
STATEMENT OF ADDITIONAL INFORMATION

SHORT TERM INVESTMENT FUND FOR PUERTO RICO RESIDENTS, INC.

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This Statement of Additional Information (“SAI”) of the Short Term Investment Fund for Puerto Rico Residents, Inc. (the “Fund”) is not a prospectus and should be read in conjunction with the Prospectus of the Fund, dated October 28, 2022, as it may be amended or supplemented from time to time (the “Prospectus”), which has been filed with the Securities and Exchange Commission (the “Commission” or the “SEC”) and can be obtained, without charge, by writing or calling the Fund at the address or telephone number printed above, or on the Fund’s website at www.ubs.com/prfunds. The Prospectus is incorporated by reference into this SAI, and this SAI has been incorporated by reference into the Fund’s Prospectus. Only Puerto Rico residents will receive the tax benefits of an investment in the Fund. See the section “Puerto Rico Taxation” for a description of such tax benefits. In addition, the Fund does not intend to qualify as a regulated investment company (“RIC”) under Subchapter M of the U.S. Internal Revenue Code of 1986, as amended (“U.S. Code”), and consequently an investor that is not a Puerto Rico Resident will not receive the tax benefits (such as “RIC” tax treatment) of an investment in a typical United States (“U.S.”) mutual fund registered under the Investment Company Act of 1940, as amended (the “1940 Act”) and may have adverse tax consequences for U.S. federal income tax purposes. This SAI does not include all information that a prospective investor should consider before investing in the Fund. Investors should obtain and read the Prospectus prior to purchasing shares of the Fund. In addition, the Fund’s audited financial statements and the auditor’s report included in the Fund’s annual report for the fiscal year ended June 30, 2022, are incorporated by reference herein. Such report includes presentations and disclosures in accordance with guidance set forth by Regulation S-X. You may also obtain a copy of the Prospectus on the SEC’s website (<http://www.sec.gov>). Capitalized terms used but not defined in this SAI have the meanings ascribed to them in the Prospectus.

References to the 1940 Act or other applicable law will include any rules promulgated thereunder and any guidance, interpretations or modifications by the Commission, Commission staff or other authority with appropriate jurisdiction, including court interpretations and exemptive, no-action or other relief or permission from the Commission, Commission staff or other authority.

Share Class

Shares Of Beneficial Interest

Ticker Symbol

PRALX

UBS Asset Managers of Puerto Rico — Investment Adviser
UBS Financial Services Inc. — Distributor

The date of this Statement of Additional Information is October 28, 2022.

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History of the Fund

The Fund is registered as an open-end management investment company under the 1940 Act. The Fund was incorporated under the laws of the Commonwealth of Puerto Rico on July 26, 2002, and started operations on December 8, 2006. Prior to May 14, 2021, the Fund was registered as an investment company under the Puerto Rico Investment Companies Act of 1954, as amended and operated as such under the laws of Puerto Rico. In 2018, the Economic Growth, Regulatory Relief, and Consumer Protection Act was signed into law in the U.S. and effectively required investment companies organized under the laws of Puerto Rico to register as investment companies under the 1940 Act. As a result, the Fund has been registered under the 1940 Act since May 14, 2021.

As of the date of this SAI, the Fund is authorized to issue 2,000,000,000 shares of beneficial interest (the “Shares”) with a par value of \$0.001 per share, which may be divided into different series and classes. The Fund currently has only one class of shares outstanding.

Investment Objectives, Policies and Restrictions

Please see the Prospectus for more information about the Fund’s investment objective and policies. Additional information regarding the Fund’s investment objective and policies is included below.

The Fund is classified as non-diversified under the 1940 Act, which means that the Fund is not limited by the 1940 Act with regard to the portion of its assets that may be invested in the securities of a single issuer. To the extent that a non-diversified fund makes investments in excess of 5% of its total assets in the securities of a particular issuer, its exposure to the risks associated with that issuer are increased. Because a non-diversified fund may invest in a limited number of issuers, the performance of particular securities may adversely affect the performance of the fund or subject the fund to greater price volatility than that experienced by diversified investment companies.

The Fund’s investment objective and certain investment policies that are fundamental policies may not be changed unless authorized by a majority (which for this purpose and under the 1940 Act, means the lesser of (i) 67% of the shares represented at a meeting at which more than 50% of the outstanding shares are represented or (ii) more than 50% of the outstanding shares) and in some cases, a supermajority of the Fund’s outstanding voting securities (it being understood that, with respect to these voting requirements or standards, the Fund will take no action that is at that time inconsistent with the 1940 Act). However, subject to Puerto Rico law, all other investment policies and limitations may be changed by the Board of Directors (independently the “Directors” and together the “Board”) without shareholder approval.

Investment Policies and Restrictions

The Fund is subject to the following investment restrictions, all of which are fundamental policies. The Fund may not:

- (a) issue preferred shares or debt securities, or borrow money from banks or other entities, provided that the Fund may borrow up to an additional 5% of the Fund’s total assets (including the amount borrowed) from banks or other financial institutions for temporary or emergency purposes, including to finance redemptions; or
- (b) issue senior securities to the extent such issuance would violate the 1940 Act.

Notations Regarding the Funds’ Fundamental Investment Restrictions

The following notations are not considered to be part of the Fund’s fundamental investment restrictions and are subject to change without shareholder approval.

With respect to the fundamental policy relating to borrowing money set forth in (a) above, the Fund has restricted borrowing to 5% of the Fund’s total assets, which is more restrictive than the limitation imposed by the 1940 Act, which permits a fund to borrow money in amounts of up to one-third of the Fund’s total assets from banks for any purpose, and to borrow up to 5% of the Fund’s total assets from banks or other lenders for temporary or emergency purposes, including to finance redemptions. A fund’s total assets include the amounts being borrowed. To limit the risks attendant to borrowing, the 1940 Act requires the Fund to maintain at all times an “asset coverage” of at least 300% of the amount of its borrowings. Asset coverage means the ratio that the value of a fund’s total assets (including amounts borrowed), minus liabilities other than borrowings, bears to the aggregate amount of all borrowings. Borrowing money to increase portfolio holdings is known as “leveraging.” Certain trading practices and investments, such as derivatives transactions, may be treated as senior securities. Prior to the adoption and implementation of Rule 18f-4 under the 1940 Act, when the

Fund engaged in a derivatives transaction that creates future payment obligations, consistent with the Security and Exchange Commission's (the "SEC") staff guidance and interpretations, the Fund was permitted to segregate or earmark liquid assets, or enter into an offsetting position, in an amount at least equal to the Fund's exposure, on a mark-to-market basis, to the transaction, instead of meeting the asset coverage requirement with respect to senior securities prescribed by the 1940 Act. The SEC staff guidance and interpretations were rescinded in connection with the adoption of Rule 18f-4, and the Fund now complies with Rule 18f-4 with respect to its derivatives transactions. Thus, the fundamental policy relating to issuing senior securities above will not restrict the Fund from entering into derivatives transactions that are treated as senior securities so long as the Fund complies with Rule 18f-4 with respect to such derivatives transactions.

Short-term credits necessary for the settlement of securities transactions and arrangements with respect to securities lending will not be considered to be borrowings under the policy. Practices and investments that may involve leverage but are not considered to be borrowings (e.g., collateral arrangements with respect to options, forward currency and futures transactions and other derivative instruments, as well as delays in the settlement of securities transactions) are not subject to the policy.

In addition, the Fund may not change (1) the restrictions in (iii), (v), (vii), (viii) and (ix) below without the approval of a majority of the shareholders (as defined in the 1940 Act and as described above), and (2) any other restriction described below without the approval of a majority of the Board and prior written notice to shareholders of the Fund.

