daily variation margin requirements, it might need to sell securities at a time when such sales are disadvantageous.

Holders and writers of futures positions and options on futures can enter into offsetting closing transactions, similar to closing transactions on options, by selling or purchasing, respectively, an instrument identical to the instrument held or written. Positions in futures and options on futures may be closed only on an exchange or board of trade that provides a secondary market. The Fund enters, and intends to, enter into futures transactions only on exchanges or boards of trade where there appears to be a liquid secondary market. However, there is no assurance that such a market will exist for a particular contract at a particular time. Secondary markets for options on futures are currently in the development stage, and the Fund may not trade options on futures on any exchange or board of trade unless, in the Investment Adviser's opinion, the markets for such options have developed sufficiently that the liquidity risks for such options are not greater than the corresponding risks for futures.

Under certain circumstances, futures exchanges may establish daily limits on the amount that the price of a future or related option can vary from the previous day's settlement price; once that limit is reached, no trades may be made that day at a price beyond the limit. Daily price limits do not limit potential losses because prices could move to the daily limit for several consecutive days with little or no trading, thereby preventing liquidation of unfavorable positions.

If the Fund was unable to liquidate a futures or related options positions due to the absence of a liquid secondary market or the imposition of price limits, it could incur substantial losses. The Fund would continue to be subject to market risk with respect to the position. In addition, except in the case of purchased options, the Fund would continue to be required to make daily variation margin payments and might be required to maintain the position being hedged by the future or option.

Certain characteristics of the futures market might increase the risk that movements in the prices of futures contracts or related options might not correlate perfectly with movements in the prices of the investments being hedged. For example, all participants in the futures and related options markets are subject to daily variation margin calls and might be compelled to liquidate futures or related options positions whose prices are moving unfavorably to avoid being subject to further calls. These liquidations could increase price volatility of the instruments and distort the normal price relationship between the futures or options and the investments being hedged. Also, because initial margin deposit requirements in the futures market are less onerous than margin requirements in the securities markets, there might be increased participation by speculators in the futures markets. This participation also might cause temporary price distortions. In addition, activities of large traders in both the futures and securities markets involving arbitrage, "program trading" and other investment strategies might result in temporary price distortions.

Guideline for Futures and Related Options. In view of the risks involved in using the futures and options strategies that are described above, the Fund's Board of Directors has determined that the Fund may not purchase or sell futures contracts or related options if, immediately thereafter, the sum of the amount of initial margin deposits on existing futures positions and initial margin deposits and premiums paid for related options would exceed 5% of its total assets. This guideline may be modified by the Fund's Board of Directors without shareholder vote. For purposes of this guideline, options on futures contracts traded on a commodities exchange are considered "related options." Adoption of this guideline does not limit the percentage of the Fund's assets at risk to 5%.

The Fund may use the following Derivative Instruments:

Options on Debt Securities. A call option is a short-term contract pursuant to which the purchaser of the option, in return for a premium, has the right to buy the security underlying the option at a specified price at any time during the term of the option. The writer of the call option, who receives the premium, has the obligation, upon exercise of the option during the option term to deliver the underlying security against payment of the exercise price. A put option is a similar contract that gives its purchaser, in return for a premium, the right to sell the underlying security at a specified price during the option term. The writer of the put option, who receives the premium, has the obligation, upon exercise of the option during the option term, to buy the underlying security at the exercise price.

Options on Bond Indices. A bond index assigns relative values to the debt securities included in the index and fluctuates with changes in the market values of those debt securities. A bond index option operates in the same way as a more traditional option on a debt security, except that exercise of a bond index option is effective with cash payment and does not involve delivery of securities. Thus, upon exercise of a bond index option, the purchaser will realize, and the writer will pay, an amount based on the difference between the exercise price and the closing price of the bond index.

Interest Rate Futures Contracts. Interest rate futures contracts are bilateral agreements pursuant to which one party agrees to make, and the other party agrees to accept, delivery of a specified type of debt security or other interest rate instruments at a specified future time and at a specified price or its equivalent cash-settled value. Although such futures contracts by their terms call for actual delivery or acceptance of debt securities or other interest rate instruments, in most cases the contracts are closed out before the settlement date without the making or taking of delivery of the debt security or other interest rate instrument.

Options on Futures Contracts. Options on futures contracts are similar to options on securities, except that an option on a futures contract gives the purchaser the right, in return for the premium, to assume a position in a futures contract (a long position if the option is a call and a short position if the option is a put), rather than to purchase or sell a security, at a specified price at any time during the option term. Upon exercise of the option, the delivery of the futures position to the holder of the option will be accompanied by delivery of the accumulated balance that represents the amount by which the market price of the futures contract exceeds, in the case of a call, or is less than, in the case of a put, the exercise price of the option on the future. The writer of an option, upon exercise, will assume a short position in the case of a call and a long position in the case of a put.

Bond Index Futures. A bond index futures contract is a bilateral agreement pursuant to which one party agrees to accept, and the other party agrees to make, delivery of an amount of cash equal to a specified dollar amount times the

difference between the bond index value at the close of trading of the contract and the price at which the futures contract is originally struck. No physical delivery of the debt securities comprising the index is made. Generally, contracts are closed out prior to the expiration date of the contract.

