



US MORTGAGE-BACKED  
& INCOME FUND FOR  
PUERTO RICO RESIDENTS, INC.

**2023**  
**ANNUAL REPORT**



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# LETTER TO SHAREHOLDERS

October 20, 2023

Dear Shareholders:

The US Mortgage-Backed & Income Fund for Puerto Rico Residents, Inc. (the "Fund") is pleased to present this Letter to Shareholders for the fiscal year ended September 30, 2023.

The Federal Reserve Board (the "Fed") continued to tighten monetary policy during the Fund's fiscal year, albeit at a slower pace, as consumer price inflation decreased from the higher levels of 2022. The federal funds rate was raised a cumulative 2.25% during the fiscal year versus 3.00% in the fiscal year ended September 30, 2022. The federal funds rate was 5.25%-5.50% at year-end. The unemployment rate remained low during the year. Inflation, although lower, remains above the Fed's target.

The Fed did not increase the federal funds rate at its September 20, 2023, meeting. However, the economic projections released after the meeting and comments by Chairman Powell during the press conference signal that the Federal Open Markets Committee foresees interest rates remaining higher for a longer period of time. The markets were disappointed by the news, evidenced by the yield of the ten-year note increasing 0.22% from September 20, 2023, to September 29, 2023. All three major equity indexes, the Dow Jones, S&P 500, and NASDAQ have traded lower since the meeting.

The yield curve remained inverted during the year. The negative spread between the 2-year note and the 10-year note was 0.45% on September 30, 2022, and 0.47% on September 30, 2023. The yield on the 10-year note has risen to the highest levels in the last fifteen years.

Geopolitical risks remain highly elevated. The Russia Ukraine war remains at a standstill. Hamas' brutal surprise attack from Gaza across the border in Israel and Israel's forceful response threaten further de-stabilization in the Middle East. The toll on innocent civilians, already high, is expected to increase as the conflict evolves. Oil prices increased on fears the conflict could escalate in the region and US Treasury yields decreased due to a flight to safety. Volatility will likely remain high.

The combination of persistent higher inflation, an inverted yield curve, increased risks of a recession in the U.S., and elevated geopolitical risks continue to present a challenging environment for the management of the Fund. Notwithstanding, the Investment Adviser remains committed to seeking investment opportunities within the allowed parameters while providing professional management services to the Fund for the benefit of its shareholders.

Sincerely,

A handwritten signature in black ink, appearing to read "Leslie Highley, Jr.", written over the printed name.

Managing Director  
UBS Asset Managers of Puerto Rico,  
a division of UBS Trust Company of  
Puerto Rico, as Investment Adviser

*This letter is intended to assist shareholders in understanding how the Fund performed during the 12- month period ended September 30, 2023. The views and opinions in the letter were current as of October 20, 2023. They are not guarantees of future performance or investment results and should not be taken as investment advice. Investment decisions reflect a variety of factors, and we reserve the right to change our views about individual securities, sectors, and markets at any time. As a result, the views expressed should not be relied upon as a forecast of the Fund's future investment intent. We encourage you to consult your financial advisor regarding your personal investment program.*

# MANAGEMENT DISCUSSION OF FUND PERFORMANCE

## REGISTRATION UNDER THE INVESTMENT COMPANY ACT OF 1940

The Fund is a corporation organized under the laws of the Commonwealth of Puerto Rico (the “Commonwealth” or “Puerto Rico”) and is registered as a closed-end investment company under the Investment Company Act of 1940, as amended (the “1940 Act”), as of May 14, 2021. Prior thereto, the Fund was registered under the Puerto Rico Investment Companies Act of 1954, as amended.

On May 24, 2018, the Economic Growth, Regulatory Relief, and Consumer Protection Act (Pub. L. No. 115-174) was signed into law and amended the 1940 Act, to repeal the exemption from its registration of investment companies created under the laws of Puerto Rico, the U.S. Virgin Islands, or any other U.S. possession under Section 6(a)(1) thereof. The repeal of the exemption took effect on May 24, 2021. Upon registration under the 1940 Act, the Fund must now register its future offerings of securities under the Securities Act of 1933, as amended (the “1933 Act”), absent an available exception.

## FUND PERFORMANCE

The following table shows the Fund’s performance for the fiscal year ended September 30, 2023:

	<b><u>One Year</u></b>
Based on market price	5.08%
Based on net asset value	2.77%

Past performance is not predictive of future results. Performance calculations do not reflect any deduction of taxes that a shareholder may have to pay on Fund distributions or any commissions payable on the sale of Fund shares.

The following table provides summary data on the Fund’s dividends, net asset value (“NAV”) and market price as of the fiscal year-end:

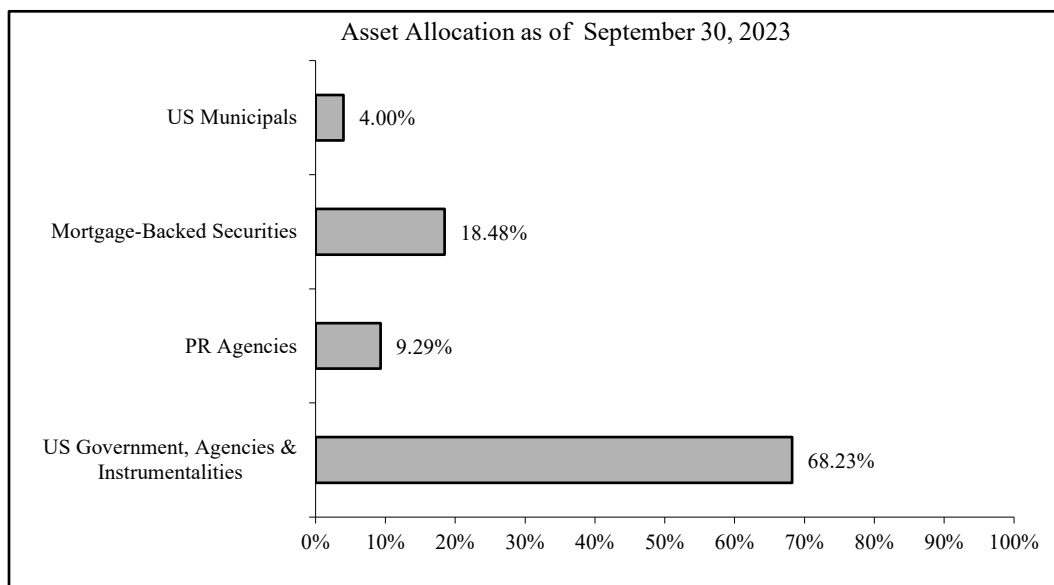
Dividend yield-based on market at year-end	7.29%
Dividend yield based on NAV at year-end	3.25%

NAV as of September 30, 2023	\$2.49
Market Price as of September 30, 2023	\$1.11
Premium (discount) to NAV	(55.4%)

The Fund seeks to pay monthly dividends out of its net investment income. To permit the Fund to maintain a more stable monthly dividend, the Fund may pay dividends that are more or less than the amount of net income earned during the year. The Fund dividends during the year were paid from current net investment income. Approximately \$143,011 in non-recurring income from a legal settlement received in June 2023 was not distributed during the year. The settlement was recorded as other income in the Statement of Operations. See Note 11 of the financial statements for more details.

The Fund's investment portfolio is comprised of four major investment classes consisting of Puerto Rico municipal bonds, mortgage-backed securities, U.S. government agencies and U.S. municipal securities. Many of the U.S. agency bonds and the Puerto Rico and U.S. municipal bonds have call dates prior to maturity. The duration of the Puerto Rico mortgage-backed securities (whose durations depend on the prepayment of the underlying mortgages) is shorter than the final maturity. UBS Asset Managers of Puerto Rico, a division of UBS Trust Company of Puerto Rico (the "Investment Adviser") considers numerous characteristics of each asset class, including duration, to meet the Fund's investment objective.

Figure 1 below reflects the breakdown of the investment portfolio as of September 30, 2023. For details of the security categories below, please refer to the enclosed Schedule of Investments.



The largest Puerto Rico securities holdings, representing 18.48% of the portfolio, are mortgage-backed securities ("MBS"), most of which are issued and guaranteed by U.S. agencies. The balance of the MBS decreased during the year due to repayments of the underlying residential mortgages and a decrease in the valuations due to the increase in interest rates across the yield curve.

The second largest Puerto Rico securities holdings, representing 9.29% of the portfolio, are new-issue Puerto Rico Sales Tax Financing Corporation ("COFINA")



bonds. The newly exchanged bonds are secured by 53.65% of the pledged sales and use tax through 2058, which amounts to \$511.2 million for fiscal year 2024, and a 4% increase each year, capping out at \$992.5 million in fiscal year 2041. The COFINA bonds 2022-2023 debt service reserve was fully funded during October 2022. Even though interest rates were higher during the year the overall valuation of the COFINA bonds increased during the year. COFINA sales tax collections have increased in Fiscal 2023-2024 versus last year. The COFINA collection report as of September 28, 2023, reported \$446.7 million or 87.4% of the \$511.2 million required transfer of COFINA revenues had been transferred to the trustee versus \$414.3 million last year. This represents a 7.8% increase in collections year over year. The debt service reserve is expected to be fully funded during October 2023.

The U.S. portfolio is composed of U.S. agencies and U.S. municipal bonds. The U.S. agencies represent 68.23% of the portfolio and the U.S. municipal bonds, which are comprised of Illinois General Obligation Bonds, represent 4.00%. Both the U.S. agencies and U.S. municipal bonds decreased in value based on the increase in yields during the year. Several higher yielding U.S. agency notes were purchased during the year. The rating of the Illinois General Obligation Bonds was upgraded during the year.

The NAV of the Fund decreased \$0.01 during the year from \$2.50 at the beginning of the year to \$2.49 at the fiscal year-end. The overall portfolio decreased in value based on the increase in yields of fixed income securities. This decrease was offset by the non-recurring other income from the legal settlement and other undistributed income. At year-end the Fund indicated market value was a 55.4% discount to its NAV, a slight decrease from the discount of 56.4% at year-end 2022.

## FUND HOLDINGS SUMMARIES

The following tables show the allocation of the portfolio using various metrics as of the end of the fiscal year. It should not be construed as a measure of performance for the Fund itself. The portfolio is actively managed, and holdings are subject to change.

### **Portfolio Composition (% of Total Portfolio)**

Sales and Use Tax	9.29%
Mortgage Certificates	2.06%
General Obligations	4.00%
U.S. Agencies	68.23%
Mortgage-Backed Securities	<u>16.42%</u>
Total	100.00%

### **Geographic Allocation (% of Total Portfolio)**

Puerto Rico	27.77%
U.S.	<u>72.23%</u>
Total	100.00%

The following table shows the ratings of the Fund's portfolio securities as of September 30, 2023. The ratings used are the highest rating given by one of the

three nationally recognized rating agencies, Fitch Ratings ("Fitch"), Moody's Investors Service (Moody's), and S&P Global Ratings (S&P). Ratings are subject to change.

<b>Rating</b> <b>(% of Total Portfolio)</b>	<b>Percent</b>
AAA	81.44%
A	4.00%
Below BBB	5.27%
Not Rated	<u>9.29%</u>
Total	100.00%

The not-rated category is comprised of the new-issue COFINA bonds issued in 2019. The bonds were issued without a rating from any of the rating agencies pending a determination by the Board of Directors of COFINA on the appropriate timing to apply for such rating. As of September 30, 2023, the COFINA Board had not applied for a rating.

This material is not intended to be a recommendation or investment advice, does not constitute a solicitation to buy, sell or hold a security or an investment strategy and is not provided in a fiduciary capacity. The information provided does not consider the specific objectives or circumstances of any particular investor or suggest any specific course of action. Investment decisions should be made based on an investor's objectives and circumstances and in consultation with his or her financial advisors. The views expressed herein are those of the Investment Adviser as of the date of this report. The Fund disclaims any obligation to update publicly the views expressed herein.

# FUND LEVERAGE

## THE BENEFITS AND RISKS OF LEVERAGE

As its fundamental policy, the Fund may only issue senior securities, as defined in the 1940 Act ("Senior Securities"), representing indebtedness to the extent that immediately after their issuance, the value of its total assets, less all the Fund's liabilities and indebtedness that are not represented by Senior Securities being issued or already outstanding, is equal to or greater than the total of 300% of the aggregate par value of all outstanding indebtedness issued by the Fund. The Fund may only issue Senior Securities representing preferred stock to the extent that immediately after any such issuance, the value of its total assets, less all the Fund's liabilities and indebtedness that are not represented by Senior Securities being issued or already outstanding, is equal to or greater than the total of 200% of the aggregate par value of all outstanding preferred stock (not including any accumulated dividends or other distributions attributable to such preferred stock) issued by the Fund. This asset coverage requirement must also be met any time the Fund pays a dividend or makes any other distribution on its issued and outstanding shares of common stock or any shares of its preferred stock (other than a dividend or other distribution payable in additional shares of common stock) as well as any time the Fund repurchases any shares of common stock, in each case after giving effect to such repurchase of shares of common stock or issuance of preferred stock, debt securities, or other forms of leverage in order to maintain asset coverage at the required 200% level. To the extent necessary, the Fund may purchase or redeem preferred stock, debt securities, or other forms of leverage in order to maintain asset coverage at the required 200% level. In such instances, the Fund will redeem Senior Securities, as needed, to maintain such asset coverage.