The Fund may not:

(i) purchase the securities of any one issuer if after such purchase it would own more than 25% of the voting securities of such issuer, provided that securities issued or guaranteed by the Commonwealth of Puerto Rico, U.S. government, or any of their respective agencies or instrumentalities (including GNMA, FNMA and FHLMC mortgage-backed securities) are not subject to this limitation;

(ii) make investments for the purpose of exercising control or management;

(iii) make an investment in any one industry if, at the time of purchase, the investment would cause the aggregate value of the Fund's investments in such industry to equal 25% or more of the Fund's total assets, provided that this limitation shall not apply to (i) investments made for temporary or defensive purposes; (ii) investments in high quality, short-term securities issued by Puerto Rico investment companies, (iii) investments in securities issued or guaranteed by the U.S. government, its agencies or instrumentalities, and (iv) tax-exempt Puerto Rico municipal obligations, other than those backed only by the assets or revenues of a non-governmental entity. For purposes of this restriction, the intended or designated use of real estate shall determine its industry, domestic and foreign banking will be considered separate industries and mortgage-backed and asset-backed securities not issued or guaranteed by an agency or instrumentality of the U.S. government will be grouped in industries based on their underlying assets and not treated as a single, separate industry;

(iv) purchase securities on margin, except for short term credits necessary for clearance of portfolio transactions;

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

(vi) 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;

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

(viii) purchase or sell commodities or commodity contracts;

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

(x) lend portfolio securities, except to the extent that such loans, if and when made, do not exceed 33¹/₃% of the total assets of the Fund taken at market value.

Description of Certain Investments, Investment Techniques and Investment Risks

Set forth below are descriptions of some of the types of investments and investment techniques that the Fund may utilize, as well as certain risks and other considerations associated with such investments and investment techniques. The information below supplements the information contained in the Fund's Prospectus under "More Information About the Fund—Principal Investment Strategies of the Fund", "More Information About the Fund—Other Investments", "More Information About the Fund—Principal Risks" and "More Information About the Fund—Additional Risks".

Types of Municipal Obligations and Associated Risks

The Fund may invest in a variety of municipal securities, as described below:

Municipal Bonds

Municipal bonds are debt obligations that are issued by states, municipalities, public authorities or other issuers and that pay interest that is exempt from federal income tax in the opinion of issuer's counsel. 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 other specific revenue source such as from the user of the facility being financed. The term "municipal bonds" also includes "moral obligation" issues, which are normally issued by special purpose authorities. In the case of such issues, an express or implied "moral obligation" of a related government share is pledged to the payment of the debt service, but is usually subject to annual budget appropriations. Custodial receipts that represent an ownership interest in one or more municipal bonds also are considered to be municipal obligations.

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. The Fund may invest more than 25% of its assets in a single IDB or PAB.

The Fund may not presently concentrate its investments, e.g., invest a relatively high percentage of its assets in municipal obligations (e.g. revenue bonds) issued by entities which may pay their debt service obligations from the revenues derived from similar projects such as hospitals, multifamily housing, nursing homes, continuing care facilities, commercial facilities (including hotels), electric utility systems or industrial companies. This limitation may, in the future, be changed by a majority of the Fund's outstanding voting securities. Any future determination to allow concentration of the Fund's investments may make the Fund more susceptible to similar economic, political or regulatory occurrences. As the similarity in issuers increases, the potential for fluctuation of the net asset value ("NAV") of shares of the Fund also increases. Also, it is anticipated that a significant percentage of the municipal obligations in the Fund's portfolio may be issued by entities or secured by facilities with a relatively short operating history.

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 also 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

Zero coupon municipal 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 obligations 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

Floating and variable rate municipal notes and bonds 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

Participation interests in municipal bonds, including IDBs, PABs and floating and variable rate securities give 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 Investment Adviser will monitor 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 Investment Adviser’s opinion, 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.

Detachable Call Options and Embedded Caps

Detachable call options are sold by issuers of municipal obligations separately from the municipal obligations to which the call options relate and permit the purchasers of the call options to acquire the municipal obligations at the call price(s) and call date(s). In the event that interest rates drop, the purchaser could exercise the call option to acquire municipal obligations that yield above-market rates. The Fund expects to acquire detachable call options relating to municipal obligations that the Fund owns or will acquire in the immediate future and thereby, in effect, make such municipal obligations non-callable so long as the Fund continues to hold the detachable call option. Municipal obligations with embedded caps provide for additional tax-free payments for a stated period (generally a period that is shorter than the bond’s maturity) above the fixed-rated interest payable on the municipal obligations to the extent that the average level of a particular index exceeds a specified base level.

Mortgage-Backed Securities and Associated Risks

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. Not all of the types of securities described below are available in Puerto Rico.

Government National Mortgage Association (“GNMA”) Securities

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

GNMA 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.

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 (“FNMA”) Securities

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

Each FNMA pass-through mortgage-backed security represents a *pro rata* interest in one or more pools 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. The obligations of FNMA are not backed by the full faith and credit of the U.S. Nevertheless, because of the relationship between FNMA and the U.S., it is widely believed that FNMA Mortgage-Backed Securities present minimal credit risks.

Federal Home Loan Mortgage Corporation (“FHLMC”) Securities

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

FHLMC mortgage-backed securities represent direct or indirect participations in, and are payable from, conventional residential mortgage loans. 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 thirty 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. The obligations of FHLMC are not backed by the full faith and credit of the U.S., although they are generally considered to present minimal credit risks.

Adjustable-Rate Mortgage (“ARM”) and Floating Rate Mortgage-Backed Securities

Because the interest rates on ARM and floating rate mortgage-backed securities are reset 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 also may 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 but that generally 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 generally does not invest in derivatives but may invest in mortgage-backed securities that are derivatives such as interest only obligations (“IOs”) (other than IOs and principal only obligations (“POs”) that are planned amortization class bonds (“PAC Bonds”)) or inverse floating rate obligations or other types of 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. In the opinion of the Investment Adviser, GNMA mortgage-backed securities issued under the GNMA I or GNMA II programs, securities with earlier maturities of mortgage-backed securities issued under the GNMA Serial Note program, mortgage pass-through certificates issued by FNMA and other types of substantially similar mortgage-backed pass-through or participation certificates (including collateralized mortgage obligations (“CMOs”)) are not considered derivative investments for purposes of the Fund’s investment policies, except as set forth below. The Investment Adviser also does not consider Private Label mortgage-backed securities (as defined in the Prospectus) (including CMOs) of any class that entitle the holder thereof to payments of principal and interest to be derivatives for that purpose (other than Private Label mortgage-backed securities the principal payments of which at the time of purchase by the Fund (i) are not limited by a schedule of principal distributions and (ii) support a schedule of principal distributions for another related class of Private Label mortgage-backed securities).

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 POs may facilitate its ability to manage the price sensitivity of the Fund’s investments 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 is 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 objectives and policies.

The yields on certain of the above mortgage-backed securities may be more sensitive to changes in interest rates than GNMA mortgage-backed securities. While the respective 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.

Information on Directors and Executive Officers

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

The Board

The Board consists of seven Directors. Six of these are not "interested persons," as defined in Section 2(a)(19) of the 1940 Act (the "Independent Directors"), and one is considered an "interested person" 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 "Interested Director"). The number of members of the Fund's Board may be changed by resolution of the Board.

Committees of the Board

The Board has three standing committees: the Audit Committee, the Dividend Committee and the Nominating Committee.

Audit Committee. The Board has adopted a written Audit Committee Charter, and 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 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 three members, Messrs. Cabrer, León and Pellot, all of whom are Independent Directors. The Independent Directors who are Audit Committee members are represented by independent legal counsel in connection with their duties. Mr. León serves as Chairman of the Audit Committee and audit committee financial expert. The Audit Committee met six (6) times during the fiscal year ended June 30, 2022.

Dividend Committee. 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 three members, Messrs. Cabrer and Pellot, who are Independent Directors, and Mr. Ubiñas, who is an Interested Director. The Dividend Committee did not meet during the fiscal year ended June 30, 2022. The Dividend Committee sets dividends by Unanimous Consent.

Nominating Committee. Pursuant to the adoption of a written charter, the Fund has created a Nominating Committee. The principal responsibilities of the Nominating Committee are to identify individuals qualified to serve as Independent Directors and to recommend its nominees for consideration by the full Board. The Nominating Committee has three members, all of whom are Independent Directors (currently, Messrs. Cabrer, Nido and Pellot). The Independent Directors who are Nominating Committee members are represented by independent legal counsel in connection with their duties. While the Nominating Committee is solely responsible for the selection and nomination of the Independent Directors, the Nominating Committee may consider nominations for the office of Director made by Fund shareholders as it deems appropriate. Shareholders who wish to recommend a nominee should send nominations to the Fund's Secretary that include biographical information and set forth the qualifications of the proposed nominee. The Nominating Committee evaluates nominees from whatever source using the same standard. The Nominating Committee did not meet during the fiscal year ended June 30, 2022.

Independent Directors

Certain biographical and other information relating to the Independent Directors is set forth below, including their ages and their principal occupations for at least five (5) years.

