
U.S. MUNICIPAL & INCOME FUND, INC.

PROSPECTUS

July 21, 2015

This Fund is offered exclusively to individuals whose principal residence is within the Commonwealth of Puerto Rico and to persons, other than individuals, whose principal office and principal place of business are located within the Commonwealth of Puerto Rico ("Puerto Rico Residents"), provided that if such person is a non-business trust, the trustee and all beneficiaries of the trust must be Puerto Rico residents.

Before investing you should consider carefully the "Principal Risks" beginning on page 2 of this Prospectus, including the risk of loss of principal, as well as those considerations described under "More about Risks" beginning on page 9 of this Prospectus and "Special Leverage Considerations" on pages 2 and 21 of this Prospectus.

The Fund may raise additional cash to invest by issuing preferred stock, debt securities and other forms of leverage. The use of leverage is a speculative investment technique and can result in large changes – both positive and negative – in the net asset value of the Fund Shares, and increased risk for Fund investors. See "Special Leverage Considerations" on pages 2 and 21 of this Prospectus.

An investment in the Fund is subject to taxation as described under "Dividends and Taxes" beginning on page 43 of this Prospectus.

Class A shares will be sold at the net asset value of those shares, as next calculated after the purchase order is placed, plus an initial sales charge of up to 3.75%.

For a complete description of applicable sales loads and expenses payable by the Fund, please see "Expenses and Fee Tables" on page 7 and "Managing your Fund Account" on page 25 of this Prospectus.

The Fund is not and should not be deemed to be a complete or balanced investment program.

U.S. Municipal & Income Fund, Inc. (the "Fund")—

- Is a non-diversified, open-end management investment company incorporated in the Commonwealth of Puerto Rico on September 27, 2012 and registered under the Puerto Rico Investment Companies Act of 1954, as amended.
- Shares of the Fund are offered on a continuous basis only to Puerto Rico residents, by means of this Prospectus.

Your Investment—

- The value of shares will depend on the value of the underlying investments held by the Fund, which will fluctuate with market factors. The value of an investment in the Fund may be more or less than the original amount invested. An investment in **these securities entails investment risk**.
- The Fund currently offers one class of shares of common stock—Class A shares. The sales charges and ongoing expenses for Class A shares are described in more detail in this Prospectus under "Managing Your Fund Account" beginning on page 25. The Fund may offer other classes of shares at a later time.

Investment Objective, Investment Strategy, Investment Policy and Legally Required Investments—

- As its investment objective, the Fund seeks current income, consistent with the preservation of capital. No assurance can be given that the Fund will achieve its investment objective.
- As its investment strategy, 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") will be invested primarily in United States municipal securities. The Fund's Investment Adviser, UBS Asset Managers of Puerto Rico, will engage a sub-investment adviser (Nuveen Asset Management, LLC) to manage the U.S. Portion. Although the Fund is a non-diversified investment company under the provisions of the Puerto Rico Investment Companies Act, the U.S. Portion will, as part of its investment strategy, comply with the investment requirements of a diversified investment company, i.e. no more than 5% of the assets of the U.S. Portion will be invested in the securities of a single issuer. Assets not managed by the sub-investment adviser will be managed by the Investment Adviser directly.
- 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, are (i) rated investment grade by a nationally recognized statistical rating organization, or (ii) determined by the Fund's Investment Adviser or sub-investment adviser to be of comparable credit quality.
- By law, the Fund must invest at least 20% of its total assets in taxable securities issued by Puerto Rico issuers, including mortgage-backed and asset-backed securities, bank deposits, reverse repurchase agreements, corporate obligations and preferred stock and securities issued by the Commonwealth of Puerto Rico and its political subdivisions and instrumentalities (the "Taxable PR Securities Portion"). The Taxable PR Securities Portion 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.

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THE SECURITIES DESCRIBED IN THIS PROSPECTUS ARE OFFERED FOR SALE ONLY IN THE COMMONWEALTH OF PUERTO RICO THROUGH REGISTRATION OF THE FUND WITH THE OFFICE OF THE COMMISSIONER OF FINANCIAL INSTITUTIONS OF PUERTO RICO AS AN INVESTMENT COMPANY UNDER THE PUERTO RICO INVESTMENT COMPANIES ACT OF 1954. THE SECURITIES HAVE NOT BEEN REGISTERED WITH THE U.S. SECURITIES AND EXCHANGE COMMISSION UNDER THE SECURITIES ACT OF 1933 OR WITH THE OFFICE OF THE COMMISSIONER OF FINANCIAL INSTITUTIONS OF PUERTO RICO AND THE FUND HAS NOT BEEN REGISTERED UNDER THE U.S. INVESTMENT COMPANY ACT OF 1940. NEITHER THE U.S. SECURITIES AND EXCHANGE COMMISSION NOR THE OFFICE OF THE COMMISSIONER OF FINANCIAL INSTITUTIONS OF PUERTO RICO HAVE PASSED IN ANY WAY UPON THE MERITS OF OR RECOMMENDED OR GIVEN APPROVAL FOR THE SECURITIES. ANY REPRESENTATION TO THE CONTRARY IS A CRIME.

THE SHARES ARE OFFERED EXCLUSIVELY TO INDIVIDUALS HAVING THEIR PRINCIPAL RESIDENCE WITHIN THE COMMONWEALTH OF PUERTO RICO AND TO PERSONS, OTHER THAN INDIVIDUALS, ORGANIZED UNDER THE LAWS OF PUERTO RICO AND WHOSE PRINCIPAL OFFICE AND PRINCIPAL PLACE OF BUSINESS ARE LOCATED WITHIN PUERTO RICO, PROVIDED THAT IF THE ENTITY IS A NON-BUSINESS TRUST, THE TRUSTEE AND ALL TRUST BENEFICIARIES ARE ALSO PUERTO RICO RESIDENTS.

INVESTMENT IN THE FUND IS NOT INSURED OR GUARANTEED BY THE U.S. GOVERNMENT OR BY THE GOVERNMENT OF THE COMMONWEALTH OF PUERTO RICO. YOU SHOULD BE AWARE THAT THE SECURITIES ARE NOT AN OBLIGATION OF OR GUARANTEED BY UBS TRUST COMPANY OF PUERTO RICO OR ANY OF ITS AFFILIATES. IN ADDITION, YOUR INVESTMENT IN THE FUND IS NOT A DEPOSIT AND IS NOT INSURED BY THE FEDERAL DEPOSIT INSURANCE CORPORATION OR ANY OTHER AGENCY OF THE U.S. GOVERNMENT OR THE GOVERNMENT OF THE COMMONWEALTH OF PUERTO RICO.

The Fund's principal office is located at 250 Muñoz Rivera Avenue, Tenth Floor, San Juan, Puerto Rico 00918 and its telephone number is (787) 773-3888.

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The Fund is not a complete or balanced investment program.

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U.S. Municipal & Income Fund, Inc.

INVESTMENT OBJECTIVE, INVESTMENT STRATEGY, INVESTMENT POLICY, LEGALLY REQUIRED INVESTMENTS, SPECIAL LEVERAGE CONSIDERATIONS, AND PRINCIPAL RISKS

About the Fund

U.S. Municipal & Income Fund, Inc. (the “Fund”) is an open-end investment company, incorporated under the laws of Puerto Rico, and a non-diversified management investment company registered under the Puerto Rico Investment Companies Act of 1954, as amended (the “Puerto Rico Investment Companies Act”). Shares of the Fund are offered only to Puerto Rico Residents, as described below, on a continuous basis by means of this Prospectus.

Investment Objective

The Fund’s investment objective is current income, consistent with the preservation of capital. No assurance can be given that the Fund will achieve its investment objective.

Investment Strategy, Investment Policy and Legally Required Investments

As its investment strategy, the Fund’s U.S. Portion will be invested primarily in United States municipal securities. The Fund’s Investment Adviser, UBS Asset Managers of Puerto Rico, will engage a sub-investment adviser (Nuveen Asset Management, LLC) to manage the U.S. Portion. Although the Fund is a non-diversified investment company under the provisions of the Puerto Rico Investment Companies Act, the U.S. Portion will, as part of its investment strategy, comply with the investment requirements of a diversified investment company, i.e. no more than 5% of the assets of the U.S. Portion will be invested in the securities of a single issuer. Assets not managed by the sub-investment adviser will be managed by the Investment Adviser directly.

In addition, although the Fund is not subject to the provisions of the U.S. Investment Company Act of 1940, as amended (the “U.S. Investment Company Act”), it currently intends to comply with the investment requirements of a diversified investment company which is subject to the provisions of such Act. As a result, (i) with respect to 75% of the Fund’s total assets, the Fund will not invest more

than 5% of its assets in the securities of a single issuer, and (ii) the Fund will not own more than 10% of the voting securities of any issuer.

As the Fund’s investment policy, at least 95% of the Fund’s total assets will be invested in securities which, at the time of purchase, are (i) rated investment grade by a nationally recognized statistical rating organization, or (ii) determined by the Fund’s Investment Adviser or sub-investment adviser to be of comparable credit quality. See “INVESTMENT OBJECTIVE” and “INVESTMENT POLICY”.

As required by law, the Taxable PR Securities Portion will be invested in taxable securities issued by Puerto Rico issuers. These include securities issued by the Commonwealth of Puerto Rico and its political subdivisions and instrumentalities, Puerto Rico mortgage-backed and asset-backed securities, bank deposits, reverse repurchase agreements, corporate obligations and preferred stock of Puerto Rico entities (which may include entities organized under the laws of foreign jurisdictions, provided such entities meet a Puerto Rico source of income test), and other securities that the Investment Adviser may select, consistent with the Fund’s investment objective and policies, none of which, currently, are municipal issuers. The assets managed by the Investment Adviser in excess of the Taxable PR Securities Portion may include tax-exempt securities issued by Puerto Rico issuers and other fixed income securities.

The Fund’s investment objective may not be changed, unless such change is authorized by (i) the holders of a majority of the Fund’s outstanding Class A shares, if the change is recommended by the Board or at least 75% of the Fund’s outstanding Class A shares if the change is not recommended by the Board and (ii) the Office of the Commissioner of Financial Institutions of Puerto Rico (the “Commissioner”). The Fund’s investment strategy may be changed by the Investment Adviser in its discretion. The Fund’s investment policy may be changed by vote of the Board of Directors without

the approval of either the shareholders or the Commissioner.

Special Leverage Considerations

The Fund raises additional cash to invest by issuing fixed income securities (which include debt securities, preferred stock and trust preferred securities) or other forms of leverage, which may not represent more than 50% of the Fund's total assets immediately after issuance of such leverage.

The use of leverage is a speculative investment technique which involves risk to a greater extent than if you invested in a non-leveraged fund. This risk includes the possibility of greater increases or decreases in the net asset value of your investment in the Class A shares. The effects of leverage may cause you to lose some or all amounts invested. See "MORE ABOUT RISKS" and "SPECIAL LEVERAGE CONSIDERATIONS."

Principal Risks

The following is a summary discussion of the principal risks of investing in the Fund. There can be no guarantee that the Fund will meet its investment objective or that the performance of Fund will be positive for any period of time. An investment in the Fund is not guaranteed. You may lose money by investing in the Fund.

Investment and Market Risk. The Fund's investments may be adversely affected by the performance of U.S., Puerto Rico, and foreign investment securities markets, which, in turn, may be influenced by a number of factors, including (i) the level of interest rates, (ii) the rate of inflation, (iii) political decisions, (iv) fiscal policy, and (v) current events in general. Because the Fund invests in investment securities, the Fund's net asset value may fluctuate due to market conditions, and as a result you may experience a decline in the value of your investment in the Fund and **you may lose money.**

An investment in the shares offered by the Fund is designed primarily, and is suitable only, for long-term investors, and is not suitable for all investors. Further, an investment in the Fund is not equivalent to an investment in the underlying securities of the Fund and investors in Fund shares should not view the Fund as a vehicle for trading purposes.

General Municipal Securities Market Risk. The amount of public information available about the municipal securities in the Fund's portfolio is generally less than that for corporate equities or bonds, and the Fund's investment performance may therefore be more dependent on the Investment Adviser's and sub-

investment adviser's analytical abilities. The secondary market for municipal securities, particularly the below investment grade municipal securities in which the Fund may invest, also tends to be less developed or liquid than many other securities markets, which may adversely affect the Fund's ability to sell its municipal securities at attractive prices.

Build America Bonds ("BABs") Risk. The BABs market is smaller and less diverse than the broader municipal securities market. In addition, BABs may experience less liquidity than other types of municipal securities. The number of BABs available in the market is limited and there can be no assurance that BABs will be actively traded. Reduced liquidity may negatively affect the value of the BABs.

Because issuers of direct pay BABs held in the Fund's portfolio receive reimbursement from the U.S. Treasury with respect to interest payment on bonds, there is a risk that those municipal issuers will not receive timely payment from the U.S. Treasury and may remain obligated to pay the full interest due on direct pay BABs held by the Fund. Furthermore, it is possible that a municipal issuer may fail to comply with the requirements to receive the direct pay subsidy or that a future Congress may terminate the subsidy altogether.

Certain aspects of the BABs program may be subject to additional Federal or state level guidance or subsequent legislation. For example, the Internal Revenue Service ("IRS") or U.S. Treasury could impose restrictions or limitations on the payments received. Aspects of the BABs program for which the IRS and the U.S. Treasury have solicited public comment include, but have not been limited to, methods for making direct payments to issuers, the tax procedural framework for such payments, and compliance safeguards. It is not known what additional procedures will be implemented with respect to direct pay BABs, if any, nor is it known what effect such possible procedures would have on the BABs market.

The Fund may invest significantly in BABs and if it does, the Fund's net asset value may be more volatile than the value of a more broadly non-diversified portfolio and may fluctuate substantially over short periods of time. Because BABs do not include certain industries or types of municipal bonds (i.e., tobacco bonds or private activity bonds), there may be less diversification than with a broader pool of municipal securities.

Restrictions on the Transfer of Class A Shares and Loss of Tax Benefits. The Class A shares may only be transferred by operation of law, and only to Puerto Rico Residents. In addition, shareholders of the Fund

("Shareholders") who cease to be Puerto Rico Investors (as defined in "Dividends and Taxes" below) may no longer have available the tax benefits that make the Fund an attractive investment.

Interest Rate Risk. The value of fixed income securities such as those in which Fund may invest generally can be expected to fall when interest rates rise and to rise when interest rates fall. Interest rate risk is the risk that interest rates will rise, and that as a result the value of the Fund's investments will fall. The Fund is subject to interest rate risk. Prices of intermediate and long term fixed income securities generally change more in response to interest rate changes than prices of shorter term fixed income securities. To the extent the Fund invests primarily in intermediate and long term fixed income securities, the net asset value per Class A share will fluctuate more in response to changes in market interest rates than if the Fund invested primarily in shorter term fixed income securities.

Credit Risk. Credit risk is the risk that fixed income securities 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 Fund is subject to credit risk. The risk is greater in the case of securities rated below investment grade, or rated in the lowest investment grade category. The Fund may invest up to 5% of its total assets in securities that are rated below investment grade or that are of comparable credit quality.

Lower-Rated and Below Investment Grade Securities. The Fund intends to invest at least 95% of its assets in fixed-income securities that, at the time of purchase, are rated "investment grade," that is, rated "AAA," "AA," "A" or "BBB" by Standard & Poor's, a Division of The McGraw Hill Companies ("S&P"), "Aaa," "Aa," "A" or "Baa" by Moody's Investors Service, Inc. ("Moody's"), "AAA," "AA," "A" or "BBB" by Fitch Ratings ("Fitch"), without regard to any gradations within such categories, or within the four highest investment grade categories (without regard to any gradations within such categories) by any other nationally recognized statistical rating organization, or, if not rated, are considered by the Investment Adviser to be of comparable credit quality or are approved by the Commissioner. Obligations rated in the lowest investment grade category (BBB by S&P, Baa by Moody's or BBB by Fitch, without regard to any gradations within such categories) are generally regarded as having adequate capacity to pay interest and repay principal, but may have some speculative characteristics. Obligations rated below investment grade (i.e., below BBB- by S&P,

Baa3 by Moody's or BBB- by Fitch), in which the Fund may invest up to 5% of its assets, may have speculative characteristics, including the possibility of default or bankruptcy of the issuers of such securities, market price volatility based upon interest rate sensitivity, questionable creditworthiness and relative illiquidity of the secondary trading market. Because lower-rated bonds have been found to be more sensitive to adverse economic changes or individual corporate developments and less sensitive to interest rate changes than higher-rated investments, an economic downturn could disrupt the market for lower-rated bonds and adversely affect the value of outstanding bonds and the ability of issuers to repay principal and interest. In addition, in a declining interest rate market, issuers of lower-rated bonds may exercise redemption or call provisions, which may force the Fund, to the extent it owns such securities, to replace those securities with lower yielding securities. This could result in a decreased return. The Investment Adviser is under no obligation to sell portfolio securities that are downgraded below investment grade after these securities are purchased by the Fund. If a portfolio security is downgraded, the Investment Adviser will consider factors such as price, credit, risk, market conditions, the financial condition of the issuer and prevailing and anticipated interest rates in determining whether to sell or hold the security as a portfolio investment.

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 required for purchase by the Fund. In addition, it is possible that S&P, Moody's, Fitch and other ratings agencies might not change in a timely manner their ratings of a particular issue to reflect subsequent events. The Investment Adviser is not obligated to sell portfolio securities that are downgraded below investment grade.

Derivative Instruments. In order to reflect the investment strategy of the Fund, hedge various portfolio positions, hedge leverage costs against interest rate risk or enhance its return, the Fund may invest in certain instruments which are or may be considered derivatives, including futures contracts, repurchase agreements, reverse repurchase agreements, options and swaps. Derivative instruments, because of their increased volatility and potential leveraging effect, 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. There is no assurance that the Investment Adviser or sub-investment adviser will employ any hedging strategy, and even where such derivative investments are used for hedging purposes, there can be no assurance that the hedging transactions will be successful or will not result in losses. If the Fund invests in derivative instruments, it could lose more than the principal amount invested. For example, utilization of options and futures transactions involves the risk of imperfect correlation in movements in the price of such options and futures and the 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 municipal obligations generally, as well as risks of adverse tax determinations.

Suspension of Issuances and Redemptions. The Fund intends to issue shares on a continuous basis and effect daily redemptions, but reserves the right to suspend such issuances or redemptions when the Investment Adviser determines that a suspension of such issuances is, in its discretion, appropriate, subject to the ratification of the Board within five (5) business days. A suspension of issuances or redemptions could result in the acceleration of certain of the Fund's debt obligations. Payment of such obligations could decrease the assets of the Fund.

Conflicts of Interest. The Fund is not registered under the U.S. Investment Company Act and is therefore not subject to the restrictions thereof regarding transactions between the Fund and UBS Financial Services Incorporated of Puerto Rico or its affiliates (including UBS Trust Company of Puerto Rico and UBS AG), or regarding investments in or deposits with such affiliates. The Fund is subject to certain restrictions regarding affiliated transactions imposed by the Commissioner in connection with the granting of certain waivers and rulings to the Fund. Such restrictions require that the Fund execute portfolio transactions with its affiliates pursuant to terms and conditions comparable to those under which the Fund would execute portfolio transactions with unrelated third parties in the ordinary course of its investment business. Such portfolio transactions are subject to procedures adopted by the Board of Directors of the Fund in an effort to address potential conflicts of interest that may arise. In addition, subject to certain exceptions, the Fund may not invest more than 5% of its total assets in securities issued by its affiliates. The Fund engages in transactions, such as securities purchase and sale transactions and repurchase agreement transactions, directly with UBS Financial

Services Incorporated of Puerto Rico and possibly other of its affiliates. The Fund may also engage in transactions with other advisory clients of the Investment Adviser and sub-investment advisor.

Risks of Repurchase and Reverse Repurchase Agreements. The Fund may engage in 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. 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 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 repurchase agreement may be severely restricted during that extension period.

The Fund may also engage in reverse 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 reverse 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 reverse 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.

While there is authority generally supporting the treatment of repurchase agreements as collateralized loans for Puerto Rico income tax purposes, that authority does not address the tax treatment of repurchase agreements that the Fund typically enters into, which contain provisions that grant the purchaser the right to sell, transfer, pledge or hypothecate the securities. It is possible that the Puerto Rico Treasury could take the position that this type of arrangement should be viewed as a transfer of ownership of the underlying security and that the Puerto Rico courts would agree with that view. In such event, the tax exempt interest of the securities will not constitute tax exempt income of the Fund, and the portion of the Tax Exempt Dividends

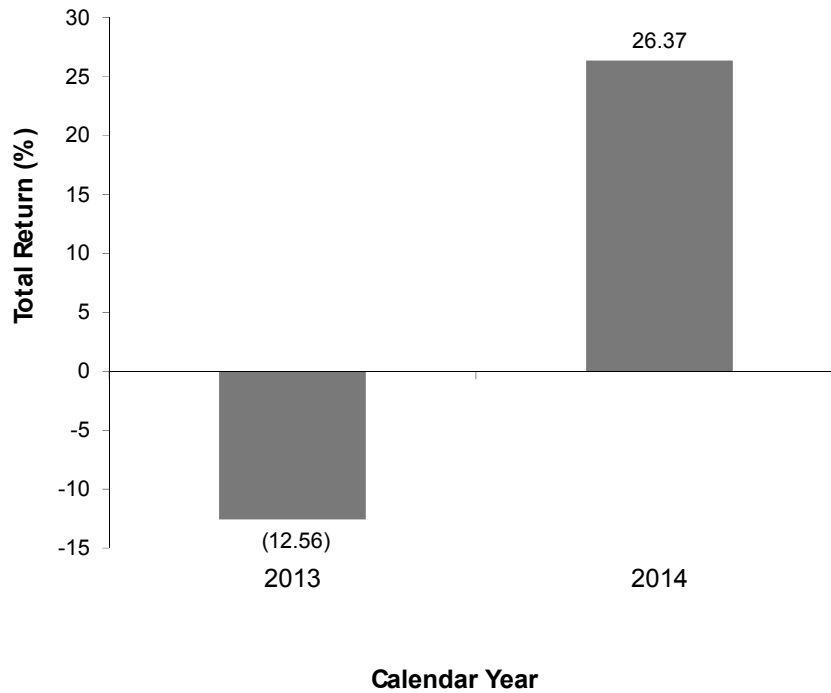
distributed by the Fund from such interest could be treated either as Taxable Dividends or Capital Gain Dividends subject to Puerto Rico income tax. See

“Taxes”—“Puerto Rico Taxation”—“Impact of Repurchase Agreements on Tax-Exempt Dividends.”

PERFORMANCE

Risk/Return Bar Chart and Table

The bar charts below shows the Fund's annual performance for the calendar years since inception.



During the period shown in the bar chart, the highest quarterly return was 8.84% (1st quarter 2014) and the lowest quarterly return was -11.05% (2nd quarter 2013). Calculations are based on the last valuation date of each quarter.

EXPENSES AND FEE TABLES

Fees and Expenses

The Fund currently offers only Class A shares. It may offer other classes of shares in the future. Class A shares are available only to purchasers meeting the initial aggregate investment requirement of \$10,000 or more, and are subject to a minimum balance requirement of \$500. Subsequent purchases of Class A shares must be made in amounts of at least \$100.

The following tables describe the fees and expenses that you should expect to pay if you buy and hold shares of the Fund.

Shareholder Transaction Expenses (fees deducted directly from your investment in the Fund)	Class A
Maximum Sales Charge (Load) Imposed on Purchases (as a % of offering price)	3.75%
Maximum Contingent Deferred Sales Charge (Load) (as a % of offering price)	None
Maximum Sales Charge (Load) Imposed on Reinvested Dividends (as a % of offering price)	None
Redemption Fee	1.00% ⁽¹⁾
 Annual Fund Operating Expenses (expenses that are paid by the Fund)	 Class A
Management Fees ^{(2) (3)}	0.75%
Distribution and Service Fees ⁽³⁾⁽⁴⁾	0.25%
Administration Fees ⁽³⁾	0.15%
Estimated Other Expenses ⁽⁵⁾	0.20%
Total Annual Fund Operating Expenses⁽⁶⁾	1.35%

⁽¹⁾ Class A redemption fees apply only to exchanges, including exchanges of shares between affiliated investment companies, made within 60 days of purchase and are based on the net asset value at the time of redemption. See “Managing Your Fund Account.”

⁽²⁾ Any applicable fees and expenses may be voluntarily waived or reimbursed by UBS Financial Services Incorporated of Puerto Rico, UBS Trust Company of Puerto Rico and/or their affiliates from time to time. There is no assurance, however, that such waiver or reimbursement will happen, and if commenced, that it will be continued. The Investment Adviser has currently agreed to waive management fees in an amount equal to 0.25% of the Fund’s gross assets.