Subject to the above percentage limitations, the Fund may also engage in certain additional borrowings from banks or other financial institutions through reverse repurchase agreements. In addition, the Fund may also borrow for temporary or emergency purposes, in an amount of up to an additional 5% of its total assets.

Leverage can produce additional income when the income derived from investments financed with borrowed funds exceeds the cost of such borrowed funds. In such an event, the Fund's net income will be greater than it would be without leverage. On the other hand, if the income derived from securities purchased with borrowed funds is not sufficient to cover the cost of such funds, the Fund's net income will be less than it would be without leverage.

To obtain leverage, the Fund enters into collateralized reverse repurchase agreements with major institutions in the U.S. They are accounted for as collateralized borrowings in the financial statements. Typically, the Fund borrows for approximately 30-90 days at a variable borrowing rate based on short-term rates.

As of September 30, 2023, the Fund had the following leverage outstanding:

Reverse Repurchase Agreements	\$7,115,000
Leverage Ratio*	20.9%

Refer to the Schedule of Investments for details of the securities pledged as collateral and to Note 5 to the Financial Statements for further details on outstanding leverage during the year. Fund leverage increased by \$3,190,000 during the year.

\* Asset Leverage ratio: The aggregate principal amount of other borrowings by the Fund, including borrowings resulting from the issuance of any other series and other forms of leverage, and from the compliance date of Rule 18f-4 going forward, including borrowings in the form of reverse repurchase agreements, divided by the fair market value of the assets of the Fund on any given day.

**US MORTGAGE-BACKED & INCOME FUND FOR PUERTO RICO RESIDENTS, INC.**

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

**FINANCIAL HIGHLIGHTS**

		For the fiscal year ended September 30, 2023	For the fiscal year ended September 30, 2022	For the fiscal year ended September 30, 2021
<b>Increase (Decrease) in Net Asset Value:</b>				
<b>Per Share</b>	Net asset value applicable to common stock, beginning of period	\$ 2.50	\$ 2.81	\$ 2.94
<b>Operating</b>	Net investment income (a)	0.11	0.07	0.11
<b>Performance:</b>	Net realized gain (loss) and unrealized appreciation (depreciation) from investments and real estate owned (a)	(0.04)	(0.30)	(0.12)
	Total from investment operations	0.07	(0.23)	(0.01)
	Less: Dividends from net investment income to common shareholders	(0.08)	(0.08)	(0.12)
	Discount on repurchase of common stock	-	-	0.00*
	Net asset value applicable to common stock, end of period	\$ 2.49	\$ 2.50	\$ 2.81
	Market value, end of period (b)	\$ 1.11	\$ 1.09	\$ 2.19
<b>Total Investment Return:</b>	(b) (f) Based on market value per share	5.08%	(48.74)%	9.73%
	(f) Based on net asset value per share	2.77%	(8.37)%	0.09%
<b>Ratios:</b>	(c) (d) (e) Net expenses to average net assets applicable to common shareholders - net of waived fees	2.83%	2.37%	1.93%
	(c) (d) Gross expenses to average net assets applicable to common shareholders	3.48%	2.96%	2.67%
	(c) Gross operating expenses to average net assets applicable to common shareholders	2.53%	2.90%	2.58%
	(c) Interest and leverage related expenses to average net assets applicable to common shareholders	0.95%	0.06%	0.09%
	(c) (e) (h) Net investment income to average net assets applicable to common shareholders - net of waived fees	4.32%	2.60%	3.72%
<b>Supplemental Data:</b>	Net assets applicable to common shareholders, end of period (in thousands)	\$ 26,557	\$ 26,673	\$ 29,926
	(g) Portfolio turnover	2.21%	57.98%	9.72%
	(g) Portfolio turnover excluding the proceeds from calls and maturities of portfolio securities and the proceeds from mortgage-backed securities paydowns	0.00%	0.00%	0.35%

\* Discount on repurchase of common stock represents an amount that rounds to zero.

- (a) Based on average outstanding common shares of 10,654,274, 10,644,730, and 10,634,126 for the fiscal years ended September 30, 2023, September 30, 2022, and September 30, 2021, respectively.
- (b) Period end market values provided by UBS Financial Services, Inc., a dealer of the Fund's shares and an affiliated party. The market values shown may reflect limited trading in shares of the Fund.
- (c) Based on average net assets applicable to common shareholders of \$27,522,908, \$29,212,220, and \$30,792,086 for the fiscal years ended September 30, 2023, September 30, 2022, and September 30, 2021, respectively.
- (d) Expenses include both operating and interest and leverage related expenses.
- (e) The effect of the expenses waived for the fiscal years ended September 30, 2023, September 30, 2022, and September 30, 2021 was to decrease the expense ratios, thus increasing the net investment ratio to average net assets by 0.65%, 0.59%, and 0.74%, respectively.
- (f) Dividends are assumed to be reinvested at the per share market value or net asset value as defined in the dividend reinvestment plan.
- (g) Portfolio turnover calculation excludes transactions related to the restructuring of Employee Retirement System Bonds which became effective on March 15, 2022.
- (h) Net investment income ratio for the fiscal year ended September 30, 2023, includes a legal settlement received which was classified as Other Income in the Statement of Operations. See Note 11 for more information.

The accompanying notes are an integral part of these financial statements.

## SCHEDULE OF INVESTMENTS

September 30, 2023

Face Amount		Issuer	Coupon	Maturity Date	Value
<b>Puerto Rico Agencies Bonds and Notes - 9.76% of net assets applicable to common shareholders, total cost of \$2,863,704</b>					
\$ 111,000	H	Puerto Rico Sales Tax	4.50%	07/01/34	\$ 106,860
56,000	H	Puerto Rico Sales Tax	4.55%	07/01/40	51,524
411,000	H	Puerto Rico Sales Tax	4.75%	07/01/53	363,349
1,255,000	H	Puerto Rico Sales Tax	5.00%	07/01/58	1,135,252
570,000	H	Puerto Rico Sales Tax	4.33%	07/01/40	510,528
17,000	H	Puerto Rico Sales Tax	4.54%	07/01/53	14,501
469,000	H	Puerto Rico Sales Tax	4.78%	07/01/58	409,364
<u>\$ 2,889,000</u>					<u>\$ 2,591,378</u>
<b>Puerto Rico Agencies Zero Coupons Bonds - 1.94% of net assets applicable to common shareholders, total cost of \$598,591</b>					
\$ 1,181,000	J	Puerto Rico Sales Tax	0.00%	07/01/46	\$ 304,448
1,143,000	J	Puerto Rico Sales Tax	0.00%	07/01/51	211,752
<u>\$ 2,324,000</u>					<u>\$ 516,200</u>
<b>Principal Outstanding Amount</b>					
<b>Puerto Rico Collateralized Mortgage Obligations Taxable - 2.62% of net assets applicable to common shareholders, total cost of \$854,756</b>					
\$ 8,633	A G	CSMC Series 2007-5 Class AM	5.86%	08/25/37	\$ 6,141
845,068	F G	Doral Financial Participation Certificate 2004 Series A	6.69%	12/01/31	688,984
<u>\$ 853,701</u>	B				<u>\$ 695,125</u>
<b>Puerto Rico Collateralized Non Conforming Mortgage Obligations Taxable- 4.02% of net assets applicable to common shareholders, total cost of \$1,375,591</b>					
\$ 760,554	F G	R&G Non Conforming Mortgage Loan Trust Series 2004-A	4.86%	05/01/34	\$ 579,922
477,217	F G	R&G Non Conforming Mortgage Loan Trust Series 2004-B	5.40%	05/01/34	377,300
77,636	F G	R&G Non Conforming Mortgage Loan Trust Series 2005-C	6.00%	09/01/34	61,866
60,184	F G	R&G Non Conforming Mortgage Loan Trust Series 2005-D	6.25%	10/01/34	47,432
<u>\$ 1,375,591</u>	B				<u>\$ 1,066,520</u>
<b>Puerto Rico GNMA Taxable - 1.20% of net assets applicable to common shareholders, total cost of \$319,346</b>					
\$ 216,985		GNMA Pool 592858	6.00%	12/15/35	\$ 215,577
3,699		GNMA Pool 618198	6.50%	11/15/24	3,621
98,661		GNMA Pool 618199	6.50%	11/15/34	99,309
<u>\$ 319,345</u>	C				<u>\$ 318,507</u>
<b>Puerto Rico FNMA Taxable - 14.04% of net assets applicable to common shareholders, total cost of \$3,687,196</b>					
\$ 97,603		FNMA Pool 758514	6.00%	01/01/34	\$ 96,360
45,039		FNMA Pool 758520	5.50%	02/01/34	43,644
57,299		FNMA Pool 758521	6.50%	02/01/34	57,665
68,179		FNMA Pool 758544	5.50%	05/01/34	66,040
1,215,701		FNMA Pool 835565	6.00%	10/01/35	1,236,082
476,101		FNMA Pool 905018	6.00%	05/01/37	483,908
852,288		FNMA Pool 905048	6.00%	07/01/37	865,721
32,857		FNMA Pool 682079	6.00%	11/01/32	33,125
620,018		FNMA Pool 747044	5.50%	03/01/34	617,250
21,876		FNMA Pool 758560	6.00%	08/01/34	21,620
210,193		FNMA Pool 887184	6.00%	06/01/36	208,073
<u>\$ 3,697,154</u>	D				<u>\$ 3,729,488</u>
<b>Puerto Rico Freddie Mac Taxable - 1.39% of net assets applicable to common shareholders, total cost of \$371,820</b>					
\$ 96,927		FHLMC Pool A50587	6.50%	06/01/36	\$ 97,526
188,140		FHLMC Pool A51301	6.00%	07/01/36	186,252
86,755		FHLMC Pool A51302	6.00%	06/01/36	85,770
<u>\$ 371,822</u>	E				<u>\$ 369,548</u>
<b>Face Amount</b>					
<b>US Government, Agency and Instrumentalities - 85.91% of net assets applicable to common shareholders, total cost of \$25,650,003</b>					
\$ 4,000,000		Federal Farm Credit	2.75%	04/22/41	\$ 2,694,840
2,000,000		Federal Farm Credit	5.05%	08/18/42	1,789,156
3,600,000		Federal Farm Credit	4.85%	04/28/42	3,172,568
10,500,000	I	Federal Farm Credit	5.48%	06/27/42	9,758,238
1,200,000		Federal Farm Credit	6.00%	01/25/38	1,160,000
2,350,000	I	Federal Farm Credit	6.47%	09/11/43	2,336,079
1,000,000		Federal Home Loan Bank	5.20%	09/28/37	926,102
1,000,000		Federal Home Loan Bank	6.30%	10/06/42	978,170
<u>\$ 25,650,000</u>					<u>\$ 22,815,153</u>
<b>US Municipals - 5.04% of net assets applicable to common shareholders, total cost of \$1,285,714</b>					
\$ 1,285,714		State of Illinois General Obligations	7.35%	07/01/35	\$ 1,339,195
<b>Total investments (125.92% of net assets applicable to common shareholders)</b>					<b>\$ 33,441,114</b>
<b>Other Assets and Liabilities net (-25.92% of net assets applicable to common shareholders)</b>					<b>(6,883,639)</b>
<b>Net assets applicable to common shareholders - 100%</b>					<b>\$ 26,557,475</b>

The accompanying notes are an integral part of these financial statements.

