

UBS (Lux) Medium Term Bond Fund

Investment fund under Luxembourg law
("fonds commun de placement")

November 2010

Sales prospectus

Fund units may be acquired on the basis of this sales prospectus, the simplified prospectuses, the latest annual report and, if already published, the subsequent semi-annual report.

Only the information contained in the sales prospectus and in one of the documents referred to in the simplified prospectus shall be deemed to be valid.

Information on whether a Subfund of the UBS (Lux) Medium Term Bond Fund (hereinafter the "Fund") is listed on the Luxembourg Stock Exchange can be obtained from the Administrative Agent or the Luxembourg Stock Exchange website (www.bourse.lu).

The issue and redemption of units in UBS (Lux) Medium Term Bond Fund are subject to the regulations prevailing in the country concerned. The Fund keeps all investor information confidential, unless otherwise required by statutory or regulatory provisions.

Units of this Fund may not be offered, sold or delivered within the US.

Units in this Fund may not be offered, sold or delivered to citizens of the USA or persons resident in the USA and/or other natural or legal persons whose income and/or returns, regardless of origin, are subject to US income tax, as well as persons who are considered to be US persons pursuant to Regulation S of the US Securities Act of 1933 and/or the US Commodity Exchange Act, each as amended.

Management and administration

Management Company

UBS Fund Management (Luxembourg) S.A., R.C.S. B 154 210.

UBS Fund Management (Luxembourg) S.A. was founded on 1 July 2010 in the form of a public limited company in Luxembourg for an indefinite period. Its registered office is located at 33A avenue J.F. Kennedy, L-1855 Luxembourg.

The statutes of the Management Company were published in the "Mémorial, Recueil des Sociétés et Associations" (hereinafter referred to as "Mémorial") on 15.07.2010. The exclusive purpose of the Management Company is to manage UBS (Lux) Medium Term Bond Fund, Focused Fund, UBS (Lux) Strategy Fund, UBS (Lux) Money Market Fund, UBS (Lux) Money Market Invest, UBS (Lux) Institutional Fund and UBS (Lux) Islamic Fund and issue/redeem units in these Funds. The Management Company has fully paid-up equity capital of EUR 10,000,000.

Board of Directors

Chairman	Andreas Schlatter, Group Managing Director, UBS AG, Basel and Zurich
Members	Tim Blackwell, Managing Director, UBS AG, Paris Mario Cueni, Group Managing Director, UBS AG, Basel and Zürich Martin Thommen, Managing Director, UBS AG, Basel and Zürich Gilbert Schintgen, Executive Director, UBS Fund Management (Luxembourg) S.A., Luxembourg Christian Eibel, Executive Director, UBS AG, Basel and Zurich

Executive Board

Members	Gilbert Schintgen, Executive Director, UBS Fund Management (Luxembourg) S.A., Luxembourg Christel Müller, Executive Director, UBS Fund Management (Luxembourg) S.A., Luxembourg
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Portfolio Manager

UBS Global Asset Management (Australia) Ltd., Sydney	UBS (Lux) Medium Term Bond Fund – AUD
UBS Global Asset Management (Americas) Inc., Chicago, IL	UBS (Lux) Medium Term Bond Fund – US Government
UBS AG, UBS Global Asset Management, Basel and Zürich	UBS (Lux) Medium Term Bond Fund – CAD UBS (Lux) Medium Term Bond Fund – CHF UBS (Lux) Medium Term Bond Fund – EUR UBS (Lux) Medium Term Bond Fund – GBP UBS (Lux) Medium Term Bond Fund – USD

The Portfolio Manager is commissioned to manage the securities portfolio under the supervision and responsibility of the Board of Directors, and carries out all relevant transactions while adhering to the prescribed investment restrictions.

The Portfolio Management units of UBS Global Asset Management may transfer their mandates, fully or partially, to associated Portfolio Managers within UBS Global Asset Management. Responsibility in each case remains with the aforementioned Portfolio Manager assigned by the Management Company.