⁽³⁾ Investment advisory (management) and administration fees (which are paid entirely by you indirectly, as a reduction in the return of the Fund), will be charged as a percentage of Fund’s gross assets, including all assets purchased by the Fund with the proceeds of leverage. Distribution and Service fees (which are also paid entirely by you indirectly, as a reduction in the return of the Funds) will be charged as a percentage of the Fund’s net assets, which excludes the proceeds of leverage. Accordingly, to the extent the Fund engages in leverage, the Distribution and Service fees will be less than the 0.25% shown in the table above.

⁽⁴⁾ Distribution fees are used to compensate the Fund’s distributor, UBS Financial Services Incorporated of Puerto Rico (the “Distributor”), and selected dealers whose activities support the distribution of Fund shares. These activities include payments to sales personnel, printing prospectuses and reports, as well as the preparation, printing and distribution of sales literature and advertising material. Service fees are used to compensate the Distributor and selected dealers for account maintenance and other shareholder services.

⁽⁵⁾ “Other Expenses” are based on estimated amounts for the current fiscal year and includes fees that UBS Trust Company of Puerto Rico charges the Fund for certain shareholder services, custodial and transfer agency fees, as well as legal, regulatory and accounting fees, printing costs and registration fees. The Fund initially pays for any advertising and other marketing expenses, subject to the Distributor’s obligation to reimburse the Fund within ten (10) days of the first business day of the month after which such expenses were incurred. Other Expenses for the fiscal year ended December 31, 2014 equaled 0.16% of the Fund’s gross assets.

⁽⁶⁾ Excludes cost of leverage. UBS Trust Company of Puerto Rico and the Fund intend to maintain Total Annual Fund Operating Expenses at 1.00% of gross assets. This is expected to be achieved by a combination of three factors. First, as set forth in footnote (3) above, to the extent the Fund engages in leverage (as it is expected to), distribution fees will be less than 0.25% of gross assets. Second, the Investment Adviser may waive a portion of its fees. Third, UBS Trust Company of Puerto Rico and the Fund have entered into an agreement whereby UBS Trust Company of Puerto Rico will pay the Fund’s Other Expenses, subject to future reimbursement by the Fund, in order to ensure that Total Annual Fund Operating Expenses do not exceed 1.00% of gross assets. The Fund will reimburse UBS Trust Company of Puerto Rico for Other Expenses paid by UBS Trust Company of Puerto Rico when Total Annual Operating Expenses fall below 1.00% of gross assets, provided that such reimbursement does not cause the Fund’s Total Annual Operating Expenses to exceed 1.00% and the reimbursement is made within three years after UBS Trust Company of Puerto Rico paid the expense. This reimbursement is made pursuant to an Expense Limitation and Reimbursement Agreement that is effective through March 31, 2016 and may be voluntarily continued at the discretion of the Investment Adviser, the Administrator or their affiliates.

Example

The following example is intended to assist you in understanding the various costs and expenses that you, as a Shareholder of the Fund, will bear directly or indirectly. The example assumes payment by the Fund of operating expenses at the levels set forth in the table on the previous page.

The expense example is based on the following assumptions that:

- You invest \$10,000 in the Fund for the time period indicated;
- You pay a 3.75% initial sales load at the time of purchase;
- You redeem all of your shares at the end of the periods indicated;
- You earn a 5.00% return on your investment each year;
- All dividends and distributions are reinvested at net asset value;
- The deduction of the Fund's operating expenses, as described above, remains the same for the years shown; and
- A cost of leverage of 2.50%.

		One Year	Three Years	Five Years	Ten Years
Class A	Assuming No Leverage	\$507	\$787	\$1,087	\$1,938
	Assuming Leverage of 50% of the Fund's total assets	\$852	\$1,805	\$2,760	\$5,151

The example also provides a means for you to compare expense levels of investment companies with different fee structures over varying investment periods. To facilitate such comparison the Fund has used a 5% annual return assumption. However, your actual annual return will vary and may be greater or less than 5%. **The example should not be considered a representation of past or future expenses and actual expenses may be greater or less than those shown above.**

MORE ABOUT RISKS

Principal Risks

The main risks of investing in the Fund are described below. In addition to these risks, please also see “Special Leverage Considerations” on pages 2 and 21 of this Prospectus. **Any of these, as well as other risks that affect the value of the Fund Shares, may cause you to lose money.**

Investment and Market Risk. The Fund’s investments may be adversely affected by the performance of U.S., Puerto Rico, and foreign investment securities markets, which may be influenced by a number of factors, including the level of interest rates, the rate of 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 you may experience a decline in the value of your investment in the Fund and lose money.

An investment in the shares offered by the Fund is designed primarily, and is suitable only, for long-term investors, and may not be suitable for all investors. Further, an investment in the Fund is not equivalent to an investment in the underlying securities of the Fund and investors in the shares should not view the Fund as a vehicle for trading purposes.

General Municipal Securities Market Risk. Investing in the municipal securities market involves certain risks. The amount of public information available about the municipal securities in the Fund’s portfolio is generally less than that for corporate equities or bonds, and the Fund’s investment performance may therefore be more dependent on the Investment Adviser’s or sub-investment adviser’s analytical abilities. The secondary market for municipal securities, particularly the below investment grade bonds in which the Fund may invest, also tends to be less developed or liquid than many other securities markets, which may adversely affect the Fund’s ability to sell its municipal securities at attractive prices or at prices approximating those at which the Fund currently values them. Municipal securities may contain redemption provisions, which may allow the securities to be called or redeemed prior to their stated maturity, potentially resulting in the distribution of principal and a reduction in subsequent interest distributions.

Build America Bonds Risk. The BABs market is smaller and less diverse than the broader municipal securities market. In addition, BABs may experience greater illiquidity than other types of municipal

securities. The number of BABs available in the market is limited and there can be no assurance that BABs will be actively traded. In addition, illiquidity may negatively affect the value of the bonds.

Because issuers of direct pay BABs held in the Fund’s portfolio receive reimbursement from the U.S. Treasury with respect to interest payment on bonds, there is a risk that those municipal issuers will not receive timely payment from the U.S. Treasury and may remain obligated to pay the full interest due on direct pay BABs held by the Fund. Furthermore, it is possible that a municipal issuer may fail to comply with the requirements to receive the direct pay subsidy or that a future Congress may terminate the subsidy altogether.

Certain aspects of the program may be subject to additional Federal or state level guidance or subsequent legislation. For example, the IRS or U.S. Treasury could impose restrictions or limitations on the payments received. Aspects of the BABs program for which the IRS and the U.S. Treasury have solicited public comment include, but have not been limited to, methods for making direct payments to issuers, the tax procedural framework for such payments, and compliance safeguards. It is not known what additional procedures will be implemented with respect to direct pay BABs, if any, nor is it known what effect such possible procedures would have on the BABs market.

The Fund may invest significantly in BABs and if it does, the Fund’s net asset value may be more volatile than the value of a more broadly non-diversified portfolio and may fluctuate substantially over short periods of time. Because BABs do not include certain industries or types of municipal bonds (i.e., tobacco bonds or private activity bonds), there may be less diversification than with a broader pool of municipal securities.

Restrictions on the Transfer of the Class A Shares and Loss of Tax Benefits. The Class A shares have not been registered with the U.S. Securities and Exchange Commission under the U.S. Securities Act of 1933, as amended (the “U.S. Securities Act”), and the Fund has not been registered under the U.S. Investment Company Act. Consequently, the Class A shares may be transferred only by operation of law, and exclusively to Puerto Rico Residents. Any transfer to a person (whether an individual or entity) who is not a Puerto Rico Resident will be deemed null and void and the Fund will not recognize the ownership rights of such person. Prior to the initial

purchase and each subsequent purchase of Fund shares, including exchanges from one Portfolio to another, you will be required to represent in writing that the above conditions to purchase are satisfied or, in the case of purchases through UBS Financial Services Incorporated of Puerto Rico, to follow such other procedures as required for determining residency. Appendix A to this Prospectus contains, in letter form, the substance of representations that must be made. In addition, transfers of Fund shares require the express written permission of the Administrator, and the transferee must first submit a letter in substantially the form attached as Appendix A in the manner referred to above. Any investor failing to submit the requisite representation letter will be deemed to have accepted and acknowledged all of the terms included in the letter attached as Appendix A and the Fund reserves the right not to recognize such investor's ownership and voting rights as shareholders of the Fund. In addition, such investor's shares may be involuntarily redeemed at the lower of cost or the then current net asset value of the investor's shares.

If you cease to be a Puerto Rico Resident (or your trustee or beneficiaries cease to be Puerto Rico Residents, if applicable), you will no longer be able to invest in Fund shares, and you must, within 30 days from the occurrence of such event, notify your Financial Advisor, the Fund's Transfer Agent or other securities dealer, as applicable, and redeem your shares as soon as it becomes economically feasible to do so. Your shares may also be redeemed involuntarily by the Fund or its Administrator in their sole discretion at net asset value. These transfer restrictions will remain in effect until the Fund determines, based on an opinion of counsel, that the restrictions are no longer necessary in order to preserve an exemption from the registration requirements of the U.S. Securities Act of 1933, as amended or the U.S. Investment Company Act.

In addition, existing shareholders who cease to be Puerto Rico Investors (or trusts whose beneficiaries cease to be Puerto Rico Investors, as applicable) may no longer be entitled to the tax benefits that make the Fund an attractive investment.

Interest Rate Risk. Interest rate risk is the risk that when interest rates rise, the value of the Fund's investment will fall as a result. That is because the value of fixed income securities such as those in which the Fund may invest generally are generally expected to fall when interest rates rise and to rise when interest rates fall. Therefore, the Fund is subject to interest rate risk. Prices of medium - and long -

term fixed income securities generally change more in response to interest rate changes than prices of shorter term fixed income securities. To the extent the Fund invests primarily in medium - and long - term fixed income securities, the net asset value per Class A share will fluctuate more in response to changes in market interest rates than if the Fund invested primarily in short-term fixed income securities. 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 fixed income securities and other borrowing, as discussed below, may increase the risks described above.

Credit Risk. Credit risk is the risk that fixed income securities in the Fund's portfolio will fail to make dividend or interest payments when due and decline in price because the issuer of the security is unable to make timely payments or experiences a deterioration of its financial condition. Credit risk is generally greater in the case of securities that are rated below investment grade. The Fund is authorized to invest up to 5% of its total assets in fixed income securities that may be rated below investment grade at the time of acquisition or which the Investment Adviser may determine to be below investment grade quality, provided certain credit requirements are met.

The Investment Adviser or sub-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 nationally recognized statistical rating organization, and can therefore be purchased by the Fund without regard to the 5% limitation on securities rated below investment grade. To the extent the Investment Adviser or sub-investment adviser incorrectly assesses the credit quality

of an unrated security, the Fund will be exposed to a greater degree of credit risk.

Lower-Rated and Below Investment Grade Securities.

The Fund intends to invest at least 95% of its assets in fixed-income securities that, at the time of purchase, are rated “investment grade,” that is, rated “AAA,” “AA,” “A” or “BBB” by S&P, rated “Aaa,” “Aa,” “A” or “Baa” by Moody’s, or rated “AAA,” “AA,” “A” or “BBB” by Fitch, without regard to any gradations within such categories, or within the four highest investment grade categories (without regard to any gradations within such categories) by any other nationally recognized statistical rating organization, or, if not rated, are considered by the Investment Adviser to be of comparable credit quality or are approved by the Commissioner. Obligations rated in the lowest investment grade category (“BBB” by S&P, “Baa” by Moody’s or “BBB” by Fitch, without regard to any gradations within such categories) are generally regarded as having adequate capacity to pay interest and repay principal, but may have some speculative characteristics. Obligations rated below investment grade (i.e., below “BBB” by S&P, “Baa3” by Moody’s or “BBB-” by Fitch), in which the Fund may invest up to 5% of its assets, may have speculative characteristics, including the possibility of default or bankruptcy of the issuers of such securities, market price volatility based upon interest rate sensitivity, questionable creditworthiness and relative illiquidity of the secondary trading market. Because lower-rated bonds have been found to be more sensitive to adverse economic changes or individual corporate developments and less sensitive to interest rate changes than higher-rated investments, an economic downturn could disrupt the market for lower-rated bonds and adversely affect the value of outstanding bonds and the ability of issuers to repay principal and interest. In addition, in a declining interest rate market, issuers of lower-rated bonds may exercise redemption or call provisions, which may force the Fund, to the extent it owns such securities, to replace those securities with lower yielding securities. This could result in a decreased return. After the Fund has purchased a security, it may cease to be rated or its rating may be reduced below the minimum required for purchase by the Fund. In addition, it is possible that S&P, Moody’s, Fitch and other ratings agencies might not change their ratings of a particular security to reflect subsequent events.

The Investment Adviser is not required to sell portfolio securities if they are subsequently downgraded below investment grade after they are purchased by the Fund. If a portfolio security is downgraded, the Investment Adviser will consider factors such as price, credit, risk, market conditions, the financial condition of the issuer

and the prevailing and anticipated interest rates to determine whether to sell or hold the downgraded security as a portfolio investment.

Suspension of Issuances and Redemptions. The Fund intends to issue shares on a continuous basis and effect daily redemptions, but reserves the right to suspend such issuances or redemptions when the Investment Adviser determines, in its discretion, that it is appropriate, subject to a ratification by the Board within five (5) business days. A suspension of issuances or redemptions could result in the acceleration of certain of the Fund’s debt obligations, the payment of which could decrease the assets of the Fund.

Fixed Income Securities Generally. The yield on fixed income securities such as those in which the Fund may invest 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, and 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 Class A shares. The unique characteristics of certain types of securities may also make them more sensitive to changes in interest rates.

Derivative Instruments. In order to implement the investment strategy of the Fund, to hedge portfolio positions, or hedge leverage costs against interest rate risk, or to generally enhance its return, the Fund may invest in certain instruments which are or may be considered derivatives. These may include: futures contracts, repurchase agreements, reverse repurchase agreements, options and swaps. Due to their increased volatility and potential leveraging effect, derivative instruments may adversely affect the Fund. For example, investments in indexed securities, including securities linked to an equities or commodities index and inverse floating rate securities, may expose the Fund to risks associated with changes in the particular underlying indices, which may include lower or no interest payments and may lead to losses of the invested principal.

Derivative investments may also be leveraged, thereby magnifying the risk of loss. There is no assurance that the Investment Adviser will employ any hedging strategies, and even if derivative investments are used for hedging purposes, there can

be no assurance that these hedging transactions will be successful or will prevent losses. If the Fund invests in derivative instruments, it could lose more than the principal amount invested. For example, the prices of options and futures and the prices of the securities or interest rates which are being hedged may not move in a correlated manner, resulting in an imperfect hedge. Municipal derivatives are also subject to the same interest and credit risks that affect municipal obligations generally, and are affected by the risks of adverse tax determinations.

Special Risks of Hedging Strategies. The Fund may use a variety of derivative instruments including securities options, financial future contracts, options on future 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 or sub-investment adviser's ability to predict movements of the overall securities and interest rate markets. There can be no assurance that any particular hedging strategy 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. See "Appendix C – Hedging and Related Income Strategies."

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 loss of rights in the collateral, among other things, should the borrower of the securities fail financially or become insolvent.

Geographic Concentration Risk. The Fund is exposed to certain risks resulting from the reduced geographic diversification of its portfolio. At least 20% of the Fund's total assets will be invested 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 with a lesser concentration in Puerto Rico issuers. Also, the Fund's ability to achieve its investment objective and to comply with applicable law depends in part on the availability of Puerto Rico obligations. If those obligations are unavailable or are only available at a price unreasonably above their market value or at interest rates inconsistent with the Fund's investment objective, it may harm the Fund's performance. Since July 2013, the Puerto Rico bond market has been experiencing a period of volatility, with Puerto Rico bonds trading at lower prices and higher yields compared to benchmarks of the past two years.

In addition, commencing on February 4, 2014, S&P, Moody's and Fitch began downgrading their ratings on Commonwealth of Puerto Rico general obligations and appropriation secured debt, and on bonds issued by Puerto Rico's Employee Retirement System, PREPA, COFINA, PRASA, PRHTA, GDB, PBA and the University of Puerto Rico. As a result, most of these bonds are currently rated below investment grade. The Government of Puerto Rico has taken a number of steps to strengthen its fiscal position, such as (i) imposing tax and fee increases to bolster the revenues of the central government and main public corporations, (ii) implementing as major reforms to the Commonwealth's employees retirement systems, (iii) approving balanced budgets and (iv) enacting a restructuring law for public corporations with financial difficulties (the "Recovery Act"). However, it is expected that uncertainty and volatility will remain, as revenues from tax increases have generally not met projections, the results of many of these measures have yet to be realized and the Recovery Act has been held to be unconstitutional by the U.S. District Court for Puerto Rico and an appeal is pending.

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, however, 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 will generally extend the duration of mortgage-backed securities, which makes them more sensitive to changes in interest rates and more likely to decline in value. 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, it is important to note that 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 United States.

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, the credit risk of 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 that 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. 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. 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.

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, securities issued by 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, the Administrator will be responsible for obtaining quotations for such securities from various sources, including UBS Financial Services Incorporated of Puerto Rico. As a result, the interests of UBS Financial Services Incorporated of Puerto Rico may conflict with those of the Fund as to the price and other terms of transactions among them.

Non-Diversification Risk. The Fund is a non-diversified investment company. This means that the Fund may invest a greater percentage of its assets in a limited number of issuers than a diversified investment company. Consequently, the Fund's net asset value and its yield may fluctuate to a greater extent than that of a more diversified investment company as a result of changes in the market's view of the financial condition and prospects of such issuers. The Fund may be more susceptible to any single economic, political or regulatory occurrence than a more widely diversified investment company.

Conflicts of Interest Risk. The Fund is not registered under the U.S. Investment Company Act, and is

therefore not subject to the restrictions thereof regarding transactions between the Fund and UBS Financial Services Incorporated of Puerto Rico or its affiliates (including UBS Trust Company of Puerto Rico and UBS AG), regarding investments in or deposits with such affiliates. The Fund is subject to certain restrictions regarding affiliated transactions imposed by the Commissioner in connection with the granting of certain waivers and rulings to the Fund. Such restrictions require that the Fund execute portfolio transactions with its affiliates pursuant to terms and conditions comparable to those under which the Fund would execute portfolio transactions with unrelated third parties in the ordinary course of its investment business. Such portfolio transactions are subject to procedures adopted by the Board of Directors of the Fund in an effort to address potential conflicts of interest that may arise. In addition, subject to certain exceptions, the Fund may not invest more than 5% of its total assets in securities issued by its affiliates. The Fund may engage in transactions, such as securities purchase and sale transactions and repurchase agreement transactions, directly with UBS Financial Services Incorporated of Puerto Rico and possibly other of its affiliates. For certain 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 may not exist at all, and UBS Financial Services Incorporated of Puerto Rico might have a conflict of interest with respect to the valuation provided, which also could affect the net asset value of the Class A shares. 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 UBS Financial Services Incorporated of Puerto Rico, an affiliate of the Investment Adviser, may conflict with those of the Fund as to the price and other terms of transactions in which they engage. Portfolio transactions between the Fund, on one side, and UBS Financial Services Incorporated of Puerto Rico and its affiliates, on the other side, will be executed pursuant to terms and conditions comparable to those with unrelated third parties in the ordinary course of its 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 asset 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.

The Investment Adviser, UBS Financial Services Incorporated of Puerto Rico and their affiliates and the sub-investment adviser may engage, at the present or in the future, 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 parties and the interests of the Fund. Any such affiliated parties 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. Any of these activities may affect the market value of the securities issued by such issuers and therefore, will affect the value of the Class A shares of the Fund. Moreover, the Investment Adviser is not registered under the U.S. Investment Advisers Act of 1940, and therefore is not subject to the restrictions imposed on investment advisers thereunder.

Additional Risks

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 granted by the Commissioner to the Fund do not constitute a precedent binding on the Commissioner. There can be no assurance 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 Class A shares, or the tax consequences of the acquisition or redemption of Class A shares.

On November 27, 2013, the Puerto Rico Investment Companies Act of 2013, as amended (the "2013 PR-ICA") became effective. The purpose of the 2013 PR-ICA is to revise the existing legal and tax regime applicable to Puerto Rico investment companies, their shareholders and investors in obligations issued by such companies. The 2013 PR-ICA expressly permits investment companies organized prior to its effectiveness (such as the Fund) to continue operating

subject exclusively to the provisions of the Puerto Rico Investment Companies Act, with certain exceptions.

Changes in United States tax law; no US federal tax ruling. Under regulations issued under Section 937(b) of 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, in the opinion of counsel to the Fund, it is more likely than not that an investment in the Class A shares is not the type of transaction intended to be covered by these rules, and in accordance with this interpretation, the source of dividends on the Class A shares more likely than not will be treated as income from sources within Puerto Rico. 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 the Class A shares, 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 “Dividends and Taxes” herein for a more detailed description of the tax implications an investment the Class A shares entails. You should also consult your tax advisor about your tax situation.

On March 18, 2010, the Foreign Account Tax Compliance Act (commonly known as “FATCA”) was enacted amending 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 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 to payments made after December 31, 2016. The regulations issued by the U.S. Treasury and the IRS, provide that the Fund is to be treated as a NFFE. Accordingly, the Fund will be required to provide the payors of such income (except with respect to certain grandfathered obligations) certain information with respect to its investors. However, the Fund elected to be treated as

a direct reporting NFFE and, as such, it is required to provide such information directly to the IRS (instead of providing it to such payors) by filing Form 8966 with the IRS on or before March 31, 2016.

If the Fund were to be unable to provide such investor information to its payors 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 amount of dividends that may be distributed by the Fund or the Fund’s net asset value.

Political and Other Risk. Political, legal or regulatory developments in Puerto Rico and in the United States or changes in the applicability of existing laws to the Fund could adversely affect the tax-exempt status of interest paid on securities or the tax-exempt status of that portion of the Fund’s dividends that are tax-exempt. These developments could also cause the value of the Fund’s investments and therefore, the Fund’s shares, to fall or jeopardize the continued viability of the Fund, resulting, in either case, in a possible loss to shareholders.

Changes in Tax Exempt Status of Municipal Securities. As the U.S Congress considers potential tax reform and revenue raising options, the tax exempt status of interest on tax exempt municipal securities, including outstanding municipal securities, could be limited or even eliminated. If such changes in tax law occurred and they impacted outstanding bonds, such changes would adversely impact the value of the tax exempt municipal bonds held by the Fund. Shareholders should consult their own tax advisors regarding the potential consequences of proposed or potential legislation on their investment in a Fund.

Market Timers. The interests of the Fund’s long-term shareholders and the Fund’s ability to manage its investments may be adversely affected when its shares are repeatedly bought and sold in response to short-term market fluctuations—also known as “market timing.” Market timing may cause the Fund to have difficulty implementing long-term investment strategies, because it cannot predict how much cash it will have available to invest. Market timing also may force the Fund to sell portfolio securities at disadvantageous times to raise the cash needed to buy a market timer’s Fund shares. These factors may hurt the Fund’s performance and, as a consequence, its shareholders. The Fund presently does not have in place any procedures to monitor such activity and, as

a result, the Fund remains subject to the above-mentioned risks.

Borrowings. The Fund is permitted to borrow up to 5% of the Fund's total assets from banks, including affiliates of the Fund, or other financial institutions for temporary or emergency purposes, including to meet redemptions of the Fund's shares. If borrowings are made on a secured basis, the custodian will segregate the pledged assets of the Fund for the benefit of the lender or arrangements will be made with a suitable sub-custodian, which may include the lender. Such pledged assets may therefore not be sold by the Fund, even if it would otherwise be advisable to do so.

Dilution or Suspension of Shareholder Voting Rights. According to Puerto Rico law, commencing one year from the initial issuance of shares by the Fund, at no time shall less than six individuals own directly or indirectly more than 50% of the outstanding voting shares of the Fund. Under the terms of the Articles of Incorporation of the Fund, the voting rights of certain shareholders may be automatically suspended to the extent necessary to maintain compliance with this requirement. At any time that a vote occurs, voting rights of the shareholder owning the largest number of shares of the Fund will be suspended first until compliance with the requirement is achieved or such shareholder has the same number of voting rights as the shareholder owning the second largest number of shares. If necessary, the voting rights of each of those two shareholders will be suspended until compliance with the requirement is achieved or such shareholders have the same number of voting rights as the shareholder owning the third largest number of shares, and so on successively until compliance with the requirement is achieved. Voting rights of such affected shareholders will be automatically reinstated until the next vote occurs. Shareholders whose voting rights become suspended will be notified as soon as practicable and permitted to redeem or exchange their affected shares without additional charge. However, the scheduled vote will take place based on the voting rights determined on the record date, prior to any such redemption or exchange.

Risks of Repurchase and Reverse Repurchase Agreements. The Fund may engage in repurchase agreements (transactions in which the Fund sells a security to a counterparty and agrees to buy it back at a specified future time and price in a specified currency). Repurchase agreements involve the risk that the buyer of the securities sold by the Fund might be unable to deliver the securities back when the Fund seeks to repurchase them and the Fund may

be unable to replace the securities or replace them only at a higher cost. If the buyer of securities under a 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 repurchase agreement may be severely restricted during that extension period.