Messrs. Nido and Pellot and Mrs. Pérez are members of the boards of directors of all funds that have engaged UBS AMPR 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" or the "Fund Complex"). Messrs. Cabrer, León and Villamil are members solely of the board of directors of each of the UBS Advised Funds.

Name (Age) and Address*	Position (s) Held with the Fund	Term of Office and Length of Time Served**	Principal Occupation(s) During Past Five Years	Number of Affiliated Funds Overseen	Public Directorships (other than the Affiliated Funds)
Agustin Cabrer (73)	Lead Independent Director	Director since 2005	President of Antonio Roig Sucesores (land holding enterprise with commercial properties) since 1995; President of Libra Government Building, Inc. (administration of court house building) since 1997; President of Cabrer Consulting (financial services business); President of CC Development, LLC (construction supervision and management consulting) for the last five years; President of CC Development, LLC (construction supervision and management consulting) since 2021; and Director of V. Suarez & Co. (food and beverage distribution company) since 2002.	17 funds	None
Vicente León (83)	Director	Director since 2021	Independent business consultant since 1999.	17 funds	None
Carlos Nido (58)	Director	Director since 2007	President of Green Isle Capital LLC (a Puerto Rico venture capital fund under law 185 investing primarily in feature films and healthcare) since 2016.	24 funds	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 (other than the Affiliated Funds)
Luis M. Pellot (74)	Director	Director since 2005	President of Pellot-González, Tax Attorneys & Counselors at Law, PSC (legal services business) since 1989.	24 funds	None
Clotilde Pérez (71)	Director	Director since 2009	Consultant for Corporate Development of V. Suarez & Co., Inc. since 2022; Vice President Corporate Development Officer of V. Suarez & Co., Inc. (food and beverage wholesale distribution business) from 1999 until 2022.	24 funds	None
José J. Villamil (83)	Director	Director since 2021	Chairman of the Board and Chief Executive Officer of Estudios Técnicos, Inc. (consulting business) since 2005.	17 funds	None

* The address of the Independent Directors is c/o UBS Trust Company of Puerto Rico — 250 Muñoz Rivera Avenue, Tenth Floor, San Juan, Puerto Rico 00918.

** Each Independent Director serves until his successor is elected and qualified, or until his death or resignation, or removal as provided in the Fund's By-Laws or charter or by statute, or until December 31 of the year in which he or she turns 85.

Interested Directors and Officers

Certain biographical and other information relating to the Interested Director 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, if applicable. 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 (other than the Affiliated Funds)
Carlos V. Ubiñas (68)	Director, Chairman of the Board and President	President since 2015; Director and Chairman of the Board since 2005	Managing Director, Vice Chairman of Wealth Management and President of UBS Trust Company of Puerto Rico; Chief Executive Officer of UBS Financial Services Inc of Puerto Rico from 2009 to 2021; President of UBS Financial Services Inc. of Puerto Rico since 2005; Managing Director, Head of Asset Management and Investment Banking of UBS Financial Services Inc of Puerto Rico. since 2014.	17 funds	None
José Arias (57)	Senior Executive Vice President	Senior Executive Vice President since 2022	Managing Director of UBS Trust Company of Puerto Rico since 2020; Managing Director for Public Finance at UBS Financial Services Inc. from 2017 to 2020; Managing Director for Investment Banking at UBS Financial Services Inc. of Puerto Rico from 2000 to 2017.	N/A	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 (other than the Affiliated Funds)
Leslie Highley, Jr. (76)	Senior Vice President and Treasurer	Senior Vice President since 2005; Treasurer since 2006	Managing Director of UBS Trust Company of Puerto Rico; Senior Vice-President of UBS Financial Services Inc.; Senior Vice President of the Puerto Rico Investors Tax-Free Family of Funds; President of Dean Witter Puerto Rico, Inc. since 1989 and Executive Vice President of the Government Development Bank for Puerto Rico.	N/A	None
Javier Rodriguez (49)	Assistant Vice President and Assistant Treasurer	Assistant Vice President and Assistant Treasurer since 2005	Divisional Assistant Vice President, trader, and portfolio manager of UBS Trust Company of Puerto Rico since 2003.	N/A	None
Liana Loyola (61)	Secretary	Secretary since 2014	Attorney in private practice since 2009.	N/A	None
Luz Colon (47)	Chief Compliance Officer	Chief Compliance Officer since 2013	Executive Director and Chief Compliance Officer of UBS Asset Managers of Puerto Rico and the Funds; Co-CCO for the Puerto Rico Investors Family of Funds, which is co-managed by UBS Asset Managers of Puerto Rico and Banco Popular of Puerto Rico, from 2013 to 2021.	N/A	None
Heydi Cuadrado (42)	Assistant Vice President	Assistant Vice President since 2019	Director of UBS Trust Company of Puerto Rico since March 2012; Trader and Assistant Portfolio Manager for UBS Asset Managers of Puerto Rico since 2008.	N/A	None
Gustavo Románach (48)	Assistant Vice President	Assistant Vice President since 2019	Director of UBS Asset Managers of Puerto Rico since 2013; Associate Director Portfolio analyst & trader of UBS Asset Managers since 2009; Assistant Vice-President of UBS Asset Managers since 2003.	N/A	None

* The address of the Interested Director and Officers of the Fund is c/o UBS Trust Company of Puerto Rico, American International Plaza - Tenth Floor, 250 Muñoz Rivera Avenue, San Juan, Puerto Rico 00918.

** Each Director serves until his successor is elected and qualified, or until his death or resignation, or removal as provided in the Fund's By-Laws or charter or by statute, or until December 31 of the year in which he or she turns 85. Each Officer is elected by and serves at the pleasure of the Board.

Board Diversification and Director Qualifications.

In determining that a particular Director was qualified to serve on the Board, the Board has considered each Director's background, skills, experience and other attributes in light of the composition of the Board with no particular factor controlling. The Board believes that Directors need to have the ability to critically review, evaluate, question and discuss information provided to them, and to interact effectively with Fund management, service providers and counsel, in order to exercise effective business judgment in the performance of their duties, and the Board believes each Director satisfies this standard. An effective Director may achieve this ability through his or her educational background; business, professional training or practice; public service or academic positions; experience from service as a board member or executive of investment funds, public companies or significant private or not-for-profit entities or other organizations; and/or other life experiences. Accordingly, set forth below is a summary of the experiences, qualifications, attributes, and skills that led to the conclusion, as of the date of this document, that each Director should continue to serve in that capacity. References to the experiences, qualifications, attributes and skills of Directors are pursuant to requirements of the SEC, do not

constitute holding out of the Board or any Director as having any special expertise or experience and shall not impose any greater responsibility or liability on any such person or on the Board by reason thereof.

Luis M. Pellot. Mr. Pellot has been the President of Pellot-González, Tax Attorneys & Counselors at Law, PSC since 1989. He is also a member of the Puerto Rico Bar Association, Puerto Rico Manufacturers Association, Puerto Rico Chamber of Commerce, Puerto Rico General Contractors Association, Puerto Rico Hotel & Tourism Association and Hispanic National Bar Association and President of Tax Committee, Puerto Rico Chamber of Commerce from 1996 to 1997. He has been an Independent Director and member of the Audit Committee of the UBS Family of Funds since 2002.

Agustin Cabrer. Mr. Cabrer was the President of Starlight Development Group, Inc., a real estate development company, from 1995 to 2014. He is also the President of Antonio Roig Sucesores since 1995 (real estate development), a Partner of Desarrollos Roig since 1995, Desarrollos Agrícolas del Este S.E. since 1995, and El Ejemplo, S.E. since 1995 (real estate development). He is also a Partner, Pennock Growers, Inc. since 1998, Partner and Managing Director of RERBAC Holdings, LLP since 2004 (real estate development), Director of V. Suarez & Co. since 2002, V. Suarez Investment Corporation since 2002, V. Suarez International Banking Entity, Inc. since 2002, Villa Pedres, Inc. since 2002, and Caparra Motor Service since 1998, Director of TC Management from 2002 to 2013, Officer of Candelero Holdings & Management, Inc. from 2001 to 2013, 100% owner, President and Registered Principal (Agent) of Starlight Securities Inc. since 1995 (registered broker-dealer), former Member of the Board of Trustees of the University of Puerto Rico, Partner and Officer of Grupo Enersol, LLC since 2013 (solar photovoltaic developer), President of Libra Government Building, Inc. since 1997, Partner of Cometa 74, LLC since 1998, Vice-President of Candelario Point Partners, Inc. since 1998 and Officer of Marbella Development, Corp. from 2001 to 2014.