Merging assets

The Board of Directors may permit internal merging and/or joint management of assets from particular Subfunds in the interests of efficiency. In this case, assets from different Subfunds will be managed together. The assets under joint management are referred to as a "pool"; pools are used exclusively for internal management purposes. Pools are not separate units and cannot be accessed directly by unitholders.

Pooling

The Management Company may invest and manage all or part of the portfolio assets of two or more Subfunds (for this purpose called "participating Subfunds") in the form of a pool. Such an asset pool is created by transferring cash and other assets (if these assets are in line with the investment policy of the pool concerned) from each participating Subfund to the asset pool. The Management Company can then make further transfers to the individual asset pools. Equally, assets up to the amount of its participation can also be transferred back to a participating Subfund. The share of a participating Subfund in the respective asset pool is evaluated by reference to notional units of the same value. When an asset pool is created, the Board of Directors shall specify the initial value of the notional units (in a currency that the Board of Directors considers appropriate) and allot to each participating Subfund units in the total value of the cash (or other assets) it has contributed. The value of the notional units will then be determined by dividing the net assets of the asset pool by the number of existing notional units.

If additional cash or assets are contributed to or withdrawn from an asset pool, the notional units assigned to the participating Subfund concerned increase or diminish by a number, which is determined by dividing the contributed or withdrawn cash amount or assets by the current value of a unit. If cash is contributed to the asset pool, for calculation purposes it is reduced by an amount that the Board of Directors considers appropriate in order to take account of any tax expenses as well as the closing charges and acquisition costs relating to the investment of the cash concerned. If cash is withdrawn, a corresponding deduction may be made in order to take account of any costs related to the disposal of securities or other assets of the asset pool.

Dividends, interest and other income-like distributions, which are obtained from the assets of an asset pool, are allocated to the asset pool concerned and thus lead to an increase in the respective net assets. If the Fund is liquidated, the assets of an asset pool are allocated to the participating Subfund in proportion to their respective share in the asset pool.

Joint management

To reduce operating and management costs and at the same time to permit broader diversification of investments, the Board of Directors may decide to manage part or all of the assets of one or more Subfunds in combination with assets that belong to other Subfunds or to other undertakings for collective investment. In the following paragraphs, the term "jointly managed units" refers to the Subfunds and all units with or between which a joint management agreement would exist; the term "jointly managed assets" refers to the entire assets of these jointly managed units which are managed according to the aforementioned agreement.

As part of the joint management agreement, the Investment Manager is entitled to make decisions on investments and sales of assets on a consolidated basis for the relevant jointly managed units which have an influence on the composition of the Fund's portfolio. Each jointly managed unit holds a share in the jointly managed assets which is oriented to the share of its net assets in the aggregate value of the jointly managed assets. This proportionate holding applies to all investment categories which are held or acquired in the context of joint management. Decisions regarding investments and/or sales of investments have no effect on this participation arrangement, and further investments are allotted to the jointly managed units in the same proportions. In the event of a sale of assets, these will be subtracted proportionately from the jointly managed assets held by the individual jointly managed units.

In the case of new subscriptions for one of the jointly managed units, the subscription proceeds are to be allocated to the jointly managed units in accordance with the changed participation arrangement resulting from the increase in net assets of the jointly managed unit having benefited from the subscriptions. The level of the investments will be modified by the transfer of assets from the one jointly managed unit to the other, and thus adapted to suit the altered participation arrangement. Similarly, in the case of redemptions for one of the jointly managed units, the necessary liquid funds shall be taken from the liquid funds of the jointly managed units in accordance with the altered participation arrangement resulting from the reduction in net assets of the jointly managed unit which has been the subject of the redemptions, and in this case the particular level of all investments will be adjusted to suit the altered participation arrangement.