The Fund may also engage in reverse repurchase agreements (transactions in which the Fund purchases a security from a counterparty and agrees to sell it back at a specified future time and price in a specified currency). If the counterparty in a reverse repurchase agreement defaults, the Fund may suffer time delays and incur costs or possible losses in connection with the disposition of the securities underlying the reverse 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 contractual rights against the counterparty for breach of contract with respect to any losses resulting from those market fluctuations, but there are no assurances that the Fund will be successful in exercising those rights.

While there is authority generally supporting the treatment of repurchase agreements as collateralized loans for purposes of Puerto Rico income tax, that authority does not address the tax treatment of the specific repurchase agreements that the Fund typically enters into, which contain provisions that grant the purchaser the right to sell, transfer, pledge or hypothecate the underlying securities. It is possible that the Puerto Rico Treasury could take the position that this type of arrangement should be viewed as a transfer of ownership in the underlying security and that the Puerto Rico courts would agree with that interpretation. In that case, the interest generated by the underlying securities would not constitute tax exempt income of the Fund, and the portion of the Tax Exempt Dividends distributed by the Fund from such interest could be treated either as Taxable Dividends or Capital Gain Dividends subject to Puerto Rico income tax. See "Taxes"—"Puerto Rico Taxation"—"Impact of Repurchase Agreements on Tax-Exempt Dividends."

TYPES OF INVESTMENTS

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. 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. Certain types of Municipal Obligations in which the Fund may invest, and certain of the risks attached thereto, are described in Appendix D to this Prospectus. Not all of such types of Municipal Obligations are currently available in Puerto Rico.

Build America Bonds. BABs are taxable municipal securities that include bonds issued by state and local governments to finance capital projects such as public schools, roads, transportation infrastructure, bridges, ports and public buildings, among others, pursuant to the American Recovery and Reinvestment Act of 2009 (the “Act”). The authorization to issue BABs expired on December 31, 2010.

Enacted in February 2009, the Act was intended in part to assist state and local governments in financing capital projects at lower net borrowing costs through direct subsidies designed to stimulate state and local infrastructure projects, create jobs and encourage non-traditional municipal security investors. Unlike investments in most other municipal securities, interest received on BABs is subject to federal income tax and may be subject to state income tax. BAB issuers may elect either (i) to receive payments from the U.S. Treasury equal to a specified percentage of their interest payments (“direct pay”) or (ii) to cause investors in the bonds to receive federal tax credits (“tax credit”).

Most issuers of direct pay BABs currently receive a subsidy from the U.S. Treasury equal to 35% of the interest paid on the bonds, which allows such issuers to issue bonds that pay interest rates that are expected to be competitive with the rates typically paid by private bond issuers in the taxable fixed income market. BABs cannot be used to finance private, non-municipal activities, and can only be used to

fund capital expenditures. The proceeds of BAB issuances are used for public benefit and generally support facilities that meet such essential needs as water, electricity, transportation, and education. Moreover, many BABs are general obligation bonds, which are backed by the full faith and taxing power of the state and local governments issuing them.

Derivatives. The Fund may invest in certain derivative instruments in pursuit of its investment objectives. Such instruments may include financial futures contracts, swap contracts, options on financial futures, options on swap contracts or other derivative instruments whose prices, in the Investment Adviser’s or sub-investment adviser’s opinion, correlate with the prices of the Fund’s investments. In particular, the Fund may use treasury futures, credit default swaps and interest rate swaps. Credit default swaps may require initial premium (discount) payments as well as periodic payments (receipts) related to the interest leg of the swap or to the default of a reference obligation. If the Fund is a seller of a contract, the Fund would be required to pay the par (or other agreed upon) value of a referenced debt obligation to the counterparty in the event of a default or other credit event by the reference issuer, such as a U.S. or foreign corporate issuer, with respect to such debt obligations. In return, the Fund would receive from the counterparty a periodic stream of payments over the term of the contract provided that no event of default has occurred. If no default occurs, the Fund would keep the stream of payments and would have no payment obligations. As the seller, the Fund would be subject to investment exposure on the notional amount of the swap. If the Fund is a buyer of a contract, the Fund would have the right to deliver a referenced debt obligation and receive the par (or other agreed-upon) value of such debt obligation from the counterparty in the event of a default or other credit event (such as a credit downgrade) by the reference issuer, such as a U.S. or foreign corporation, with respect to its debt obligations. In return, the Fund would pay the counterparty a periodic stream of payments over the term of the contract provided that no event of default has occurred. If no default occurs, the counterparty would keep the stream of payments and would have no further obligations to the Fund. Interest rate swaps involve the exchange by the Fund with a counterparty of their respective commitments to pay or receive interest, such as an exchange of fixed-rate payments for floating rate payments. The Fund will usually enter into interest rate swaps on a net basis; that is,

the two payment streams will be netted out in a cash settlement on the payment date or dates specified in the instrument, with the Fund receiving or paying, as the case may be, only the net amount of the two payments.

The Fund may use securities options (both exchange-traded and over-the-counter), 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 Incorporated of 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 C to this Prospectus for a more complete discussion of the Fund's types of derivative and related income strategies and the risks thereof.

The Investment Adviser or sub-investment adviser may use derivative instruments to seek to enhance return, to hedge some of the risk of the Fund's investments in municipal securities or as a substitute for a position in the underlying asset.

There is no assurance that these derivative strategies will be available at any time or that the Investment Adviser or sub-investment adviser will determine to use them for the Fund or, if used, that the strategies will be successful.

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 any related credit support). The Fund's investments in Mortgage-Backed Securities will be considered as Puerto Rico assets when the underlying assets are substantially comprised of mortgages over real property located within Puerto Rico ("Puerto Rico Mortgage-Backed Securities").

Investments in Mortgage-Backed Securities will include those issued or guaranteed by the Government National Mortgage Association ("GNMA"), Federal National Mortgage Association ("FNMA") or Federal Home Loan Mortgage Corporation ("FHLMC"), as well as Mortgage-Backed Securities which 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 collateralized mortgage obligations ("CMOs"). Private Label Mortgage-Backed Securities 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.

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 "MORE ABOUT RISKS — Mortgage-Backed Securities Risk." 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 E — Mortgage-Backed Securities." Not all types of Mortgage-Backed Securities are currently available in Puerto Rico.

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 Treasury bills, Treasury notes, and 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 reverse repurchase agreements secured by such securities.

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”). The SBA is an independent agency of the United States.

The 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. The 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. The 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 United States.

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 be 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.

Trust Preferred Securities. Trust preferred securities are securities issued by banks or bank holding companies through a special purpose trust organized by the bank or bank holding company. The trust issues the trust preferred securities and invests the proceeds in a subordinated debenture of the bank or bank holding company that has identical terms. The trust preferred securities are payable solely from payments made by the bank or bank holding company with respect to the subordinated debentures.

Corporate Obligations. Corporate obligations are debt obligations or similar securities issued by or on behalf of corporations. See “Appendix B – Ratings of Securities” and “Appendix F – Certain Other Types of Investments.”

OTHER INVESTMENT PRACTICES

Certain of the other investment practices in which the Fund may engage are described below. If the Fund issues fixed income securities and seeks to obtain a rating for such fixed income securities, any nationally recognized securities rating organization 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 herein) 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 corresponding 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 ruling issued to the Fund by the Commissioner on December 14, 2012, 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 A-1 by S&P, Prime-1 by Moody's or F1 by Fitch, bank certificates of deposit, bankers' acceptances and Reverse Repurchase Agreements (as defined herein) secured by any of the foregoing.

Dollar Rolls and 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 could also be compensated through the receipt of fee income equivalent to a lower forward price. The Fund may also enter into 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 (a "Repurchase Agreement").

Dollar rolls and Repurchase Agreements will generally 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 fixed income securities, to 50% of the Fund's total assets immediately after the issuance. In addition, certain of the dollar rolls and Repurchase Agreements entered into by the Fund will be arbitrage transactions in which the Fund will maintain an offsetting position in securities or Reverse Repurchase Agreements (as defined herein) that mature on or before the settlement date on the related dollar roll or 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 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. 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 such securities. In the event the buyer of securities under a 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 Repurchase Agreement may effectively be restricted pending such decision.

Reverse Repurchase Agreements

The Fund may use Reverse Repurchase Agreements, which 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 Reverse 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 Reverse Repurchase Agreement becomes bankrupt, the Fund enters into Reverse Repurchase Agreements only with banks and dealers in transactions believed by the Investment Adviser to present minimum credit risks. In addition, each Reverse 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.

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 prior to 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.

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

The Fund may also lend securities from its portfolio to broker-dealers, banks, financial institutions, and institutional borrowers of securities and receive collateral in the form of cash or U.S. Government obligations, subject to procedures adopted by the Board of Directors.

SPECIAL LEVERAGE CONSIDERATIONS

Issuance of Fixed Income Securities

The Fund may raise additional cash to invest through the issuance of fixed income securities (e.g., preferred shares and debt instruments of varying maturities, including commercial paper, short-term and medium-term notes, and long-term securities; such securities are collectively referred to herein as the "fixed income securities"), to Puerto Rico Residents, or other forms of leverage, in an aggregate amount representing not more than 50% of the value of the Fund's total assets immediately after such issuance. Subject to these percentage limitations, the Fund may also engage in certain additional borrowings from banks or other financial institutions through Repurchase Agreements. 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.

This Prospectus is not an offer to sell or a solicitation of an offer to purchase any fixed income securities. Any such offer or solicitation shall be made separately by means of a prospectus, offering memorandum or other similar selling document.

The Fund engages in borrowings from, and other forms of leverage with, UBS Financial Services Incorporated of Puerto Rico or its affiliates through Repurchase Agreements, dollar rolls, and other transactions. UBS Financial Services Incorporated of Puerto Rico may act as dealer or placement agent in connection with any offering of fixed income securities by the Fund.

Although the terms of any fixed income securities issued by the Fund, and of other forms of leverage used by the Fund, will be determined by the Board of Directors, it is anticipated that such fixed income securities and other forms of leverage will pay dividends

or interest at rates that are adjusted over relatively short periods of time and will reflect prevailing short-term interest rates. The proceeds of any offering of fixed income securities, and other form of leverage may be invested in longer-term fixed income securities, which typically bear interest at rates that are higher than short-term interest rates (although such higher rates cannot be assured).

Use of leverage through the issuance of fixed income securities, and other forms of leverage is a speculative investment technique and involves increased risk for Shareholders to a greater extent than in a nonleveraged fund. These include the possibility of higher volatility of the Fund's yield and net asset value and in the market value of the Class A shares. In addition, changes in short-term, medium-term and long-term interest rates and in their relationship to each other could negatively impact the Fund's yield, net asset value of the Class A shares. The effects of leverage may cause a Shareholder to lose any or all amounts invested in the Fund. So long as the Fund is able to realize a higher net return on the assets purchased with the proceeds of the leverage than the then current dividend or interest rate, as the case may be, on any fixed income securities, or other forms of leverage together with other related expenses, the effect of the leverage will be to cause the Shareholders to realize higher current net investment income than if the Fund were not so leveraged. There can be no assurance, however, that the Fund will be able to realize such a net return. 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. To the extent that the then current dividend or interest rate, as the case may be, paid on any fixed income securities and other forms of leverage approaches the net return on that portion of the Fund's assets purchased with the proceeds of the leverage, the benefit of leverage to the Shareholders will be reduced. Should the then current interest rate paid on any fixed income securities, and other forms of leverage exceed the yield or return on the Fund's assets purchased with the proceeds of the leverage, the Fund's leveraged capital structure would result in a lower yield or return to the Shareholders than if the Fund were not so leveraged and therefore, the amount

available for distribution to Shareholders will be reduced. Because market interest rates remain low by historical standards, there is a greater risk that interest rates will rise, and that the interest rate paid by the Fund on any short-term or medium-term fixed income securities or other forms of leverage will exceed the yield or return on any long term assets previously purchased by the Fund with the proceeds of leverage. Nevertheless, the Investment Adviser may determine to maintain the Fund's leveraged position if it deems such action to be appropriate under the circumstances. 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 the Fund's average weekly gross assets, including assets purchased with leverage. Because the asset 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.

In addition, payments on fixed income securities, and other 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 will enter into hedging transactions to minimize the risks inherent in those transactions, there is no assurance that those transactions will be successful. Moreover, any decline in the value of the Fund's assets will be borne entirely by the Shareholders. Accordingly, the effect of leverage in a declining market would be a greater decrease in the net asset value of the Class A shares than if the Fund were not leveraged and could adversely affect the Fund's ability to make dividend payments and other distributions on the Class A shares. Any such decrease may be reflected in a greater decline in the net asset value of the Class A shares. If the current investment income of the Fund were not sufficient to meet interest requirements on the fixed income securities, and other forms of leverage, it could become necessary for the Fund to liquidate certain of its investments, thereby reducing net assets and therefore, the net asset value of the Class A shares. Such liquidations would also cause the Fund to incur transaction costs. Moreover, interest on fixed income securities or other forms of leverage are unpaid, no dividends or other distributions would be permitted to be paid on the Class A shares until the Fund resumes its payments of interest on the fixed income securities or other forms of leverage, as the case may be.

The Fund may use a variety of derivative instruments to attempt to hedge its portfolio of assets against

interest rate risk. Successful use of most derivative instruments depends upon the Investment Adviser's or sub-investment adviser's ability to predict movements of the overall securities and interest rate markets. There can be no assurance that any particular hedging strategy will succeed, or that the Fund will employ such strategies with respect to all or any portion of its portfolio. See "Appendix C – Hedging and Related Income Strategies."

Assuming the utilization of leverage by borrowings in the amount of approximately 50% of the Fund's total assets, and an annual interest rate of 2.50% payable on such leverage, the annual return on the assets that the Fund's portfolio must experience (net of expenses) in order to cover such interest payments would be 1.25%. The following table is designed to illustrate the effect on investment return with leverage obtained by the issuance of fixed income securities, and other forms of leverage representing approximately 50% of the Fund's total assets immediately after such borrowing, assuming hypothetical annual returns of minus 10% to plus 10%. As the table shows, leverage generally increases the return when portfolio return is positive and decreases the return when the portfolio return is negative. The figures appearing in the table are hypothetical and actual returns may be greater or less than those appearing in the table.

Assumed Return						
(net of expenses)	(10%)	(5%)	0%	5%	10%	
Corresponding						
Class A Share Return	(22.5%)	(12.5%)	(2.5%)	7.5%	17.5%	

Leveraging of the Fund cannot be fully achieved until fixed income securities, and other forms of leverage are issued and the proceeds have been invested by the Fund.

The Fund may seek to obtain an investment grade credit rating from Fitch, S&P, Moody's, or another nationally recognized securities rating organization on any fixed income securities that it may issue. The Fund believes that obtaining such ratings may enhance the marketability of the fixed income securities, and other forms of leverage and thereby reduce the dividend or interest rate on the fixed income securities from that which the Fund would be required to pay if the fixed income securities, and other forms of leverage were not so rated. There can be no assurance that the Fund will be able to obtain such ratings, and such ratings would not eliminate or mitigate any risks of investing in the Fund's securities. The nationally recognized securities rating organization rating the fixed income securities,

and other forms of leverage may require asset coverage maintenance ratios that are in addition to, and more stringent than, those discussed above. In addition, restrictions may be imposed on certain investment practices in which the Fund may otherwise engage. The nationally recognized securities rating organization requirements are also expected to impose certain minimum issue size, diversification and other requirements for determining portfolio assets that are eligible for computing compliance with their asset coverage requirements. The ability of the Fund to comply with such asset coverage maintenance ratios may be subject to circumstances which are beyond the control of the Fund, such as market conditions for its portfolio securities. The terms of any fixed income securities, or other forms of leverage might prohibit the payment of dividends or other distributions on the Class A shares in the event the Fund fails to meet such asset coverage maintenance ratios, with the potential adverse effects discussed above.

The issuance of any fixed income securities, and other forms of leverage entails certain costs and expenses, such as underwriting discounts, 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. Ongoing expenses associated with the issuance of any fixed income securities, and other forms of leverage are reflected as a reduction in the investment income that otherwise would be available for distribution to Shareholders.

Borrowings

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 Class A shares and tender offers), in an amount of up to an additional 5% of its total assets. Such borrowings by the Fund would also create leverage and would entail speculative factors similar to those applicable to the issuance of fixed income securities, and other forms of leverage. If borrowings are made on a secured basis, the Custodian will segregate the pledged assets for the benefit of the lender or arrangements will be made with a suitable sub-custodian, which may include the lender.

FUNDAMENTAL POLICY AND INVESTMENT RESTRICTIONS

As its fundamental policy, the Fund may not issue fixed income securities or borrow money from banks or other entities (including borrowings through dollar rolls and Repurchase Agreements), in excess of 50% of the Fund's total assets (including the amount of borrowings and fixed income securities issued). Notwithstanding this restriction, the Fund may borrow from banks or other financial institutions for temporary or emergency purposes (including, among others, financing repurchases of the Class A shares and tender offers), in an amount of up to an additional 5% of its total assets.

The Fund may not change its fundamental policy without the approval of the holders of (i) a majority of the outstanding Class A shares, if the proposed change has previously been recommended by the Board of Directors, or (ii) 75% of the outstanding Class A shares, 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 Class A shares. Under current law, the Commissioner must also approve any change in such fundamental policy.

The Fund may not change the following investment restrictions without the approval of a majority of the members of the Board of Directors, and provided that prior written notice is given to its Shareholders:

(a) purchase the securities of any one issuer, if after such purchase it would own more than 25% of the voting securities of such issuer;

(b) make an investment in any one issuer if, at the time of purchase, the investment would cause the aggregate value of all the Fund's investments in such issuer to equal 25% or more of the Fund's total assets; provided that this limitation shall not apply to: (i) investments in securities issued or guaranteed by the Commonwealth of Puerto Rico, U.S. Government, or any of their agencies or instrumentalities (including GNMA, FNMA and FHLMC mortgage-based securities);

(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. See "Appendix F – Certain Other Types of Investments;"

(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. Internal Revenue Code of 1986, as amended (the "Code");

(g) purchase or sell commodities or commodity contracts, except that the Fund may enter into swap agreements, options, futures contracts, see "Appendix F – Certain Other Types of Investments," and options on futures contracts subject to certain restrictions. See "OTHER INVESTMENT PRACTICES — Other Practices — Options and Futures;"

(h) make loans, except through Reverse 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 any one 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.

MANAGING YOUR FUND ACCOUNT

The Fund offers one class of shares for the Fund—Class A shares.

Class A shares are available only to purchasers meeting the initial investment requirement of \$10,000 or more and are subject to a minimum balance requirement of \$500. Subsequent purchases of Class A shares must be made in amounts of at least \$100. These minimum investment requirements are not applicable to purchases of Class A shares made by the UBS Puerto Rico IRA Trust.

The Fund has adopted a shareholder distribution and servicing plan with respect to the Fund under which the Fund pays fees for services provided to its shareholders. Separately, the Fund has agreed to reimburse dealer expenses incurred in retaining an independent agent to provide customer recordkeeping and certain other services to the dealers.

The Fund initially pays for any advertising and other marketing expenses, subject to the Distributor's obligation to reimburse the Fund within ten (10) days of the first business day of the month after which such expenses were incurred.

Shares in the Fund acquired for any employee benefit plan (whether or not such employee benefit plan is subject to the Employee Retirement Income Security Act of 1974, as amended, or to Section 4975 of the Internal Revenue Code of 1986, as amended, or to any comparable provisions of any subsequent law) may be limited, in part or in total, by the Distributor.

Shares of the Fund may be sold to the UBS Puerto Rico IRA Trust for the benefit of accountholders that are individuals who have their principal residence in Puerto Rico. The UBS Puerto Rico IRA Trust is a trust that qualifies as a Puerto Rico individual retirement account trust pursuant to the Puerto Rico Internal Revenue Code of 2011, as amended, and whose trustee is UBS Trust Company of Puerto Rico.

IRA accountholders may only invest in the Fund by opening an individual retirement account with the UBS Puerto Rico IRA Trust. The UBS Puerto Rico IRA Trust may only invest in the Fund for the accounts of IRA accountholders who are individuals whose principal residence is in Puerto Rico. IRA accountholders of the UBS Puerto Rico

IRA Trust are strongly encouraged to review the disclosure statement and adoption agreement provided to them by the UBS Puerto Rico IRA Trust upon opening a regular individual retirement account or a non-deductible individual retirement account (individually and collectively referred to as IRA or IRAs, respectively), which contains information relating to the terms and conditions as well as the fees, expenses, and penalties applicable to such IRA.

Class A Shares

Class A shares will be sold at the net asset value of the Fund's Class A shares next calculated after the purchase order is placed, plus an initial sales charge of up to 3.75%. Class A shares of the Fund are subject to an annual distribution and shareholder servicing fee, payable monthly, of 0.25% of the average daily net assets of Class A shares. The initial sales charge may be reduced or waived for certain purchases. Specifically, Class A shares sold to the UBS Puerto Rico IRA Trust will be subject to an initial sales charge equal to 3.00% of the offering price (or 3.09% of the amount invested), with a dealer's reallowance equal to 2.75% of the offering price.

Class A shareholders will pay a redemption fee of 1.00% on exchanges, including exchanges between affiliated investment companies, made within 60 days of purchase based on net asset value at the time of redemption. Each acquisition of shares in an affiliated investment company upon an exchange will be considered a new purchase. The redemption fee will not apply to shares acquired through dividend reinvestments if they are being redeemed as part of an exchange between affiliated investment companies. The redemption fee will, however, subsequently be applicable to those shares that are acquired in exchanges between affiliated investment companies if such shares are redeemed within the applicable periods. In addition, the UBS Puerto Rico IRA Trust will not be subject to any redemption fees.

The sales charges applicable to purchases of Class A shares of the Fund are as follows:

Class A Share Sales Charges			
Amount Of Investment	% of Offering Price	% of Amount Invested	Dealer's Reallowance As % of Offering Price
Less than \$50,000	3.75%	3.90%	3.50%
\$50,000 – \$99,999	3.50%	3.63%	3.25%
\$100,000 – \$249,999	3.25%	3.36%	3.00%
\$250,000 – \$499,999	2.75%	2.83%	2.50%
\$500,000 – \$999,999	2.25%	2.30%	2.00%
\$1,000,000 and over	1.50%	1.52%	1.25%

The sales charges shown above apply to the aggregate of purchases of Class A shares by any individual, his or her spouse and children under age 21 whose principal residence is within Puerto Rico purchasing shares for his or her own account(s). Investors should inquire as to the availability of lower “breakpoint” charges prior to making an investment. To determine whether you qualify for a reduction or waiver of sales charges on sales of Class A shares, see “Initial Sales Charge Waivers - Class A Shares” and “Sales Charge Reductions for Class A Shares.”

Sales Charge Reductions for Class A Shares

If you purchase under a Right of Accumulation, you are permitted to obtain a reduced sales charge by aggregating the dollar amount of the new purchase and the total net asset value (using the higher of the purchase price or the current net asset value) of all Class A shares or shares designated class A, class B, class C or class Y of certain other UBS-sponsored funds (including the Multi-Select Securities Puerto Rico Fund) that you already hold and applying the sales charge applicable to such aggregate. Rights of Accumulation do not extend to IRA accountholders purchasing through the UBS Puerto Rico IRA Trust.

Initial Sales Charge Waivers – Class A Shares

Investors should inquire as to the availability of sales charge waivers prior to making an investment. You will qualify for a waiver of sales charges on sales of Class A shares if you:

- represent that the purchase of Class A shares will be made with the proceeds from the redemption or sale of class A, class B, class C or class Y shares, and that such shares are of any investment company registered under the U.S. Investment Company Act for which UBS Global Asset Management or any of its affiliates serves as principal underwriter or of the Multi-Select Securities Puerto Rico Fund;

- originally paid a front-end sales charge on the redeemed shares.
- notify the Distributor prior to such redemption or sale; and
- purchase the Class A shares within 60 days of such redemption or sale. Pending such purchase, the redemption or sale proceeds must be held in cash or cash equivalents.

You will also qualify for a waived sales charge on purchases of Class A shares in the following circumstances:

- You are an employee of UBS AG or its subsidiaries or are a member of the employee’s immediate family (or you are the UBS Puerto Rico IRA Trust and you represent that you are purchasing Class A shares on behalf of such persons);
- You are a shareholder of any other investment company in connection with the combination of such company with the Fund by merger, acquisition of assets or otherwise;
- You acquired your shares through reinvestment of capital gains distributions and dividends;
- If your financial advisor is a UBS Financial Services Incorporated of Puerto Rico Financial Advisor who was formerly employed as an investment executive with a competing brokerage firm, and
 - you were the financial advisor’s client at the competing brokerage firm;
 - within 90 days of buying shares in the Fund, you sell shares or shares of one or more mutual funds that were principally underwritten by the competing brokerage firm or its affiliates, and you either paid a sales charge to buy those shares, pay a contingent deferred sales charge when selling them or held those shares until the contingent deferred sales charge was waived; and
 - you purchase an amount that does not exceed the total amount of money you received from the sale of the other mutual fund; or
- You have redeemed Class A shares after holding such shares for at least 60 days before redeeming and wish to reinvest those redemption proceeds in the Fund within 60 calendar days of the redemption.