Vicente J. León. Mr. León has been an Independent Director of the Funds from 2008 to 2019 and since 2021, he oversees 17 funds. For the past five years, Mr. León is an independent business consultant and in 2020 and 2021 was a consultant to the Audit Committee of the Funds. He is a former Member and Vice Chairman of the Board of Directors and Chairman and Financial Expert of the Audit Committee of Triple S Management Corp. (a Public Company) from 2000 to 2012, past president of the Puerto Rico Society of Certified Public Accountants and a former Partner at KPMG LLP.

Carlos Nido. Mr. Nido has been the President of Green Isle Capital LLC, a Puerto Rico Venture Capital Fund under law 185 investing primarily in feature films and healthcare, since 2015. He is also President and Executive Producer of Piñolywood Studios LLC. He also serves as a member of the Board of Grupo Ferré Rangel, GFR Media, LLC, the UBS Puerto Rico family of Mutual Funds, B. Fernández & Hnos. Inc., Puerto Rico Ambulatory Surgery Center, and the San Jorge Children's Foundation; Member of the Advisory Board of Advent Morro Private Equity Funds. Former Senior Vice President of Sales of El Nuevo Día, President of Del Mar Events. He is the former President and founder of Virtual, Inc. and Zona Networks and General Manager of Editorial Primera Hora from 1997 until 1999.

Clotilde Pérez. Ms. Perez has been a Consultant for Corporate Development of V. Suarez & Co., Inc. since 2022; Vice President Corporate Development Officer of V. Suarez & Co., Inc. from 1999 to 2022; former Member of the Board of Trustee of the University of the Sacred Heart from 2005 to 2019; Member of the Board of Directors of Campofresco Corp. since 2012; former Member of the Board of Directors of Grupo Guayacan, Inc., EnterPrize, Inc. and Puerto Rico Venture Forum from 1999 to 2013; Vice President Venture Capital, PR Economic Development Bank from 1993-1996; and Associate Professor of Finance, University of Puerto Rico, Río Piedras Campus from 1987-1992.

Jose J. Villamil. Mr. Villamil is Chairman of the Board and Chief Executive Officer of Estudios Técnicos, Inc.; Member of the Board of Governors of United Way of Puerto Rico; Chairman of the Puerto Rico Manufacturer's Association's Committee on Competitiveness; Chairman of the Board of BBVA-PR from 1998 to 2012; founding Director of the Puerto Rico Community Foundation and the Aspen Institute's Non-Profit Sector Research Fund; former Member of the New York Federal Reserve Bank's Community Affairs Roundtable; former President of the Puerto Rico Chamber of Commerce, as well as former Chairman of its Economic Advisory Council; former President of the Inter-American Planning Society; former President of the Puerto Rico Economics Association; former Chairman of the Puerto Rico-2025 Commission (formerly, Alianza para el Desarrollo); former Chairman of the Commission on the Economic Future of Puerto Rico; former professor of the Economics Department of the University of Pennsylvania's Wharton School and Graduate School of Arts and Sciences and former Professor of Planning at the University of Puerto Rico. Mr. Villamil has served on numerous Boards such as, the Boards of the Ponce School of Medicine, St. John's School and the Ana G. Méndez University System, the Board of the National Puerto Rican Coalition in Washington, and on the Board of Economists of Hispanic Business. In 2009, Mr. Villamil was appointed as a Member of the Economic Advisory Council as well as Chairman of the Strategic Planning Committee of the State Human Resources and Occupational Development Council; Director of UBS Family of Funds from 2013-2019.

Carlos V. Ubiñas. Mr. Ubinas is Managing Director, Vice Chairman of Wealth Management and President of UBS Trust Company of Puerto Rico. Mr. Ubiñas was the Chief Executive Officer of UBS Financial Services Inc of Puerto Rico from 2009 to 2021.

He has also been the President of UBS Financial Services Inc of Puerto Rico since 2005 and the Managing Director, Head Asset Management and Investment Banking of UBS Financial Services Inc of Puerto Rico. since 2014. He was the Chief Operating Officer and Executive Vice President of UBS Financial Services Inc of Puerto Rico from 1989 to 2005.

Leadership Structure and Oversight Responsibilities of the Board

The Board is responsible for overseeing the Investment Adviser's management and operations of the Fund pursuant to an investment advisory contract (the "Advisory Agreement"). Directors also have significant responsibilities under the federal securities laws. Among other things, they

- oversee the performance of the Fund;
- monitor the quality of the advisory and shareholder services provided by the Investment Adviser;
- review annually the fees paid to the Investment Adviser for its services;
- monitor potential conflicts of interest between the Fund and the Investment Adviser;
- monitor distribution activities, custody of assets and the valuation of securities; and
- oversee the Fund's compliance program.

In performing their duties, Directors receive detailed information about the Fund and the Investment Adviser on a regular basis, and meet at least quarterly with management of the Investment Adviser to review reports relating to the Fund's operations. The Directors' role is to provide oversight and not to provide day-to-day management.

The Chairman of the Board is an interested person of the Fund as that term is defined under Section 2(a)(19) of the 1940 Act because of his affiliation with the Investment Adviser. The remaining Directors and their immediate family members have no affiliation or business connection with the Investment Adviser, the Fund's principal underwriter or any of their affiliated persons and do not own any stock or other securities issued by the Investment Adviser or the Fund's principal underwriter.

Mr. Ubiñas, the Chairman of the Board, is an Interested Director because of his affiliation with the Investment Adviser. The Independent Directors have designated Mr. Cabrer as the lead Independent Director. In that capacity, Mr. Cabrer generally acts as chairman of meetings or executive sessions of the Independent Directors and, when appropriate, represents the views of the Independent Directors to management. The Board has determined that its leadership structure is appropriate for the Fund because it enables the Board to exercise informed and independent judgment over matters under its purview, allocates responsibility among committees in a manner that fosters effective oversight and allows the Board to devote appropriate resources to specific issues in a flexible manner as they arise. The Board periodically reviews its leadership structure as well as its overall structure, composition and functioning and may make changes in its discretion at any time.

Risk Oversight by the Board

As mentioned above, the Board oversees the management of the Fund and meets at least quarterly with management of the Investment Adviser to review reports and receive information regarding the Fund's operations. Risk oversight relating to the Fund is one component of the Board's oversight and is undertaken in connection with the duties of the Board. As described above, the Board's committees assist the Board in overseeing various types of risks relating to the Fund. The Board receives reports from committees regarding their areas of responsibility and, through those reports and its interactions with management of the Investment Adviser during and between meetings, analyzes, evaluates and provides feedback on the Investment Adviser's risk management process. In addition, the Board receives information regarding, and has discussions with senior management of the Investment Adviser about, the Investment Adviser's risk management systems and strategies. The Fund's Chief Compliance Officer ("CCO") reports to the Board at least quarterly regarding compliance and legal risk concerns. In addition to quarterly reports, the CCO provides an annual report to the Board in accordance with the Fund's compliance policies and procedures. The CCO regularly discusses relevant compliance and legal risk issues affecting the Fund during meetings with the Independent Directors. The CCO updates the Board on the application of the Fund's compliance policies and procedures and discusses how they mitigate risk. The CCO also is in charge of reporting to the Board regarding any problems associated with the Fund's compliance policies and procedures that could expose the Fund to risk. There can be no assurance that all elements of risk, or even all elements of material risk, will be disclosed to or identified by the Board.

Compensation of 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 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 compensation earned by the Independent

Directors from the Fund for the fiscal year ended June 30, 2022 and the total compensation paid to them by the Affiliated Funds for the calendar year ended December 31, 2021

Name of Independent Director	Aggregate Compensation from Fund	Retirement Benefits Accrued	Annual Benefits Upon Retirement	Total Compensation from Affiliated Funds Paid to Independent Directors
Luis M. Pellot ⁽¹⁾⁽²⁾	\$6,778	N/A	N/A	\$190,250
Vicente J. León ⁽²⁾⁽³⁾⁽⁴⁾⁽⁵⁾	\$6,778	N/A	N/A	\$63,300
Agustin Cabrer ⁽²⁾⁽³⁾	\$6,778	N/A	N/A	\$120,000
Carlos Nido ⁽¹⁾	\$4,278	N/A	N/A	\$139,750
Clotilde Pérez ⁽¹⁾⁽²⁾	\$4,278	N/A	N/A	\$157,250
Jose J. Villamil ⁽³⁾⁽⁴⁾⁽⁵⁾	\$4,278	N/A	N/A	\$37,000

(1) Independent Director who also serves on the boards of the twenty-four Affiliated Funds.