Unitholders are alerted to the fact that the joint management agreement may result in the composition of the assets of the particular Subfund being affected by events which concern other jointly managed units, e.g. subscriptions and redemptions, unless the members of the Board of Directors or one of the entities commissioned by the Management Company resort to special measures. If all other aspects remain unchanged, subscriptions received by a unit under joint management with the Subfund will therefore

result in an increase in the cash reserve of this Subfund. Conversely, redemptions of a unit under joint management with the Subfund will result in a reduction of the cash reserves of the Subfund. However, subscriptions and redemptions can be executed on the special account that is opened for each jointly managed unit outside the agreement and through which subscriptions and redemptions must pass. Because of the possibility of posting extensive subscriptions and redemptions to these special accounts, and the possibility that the Board of Directors or the entities commissioned by it may decide at any time to terminate the participation of the Subfund in the joint management agreement, the Subfund concerned may avoid having to rearrange its portfolio if this could adversely affect the interests of the Fund and its unitholders.

If a change in the portfolio composition of the particular Subfund as a result of redemptions or payments of fees and expenses referring to another jointly managed unit (i.e. which cannot be counted as belonging to the Subfund) might result in a violation of the investment restrictions applying to the particular Subfund, the relevant assets before implementing the change will be excluded from the agreement so that they are not affected by the resulting adjustments.

Jointly managed assets of Subfunds will only be managed jointly with assets which are to be invested according to the same investment objectives that apply to the jointly managed assets in order to ensure that investment decisions are reconcilable in all respects with the investment policy of the particular Subfund. Jointly managed assets may only be managed in common with assets for which the same Investment Manager is authorised to make decisions in investments and the sale of investments, and for which the Custodian Bank also acts as a depositary so as to ensure that the Custodian Bank is capable of performing its functions and responsibilities assumed in accordance with the statutory requirements in all respects for the Subfund. The Custodian Bank must always keep the assets of the Fund separate from those of the other jointly managed units; this allows it to determine the assets of each individual Subfund accurately at any time. Since the investment policy of the jointly managed units does not have to correspond exactly with that of the individual Subfunds, it is possible that their joint investment policy may be more restrictive than that of the other Subfunds.

The Board of Directors may decide to terminate the joint management agreement at any time without giving prior notice.

Unitholders may enquire at any time at the Management Company's registered office as to the percentage of jointly managed assets and units with which there is a joint management agreement at the time of their enquiry.

The composition and percentages of jointly managed assets must be stated in the annual reports.

Joint management agreements with non-Luxembourg units are permissible if:

- (1) the agreement in which the non-Luxembourg unit is involved is governed by Luxembourg law and Luxembourg jurisdiction or
- (2) each jointly managed unit is equipped with such rights that no creditor and no insolvency or bankruptcy administrator of the non-Luxembourg unit has access to the assets or is authorised to freeze them.

Custodian Bank and main paying agent

UBS (Luxembourg) S.A., 33A avenue J.F. Kennedy, L-1855 Luxembourg, (B.P. 2, L-2010 Luxembourg)

Pursuant to the custodian bank and paying agent agreement entered into with UBS (Luxembourg) S.A., a joint-stock company (société anonyme) with registered office at 33A, avenue J.F. Kennedy, L-1855 Luxembourg (the "Custodian Bank"), the Company has appointed the Custodian Bank as Custodian Bank and main Paying Agent of the Company.

The Custodian Bank fulfils its obligations and assumes the responsibilities arising from the Law of 20 December 2002 on undertakings for collective investment (the "Law") and the custodian bank agreement (the "Custodian Bank Agreement"), as amended. Pursuant to the Law and the custodian bank agreement, the Custodian Bank is responsible for (i) general supervision of all Fund assets and (ii) the safekeeping of the assets of the Fund entrusted to the Custodian Bank and held by the Custodian Bank or in its name and (iii) administrative activities in connection with the corresponding obligations.