- The purchase is made by or on behalf of financial intermediaries for clients that pay the financial intermediaries' fees in connection with fee-based programs, provided that the financial intermediaries or their trading agents have entered into special arrangements with the Fund and/or UBS Financial Services Incorporated of Puerto Rico specifically for such purchases.
- You are the UBS Puerto Rico IRA Trust and you represent that the purchase of Class A shares will be made with the proceeds from the redemption, sale or distribution of any security owned by you.

In order to obtain such discounts, you must provide sufficient information at the time of purchase to permit verification that the purchase would qualify for the elimination of the sales charge and that you comply with the Puerto Rico residency requirements of investing in the Fund. The Fund reserves the right to modify the waiver criteria described above upon sixty days advance notice to shareholders.

Buying Shares

Important Information About Procedures for Opening a New Account. To help the United States government fight the funding of terrorism and money laundering activities, United States Federal law requires all financial institutions to obtain, verify, and record information that identifies each person who opens an account.

When you open an account, we will ask for your name, address, date of birth and other information that will allow us to identify you. We may also ask to see your driver's license or other identifying documents. If you do not provide the information requested, the Fund may not be able to maintain your account. If the Fund is unable to verify your identity, the Fund reserves the right to close your account and/or take such action it deems reasonable or required by law. If your account is opened with a dealer rather than directly with the Fund, similar requirements will apply.

Purchasing Fund Shares. To purchase Fund shares, you must be a Puerto Rico Resident (as described above). Purchasers of units in the Portfolios must purchase the units through a brokerage account maintained with UBS Financial Services Incorporated of Puerto Rico, as dealer, or in Puerto Rico with another dealer that has entered into a selected dealer agreement with UBS Financial Services Incorporated of Puerto Rico, as Distributor,

or directly through UBS Trust Company of Puerto Rico, as Transfer Agent.

UBS Financial Services Incorporated of Puerto Rico and certain other dealers may charge their clients an annual account maintenance fee.

Purchase orders for Fund shares are priced according to the net asset value next determined after the order is placed, calculated daily as of the close of trading on the New York Stock Exchange. The Fund is deemed to have received a purchase or redemption order when the Distributor or selected dealer receives the order in good form. It is the responsibility of such financial institution to send your order to the Fund promptly. Payment is due on three business days after the day on which the order is priced and the purchase will be settled as of that day. Payments received in advance of such date will not be invested until the next calculation of the Fund's daily pricing occurs. Payments will be held in your brokerage account until such time as they are invested in the Fund. A business day is any day that the New York Stock Exchange is open for trading. The New York Stock Exchange is not open for trading on: New Year's Day, Martin Luther King, Jr. Day, Presidents' Day, Good Friday, Memorial Day, Independence Day, Labor Day, Thanksgiving Day and Christmas Day.

Fund shares purchased through the Distributor or other dealer may be held by such entity as nominee for each shareholder. Fund shares purchased will in that case be registered in the name of the nominee by the Fund's Transfer Agent, UBS Trust Company of Puerto Rico. Each beneficial owner of Fund shares must nevertheless deliver to the Distributor or to such other dealer a letter of representation in the form of Appendix A, which the Distributor or other dealer will be contractually obligated to the Fund to obtain in proper form, or, if purchasing shares directly through the Distributor, must comply with any other procedures that the Distributor adopts to verify residency. Notwithstanding the foregoing, if a purchaser of Fund shares fails to deliver such letter of representation, any such purchase of Fund shares will be deemed to constitute an acceptance and acknowledgment of all of the terms of such letter of representation. Fund share certificates are issued only to shareholders maintaining at least a \$1,000,000 investment in the Fund and only upon a shareholder's written request to the Fund.

The Fund and the Distributor reserve the right to reject a purchase order or suspend the offering of Fund shares.

Minimum Investments and Account Size

Class A shares are available only to purchasers meeting the initial investment requirement of \$10,000 or more and are subject to a minimum balance requirement of \$500. Subsequent purchases of Class A shares must be made in amounts of at least \$100.

The Fund reserves the right to change minimum investment requirements in connection with any offering, to decline any order to purchase Fund shares and to determine at any time not to offer Fund shares or to terminate an offering. The Fund has the right to reject any purchase or additional purchases.

Exchanges from One Investment Company to Another

You may exchange units of the Multi-Select Securities Puerto Rico Fund for shares of the same class in the Fund without charge by contacting a Financial Advisor, other selected dealer or the Transfer Agent, except that a redemption fee of 1.00% will be applicable for exchanges made within 60 days of the initial purchase. Exchanges will not be immediately available at the time shares of the Fund are first sold, for operational reasons.

Consult your Financial Advisor or the selected securities dealer to determine which exchanges are permissible, and when. You may effect an exchange through the Transfer Agent by writing to the Transfer Agent at the address listed under the caption “Management — Administrator and Transfer Agent” in this Prospectus. Your letter must include:

- your name and address;
- the name of the affiliated investment company whose shares you are selling, and the Class of such shares;
- your account number;
- the number or dollar amount of shares to be sold; and
- the signature of each registered owner exactly as the shares are registered.

Units may not be exchanged for shares unless the shareholder is a Puerto Rico Resident and a letter in the form attached as Appendix A is provided to the Distributor or other selected securities dealer at the time of such exchange or, if purchasing shares directly through the Distributor, the shareholder complies with any other procedures that the Distributor adopts to verify such shareholder’s residency. The Fund reserves the right to modify this exchange privilege upon sixty days advance notice to shareholders.

Distribution Reinvestment

You will receive dividends in additional shares of the Fund, unless you elect to receive them in cash. Contact your Financial Advisor at UBS Financial Services Incorporated of Puerto Rico or your selected securities dealer if you prefer to receive dividends in cash.

Market Timers

The interests of the Fund’s long-term shareholders and its ability to manage its investments may be adversely affected when its shares are repeatedly bought and sold in response to short-term market fluctuations—also known as “market timing.” Market timing may cause the Fund to have difficulty implementing long-term investment strategies, because it cannot predict how much cash it will have to invest. Market timing also may force the Fund to sell portfolio securities at disadvantageous times to raise the cash needed to buy a market timer’s Fund shares. These factors may hurt the Fund’s performance and its shareholders. The Fund presently does not have in place any procedures to monitor such activity and, as a result, the Fund remains subject to the above-mentioned risks.

The Fund, however, assesses redemption fees on redemptions and/or exchanges within certain periods in order to protect the Fund from the costs of short-term trading.

Redeeming Shares

You may redeem for cash all full and fractional Fund shares daily at the share price equal to the next calculated net asset value per share of the Fund after your order is received in good form. Redemption orders received on a redemption date after the calculation of the Fund’s net asset value on that date, will be effected on the next occurring redemption date at the share price calculated on that date for the Fund. Payment will generally be made within three days thereafter. It is possible that there will be delays in payments by the Fund upon redemption because, among other things, the Fund may hold illiquid securities.

You may request a redemption in either oral or written form, provided that the Fund and UBS Trust Company of Puerto Rico, as Transfer Agent, and any dealer reserve the right to require such proof of ownership or other documentation as they deem appropriate. All redemption orders, including telephone redemptions, must be made through a financial advisor or a dealer. Redemption orders received may be rejected by the Fund at any time

prior to their acceptance on the redemption date. If you are liquidating your holdings, you will receive upon redemption all distributions reinvested through the date of redemption. The value of Fund shares at the time of redemption may be more or less than your initial cost, depending on the market value of the securities held by the Fund at such time.

If you hold Fund shares in more than one, any request for redemption must specify that you wish to redeem Class A shares of the Fund. In the event of a failure to so specify, or if you own fewer shares of the Fund than specified, the redemption request will be delayed until you provide further instructions to your Financial Advisor or other selected securities dealer. Certain redemptions may be subject to a redemption fee. The proceeds of redemption will be satisfied solely out of the assets of the Fund, or the sale of such assets, or borrowings by the Fund.

There may be instances in which the Fund may not be able to liquidate its investments due to, without limitation, market disruption or lack of economic feasibility. The Fund may suspend or modify redemptions at any time, including suspensions or modifications made in order to preserve the Fund's status as an investment company under the Puerto Rico Investment Companies Act. The Fund may suspend redemption privileges during periods when Puerto Rico or U.S. banks or the New York Stock Exchange are closed or trading on the New York Stock Exchange is restricted, or when an emergency exists that makes it not reasonably practicable for the Fund to dispose of securities owned by it or to determine fairly the market value of its assets, and for such other periods as the Board of Directors determines, in its discretion, is appropriate.

Fund shares are generally not transferable except in special circumstances by operation of law and may not be generally disposed of, except through redemption at the times specified.

Redemption Procedure

You may redeem shares only through your Financial Advisor, the Fund's Transfer Agent or other selected securities dealer, as applicable. If you submit your redemption request in writing, your request must include:

- the name of the Fund and number or dollar amount and type of shares you want to redeem;
- your account number; and
- the signature of each registered owner exactly as the shares are registered.

The Transfer Agent or a dealer may establish certain procedures for telephone or other redemption orders.

If you request a redemption other than by mail, you must deliver such request no later than the redemption date.

If you are redeeming shares through the Transfer Agent and (i) the shares have an aggregate net asset value in excess of \$10,000 or (ii) if you have made more than one redemption request in any 10 day period, your request must include a guarantee of each registered owner's signature. A signature guarantee may be obtained from a financial institution, broker, dealer or clearing agency that is a participant in one of the medallion programs recognized by the Securities Transfer Agents Association. These are: Securities Transfer Agents Medallion Program (STAMP), Stock Exchanges Medallion Program (SEMP) and the New York Stock Exchange Medallion Signature Program (MSP). The Transfer Agent may not accept signature guarantees that are not a part of these programs.

Unless you direct your financial advisor otherwise, payment will be credited to your account within seven days of receipt of a proper notice of redemption as set forth above. If you purchased shares directly through the Transfer Agent, payment will be mailed to your address of record within seven days of receipt of a proper notice of redemption as set forth above. However, such payment may be delayed, for example, because the Fund may be unable to sell sufficient assets of the Fund or to borrow a sufficient amount of funds on behalf of the Fund.

The financial advisor and Transfer Agent may require additional supporting documents for redemptions made by corporations, executors, administrators, trustees or guardians. A redemption request will not be deemed properly received until the dealer and Transfer Agent, as applicable, receive all required documents in a timely manner and in proper form.

Redemption Fees

If you exchange Class A shares within specified periods after you purchase them, a redemption fee may be applicable, to be deducted at the time of the transaction as described above. This amount will be paid to the Fund, not to the Investment Adviser. The redemption fee is designed to offset the costs associated with fluctuations in the Fund's asset levels and cash flow caused by short-term shareholder trading. Shares held the longest will be redeemed first for purposes of calculating the redemption fee.

Additional Information

It costs the Fund money to maintain shareholder accounts. Therefore, the Fund and dealers reserve the right to redeem all shares in any Fund account that has a net asset value of less than \$500. If the Fund elects to do this with your account, it will notify you that you can increase the amount invested to the applicable required amount or more within 60 days. This notice may appear on your account statement.

The Fund also has the right, at it's, the Administrator's or the dealers' discretion, to involuntarily redeem any shares held by an investor that either of them reasonably believes has ceased to be a Puerto Rico Resident.

If you want to redeem Fund shares that you purchased recently, the Fund may delay payment to assure that it has received good payment. If you purchased shares by check, this can take up to 15 days.

MANAGEMENT

The overall management of the business and affairs of the Fund is vested in the Board of Directors. The Board of Directors has approved all significant agreements between the Fund and persons or companies furnishing services to it, including the Fund's agreements with its Investment Adviser, the Administrator, the Distributor, the Custodian and the Transfer Agent. The day-to-day operations of the Fund have been delegated to UBS Trust Company of Puerto Rico, in its capacity as Administrator, subject to the Fund's investment objective and policies and to general supervision by the Board of Directors of the Fund.

The Board of Directors

The Board of Directors currently consists of nine Directors. Eight of these are "Independent Fund Directors," as defined in the Fund's Code of Ethics, and one is considered an "Interested Director" of the Fund as a result of his employment as an officer of the Fund, the Fund's Investment Adviser or an affiliate thereof. The number of members of the Fund's Board of Directors may be changed by resolution of the Board of Directors.

The eight Independent Fund Directors are:

Mario S. Belaval
Gabriel Dolagaray Balado
Luis M. Pellot-González
Agustín Cabrer-Roig
Clotilde Pérez
Carlos Nido
Vicente León
José J. Villamil

The Interested Director is:

Carlos V. Ubiñas

The Board of Directors has three standing committees: an Audit Committee, a Dividend Committee and a Nominating and Governance Committee. The role of the Audit Committee 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. The Audit Committee has four members, all of whom are Independent Fund Directors (currently, Messrs. Belaval, Cabrer, Pellot-González and León). The Independent Fund Directors who are Audit Committee members are represented by independent legal counsel in connection with their duties.

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. The Dividend Committee has four members, three of whom are Independent Fund Directors (currently, Messrs. Belaval, Cabrer, and Pellot) and one who is an Interested Director (Mr. Ubiñas).

The role of the Nominating and Governance Committee is to identify individuals qualified to serve as Independent Fund Directors and to recommend its nominees for consideration by the full Board. The Nominating Committee has three members, all of whom are Independent Fund Directors (currently, Messrs. Cabrer, Nido and Pellot). The Independent Fund Directors who are Nominating Committee members are represented by independent legal counsel in connection with their duties. While the Nominating Committee and Governance is solely responsible for the selection and nomination of the Independent Fund Directors, the Nominating and Governance Committee may consider nominations 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.

Independent Fund Directors

Certain biographical and other information relating to the Independent Fund Directors is set forth below, including their ages and their principal occupations for at least five years. Such information is provided as of December 31, 2014, except as otherwise noted.

Messrs. Nido, Pellot-González and Ms. Pérez are members of the boards of directors of all funds that have engaged UBS Trust Company of Puerto Rico 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. Dolagaray, Cabrer-Roig, Belaval, Villamil and León are members solely of the board of directors 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
Gabriel Dolagaray Balado (78) c/o UBS Trust Company of Puerto Rico – 250 Muñoz Rivera Avenue, Tenth Floor, San Juan, Puerto Rico 00918	Director	Director since 2012	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; and former President of the Puerto Rico Chamber of Commerce.	18 funds consisting of 29 portfolios	None
Mario S. Belaval (76) c/o UBS Trust Company of Puerto Rico – 250 Muñoz Rivera Avenue, Tenth Floor, San Juan, Puerto Rico 00918	Director	Director since 2012	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 Bacardí Corp; former Executive Vice-president of Bacardí Corp.	18 funds consisting of 29 portfolios	None
Luis M. Pellot-González (66) c/o UBS Trust Company of Puerto Rico – 250 Muñoz Rivera Avenue, Tenth Floor, San Juan, Puerto Rico 00918	Director	Director since 2012	Tax attorney at Pellot-González, PSC since 1989; Member of the Board of Directors of Empresas Santana; 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.; Tax Professor, University of Puerto Rico Business School from 1981-1993; President of Tax Committee, Puerto Rico Chamber of Commerce, from 1996-1997; 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
Agustín Cabrer-Roig (66) c/o UBS Trust Company of Puerto Rico – 250 Muñoz Rivera Avenue, Tenth Floor, San Juan, Puerto Rico 00918	Director	Director since 2012	President of Starlight Development Group, Inc. since 1994 (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); Director of Pennock Growers, Inc. since 1997; Administrative Partner of REBAC Holdings, LLP since 2004 (real estate development); Director of V. Suárez & Co., V. Suárez International Banking Entity, Inc., Villa Pedre, Inc. and Caparra Motor Service; Director and Officer of TC Management and Candelero Holding since 2002 and 2001, respectively; 100% owner, President and Registered Principal (Agent) of Starlight Securities Inc. since 1995 (registered broker-dealer); Director of Grupo Emesol, LLC (solar photovoltaic developer).	18 funds consisting of 29 portfolios	None
Carlos Nido (50) c/o UBS Trust Company of Puerto Rico – 250 Muñoz Rivera Avenue, Tenth Floor, San Juan, Puerto Rico 00918	Director	Director since 2012	Senior Vice President of Sales of El Nuevo Día since 2007 and President of Del Mar Events; former President and founder of Virtual, Inc. and Zona Networks; Manager of Editorial Primera Hora from 1997 to 1999;	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
			Member of the Board of Grupo Ferré Rangel, GFR Media LLC, B. Fernandez & Hnos. Inc., and the San Jorge Children's Foundation; former Member of the Board of Grupo Guayacán, Baldwin School, the Muscular Dystrophy Association, Puerto Rico Venture Forum, Puerto Rico Tennis Association and of Solomon Smith Barney family of mutual funds; special assistant to the President of the Government Development Bank for Puerto Rico during 1990; Associate in the investment bank CS First Boston from 1987 to 1990.		
Clotilde Pérez (63) c/o UBS Trust Company of Puerto Rico – 250 Muñoz Rivera Avenue, Tenth Floor, San Juan, Puerto Rico 00918	Director	Director since 2012	Corporate Development Officer of V. Suárez & Co., Inc. since 1999; member of the Board of Directors of Grupo Guayacán, Inc. and member of the Board of Trustees of the University of the Sacred Heart; General Partner of the Guayacán Fund of Funds Family; Senior Investment Banker of Citibank, N.A. – Puerto Rico from 1997 to 1999; Executive Director of Grupo Guayacán, Inc. from 1996 to 1997; Vice President of the Economic and Development Bank for Puerto Rico from 1993 to 1996.	27 funds consisting of 38 portfolios	None
Vicente J. León (76) c/o UBS Trust Company of Puerto Rico – 250 Muñoz Rivera Avenue, Tenth Floor, San Juan, Puerto Rico 00918	Director	Director since 2012	Independent business consultant since 1999; former Member of the Board of Directors of Triple S Management Corporation; served as a consultant with Falcón Sanchez and Associates, a Certified Public Accounting Firm from 2000 to 2001; partner at KPMG LLP from 1981 to 1998.	18 funds consisting of 29 portfolios	None
José J. Villamil (75) c/o UBS Trust Company of Puerto Rico – 250 Muñoz Rivera Avenue, Tenth Floor, San Juan, Puerto Rico 00918	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 Manufacturers 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	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
			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.		
*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 turns 80. Each officer is elected by and serves at the pleasure of the Board of Directors.					

Interested Directors and Officers

Certain biographical and other information relating to the Interested Directors and to the officers of the Fund, is set forth below, including their ages, their principal occupations for at least the last five years, the length of time served, and the total number of Affiliated Funds overseen by them. Such information is provided as of December 31, 2014, except as otherwise noted. 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 (60) c/o UBS Trust Company of Puerto Rico – 250 Muñoz Rivera Avenue, Tenth Floor, San Juan, Puerto Rico 00918	Director, Chairman of the Board of Directors, and President	President since 2015; Director and the Chairman of the Board of Directors since 2012	President since 2005 and Chief Executive Officer from 2009 – 2014 of UBS Financial Services Incorporated of Puerto Rico; Former Chief Operating Officer and Managing Director of Investment Banking thereof; Executive Vice President of UBS Financial Services Incorporated of Puerto Rico from 1989 to 2005.	18 funds consisting of 29 portfolios	None
Leslie Highley, Jr. (68) c/o UBS Trust Company of Puerto Rico – 250 Muñoz Rivera Avenue, Tenth Floor, San Juan, Puerto Rico 00918	Senior Vice President	Senior Vice President since 2012	Managing Director of UBS Trust Company of Puerto Rico since 2006; Executive Vice President of UBS Trust Company of Puerto Rico 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. and a senior officer responsible for Corporate and Public Finance from 1985 to 1993; Executive Vice President of the Government Development Bank for Puerto Rico, managing Investment and Treasury Operations and supervising Private Lending and the issuance of all Puerto Rico Government debt from 1977 to 1985.	Not Applicable	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
Ricardo Ramos (57) ⁺	First Vice President, Treasurer, and Assistant Secretary	First Vice President, Treasurer, and Assistant Secretary since 2012	Managing Director of UBS Trust PR since 2010; Executive Director of UBS Trust PR from 2006 to 2010; Portfolio Manager and Senior Vice President of UBS Asset Managers since 2005; Executive Vice President of FirstBank Puerto Rico from August 1999 to September 2002; Executive Vice President of Reliable Financial Services, Inc. from November 1998 to July 1999; Senior Vice President – Finance of Oriental Financial Group from August 1992 to September 1998.	Not applicable	None
William Rivera (56) c/o UBS Trust Company of Puerto Rico – 250 Muñoz Rivera Avenue, Tenth Floor, San Juan, Puerto Rico 00918	First Vice President	First Vice President since 2012	Executive Director of UBS Asset Managers of Puerto Rico since 2011; Director of UBS Asset Managers of Puerto Rico from 2006 to 2010; Assistant Portfolio Manager for UBS Asset Managers of Puerto Rico; 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 (42) c/o UBS Trust Company of Puerto Rico – 250 Muñoz Rivera Avenue, Tenth Floor, San Juan, Puerto Rico 00918	Assistant Vice President and Assistant Treasurer	Assistant Vice President and Assistant Treasurer since 2012	Divisional Assistant Vice President, trader and portfolio manager of UBS Trust Company of Puerto Rico since 2003; financial analyst with UBS Trust Company of Puerto Rico from 2002 to 2003; financial analyst with Popular Asset Management from 1998 to 2002.	Not applicable	None
Liana Loyola (54)	Secretary	Secretary since 2014	Attorney in private practice since 2009.	Not applicable	None
*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 turns 80. Each officer is elected by and serves at the pleasure of the Board of Directors.					
⁺ Mr. Ricardo Ramos resigned from his positions as First Vice President, Treasurer and Assistant Secretary effective as of May 31, 2015.					

Compensation of 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 of the Board. The Independent Directors do not receive retirement or other benefits as part of their compensation. The following table sets forth the estimated compensation to be earned by the Independent Directors projected through the Fund's full fiscal year ended December 31, 2014, assuming four meetings of the board, and the total compensation paid by all investment companies advised or co-advised by UBS Asset Managers of Puerto Rico or its affiliates ("UBS Asset Managers of Puerto Rico Advised Funds") to the Independent Directors for the calendar year ending December 31, 2014.

<u>Name of Independent Director</u>	<u>Aggregate Compensation from Fund</u>	<u>Retirement Benefits Accrued as Part of Fund Expenses</u>	<u>Total Compensation from Affiliated Funds Paid to Independent Directors</u>
Gabriel Dolagaray Balado	\$4,166.68	None	\$77,000
Mario S. Belaval ⁽²⁾	\$6,722.24	None	\$124,000
Luis M. Pellot-González ⁽¹⁾⁽²⁾	\$6,722.24	None	\$165,000
Agustín Cabrer-Roig ⁽²⁾	\$6,694.46	None	\$123,500
Carlos Nido ⁽¹⁾	\$4,194.46	None	\$118,500
Vicente León ⁽²⁾	\$6,722.24	None	\$123,500
Clotilde Pérez ⁽¹⁾	\$4,166.68	None	\$127,972
José Villamil	\$4,166.68	None	\$77,000

¹ Independent Directors who also serve on the boards of the twenty-seven Puerto Rico investment companies advised or co-advised by UBS Asset Managers of Puerto Rico.

² Independent Director who serves on the Audit Committee of each UBS Asset Managers of Puerto Rico Advised Fund.

Director and Officer Ownership of Fund Shares and Material Transactions

The following table shows the dollar range of securities owned beneficially and of record by Messrs. Belaval and Rodríguez. This information is provided as of March 31, 2015. None of the other directors and officers of the Fund own any shares of the Fund or have entered into any material transactions with the Fund; provided, however, that certain of the directors and officers of the Fund are employees of entities which have entered into material agreements with the Fund, as described herein.

<u>Name of Director or Officer</u>	<u>Dollar Range of Equity Securities in the Fund</u>
Mario Belaval	Over \$100,000

Code of Ethics

The Board of Directors of the Fund 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 Incorporated of Puerto Rico or UBS Trust Company of Puerto Rico to comply with various requirements in connection with 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 requires Independent Fund Directors to report to the Fund's compliance officer purchases or sales of securities by such directors, if such directors know (or should have known) that during the

prior 15-day period the Fund purchased or sold such securities, or the Investment Advisor considered purchasing or selling such security.