(2) Ms. Perez is an Independent Director who serves on the Audit Committee of the UBS Co-Advised Funds. Messrs. Pellot, León and Cabrer are Independent Directors who serve on the Audit Committee of each of the UBS Advised Funds.

(3) Independent Director who also serves on the boards of the seventeen UBS Advised Funds.

(4) As provided in the Fund's By-Laws as of that date, Director retired at the end of the calendar year upon reaching eighty (80) years of age. Fund By-Laws have been amended to allow Directors to hold their positions until reaching eighty -five (85) years of age.

(5) Messrs. Villamil and León were appointed to the Board of Directors on May 18, 2021 and May 13, 2021, respectively.

Beneficial Ownership of Equity Securities in the Fund and Affiliated Funds by Each Director

The following table sets forth the dollar range of equity securities beneficially owned by each director as of June 30, 2022:

Name of Director	Dollar Range of Equity Securities in the Fund	Aggregate Dollar Range of Equity Securities in All Registered Investment Companies Overseen by Director in Affiliated Funds (including funds in the Fund Complex)
Luis M. Pellot	None	None
Vicente J. León	None	None
Agustin Cabrer	None	None
Clotilde Pérez	None	None
Carlos Nido	None	\$10,001 –\$50,000
Jose J. Villamil	None	None
Carlos V. Ubiñas	Over \$1,000,000	Over \$1,000,000

As of September 30, 2022, the directors of the Fund as a group beneficially owned an aggregate of less than 1% of the Fund's outstanding Shares. As of December 31, 2021, based on information provided by each of the Independent Directors, none of the Independent Directors or their immediate family members owned beneficially or of record any securities of the Investment Adviser, the Fund's principal underwriter or any person (other than a registered investment company) directly or indirectly controlling, controlled by or under common control with such entities.

None of the directors and officers of the Fund have entered into any material transactions with the Fund during the last two calendar years; 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.

Indemnification of Directors and Officers

The Fund has obtained directors' and officers' liability insurance for its Directors and Officers. The Fund's certificate of incorporation contains a provision that exempts Directors from personal liability for monetary damages to the Fund or its shareholders for violations of the duty of care, to the fullest extent permitted by the Puerto Rico General Corporation Law. The Fund has also agreed to indemnify its Directors and Officers for certain liabilities to the fullest extent permitted by Puerto Rico law. Pursuant to Section 17(h) of the 1940 Act, such indemnification of the Directors would not protect a Director from liability to the Fund or its shareholders from

liability that the Director would otherwise be subject to by reason of such Director's own bad faith, willful misfeasance, gross negligence or reckless disregard of his or her duties as a Director.

Management, Advisory and Other Service Arrangements

Investment Advisory Arrangements

Subject to the oversight of the Board, investment advisory services are provided to the Fund by the Investment Adviser, UBS Asset Managers of Puerto Rico, a division of UBS Trust Company of Puerto Rico, pursuant to the Advisory Agreement. As compensation for its investment advisory services and pursuant to the Advisory Agreement, the Fund pays the Investment Adviser an advisory fee at an annual rate of 0.50% of its average monthly net assets.

As of August 31, 2022, the Investment Adviser serves as investment adviser or co-investment adviser to funds with combined portfolio assets of approximately \$1.8 billion. UBS Trust Company of Puerto Rico, an affiliate of the Fund and UBS Financial Services Inc., is a trust company organized and validly existing under the laws of Puerto Rico.

The following table sets forth the management fee paid by the Fund for the last three fiscal years:

	Management Fee Net of Expense Reimbursement Paid		Expense Reimbursement	
Fiscal year ended June 30, 2022	\$	1,164,486	\$	1,805,050
Fiscal year ended June 30, 2021	\$	1,698,281	\$	2,563,486
Fiscal year ended June 30, 2020	\$	1,082,985	\$	0

Pursuant to the Advisory Agreement, the Investment Adviser is not 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 Fund's custodian unless (i) such action or omission involved an officer, director, employee or agent of the Investment Adviser, and (ii) such loss, expense, cost, or liability arises out of the Investment Adviser's gross negligence, willful malfeasance, bad faith or reckless disregard of the Investment Adviser's duties. The Investment Adviser may rely on any notice or communication (written or oral) reasonably believed by it to be genuine. These limitations shall 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 federal securities law which is not waivable.

Unless earlier terminated as described below, the Advisory Agreement is initially 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 the Independent Directors. The Advisory Agreement provides that it will terminate automatically if assigned (as defined in the 1940 Act). The Advisory Agreement also provides that it may be terminated without penalty (i) at any time by a unanimous vote of the Independent Directors, (ii) on 60 days' written notice by the Investment Adviser or (iii) on 60 days' written notice to the Investment Adviser by the vote of a majority of the outstanding voting securities of the Fund.

UBS Trust Company of Puerto Rico, the Fund's Administrator, and the Fund have entered into an Expense Limitation and Reimbursement Agreement (the "Expense Limitation Agreement"), whereby the Administrator will pay the Fund's other expenses in order to ensure that the Fund's net total operating expenses (excluding taxes, leverage, interest, brokerage commissions, dividends or interest expenses on short positions, acquired fund fees and expenses and extraordinary expenses) after fee waivers and/or expense reimbursements do not exceed 1.00% of average daily gross assets per annum. The Fund may have to repay some of these waivers and/or reimbursements during the following three years. Any such repayment period is limited to three years from the date of the waiver/reimbursement. Any repayment by the Fund to the Administrator must not cause the Fund's expenses, after the repayment is taken into account, to exceed (i) the expense limitation at the time the fees are waived and (ii) the expense limitation in effect at the time of such reimbursement. The Expense Limitation Agreement is effective through October 31, 2023, and may be terminated upon 30 days' notice by a majority of the Independent Directors of the Fund or by a vote of a majority of the outstanding voting securities of the Fund.

The Fund and the Investment Adviser have also entered into a Yield Floor agreement, whereby the Investment Adviser will pay Fund operating expenses and waive or reimburse its advisory fees as necessary so that the net operating expenses of the Fund do not exceed the Fund's income for any given day. The Fund may have to repay some of these waivers/reimbursements during the following three years. Any such repayment period is limited to three years from the date of the waiver/reimbursement. Any such repayment by the Fund to the Investment Adviser must not cause the Fund's expense ratio, after the repayment is taken into account, to exceed both (1) the expense cap in place at the time such amounts were waived, and (2) the Fund's current expense cap. Additionally, such repayment by the Fund to the Investment Adviser shall not cause the Fund's next distribution rate to be lower than the distribution

rate in effect at the time the expense was initially waived/reimbursed. The Yield Floor Agreement is effective through October 31, 2023 and may be terminated upon 30 days' notice by a majority of the Independent Directors of the Fund or by a vote of a majority of the outstanding voting securities of the Fund.

Information Regarding the Portfolio Managers

Leslie Highley, Jr., Javier Rodriguez and Heydi Cuadrado are the portfolio managers of the Fund and are primarily responsible for the day-to-day management of the Fund's portfolio.

Other Funds and Accounts Managed

The following table sets forth information about the funds and accounts other than the Fund for which the Fund's portfolio managers (the "Portfolio Managers" and in each case, a "Portfolio Manager") are primarily responsible for the day-to-day portfolio management as of June 30, 2022.

Portfolio Manager	Number of Other Accounts Managed and Assets by Account Type			Number of Other Accounts and Assets for Which Advisory Fee is Performance-Based		
	Other Registered Investment Companies	Other Pooled Investment Vehicles	Other Accounts	Other Registered Investment Companies	Other Pooled Investment Vehicles	Other Accounts
Leslie Highley, Jr.	23 \$1.6 billion	0 \$0	0 \$0	0 \$0	0 \$0	0 \$0
Javier Rodriguez	2 \$135 million	0 \$0	0 \$0	0 \$0	0 \$0	0 \$0
Heydi Cuadrado	0 \$0	0 \$0	0 \$0	0 \$0	0 \$0	0 \$0

Portfolio Manager Compensation Overview

The discussion below describes the Portfolio Manager's compensation as of June 30, 2022.