Administrative Agent

UBS Fund Services (Luxembourg) S.A., 33A avenue J.F. Kennedy, L-1855 Luxembourg (B.P. 91, L-2010 Luxembourg)

UBS Fund Services (Luxembourg) S.A., as the Administrative Agent, is responsible for the general administrative duties involved in managing the Fund and prescribed by Luxembourg law. These administrative services mainly include domiciliation, calculation of the net asset value per unit and the keeping of the Fund's accounts as well as reporting.

Auditor of the Fund

Ernst & Young S.A., 7, Parc d'Activité Syrdall, L-5365 Munsbach

Auditor of the Management Company

Ernst & Young S.A., 7, Parc d'Activité Syrdall, L-5365 Munsbach

Paying agents

UBS (Luxembourg) S.A., 33A avenue J.F. Kennedy, L-1855 Luxembourg (B.P. 2, L-2010 Luxembourg) and other paying agents in the various distribution countries.

Sales agencies and Distributors, sales agencies listed in the sales prospectus

UBS (Luxembourg) S.A., 33A avenue J.F. Kennedy, L-1855 Luxembourg (B.P. 2, L-2010 Luxembourg) and other sales agencies in the individual distribution countries.

Profile of the typical investor

UBS (Lux) Medium Term Bond Fund – AUD

UBS (Lux) Medium Term Bond Fund – CAD

UBS (Lux) Medium Term Bond Fund – CHF

UBS (Lux) Medium Term Bond Fund – EUR

UBS (Lux) Medium Term Bond Fund – GBP

UBS (Lux) Medium Term Bond Fund – USD

The Subfunds are suitable for investors who wish to invest in a broadly diversified portfolio of bonds, but who want to restrict interest-rate risk to the short- and medium-term segment.

UBS (Lux) Medium Term Bond Fund – US Government

The Subfund is suitable for investors with a medium-term investment horizon who wish to invest in a broadly diversified portfolio of US debt securities and rights issued or guaranteed by the US administration or one of its agencies or instrumentalities.

Historical performance

The historical performance of the individual Subfunds is outlined in the simplified prospectus relating to each Subfund.

Risk profile

Subfund investments may be subject to substantial fluctuations and no guarantee can be given that the value of a Fund unit will not fall below its value at the time of acquisition.

Factors that can trigger such fluctuations or influence their scale include but are not limited to:

- company-specific changes
- changes in interest rates
- changes in exchange rates
- changes affecting economic factors such as employment, public expenditure and indebtedness, inflation
- changes in the legal environment
- changes in investor confidence in certain investment classes (e.g. equities), markets, countries, industries and sectors
- changes in the prices of raw materials.

By diversifying investments, the Portfolio Manager seeks to partially reduce the negative impact of these risks on the value of the Subfunds.

The Portfolio Manager may use special techniques and financial instruments whose underlying assets are securities, money market instruments and other financial instruments. These instruments may be of crucial importance for certain Subfunds. The risks connected with the use of these techniques are described in this sales prospectus under "Risks connected with the use of derivatives" and "Use of futures and options".

In the case of Subfunds that are exposed to a particular risk through the nature of their investments, relevant risk information is given in the investment policy of the Subfund in question.

Total Expense Ratio ("TER")

The TER is the ratio between the total gross expenses of the Fund and its average net assets. The TER for each Subfund is set forth in the respective simplified prospectus (also in the annual and semi-annual reports in the case of Switzerland).

Portfolio Turnover ("PTO")

The PTO is calculated on the basis of the financial year by applying the following formula:

$$\begin{aligned} \text{Securities purchased} &= X & \text{Subscriptions for units of the Subfund} &= S \\ \text{Securities sold} &= Y & \text{Redemptions of units of the Subfund} &= T \\ \text{Total 1} &= \text{total securities} & \text{Total 2} &= \text{total transactions involving} \\ \text{transactions} &= X+Y & \text{units of the Subfund} &= S+T \end{aligned}$$

$$\text{Average monthly total assets} = M$$

$$\text{Turnover} = [(\text{Total 1} - \text{Total 2})/M] * 100$$

The PTO for each Subfund is set forth in the respective simplified prospectus.