Investment Advisory Arrangements

Subject to the supervision of the Board of Directors, investment advisory services are provided to the Fund by its Investment Adviser, UBS Asset Managers of Puerto Rico, a division of UBS Trust Company of Puerto Rico, pursuant to an investment advisory contract (the “Advisory Agreement”). As compensation for its investment advisory services, the Fund pays advisory fees to UBS Asset Managers of Puerto Rico pursuant the Advisory Agreement at an annual rate of 0.75% based on the Fund’s gross assets. Fees and expenses may be voluntarily waived or reimbursed by UBS Asset Managers of Puerto Rico from time to time. There is no assurance, however, that such waiver or reimbursement will happen or, if commenced, will be continued. UBS Trust Company of Puerto Rico and the Fund have entered into an agreement whereby UBS Trust Company of Puerto Rico will pay the Fund’s Other Expenses, subject to future reimbursement by the Fund, in order to ensure that Total Annual Portfolio Operating Expenses do not exceed 1.00%. The Fund will reimburse UBS Trust Company of Puerto Rico for Other Expenses paid by UBS Trust Company of Puerto Rico when Total Annual Operating Expenses fall below 1.00%; provided that such reimbursement does not cause the Fund’s Total Annual Portfolio Operating Expenses to exceed 1.00% and the reimbursement is made within three years after UBS Trust Company of Puerto Rico originally paid the expense. This Expense Limitation and Reimbursement Agreement is currently effective through March 31, 2016.

As of March 31, 2015, UBS Asset Managers of Puerto Rico serves as investment adviser or co-investment adviser to funds with combined portfolio assets of approximately \$4.7 billion. UBS Asset Managers of Puerto Rico’s principal business address is 250 Muñoz Rivera Avenue, San Juan, Puerto Rico 00918. UBS Trust Company of Puerto Rico, an affiliate of the Fund and UBS Financial Services Incorporated of Puerto Rico, is a trust company organized and validly existing under the laws of Puerto Rico.

Pursuant to the Advisory Agreement, the Investment Adviser provides a complete and continuous investment program for the Fund and makes investment decisions and places orders to buy, sell or hold particular securities and other investments. The Investment Adviser may retain the services of its affiliates or of unaffiliated sub-advisors in making these determinations.

Portfolio Managers

Leslie Highley, Jr. (the “Portfolio Manager”) is the portfolio manager for the Fund and is primarily responsible for the day-to-day management of the Fund’s portfolio.

Mr. Highley has been a Managing Director of UBS Trust Company of Puerto Rico since 2006 and a Senior Vice President of the Puerto Rico Investors Tax-Free Family of Funds since inception in 1995. From 1985 to 1993, Mr. Highley was the President of Dean Witter Puerto Rico, Inc. and a senior officer responsible for Corporate and Public Finance. Prior thereto, he was Executive Vice President of the Government Development Bank for Puerto Rico where he managed Investment and Treasury Operations, and also supervised Private Lending and the issuance of all Puerto Rico Government debt from 1977 to 1985.

Portfolio Manager Ownership of Fund Shares

The following table shows the dollar range of securities owned beneficially and of record by the Fund’s Portfolio Manager in the Fund and in all affiliated funds, including investments by their immediate family members and amounts invested through retirement and deferred compensation plans. This information is provided as of March 31, 2015.

Name of Portfolio Manager	Dollar Range of Equity Securities in the Fund	Dollar Range of Equity Securities in the Affiliated Investment Companies
Leslie Highley, Jr.	0	Over \$100,000

Other Funds and Accounts Managed

The following table sets forth information about funds and accounts other than the Fund for which the Portfolio Manager is responsible for the day-to-day portfolio management as of March 31, 2015.

Portfolio Manager	Registered Investment Companies		Other Pooled Investment Vehicles		Other Accounts	
	Number of accounts	Total assets	Number of accounts	Total assets	Number of accounts	Total assets
Leslie Highley, Jr.	38	\$4,753,316,019	None	None	1	\$27,766,432

Potential Material Conflicts of Interest

The Portfolio Manager's management of the Fund and other accounts could result in potential conflicts of interest if the Fund and other accounts have different objectives, benchmarks and fees because the Portfolio Manager must allocate its time and investment expertise across multiple accounts, including the Fund. The Investment Adviser manages such competing interests for the time and attention of portfolio managers by having a portfolio manager focus on a particular investment discipline. The Portfolio Manager manages the Fund and other accounts utilizing a model portfolio approach that groups similar accounts within a model portfolio. The Portfolio Manager manages accounts according to the appropriate model portfolio, including where possible, those accounts that have specific investment restrictions. Accordingly, portfolio holdings, position sizes, and industry and sector exposures tend to be similar across accounts, which may minimize the potential for conflicts of interest.

If a portfolio manager identifies a limited investment opportunity that may be suitable for more than one account or model portfolio, the Fund may not be able to take full advantage of that opportunity due to an allocation of filled purchase or sale orders across all eligible model portfolios and accounts. To deal with these situations, the Investment Adviser allocates portfolio trades across multiple accounts to provide fair treatment to all accounts. The Investment Adviser may execute orders for the same security for both the Fund and other accounts. With respect to such orders, the Investment Adviser determines which broker to use to execute each order, consistent with its duty to seek best execution for the transaction. The Investment Adviser may aggregate trades of several accounts to obtain more favorable execution and lower brokerage commissions.

Certain investments may be appropriate for the Fund and also for other clients advised by UBS Financial Services Incorporated of Puerto Rico and its affiliates, including other client accounts managed by the Fund's portfolio managers. Investment decisions for the Fund and other clients are made with a view to achieving their respective investment objectives and after consideration of such factors as their current holdings, availability of cash for investment and the size of their investments generally. Frequently, a particular security may be bought or sold for only one client or in different amounts and at different times for more than one but less than all clients. Likewise, because clients of UBS and its affiliates may have

differing investment strategies, a particular security may be bought for one or more clients when one or more other clients are selling the security. The investment results for the Fund may differ from the results achieved by other clients of UBS and its affiliates and results among clients may differ. In addition, purchases or sales of the same security may be made for two or more clients on the same day. In such event, such transactions will be allocated among the clients in a manner believed by UBS to be equitable to each. UBS will not determine allocations based on whether it receives a performance based fee from the client. In some cases, the allocation procedure could have an adverse effect on the price or amount of the securities purchased or sold by the Fund. Purchase and sale orders for the Fund may be combined with those of other clients of UBS and its affiliates in the interest of achieving the most favorable net results to the Fund.

In some cases, a real, potential or apparent conflict may also arise where a portfolio manager owns an interest in one fund or account he or she manages and not another.

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 (as defined herein), 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 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 will not act to relieve the Investment Adviser from any responsibility or liability for any responsibility, obligation or duty that the Investment Adviser may have under state statutes, the laws of Puerto Rico or any U.S. securities law which is not waivable.

Duration and Termination of the Advisory Agreement

Unless earlier terminated as described below, the Advisory Agreement will continue in effect for a period of two years from the date of execution and will remain in effect from year to year thereafter if approved annually by a vote of a majority of those directors of the Fund who, as indicated below, are "Independent Fund Directors" as defined in the Fund's Code of Ethics (herein, "Independent Directors"). The Advisory Agreement may be

terminated, without penalty, (i) at any time by a majority vote of the Independent Directors, (ii) at the option of the Investment Adviser, on 60 days' written notice to the Fund, or (iii) by the vote of a majority of the outstanding shares of the Fund (voting together as a single class) on 60 days' written notice to the Investment Adviser.

The Advisory Agreement is not assignable, except to affiliates of the Investment Adviser, without the consent of the other party. Either party may terminate an Advisory Agreement upon thirty (30) days' prior written notice to the other party. In the case of the Fund, termination of the Advisory Agreements is at the discretion of the Board of Directors of the Fund, or upon the vote of or approval by a majority of the investors in the Fund.

Sub-Advisory Arrangements

The Investment Advisory Agreement authorizes the Investment Adviser to retain one or more subadvisers for the management of the Fund and the Investment Adviser has entered into a sub-advisory agreement (the "Sub-Advisory Agreement") with Nuveen Asset Management on behalf of the Fund. Subject to the supervision of the Board of Directors, the Investment Adviser will oversee the investment advisory services provided by the subadviser. Pursuant to the Sub-Advisory Agreement, and under the supervision of the Investment Adviser and the Board of Directors, the subadviser is responsible for the day-to-day investment management of up to 80% of the Fund's assets, which it will invest primarily in U.S. municipal securities. The Investment Adviser monitors and evaluates the subadviser's performance, and oversees the subadviser's compliance with the Fund's investment objective, policies and restrictions. Information about the subadviser engaged by the Investment Adviser is provided in the Fund's Prospectus. The Investment Adviser (not the Fund) will pay the subadvisers a fee at an annual rate based on a percentage of the Fund's gross assets. The fee paid to the subadviser by the Investment Adviser for the fiscal year ended December 31, 2014 was \$322,116. The Sub-Advisory Agreement is terminable at any time without penalty on 30 days' written notice to the subadviser by the Board of Directors and may be terminated by the subadviser on 120 days' written notice to the Investment Adviser. The Sub-Advisory Agreement may be terminated by the Investment Adviser (1) upon 120 days written notice to the subadviser, (2) upon material breach by the subadviser of its representations and warranties; or (3) if the

subadviser becomes unable to discharge its duties and obligations under the Sub-Advisory Agreement.

Nuveen Asset Management, LLC ("NAM"), 333 West Wacker Drive, Chicago, Illinois 60606, is a subsidiary of Nuveen Investments, Inc. NAM serves as investment adviser for a large number of funds and other investment advisory accounts involving a wide range of asset classes, and has extensive experience in managing municipal securities. As of March 31, 2015, NAM had approximately US\$137.7 billion in assets under management, of which approximately US\$102.4 billion were in municipal securities. Daniel J. Close will serve as the NAM portfolio manager for the U.S. Portion of the Fund.

Mr. Close currently has responsibility for managing over US\$5 billion in municipal securities. Mr. Close joined Nuveen Investments in 2000 as a member of Nuveen's product management and development team, where he was responsible for the oversight and development of Nuveen's mutual fund product line. He then served as a research analyst for Nuveen Asset Management's municipal investing team, covering corporate-backed, energy, transportation and utility credits, before becoming a portfolio manager. He received his B.S. in Business from Miami University, and his M.B.A. from Northwestern University's Kellogg School of Management. He has earned the Chartered Financial Analyst designation.

Administrator

UBS Trust Company of Puerto Rico serves as Administrator of the Fund. UBS Trust Company of Puerto Rico is located at 250 Muñoz Rivera Avenue, Tenth Floor, San Juan, Puerto Rico 00918. UBS Trust Company of Puerto Rico is a trust company organized and validly existing under the laws of Puerto Rico. UBS Trust Company of Puerto Rico may retain one or more sub-administrators for the Fund.

Pursuant to an administration agreement with the Fund, UBS Trust Company of Puerto Rico, subject to the overall supervision of the Board of Directors, provides facilities and personnel to the Fund in the performance of certain services including the determination of the Fund's net asset value and net income. UBS Trust Company of Puerto Rico may enter into agreements with third parties to perform some or all of these tasks, subject to the oversight and ultimate responsibility of UBS Trust Company of

Puerto Rico. As compensation for their administration services to the Fund, the Administrator will receive an administration fee (which is indirectly paid entirely by Shareholders) not to exceed 0.15% of the Fund's gross assets, payable monthly. The fees paid to the Administrator by the Fund for the fiscal year ended December 31, 2014 was \$248,022.

Custodian

The Fund's securities and cash will be held under a custody agreement to be entered into between the Fund and UBS Trust Company of Puerto Rico prior to the issuance of the Shares, pursuant to which UBS Trust Company of Puerto Rico will serve as custodian for the Fund's assets (in such capacity, the "Custodian"). As compensation for its custody services, the Custodian will receive a fee as agreed from time to time with the Fund; such fee will be at a rate customarily paid to other custodians for the provision of similar services. The Custodian may retain the services of a sub-custodian, which may be its affiliate. In such regard, the Fund intends to retain JPMorgan Chase Bank, N.A. to perform certain custody functions for the Fund. The fee paid to the Custodian for the fiscal year ended December 31, 2014 was \$19,613.

Transfer Agent and Registrar

Pursuant to the terms of the Transfer Agency, Registrar, and Shareholder Servicing Agreement to be entered into between the Fund and UBS Trust Company of Puerto Rico prior to the issuance of the Shares, the latter will be responsible for maintaining a register of the Shares for holders of record 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 will receive a fee as agreed from time to time with the Fund. Such fee will be at a rate customarily paid to other transfer agents for the provision of similar services. The Transfer Agent may retain the services of a sub-transfer agent, which may be its affiliate. The fee paid to the Transfer Agent by the Fund for the fiscal year ended December 31, 2014 was \$12,878.

Distributor

UBS Financial Services Incorporated of Puerto Rico serves as the Distributor of the shares in the Fund.

Disclosure of Portfolio Holdings

The Fund makes its holdings available at least on a quarterly basis by posting such holdings at www.ubs.com/prfunds.

PORTFOLIO TRANSACTIONS

The Fund purchases portfolio securities from dealers and underwriters as well as from issuers. Securities are usually traded on a net basis with dealers acting as principal for their own accounts without a stated commission. Prices paid to dealers in principal transactions 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 the time. When securities are purchased directly from an issuer and in the case of securities issued by affiliated Puerto Rico investment companies, no commissions or discounts are paid. When securities are purchased in underwritten offerings, they generally include a fixed amount of compensation to the underwriter.

For purchases or sales with broker-dealer firms that act as principal, the Investment Adviser seeks best execution. Although the Investment Adviser may receive certain research or execution services in connection with these transactions, it will not

purchase securities at a higher price or sell securities at a lower price than would otherwise be paid if no weight was attributed to the services provided by the executing dealer. The Investment Adviser may engage in agency transactions and riskless principal transactions in over-the-counter securities in return for research and execution services. These transactions are entered into only pursuant to procedures designed to ensure that the transaction (including any applicable commissions) is at least as favorable as it would have been if effected directly with a market-maker that did not provide research or execution services.

Research services and information received from brokers or dealers are supplemental to the Investment Adviser's own research efforts and, when utilized, are subject to internal analysis before being incorporated into its investment processes. Information and research services furnished by brokers or dealers through which or with which the Fund effects securities transactions may be used by

the Investment Adviser in advising other funds or accounts and, conversely, research services furnished to the Investment Adviser by brokers and dealers in connection with other funds or accounts that it advises may be used in advising the Fund.

Investment decisions for the Fund and for other investment accounts managed by the Investment Adviser, including other Puerto Rico investment companies, are made independently of each other in light of differing considerations for the various accounts. However, the same investment decision may occasionally be made for the Fund and one or more accounts. In those cases, simultaneous

transactions are inevitable. Purchases or sales are then averaged as to price and allocated between the Fund and the other account(s) as to amount in a manner deemed equitable to the Fund and the other account(s). While in some cases this practice could have a detrimental effect upon the price or value of the security as far as a Fund is concerned, or upon its ability to complete its entire order, in other cases it is believed that simultaneous transactions and the ability to participate in volume transactions will benefit the Fund. The gross sales charges collected from sales of Class A shares for the fiscal year ended December 31, 2014 was \$334,145.

VALUATION OF SHARES

The price of your Fund shares is based on the net asset value of the Fund. The Fund calculates net asset value daily, as of the close of the New York Stock Exchange (generally 4 p.m. New York time). For purposes of determining the net asset value of a share, the value of the securities held by the Fund plus any cash or other assets (including interest accrued but not yet received) minus all liabilities (including borrowings and accrued interest thereon and other accrued expenses) is divided by the total number of shares outstanding at such time. Expenses, including the fees payable to the Investment Adviser, the Distributor and the Administrator, are accrued daily and paid monthly.

The net asset value per Fund share is based solely on the value of the assets in the Fund. Your price for buying or selling Fund shares will be the net asset value of the Fund that is next calculated after the Fund accepts your order. Your Financial Advisor or other selected securities dealer is responsible for making sure that your order is promptly sent to the Fund when shares are purchased in a manner other than through the automatic distribution reinvestment program described in the following paragraph.

All distributions on shares are reinvested automatically in full and fractional shares at the net asset value per share next determined after the declaration of such distribution. A shareholder at any time, by written notification to the Distributor or a dealer, may request to have subsequent distributions paid in cash, rather than reinvested, in which event payment will be mailed on or about the payment date.

The Fund's assets will be valued by the Administrator, on the basis of valuations provided by pricing services which were approved by the Fund's management and the Board of Directors. In arriving at their valuation, pricing sources may use both a grid

matrix of securities values as well as the evaluations of their staff. The valuation, in either case, is 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. Certain securities of the Fund for which quotations are not readily available from any source, are valued at fair value by or under the direction of the Investment Adviser utilizing 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 established a Valuation Committee (the "Committee") which is responsible for overseeing the pricing and valuation of all securities held in 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 daily basis related to the valuation of portfolio securities for the purpose of determining the net asset value of the Fund. The Committee reports to the Board of Directors on a regular basis.

GAAP provides a framework for measuring fair value and expands disclosures about fair value measurements and requires disclosures surrounding the various inputs that are used in determining the fair value of the Fund's investments. These inputs are summarized in three (3) broad levels listed below:

- Level 1 - Quoted prices in active markets for identical assets and liabilities at the measurement date. An active market is one in which transactions for the asset occurs with sufficient frequency and volume to provide pricing information on an ongoing basis.
- Level 2 - Are significant inputs other than quoted prices included in Level 1 that are observable (including quoted prices for similar securities, interest rates, prepayments speeds, credit risk, etc.), either directly or indirectly.
- Level 3 - Significant unobservable inputs, for example, inputs derived through extrapolation that cannot be corroborated by observable market data. These will be developed based on the best information available in the circumstances, which might include UBSTC's own data. Level 3 inputs will consider the assumptions that market participants would use in pricing the asset, including assumptions about risk (e.g., credit risk, model risk, etc.).

The Fund maximizes the use of observable inputs and minimizes the use of unobservable inputs, by requiring that the observable inputs be used when available. Fair value is based upon quoted market prices when available. Valuation adjustments are limited to those necessary to ensure that the financial instrument's fair value is adequately representative of the price that would be received or paid in the marketplace. These adjustments include amounts that reflect counterparty credit quality, the Fund's credit standing, constraints on liquidity, and unobservable parameters that are applied consistently.

The estimated fair value may be subjective in nature and may involve uncertainties and matters of significant judgment for certain financial instruments. Changes in the underlying assumptions used in calculating fair value could significantly affect the results. Therefore, the estimated fair value may materially differ from the value that could actually be realized on sale.

DIVIDENDS AND TAXES

Dividends

The Fund intends to distribute to its shareholders substantially all of its net investment income. However, the Fund may elect to distribute less of its net investment income if, in the judgment of the Investment Adviser, such reduced distribution is in the best economic interests of the Fund's shareholders. Such distributions, if any, shall be paid by the Fund on no less than a monthly basis.

You will receive dividends in additional shares of the Fund, unless you elect to receive them in cash. Contact your Financial Advisor at UBS Financial Services Incorporated of Puerto Rico or your selected securities dealer if you prefer to receive dividends in cash.

Taxes

THIS SECTION IS NOT TO BE CONSTRUED AS A SUBSTITUTE FOR CAREFUL TAX PLANNING. PROSPECTIVE INVESTORS 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 LAWS AFTER THE DATE OF THIS PROSPECTUS.

The following discussion is a summary of the material Puerto Rico and United States ("U.S.") federal tax considerations that may be relevant to prospective investors in the Fund. The discussion in connection with the Puerto Rico tax considerations is based on the current provisions of the Puerto Rico Internal Revenue Code of 2011, as amended (the "Puerto Rico Code"), the regulations promulgated or applicable thereunder (the "Puerto Rico Code Regulations"), and the administrative pronouncements issued by the Puerto Rico Treasury Department (the "Treasury Department"); the Puerto Rico Municipal Property Tax Act of 1991, as amended (the "MPTA") and the regulations promulgated thereunder; the Municipal License Tax Act, as amended (the "MLTA") and the regulations promulgated thereunder; and the Puerto Rico Investment Companies Act of June 30, 2013, as amended (the "PR-ICA"). The U.S. federal tax discussion is based on the current provisions of the Internal Revenue Code of 1986, as amended (the "Code"), the regulations promulgated thereunder (the "Regulations") and administrative pronouncements issued by the U.S. Internal Revenue Service (the "IRS").

This discussion assumes that (i) the investors will be (a) individuals who for the entire taxable year (including the taxable year during which the shares of common stock of the Fund (the "Shares") are acquired) are bona fide residents of Puerto Rico for

purposes of section 933 of the Code and residents of Puerto Rico for purposes of the Puerto Rico Code, (the “Puerto Rico Individuals”), (b) corporations or other entities subject to Puerto Rico income tax as corporations organized under the laws of Puerto Rico, other than corporations or any such entity subject to a special tax regime under the Puerto Rico Code (the “Puerto Rico Entities”) and (c) trusts (other than business trusts), all of the beneficiaries of which are Puerto Rico Individuals, as described above (the “PR Trusts,” and jointly with the Puerto Rico Entities and the Puerto Rico Individuals, the “Puerto Rico Investors”), (ii) the Puerto Rico Entities will not be subject at any time to any special tax regime under the Code including, without limitation, the provisions of the Code that apply to “controlled foreign corporations,” “passive foreign investment companies,” or “personal holding companies,” and (iii) for each taxable year the Fund will meet the 90% Distribution Requirement (as defined below). The Fund may not be a suitable investment for individuals who are not Puerto Rico Individuals. Shareholders who are corporations, business trusts or partnerships organized outside of Puerto Rico are urged to consult their own tax advisors with respect to the tax implications of the investment under the laws of the jurisdiction where they are organized.

Generally, an individual is a bona fide resident of Puerto Rico under the Code if he or she (i) is physically present in Puerto Rico for at least 183 days during the taxable year, (ii) has his or her principal place of business in Puerto Rico, and (iii) has more significant contacts with Puerto Rico than with the U.S. or a foreign country. Prospective investors should consult their tax advisors as to whether they qualify as “bona fide residents of Puerto Rico” under the Code.

This discussion does not purport to deal with all aspects of Puerto Rico and U.S. federal taxation that may be relevant to other types of investors, particular investors in light of their investment circumstances, or to certain types of investors subject to special treatment under the Puerto Rico Code or the Code (e.g., banks, insurance companies or tax-exempt organizations). Unless otherwise noted, the references in this discussion to the Puerto Rico regular income tax will include the alternative minimum tax and the alternate basic tax imposed on Puerto Rico Entities and Puerto Rico Individuals, respectively, by the Puerto Rico Code.

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 Adsuar Muñoz Goyco Seda & Pérez-Ochoa, P.S.C., 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 Treasury Department, the Municipal Revenue Collection Center, any other agency or municipality of Puerto Rico, the IRS, or the courts. Accordingly, there can be no assurance that the opinions set forth herein, if challenged, will be sustained.

Puerto Rico Taxation

Taxation of the Fund

Income Taxes. In the opinion of Adsuar Muñoz Goyco Seda & Pérez-Ochoa, P.S.C., the Fund should be exempt from the regular income tax imposed by the Puerto Rico Code for each taxable year that it distributes as Taxable Dividends (as defined below) an amount equal to at least 90% of its net income for such year within the time period provided by the Puerto Rico Code (the “90% Distribution Requirement”). In determining its net income for purposes of the 90% Distribution Requirement, the Fund is not required to take into account capital gains and losses. The Fund intends to meet the 90% Distribution Requirement to be exempt from the income tax imposed by the Puerto Rico Code.

Property Taxes. The Fund will be subject to personal property taxes under the MPTA. However, the shares of stock, bonds, participations, notes, and other securities or debt instruments issued by Puerto Rico or non-Puerto Rico corporations, partnerships or companies held by the Fund will be exempt from personal property taxes under the MPTA.

Municipal License Taxes. The Fund is exempt from municipal license taxes.

Taxation of Puerto Rico Investors

Income Taxes. The Fund may make distributions out of its current or accumulated earnings and profits attributable to (i) income that is included in the Fund’s gross income for purposes of the Puerto Rico Code, other than gains from the sale or exchange of property (the “Taxable Dividends”), (ii) income that is excluded from the Fund’s gross income (the “Tax Exempt Dividends”), or (iii) net gains derived from the sale or exchange of property (the “Capital Gain Dividends” and jointly with the Taxable Dividends and the Tax Exempt Dividends, the “Dividends”).

Interest and Other Expenses. In computing the earnings and profits from which the Fund may make distributions of Taxable Dividends and Tax Exempt

Dividends, the Fund must allocate its accrued interest and other accrued expenses to gross taxable and gross exempt income based on the ratio of gross taxable income to total gross income and gross tax exempt income to total gross income, respectively. As a result of this allocation, there is an increase in the ratio of Taxable Dividends to Tax Exempt Dividends.

Taxable Dividends Distributed to Puerto Rico Individuals or PR Trusts. Taxable Dividends distributed to Puerto Rico Individuals or PR Trusts will be subject to a 15% withholding tax (the “15% Withholding Tax”). If the alternate basic tax is applicable, the Taxable Dividends may be subject to an additional 9% tax.

Unless otherwise designated by the Fund, its distributions of Dividends to Puerto Rico Individuals or PR Trusts will consist of Taxable Dividends subject to the 15% Withholding Tax and, if applicable, the abovementioned alternate basic tax.

