



# U.S. Municipal & Income Fund, Inc. Quarterly Review

First Quarter 2016

# U.S. Municipal & Income Fund, Inc.

As of March 31, 2016

## Investment objective

- Seeks current income, consistent with the preservation of capital.

## Portfolio managers

- Commenced operations in January 2013.
- UBS Asset Managers of Puerto Rico, Investment Adviser since January 2013.
- Nuveen Asset Management, Sub-adviser for the U.S. portion since January 2013.

## Investment strategy; Legal requirement

- As its investment strategy, the Fund will invest up to 80% of the Fund's assets (such amount as determined by the Fund's Investment Adviser from time to time, the "U.S. Portion") primarily in United States municipal securities with no more than 5% of the assets of the U.S. Portion invested in the securities of a single issuer.
- As required by law, the Fund will invest at least 20% of the Fund's assets in taxable securities issued by Puerto Rico issuers (the "Taxable PR Securities Portion"), which will be comprised of securities issued by a limited number of eligible issuers in one or

more sectors, none of which, currently, are municipal issuers.

## Investment policy

- As its investment policy, under normal conditions at least 95% of the Fund's total assets will be invested in securities which, at the time of purchase, (i) are rated investment grade by a nationally recognized statistical rating organization, or (ii) which are determined by the Fund's Investment Adviser or sub-adviser to be of comparable credit quality.

## Sub-adviser for the U.S. portion—Strategy profile

- Nuveen Asset Management employs a bottom-up, active-management approach to investing in the taxable municipal market. With a deep municipal research team, Nuveen Asset Management is well positioned to evaluate and trade municipal securities; it has followed many of these municipal credits for years.

## Pricing and distribution history

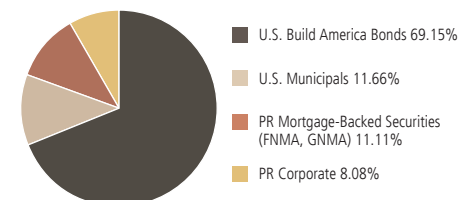
Initial Public Offering (IPO)	\$10.00
YTD NAV Change	\$0.55
IPO Yield <sup>2</sup>	5.00%
Current Yield <sup>2</sup>	4.90%
Last Dividend Paid	\$0.04170
Last 12 Month Dividend	\$0.4949

Bloomberg Ticker: USMIFCA<sup>3</sup>

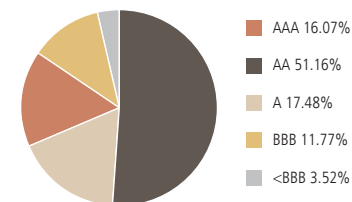
## Portfolio statistics<sup>2</sup>

Commencement	January 2013
Shares Outstanding (mm)	10.29
Net Asset Value (NAV)	\$10.22
Net Assets (mm)	\$105.15
Leverage (mm)	\$62.78
Undistributed Income	\$3,055,224
Fiscal Year	December 31
Weighted Avg. Coupon	6.31%
Average Maturity (yrs)	19.59
Average Duration (yrs)	9.86
Effective Duration (yrs)	8.98
Leverage Adjusted Effective Duration (yrs) <sup>4</sup>	14.34
Leverage %	37.34%
Leverage Cost	1.20%