**Securities sold under reverse repurchase agreements - 26.79% of net assets applicable to common shareholders**

<u>\$</u>	<u>7,115,000</u>	Reverse Repurchase Agreements with South Street Securities 5.65% dated September 11, 2023, due October 10, 2023 (Collateralized by US Government, Agencies and Instrumentalities with a face value of \$7,797,000 and a fair value of \$7,398,281; 5.48 - 6.47%, with maturity dates from June 27, 2042, to September 11, 2043)	<u>\$</u>	<u>7,115,000</u>
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- A The Credit Suisse CMO is comprised of one subordinate tranche of a securitization.
- B Certificates are collateralized by residential mortgage loans. They are subject to pre-payments or refinancing of the underlying mortgage instruments. As a result, the average life may be substantially less than the original maturity.
- C GNMA - represents mortgage-backed obligations guaranteed by the Government National Mortgage Association. They are subject to principal paydowns as a result of pre-payments or refinancing of the underlying mortgage instruments. As a result, the average life may be substantially less than the original maturity.
- D FNMA - represents mortgage-backed obligations guaranteed by the Federal National Mortgage Association. They are subject to principal paydowns as a result of pre-payments or refinancing of the underlying mortgage instruments. As a result, the average life may be substantially less than the original maturity.
- E FHLMC - represents mortgage-backed obligations guaranteed by the Federal Home Loans Mortgage Corporation. They are subject to principal paydowns as a result of pre-payments or refinancing of the underlying mortgage instruments. As a result, the average life may be substantially less than the original maturity.
- F Private placement.
- G Significant unobservable inputs were used in the valuation of these securities and are classified as Level 3. See Note 1 for further information.
- H Revenue Bonds - issued by agencies and payable from revenues and other sources of income of the corresponding agency as specified in the applicable prospectus. These bonds are not obligations of the Commonwealth of Puerto Rico.
- I A portion or all of the security has been pledged as collateral for securities sold under reverse repurchase agreements.
- J Issued with a zero coupon. Income is recognized through the accretion of discount.

The accompanying notes are an integral part of these financial statements.

**US Mortgage-Backed & Income Fund for Puerto Rico Residents, Inc.****STATEMENT OF ASSETS AND LIABILITIES****September 30, 2023**

<b>Assets:</b>	Investments in securities:		
	Securities pledged as collateral on reverse repurchase agreements at value, which has the right to be repledged (identified cost - \$7,797,000)	\$	7,398,281
	Other securities, at value (identified cost - \$29,209,721)		<u>26,042,833</u>
		\$	<u>33,441,114</u>
	Cash		202,854
	Interest receivable		419,992
	Prepaid expenses and other assets		<u>7,467</u>
	Total assets		<u>34,071,427</u>

<b>Liabilities:</b>	Securities sold under reverse repurchase agreements		7,115,000
	Dividends payable to common shareholders		75,502
	Directors fee payable		6,000
	Payables:		
	Interest and leverage expenses	21,560	
	Investment advisory fees	6,835	
	Administration, custody, and transfer agent fees	<u>4,428</u>	32,823
	Accrued expenses and other liabilities		<u>284,627</u>
	Total liabilities		<u>7,513,952</u>

**Net Assets Applicable to Common Shareholders:** \$ 26,557,475

**Net Assets Applicable to  
Common Shareholders**

<b>consist of:</b>	Paid-in-Capital (\$0.01 par value, 88,000,000 shares authorized, 10,659,049 issued and outstanding)	\$	134,286,485
	Total Distributable Earnings (Accumulated Loss) (See Notes 1 and Note 9)		<u>(107,729,010)</u>
	Net assets applicable to common shareholders	\$	<u>26,557,475</u>
	Net asset value applicable to common shares - per share; 10,659,049 shares outstanding	\$	<u>2.49</u>

The accompanying notes are an integral part of these financial statements.



**US Mortgage-Backed & Income Fund for Puerto Rico Residents, Inc.****STATEMENT OF OPERATIONS****For the fiscal year  
ended September 30,  
2023**

<b>Investment Income:</b>	Interest	\$	1,824,834
	Other Income		143,011
		\$	<u>1,967,845</u>
<b>Expenses:</b>	Interest and leverage related expenses		261,163
	Investment advisory fees		244,722
	Administration, custody, and transfer agent fees		69,448
	Professional fees		221,877
	Directors' fees and expenses		30,357
	Insurance expense		22,781
	Mortgage servicing fees		38,490
	Reporting fees		34,209
	Other		35,664
	Total expenses		<u>958,711</u>
	Waived investment advisory, administration, custodian, and transfer agent fees		<u>(179,648)</u>
	Net expenses after waived fees by investment adviser, administration, custodian and transfer agent		<u>779,063</u>
<b>Net Investment Income:</b>			<u>1,188,782</u>
<b>Realized Gain (Loss) and Unrealized Appreciation (Depreciation) on Investments:</b>	Net realized gain (loss) on investments		501,224
	Change in net unrealized appreciation (depreciation) on investments		<u>(969,478)</u>
	Total net realized and unrealized gain (loss) on investments		<u>(468,254)</u>
	<b>Net increase (decrease) in net assets resulting from operations</b>	\$	<u>720,528</u>

The accompanying notes are an integral part of these financial statements.

# US Mortgage-Backed & Income Fund for Puerto Rico Residents, Inc.

## STATEMENTS OF CHANGES IN NET ASSETS

		For the fiscal year ended September 30, 2023	For the fiscal year ended September 30, 2022
<b>Increase (Decrease) in Net Assets:</b>			
	Net investment income	\$ 1,188,782	\$ 758,273
	Net realized gain (loss) on investments and swaps	501,224	(13,806,919)
	Net realized gain (loss) on real estate owned	-	(1,500)
	Change in unrealized appreciation (depreciation) on investments	(969,478)	10,537,523
	Change in unrealized appreciation (depreciation) on real estate owned	-	92,216
	Net increase (decrease) in net assets resulting from operations	<u>720,528</u>	<u>(2,420,407)</u>
<b>Dividends to Common Shareholders From:</b>			
	Net investment income	<u>(861,254)</u>	<u>(860,443)</u>
<b>Capital Share Transactions:</b>			
	Reinvestment of dividends on common shares	25,368	27,500
	Repurchase of common shares	<u>-</u>	<u>-</u>
		<u>25,368</u>	<u>27,500</u>
<b>Net Assets:</b>			
	Net increase (decrease) in net assets applicable to common shareholders	(115,358)	(3,253,350)
	Net assets at the beginning of the year	<u>26,672,833</u>	<u>29,926,183</u>
	Net assets at the end of the year	<u>\$ 26,557,475</u>	<u>\$ 26,672,833</u>

The accompanying notes are an integral part of these financial statements.

# US Mortgage-Backed & Income Fund for Puerto Rico Residents, Inc.

## STATEMENT OF CASH FLOWS

For the fiscal  
year ended  
September 30,  
2023

### Increase (Decrease) in Cash

<b>Cash Used in Operations:</b>	Net increase (decrease) in net assets from operations	\$ 720,528
	Adjusted by:	
	Purchases of portfolio securities	(4,550,000)
	Proceeds from restructuring of Employees Retirement System Bonds	1,774
	Legal fees related to Puerto Rico bond restructurings	609
	Doral bankruptcy claim	19,784
	Calls and paydowns of portfolio securities	715,144
	Net realized gain on investments	(501,224)
	Change in unrealized (appreciation) depreciation on investments	969,478
	Amortization and accretion of premiums and discounts on investments	(32,429)
	Increase in interest receivable	(48,842)
	Decrease in Plan of Adjustment (Private Equity Portfolio) receivable	376,894
	Decrease in prepaid expenses and other assets	2,651
	Increase in interest payable	16,792
	Increase in investment advisory fees payable	478
	Decrease in administration, custody, and transfer agent fees payable	(1,032)
	Increase in accrued expenses and other liabilities	45,252
	Total cash used in operations	<u>(2,264,143)</u>

### Cash Provided by Financing Activities:

Securities sold under reverse repurchase agreements proceeds	64,376,000
Securities sold under reverse repurchase agreements repayments	(61,186,000)
Dividends to common shareholders paid in cash	(826,941)
Total cash provided by financing activities	<u>2,363,059</u>

<b>Cash:</b>	Net increase (decrease) in cash for the year	98,916
	Cash at the beginning of the year	<u>103,938</u>
	Cash at the end of the year	<u>202,854</u>

### Cash Flow Information:

Cash paid for interest and leverage related expenses	\$ 244,371
Non-cash activities-dividends reinvested by common shareholders	<u>\$ 25,368</u>

The accompanying notes are an integral part of these financial statements.

# US Mortgage-Backed & Income Fund for Puerto Rico Residents, Inc.

## Notes to Financial Statements

### September 30, 2023

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#### 1. Reporting Entity and Significant Accounting Policies

US Mortgage-Backed & Income for Puerto Rico Residents, Inc. (the "Fund") is a non-diversified closed-end management investment company. The Fund is a corporation organized under the laws of the Commonwealth of Puerto Rico (the "Commonwealth" or "Puerto Rico") and is registered as an investment company under the Investment Company Act of 1940, as amended (the "1940 Act") as of May 14, 2021. Prior to such date and since inception, the Fund was registered and operated under the Puerto Rico Investment Companies Act of 1954. The Fund was incorporated on October 13, 2004, and commenced operations on November 3, 2004. UBS Asset Managers of Puerto Rico, a division of UBS Trust Company of Puerto Rico ("UBSTC"), is the Fund's Investment Adviser (the "Investment Adviser"). UBSTC is also the Fund's Administrator ("Administrator").

The Fund's investment objective is to provide current income, consistent with the preservation of capital.

On May 24, 2018, the Economic Growth, Regulatory Relief, and Consumer Protection Act (Pub. L. No. 115-174) was signed into law and amended the 1940 Act, to repeal the exemption from its registration of investment companies created under the laws of Puerto Rico, the U.S. Virgin Islands, or any other U.S. possession under Section 6(a)(1) thereof. The repeal of the exemption took effect on May 24, 2021. Upon the Fund's registration under the 1940 Act, it must now register its future offerings of securities under the Securities Act of 1933, as amended (the "1933 Act"), absent an available exception.

Certain charter provisions of the Fund might be void and unenforceable under the 1940 Act including, without limitation, provisions (i) permitting indemnification of officers and directors to the fullest extent permitted by Puerto Rico law, (ii) setting forth the required vote for changes to fundamental policies of the Fund, and (iii) stating that, to the fullest extent permitted by Puerto Rico law, no officer or director will be liable to the Fund or shareholders.

The following is a summary of the Fund's significant accounting policies:

#### **Use of Estimates in Financial Statements Preparation**

The Fund is an investment company that applies the accounting and reporting guidance applicable to investment companies in the Financial Accounting Standards Board (FASB) Accounting Standards Codification Topic 946, Financial Services-Investment Companies (ASC 946). The financial statements are prepared in accordance with U.S. generally accepted accounting principles ("GAAP"), which requires management to make certain estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of income and expenses during the reporting period. Actual results could differ from those estimates.

#### **Net Asset Value Per Share**

The net asset value ("NAV") per share of the Fund is determined by the Administrator on Wednesday of each week after the close of trading on the New York Stock Exchange (NYSE) or, if such day is not a business day in New York or Puerto Rico, on the next succeeding business day, and at month-end if such date is not a Wednesday. The NAV per share is computed by dividing the total assets of the Fund, less its liabilities, by the total number of outstanding shares of the Fund.

#### **Valuation of Investments**

All securities are valued by UBSTC on the basis of valuations provided by pricing services or by dealers which were approved by Fund management and the Board of Directors. In arriving at their valuation, pricing sources may use both a grid matrix of securities values as well as the evaluations

**US Mortgage-Backed & Income Fund for Puerto Rico Residents, Inc.**  
**Notes to Financial Statements**  
**September 30, 2023**

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of their staff. The valuation, in either case, could be based on information concerning actual market transactions and quotations from dealers or a grid matrix performed by an outside vendor that reviews certain market and security factors to arrive at a bid price for a specific security. Certain Puerto Rico obligations have a limited number of market participants and thus, might not have a readily ascertainable market value and may have periods of illiquidity. Certain securities of the Fund for which quotations are not readily available from any source are valued at fair value by or under the direction of the Investment Adviser utilizing quotations and other information concerning similar securities obtained from recognized dealers. The Investment Adviser can override any price that it believes is not consistent with market conditions. Valuation adjustments are limited to those necessary to ensure that the financial instrument's fair value is adequately representative of the price that would be received or paid in the marketplace. These adjustments include amounts that reflect counterparty credit quality, constraints on liquidity, and unobservable parameters that are applied consistently.

The Investment Adviser has established a Valuation Committee (the "Committee") which is responsible for overseeing the pricing and valuation of all securities held in the Fund. The Committee operates under pricing and valuation policies and procedures established by the Investment Adviser and approved by the Board of Directors. These policies and procedures set forth the mechanisms and processes to be employed on a weekly basis related to the valuation of portfolio securities for the purpose of determining the NAV of the Fund. The Committee reports to the Board of Directors on a regular basis. At September 30, 2023, no security's fair value was determined by the Committee.

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

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

Securities and other assets that cannot be priced according to the methods described above are valued based on policies and procedures approved by the Committee. In the event that unobservable inputs are used when determining such valuations, the securities will be classified as Level 3 in the fair value hierarchy. Altering one or more unobservable inputs may result in a significant change to a Level 3 security's fair value measurement. The Fund maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the observable inputs be used when available. Fair value is based upon quoted market prices when available.