By purchasing Shares, Puerto Rico Individuals and PR Trusts will be irrevocably agreeing to the 15% Withholding Tax on all Taxable Dividends paid by the Fund and will irrevocably waive the right to elect not to be subject to the 15% Withholding Tax; except that, the applicability of the 15% Withholding Tax to Puerto Rico Individuals and PR Trusts that purchase Shares through dealers will depend on the dealer’s policies and its agreements with the Distributor. Puerto Rico Individuals and PR Trusts that purchase Shares through dealers should consult with the dealer with respect to its withholding policy or such agreements.

Taxable Dividends Distributed to Puerto Rico Entities. Puerto Rico Entities receiving or accruing Taxable Dividends during a taxable year are entitled to claim an 85% dividend received deduction with respect to such distributions (the “Dividend Received Deduction”). The Dividend Received Deduction may not exceed 85% of the Puerto Rico Entity’s net taxable income for such taxable year. The remaining 15% of such dividends is subject to income tax at the regular corporate income tax rates.

Unless otherwise designated by the Fund, its distributions of Dividends to Puerto Rico Entities will consist of Taxable Dividends subject to the Dividend Received Deduction.

Puerto Rico Entities purchasing Shares through dealers may be subject to the 15% Withholding Tax, depending on the dealer’s policies and agreements with the Distributor. Puerto Rico Entities purchasing Shares through a dealer should consult with the

dealer with respect to its withholding policies or such agreements.

Special rules are applicable to Taxable Dividends distributed to Puerto Rico Entities that are “special partnerships,” “partnerships,” “corporations of individuals,” life insurance companies, mutual insurance companies and non-mutual insurance companies under the Puerto Rico Code.

Capital Gain Dividends. Capital Gain Dividends will be subject to a capital gains tax of a maximum of 15% in the case of Puerto Rico Individuals and PR Trusts, and to a capital gains tax of a maximum of 20% in the case of Puerto Rico Entities. If the alternate basic tax is applicable, the Capital Gain Dividends of Puerto Rico Individuals and PR Trusts may be subject to an additional 9% tax.

Tax Exempt Dividends. Tax Exempt Dividends distributed to Puerto Rico Investors will be exempt from Puerto Rico income tax.

Impact of Repurchase Agreements on Tax Exempt Dividends. The Fund intends to borrow money by entering into repurchase agreements, pursuant to which the Fund will sell securities, subject to the purchaser’s and the Fund’s agreement to respectively sell and purchase the securities or identical securities, on a future date. The repurchase price of the securities will be equal to the initial sales price of the securities, plus an amount equal to the interest accrued from the date of sale to the date of repurchase of the securities. The repurchase agreements will generally grant the purchaser the right to sell, transfer, pledge or hypothecate the securities. Generally, the securities that will be sold by the Fund pursuant to the repurchase agreements will consist of obligations of the United States government, municipal securities, and other securities, the interest from which is exempt from Puerto Rico income tax.

Repurchase agreements are generally treated as collateralized loans for Puerto Rico income tax purposes and thus, the tax exempt interest of the securities purportedly sold to the purchaser, constitutes tax exempt income of the Fund. However, repurchase agreements that grant the purchaser the right to sell, transfer, pledge or hypothecate the securities could be treated as sales of the securities by the Puerto Rico Treasury Department. In such event, the tax exempt interest of the securities will not constitute tax exempt income of the Fund, and the portion of the Tax Exempt Dividends distributed by the Fund from such interest could be treated either as Taxable Dividends or Capital Gain Dividends. If Taxable Dividends

treatment is applicable, the Puerto Rico Individuals and PR Trusts will be subject to the 15% Withholding Tax on such portion of the Tax Exempt Dividends, and, because of the 85% dividend received deduction of the Puerto Rico Code, the Puerto Rico Entities will be subject to a maximum effective income tax rate of 5.85% (15% of the portion of the Tax Exempt Dividend x 39% maximum regular corporate income tax rate). On the other hand, if Capital Gains Dividends treatment is applicable, the Puerto Rico Individuals and PR Trusts and the Puerto Rico Entities will be subject to the 15% and 20% maximum income tax, respectively.

Distributions of Principal. Distributions made by the Fund during a taxable year, will be treated as Dividends to the extent that for such year the Fund has current or accumulated earnings and profits, as determined under the Puerto Rico Code. Distributions in excess of current and accumulated earnings and profits will be treated as a tax-free return of capital to the Puerto Rico Investor, to the extent of such investor's tax basis in its Shares. To the extent that such distributions exceed the Puerto Rico Investor's tax basis in the Shares, such excess will be treated as a gain derived from the sale, exchange or other disposition of the Shares. If the Shares have been held by the Puerto Rico Investor for more than one year and constitute a capital asset in the hands of the Puerto Rico Investor, the gain will qualify as a long-term capital gain. The Puerto Rico Code provides long-term capital gains rates for Puerto Rico Individuals and Puerto Rico Entities for long-term capital gains realized from the sale or exchange of Shares of the Fund. See, "Sale, Exchange or Other Disposition of the Shares."

Sale, Exchange or Other Disposition of the Shares. Gains realized from the sale, exchange or other disposition of Shares which have been held by a Puerto Rico Investor for more than one year and constitute capital assets in the hands of the Puerto Rico Investor, will be subject to a capital gains tax of a maximum of 15% in the case of Puerto Rico Individuals and PR Trusts, and a capital gains tax of a maximum of 20% in the case of Puerto Rico Entities. If the alternate basic tax is applicable, the gain derived by Puerto Rico Individuals or PR Trusts may be subject to an additional 9% tax.

Puerto Rico Investors may elect to treat such gains as ordinary income subject to regular income tax instead of the applicable capital gains tax.

Losses from the sale, exchange or other disposition of Shares that constitute capital assets in the hands of Puerto Rico Investors are deductible up to 90% of

gains from the sale, exchange or other disposition of capital assets; except that (i) in the case of Puerto Rico Entities such losses are deductible up to 80% of such gains for taxable years commencing after December 31, 2014, and (ii) Puerto Rico Individuals may also deduct up to \$1,000 of such losses from ordinary income.

Redemption of Shares. The partial or total redemption of Shares is generally treated as a sale or exchange of Shares, unless the redemption is "essentially equivalent to a dividend." If a redemption of Shares is treated as "essentially equivalent to a dividend," then the redemption is treated as a Dividend to the extent of the Fund's current and accumulated earnings and profits. In determining whether a redemption should be treated as "essentially equivalent to a dividend," the Puerto Rico Code Regulations provide that (i) pro-rata redemptions of Shares are generally treated as essentially equivalent to a dividend, and (ii) redemptions that terminate a shareholder's interest are not treated as "essentially equivalent to a dividend." However, neither the Puerto Rico Code nor the Puerto Rico Code Regulations set forth guidelines to determine which other redemptions are not essentially equivalent to a dividend distribution. In the absence of Puerto Rico guidelines, the Treasury Department generally follows the principles established under the Code, the Regulations, rulings and other administrative pronouncements of the IRS, and federal court decisions.

Estate and Gift Taxes. The transfer of Shares by gift by a Puerto Rico Individual will not be subject to gift taxes under the Puerto Rico Code if such individual is domiciled in Puerto Rico at the time the gift is made.

The Shares will not be subject to Puerto Rico estate taxes if held by a Puerto Rico Individual who is a citizen of the United States that acquired his or her citizenship solely by reason of his or her Puerto Rico citizenship, birth or residence in Puerto Rico and is domiciled in Puerto Rico at the time of death.

However, Shares held by a Puerto Rico Individual that owns more than 10% of the issued and outstanding Shares are subject to Puerto Rico estate and gift tax; unless 80% of the Fund's gross income for the three preceding taxable years was derived from the "exploitation of a trade or business". Puerto Rico Individuals should consult their tax advisors to determine if the Fund is engaged in the "exploitation of a trade or business."

There are no guidelines to determine whether the Fund's investment activities qualify as the exploitation of a trade or business; thus if it is

concluded that such activities do not constitute the “exploitation of a trade or business”, the Shares of such Puerto Rico Individuals would be subject to a fixed 10% Puerto Rico estate or gift tax. The estate tax (but not the gift tax) may be fully offset by a responsible taxpayer credit, if (i) neither the Puerto Rico Individual nor any corporation or partnership of which the Puerto Rico Individual owns at least 10% of its issued and outstanding shares of stock or partnership interests, owes any of the taxes imposed by the Puerto Rico Code (or any predecessor), property taxes or municipal license taxes on the date of death of the Puerto Rico Individual exceeding in the aggregate the lesser of \$5,000 or 1% of the Puerto Rico Individual’s gross estate and (ii) the executor of the estate timely pays any such taxes accrued prior to the Puerto Rico Individual death.

Municipal License Taxes. Distributions made to Puerto Rico Entities are subject to a municipal license tax of up to 1.5% in the case of Puerto Rico Entities engaged in a financial business, and up to 0.5% in the case of Puerto Rico Entities engaged in a non-financial business, as defined in the MLTA. Distributions to Puerto Rico Individuals are not subject to municipal license tax.

Property Taxes. The Shares are exempt from Puerto Rico personal property taxes in the hands of the Puerto Rico Investors.

Puerto Rico Taxation as a result of offering to UBS Puerto Rico IRA Trust

The Shares of the Fund may be sold to the UBS Puerto Rico IRA Trust for the benefit of “individual retirement account” (“IRA”) accountholders that are individuals who have their principal residence in Puerto Rico. The UBS Puerto Rico IRA Trust is a trust that qualifies as a Puerto Rico individual retirement account trust pursuant to the Puerto Rico Code, and whose trustee is UBS Trust Company of Puerto Rico.

For purposes of this discussion, it has been assumed that (i) the UBS Puerto Rico IRA Trust is a trust created or organized under the laws of Puerto Rico that qualifies as an IRA pursuant to section 1081.02 (“Regular IRAs”) or 1081.03 (“Non-Deductible IRAs”) of the Puerto Rico Code and, as such, is exempt from Puerto Rico income tax on its investment income, gains and earnings, and (ii) for each taxable year the Fund meets the 90% Distribution Requirement.

Taxation of the UBS Puerto Rico IRA Trust. Pursuant to the Puerto Rico Code, the UBS Puerto Rico IRA

Trust is exempt from Puerto Rico income taxes. Accordingly, the UBS Puerto Rico IRA Trust is exempt from Puerto Rico income tax on all distributions made by the Fund, and the gains resulting from the partial or total redemption of Shares. The Tax Exempt Dividends received by the UBS Puerto Rico IRA Trust are treated as tax exempt income derived by the UBS Puerto Rico IRA Trust.

Puerto Rico Taxation of Certain Distributions made by IRAs

Generally, an actual or deemed distribution from an IRA to its participants will be subject to Puerto Rico income tax at the regular income tax rates under the Puerto Rico Code or, if applicable, the alternate basic tax under the Puerto Rico Code (“ABT”). However, Tax Exempt Dividends received by such IRA will increase the IRA participant’s basis in the IRA. As such, the IRA participant will not be subject to Puerto Rico income tax on the distribution from an IRA that is attributable to Tax Exempt Dividends.

As provided in the Puerto Rico Code, a participant’s basis in the IRA will also increase by the amount of the accumulated and not distributed balance of the IRA for which the participant previously elected to pre pay the Puerto Rico income tax at reduced rates, as authorized by the former Puerto Rico Internal Revenue Code of 1994, as amended (the “1994 Code”) or the Puerto Rico Code.

Generally, an actual or deemed distribution from a non-deductible IRA that is a “Qualified Distribution” under section 1081.03 of the Puerto Rico Code is not subject to Puerto Rico income tax or ABT. Other distributions from such an IRA are generally subject to Puerto Rico income tax at the regular income tax rates under the Puerto Rico Code or, if applicable, the ABT.

Distributions from IRAs that qualify as “income from sources within Puerto Rico” qualify for an optional 17% withholding tax under the Puerto Rico Code. However, the amount of any distribution for which the recipient elects such optional 17% withholding tax will be taken into account in computing such person’s ABT.

The Puerto Rico Code also provides for an optional 10% withholding tax for certain distributions from IRAs, other than distributions of the amounts contributed to the IRAs, made to persons receiving pension benefits from certain government sponsored retirement systems. However, the amount of any distribution for which the recipient elects such optional

10% withholding tax will be taken into account in computing such person's ABT.

Distributions from IRAs prior to the IRA accountholder attaining the age of 60 years may be subject to a 10% penalty.

IRA accountholders are urged to consult their tax advisors regarding specific questions as to Puerto Rico or U.S. taxes or as to the consequences of an investment in the Shares under the tax laws of Puerto Rico and the United States. IRA accountholders are also strongly encouraged to review the disclosure statement and adoption agreement provided to them by the UBS Puerto Rico IRA Trust, upon opening an IRA.

United States Taxation

Taxation of the Fund

In the opinion of Adsuar Muñoz Goyco Seda & Pérez-Ochoa, P.S.C., based on certain representations made by the Fund and the Investment Adviser, the Fund will be treated under the Code as a foreign corporation not engaged in a U.S. trade or business. As a foreign corporation not engaged in a U.S. trade or business, the Fund is not subject to U.S. federal income tax on gains derived from the sale or exchange of personal property (except for gains from the disposition of a "United States Real Property Interest," as defined in section 897 of the Code). The Fund is, however, subject to a U.S. federal income tax of 10% on its dividend income, if any, from sources within the U.S. and may be subject to a 30% federal income tax on other income from sources within the U.S. Generally, interest income derived by the Fund from sources within the U.S. will not be subject to U.S. income tax by way of withholding or otherwise.

An opinion of counsel is not binding on the IRS and it is possible that the IRS or the courts could disagree with the opinion of counsel. If it were to be concluded that the Fund is engaged in business in the U.S., its net income effectively connected with its U.S. trade or business would be subject to U.S. federal corporate income tax of a maximum of 35% and to a 30% branch profit tax on its effectively connected earnings profits (on a "deemed repatriated" basis).

The Code imposes a 30% withholding tax 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 to certain "foreign financial institutions" or "non-financial foreign entities" ("NFFE"), unless certain

certification and reporting requirements are satisfied. In the case of most payments of U.S. source income, the 30% withholding is currently applicable and, in the case of gross proceeds from the disposition of property that can produce U.S. source dividends or interest, the 30% withholding is expected to be applicable to payments made after December 31, 2016. The Regulations provide an exception for certain obligations outstanding on July 1, 2014.

The Regulations treat the Fund as a NFFE. Thus, after June 30, 2014, the Fund would have been required to provide to the payors of such income (except with respect to certain grandfathered obligations) certain information with respect to its investors, and the payors would have been required to disclose such information to the IRS. However, the Fund elected to be treated as a direct reporting NFFE, and, as such, it was required to provide such information directly to the IRS (instead of providing it to such payors) by filing Form 8966 with the IRS on or before March 31, 2015, and subsequently on March 31 of each year.

If the Fund is unable to obtain the required information from any such investor or otherwise fails or is unable to comply with the requirements of the Code, the Regulations or any other implementing rules, certain payments to the Fund may be subject to a 30% withholding tax.

By making an investment in Shares, each investor agrees to provide all information and certifications necessary to enable the Fund to comply with these requirements and authorizes the Fund to redeem the Shares of any investor that fails to timely provide such information or certifications. In addition, any investor that fails to timely provide the requested information or certifications will be required to indemnify the Fund for the entirety of the 30% percent tax withheld on all of the Fund's income as a result of such investor's failure to provide the information.

Taxation of Puerto Rico Individuals and Puerto Rico Entities

Dividends. Under Code section 933, Puerto Rico Individuals will not be subject to U.S. federal income tax on dividends distributed by the Fund that constitute income from sources within Puerto Rico. The dividends distributed by the Fund should constitute income from sources within Puerto Rico not subject to U.S. federal income tax in the hands of a Puerto Rico Individual. However, in the case of Puerto Rico Individuals who own, directly or indirectly, at least 10% of the issued and outstanding voting Shares (the "10% Shareholders"), only the

Puerto Rico source ratio of any dividend paid or accrued by the Fund shall be treated as income from sources within Puerto Rico. The Puerto Rico source ratio of any dividend from the Fund is a fraction, the numerator of which equals the gross income of the Fund from sources within Puerto Rico during the 3-year period ending with the close of the taxable year of the payment of the dividend (or such part of such period as the Fund has been in existence, if less than 3 years) and the denominator of which equals the total gross income of the Fund for such period. In the case of 10% Shareholders, the part of the dividend determined to be from sources other than Puerto Rico (after applying the rules described in this paragraph) may be subject to U.S. income tax.

The Code contains certain attribution rules pursuant to which Shares owned by other persons are deemed owned by the Puerto Rico Individuals for purposes of determining whether they are 10% Shareholders. Additionally, the Fund has certain rules pursuant to which the voting rights of a Puerto Rico Investor may be suspended. As a result, a Puerto Rico Individual that owns less than 10% of the issued and outstanding voting Shares may become a 10% Shareholder if he or she is a partner, member, beneficiary or shareholder of a partnership, estate, trust or corporation, respectively, that also owns Shares or because of the suspension of the voting rights of other Puerto Rico Investors of the Fund. To determine whether a Puerto Rico Individual is a 10% Shareholder, the Puerto Rico Individual must consult his or her tax advisor and obtain from his or her financial advisor the information that the tax advisor deems appropriate for such purpose. If it is determined that a Puerto Rico Individual is a 10% Shareholder, such individual must obtain from his or her financial advisor the information to determine which part of the dividend is from sources outside of Puerto Rico and may thus be subject to U.S. federal income tax.

Puerto Rico Investors should also note that the Regulations under section 937(b) of the Code addressing “conduit arrangements” may impact the source of income of dividends distributed by the Fund. 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 United States. Based on the current language of the Regulations and the guidance offered therein, in the

opinion of Adsuar Muñiz Goyco Seda & Pérez-Ochoa, P.S.C., counsel to the Fund, it is more likely than not that the Fund will not be considered a “conduit arrangement” under the Regulations. The Fund does not plan to request a ruling from the IRS with respect to the non-applicability of such conduit rule to the Fund and no assurance can be given that the IRS or the courts will agree with the opinion of Adsuar Muñiz Goyco Seda & Pérez-Ochoa, P.S.C. You should consult your tax advisor as to this matter.

Foreign corporations not engaged in a U.S. trade or business are generally not subject to U.S. federal income tax on amounts received from sources outside the U.S. Corporations incorporated in Puerto Rico are treated as foreign corporations under the Code. As previously stated, it is more likely than not that dividends distributed by the Fund to Puerto Rico corporations will constitute income from sources within Puerto Rico. Accordingly, it is more likely than not that Puerto Rico corporations not engaged in a U.S. trade or business will not be subject to U.S. taxation on dividends received from the Fund. It is more likely than not, that dividends received or accrued by a Puerto Rico corporate investor that is engaged in a U.S. trade or business will be subject to U.S. federal income tax only if such dividends are effectively connected to its U.S. trade or business.

The Code provides special rules for Puerto Rico Entities that are treated as partnerships for U.S. federal income tax purposes.

Sales, Exchange or Disposition of Shares. Gain, if any, from the sale, exchange or other disposition of Shares by a Puerto Rico Individual, including an exchange of Shares of the Fund for Shares of an affiliated investment company, will generally be treated as Puerto Rico source income and, therefore, exempt from federal income taxation.

A Puerto Rico corporation that invests in the Fund will be subject to U.S. federal income tax on a gain from a disposition of Shares only if the gain is effectively connected to a U.S. trade or business carried on by the Puerto Rico corporation.

The Code provides special rules for Puerto Rico Entities that are subject to federal income tax as partnerships.

PFIC Rules. The Fund will likely be treated as a passive foreign investment company (“PFIC”) for U.S. federal income tax purposes. Under the PFIC rules, a Shareholder that is a U.S. person (i.e., a citizen or resident of the U.S., a U.S. domestic corporation or partnership, or an estate or trust that is taxed as a resident of the U.S.) (such Shareholder is

referred to as a “U.S. Shareholder”), that disposes of its PFIC stock at a gain, is treated as receiving an “excess distribution” equal to such gain. In addition, if a U.S. Shareholder receives a distribution from a PFIC in excess of 125% of the average amount of distributions such Shareholder received from the PFIC during the three preceding taxable years (or shorter period if the U.S. Shareholder has not held the stock for three years), the U.S. Shareholder is also treated as receiving an “excess distribution” equal to such excess. In general, an “excess distribution” is taxed as ordinary income, and to the extent it is attributed to earlier years in which the PFIC stock was held, is subject to an interest charge which the Code refers to as the “deferred tax amount.”

Prop. Reg. Sec. 1.1291-1(f) states that a “deferred tax amount” will be determined under Section 1291 of the Code on amounts derived from sources within Puerto Rico by Puerto Rico Individuals only to the extent such amounts are allocated to a taxable year in the Shareholder’s holding period during which the Shareholder was not entitled to the benefits of section 933 thereof. Thus, under the proposed regulations, Puerto Rico Individuals will not be subject to the PFIC provisions if they are entitled to the benefits of section 933 of the Code for each entire taxable year that they hold Shares; provided that the dividends from the Fund qualify as Puerto Rico source income under the Code. Puerto Rico corporations are not U.S. Shareholders for purposes of the PFIC provisions.

Puerto Rico Individuals and Puerto Rico Entities that are organized in the United States have to file a Form 8621, Return by a Shareholder of a Passive Foreign Investment Company or Qualified Electing Fund with the Internal Revenue Service, unless an exemption from the filing requirement is applicable. If an exemption is not applicable, the informative return must be filed on or before the due date of the federal income tax return, regardless of whether the Puerto Rico Individual or such Puerto Rico Entity has the obligation to file a United States federal income tax return. You are urged to consult with your tax advisor whether you have the obligation to file this informative return.

Estate and Gift Taxes

Under the provisions of the Code, the Shares will not be subject to U.S. estate and gift taxes if held by a

Puerto Rico Individual who is a citizen of the U.S. who acquired his or her citizenship solely by reason of his or her Puerto Rico citizenship, birth or residence in Puerto Rico and was domiciled in Puerto Rico, in the case of estate taxes, at the time of death, and in the case of gift taxes, at the time the gift was made.

Potential investors are advised to consult their own tax advisers as to the consequences of an investment in the Fund under the tax laws of Puerto Rico and the U.S., including the consequences of the sale or redemption of Shares.

United States Taxation as a result of offering to the UBS Puerto Rico IRA Trust

The U.S. federal income tax treatment of the UBS Puerto Rico IRA Trust with respect to any Dividends, and the gain, if any, resulting from the sale, exchange or disposition of Shares (“Gain”), hinges upon the characterization of the UBS Puerto Rico IRA Trust for U.S. federal income tax purposes. Generally, the UBS Puerto Rico IRA Trust will be characterized for U.S. federal income tax purposes as either a foreign (non-U.S.) corporation or partnership, and it is so assumed for purposes of this summary. Accordingly, the UBS Puerto Rico IRA Trust and its beneficiaries are not generally subject to U.S. federal income tax on the Dividends and the Gain if (i) the UBS Puerto Rico IRA Trust is treated as foreign (non-U.S.) corporations, and such income and Gain are not effectively connected with a trade or business within the United States of the UBS Puerto Rico IRA Trust; or (ii) the UBS Puerto Rico IRA Trust is treated as partnership, provided that the partners of the UBS Puerto Rico IRA Trust are not subject to U.S. federal income tax on such income and Gain pursuant to the provisions of section 933 of the Code.

IRA accountholders are urged to consult their tax advisors regarding specific questions as to Puerto Rico or U.S. taxes or as to the consequences of an investment in the Shares under the tax laws of Puerto Rico and the United States. IRA accountholders are also strongly encouraged to review the disclosure statement and adoption agreement provided to them by the UBS Puerto Rico IRA Trust, upon opening an IRA.

DESCRIPTION OF CAPITAL STOCK

The Fund is authorized to issue 88,000,000 shares of common stock, \$0.01 par value per Share, and 12,000,000 shares of Preferred Stock, \$25.00 par value per share. The Board of Directors is authorized to classify and reclassify any unissued shares of capital stock from time to time by setting or changing the rights, preferences, and other terms and conditions of such shares.

Common Stock

The Shares have no preemptive or conversion rights. Each Share has equal voting, dividend, distribution, and liquidation rights. Shareholders are entitled to one vote per Share. All voting rights for the election of directors are noncumulative, which means that the holders of more than 50% of the Shares can elect 100% of the directors then nominated for election if they choose to do so, and in such event, the holders of the remaining Shares will not be able to elect any directors. The Puerto Rico Investment Companies Act provides that not more than 50% of the Shares may be controlled by less than six Shareholders.