The Fund

Fund structure

The Fund offers investors various Subfunds ("umbrella construction") which invest in accordance with the investment policy described in this sales prospectus. The specific details on each Subfund are defined in this sales prospectus, which will be updated on the inception of each new Subfund.

The following Subfunds and unit classes are currently available (explanations are provided in the footnotes below the following tables):

An overview of the unit classes

UBS (Lux) Medium Term Bond Fund – EUR

Currency of account of the Subfund: EUR

Unit class	Currency	Initial issue price ¹⁾	Launch period/ date*	Minimum sub- scription	Smallest tradable unit	Maximum fee p.a. (maximum management fee p.a.)	Taxe d'abon- nement p.a.	Form of custody	Use of earnings
P-dist	EUR	126.54	01.03.1999	–	0.001	0.900% ²⁾ (0.720%)	0.05%	Bearer	Distributing
P-acc	EUR	100 (XEU 100)	30.06.1995	–	0.001	0.900% ²⁾ (0.720%)	0.05%	Bearer	Accumulating
N-dist	EUR	100	Not yet known	–	0.001	1.000% ²⁾ (0.800%)	0.05%	Bearer	Distributing
N-acc	EUR	100	Not yet known	–	0.001	1.000% ²⁾ (0.800%)	0.05%	Bearer	Accumulating
H-dist	EUR	300'000	Not yet known	–	0.1	0.750% ²⁾ (0.600%)	0.05%	Bearer	Distributing
H-acc	EUR	300'000	Not yet known	–	0.1	0.750% ²⁾ (0.600%)	0.05%	Bearer	Accumulating
K-1-dist	EUR	3 Million	Not yet known	–	0.1	0.550% ²⁾ (0.440%)	0.05%	Bearer	Distributing
K-1-acc	EUR	3 Million	Not yet known	–	0.1	0.550% ²⁾ (0.440%)	0.05%	Bearer	Accumulating
K-2-dist	EUR	100'000	Not yet known	–	0.001	0.400% ³⁾ (0.320%)	0.05%	Regis- tered ⁴⁾	Distributing
K-2-acc	EUR	100'000	Not yet known	–	0.001	0.400% ³⁾ (0.320%)	0.05%	Regis- tered ⁴⁾	Accumulating
F-dist	EUR	100	Not yet known	–	0.001	0.450% ³⁾ (0.360%)	0.01%	Regis- tered ⁴⁾	Distributing

Unit class	Currency	Initial issue price ¹⁾	Launch period/date*	Minimum subscription	Smallest tradable unit	Maximum fee p.a. (maximum management fee p.a.)	Tax d'abonement p.a.	Form of custody	Use of earnings
F-acc	EUR	100	04.11.2009	–	0.001	0.450% ²⁾ (0.360%)	0.01%	Registered ⁵⁾	Accumulating
Q-dist	EUR	100	Not yet known	–	0.001	0.500% ²⁾ (0.400%)	0.05%	Bearer	Distributing
Q-acc	EUR	100	28.05.2008	–	0.001	0.500% ²⁾ (0.400%)	0.05%	Bearer	Accumulating
I-46-dist	EUR	100	Not yet known	–	0.001	0.460% ²⁾ (0.370%)	0.01%	Bearer ⁷⁾	Distributing
I-46-acc	EUR	100	01.03.2010	–	0.001	0.460% ²⁾ (0.370%)	0.01%	Bearer ⁷⁾	Accumulating
I-40-dist	EUR	100	Not yet known	5 Million**	0.001	0.400% ²⁾ (0.320%)	0.01%	Bearer ⁷⁾	Distributing
I-40-acc	EUR	100	05.02.2010	5 Million**	0.001	0.400% ²⁾ (0.320%)	0.01%	Bearer ⁷⁾	Accumulating
I-34-dist	EUR	100	Not yet known	20 Million***	0.001	0.340% ²⁾ (0.270%)	0.01%	Bearer ⁷⁾	Distributing
I-34-acc	EUR	100	29.01.2010	20 Million***	0.001	0.340% ²⁾ (0.270%)	0.01%	Bearer ⁷⁾	Accumulating
I-6.5-dist	EUR	100	Not yet known	–	0.001	0.065% ⁴⁾ (0.000%)	0.01%	Registered ⁵⁾	Distributing
I-6.5-acc	EUR	100	Not yet known	–	0.001	0.065% ⁴⁾ (0.000%)	0.01%	Registered ⁵⁾	Accumulating
I-X-dist	EUR	100	Not yet known	–	0.001	0.000% ⁵⁾ (0.000%)	0.01%	Registered ⁵⁾	Distributing
I-X-acc	EUR	100	Not yet known	–	0.001	0.000% ⁵⁾ (0.000%)	0.01%	Registered ⁵⁾	Accumulating
U-X-dist	EUR	10'000	Not yet known	–	0.001	0.000% ⁵⁾ (0.000%)	0.01%	Registered ⁵⁾	Distributing
U-X-acc	EUR	10'000	Not yet known	–	0.001	0.000% ⁵⁾ (0.000%)	0.01%	Registered ⁵⁾	Accumulating