The estimated fair value may be subjective in nature and may involve uncertainties and matters of significant judgment for certain financial instruments. Changes in the underlying assumptions used

# US Mortgage-Backed & Income Fund for Puerto Rico Residents, Inc.

## Notes to Financial Statements

### September 30, 2023

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in calculating fair value could significantly affect the results. Therefore, the estimated fair value may materially differ from the value that could actually be realized on sale.

The inputs and methodology used for valuing securities or level assigned are not necessarily an indication of the risk associated with investing in those securities.

Following is a description of the Fund's valuation methodologies used for assets and liabilities measured at fair value:

***Puerto Rico Agencies, Bonds, and Notes:*** Obligations of Puerto Rico and political subdivisions are segregated and those with similar characteristics are then divided into specific sectors. The values for these securities are obtained from third-party pricing service providers that use a pricing methodology based on observable market inputs. Market inputs used in the evaluation process include all or some of the following: trades, bid price or spread, quotes, benchmark curves (including, but not limited to, Treasury benchmarks and swap curves), and discount and capital rates. These bonds are classified as Level 2.

***Mortgage and Other Asset-Backed Securities:*** Fair value for these securities is mostly obtained from third-party pricing service providers that use a pricing methodology based on observable market inputs. Certain agency mortgage and other asset-backed securities ("MBS") are priced based on a bond's theoretical value from similar bonds, the term "similar" being defined by credit quality and market sector. Their fair value incorporates an option adjusted spread. The agency MBS are classified as Level 2.

***Puerto Rico Collateralized Mortgage Obligations ("CMOs"):*** Pricing for this security is obtained from an independent firm using models that calculate the present value of expected future cash flows. Those models incorporate estimates that market participants would use in determining fair value, including estimates of prepayment speeds, credit losses, and discount rates. CMO is classified as Level 3.

***R&G Non-Conforming Mortgage Loans:*** Units of various grantor trusts, each comprised of mortgage loans acquired from R&G Financial Corporation, were valued by an independent firm using models that calculate the present value of expected future cash flows. Those models incorporate estimates that market participants would use in determining fair value, including estimates of prepayment speeds, credit losses, and discount rates. These loan trusts are classified as Level 3.

***Obligations of U.S. Government Sponsored Entities, State, and Municipal Obligations:*** The fair value of obligations of U.S. Government sponsored entities, state, and municipal obligations is obtained from third-party pricing service providers that use a pricing methodology based on an active exchange market and based on quoted market prices for similar securities. These securities are classified as Level 2. U.S. agency notes are priced based on a bond's theoretical value from similar bonds defined by credit quality and market sector, and for which the fair value incorporates an option adjusted spread in deriving their fair value. These securities are classified as Level 2.

The following is a summary of the portfolio by inputs used as of September 30, 2023, in valuing the Fund's investments carried at fair value:

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**Notes to Financial Statements**  
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	Assets			Balance 9/30/2023
	Level 1	Level 2	Level 3	
<b>Investment Securities:</b>				
Puerto Rico Agencies, Bonds, and Notes	\$ -	\$ 3,107,578	\$ -	\$ 3,107,578
Puerto Rico Collateralized Mortgage Obligations Taxable	-	-	695,125	695,125
Puerto Rico Collateralized Non Conforming Mortgage Obligations Taxable	-	-	1,066,520	1,066,520
Puerto Rico GNMA Taxable	-	318,507	-	318,507
Puerto Rico FNMA Taxable	-	3,729,488	-	3,729,488
Puerto Rico Freddie Mac Taxable	-	369,548	-	369,548
US Government, Agency and Instrumentalities	-	22,815,153	-	22,815,153
US Municipals	-	1,339,195	-	1,339,195
Total of investment securities	-	31,679,469	1,761,645	33,441,114

The following is a reconciliation of assets for which Level 3 inputs were used in determining fair value:

	Level 3 Investment Securities							Transfers in (out) to Level 3	Balance as of 9/30/2023
	Balance as of 9/30/2022	Realized Gain (Loss)	Change in Unrealized (Depreciation)/ Appreciation	Net Amortization/ Accretion	Purchases/ Additions	Sales/Calls	Paydowns		
CSMC Series 2007-5 Class AM	\$ 18,684	\$ (43,381)	\$ 55,538	\$ -	\$ -	\$ -	\$ (24,700)	\$ -	\$ 6,141
R&G Non Conforming Mortgage Loan Trust Series 2004-A	557,019	71,212	(22,378)	-	-	-	(25,931)	-	579,922
R&G Non Conforming Mortgage Loan Trust Series 2004-B	403,867	9,593	1,839	-	-	-	(37,999)	-	377,300
R&G Non Conforming Mortgage Loan Trust Series 2005-C	57,208	7,781	2,763	-	-	-	(5,886)	-	61,866
R&G Non Conforming Mortgage Loan Trust Series 2005-D	46,938	4,706	(299)	-	-	-	(3,913)	-	47,432
Doral Financial Participation Certificate 2004 Series A	424,030	428,407	(66,364)	-	-	-	(97,089)	-	688,984
	\$ 1,507,746	\$ 478,318	\$ (28,901)	\$ -	\$ -	\$ -	\$ (195,518)	\$ -	\$ 1,761,645

**Quantitative Information about Level 3 Fair Value Measurements:**

	Fair Value at September 30, 2023	Valuation Technique	Unobservable Inputs	Price
<b>Investment Securities:</b>				
R&G Non Conforming Mortgage Loan Trust Series 2004-A	\$ 579,922	Discounted Cash Flow	Constant prepayment rate Probability of default Loss severity Discount rate	16.94% 1.40% 20.00% 13.56%
R&G Non Conforming Mortgage Loan Trust Series 2004-B	377,300	Discounted Cash Flow	Constant prepayment rate Probability of default Loss severity Discount rate	12.02% 1.10% 20.00% 13.38%
R&G Non Conforming Mortgage Loan Trust Series 2005-C	61,866	Discounted Cash Flow	Constant prepayment rate Probability of default Loss severity Discount rate	10.10% 1.00% 20.00% 13.73%
R&G Non Conforming Mortgage Loan Trust Series 2005-D	47,432	Discounted Cash Flow	Constant prepayment rate Probability of default Loss severity Discount rate	10.22% 1.00% 20.00% 14.19%
Doral Financial Participation Certificate 2004 Series A	688,984	Discounted Cash Flow	Constant prepayment rate Probability of default Loss severity Discount rate	4.87% 11.21% 6.73% 16.13%

Significant changes in all unobservable inputs of the pricing process would result in an inverse relationship in the fair value of the security, except for the constant prepayment rate.

Changes in unrealized appreciation (depreciation) included in the Statement of Operations relating to investments classified as Level 3 that are still held on September 30, 2023, amounted to a net unrealized depreciation of \$17,108.

There were no transfers into or out of Level 3 during the year ended September 30, 2023.

**US Mortgage-Backed & Income Fund for Puerto Rico Residents, Inc.**  
**Notes to Financial Statements**  
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Temporary cash investments are valued at amortized cost, which approximates market value. There were no temporary cash investments as of September 30, 2023.

**Taxation**

As a registered investment company under the 1940 Act, the Fund will not be subject to Puerto Rico income tax for any taxable year if it distributes at least 90% of its taxable net investment income for such year, as determined for these purposes pursuant to section 1112.01(a)(2) of the Puerto Rico Internal Revenue Code of 2011, as amended. Accordingly, as the Fund intends to meet this distribution requirement, the income earned by the Fund is not subject to Puerto Rico income tax at the Fund level.

The Fund can invest in taxable and tax-exempt securities. In general, distributions of taxable income dividends, if any, to Puerto Rico individuals, estates, and trusts are subject to a withholding tax of 15% in the case of dividends distributed, if certain requirements are met. Moreover, distribution of capital gains dividends, if any, to (a) Puerto Rico individuals, estates, and trusts are subject to a tax of 15% in the case of dividends distributed, and (b) Puerto Rico corporations are subject to a tax of 20% of dividends distributed. Tax withholdings are effected at the time of payment of the corresponding dividend. Individual shareholders may be subject to alternate basic tax on certain fund distributions. Certain Puerto Rico entities receiving taxable income dividends are entitled to claim an 85% dividends received deduction. Fund shareholders are advised to consult their own tax advisers.

An investment in the Fund is designed solely for Puerto Rico residents, due to the Fund's specific tax features. 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, and consequently an investor that is not (i) an individual who has his or her principal residence in Puerto Rico or (ii) a person, other than an individual, that has its principal office and principal place of business in Puerto Rico will not receive the tax benefits of an investment in typical U.S. mutual fund (such as "RIC" tax treatment, i.e., availability of pass-through tax status for non-Puerto Rico residents) and may have adverse tax consequences for U.S. federal income tax purposes. When United States holders (which includes, but is not limited to, (i) citizens and residents of the United States who are not Puerto Rico individuals and (ii) domestic corporations) invest in the Fund, such United States holders generally will be taxed on any dividend or interest paid by the Fund as ordinary income at the time such holders receive the dividend or interest or when it accrues, depending on such holder's method of accounting for tax purposes. Additionally, United States holders will be taxed on any gain on the sale of an investment in the Fund.

Accounting Standards Codification Topic 740, Income Taxes (ASC 740) requires the evaluation of tax positions taken or expected to be taken in the course of preparing the Fund's tax returns to determine whether the tax positions are "more-likely-than-not" of being sustained by the applicable tax authority. Tax positions not deemed to meet the "more-likely-than-not" threshold are recorded as a tax expense in the current year. Management has analyzed the Fund's tax positions taken on its Puerto Rico income tax returns for all open tax years (prior four tax years) and has concluded that there are no uncertain tax positions. On an ongoing basis, management will monitor the Fund's tax position to determine if adjustments to this conclusion are necessary. The Fund recognizes interest and penalties, if any, related to uncertain tax positions as income tax expenses in the Statement of Operations. During the fiscal year ended September 30, 2023, the Fund did not incur any interest or penalties.



**US Mortgage-Backed & Income Fund for Puerto Rico Residents, Inc.**  
**Notes to Financial Statements**  
**September 30, 2023**

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**Statement of Cash Flows**

The Fund issues its shares, invests in securities, and distributes dividends from net investment income and net realized gains which are paid in cash. These activities and additional information on cash receipts and payments are presented in the Statement of Cash Flows.

Accounting practices that do not affect the reporting of activities on a cash basis include carrying investments at fair value and amortizing premiums or discounts on debt obligations.

**Dividends and Distributions to Shareholders**

Dividends from net investment income are declared and paid monthly. The Fund may at times pay out less than the entire amount of net investment income earned in any particular period and may at times pay out such accumulated undistributed income earned in other periods, in order to permit the Fund to have a more stable level of distribution. The capital gains realized by the Fund, if any, may be retained by the Fund, as permitted by the Puerto Rico Internal Revenue Code of 2011, as amended, unless the Fund's Board of Directors, acting through the Dividend Committee, determines that the net capital gains will also be distributed. The Fund records dividends on the ex-dividend date.

**Derivative Instruments**

In order to attempt to hedge various portfolio positions, to manage its costs, or to enhance its return, the Fund may invest in certain instruments which are considered derivatives. Because of their increased volatility and potential leveraging effect, derivative instruments may adversely affect the Fund. The use of these instruments for income enhancement purposes subjects the Fund to risks of losses which would not be offset by gains on other portfolio assets or acquisitions. There is no assurance that the Investment Adviser will employ any derivative strategy and even where such derivatives investments are used for hedging purposes, there can be no assurance that the hedging transactions will be successful or will not result in losses.

The Fund is a party to International Swap and Derivatives Association, Inc. (ISDA) Master Agreements ("Master Agreements") with certain counterparties that govern over-the-counter derivative contracts entered into from time to time. The Master Agreements may contain provisions regarding, among other things, the parties' general obligations, representations, agreements, collateral requirements, events of default, and early termination. Generally, collateral can be in the form of cash or debt securities issued by the U.S. Government or related agencies or other securities as agreed to by the Fund and the applicable counterparty. Collateral requirements are determined based on the Fund's net position with each such counterparty. Termination events applicable to the Fund may occur in certain instances specified in the Master Agreements, which may include, among other things, a specified decline in the Fund's NAV, not complying with eligible collateral requirements, or the termination of the Fund's Investment Adviser. In each case, upon occurrence, the counterparty may elect to terminate the swap early and cause the settlement of all or some of the derivative contracts outstanding, including the payment of any losses and costs resulting from such early termination, as reasonably determined by the terminating party. Any decision by one or more of the Fund's counterparties to elect early termination could impact the Fund's future derivative activity. There were no derivative instruments held during the year ended September 30, 2023.