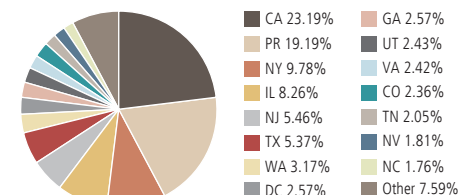
## Portfolio summary<sup>6</sup>



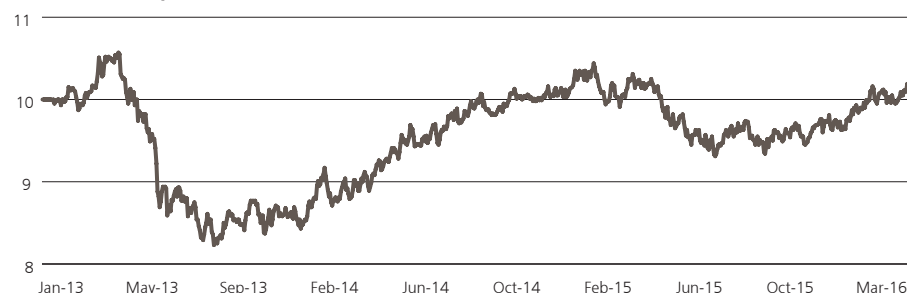
## Credit quality<sup>1,6</sup>



## Geographical concentration<sup>6</sup>



## NAV since Inception



Top ten holdings	
PR Corp - Auto Metro 6.75% 6/30/2035	8.08%
MBS - FNMA AR5162 3.50% 5/01/2043	3.91%
MBS - FNMA AR5155 3.50% 4/01/2043	2.58%
MBS - GNMA 693267 5.6% 4/15/2037	2.58%
BAB - U.S. Muni - Metropolitan Wash D 7.462% 10/01/2046	2.57%
BAB - U.S. Muni - Dallas Tex Conventio 7.088% 1/01/2042	2.48%
BAB - U.S. Muni - Metropolitan Transn 7.336% 11/15/2039	2.47%
BAB - U.S. Muni - Los Angeles Calif De 6.582% 5/15/2039	2.43%
U.S. Muni - Tobacco Settlement F 6.706% 6/01/2046	2.42%
BAB - U.S. Muni - Illinois St Toll Hwy 6.184% 1/01/2034	2.39%

#### Portfolio holdings summary<sup>5,6</sup>

##### PR Obligations

Mortgage-Backed Securities FNMA, GNMA	11.11%
Corporate	8.08%

##### PR Obligations 19.19%

##### U.S. Obligations

Build America Bonds	69.15%
U.S. Municipals	11.66%

##### U.S. Obligations 80.81%

##### Total Portfolio Holdings 100.00%

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**UBS Financial Services Incorporated of Puerto Rico is a subsidiary of UBS Financial Services Inc.**

#### Special considerations

U.S. Municipal & Income Fund, Inc. (the "Fund") is a non-diversified, open-end management investment company registered under the Puerto Rico Investment Companies Act of 1954, as amended. Shares are offered only to Puerto Rico Residents on a continuous basis, by means of a Prospectus. The value of the shares will depend on the value of the underlying investments held by the Fund, which will fluctuate with market factors.

#### Repurchase agreement tax disclosure

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 Puerto Rico 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 Puerto Rico Treasury Department could take that position in the future and that Puerto Rico courts would agree with that

#### Glossary of fund terms

**Average duration:** an estimate (in years) of how much a portfolio's aggregate value fluctuates with respect to changes in comparable interest rates. It measures the change in value of a portfolio that should result from a 1% change in interest rates. The shorter the duration, the less sensitive an investment company's portfolio is to changes in interest rates. For a portfolio of bonds, the weighted average of all such portfolio's individual securities is provided.

**Credit quality:** a measure of the likelihood that a financial obligation will not be honored provided by one or more of the rating agencies. Rating agencies assign classifications to their ratings, with "AAA" being the highest and "D" being the lowest for Standard & Poor's Ratings Services ("S&P"). The Fund may use other ratings and adjust them for use in this scale.

#### Footnotes:

<sup>1</sup> As of March 31, 2016, using an S&P equivalent ratings scale. The Fund's investment portfolio is actively managed, and its composition (including the portfolio statistics and characteristics) will vary over time. Credit quality percentages include only fixed income securities and vary over time, as new investment securities are acquired and the credit rating of any investment held by the Fund is reassessed. To the extent that the Fund's maximum investment threshold in below investment-grade (below "BBB" rating) securities is exceeded, the Fund's investment adviser may determine to continue to hold such lower-rated securities, provided any new investment proceeds are directed to acquire investment securities which satisfy the Fund's minimum credit rating requirements. Currently, the Fund's percentage investment in securities rated below investment-grade (below "BBB" rating) or which are unrated, amounted to 3.52% of the Fund's total portfolio, which does not exceed the Fund's maximum investment threshold of 5%

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 seller, the dividends distributed on its shares from such income could be treated either as taxable dividends or capital gain dividends. If such dividends were treated as taxable dividends, holders of the Fund's shares who are individuals or Puerto Rico trusts taxed as individuals could be subject to a 15% income tax on the dividend (or the applicable alternate basic tax), and those that are corporate investors would be subject to a maximum effective income tax rate of 5.85% (due to the 85% dividend received deduction of the Puerto Rico Internal Revenue Code of 2011, as amended, 15% of the dividend multiplied by the 39% maximum corporate income tax rate). On the other hand, if such dividends were treated as capital gains dividends, these holders of the Fund's shares would be subject to a 15% (or applicable alternate basic tax) and 20% income tax, respectively.