UBS (Lux) Medium Term Bond Fund – CHF

Currency of account of the Subfund: CHF

Unit class	Currency	Initial issue price ¹⁾	Launch period/date*	Minimum subscription	Smallest tradable unit	Maximum fee p.a. (maximum management fee p.a.)	Tax d'abonement p.a.	Form of custody	Use of earnings
P-dist	CHF	100	28.06.1995	–	0.001	0.900% ²⁾ (0.720%)	0.05%	Bearer	Distributing
P-acc	CHF	100	28.06.1995	–	0.001	0.900% ²⁾ (0.720%)	0.05%	Bearer	Accumulating
N-dist	CHF	100	Not yet known	–	0.001	1.000% ²⁾ (0.800%)	0.05%	Bearer	Distributing
N-acc	CHF	100	Not yet known	–	0.001	1.000% ²⁾ (0.800%)	0.05%	Bearer	Accumulating
H-dist	CHF	500'000	Not yet known	–	0.1	0.750% ²⁾ (0.600%)	0.05%	Bearer	Distributing
H-acc	CHF	500'000	Not yet known	–	0.1	0.750% ²⁾ (0.600%)	0.05%	Bearer	Accumulating
K-1-dist	CHF	5 Million	Not yet known	–	0.1	0.550% ²⁾ (0.440%)	0.05%	Bearer	Distributing
K-1-acc	CHF	5 Million	Not yet known	–	0.1	0.550% ²⁾ (0.440%)	0.05%	Bearer	Accumulating
K-2-dist	CHF	100'000	Not yet known	–	0.001	0.400% ³⁾ (0.320%)	0.05%	Registered ⁵⁾	Distributing
K-2-acc	CHF	100'000	Not yet known	–	0.001	0.400% ³⁾ (0.320%)	0.05%	Registered ⁵⁾	Accumulating
F-dist	CHF	100	Not yet known	–	0.001	0.450% ³⁾ (0.360%)	0.01%	Registered ⁵⁾	Distributing
F-acc	CHF	100	Not yet known	–	0.001	0.450% ³⁾ (0.360%)	0.01%	Registered ⁵⁾	Accumulating
Q-dist	CHF	100	Not yet known	–	0.001	0.500% ²⁾ (0.400%)	0.05%	Bearer	Distributing
Q-acc	CHF	100	Not yet known	–	0.001	0.500% ²⁾ (0.400%)	0.05%	Bearer	Accumulating
I-46-dist	CHF	100	Not yet known	–	0.001	0.460% ²⁾ (0.370%)	0.01%	Bearer ⁷⁾	Distributing
I-46-acc	CHF	100	Not yet known	–	0.001	0.460% ²⁾ (0.370%)	0.01%	Bearer ⁷⁾	Accumulating
I-34-dist	CHF	100	Not yet known	10 Million**	0.001	0.340% ²⁾ (0.270%)	0.01%	Bearer ⁷⁾	Distributing
I-34-acc	CHF	100	Not yet known	10 Million**	0.001	0.340% ²⁾ (0.270%)	0.01%	Bearer ⁷⁾	Accumulating
I-25-dist	CHF	100	Not yet known	30 Million***	0.001	0.250% ²⁾ (0.200%)	0.01%	Bearer ⁷⁾	Distributing
I-25-acc	CHF	100	Not yet known	30 Million***	0.001	0.250% ²⁾ (0.200%)	0.01%	Bearer ⁷⁾	Accumulating
I-6.5-dist	CHF	100	Not yet known	–	0.001	0.065% ⁴⁾ (0.000%)	0.01%	Registered ⁵⁾	Distributing
I-6.5-acc	CHF	100	Not yet known	–	0.001	0.065% ⁴⁾ (0.000%)	0.01%	Registered ⁵⁾	Accumulating
I-X-dist	CHF	100	Not yet known	–	0.001	0.000% ⁵⁾ (0.000%)	0.01%	Registered ⁵⁾	Distributing
I-X-acc	CHF	100	19.02.2010	–	0.001	0.000% ⁵⁾ (0.000%)	0.01%	Registered ⁵⁾	Accumulating
U-X-dist	CHF	10'000	Not yet known	–	0.001	0.000% ⁵⁾ (0.000%)	0.01%	Registered ⁵⁾	Distributing
U-X-acc	CHF	10'000	26.02.2010	–	0.001	0.000% ⁵⁾ (0.000%)	0.01%	Registered ⁵⁾	Accumulating