**Reverse Repurchase Agreements**

Under these agreements, the Fund sells portfolio securities, receives cash in exchange, and agrees to repurchase the securities at a mutually agreed upon date and price. Ordinarily, those counterparties with which the Fund enters into these agreements require delivery of collateral, nevertheless, the Fund retains effective control over such collateral through the agreement to repurchase the collateral on or by the maturity of the reverse repurchase agreement. These transactions are treated as financings and recorded as liabilities. Therefore, no gain or loss is

**US Mortgage-Backed & Income Fund for Puerto Rico Residents, Inc.**  
**Notes to Financial Statements**  
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recognized on the transaction, and the securities pledged as collateral remain recorded as assets of the Fund. The Fund enters into reverse repurchase agreements that do not have third-party custodians, with the collateral delivered directly to the counterparty. Pursuant to the terms of the standard Securities Industry and Financial Markets Association (“SIFMA”) Master Repurchase Agreement, the counterparty is free to repledge or rehypothecate the collateral, provided it is delivered to the Fund upon maturity of the reverse repurchase agreement. This arrangement allows the Fund to receive better interest rates and pricing on the reverse repurchase agreements. While the Fund cannot monitor the rehypothecation of collateral, it does monitor the market value of the collateral versus the repurchase amount, that the income from the collateral is paid to the Fund on a timely basis, and that the collateral is returned at the end of the reverse repurchase agreement. These agreements involve the risk that the market value of the securities purchased with the proceeds from the sale of securities received by the Fund may decline below the price of the securities that the Fund is obligated to repurchase, and that the value of the collateral posted by the Fund increases in value and the counterparty does not return it. Because the Fund borrows under reverse repurchase agreements based on the estimated fair value of the pledged assets, the Fund’s ongoing ability to borrow under its reverse repurchase facilities may be limited and its lenders may initiate margin calls in the event of adverse changes in the market. A decrease in market value of the pledged assets may require the Fund to post additional collateral or otherwise sell assets at a time when it may not be in the best interest of the Fund to do so.

**Paydowns**

Realized gains or losses on mortgage-backed security paydowns are recorded as an adjustment to interest income. During the fiscal year ended September 30, 2023, the Fund had no realized gains/losses on mortgage-backed securities paydowns. The Fund declares and pays monthly dividends from net investment income. For purposes of compliance with the 90% distribution threshold for the Fund’s tax exemption, gains and losses related to mortgage-backed security paydowns are not included in net investment income. See Note 9 for a reconciliation between taxable and book net investment income.

**Preferred Shares**

Pursuant to the Fund’s Certificate of Incorporation, as amended and supplemented, the Fund’s Board of Directors is authorized to issue up to 12,000,000 preferred shares with a par value of \$25, in one or more series. During the fiscal year ended September 30, 2023, no preferred shares were issued or outstanding.

**Other**

Security transactions are accounted for on the trade date (the date on which the order to buy or sell is executed). Realized gains and losses on security transactions are determined on the identified cost method. Premiums and discounts on securities purchased are amortized using the interest method over the life or the expected life of the respective securities. Premiums are amortized at the earliest call date for any applicable securities. Income from interest and dividends from cumulative preferred shares is accrued, except when collection is not expected. Expenses are recorded as they are incurred.

**2. Investment Advisory, Administrative, Custodian, and Transfer Agency Agreements, and Other Transactions with Affiliates**

Pursuant to an investment advisory contract (the “Advisory Agreement”) with UBS Asset Managers of Puerto Rico, a division of UBSTC, and subject to the supervision of the Board of Directors, the Fund receives investment advisory services in exchange for a fee. The investment advisory fees will not exceed 0.75% of the Fund’s average weekly gross assets (including assets purchased with the proceeds of leverage). For the fiscal year ended September 30, 2023, investment advisory fees

**US Mortgage-Backed & Income Fund for Puerto Rico Residents, Inc.**  
**Notes to Financial Statements**  
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amounted to \$244,722, equivalent to 0.75% of the Fund's average weekly gross assets. The Investment Advisor voluntarily waived investment advisory fees in the amount of \$163,148, for a net fee of \$81,574. The investment advisory fees payable amounted to \$6,835 as of September 30, 2023.

UBSTC also provides administrative, custody, and transfer agency services pursuant to Administration, Custodian, and Transfer Agency, Registrar, and Shareholder Servicing Agreements, respectively. UBSTC has engaged JP Morgan Chase Bank, N.A. to act as the sub-custodian for the Fund. UBSTC provides facilities and personnel to the Fund for the performance of its administration duties. The Administration Agreement and Transfer Agency, Registrar, and Shareholder Servicing Agreement fees will not exceed 0.15% and 0.05%, respectively of the Fund's average weekly gross assets. The Custody fees are solely sub-custodian costs and out of pocket expenses reimbursements. For the fiscal year ended September 30, 2023, the administrative, custody, and transfer agency services fee amounted to \$69,448. The administrator, custodian, and transfer agent voluntarily waived service fees in the amount of \$16,500, for a net fee of \$52,948. The administrative, custody, and transfer agent fees payable amounted to \$4,428 as of September 30, 2023.

Certain Fund officers and directors are also officers and directors of UBSTC. The six independent directors of the Fund's Board of Directors are paid based upon an agreed fee of \$1,000 per Fund per Board meeting, plus expenses, and \$500 per Fund for each quarterly Audit Committee meeting, plus expenses. For the fiscal year ended September 30, 2023, the independent directors of the Fund were paid an aggregate compensation and expenses of \$30,357. The Directors fees payable amounted to \$6,000 as of September 30, 2023.

**3. Capital Share Transactions**

The Fund is authorized to issue up to 88,000,000 common shares, par value \$0.01 per share.

Capital share transactions for the fiscal years ended September 30, 2023, and September 30, 2022, were as follows:

<b>Common Shares</b>	<b>2023</b>	<b>2022</b>
Proceeds from the reinvestment of dividends	\$ 25,368	\$ 27,500
Repurchase of shares	-	-
	<u>\$ 25,368</u>	<u>\$ 27,500</u>

Transactions in common shares during the fiscal years ended September 30, 2023, and September 30, 2022, were as follows:

<b>Common shares</b>	<b>2023</b>	<b>2022</b>
Common shares - beginning of period	10,649,193	10,639,239
Shares repurchased	-	-
Shares issued due to the reinvestment of dividends	<u>9,856</u>	<u>9,954</u>
Common shares - end of period	<u>10,659,049</u>	<u>10,649,193</u>

**US Mortgage-Backed & Income Fund for Puerto Rico Residents, Inc.**  
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There were no shares repurchase transactions during the fiscal years ended September 30, 2023, and September 30, 2022.

**4. Investment Transactions**

The cost of unaffiliated U.S. obligations securities purchased was \$3,550,000 for the fiscal year ended September 30, 2023. Proceeds from paydowns and calls of U.S. obligations securities for the fiscal year ended September 30, 2023 amounted to \$715,144.

As part of its investment policies, the Fund was authorized to invest up to 45% of its total assets in mortgage instruments consisting of whole residential non-conforming mortgage loans (the “Mortgage Loans”), securities issued by grantor trusts in connection with pooled mortgage loans (the “Units”), and participation certificates in pools or mortgage loans (the “Participation Certificates”), all such mortgage loans being originated or acquired by R-G Premier Bank of Puerto Rico (“R-G Premier”) or any of its affiliates. These Mortgage Loans were serviced by R&G Mortgage Corporation (“R&G Mortgage”), and the payments of principal and interest thereon was (i) advanced to the Fund by R&G Mortgage pursuant to the terms and conditions of certain servicing agreements and (ii) guaranteed by R&G Financial Corporation (R&G Financial). The Fund ultimately bore the risk of credit loss upon the foreclosure and sale of any such mortgage loan.

On April 30, 2010 the Office of the Commissioner of Financial Institutions (OCFI) and the Federal Deposit Insurance Corporation (“FDIC”) took over R-G Premier and sold its assets to Scotiabank de Puerto Rico pursuant to a certain purchase and assumption agreement. Subsequently, the FDIC requested the transfer of the servicing functions to another party, and effective November 1, 2010, the servicing of such mortgage loans was transferred to Banco Popular de Puerto Rico. The new servicer services the mortgage loans on an actual/actual remittance basis, net of any advances and compensation due to the servicer and is not required to advance principal and interest thereon.

At September 30, 2023, the Fund has \$1,375,591 of Units or principal amount outstanding issued under certain grantor trusts secured by fixed rate non-conforming mortgage loans acquired from R&G Mortgage in fiscal year 2005. The Fund owns 100% of the beneficial interest in those grantor trusts and thus owns 100% of the underlying whole mortgages of each of the trusts. Such Units have a fair value of \$1,066,520, which represents 4.02% of the net assets applicable to common shareholders at September 30, 2023. The Mortgage Loans underlying these trust securities did not conform at the time of purchase to the guidelines established by the Federal National Mortgage Association (“FNMA”) or Federal Home Loan Mortgage Corporation (“FHLMC”).

R&G Non-Conforming Mortgage Loans Trust securities principal outstanding amount, fair value, and interest income as of September 30, 2023, and September 30, 2022, were as follows:

	September 30, 2023			September 30, 2022		
	Principal Outstanding Amount	Fair Value	Interest Income	Principal Outstanding Amount	Fair Value	Interest Income
R&G Non Conforming Mortgage Loans	\$ 1,375,591	\$ 1,066,520	\$ 75,463	\$ 1,356,029	\$ 1,065,032	\$ 84,343

The principal balance of assets of the grantor trust will decrease over time, in large part due to prepayment and foreclosure on the Mortgage Loans. At this time, the remaining mortgages cannot be sold to FNMA or FHLMC and are expected to be held by the Fund until maturity, foreclosure or sale. The trusts include a mechanism whereby Mortgage Loans owned by the trusts that become conforming loans are distributed to the Fund, in order for the Fund to sell or otherwise transfer them to FNMA or FHLMC and maximize their value for the Fund.

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*Puerto Rico Restructuring Plan Developments:*

In accordance with the Employee Retirement Plan (“ERS”) stipulation, the Commonwealth exercised its option to purchase the Fund’s interests in the ERS private equity portfolio on November 21, 2022. On that date, the Fund received \$378,668 based on its pro-rata share in satisfaction of its interest in the ERS private equity portfolio.

**5. Securities Sold Under Reverse Repurchase Agreements**

The Fund enters into repurchase agreements that do not have third-party custodians, with the collateral delivered directly to the counterparty. Pursuant to the terms of the standard SIFMA Master Repurchase Agreement, the counterparty is free to repledge or rehypothecate the collateral, provided it is delivered to the Fund upon maturity of the reverse repurchase agreement. This arrangement allows the Fund to receive better interest rates and pricing on the reverse repurchase agreements. While the Fund cannot monitor the rehypothecation of collateral, it does monitor the market value of the collateral versus the repurchase amount, that the income from the collateral is paid to the Fund on a timely basis, and that the collateral is returned at the end of the reverse repurchase agreement.

Securities sold under reverse repurchase agreements amounted to \$7,115,000 at September 30, 2023, and related information is as follows:

Weighted average interest rate at the end of the year	<u>5.65 %</u>
Maximum aggregate balance outstanding at any time of the year	<u>\$ 7,115,000</u>
Average balance outstanding during the year	<u>\$ 5,221,268</u>
Average interest rate during the year	<u>4.92 %</u>

At September 30, 2023, the interest rate on securities sold under reverse repurchase agreements was 5.65% with a maturity date of October 10, 2023.

At September 30, 2023, investment securities amounting to \$7,398,281 were pledged as collateral for securities sold under reverse repurchase agreements. Interest payable on securities sold under reverse repurchase agreements amounted to \$21,560 at September 30, 2023.

The total amount of unaffiliated originations or proceeds of securities sold under reverse repurchase agreements during the fiscal year ended September 30, 2023 amounted to \$64,376,000.

The following table presents the Fund’s reverse repurchase agreements by counterparty and the related collateral pledged by the Fund at September 30, 2023:

Counterparty	Gross Amount of Securities Sold Under Reverse Repurchase Agreements Presented in the Statement of Assets and Liabilities	Securities Sold Under Reverse Repurchase Agreements Available for Offset	Collateral Posted (a)	Net Amount Due To Counterparty (not less than zero)
South Street Securities, New York	\$ 7,115,000	\$ -	\$ 7,115,000	\$ -

(a) Collateral received or posted is limited to the net securities sold under reverse repurchase agreements liability amounts. See above for actual collateral received and posted.

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**6. Short-Term Financial Instruments**

The fair value of short-term financial instruments, which includes \$7,115,000 of securities sold under reverse repurchase agreements, are substantially the same as the carrying amount reflected in the Statement of Assets and Liabilities as these are reasonable estimates of fair values given the relatively short period of time between origination of the instrument and their expected realization. The securities sold under reverse repurchase agreements are classified as Level 2.