Portfolio Manager Compensation at the Investment Adviser

Portfolio Manager compensation consists primarily of base pay, an annual cash bonus and long term incentive payments.

Salary. Base pay is determined based upon an analysis of each Portfolio Manager's general performance, experience, and market levels of base pay for such position.

Bonus. Each Portfolio Manager is eligible for discretionary incentive compensation which is determined considering a number of factors, including, without limitation, individual performance relative to expectations and/or objectives as agreed with the respective manager, and the achievement of financial and non-financial objectives by the business area and UBS (and its parents, subsidiaries and affiliates, including without limitation UBS Group AG) and legal and/or regulatory obligations.

Deferred Compensation. UBS retains the right to pay any part of such incentive compensation as deferred compensation, in accordance with the terms and conditions of the UBS deferred compensation plans and award programs and the restrictions imposed by Section 409A of the U.S. Code (Section 409A). Certain key employees of the Investment Adviser, including certain portfolio managers, have received profits interests as deferred compensation, which entitle their holders to participate in the firm's growth over time.

Retirement Plans and arrangements. Employees of the Investment Adviser, including each Portfolio Manager, are eligible to participate in the Puerto Rico Savings Plus Plan. The employees can choose to contribute a percentage of their eligible compensation, from 1% to 85%. The employees can elect to contribute before-tax, after-tax, to a Roth 401(k) or to a combination of the three. UBS will match a percentage of an employee's eligible contribution. UBS will make additional retirement contributions on behalf of the employee, regardless of the employee contributions into the 401(k).

Portfolio Manager Beneficial Holdings

The following table shows the dollar range of securities owned beneficially and of record by each Portfolio Manager in the Fund and in all affiliated funds, including investments by his or her immediate family members and amounts invested through retirement and deferred compensation plans. This information is provided as of June 30, 2022.

<u>Name of Portfolio Manager</u>	<u>Dollar Range of Shares of the Fund</u>	<u>Dollar Range of Equity Securities in the Affiliated Investment Companies</u>
Leslie Highley, Jr.	\$10,001 – \$50,000	\$500,001 - \$1,000,000
Javier Rodriguez	None	None
Heydi Cuadrado	None	None

Portfolio Manager Potential Material Conflicts of Interest

Each Portfolio Manager’s management of the Fund’s portfolio and other accounts could result in conflicts of interest if the Fund’s portfolio and other accounts have different objectives, benchmarks and fees. In addition, each Portfolio Manager allocates his or her time and investment expertise across multiple accounts, including the Fund’s portfolio. The Investment Adviser manages such competing interests for the time and attention of each Portfolio Manager by having the Portfolio Manager focus on a particular investment discipline. Each Portfolio Manager manages the Fund’s portfolio and other accounts utilizing a model portfolio approach that groups similar accounts within a model portfolio. Each 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’s portfolio 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 employs allocation methods intended to provide fair and equitable treatment to all accounts over time. The Investment Adviser may execute orders for the same security for both the Fund’s portfolio 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’s portfolio and also for other clients advised by the Investment Adviser 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 the Investment Adviser 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. In such event, such transactions will be allocated among the clients of the Investment Adviser in a manner believed by the Investment Adviser to be equitable to each client. The investment results for the Fund may differ from the results achieved by other clients of the Investment Adviser and its affiliates and results among clients may differ. 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’s portfolio may be combined with those of other clients of the Investment Adviser and its affiliates in the interest of achieving the most favorable net results to the Fund’s portfolio. The Investment Adviser will not determine allocations based on whether it receives a performance-based fee from a particular client.

In some cases, a conflict may also arise where a Portfolio Manager owns an interest in one fund or account he or she manages and not another.

Administrator

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

Pursuant to an administration agreement with the Fund, the Administrator, subject to the overall supervision of the Board, provides facilities and personnel to the Fund in the performance of certain services including the determination of the Fund’s NAV and net income. The Administrator may enter into agreements with third parties to perform some or all of these tasks, subject to the oversight and ultimate responsibility of the Administrator. As compensation for its administration services to the Fund, the Administrator receives

an administration fee equal to 0.05% of the Fund's average monthly net assets, payable monthly. The fee paid to the Administrator by the Fund for the fiscal year ended June 30, 2022, was \$116,449.

The Administrator has delegated certain administrative duties with respect to the Fund to State Street Corporation ("State Street"). State Street is an American financial services and bank holding company headquartered in Boston with operations worldwide.

Independent Registered Public Accounting Firm.

Ernst & Young LLP (the "Auditor"), with offices located at One Manhattan West, New York, New York 10001, serves as the Fund's independent registered public accounting firm. The Auditor also provides income tax compliance services to the Fund.

Custodian

The Fund's securities and cash are held under a custody agreement between the Fund and UBS Trust Company of Puerto Rico, pursuant to which UBS Trust Company of Puerto Rico serves as custodian for the Fund's assets (in such capacity, the "Custodian"). As compensation for its custody services, the Custodian receives a fee as agreed from time to time with the Fund; such fee is 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. The Fund has retained State Street Bank and Trust Company to perform certain custody functions for the Fund. The fee paid to the Custodian for the fiscal year ended June 30, 2022, was \$32,605.

Transfer Agent and Registrar

Pursuant to the terms of the Transfer Agency, Registrar, and Shareholder Servicing Agreement between the Fund and UBS Trust Company of Puerto Rico, the latter is 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 receives a fee as agreed from time to time with the Fund. Such fee is 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 June 30, 2022 was \$43,210.

Distributor

UBS Financial Services Inc. (the "Distributor") serves as the distributor of the Shares. The Distributor acts as distributor of the Shares under a distribution agreement with the Fund ("Distribution Agreement") which requires the Distributor to use its best efforts, consistent with its other business, in selling Shares. Shares of the Fund are continuously offered. The Distributor has adopted a Code of Ethics.

The Investment Adviser may pay its affiliate, the Distributor, compensation in connection with the sale of Shares in consideration of distribution, marketing support and other services at an annual rate of 0.05% of the value of the net assets invested in the Fund to be paid on a quarterly basis (although the Distributor may choose not to receive such payments, or receive a reduced amount, on assets held in certain types of accounts or wrap fee advisory programs).

Prior to April 2022, the Fund had adopted a distribution plan (the "Plan") pursuant to Rule 12b-1 under the 1940 Act. Prior to July 31, 2021, the Fund had entered into an agreement with UBS Financial Services Inc., the Distributor's predecessor, pursuant to which the Fund had paid a distribution and service fee at the annual rate of 0.125% of its net assets. The Plan was terminated in April 2022. For the fiscal year ended June 30, 2022, the Fund paid an aggregate amount of \$247,838 in distribution and service fees.

Pricing of Shares

Computation of Offering Price Per Share

The offering price for a Share is equal to the Fund's NAV computed by dividing the value of the fund's net assets by the number of Shares outstanding. For more information about the valuation of the Shares, see "Valuation" in this prospectus.

Portfolio Transactions and Brokerage

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, it is often the case that the same investment decision is made for the Fund and one or more other accounts. In those cases, simultaneous transactions are inevitable. Purchases or sales are then 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 following table sets forth the aggregate amount of brokerage commissions paid by the Fund for the last three fiscal years:

	Brokerage Commissions Paid	Brokerage Commissions Paid to Affiliates and Affiliates of Affiliates
Fiscal year ended June 30, 2022	\$0	\$0
Fiscal year ended June 30, 2021	\$0	\$0
Fiscal year ended June 30, 2020	\$0	\$0

Tax Information

See “Dividends and Taxes” in the Fund’s prospectus.

Beneficial Owners

Principal Shareholders

As of October 7, 2022, there were no shareholders who beneficially owned more than 5% of the Fund’s Shares.

Proxy Voting Policies

The Board has delegated to the Investment Adviser the responsibility to vote proxies for the Fund’s portfolio securities pursuant to the Investment Adviser’s proxy voting guidelines and procedures (the “Proxy Voting Policy”).

The Investment Adviser shall submit to the Board for its review its Proxy Voting Policy. The Board shall review and determine that such Proxy Voting Policy and related procedures are reasonably designed to address conflicts of interest and to ensure that the Investment Adviser will vote all proxies in the best interests of the Fund's shareholders.

A Proxy Voting Committee, comprised of representatives of the Fund, will oversee and review the Investment Adviser's Proxy Voting Policy as well as receive any summary reports and update regarding proxies voted by the Investment Adviser.