UBS (Lux) Medium Term Bond Fund – USD

Currency of account of the Subfund: USD

Unit class	Currency	Initial issue price ¹⁾	Launch period/date*	Minimum subscription	Smallest tradable unit	Maximum fee p.a. (maximum management fee p.a.)	Tax d'abonement p.a.	Form of custody	Use of earnings
P-dist	USD	121.77	01.03.1999	–	0.001	0.900% ²⁾ (0.720%)	0.05%	Bearer	Distributing
P-acc	USD	100	30.06.1995	–	0.001	0.900% ²⁾ (0.720%)	0.05%	Bearer	Accumulating
N-dist	USD	100	Not yet known	–	0.001	1.000% ²⁾ (0.800%)	0.05%	Bearer	Distributing
N-acc	USD	100	Not yet known	–	0.001	1.000% ²⁾ (0.800%)	0.05%	Bearer	Accumulating
H-dist	USD	500'000	Not yet known	–	0.1	0.750% ²⁾ (0.600%)	0.05%	Bearer	Distributing
H-acc	USD	500'000	Not yet known	–	0.1	0.750% ²⁾ (0.600%)	0.05%	Bearer	Accumulating
K-1-dist	USD	5 Million	Not yet known	–	0.1	0.550% ²⁾ (0.440%)	0.05%	Bearer	Distributing
K-1-acc	USD	5 Million	Not yet known	–	0.1	0.550% ²⁾ (0.440%)	0.05%	Bearer	Accumulating
K-2-dist	USD	100'000	Not yet known	–	0.001	0.400% ³⁾ (0.320%)	0.05%	Registered ⁵⁾	Distributing
K-2-acc	USD	100'000	Not yet known	–	0.001	0.400% ³⁾ (0.320%)	0.05%	Registered ⁵⁾	Accumulating
F-dist	USD	100	Not yet known	–	0.001	0.450% ³⁾ (0.360%)	0.01%	Registered ⁵⁾	Distributing
F-acc	USD	100	Not yet known	–	0.001	0.450% ³⁾ (0.360%)	0.01%	Registered ⁵⁾	Accumulating
Q-dist	USD	100	Not yet known	–	0.001	0.500% ²⁾ (0.400%)	0.05%	Bearer	Distributing
Q-acc	USD	100	Not yet known	–	0.001	0.500% ²⁾ (0.400%)	0.05%	Bearer	Accumulating
I-46-dist	USD	100	Not yet known	–	0.001	0.460% ²⁾ (0.370%)	0.01%	Bearer ⁷⁾	Distributing
I-46-acc	USD	100	Not yet known	–	0.001	0.460% ²⁾ (0.370%)	0.01%	Bearer ⁷⁾	Accumulating
I-40-dist	USD	100	Not yet known	10 Million**	0.001	0.400% ²⁾ (0.320%)	0.01%	Bearer ⁷⁾	Distributing
I-40-acc	USD	100	Not yet known	10 Million**	0.001	0.400% ²⁾ (0.320%)	0.01%	Bearer ⁷⁾	Accumulating