**7. Concentration of Credit Risk**

Concentration of credit risk that arises from financial instruments exists for groups of customers or counterparties when they have similar economic characteristics that would cause their ability to meet contractual obligations to be similarly affected by changes in economic or other conditions.

The major concentration of credit risk arises from the Fund's investment securities in relation to the location of the issuers of such investment securities. For calculating concentration, all securities guaranteed by the US Government or any of its subdivisions are excluded. At September 30, 2023, the Fund had investments with an aggregate market value of approximately \$3,802,703, which were issued by entities located in the Commonwealth and are not guaranteed by the US Government or any of its subdivisions, of which \$3,107,578 are revenue bonds not guaranteed by the Commonwealth. In addition, at September 30, 2023, the Fund had investments in Puerto Rico mortgage loans with an aggregate market value amounting to \$1,066,520 which were issued by one private issuer located in the Commonwealth of Puerto Rico and not guaranteed by the Commonwealth, and investments in Puerto Rico mortgage loans with an aggregate market value amounting to \$6,141 which were issued by Credit Suisse and not guaranteed by the US Government. Also, at September 30, 2023, the Fund had investments with an aggregate market value amounting to \$1,339,195 which were issued by municipalities located in the United States and not guaranteed by the U.S. Government.

**8. Investment and Other Requirements and Limitations**

The Fund is subject to certain requirements and limitations related to investments and leverage. Some of these requirements and limitations are imposed by statute or by regulation, while others are imposed by procedures established by the Board of Directors. The most significant requirements and limitations are discussed below.

While the Fund intends to comply with the 67% investment requirement as market conditions permit, the Fund's ability to procure sufficient Puerto Rico securities which meet the Fund's investment criteria may, in the opinion of the Investment Adviser, be constrained, due to the volatility affecting the Puerto Rico bond market since 2013 and the fact that the Puerto Rico Government remains in the process of restructuring its outstanding debt under Title III of the Puerto Rico Oversight, Management, and Economic Stability Act ("PROMESA") as well as undertaking other fiscal measures to stabilize the Puerto Rico's economy in accordance with the requirements of PROMESA, and this inability may continue for an indeterminate period of time. To the extent that the Fund is unable to procure sufficient amounts of such Puerto Rico securities, the Fund may acquire investments in securities of non-Puerto Rico issuers which satisfy the Fund's investment policies. While the Fund will seek to invest at least an average of 20% of its total assets on an annual basis in Puerto Rico securities even in adverse market conditions, there is no guarantee that it will be able to do so if there are insufficient Puerto Rico securities which meet the Fund's investment criteria.

The Fund invests, except where the Fund is unable to procure sufficient Puerto Rico Securities that meet the Fund's investment criteria, in the opinion of the Investment Adviser, or other extraordinary

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

As its fundamental policy, the Fund may not (i) issue senior securities, as defined in the 1940 Act, except to the extent permitted under the 1940 Act and except as otherwise described in the prospectus, or (ii) borrow money from banks or other entities, in excess of 33 1/3% of its total assets (including the amount of borrowings and debt securities issued); except that, the Fund may borrow from banks or other financial institutions for temporary or emergency purposes (including, among others, financing repurchases of notes and tender offers), in an amount of up to an additional 5% of its total assets.

The Fund may issue preferred stock, debt securities and other forms of leverage to the extent that immediately after their issuance, the value of the Fund's total assets less all the Fund's liabilities and indebtedness which are not represented by preferred stock, debt securities, or other forms of leverage being issued or already outstanding, is equal to or greater than 300% of the aggregate par value of all outstanding preferred stock (not including any accumulated dividends or other distributions attributable to such preferred stock) and the total amount outstanding of debt securities and other forms of leverage.

**9. Tax Basis of Distributions and Components of Distributable Earnings (Accumulated Losses)**

During the year, there were no reclassification of gains and losses related to mortgage-backed security paydowns or reclassifications of swap periodic collections, therefore, the net investment income for tax purposes equals the net investment income per book.

The amount of net unrealized appreciation/(depreciation) and the cost of investment securities for tax purposes was as follows:

Cost of investments for tax purposes	\$ 37,006,721
Gross appreciation	104,173
Gross depreciation	(3,669,780)
Net appreciation (depreciation)	<u>\$ (3,565,607)</u>

The Fund's policy, as stated in its prospectus, is to distribute substantially all net investment income. In order to maintain a stable level of dividends, however, the Fund may at times pay more or less than the net investment income earned in a particular year.

For the fiscal years ended September 30, 2023, and September 30, 2022, the Fund had distributed from ordinary income \$861,254 and \$860,443 for tax purposes, respectively. The undistributed net investment income at September 30, 2023, and September 30, 2022, was as follows:

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**2023:**

Undistributed net investment income for tax purposes at the beginning of the period	\$ 610,111
Net investment income for tax purposes	1,188,782
Dividends paid to common shareholders	<u>(861,254)</u>
Undistributed net investment income for tax purposes at the end of the period	<u>\$ 937,639</u>

**2022:**

Undistributed net investment income for tax purposes at the beginning of the period	\$ 712,281
Net investment income for tax purposes	758,273
Dividends paid to common shareholders	<u>(860,443)</u>
Undistributed net investment income for tax purposes at the end of the period	<u>\$ 610,111</u>

The undistributed net investment income and components of total distributable earnings (accumulated losses) on a tax basis at September 30, 2023, were as follows:

Undistributed net investment income for tax purposes at the end of the period	\$ 937,639
Accumulated net realized loss from investment	(105,101,042)
Unrealized net appreciation from investment	<u>(3,565,607)</u>
Total Distributable Earnings (Accumulated Loss)	<u>\$ (107,729,010)</u>

**10. Risks and Uncertainties**

The Fund is exposed to various types of risks, such as geographic concentration, industry concentration, non-diversification, interest rate, and credit risks, among others.

*Puerto Rico Risk.* The Fund's assets are invested primarily in securities of Puerto Rico issuers. Consequently, the Fund in general is more susceptible to economic, political, regulatory or other factors adversely affecting issuers in Puerto Rico than an investment company that is not so concentrated in Puerto Rico issuers. In addition, securities issued by the Government of Puerto Rico or its instrumentalities are affected by the central government's finances. That includes, but is not limited to, general obligations of Puerto Rico and revenue bonds, special tax bonds, or agency bonds. Over the past few years, many Puerto Rico government bonds as well as the securities issued by several Puerto Rico financial institutions have been downgraded as a result of several factors, including without limitation, the downturn experienced by the Puerto Rico economy and the strained financial condition of the Puerto Rico government. Currently, the Puerto Rico bond market is experiencing a period of volatility, with Puerto Rico bonds trading at historically lower prices and higher yields.

*Conflicts of Interest.* The investment advisory fee payable to the Investment Adviser during periods in which the Fund is utilizing leverage will be higher than when it is not doing so because the fee is calculated as a percentage of average weekly gross assets, including assets purchased with leverage. Because the asset base used for calculating the investment advisory fee is not reduced by aggregate indebtedness incurred in leveraging the Fund, the Investment Adviser may have a conflict



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of interest in formulating a recommendation to the Fund as to whether and to what extent to use leverage. This could impact the Fund's ability to pay in the future.

UBS Asset Managers of Puerto Rico, UBS Financial Services Inc. ("UBSFS"), and their affiliates have engaged and may engage in business transactions with or related to any one of the issuers of the Fund's investment assets, or with competitors of such issuers, as well as provide them with investment banking, asset management, trust, or advisory services, including merger and acquisition advisory services. These activities may present a conflict between any such affiliated party and the interests of the Fund. Any such affiliated party may also publish or may have published research reports on one or more of such issuers and may have expressed opinions or provided recommendations inconsistent with the purchasing or holding of the securities of such issuers. While the Fund has engaged in transactions with affiliates in the past, all transactions among Fund affiliates from the date of the Fund's registration under the 1940 Act going forward will be done in compliance with the 1940 Act rules and prohibitions regarding affiliated transactions, or any exemptive relief granted by the SEC in respect thereof.

*Investment and Market Risk.* The Fund's investments may be adversely affected by the performance of U.S. and Puerto Rico investment securities markets, which, in turn, may be influenced by a number of factors, including, among other things, (i) the level of interest rates, (ii) the rate of inflation, (iii) political decisions, (iv) fiscal policy, and (v) current events in general. Because the Fund invests in investment securities, the Fund's NAV may fluctuate due to market conditions.

Puerto Rico and other countries and regions in which the Fund may invest where the Investment Adviser has offices or where the Fund or the Investment Adviser otherwise do business are susceptible to natural disasters (e.g., fire, flood, earthquake, storm and hurricane), epidemics/pandemics or other outbreaks of serious contagious diseases. The occurrence of a natural disaster or epidemic/pandemic could, directly or indirectly, adversely affect and severely disrupt the business operations, economies and financial markets of many countries (even beyond the site of the natural disaster or epidemic/pandemic) and could adversely affect the Fund's investment program or the Investment Adviser's ability to do business. In addition, terrorist attacks, or the fear of or the precautions taken in anticipation of such attacks, could, directly or indirectly, materially and adversely affect certain industries in which the Fund invests or could affect the countries and regions in which the Fund invests, where the Investment Adviser has offices or where the Fund or the Investment Adviser otherwise do business. Other acts of war (e.g., war, invasion, acts of foreign enemies, hostilities and insurrection, regardless of whether war is declared) could also have a material adverse impact on the financial condition of industries or countries in which the Fund invests.

In addition, turbulence in financial markets and reduced liquidity in equity and/or fixed-income markets may negatively affect the Fund. Global economies and financial markets are becoming increasingly interconnected, and conditions and events in one country, region or financial market may adversely impact issuers in a different country, region or financial market. These risks may be magnified if certain events or developments adversely interrupt the global supply chain and could affect companies worldwide. An outbreak of an infectious disease or serious environmental or public health concern could have, a significant negative impact on economic and market conditions, could exacerbate pre-existing political, social and economic risks in certain countries or regions and could trigger a prolonged period of global economic slowdown, which may impact the Fund. To the extent the Fund is overweight in certain countries, regions, companies, industries or market sectors, such positions will increase the risk of loss from adverse developments affecting those countries, regions, companies, industries or sectors.

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*Credit Risk.* Credit risk is the risk that debt securities or preferred stock will decline in price or fail to make dividend or interest payments when due because the issuer of the security experiences a decline in its financial condition or it otherwise decides to suspend, delay or reduce payments. The Fund's investments are subject to credit risk. The risk is greater in the case of securities that are rated below investment grade or rated in the lowest investment grade category.

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

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

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

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

*Concentration Risk.* The Fund may concentrate its investments in mortgage-related assets, which means that its performance may be closely tied to the performance of a particular market segment. The Fund's concentration in these securities may present more risks than if it were broadly

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diversified over numerous industries and sectors of the economy. A downturn in these securities would have a larger impact on the Fund than on a fund that does not concentrate in such securities. At times, the performance of these securities will lag the performance of other industries or the broader market as a whole.

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

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

*Valuation Risk.* The price the Fund could receive upon the sale of any particular investment may differ from the Fund's valuation of the investment, particularly for securities that trade in thin or volatile markets, including Puerto Rico, or that are valued using a fair valuation methodology or a price provided by an independent pricing service. As a result, the price received upon the sale of an investment may be less than the value ascribed by the Fund, and the Fund could realize a greater than expected loss or lesser than expected gain upon the sale of the investment. Pricing services that value fixed-income securities generally utilize a range of market-based and security-specific inputs and assumptions, as well as considerations about general market conditions, to establish a price. Pricing services generally value fixed-income securities assuming orderly transactions of an institutional round lot size, but such securities may be held or transactions may be conducted in smaller, odd lot sizes. Odd lots may trade at lower prices than institutional round lots. The Fund's ability to value its investments may also be impacted by technological issues and/or errors by pricing services or other third-party service providers.

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

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*Leverage Risk.* Some transactions may give rise to a form of economic leverage. These transactions may include, among others, derivatives, and may expose the Fund to greater risk and increase its costs. The use of leverage may cause the Fund to liquidate portfolio positions when it may not be advantageous to do so to satisfy its obligations or to meet applicable requirements of the 1940 Act and the rules thereunder. Increases and decreases in the value of the Fund's portfolio will be magnified when the Fund uses leverage.