The Fund believes that voting proxies in accordance with the Proxy Voting Policy of the Investment Adviser helps to ensure that 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 are made in the best interest of the Fund's shareholders. 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 Proxy Voting Policy of the Investment Adviser is not applied, or is not able to provide guidance 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 an 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 Investment Adviser to allow a vote to be cast by the voting deadline; or c) the Fund 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 Voting Policy of the Investment Adviser and any related procedures or voting guidelines, as may be amended from time to time, and copies of all 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 this Proxy Voting Policy and a record of how the Fund voted proxies, promptly on request.

If applicable, information regarding how the Fund voted proxies relating to portfolio securities during the most recent 12-month period ended June 30, 2022, is available without charge, upon request, by calling 1-787-250-3600 or from the Fund's website at www.ubs.com/prfunds, and on the SEC's website at <http://www.sec.gov>.

Portfolio Holdings Disclosure Policies and Procedures

The Investment Adviser has adopted policies and procedures with respect to the disclosure of the Fund's portfolio securities. These policies and procedures are designed to ensure that such disclosure is in the best interests of the Fund's shareholders. As a general matter, the Fund will not disclose (or authorize its Investment Adviser, transfer agent, Auditor, Administrator, Custodian or Distributor to disclose) portfolio holdings information to any person or entity except as follows:

- To persons providing services to the Fund who have a need to know such information in order to fulfill their obligations to the Fund, such as portfolio managers, administrators, custodians, pricing services, proxy voting services, accounting and auditing services, research and trading services, and the Board;
- In connection with periodic reports that are available to shareholders and the public;

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- Pursuant to a regulatory request or as otherwise required by law;
 - To persons approved in writing by the CCO; or
 - On the Fund's website. A complete listing of the Fund's holdings may be posted on the Fund's website on a periodic basis. Holdings will be posted with an "as-of date."

The Fund will disclose its portfolio holdings by mailing its annual and semi-annual reports to shareholders approximately two months after the end of the fiscal year and semi-annual period and in Form N-PORT, which is filed monthly with the SEC.

The Fund may choose to make portfolio holdings available to rating agencies such as Lipper, Morningstar or Bloomberg earlier and more frequently on a confidential basis.

Under limited circumstances, as described below, the Fund's portfolio holdings may be disclosed to, or known by, certain third parties in advance of their filing with the SEC on Form N-CSR or Form N-PORT. In each case, a determination has been made that such advance disclosure is supported by a legitimate business purpose and that the recipient is subject to a duty to keep the information confidential.

The Adviser. Personnel of the Investment Adviser, including personnel responsible for managing the Fund's portfolio, may have full daily access to Fund portfolio holdings because that information is necessary in order for the Investment Adviser to provide its management, administrative and investment services to the Fund. As required for purposes of analyzing the impact of existing and future market changes on the prices, availability, demand and liquidity of such securities, as well as for the assistance of the portfolio manager in the trading of such securities, Adviser personnel may also release and discuss certain portfolio holdings with various broker-dealers.

Transfer Agent, Auditor and Administrator. The transfer agent, Auditor and Administrator for the Fund have full daily access to the Fund's portfolio holdings because that information is necessary in order for each to provide the agreed-upon services for the Fund.

Custodians. Personnel of the Fund's Custodian have full daily access to the Fund's portfolio holdings because that information is necessary in order for them to provide the agreed-upon services for the Fund.

Independent Auditor. The Fund's Auditor and its personnel have access to the Fund's portfolio holdings in connection with auditing of the Fund's annual financial statements and providing assistance and consultation in connection with SEC filings.

Counsel. The Fund's counsel and counsel to the Fund's Independent Directors have access to the Fund's portfolio holdings in connection with the review of the Fund's annual and semi-annual shareholder reports and SEC filings.

Additions to List of Approved Recipients. The Fund's Chief Compliance Officer is the person responsible, and whose prior approval is required, for any disclosure of the Fund's portfolio securities at any time or to any persons other than those described above. In such cases, the recipient must have a legitimate business need for the information and must be subject to a duty to keep the information confidential. There are no ongoing arrangements in place with respect to the disclosure of portfolio holdings. In no event shall the Fund, the Investment Adviser or any other party receive any direct or indirect compensation in connection with the disclosure of information about the Fund's portfolio holdings.

Compliance with Portfolio Holdings Disclosure Procedures. The Fund's Chief Compliance Officer will report periodically to the Board with respect to compliance with the Fund's portfolio holdings disclosure procedures, and from time to time will provide the Board any updates to the portfolio holdings disclosure policies and procedures.

Financial Statements

The audited financial statements, financial highlights and notes thereto and the auditor's report thereon, appearing in the Fund's Annual Report for the fiscal year ended June 30, 2022 are incorporated by reference herein. Such reports include presentations and disclosures in accordance with guidance set forth by Regulation S-X. The Fund's Shareholder Reports may be obtained without charge by calling (787) 250-3600 or on the Fund's website at www.ubs.com/prfunds. The information contained in, or that can be accessed through, the Fund's website is not part of this SAI.

Additional Information

Common Stock

The Shares have no preemptive or conversion rights. Each Share has equal voting, dividend, distribution and liquidation rights. Shareholders of the Fund are entitled to one vote for each full Share held and fractional votes for fractional Shares held. 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.

Code of Ethics

The Board, on behalf of the Fund, the Investment Adviser and the principal underwriter have each adopted a code of ethics in compliance with Rule 17j-1 of the 1940 Act (each a "Code of Ethics"). Each Code of Ethics is designed to ensure, among other things, that all "Access Persons" conduct their personal securities transactions in a manner where shareholders' interests are placed first and foremost, and consistent with the law. Access Persons generally include all Directors and Officers of the Fund and the Investment Adviser, as well as certain employees and control persons of the Fund, Investment Adviser, Distributor or principal underwriter (or any company in a controlled relationship to the Fund and Investment Adviser) who have access to information regarding the purchase or sale of securities by the Fund.

Each Code of Ethics requires Access Persons to comply with various requirements in connection with the securities transactions by Access Persons, including obtaining prior written approval before purchasing, selling or transferring any security, subject to certain exceptions listed in the Code of Ethics. Each Code of Ethics identifies specific transactions which Access Persons are prohibited from executing. Each Code of Ethics also imposes on Access Persons certain confidentiality obligations, reporting obligations, limitations on outside business activities and certain other obligations. Each Code of Ethics requires all Access Persons (other than Access Persons who are Independent Directors) to submit: (1) an initial and subsequently an annual holdings report disclosing all reportable securities owned by the Access Person and any reportable securities accounts maintained by the Access Person (initial holdings reports must be filed within ten days of becoming a Access Person, Independent Directors are not required to file this report); (2) quarterly reports of security investment transactions and new securities accounts; and (3) an annual certification that they have read and understand the Code of Ethics, that they have complied with its requirements during the preceding year, and that they have disclosed or reported all personal transactions/holdings required to be disclosed or reported. Interested Directors of the Fund have additional reporting requirements.

The Code of Ethics can be viewed online or downloaded from the EDGAR Database on the SEC's internet web site at www.sec.gov.

Counsel

The law firm of DLA Piper (Puerto Rico) LLC, located at Ochoa Building Suite 401, 500 de la Tanca Street, San Juan, Puerto Rico, serves as counsel to the Fund.

Shareholder Communication to the Board

The Board has established a process for shareholders to communicate with the Board. Shareholders may contact the Board by mail. Correspondence should be addressed to UBS Puerto Rico Funds c/o Luz Colon, 1000 Harbor Boulevard, Weehawken, NJ 07086 or electronically at: PuertoRicoFundsAC@ubs.com. Shareholder communication to the Board should include the following information: (a) the name and address of the shareholder; (b) the number of shares owned by the shareholder and (c) if these shares are owned indirectly through a broker, financial intermediary or other record owner, the name of the broker, financial intermediary or other record owner. All correspondence received as set forth above shall be reviewed by the Secretary of the Fund and reported to the Board.

DEVELOPMENTS IN PUERTO RICO

Since 2013, the Puerto Rico bond market has experienced considerable volatility. Many Puerto Rico municipal securities continue to trade at lower prices on concerns about the Puerto Rico economy in general, and more specifically, the ongoing Puerto Rico debt restructurings, the effects of passage of Hurricanes Irma and María in September 2017, and the implementation of the fiscal plans adopted by the Puerto Rico Government in an attempt to reduce and eventually eliminate budgetary deficits.