Preferred Stock

The Fund is authorized to issue 12,000,000 shares of preferred stock. Each share of preferred stock has a par value of \$25.00. At the time of issuance of each series of preferred stock, the Board of Directors of the Fund will determine the particular rights and other characteristics of such series, including:

- (a) The number of shares constituting that series;
- (b) The dividend rate of the shares of that series; whether dividends shall be cumulative, and if so, from which date or dates; and the relative rights of priority, if any, of payment of dividends on the shares of that series;

- (c) Whether the shares of that series shall have conversion privileges, and if so, the terms and conditions of such conversion;
- (d) Whether or not the shares of that series shall be redeemable, and if so, the terms and conditions of such redemption, including the date or dates after which they shall be redeemable, and the redemption price;
- (e) Whether the shares of that series shall have a sinking fund for the redemption or purchase of such shares, and if so, the terms and amount of such sinking fund;
- (f) The rights of the shares of that series in the event of the voluntary or involuntary liquidation, dissolution or winding-up of the Fund, and the relative rights of priority, if any, of payment of shares of that series; and
- (g) Any other relative rights, voting rights, preferences, and limitations of that series.

Upon any voluntary or involuntary liquidation, dissolution, or winding-up of the Fund, the holders of the shares of preferred stock will be entitled to receive, out of the assets of the Fund available for distribution to Shareholders, before any distribution is made to holders of the Shares, distributions upon liquidation in an amount per share of preferred stock equal to the liquidation preference plus, if provided by the resolution of the Board of Directors of the Fund creating a particular series of preferred stock, accrued and unpaid dividends.

The specific terms and conditions of any preferred stock issuance by the Fund will be set forth in an Offering Memorandum and related offering memorandum supplements. Moreover, in accordance with the Puerto Rico Investment Companies Act, the Commissioner must also approve the issuance of such preferred stock.

DISTRIBUTION ARRANGEMENTS

UBS Financial Services Incorporated of Puerto Rico acts as distributor of shares of the Fund under a distribution agreement with the Fund ("Distribution Agreement") which requires UBS Financial Services

Incorporated of Puerto Rico to use its best efforts, consistent with its other business, to sell shares of the Fund. Shares of the Fund are offered continuously. UBS Financial Services Incorporated of Puerto Rico

is located at 250 Muñoz Rivera Avenue, Hato Rey, Puerto Rico. Payments by the Fund to compensate UBS Financial Services Incorporated of Puerto Rico for certain expenses incurred in connection with its activities in providing certain shareholder and account maintenance services are also authorized under the Distribution Agreement and made in accordance with a related distribution and shareholder servicing plan ("Plan") adopted by the Fund.

Under the Plan, the Fund pays UBS Financial Services Incorporated of Puerto Rico a distribution and service fee, payable monthly, at the annual rate of 0.25% of its net assets. Any increase from the 0.25% annual rate would require prior approval of the Board of Directors and a vote by shareholders.

Under the Plan, UBS Financial Services Incorporated of Puerto Rico primarily uses the service fees to pay for shareholder servicing performed by UBS Financial Services Incorporated of Puerto Rico (or other dealers). UBS Financial Services Incorporated of Puerto Rico offsets its expenses in servicing and maintaining shareholder accounts including expense for telephone and other communications services. UBS Financial Services Incorporated of Puerto Rico uses the distribution fees under the Plan as compensation to the sales personnel and to other dealers for selling the shares and to offset the Fund's marketing costs attributable to each class of shares, such as preparation, printing and distribution of sales literature, advertising and prospectuses to prospective investors and related overhead expenses, such as employee salaries and bonuses and telephone and other communications expenses. UBS Financial Services Incorporated of Puerto Rico (and other dealers) compensate investment executives when shares are purchased by investors, as well as on an ongoing basis.

The Plan and related agreement specify that the Fund must pay service and distribution fees to UBS

Financial Services Incorporated of Puerto Rico for its activities, not as reimbursement for specific expenses incurred. (UBS Financial Services Incorporated of Puerto Rico, as described above, will make payments to participating dealers.) Therefore, even if UBS Financial Services Incorporated of Puerto Rico's expenses exceed the service or distribution fees it receives, the Fund will not be obligated to pay more than those fees. On the other hand, if UBS Financial Services Incorporated of Puerto Rico's expenses are less than such fees, it will retain the full fees and realize a profit. Expenses in excess of service and distribution fees received or accrued through the termination date of the Plan will be UBS Financial Services Incorporated of Puerto Rico's sole responsibility and not that of the Fund. The Plan will be submitted each year for approval by the Board of Directors.

Among other things, the Plan provides that (1) UBS Financial Services Incorporated of Puerto Rico will submit to the Board of Directors at least quarterly, and the Board members will review, reports regarding all amounts expended under the Plan and the purposes for which such expenditures were made, (2) the Plan will continue in effect only so long as it is approved at least annually, and any material amendment thereto is approved, by the Board of Directors, including those Board members who are Independent Directors of the Fund and who have no direct or indirect financial interest in the operation of the Plan or any agreement related to the Plan, (3) payments by the Fund under the Plan shall not be materially increased without the affirmative vote of the holders of a majority of the Fund's outstanding shares and (4) while the Plan remains in effect, the selection and nomination of Board members who are Independent Directors of the Fund shall be committed to the discretion of the Board members who are Independent Directors of the Fund.

OTHER

Voting Rights

Shareholders of the Fund are entitled to one vote for each full share held and fractional votes for fractional shares held. Voting rights are not cumulative and, as a result, the holders of more than 50% of all the shares of the Fund may elect all its board members.

Legal Proceedings

The Fund is not a party to any legal proceeding as of the date hereof.

Claims against the Fund

Any claim by a Fund 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.

Counsel

The law firm of Adsuar Muñoz Goyco Seda & Pérez-Ochoa, P.S.C., located at Popular Center Building, 208 Ponce de León Avenue, Suite 1600, San Juan, Puerto Rico, serves as counsel to the Fund.

Independent Accountants

The independent accountants of the Fund are PricewaterhouseCoopers LLP. The address of such independent accountants is 254 Muñoz Rivera Avenue, Ninth Floor, San Juan, Puerto Rico 00918.

Privacy Policy

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

Reports to Shareholders

The fiscal year of the Fund ends on December 31 of each year. An annual report, containing financial statements audited by the Fund's independent auditors, will be sent to Shareholders each year. After the end of each year, Shareholders will receive Puerto Rico income tax information regarding dividends and capital gains distributions.

Additional Information

Additional information regarding the Fund is on file with the Commissioner.

U.S. Municipal & Income Fund, Inc.

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 financial statements and notes thereto.

FINANCIAL HIGHLIGHTS

		For the fiscal year ended December 31, 2014	For the period from January 18, 2013* to December 31, 2013
<i>Increase (Decrease) in Net Asset Value:</i>			
Per Share Operating Performance: (a)	Net asset value, beginning of period	\$ 8.43	\$ 10.00
	Net investment income	0.60	0.48
	Net realized gain (loss) and unrealized appreciation (depreciation) from investments	1.58	(1.68)
	Total from investment operations	2.18	(1.20)
	Less: Dividends from net investment income to common shareholders	(0.46)	(0.37)
	Net asset value, end of period	\$ 10.15	\$ 8.43
Total Investment Return: (b)	Based on net asset value per share ^	26.37%	(12.20)%
Ratios:	(c) (d) (e) Expenses to average net assets - net of waived fees	2.26%	1.98%
	(c) (e) Operating expenses to average net assets applicable to common shareholders - net of waived fees	1.66%	1.63%
	(c) Interest and leverage related expenses to average net assets applicable to common shareholders	0.60%	0.35%
	(c) (e) Net investment income to average net assets - net of waived fees and reimbursed expenses	6.31%	5.46%
Supplemental Data:	Net assets, end of period (in thousands)	\$ 90,233	\$ 88,650
	Portfolio turnover	3.94%	75.11%
	Portfolio turnover excluding the proceeds from calls of portfolio securities and the proceeds from mortgage-backed securities paydowns	3.94%	74.48%

* Date of issuance of shares.

^ Total investment return excludes the effects of sales load and is not annualized for the period ended December 31, 2013.

(a) Based on average outstanding shares of 9,968,245 and 9,998,007 for the fiscal year ended December 31, 2014 and for the period from January 18, 2013 to December 31, 2013, respectively.

(b) Calculation is based on beginning and end of period net asset values and assumes reinvestment of dividends.

(c) Based on average net assets of \$94,764,032 and \$91,194,499 for the fiscal year ended December 31, 2014 and for the period from January 18, 2013 to December 31, 2013, respectively. Ratios for the period ended December 31, 2013 were annualized using a 365 day base.

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

(e) The effect of the expenses waived for the fiscal year ended December 31, 2014 and for the period from January 18, 2013 to December 31, 2013 was to decrease the expense ratios, thus increasing the net investment income ratio to average net assets by 0.44% and 0.47%, respectively.

Puerto Rico Residency Status

In connection with the opening and maintenance of your account with UBS Financial Services Incorporated of Puerto Rico (“Account”) where Puerto Rico investments are purchased and/or held in the Account, each Account owner, or for an Account of an entity, the authorized person(s), certifies the following:

You may hold or purchase certain investments in your Account, 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 and are exempt from registration under the U.S. Securities Act of 1933 and/or the U.S. Investment Company Act of 1940 (“Puerto Rico Investments”), based in part, on the requirement that they be offered or sold only to individuals who have their principal residence in Puerto Rico and to entities whose principal office and place of business are in Puerto Rico (“Puerto Rico Residents”), as disclosed in the respective prospectuses or offering materials. You are aware that certain Puerto Rico Investments may not be suitable to all investors as they may be designed primarily for long-term investors.

Accordingly, you hereby represent that:

- You have acquired or propose to acquire Puerto Rico Investments for your own Account and will be the beneficial owner of those assets.
- If you propose to acquire Puerto Rico Investments for the Account of a retirement plan that is the beneficial owner of the assets, you acknowledge that UBS may limit, in part or in total, the amount of any such purchase, whether or not the retirement plan is subject to (ERISA).
- As of the date of this agreement, (i) you are an individual whose principal residence is in Puerto Rico, or (ii) if 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, or (iii) if organized as a trust, the trustee and all beneficiaries of the trust are residents of Puerto Rico, or (iv) if organized as a corporation, partnership or other form of business organization, the entity has its principal office and principal place of business within Puerto Rico and has not been organized for the purpose of acquiring Puerto Rico investments.
- If you cease to be a Puerto Rico Resident, you will (i) notify UBS within 30 days of ceasing to be a Puerto Rico Resident, (ii) liquidate your holdings in any Puerto Rico Investment when such liquidation becomes economically feasible, and (iii) not acquire additional Puerto Rico Investments.
- You acknowledge that if at the time of your acquisition of Puerto Rico Investments you are not a Puerto Rico Resident, UBS may declare such acquisition null and void.

Name of Account holder

Name of Account holder

Signature

Name of Authorized Representative
(if signing on behalf of an entity)

Title of Authorized Representative
(if signing on behalf of an entity)

Date

Signature

Name of Authorized Representative
(if signing on behalf of an entity)

Title of Authorized Representative
(if signing on behalf of an entity)

Date

**NEW INVESTMENT - CLEARING FIRM PUERTO RICO
RESIDENCY REPRESENTATION LETTER**

TO: UBS Trust Company of Puerto Rico, as transfer agent to the following Puerto Rico Investment Companies:

- Tax-Free Puerto Rico Fund, Inc.
- Tax-Free Puerto Rico Target Maturity Fund, Inc.
- Tax-Free Puerto Rico Fund II, Inc.
- Puerto Rico AAA Portfolio Target Maturity Fund, Inc.
- Puerto Rico AAA Portfolio Bond Fund, Inc.
- Puerto Rico AAA Portfolio Bond Fund II, Inc.
- Puerto Rico GNMA & U.S. Government Target Maturity Fund, Inc.
- Puerto Rico Fixed Income Fund, Inc.
- Puerto Rico Fixed Income Fund II, Inc.
- Puerto Rico Fixed Income Fund III, Inc.
- Puerto Rico Fixed Income Fund IV, Inc.
- Puerto Rico Fixed Income Fund V, Inc.
- Puerto Rico Fixed Income Fund VI, Inc.
- Puerto Rico Mortgage-Backed & U.S. Government Securities Fund, Inc.
- Puerto Rico Short-Term Investment Fund, Inc.
- Multi-Select Securities Puerto Rico Fund
- U.S. Municipal & Income Fund, Inc.

San Juan, Puerto Rico

RE: Puerto Rico Residency Status

To Whom It May Concern:

We provide the following information and representations in connection with the purchase of securities to our account, as clearing firm for one or more introducing broker-dealers, of certain investments issued by the above-mentioned Puerto Rico investment companies, including, but not limited to, common stock, preferred stock, and debt and other securities, that are exempt from registration (and are not otherwise registered) under the U.S. Securities Act of 1933 or the U.S. Investment Company Act of 1940 ("Puerto Rico Investments"), 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 each beneficial owner holding Puerto Rico investments in our accounts has issued a representation letter to us to the effect that such account owner:

1. It has acquired such Puerto Rico Investments for its own account and will be the sole beneficial owner thereof.

2. In the case of beneficial owners of Puerto Rico Investments in our accounts which are corporations or business organization, it is 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. In the case of beneficial owners of Puerto Rico Investments in our accounts that are organized as a non-business trust, it 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. In the case of beneficial owners of Puerto Rico Investments in our account that are individuals, it was a resident of Puerto Rico at the time of acquisition of the Puerto Rico Investments.

5. It has acknowledged their obligation to (i) not effect any acquisitions of Puerto Rico Investments on behalf of a retirement plan subject to ERISA; (ii) notify you within 30 days of ceasing to be a Puerto Rico Resident, (iii) liquidate its holdings in any Puerto Rico Investment when such liquidation becomes economically feasible, and (iv) not acquire additional Puerto Rico Investments (including discontinuation of participation in any dividend reinvestment plan) upon ceasing to be a Puerto Rico Resident.

We further represent that, with respect to the holding of Puerto Rico Investments in our accounts, (i) nothing has come to our knowledge that would lead us to believe that any of the representation letters are inaccurate in any respect, and (ii) upon being notified that a beneficial owner holding Puerto Rico investments in our accounts has ceased to be a Puerto Rico resident, we will (a) instruct the transfer agent for the above-referenced investment companies to discontinue participation in any dividend reinvestment plan as to such beneficial owner's Puerto Rico Investments, (b) inform such beneficial owner of its obligation to liquidate its Puerto Rico Investments as soon as economically feasible, and (c) not process any order for the acquisition of additional Puerto Rico Investments. We further represent that both we and any introducing firm holding an account with Puerto Rico Investments are duly registered as broker-dealers with the Puerto Rico Office of the Commissioner of Financial Institutions and any such introducing firm maintains an office / branch within Puerto Rico, and any individual registered representative assigned to an account in which Puerto Rico Investments are held is duly registered as a registered representative with the Puerto Rico Office of the Commissioner of Financial Institutions.

We also acknowledge that if any of the above representations is determined to be incorrect, the transfer agent for any of the above-referenced investment companies may declare any transaction effected by us with respect to the Puerto Rico Investments to be null and void, and you will indemnify any such investment company for any consequential damage thereto.

Company Name

Signature

Name and Title

Date

**NEW INVESTMENT - BROKER-DEALER PUERTO RICO RESIDENCY
REPRESENTATION LETTER**

TO: UBS Trust Company of Puerto Rico, as transfer agent to the following Puerto Rico Investment Companies:

- Tax-Free Puerto Rico Fund, Inc.
- Tax-Free Puerto Rico Target Maturity Fund, Inc.
- Tax-Free Puerto Rico Fund II, Inc.
- Puerto Rico AAA Portfolio Target Maturity Fund, Inc.
- Puerto Rico AAA Portfolio Bond Fund, Inc.
- Puerto Rico AAA Portfolio Bond Fund II, Inc.
- Puerto Rico GNMA & U.S. Government Target Maturity Fund, Inc.
- Puerto Rico Fixed Income Fund, Inc.
- Puerto Rico Fixed Income Fund II, Inc.
- Puerto Rico Fixed Income Fund III, Inc.
- Puerto Rico Fixed Income Fund IV, Inc.
- Puerto Rico Fixed Income Fund V, Inc.
- Puerto Rico Fixed Income Fund VI, Inc.
- Puerto Rico Mortgage-Backed & U.S. Government Securities Fund, Inc.
- Puerto Rico Short-Term Investment Fund, Inc.
- Multi-Select Securities Puerto Rico Fund
- U.S. Municipal & Income Fund, Inc.

San Juan, Puerto Rico

RE: Puerto Rico Residency Status

To Whom It May Concern:

We provide the following information and representations in connection with the purchase of securities to our account, as broker-dealer for residents of Puerto Rico, of certain investments issued by the above-mentioned Puerto Rico investment companies, including, but not limited to, common stock, preferred stock, and debt and other securities, that are exempt from registration (and are not otherwise registered) under the U.S. Securities Act of 1933 or the U.S. Investment Company Act of 1940 ("Puerto Rico Investments"), 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 each beneficial owner holding Puerto Rico investments in our accounts has issued a representation letter to us to the effect that such account owner:

1. It has acquired such Puerto Rico Investments for its own account and will be the sole beneficial owner thereof.

2. In the case of beneficial owners of Puerto Rico Investments in our accounts which are corporations or business organization, it is 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. In the case of beneficial owners of Puerto Rico Investments in our accounts that are organized as a non-business trust, it 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. In the case of beneficial owners of Puerto Rico Investments in our account that are individuals, it was a resident of Puerto Rico at the time of acquisition of the Puerto Rico Investments.

5. It has acknowledged their obligation to (i) not effect any acquisitions of Puerto Rico Investments on behalf of a retirement plan subject to ERISA; (ii) notify you within 30 days of ceasing to be a Puerto Rico Resident, (iii) liquidate its holdings in any Puerto Rico Investment when such liquidation becomes economically feasible, and (iv) not acquire additional Puerto Rico Investments (including discontinuation of participation in any dividend reinvestment plan) upon ceasing to be a Puerto Rico Resident.

We further represent that, with respect to the holding of Puerto Rico Investments in our accounts, (i) nothing has come to our knowledge that would lead us to believe that any of the representation letters are inaccurate in any respect, and (ii) upon being notified that a beneficial owner holding Puerto Rico investments in our accounts has ceased to be a Puerto Rico resident, we will (a) instruct the transfer agent for the above-referenced investment companies to discontinue participation in any dividend reinvestment plan as to such beneficial owner's Puerto Rico Investments, (b) inform such beneficial owner of its obligation to liquidate its Puerto Rico Investments as soon as economically feasible, and (c) not process any order for the acquisition of additional Puerto Rico Investments. We further represent that we are duly registered as broker-dealers with the Puerto Rico Office of the Commissioner of Financial Institutions and maintain an office / branch within Puerto Rico, and any individual registered representative assigned to an account in which Puerto Rico Investments are held is duly registered as a registered representative with the Puerto Rico Office of the Commissioner of Financial Institutions.

We also acknowledge that if any of the above representations is determined to be incorrect, the transfer agent for any of the above-referenced investment companies may declare any transaction effected by us with respect to the Puerto Rico Investments to be null and void, and you will indemnify any such investment company for any consequential damage thereto.

Company Name

Signature

Name and Title

Date

RATINGS OF SECURITIES

Description of Moody's Investors Service, Inc.'s ("Moody's") Ratings:

Moody's Global Rating Scales

Ratings assigned on Moody's global long-term and short-term rating scales are forward-looking opinions of the relative credit risks of financial obligations issued by non-financial corporates, financial institutions, structured finance vehicles, project finance vehicles, and public sector entities. Long-term ratings are assigned to issuers or obligations with an original maturity of one year or more and reflect both on the likelihood of a default on contractually promised payments and the expected financial loss suffered in the event of default.¹ Short-term ratings are assigned to obligations with an original maturity of thirteen months or less and reflect both on the likelihood of a default on contractually promised payments and the expected financial loss suffered in the event of default.²

Moody's differentiates structured finance ratings from fundamental ratings (i.e., ratings on nonfinancial corporate, financial institution, and public sector entities) on the global long-term scale by adding (sf) to all structured finance ratings. The (sf) indicator was introduced on August 11, 2010 and explained in a special comment entitled, "Moody's Structured Finance Rating Scale." The addition of (sf) to structured finance ratings should eliminate any presumption that such ratings and fundamental ratings at the same letter grade level will behave the same. The (sf) indicator for structured finance security ratings indicates that otherwise similarly rated structured finance and fundamental securities may have different risk characteristics. Through its current methodologies, however, Moody's aspire to achieve broad expected equivalence in structured finance and fundamental rating performance when measured over a long period of time.

Global Long-Term Rating Scale

Aaa

Obligations rated Aaa are judged to be of the highest quality, subject to the lowest level of 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 judged to be upper-medium grade and are subject to low credit risk.

Baa

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

Ba

Obligations rated Ba are judged to be speculative and are subject to substantial credit risk.

¹ For certain structured finance, preferred stock and hybrid securities in which payment default events are either not defined or do not match investors' expectations for timely payment, the ratings reflect the likelihood of impairment and the expected financial loss in the event of impairment.

² For certain structured finance, preferred stock and hybrid securities in which payment default events are either not defined or do not match investors' expectations for timely payment, the ratings reflect the likelihood of impairment.

B

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

Caa

Obligations rated Caa are judged to be speculative 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 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. Additionally, a "(hyb)" indicator is appended to all ratings of hybrid securities issued by banks, insurers, finance companies, and securities firms.* Note: For more information on long-term ratings assigned to obligations in default, please see the definition "Long-Term Credit Ratings for Defaulted or Impaired Securities" in the Other Definitions section of this publication. * *By their terms, hybrid securities allow for the omission of scheduled dividends, interest, or principal payments, which can potentially result in impairment if such an omission occurs. Hybrid securities may also be subject to contractually allowable write-downs of principal that could result in impairment. Together with the hybrid indicator, the long-term obligation rating assigned to a hybrid security is an expression of the relative credit risk associated with that security.*

Global Short-Term Rating Scale**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 Issue Credit Rating Definitions of Standard & Poor's, a Division of the McGraw-Hill Companies, Inc. ("S&P")

A Standard & Poor's 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 Standard & Poor'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. Medium-term notes are assigned long-term ratings.

Long-Term Issue Credit Ratings

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

- 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;
- Nature of and provisions of the obligation; and the promise we impute.
- 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 Standard & Poor's. The obligor's capacity to meet its financial commitment on the obligation 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; and 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 obligation 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. The 'CC' rating is used when a default has not yet occurred, but Standard & Poor's expects default to be a virtual certainty, regardless of the anticipated time to default.

C

An obligation rated 'C' is currently highly vulnerable to nonpayment, and the obligation is expected to have lower relative seniority or lower ultimate recovery compared to obligations that are rated higher.

D

An obligation rated 'D' is in default or in breach of an imputed promise. For non-hybrid capital instruments, the 'D' rating category is used when payments on an obligation are not made on the date due, unless Standard & Poor's believes that such payments will be made within five business days in the absence of a stated grace period or within the earlier of the stated grace period or 30 calendar days. The 'D' rating also will be used upon the filing of a bankruptcy petition or the taking of similar action and where default on an obligation is a virtual certainty, for example due to automatic stay provisions. An obligation's rating is lowered to 'D' if it is subject to a distressed exchange offer.

NR

This indicates that no rating has been requested, or that there is insufficient information on which to base a rating, or that Standard & Poor's does not rate a particular obligation as a matter of policy.

*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.

Short-Term Issue Credit Ratings**A-1**

A short-term obligation rated 'A-1' is rated in the highest category by Standard & Poor's. 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 vulnerable and has significant speculative characteristics. The obligor currently has the capacity to meet its financial commitments; however, it faces major ongoing uncertainties which could lead to the obligor's inadequate capacity to meet its financial commitments.

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 default or in breach of an imputed promise. For non-hybrid capital instruments, the 'D' rating category is used when payments on an obligation are not made on the date due, unless Standard & Poor's believes that such payments will be made within any stated grace period. However, any stated grace period longer than five business days will be treated as five business days. The 'D' rating also will be used upon the filing of a bankruptcy petition or the taking of a similar action and where default on an obligation is a virtual certainty, for example due to automatic stay provisions. An obligation's rating is lowered to 'D' if it is subject to a distressed exchange offer.

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

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.

A designation of "Not Rated" or "NR" is used to denote securities not rated by Fitch where Fitch has rated some, but not all, securities comprising an issuance capital structure.

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. For information about the historical performance of ratings please refer to Fitch's Ratings Transition and Default studies which detail the historical default rates and their meaning. The European Securities and Markets Authority also maintains a central repository of rating default rates.

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.

Corporate Finance Obligations – Long-Term Rating Scales

Ratings of individual securities or financial obligations of a corporate issuer address relative vulnerability to default on an ordinal scale. In addition, for financial obligations in corporate finance, a measure of recovery given

default on that liability is also included in the rating assessment. This notably applies to covered bonds ratings, which incorporate both an indication of the probability of default and of the recovery given a default of this debt instrument.

The relationship between issuer scale and obligation scale assumes an historical average recovery of between 30%-50% on the senior, unsecured obligations of an issuer. As a result, individual obligations of entities, such as corporations, are assigned ratings higher, lower, or the same as that entity's issuer rating or IDR. At the lower end of the ratings scale, Fitch Ratings now additionally publishes explicit Recovery Ratings in many cases to complement issuer and obligation ratings.