*Risks of Repurchase and Reverse Repurchase Agreements.* The Fund may engage in reverse repurchase agreements which are collateralized loan transactions in which the Fund sells a portfolio security to a counterparty in exchange for cash and agrees to buy it back at a specified time and price in a specified currency. The counterparty can repledge or rehypothecate the collateral securities to a third party, provided they are delivered to the Fund upon maturity of the reverse repurchase agreement. Reverse repurchase agreements involve various risks to the Fund. Reverse repurchase agreements are subject to counterparty risk that the buyer of the securities sold by the Fund, or the counterparty to which the buyer rehypothecates the collateral securities, may be unable to deliver the securities at the agreed upon terms when the Fund seeks to repurchase the collateral. In that case, the Fund may be unable to purchase the securities on the open market or only at a higher cost, possibly resulting in an investment loss to the Fund. The collateral securities in the reverse repurchase agreement are also subject to market risk. An increase in interest rates that causes a decrease in the market value of the securities can lead the lenders to require the Fund to post additional collateral at a time when it may not be in the best interest of the Fund to do so.

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

*SEC Rule 18f-4.* The SEC has adopted a rule to regulate the use of derivatives by registered investment companies. The rule limits the ability of the Fund to invest or remain invested in covered call options, to the extent that covered call options are deemed to involve derivatives. From its compliance date going forward, the rule also limits the Fund's ability to utilize reverse repurchase agreements. The compliance period for Rule 18f-4 commenced on August 19, 2022. Since the Fund does not hold any derivatives as of September 30, 2023, Rule 18f-4 has no impact on the Fund.

## **11. Commitments and Contingencies**

The Fund, its Board of Directors, UBSFS, and UBSTC are subject to legal proceedings, claims, and litigation arising in the ordinary course of business. While the outcome of these matters is currently not determinable, management does not expect that the ultimate outcome of these matters will have a material adverse effect on the Fund's financial position, results of operations or cash flows. Management of UBSFS and UBSTC have informed the Fund of its belief that the resolution of such matters is not likely to have a material adverse effect on the ability of UBS Asset Managers of Puerto Rico and UBSTC to perform under their respective contracts with the Fund.

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On February 5, 2014, a shareholder derivative action was filed in Puerto Rico Commonwealth court against UBS Financial Services, Inc., UBSFS, UBSTC and all current and certain former members of the Board of Directors of such investment companies, and those investment companies as nominal defendants (including the Fund), alleging that the Fund suffered hundreds of millions of dollars in losses due to alleged mismanagement, concealment of conflicts of interest, and improper recommendations by certain defendants to retail customers to use credit lines to purchase Fund shares. After seven years of litigation, with the case still being in the discovery phase, the parties executed a settlement agreement resolving all legal claims on December 10, 2021. Pursuant to the agreed-upon settlement stipulation, UBS Financial Services Inc. and UBSFS funded an escrow account with \$15,000,000 (the "Settlement Fund"). The corresponding Settlement Fund, comprised of (i) the original amount plus any interest earned thereon and (ii) net of an attorney fee award in the amount of 33% of the aggregate amount of principal and accrued interest, will be allocated among the various nominal defendants (including the Fund) pro rata, based upon the market value of their respective holdings of bonds issued by Puerto Rico issuers as of January 31, 2014. On August 26, 2022, final judgment based on the settlement agreement was entered by the Puerto Rico Commonwealth Court. Since the court has failed to issue an order regarding the allocation of litigation expenses, the parties agreed on the distribution of the portion of the Settlement Fund over which there is no controversy, and that portion of the Settlement Fund was distributed to the Fund and recognized as other income during the current period amounting to \$143,011. The portion of the Settlement Fund at issue will remain in the escrow account until the Court decides the issue.

**12. Indemnifications**

In the normal course of business, the Fund enters into contracts that contain a variety of indemnification clauses. The Fund's maximum exposure under these arrangements is unknown. However, the Fund has not had prior claims or losses for indemnification and expects the risk of loss to be remote.

**13. Subsequent Events**

Events and transactions from October 1, 2023, through November 29, 2023 (the date the financial statements were available to be issued), have been evaluated by management for subsequent events. Management has determined that there were no material events that would require adjustment to or additional disclosure in the Fund's financial statements through this date, except as disclosed below.

Dividends:

On October 31, 2023, the Board of Directors, acting through the Dividend Committee, declared an ordinary net investment income dividend of \$0.00708 per common share, totaling \$75,508 and payable on November 13, 2023, to common shareholders of record as of October 31, 2023.

## Report of Independent Registered Public Accounting Firm

To the Shareholders and the Board of Directors of US Mortgage-Backed & Income Fund for Puerto Rico Residents, Inc.

### Opinion on the Financial Statements

We have audited the accompanying statement of assets and liabilities of US Mortgage-Backed & Income Fund for Puerto Rico Residents, Inc. (the "Fund"), including the schedule of investments, as of September 30, 2023, and the related statements of operations and cash flows for the year then ended, the statements of changes in net assets for each of the two years in the period then ended, and the financial highlights for each of the three years in the period then ended and the related notes (collectively referred to as the "financial statements"). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Fund at September 30, 2023, the results of its operations and its cash flows for the year then ended, the changes in its net assets for each of the two years in the period then ended, and its financial highlights for each of the three years in the period then ended, in conformity with U.S. generally accepted accounting principles.

### Basis for Opinion

These financial statements are the responsibility of the Fund's management. Our responsibility is to express an opinion on the Fund's financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) ("PCAOB") and are required to be independent with respect to the Fund in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. The Fund is not required to have, nor were we engaged to perform, an audit of the Fund's internal control over financial reporting. As part of our audits, we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control over financial reporting. Accordingly, we express no such opinion.

Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our procedures included confirmation of securities owned as of September 30, 2023, by correspondence with the custodian, brokers and others. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

*Ernst & Young LLP*

We have served as the auditor of one or more UBS investment companies since 1978.

New York, New York  
November 29, 2023

# OTHER INFORMATION (Unaudited)

**Management Information.** The business affairs of the Fund are overseen by its Board of Directors. Certain biographical and other information relating to the Directors and officers of the Fund are set forth below, including their ages and their principal occupations for at least five years.

The Fund's Statement of Additional Information includes additional information about the Directors and is available free of charge upon request by calling the Fund at 787-250-3600.

Name, Address*, and Age	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
<b>Independent Directors</b>					
Agustin Cabrer (74)	Director	Director since 2003	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 J. León (84)	Director	Director since 2021	Independent business consultant since 1999;	17 funds	None
Carlos Nido (59)	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
Luis M. Pellot (75)	Director	Director since 2003	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 (84)	Director	Director since 2021	Chairman of the Board and Chief Executive Officer of Estudios Técnicos, Inc. (consulting business) since 2005.	17 funds	None
<b>Interested Director</b>					
Carlos V. Ubiñas (69)****	Director, Chairman of the Board of Directors,	President since 2015; Chairman of the Board of Directors since 2012;	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	17 funds	None

Name, Address*, and Age	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
	and President	and Director since 2003	since 2005; Managing Director, Head of Asset Management and Investment Banking of UBS Financial Services Inc of Puerto Rico. since 2014.		
<b>Officers</b>					
Jose Arias (58)*****	Senior Executive Vice President	Senior Executive Vice President since 2022	Managing Director of UBS Trust Company of PR 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 PR from 2000 to 2017.	Not applicable	None
Leslie Highley (76)	Senior Vice President	Senior Vice President since 2005	Managing Director of UBS Trust PR; Senior Vice-President of UBS Financial Services Inc.; Senior Vice President of the Puerto Rico Residents 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.	Not applicable	None
William Rivera (65)	First Vice President and Treasurer	First Vice President since 2005 and Treasurer since 2015	Executive Director of UBS Asset Managers since 2011; Director of UBS Asset Managers from 2006 to 2010; Assistant Portfolio Manager for UBS Asset Managers; First Vice President of Trading of UBS Trust PR since January 2002 and of UBS Financial Services Puerto Rico since 1987. UBS Asset Managers, UBS Trust PR and UBS Financial Services Inc. are affiliates of the Fund.	Not applicable	None
Javier Rodríguez (50)	Assistant Vice President and Assistant Treasurer	Assistant Vice President and Assistant Treasurer since 2005	Divisional Assistant Vice President, trader, and portfolio manager of UBS Trust PR since 2003; financial analyst with UBS Trust PR from 2002 to 2003; financial analyst with Popular Asset Management from 1998 to 2002. Management from 1998 to 2002. UBS Trust PR is an affiliate of the Fund.	Not applicable	None
Liana Loyola (62)	Secretary	Secretary since 2014	Attorney in private practice since 2009.	Not applicable	None
Luz Colon (48)	Chief Compliance Officer	Chief Compliance Officer since 2013	Executive Director and Chief Compliance Officer of UBS Asset Managers of Puerto Rico and the Funds; CCO for UBS Fund Advisor (RIA for private equity funds) from 2019 to 2022; 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.	Not applicable	None
Heydi Cuadrado (43)	Assistant Vice President	Assistant Vice President since 2019	Director of UBS Trust Company since March 2012. Trader and Assistant Portfolio Manager for UBS Asset Managers of Puerto Rico since 2008.	Not applicable	None



Name, Address*, and Age	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
Gustavo Romañach (49)	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 of Puerto Rico since 2009; Assistant Vice-President of UBS Asset Managers of PR since 2003.	Not applicable	None
<p>* The address of each Director and officer is UBS Trust Company of Puerto Rico, American International Plaza – Tenth Floor, 250 Muñoz Rivera Avenue, San Juan, Puerto Rico 00918.</p> <p>** Each Director holds his or her office from the time of their election and qualification until the election meeting for the year in which his or her term expires and until his or her successor shall have been elected and shall have qualified, or until his or her death, or until December 31 of the year in which he or she shall have reached eighty-five years of age, or until he or she shall have resigned or been removed. Each Officer is annually elected by and serves at the pleasure of the Board of Directors.</p> <p>*** The Affiliated Funds consist of GNMA &amp; US Government Target Maturity Fund for Puerto Rico Residents, Inc.; Multi-Select Securities Fund for Puerto Rico Residents; Short Term Investment Fund for Puerto Rico Residents, Inc.; Tax Free Fund for Puerto Rico Residents, Inc.; Tax Free Fund II for Puerto Rico Residents, Inc.; Tax Free Target Maturity Fund for Puerto Rico Residents, Inc.; Tax-Free Fixed Income Fund for Puerto Rico Residents, Inc.; Tax-Free Fixed Income Fund II for Puerto Rico Residents, Inc.; Tax-Free Fixed Income Fund III for Puerto Rico Residents, Inc.; Tax-Free Fixed Income Fund IV for Puerto Rico Residents, Inc.; Tax-Free Fixed Income Fund V for Puerto Rico Residents, Inc.; Tax-Free Fixed Income Fund VI for Puerto Rico Residents, Inc.; Tax-Free High Grade Portfolio Bond Fund for Puerto Rico Residents, Inc.; Tax-Free High Grade Portfolio Bond Fund II for Puerto Rico Residents, Inc.; Tax-Free High Grade Portfolio Target Maturity Fund for Puerto Rico Residents, Inc.; U.S. Monthly Income Fund for Puerto Rico Residents, Inc.; and US Mortgage-Backed &amp; Income Fund for Puerto Rico Residents, Inc. (the “UBS Family of Funds”); and Puerto Rico Residents Tax-Free Fund, Inc.; Puerto Rico Residents Tax-Free Fund Inc. II; Puerto Rico Residents Tax-Free Fund III, Inc.; Puerto Rico Residents Tax-Free Fund IV, Inc.; Puerto Rico Residents Tax-Free Fund V, Inc.; Puerto Rico Residents Tax-Free Fund VI, Inc.; and Puerto Rico Residents Tax-Free Bond Fund I (the “Co-Advised Family of Funds,” and together with the UBS Family of Funds, the “Affiliated Funds”). The UBS Family of Funds is managed by UBS Asset Managers of Puerto Rico, a division of UBS Trust Company of Puerto Rico. The Co-Advised Family of Funds is co-advised by UBS Asset Managers of Puerto Rico and Popular Asset Management, a division of Banco Popular de Puerto Rico. Messrs. Nido and Pellot and Ms. Perez also serve on the Board of Directors of each of the investment companies comprising the Co-Advised Family of Funds.</p> <p>**** Considered an “Interested Director” of the Fund as that term is defined in Section 2(a)(19) of the 1940 Act as a result of his employment with, the Fund’s investment adviser, or an affiliate thereof.</p> <p>***** Mr. Arias retired from his position as Senior Executive Vice President effective on September 30, 2023.</p>					

## Privacy Notice

The Fund is committed to protecting the personal information that it collects about individuals who are prospective, former, or current investors.

If you are located in a jurisdiction where specific laws, rules or regulations require the Fund to provide you with additional or different privacy-related rights beyond what is set forth below, then the Fund will comply with those specific laws, rules, or regulations.