Swaps and Interest Rate Protection Transactions. The Fund has, and may in the future, enter into interest rate and other swaps, including interest rate protection transactions, interest rate caps, collars and floors. Swap transactions involve an agreement between two parties to exchange payments that are based, respectively, on indices or specific securities or other assets, such as variable and fixed-rates of interest that are calculated on the basis of a specified amount of principal (the "notional principal amount") for a specified period of time. Interest rate cap and floor transactions involve an agreement between two parties in which the first party agrees to make payments to the counterparty when a designated market interest rate goes above (in the case of a cap) or below (in the case of a floor) a designated level on predetermined dates or during a specified time period. Interest rate collar transactions involve an agreement between two parties in which the first party makes payments to the counterparty when a designated market interest rate goes above a designated level of predetermined dates or during a specified time period, and the counterparty makes payments to the first party when a designated market interest rate goes below a designated level on predetermined dates or during a specified time period.

The Fund may engage in swap transactions directly with other counterparties. This subjects the Fund to the credit risk that a counterparty will default on an obligation to the Fund. Such a risk contrasts with transactions done through exchange markets, wherein credit risk is reduced through the collection of variation margin and through the interposition of a clearing organization as the guarantor of all transactions. Clearing organizations transform the credit risk of individual counterparties into the more remote risk of the failure of the clearing organization. Additionally, the financial integrity of swap transactions is generally unsupported by other regulatory or self-regulatory protections such as margin requirements, capital requirements, or financial compliance programs. Therefore, there are much greater risks of defaults with respect to swap transactions than with respect to exchange-traded futures or securities transactions.

The Fund expects to enter into interest rate protection transactions to preserve a return or spread on a particular investment or portion of its portfolios to protect against any increase in the price of securities the Fund anticipates purchasing at a later date or to effectively fix the rate of interest that it pays on one or more borrowings or series of borrowings. The Fund presently does, and intends to, use these transactions as a hedge and not as a speculative investment.

The Fund has, and may in the future, enter into swaps, caps, collars and floors on either an asset-based or liability-based basis, depending on whether it is hedging its assets or its liabilities, and usually enters into interest rate swaps on a net basis, *i.e.*, the two payment streams are netted out, with the Fund receiving or paying, as the case may be, only the net amount of the two payments. Inasmuch as these transactions are entered into for good faith hedging purposes, the Investment Adviser and the Fund believe such obligations do not constitute debt securities and, accordingly, does not treat them as being subject to its borrowing restrictions.

The Fund may enter into such transactions only with banks and recognized securities dealers believed by the Investment Adviser to present minimal credit risks in accordance with guidelines established by the Fund's Board of Directors. If there is a default by the other party to such a transaction, the Fund may have to rely on its contractual remedies (which may be limited by bankruptcy, insolvency or similar laws) pursuant to the agreements related to the transaction.

The swap market has grown substantially in recent years with a large number of banks and investment banking firms acting both as principals and as agents utilizing standardized swap documentation. Caps, collars and floors are more recent innovations for which documentation is less standardized, and accordingly, they are less liquid than swaps.

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APPENDIX F

PRIVACY POLICY

The Fund is committed to protecting the personal information that it collects about individuals who are prospective, former or current investors. The Fund collects personal information for business purposes to process requests and transactions and to provide customer service. Personal information is obtained from the following sources:

Investor applications and other forms, which may include your name(s), address, social security number, or tax identification number;

Written and electronic correspondence, including telephone contacts; and

Account history, including information about the Fund's transactions and balances in your accounts with UBS Financial Services Inc. or our affiliates, other fund holdings in any UBS Financial Services Puerto Rico Family of Funds, and any affiliation with UBS AG and its subsidiaries.

The Fund limits access to personal information to those employees who need to know that information in order to process transactions and service accounts. Employees are required to maintain and protect the confidentiality of personal information. The Fund maintains physical, electronic, and procedural safeguards to protect personal information.

The Fund may share personal information described above with its affiliates for business purposes, such as to facilitate the servicing of accounts. The Fund may share the personal information described above for business purposes with an unaffiliated third party only if the entity is under contract to perform transaction processing, servicing or maintaining investor accounts on behalf of the Fund. The Fund may share personal information with its affiliates or other companies who are not affiliates of the Fund that perform marketing services on the Fund's behalf or to other financial institutions with whom it has marketing agreements for joint products or services. These companies are not permitted to use personal information for any purposes beyond the intended use (or as permitted by law). No Fund sells personal information to third parties for their independent use. The Fund may also disclose personal information to regulatory authorities or otherwise as permitted by law.

No person has been authorized to give any information or to make any representations in connection with this offering other than those contained in this Offering Circular and, if given or made, such other information and representations must not be relied upon as having been authorized by the Fund or any underwriter, dealer, or agent. Neither the delivery of this Offering Circular nor any sale made hereunder will, under any circumstances, create any implication that there has been no change in the affairs of the Fund since the date hereof or that the information contained herein is correct as of any time subsequent to its date. However, if any material change occurs while this Offering Circular is required by law to be delivered, the Offering Circular will be amended or supplemented accordingly. This Offering Circular does not constitute an offer to sell or a solicitation of an offer to buy any securities other than the securities to which it relates. This Offering Circular does not constitute an offer to sell or a solicitation of an offer to buy such securities in any circumstances in which such offer or solicitation is unlawful.

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Puerto Rico Fixed Income Fund IV, Inc.

Tax-Free Secured Obligations

OFFERING CIRCULAR

UBS Financial Services Incorporated of Puerto Rico

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