#### Legal disclaimer

Past performance does not guarantee future results. Current performance may be lower or higher than the performance quoted. Securities issued by the Fund are

**Leverage adjusted effective duration:** effective duration adjusted for the impact of the Fund's utilization of leverage. A Fund that utilizes leverage will have a leverage-adjusted effective duration that is longer than its effective duration.

**Leverage:** the Fund may issue preferred stock or debt, enter into repurchase agreements, or borrow money, in order to increase the amounts available for investment ("leverage"). This gives the Fund's investment adviser, in the fixed income area in particular, the opportunity to enhance yield. The use of leverage increases the likelihood of price volatility and market risk for the Fund's shares. There is also the risk that the cost of funding leverage will exceed the earnings on the related investments, which will have the likely effect of reducing the Fund's yield and the value of its investments.

of its total assets invested in securities rated below investment-grade or which are unrated.

<sup>2</sup> "IPO Yield" is calculated by multiplying the current month's distribution by twelve (12) and dividing by the initial public offering price. "Current Yield" is calculated by multiplying the current month's distribution by twelve (12) and dividing by the current NAV.

<sup>3</sup> You may access the Bloomberg website for historical NAV and dividend information under Bloomberg ticker USMIFCA.

<sup>4</sup> The Fund implemented a hedge to lower the duration of the portfolio. As of March 31, 2016, the hedge consisted of a short position in June 2016 U.S. Long Bond Futures (WNM6). The Investment Adviser may decide in the future to use the same, different, or various combinations of futures contracts to hedge duration. The use of futures and other derivatives involve certain risks, and may result in loss. The use of derivatives may, or may not, be effective in achieving said investment goals.

subject to market risk, including the loss of principal amounts invested. This document is not an offer to sell, or the solicitation of an offer to buy, any investment in the Fund and is for informational purposes only. Fund investments are designed primarily and suitable for long-term investors and should not be viewed as a vehicle for trading purposes. They may not be suitable for all investors. Fund investments are not equivalent to investments in its underlying securities. The Fund's utilization of leverage poses certain risks to investors, and in some cases, interest rate fluctuations may increase the volatility of its return and affect the Fund to a significantly greater extent than a non-leveraged investment company. **More detailed information about the Fund, including applicable fees, costs, penalties, investment objectives and policies, risk factors, and the effects of leverage, is further described in the Fund's prospectus, which you should read carefully prior to making an investment.** To obtain additional information related to the Fund or a copy of the Fund's prospectus or annual report, please contact the UBS Puerto Rico Family of Funds at 787-773-3888. To obtain the Fund's month-end performance or more up-to-date information, please contact your UBS Financial Advisor or see "press releases" at [ubs.com/prfunds](http://ubs.com/prfunds).

**Maturity:** date on which the face value of a security/ bond must be repaid. It measures the average length to maturity in years of all the bonds in the Fund's portfolio.

**NAV:** Net Asset Value. On a per-share basis, it is determined by calculating the Fund's total assets less its total liabilities and dividing such result by the Shares outstanding. On an aggregate, Fund basis, it is determined by calculating the Fund's total assets less its total liabilities.

**Undistributed income:** the Fund's net income that has not been distributed to holders of its shares as of the latest available audited financial statements. In the case of a target maturity-type investment company (which is liquidated on or by a specific date), it also includes the amounts to be distributed on or by the liquidation date as the return of the initial investment. For a definition of other terms, please see the Fund's prospectus.

<sup>5</sup> The Fund must invest at least 20% of the total market value of the Fund's portfolio securities (including, but not limited to, portfolio securities purchased with the proceeds of leverage) and cash, including cash equivalents, but excluding non-cash, non-portfolio securities items (including, but not limited to, prepaid items, receivables, and swaps marked-to-market), in Puerto Rico taxable securities. Additionally, the Fund may issue preferred stock, debt securities, or other forms of leverage, representing not more than 50% of the total market value of the Fund's portfolio securities (including, but not limited to, portfolio securities purchased with the proceeds of leverage), cash (including cash equivalents), and non-cash, non-portfolio securities items (including, but not limited to, prepaid items, receivables, and swap marked-to-market), immediately after the issuance of any such preferred stock or other debt securities.

<sup>6</sup> Percentages may not total 100% due to rounding.