The Fund collects personal information for business purposes to process requests and transactions and to provide customer service. Personal information is obtained from the following sources:

- *Investor applications and other forms,*
- *Written and electronic correspondence,*
- *Telephone contacts,*
- *Account history* (including information about Fund transactions and balances in your accounts with the Distributor or our affiliates, other fund holdings in the UBS family of funds, and any affiliation with the Distributor and its affiliates),
- *Website visits,*
- *Consumer reporting agencies*

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

The Fund may share personal information described above with their affiliates for business purposes, such as to facilitate the servicing of accounts. The Fund may share the personal information described above for business purposes with a non-affiliated third party only if the entity is under contract to perform transaction processing, servicing, or maintaining investor accounts on behalf of the Fund. The Fund may share personal information with its affiliates or other companies who are not affiliates of the Fund that perform marketing services on the Fund's behalf or to other financial institutions with whom it has marketing agreements for joint products or services. These companies are not permitted to use personal information for any purposes beyond the intended use (or as permitted by law). The Fund does not sell personal information to third parties for their independent use. The Fund may also disclose personal information to regulatory authorities or otherwise as permitted by law.

**Statement Regarding Availability of Quarterly Portfolio Schedule.**

Until the registration under the 1933 Act becomes effective, the Fund is not required to submit Form N-PORT with the U.S. Securities and Exchange Commission (the "SEC"). After registration becomes effective, the Fund will file its complete schedule of portfolio holdings with the SEC for the first and third quarters of each fiscal year as an exhibit to its reports on Form N-PORT. The Fund's Form N-PORT reports will be available on the SEC's website at <http://www.sec.gov>. The quarterly schedule of portfolio holdings will be made available upon request by calling 787-250-3600.

**Statement Regarding Availability of Proxy Voting Policies and Procedures and Record**

A description of the Fund's policies and procedures that are used by the Investment Adviser to vote proxies relating to the Fund's portfolio securities and information regarding how the Investment Adviser voted proxies relating to portfolio securities during the most recent 12-month period ended June 30 are available, without charge, upon request, by calling 787-250-3600 and on the SEC's website at <http://www.sec.gov>.

## **Statement Regarding Basis for Approval of Investment Advisory Contract**

The Board of the Fund met on May 11, 2023 (the “Meeting”) to consider the approval of the Investment Advisory Agreement (the “Advisory Agreement”) by and between the Fund and UBS Asset Managers of Puerto Rico, a division of UBS Trust Company of Puerto Rico (the “Investment Adviser”). At such meeting, the Board participated in comparative performance reviews with the portfolio managers of the Investment Adviser, in conjunction with other Fund service providers, and considered various investment and trading strategies used in pursuing the Fund’s investment objective. The Board also evaluated issues pertaining to industry and regulatory developments, compliance procedures, fund governance, and other issues with respect to the Fund and received and participated in reports and presentations provided by the Investment Adviser with respect to such matters.

The independent members of the Board (the “Independent Directors”) were assisted throughout the contract review process by Willkie Farr & Gallagher LLP, as their independent legal counsel. The Board relied upon the advice of such counsel and their own business judgment in determining the material factors to be considered in evaluating the Advisory Agreement and the weight to be given to each such factor. The conclusions reached with respect to the Advisory Agreement were based on a comprehensive evaluation of all the information provided and not any single factor. Moreover, each Director may have placed varying emphasis on particular factors in reaching conclusions with respect to the Advisory Agreement. In evaluating the Advisory Agreement, including the specific fee structures, and other terms, the Board was informed by multiple years of analysis and discussion amongst themselves and the Investment Adviser. The Board, including a majority of Independent Directors, concluded that the terms of the Advisory Agreement for the Fund were fair and reasonable and that the Investment Adviser’s fees were reasonable in light of the services provided to the Fund.

**Nature, Extent and Quality of Services.** In evaluating the Advisory Agreement, the Board considered, in relevant part, the nature, extent and quality of the Investment Adviser’s services to the Fund.

The Board considered the vast array of management, oversight, and administrative services the Investment Adviser provides to manage and operate the Fund, the increases of such services over time due to new or revised market, regulatory or other developments (e.g.; liquidity management and cybersecurity programs, and the resources and capabilities necessary to provide these services. The Independent Directors recognized that the Investment Adviser provides portfolio management services for the Fund, and additionally, the Board considered the wide range of administrative and/or “non-advisory” services the Investment Adviser provides to manage and operate the Fund (complimentary to those provided by other third parties). These services include, but are not limited to, administrative services (e.g.; providing the employees and officers necessary for the Fund’s operations); operational expertise (e.g.; providing portfolio accounting and addressing complex pricing issues, corporate actions, foreign registrations and foreign filings, as may be necessary); oversight of third-party service providers (e.g.; coordinating and evaluating the services of the Fund’s Custodian, Transfer Agent and other intermediaries); Board support and administration (e.g.; overseeing the organization of Board and committee meetings and preparing or overseeing the timely preparation of various materials and/or presentations for such meetings); fund share transactions (monitoring daily purchases and redemptions); shareholder communications (e.g.; overseeing the preparation of annual and semi-annual and other periodic shareholder reports); tax administration; and compliance services (e.g.; helping to maintain and update the Fund’s compliance program and related policies and procedures as necessary or appropriate to meet new or revised regulatory requirements and reviewing such program annually, overseeing the preparation of the Fund’s registration statements and regulatory filings, overseeing the valuation of portfolio securities and daily pricing, helping to ensure the Fund complies with its portfolio limitations and restrictions, voting proxies on behalf of the

Fund; monitoring the liquidity of the portfolios, providing compliance training for personnel, and evaluating the compliance programs of the Fund's service providers). In evaluating such services, the Board considered, among other things, whether the Fund has operated in accordance with its investment objective(s) and the Fund's record of compliance with its investment restrictions and regulatory requirements.

In addition to the services provided by the Investment Adviser, the Independent Directors also considered the risks borne by the Investment Adviser in managing the Fund in a highly regulated industry, including various material entrepreneurial, reputational, and regulatory risks. Based on their review, the Independent Directors found that, overall, the nature, extent and quality of services provided under the Advisory Agreement was satisfactory on behalf of the Fund.

**Investment Performance of the Fund.** In evaluating the quality of the services provided by the Investment Adviser, the Board also received and considered the investment performance of the Fund. In this regard, the Board received and reviewed a report prepared by Broadridge which generally provided the Fund's performance data for the one, three, five, and ten-year periods ended December 31, 2022 (or for the periods available for the Fund that did not exist for part of the foregoing timeframe) on an absolute basis and as compared to the performance of unaffiliated comparable funds (the "*Broadridge Peer Group*"). The Board was provided with information describing the methodology Broadridge used to create the Broadridge Peer Group. The performance data prepared for the review of the Advisory Agreement supplements the performance data the Board received throughout the year as the Board regularly reviews and meets with portfolio manager(s) and/or representatives of the Investment Adviser to discuss, in relevant part, the performance of the Fund.

**Fees and Expenses.** As part of its review, the Board also considered, among other things, the contractual management fee rate, and the net management fee rate (*i.e.*, the management fee after taking into account expense reimbursements and/or voluntary fee waivers, if any) paid by the Fund to the Investment Adviser in light of the nature, extent and quality of the services provided. The Board also considered the net total expense ratio of the Fund in relation to those of a comparable group of funds (the "*Broadridge Expense Group*"). The Board considered the net total expense ratio of the Fund (expressed as a percentage of average net assets) as the expense ratio is more reflective of the shareholder's costs in investing in the Fund.

In evaluating the management fee rate, the Board considered the Investment Adviser's rationale for proposing the management fee rate of the Fund which included its evaluation of, among other things, the value of the potential services being provided (*i.e.*, the expertise of the Investment Adviser with the proposed strategy), the competitive marketplace (*e.g.*, the uniqueness of the Fund and the fees of competitor funds) and the economics to the Investment Adviser (*e.g.*, the costs of operating the Fund). The Board considered, among other things, the expense limitations and/or voluntary fee waivers, if applicable, proposed by the Investment Adviser to keep expenses at or below certain levels and reviewed the amounts the Investment Adviser had waived or reimbursed over the last fiscal years, if applicable, and the costs incurred and resources necessary in effectively managing mutual funds, particularly given the costs in attracting and maintaining quality and experienced portfolio managers and research staff. The Board further considered the Fund's net management fee and net total expense ratio in light of its performance history.

**Profitability.** In conjunction with their review of fees, the Independent Directors reviewed information reflecting the Investment Adviser's financial condition. The Independent Directors reviewed the consolidated financial statements of the Investment Adviser for the year ended December 31, 2022. The Independent Directors also considered the overall financial condition of the Investment Adviser and the Investment Adviser's

representations regarding the stability of the firm, its operating margins, and the manner in which it funds its future financial commitments, such as employee deferred compensation programs. The Independent Directors also reviewed the profitability information for the Investment Adviser derived from its relationship with the Fund for the most recent fiscal year end available on the date of the meeting on an actual and adjusted basis, as described below. The Independent Directors evaluated, among other things, the Investment Adviser's revenues, expenses, net income (pre-tax and after-tax), and the net profit margins (pre-tax and after-tax). The Independent Directors also reviewed the level of profitability realized by the Investment Adviser including and excluding distribution expenses incurred by the Investment Adviser from its own resources.

**Economies of Scale and Whether Fee Levels Reflect These Economies of Scale.** In evaluating the reasonableness of the investment advisory fees, the Board considered the existence of any economies of scale in the provision of services by the Investment Adviser and whether those economies are appropriately shared with the Fund. In its review, the Independent Directors recognized that economies of scale are difficult to assess or quantify, particularly on a fund-by-fund basis, and certain expenses may not decline with a rise in assets. The Independent Directors further considered that economies of scale may be shared in various ways including breakpoints in the management fee schedule, voluntary fee waivers and/or expense limitations, pricing of the Fund at scale at inception or other means.

The Board considered that not all funds have breakpoints in their fee structures and that breakpoints are not the exclusive means of sharing potential economies of scale. The Board and the Independent Directors considered the Investment Adviser's statement that it believes that breakpoints would not be appropriate for the Fund at this time given uncertainties regarding the direction of the economy, rising inflation, increasing costs for personnel and systems, and growth or contraction in the Fund's assets, all of which could negatively impact the profitability of the Investment Adviser. In addition, the Investment Adviser noted that since the Fund is a closed-end fund, and based upon the Fund's current operating policies, the ability to raise additional assets is limited. Considering the factors above, the Independent Directors concluded the absence of breakpoints in the management fee was acceptable and that any economies of scale that exist are adequately reflected in the Investment Adviser's fee structure.

**Indirect Benefits.** The Independent Directors received and considered information regarding indirect benefits the Investment Adviser may receive as a result of its relationship with the Fund. The Independent Directors further considered the reputational and/or marketing benefits the Investment Adviser may receive as a result of its association with the Fund. The Independent Directors took these indirect benefits into account when assessing the level of advisory fees paid to the Investment Adviser and concluded that the indirect benefits received were reasonable.

## **INVESTMENT ADVISER**

**UBS Asset Managers of Puerto Rico,**  
*a division of UBS Trust Company of Puerto Rico*  
250 Muñoz Rivera Avenue, 10<sup>th</sup> Floor  
San Juan, Puerto Rico 00918

## **ADMINISTRATOR, TRANSFER AGENT, AND CUSTODIAN**

**UBS Trust Company of Puerto Rico**  
250 Muñoz Rivera Avenue, 10<sup>th</sup> Floor  
San Juan, Puerto Rico 00918

## **U.S. LEGAL COUNSEL**

**Sidley, Austin, Brown & Wood, LLP**  
787 Seventh Avenue  
New York, New York 10019

## **INDEPENDENT AUDITORS**

**Ernst & Young LLP**  
One Manhattan West,  
New York, NY 10001

## **DIRECTORS AND OFFICERS**

**Carlos V. Ubiñas**  
Director, Chairman of the Board and President

**Agustín Cabrer-Roig**  
Director

**Carlos Nido**  
Director

**Vicente J. León**  
Director

**Luis M. Pellot-González**  
Director

**Clotilde Pérez**  
Director

**José J. Villamil**  
Director

**José Arias\***  
Senior Executive Vice President

**Leslie Highley, Jr.**  
Senior Vice President



**William Rivera**

First Vice President and Treasurer

**Javier Rodríguez**

Assistant Vice President and Assistant Treasurer

**Heydi Cuadrado**

Assistant Vice President

**Gustavo Romanach**

Assistant Vice President

**Liana Loyola, Esq.**

Secretary

**Remember that:**

- Mutual Fund's units are not bank deposits or FDIC insured.
- Mutual Fund's units are not obligations of or guaranteed by UBS Financial Services Incorporated of Puerto Rico or any of its affiliates.
- Mutual Fund's units are subject to investment risks, including possible loss of the principal amount invested.

\* Jose Arias retired from his position as Senior Executive Vice President effective on September 30, 2023.

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US MORTGAGE-BACKED  

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 & INCOME FUND FOR  

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 PUERTO RICO RESIDENTS, INC.