In 2016, the Puerto Rico Oversight, Management, and Economic Stability Act (“PROMESA”) was signed into law. It provided for the creation of the Financial Oversight and Management Board for Puerto Rico (the “Oversight Board”), with broad powers designed to help the Commonwealth of Puerto Rico (the “Commonwealth”) balance its finances, restructure its debt, and ensure a return to the financial markets. As of May 1, 2017, the Oversight Board has filed five (5) petitions to commence cases under Title III of PROMESA in the U.S. District Court for the District of Puerto Rico (the “District Court”) with respect to all debt issued by the following government entities: the Commonwealth; the Puerto Rico Sales Tax Financing Corporation (“COFINA”); the Employees Retirement System of the Government of the Commonwealth of Puerto Rico (“ERS”); the Puerto Rico Highways and Transportation Authority (“PRHTA”); and the Puerto Rico Electric Power Authority (“PREPA”).

After years of mediation and negotiation, on February 9, 2020, the Oversight Board announced that it reached an agreement with certain bondholders of the Commonwealth on a substantially enhanced framework for the Plan of Adjustment to resolve \$35 billion of debt and non-debt claims. The new agreement reduced the Commonwealth’s debt service (including principal and interest from COFINA’s newly restructured bonds) by 56%, to \$39.7 billion from \$90.4 billion. Relative to the previous Commonwealth Plan Support Agreement (the “Commonwealth PSA”) that the Oversight Board reached with a smaller group of bondholders in 2019, this agreement reduced total debt service by an additional \$5 billion. Under the new Commonwealth PSA, the Commonwealth would, among others, (i) completely resolve its legacy debt in 20 years, a decade sooner than under the previous agreement (ii) reduce \$35 billion of the Commonwealth’s debt and other liabilities by 70% (to less than \$11 billion); and (iii) provide for a 29% average reduction for the bondholders of the Commonwealth’s General Obligations (“GO”) and a 23% average reduction for holders of Puerto Rico Public Buildings Authority bonds. Such creditors would receive \$10.7 billion in new debt (half in newly issued GO bonds and half in newly issued COFINA junior lien bonds) as well as \$3.8 billion in cash. Additionally, the Oversight Board agreed to settle its challenge of \$6 billion of certain bonds that the Oversight Board contended exceeded the Commonwealth’s constitutional debt limit.

The Plan of Adjustment was amended several times, and on January 18, 2022, the District Court approved the eighth amended Plan of Adjustment. The amended Plan of Adjustment was deemed effective and consummated on March 15, 2022. Upon the effectiveness of the amended Plan of Adjustment, the Commonwealth will only have to pay an average of \$666 million annually for debt service on newly issued GO bonds for the first 10 years, down from an average \$1.6 billion. In such regard and in accordance with the terms and conditions of the Plan, the Puerto Rico legislature had approved Act 53-2021, to issue new Commonwealth bonds in exchange for the existing debt covered by the Plan. For further information with respect to the Commonwealth and the restructuring of its debt, please refer to the AAFAF’s website at <http://www.aafaf.pr.gov/> and the Oversight Board’s website at <https://oversightboard.pr.gov/>.

With respect to the COFINA Title III case, COFINA, the Puerto Rico Fiscal Agency and Financial Advisory Authority (known by its Spanish initials “AAFAF”), the Oversight Board, and certain COFINA credit parties entered into a Plan Support Agreement (the “PSA”) on August 29, 2018, which provided for the apportionment of Puerto Rico’s sales and use tax between the Commonwealth and COFINA and the restructuring of COFINA’s debt. The PSA served as the basis for a plan of adjustment for the COFINA debt. COFINA’s Third Amended Plan of Adjustment (the “COFINA Plan”) was approved by the District Court on February 4, 2019 and went effective on February 12, 2019. Pursuant to the COFINA Plan, COFINA bondholders received newly issued COFINA bonds based on their creditor class. Under the COFINA Plan, the newly exchanged bonds are secured by 53.65% of the pledged sales and use tax through 2058, which amount to \$420 million for fiscal year 2019, and increase by 4% each year thereafter, capping out at \$992.5 million in fiscal year 2041. COFINA bondholders received approximately 93% of their senior COFINA principal bond holdings and approximately 56.40% of their subordinated COFINA principal bond holdings (such percentages include cash payments received by all COFINA bondholders).

With respect to the ERS Title III case, the most recent Plan of Adjustment (the “Plan of Adjustment”), which restructured most of the debt of the Commonwealth remaining in the Title III process of PROMESA and which included Pension Obligation Bonds issued by the Employees Retirement System of the Government of the Commonwealth of Puerto Rico (“ERS,” and the “ERS Bonds”), was approved by the U.S. Federal District Court on January 18, 2022. The Plan of Adjustment was subsequently declared effective and

consummated on March 15, 2022. The Plan of Adjustment incorporated the stipulation executed on April 2, 2021 between the Oversight Board and certain holders of ERS Bonds (the “ERS Stipulation”), which resolved the claims of the ERS bondholders and stayed all pending litigation pertaining to the ERS Bonds.

Under the ERS Stipulation, the holders of allowed claims on the ERS Bonds received a total of \$373 million in cash in settlement of their claims in respect of the ERS Bonds. They were also granted an interest in a trust holding a private equity portfolio owned by ERS (the “ERS Trust”). The Commonwealth has the option to purchase assets of the ERS Trust for \$70.75 million and if it fails to do so, the holders of ERS Bonds will have the option to purchase these assets. If neither option is exercised by April 10, 2023, the Commonwealth will be required to purchase the assets of the ERS Trust for \$70.75 million, which amount will then be distributed to the holders of allowed claims on the ERS Bonds. In addition, the holders of ERS Bonds who were parties to the ERS Stipulation (which includes the Fund) also received their pro rata share of \$75 million in consummation costs in connection with the negotiation and execution of the ERS Stipulation.

The ultimate total recovery to be received by the holders of ERS Bonds who were parties to the ERS Stipulation in settlement of the claims on the ERS Bonds of almost 14% (17% when considering the consummation costs) is a multiple of the less than 1% recovery proposed in the initial versions of the Plan of Adjustment. This represents a significant achievement that reflects the hard work and dedication undertaken by the investment companies advised by UBS Asset Managers of Puerto Rico, in defending the interests of their shareholders.

There can be no assurance that any additional defaults by the Commonwealth and other Commonwealth instrumentalities as well as future development with respect to the successful implementation of the amended Plan of Adjustment will not have an additional adverse impact on the Fund’s net investment income and its ability to declare and pay dividends in the future.

Most recently, the passage of Hurricane Fiona through Puerto Rico on September 18, 2022 has resulted in damages which are currently estimated to exceed \$2 billion. The entire electric grid in Puerto Rico failed after Hurricane Fiona came ashore as a Category 1 hurricane. Several rivers across Puerto Rico have burst over their banks. Rio Guanajibo near Hormigueros rose nearly 18 feet in about 16 hours since September 18, while Rio Cibuco at Vega Baja rose more than 10 feet, according to the U.S. National Weather Service. Currently, the Island is experiencing disruptions in its electric power and water services. Puerto Rico may face economic and revenue disruption in the near term and diminished output and revenue in the future. It remains too early to determine the full extent of damages and losses or the short and long-term economic effects post-Hurricane Fiona.

Fitch Ratings (“Fitch”), Moody’s Investors Service (“Moody’s”), and S&P Global Ratings (“S&P”) have downgraded GO bonds as well as the obligations of certain Commonwealth agencies and public corporations, including ERS, on numerous occasions. Most recently, Fitch downgraded the GOs to “D” (default) and its ratings for the Commonwealth as a bond issuer, to “RD” on July 6, 2016, and for ERS to “D” on July 20, 2017, respectively. S&P had previously downgraded ERS, to “C” on September 10, 2015, and subsequently the GOs, to “D” (default) on July 7, 2016, and the debt ratings for the Government Development Bank for Puerto Rico, to “D” (default) on September 8, 2016. Finally, Moody’s downgraded ERS, to “C” on April 5, 2017, and the GOs, to “Ca” on October 11, 2017. No ratings have been issued on the new bonds issued upon COFINA’s Title III restructuring. See Appendix B for further information regarding these ratings.

DISCLAIMER: The information contained herein is from sources believed reliable. While management of the Fund does not doubt its accuracy, the information has not been independently verified and Fund management makes no representation as to its accuracy or completeness.

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.

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.

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.

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', '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.