AAA: Highest credit quality.

'AAA' ratings denote the lowest expectation of credit 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 credit 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 credit 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 credit 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 credit risk, particularly in the event of adverse changes in business or economic conditions over time; however, business or financial alternatives may be available to allow financial commitments to be met.

B: Highly speculative.

'B' ratings indicate that material credit risk is present.

CCC: Substantial credit risk.

'CCC' ratings indicate that substantial credit risk is present.

CC: Very high levels of credit risk.

'CC' ratings indicate very high levels of credit risk.

C: Exceptionally high levels of credit risk.

'C' indicates exceptionally high levels of credit risk.

Defaulted obligations typically are not assigned 'RD' or 'D' ratings, but are instead rated in the 'B' to 'C' rating categories, depending upon their recovery prospects and other relevant characteristics. This approach better aligns obligations that have comparable overall expected loss but varying vulnerability to default and loss.

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' obligation rating category, or to corporate finance obligation ratings in the categories below 'CCC'.

The subscript 'emr' is appended to a rating to denote embedded market risk which is beyond the scope of the rating. The designation is intended to make clear that the rating solely addresses the counterparty risk of the

issuing bank. It is not meant to indicate any limitation in the analysis of the counterparty risk, which in all other respects follows published Fitch criteria for analyzing the issuing financial institution. Fitch does not rate these instruments where the principal is to any degree subject to market risk.

Short-Term Ratings

A short-term issuer or obligation rating is based in all cases on the short-term vulnerability to default of the rated entity or security stream and relates to the capacity to meet financial obligations in accordance with the documentation governing the relevant obligation. Short-Term Ratings are assigned to obligations whose initial maturity is viewed as “short term” based on market convention. Typically, this means up to 13 months for corporate, sovereign, and structured obligations, and up to 36 months for obligations in U.S. public finance markets.

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.

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. Typically applicable to entity ratings only.

D: Default.

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

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HEDGING AND RELATED INCOME STRATEGIES

General Description of Hedging and Related Income Strategies. As discussed in this Prospectus, 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 Board of Directors. However, the Fund will 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 or sub-investment adviser. There can be no assurance that such relief will be granted or that the strategies discussed in this Appendix F 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 intends to 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 increases 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 this Prospectus, the Investment Adviser or sub-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 or sub-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. For example, the Investment Adviser may use these techniques to achieve a risk/return profile for the Taxable PR Securities Portion consistent with the U.S. municipal market.

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 or sub-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 and sub-investment adviser are experienced in the use of Derivative Instruments, there can be 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 or sub-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 expires or matures. 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 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 beyond 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 contract 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 beyond 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 will be 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 which are not transacted on or subject to the rules of a regulated futures contract exchange or securities exchange, other than purchased options, will expose the Fund to an obligation to another party. The Fund will 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 or sub-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 or sub-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 has written by purchasing an identical call option. This is known as a closing purchase transaction. Conversely, the Fund may terminate a position in a put or call option it has 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 will be 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 intends to purchase or write only those exchange-traded options for which there appears to be a liquid secondary market. However, there can be 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 will enter into OTC options only with counterparties 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 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 the Fund's total assets. This guideline may be modified by the Board 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 will 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 intends to enter into futures transactions only on exchanges or boards of trade where there appears to be a liquid secondary market. However, there can be 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 will not trade options on futures on any exchange or board of

trade unless, in the Investment Adviser's or sub-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 position 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 Board of Directors has determined that the Fund will 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 the Fund's total assets. This guideline may be modified by the Board 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 will 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 instrument 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 may 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 will 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 portfolio 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 intends to use these transactions as a hedge and not as a speculative investment.

The Fund may 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 will usually enter 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, will not treat them as being subject to its borrowing restrictions.

The Fund will enter into such transactions only with banks and recognized securities dealers believed by the Investment Adviser or sub-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 will 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.

TYPES OF MUNICIPAL OBLIGATIONS

The Fund may invest in the following types of Municipal Obligations, subject to their availability, and in other types of Municipal Obligations that become available on the market from time to time (including BABs). Not all of the described Municipal Obligations are presently available.

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 Prospectus, the Fund may not presently concentrate its investments, i.e., invest a relatively high percentage of its assets, in Municipal Obligations that are revenue bonds issued by entities which 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. This limitation may be changed by the Board of Directors; provided that prior written notice is given to the Shareholders. Any determination to allow concentration of the Fund’s investments in Municipal Obligations issued by entities that pay their debt service obligations from revenues derived from similar projects may make the Fund more susceptible to economic, political, or regulatory occurrences affecting that type of project. As the similarity in issuers increases, the potential for fluctuation of the net asset value of Class A shares also increases. Also, it is anticipated that a significant percentage of the Municipal Obligations in the Fund’s portfolio may be revenue bonds 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 that are 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 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 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 to 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 fluctuation 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 that 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 the financial condition of the project corporation. In addition, governmental entities may from time to time impose additional restrictions or regulations that 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 and universities, 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 will be 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 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 will be 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 will be 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 Administrator will be responsible for the Fund being provided the services of monitoring 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 will sell 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 will be 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 will be affected by the credit standing of both the bank involved and the issuer of the underlying securities.

MORTGAGE-BACKED SECURITIES**General**

Mortgage-Backed Securities were introduced in the 1970s when the first pool of mortgage loans was converted into a mortgage pass-through security. Since the 1970s, 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 Puerto Rico Mortgage-Backed Securities, as described herein. Not all the types of securities described below are available in Puerto Rico.

Government National Mortgage Association Securities

GNMA is a wholly-owned corporation 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 GNMA guarantee. In order to meet its obligations under such guarantee, GNMA is authorized to borrow from the U.S. Treasury with no limitation 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 (“buydown” 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 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: (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. Instead, these obligations are supported only by the discretionary authority of the U.S. government to purchase the agency’s obligations.

Federal Home Loan Mortgage Corporation 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 ten 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.

ARM and Floating Rate Mortgage-Backed Securities

Because the interest rates on adjustable rate Mortgage-Backed Securities (“ARM Mortgage-Backed Securities”) and Floating Rate Mortgage-Backed Securities reset directly in response to changes in a specified market index, the values of such securities tend to be less sensitive to interest rate fluctuations than the values of fixed-rate securities. ARM Mortgage-Backed Securities represent a right to receive interest payments at a rate that is adjusted to reflect the interest earned on a pool of ARMs. ARMs generally provide that the borrower’s mortgage interest rate may not be adjusted above a specified lifetime maximum rate or, in some cases, below a minimum lifetime rate. In addition, certain ARMs provide for limitations on the maximum amount by which the mortgage interest rate may adjust for any single adjustment period. ARMs may also provide for limitations on changes in the maximum amount by which the borrower’s monthly payment may adjust for any single adjustment period. In the event that a monthly payment is not sufficient to pay the interest accruing on the ARM, any such excess interest is added to the mortgage loan (“negative amortization”), which is repaid through future monthly payments. If the monthly payment exceeds the sum of the interest accrued at the applicable mortgage interest rate and the principal payment that would have been necessary to amortize the outstanding principal balance over the remaining term of the loan, the excess reduces the principal balance of the ARM. Borrowers under ARMs experiencing negative amortization may take longer to build up their equity in the underlying property and may be more likely to default.

The rates of interest payable on certain ARMs, and therefore on certain ARM Mortgage-Backed Securities, are based on indices, such as the one-year constant maturity Treasury Rate, that reflect changes in market interest rates. Others are based on indices, such as the 11th District Federal Home Loan Bank Cost of Funds index, that tend to lag behind changes in market interest rates. The values of ARM Mortgage-Backed Securities supported by ARMs that adjust based on lagging indices tend to be somewhat more sensitive to interest rate fluctuations than those reflecting current interest rate levels, although the values of such ARM Mortgage-Backed Securities still tend to be less sensitive to interest rate fluctuations than fixed-rate securities.

Floating Rate Mortgage-Backed Securities are classes of Mortgage-Backed Securities that have been structured to represent the right to receive interest payments at rates that fluctuate in accordance with an index and that generally, but not always, are supported by pools comprised of fixed-rate mortgage loans. As with ARM Mortgage-Backed Securities, interest rate adjustments on Floating Rate Mortgage-Backed Securities may be based on indices that lag behind market interest rates. Interest rates on Floating Rate Mortgage-Backed Securities generally are adjusted monthly. Floating Rate Mortgage-Backed Securities are subject to lifetime interest rate caps, but they generally are not subject to limitations on monthly or other periodic changes in interest rates or monthly payments.

Specified Mortgage-Backed Securities

The Fund may invest in Mortgage-Backed Securities constituting derivative instruments such as interest-only obligations (“IOs”), principal-only obligations (“POs”) (other than IOs and POs that are “planned amortization class” or “PAC” bonds), or inverse floating rate obligations or other types of Puerto Rico Mortgage-Backed Securities that may be developed in the future and that are determined by the Investment Adviser to present types and levels of risk that are comparable to such IOs, POs and inverse floating rate obligations (collectively, “Specified Mortgage-Backed Securities”). The Fund will invest in Specified Mortgage-Backed Securities only when the Investment Adviser believes that such securities, when combined with the Fund’s other investments, would enable the Fund to achieve its investment objective and policies.

Stripped mortgage-backed securities (“SMBSS”) are classes of mortgage-backed securities that receive different proportions of the interest and principal distributions from the underlying pool of mortgage assets. SMBSs may be issued by agencies or instrumentalities of the U.S. Government or by private mortgage lenders. A common type of SMBS will have one class that receives some of the interest and most of the principal from the mortgage assets, while the other class will receive most of the interest and the remainder of the principal.

An IO is an SMBS that is entitled to receive all or a portion of the interest, but none of the principal payments, on the underlying mortgage assets; a PO is an SMBS that is entitled to receive all or a portion of the principal payments, but none of the interest payments, on the underlying mortgage assets. The Investment Adviser believes that investments in IOs and POs may facilitate its ability to manage the price sensitivity of the Fund to interest rate changes. Generally, the yields to maturity on both IO and PO classes are extremely sensitive to the rate of principal payments (including prepayments) on the underlying mortgage assets. If the underlying mortgage assets of an IO class of Mortgage-Backed Security held by the Fund experience greater than anticipated prepayments of principal, the Fund may fail to recoup fully its initial investment in such securities even though the securities are rated in the highest rating category. The Investment Adviser believes that, since principal amortization on PAC bonds is designed to occur at a predictable rate, IOs and POs that are PAC bonds generally are not as sensitive to principal prepayments as other IOs and POs.

Mortgage-Backed Securities that constitute inverse floating rate obligations are Mortgage-Backed Securities on which the interest rates adjust or vary inversely to changes in market interest rates. Typically, an inverse floating rate Mortgage-Backed Security is one of two components created from a pool of fixed rate mortgage loans. The other component is a variable rate Mortgage-Backed Security, on which the amount of interest payable is adjusted directly in accordance with market interest rates. The inverse floating rate obligation receives the portion of the interest on the underlying fixed-rate mortgages that is allocable to the two components and that remains after subtracting the amount of interest payable on the variable rate component. The market value of an inverse floating rate obligation will be more volatile than that of a fixed-rate obligation and like most debt obligations, will vary inversely with changes in interest rates. Certain of such inverse floating rate obligations have coupon rates that adjust to changes in market interest rates to a greater degree than the change in the market rate and accordingly have investment characteristics similar to investment leverage. As a result, the market value of such inverse floating rate obligations are subject to greater risk of fluctuation than other Mortgage-Backed Securities, and such fluctuations could adversely affect the ability of the Fund to achieve its investment objective and policies. Inverse floating rate Mortgage-Backed Securities often can get 0% interest if interest rates hit caps.

The yields on Specified Mortgage-Backed Securities may be more sensitive to changes in interest rates than Puerto Rico GNMA Mortgage-Backed Securities. While the Investment Adviser will seek to limit the impact of these factors on the Fund, no assurance can be given that it will achieve this result.

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CERTAIN OTHER TYPES OF INVESTMENTS

Bankers' Acceptances. The Fund may invest in bankers' acceptances, which are short-term credit instruments used to finance commercial transactions. Generally, an acceptance is a time draft drawn on a bank by an exporter or an importer to obtain a stated amount of funds to pay for specific merchandise. The draft is then "accepted" by a bank that, in effect, unconditionally guarantees to pay the face value of the instrument on its maturity date. The acceptance may then be held by the accepting bank as an asset, or it may be sold in the secondary market at the going rate of interest for a specified maturity. Although maturities for acceptances can be as long as 270 days, most acceptances have maturities of six months or less.

Certificates of Deposit. The Fund may invest in bank certificates of deposit ("CDs"). The Federal Deposit Insurance Corporation is an agency of the U.S. Government that insures the deposits of certain banks and savings and loan associations up to \$250,000 per deposit. To remain fully insured, these investments currently must be limited to \$250,000 per insured bank or savings and loan association. The interest on such deposits may not be insured if this limit is exceeded. Current federal regulations also permit such institutions to issue insured negotiable CDs in amounts of \$250,000 or more. Investments in CDs are made only with domestic institutions with assets in excess of \$1 billion.

Commercial Paper. The Fund may invest in commercial paper that is limited to obligations rated Prime-1 or Prime-2 by Moody's, or A-1 or A-2 by S&P and F-1 or F-2 by Fitch. Commercial paper includes notes, drafts or similar instruments payable on demand or having a maturity at the time of issuance not exceeding nine months, exclusive of days of grace or any renewal thereof. See Appendix D for a description of commercial paper ratings.

Convertible Securities. The Fund may invest in convertible securities that are rated as investment grade or, if not so rated, are deemed to be of comparable quality by the Investment Adviser. While no securities investment is without some risk, investments in convertible securities generally entail less risk than the issuer's common stock, although the extent to which such risk is reduced depends in large measure upon the degree to which the convertible security sells above its value as a fixed income security. The Investment Adviser will decide to invest in convertible securities based upon a fundamental analysis of the long-term attractiveness of the issuer and the underlying common stock, the evaluation of the relative attractiveness of the current price of the underlying common stock, and the judgment of the value of the convertible security relative to the common stock at current prices. Convertible securities in which the Fund may invest include corporate bonds, notes and preferred stock that can be converted into common stock. Convertible securities combine the fixed-income characteristics of bonds and preferred stock with the potential for capital appreciation. As with all debt securities, the market value of convertible securities tends to decline as interest rates increase and, conversely, to increase as interest rates decline. While convertible securities generally offer lower interest or dividend yields than nonconvertible debt securities of similar quality, they do enable the investor to benefit from increases in the market price of the underlying common stock.

Debt Securities. The Fund may invest in debt securities. The market value of debt securities is influenced primarily by changes in the level of interest rates. Generally, as interest rates rise, the market value of debt securities decreases. Conversely, as interest rates fall, the market value of debt securities increases. Factors that could result in a rise in interest rates, and a decrease in the market value of debt securities, include an increase in inflation or inflation expectations, an increase in the rate of Puerto Rico or U.S. economic growth, an increase in the Federal budget deficit or an increase in the price of commodities such as oil.

Floating and Variable Rate Obligations. The Fund may also purchase certain types of floating and variable rate securities. The interest payable on a variable rate obligation is adjusted at predesignated periodic intervals. The interest rate payable on floating rate obligations is adjusted whenever there is a change in the market rate of interest on which the interest rate payable is based. There is a risk that the current interest rate on such obligations may not accurately reflect existing market interest rates. These obligations frequently permit the holder to demand payment of principal at any time, or at specified intervals, and permit the issuer to prepay, at its discretion, principal plus accrued interest, in each case 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.

Money Market Funds. The Fund may invest in money market funds. These funds attempt to provide the highest current income possible through investment in a portfolio of short-term money market securities, consistent with the preservation of capital. While these funds typically invest in high quality investments, the value of an investment in these funds, among other things, remains subject to credit risk on the underlying instruments and volatility due to interest rate changes.

Securities of Foreign Issuers. There are certain risks connected with investing in foreign securities. These include risks of adverse political and economic developments (including possible governmental seizure or nationalization of assets), the possible imposition of exchange controls or other governmental restrictions, less uniformity in accounting and reporting requirements, the possibility that there will be less information on such securities and their issuers available to the public, the difficulty of obtaining or

enforcing court judgments abroad, restrictions on foreign investments in other jurisdictions, difficulties in affecting repatriation of capital invested abroad, and difficulties in transaction settlements and the effect of delay on shareholder equity. Foreign securities may be subject to foreign taxes, and may be less marketable than comparable U.S. securities.

Preferred Stock. The Fund may invest in preferred stock. A preferred stock has a blend of the characteristics of a bond and common stock. It can offer the higher yield of a bond and have priority over common stock in equity ownership, but does not have the seniority of a bond and its participation in the issuer's growth may be limited. Preferred stock generally has preference over common stock in the receipt of dividends and in any residual assets after payment to creditors should the issuer be dissolved. Although the dividend is usually set at a fixed annual rate, in some circumstances it can be changed or omitted by the issuer.

Trust Preferred Securities. Trust preferred securities are securities issued by banks or bank holding companies through a special purpose trust organized by the bank or bank holding company. The trust issues the trust preferred securities and invests the proceeds in a subordinated debenture of the bank or bank holding company that has identical terms. The trust preferred securities are payable solely from payments made by the bank or bank holding company with respect to the subordinated debentures.

Real Estate Investment Trusts ("REITs"). REITs are entities that invest primarily in commercial real estate or real estate-related loans. A REIT is not subject to federal income tax on income distributed to its shareholders if it complies with regulatory requirements relating to its organization, ownership, assets and income, and with the regulatory requirement that it distribute to its shareholders at least 95% of its taxable income for each taxable year. Generally, REITs can be classified as equity REITs, mortgage REITs and hybrid REITs. Equity REITs invest the majority of their assets in real property and derive their income primarily from rents and capital gains from appreciation realized through property sales. Mortgage REITs invest the majority of their assets in real estate mortgages and derive their income primarily for interest payments.

Reverse Repurchase Agreements. The Fund may invest in reverse repurchase agreements. A reverse repurchase agreement is a transaction in which the Fund purchases securities and simultaneously commits to resell the securities to the original seller (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) at an agreed upon date and price reflecting a market rate of interest unrelated to the coupon rate or maturity of the purchased securities. Reverse Repurchase agreements carry certain risks not associated with direct investments in securities including possible decline in the market value of the underlying securities and costs to the Fund if the other party to the repurchase agreement becomes bankrupt, so that the Fund is delayed or prevented from exercising its rights to dispose of the collateral securities. The value of the underlying securities (or collateral) will be at least equal at all times to the total amount of the repurchase obligation, including the interest factor.

Dollar Rolls and 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 could also be compensated through the receipt of fee income equivalent to a lower forward price. The Fund may also enter into 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 (a "Repurchase Agreement").

Dollar rolls and Repurchase Agreements will generally 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 immediately after the issuance. In addition, certain of the dollar rolls and Repurchase Agreements entered into by the Fund will be arbitrage transactions in which the Fund will maintain an offsetting position in securities or Reverse Repurchase Agreements (as defined herein) that mature on or before the settlement date on the related dollar roll or 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 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. 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 such securities. In the event the buyer of securities under a 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 Repurchase Agreement may effectively be restricted pending such decision.

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

When-Issued and Delayed Delivery Transactions. The Fund may enter into agreements with banks or broker-dealers for the purchase or sale of securities at an agreed-upon price on a specified future date. Such agreements might be entered into, for example, when the Investment Adviser anticipates a decline in interest rates and is able to obtain a more advantageous yield by committing currently to purchase securities to be issued later. When the Fund purchases securities on a when-issued or delayed delivery basis, it is required either (1) to create a segregated account with the Custodian and to maintain in that account cash, U.S. Government securities, or other high grade debt obligations in an amount equal on a weekly basis to the amount of the Fund's when-issued or delayed delivery commitments, or (2) to enter into an offsetting forward sale of securities it owns which are equal in value to those purchased. The Fund will only make commitments to purchase securities on a when-issued or delayed delivery basis with the intention of actually acquiring the securities. However, the Fund may sell these securities before the settlement date if it is deemed advisable as a matter of investment strategy. When the time comes to pay for when-issued or delayed delivery securities, the Fund will meet its obligations from then available cash flow or the sale of securities, or, although it would not normally expect to do so, from the sale of the when-issued or delayed delivery securities themselves (which may have a value greater or less than the Fund's payment obligation).

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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, address, social security number, or tax identification number;

Written and electronic correspondence, including telephone contacts; and

Account history, including information about Fund transactions and balances in your accounts with UBS Financial Services Incorporated of Puerto Rico or our affiliates, other fund holdings in the UBS family of funds, and any affiliation with UBS Financial Services Incorporated of Puerto Rico and its affiliates.

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 their 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 a non-affiliated 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). The Fund does not sell 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.

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PROXY VOTING POLICY

Unlike a U.S. investment company registered under the U.S. Investment Company Act, the Fund is not required to adopt a policy on the voting of proxies on securities held by the Fund. The Board has delegated responsibility to vote such proxies with respect to securities held in the assets managed by the subadviser to the subadviser. The Fund has been informed that the subadviser has adopted proxy voting procedures.

The Fund has adopted proxy voting procedures (the “Proxy Policies”) to ensure that proxies are voted for the exclusive benefit and in the best economic interest of the shareholders with the objective of maximizing total return to the shareholders. The Fund has retained Institutional Shareholder Services, Inc. (“ISS”), an independent proxy voting organization, to assist in the carrying out of its proxy voting responsibilities. ISS provides the Fund with the ISS U.S. Proxy Voting Guidelines and ISS Global Proxy Voting Guidelines (collectively the “ISS Guidelines”), as in effect from time to time. The ISS Guidelines were developed based on ISS’ experience analyzing a wide variety of proposals presented to shareholders for vote by publicly-held companies, and are periodically revised and updated by ISS.

A Proxy Voting Committee, comprised of representatives of the Fund, oversees and administers ISS Guidelines and ISS’ voting recommendations. As the Fund believes, based on its review of the ISS Guidelines, that such Guidelines are sound and consistent with its proxy voting policies, the Fund generally votes all proxies in accordance with the ISS Guidelines and specific ISS voting recommendations. The ISS Guidelines, as they may be amended from time to time, are treated as part of these Proxy Policies and copies of the ISS Guidelines are available upon request. In the event that the Fund concludes that reliance on the ISS Guidelines and voting recommendations is no longer appropriate, the Fund shall retain another independent proxy voting service to provide it with similar services.

The Fund believes that voting proxies in accordance with the ISS Guidelines helps to ensure that it does not make specific voting decisions in situations where there may be a material conflict of interest between the interests of the Fund or any of its affiliates and those of a shareholder. In addition, because of the broad and diverse nature of the business of the Fund and its affiliated companies, it is not practical for the Fund to seek to identify all actual, potential, or material conflicts of interest with respect to every proxy voting matter. To ensure that the Fund does not make a voting decision for clients where a material conflict is present, in the event that the ISS Guidelines do not apply to, or ISS is not able to provide a recommendation on how to vote, the Fund may seek voting instructions from the majority of Independent Directors of the Board, vote securities in proportion to the votes cast by all other shareholders, retain another independent third party to make the voting decisions, or take such other steps as may be appropriate to resolve the conflict as determined by the Proxy Voting Committee in consultation with the Fund’s Legal Counsel.

The Fund may not vote proxies in certain circumstances, including but not limited to, situations where a) the securities are no longer held; b) the proxy or other relevant materials were not received in sufficient time to allow an appropriate analysis by ISS or to allow a vote to be cast by the voting deadline; or c) the Fund ISS concludes that the cost of voting the proxy will exceed the potential benefit.

The Fund or a service provider on behalf of the Fund will maintain the following records for a period of at least six years:

- i. A copy of the Proxy Policies and copies of the ISS Guidelines, as both may be amended from time to time, and copies of all ISS recommendations with respect to specific proxy votes;
- ii. Copies of proxy statements received regarding securities held by the Fund, unless these materials are available electronically through the SEC’s EDGAR system;
- iii. A record of each proxy vote cast on behalf of the Fund;
- iv. A copy of any internal documents created by the Fund that were material to making the decision how to vote proxies on behalf of clients; and
- v. Each written request for information on how the Fund voted proxies and each written response by the Fund to oral or written requests for this information.

The Fund will provide to shareholders these Proxy Policies, including the ISS Guidelines then in effect, and a record of how the Fund has voted the proxies promptly on request.

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If you want more information about the Fund, the following documents are available free upon request:

Annual/Quarterly Reports

Additional information about the Fund's investments is available in the Fund's annual and quarterly report to shareholders, which may be viewed at www.ubs.com/prfunds.

Additional Information

You may discuss your questions about the Fund by contacting your UBS Financial Advisor or other selected securities dealer. You may obtain free copies of annual and quarterly reports by contacting the Fund directly at 1-787-773-3888.

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

Prospectus

July 21, 2015



Mixed Sources
Product group from well managed
forests, controlled sources and
recycled wood or fibres.

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