I-34-dist	USD	100	Not yet known	30 Million***	0.001	0.340% ²⁾ (0.270%)	0.01%	Bearer ⁷⁾	Distributing
I-34-acc	USD	100	Not yet known	30 Million***	0.001	0.340% ²⁾ (0.270%)	0.01%	Bearer ⁷⁾	Accumulating
I-6.5-dist	USD	100	Not yet known	–	0.001	0.065% ⁴⁾ (0.000%)	0.01%	Registered ⁵⁾	Distributing
I-6.5-acc	USD	100	Not yet known	–	0.001	0.065% ⁴⁾ (0.000%)	0.01%	Registered ⁵⁾	Accumulating
I-X-dist	USD	100	Not yet known	–	0.001	0.000% ⁵⁾ (0.000%)	0.01%	Registered ⁵⁾	Distributing
I-X-acc	USD	100	Not yet known	–	0.001	0.000% ⁵⁾ (0.000%)	0.01%	Registered ⁵⁾	Accumulating
U-X-dist	USD	10'000	Not yet known	–	0.001	0.000% ⁵⁾ (0.000%)	0.01%	Registered ⁵⁾	Distributing
U-X-acc	USD	10'000	Not yet known	–	0.001	0.000% ⁵⁾ (0.000%)	0.01%	Registered ⁵⁾	Accumulating

UBS (Lux) Medium Term Bond Fund – US Government

Currency of account of the Subfund: USD

Unit class	Currency	Initial issue price ¹⁾	Launch period/date*	Minimum subscription	Smallest tradable unit	Maximum fee p.a. (maximum management fee p.a.)	Tax d'abonement p.a.	Form of custody	Use of earnings
P-dist	USD	1'000	04.11.1993	–	0.001	0.900% ²⁾ (0.720%)	0.05%	Bearer	Distributing
P-acc	USD	1'000	04.11.1993	–	0.001	0.900% ²⁾ (0.720%)	0.05%	Bearer	Accumulating
N-dist	USD	100	Not yet known	–	0.001	1.000% ²⁾ (0.800%)	0.05%	Bearer	Distributing
N-acc	USD	100	Not yet known	–	0.001	1.000% ²⁾ (0.800%)	0.05%	Bearer	Accumulating
H-dist	USD	500'000	Not yet known	–	0.1	0.750% ²⁾ (0.600%)	0.05%	Bearer	Distributing
H-acc	USD	500'000	Not yet known	–	0.1	0.750% ²⁾ (0.600%)	0.05%	Bearer	Accumulating
K-1-dist	USD	5 Million	Not yet known	–	0.1	0.550% ²⁾ (0.440%)	0.05%	Bearer	Distributing
K-1-acc	USD	5 Million	Not yet known	–	0.1	0.550% ²⁾ (0.440%)	0.05%	Bearer	Accumulating
K-2-dist	USD	100'000	Not yet known	–	0.001	0.400% ³⁾ (0.320%)	0.05%	Registered ⁵⁾	Distributing
K-2-acc	USD	100'000	Not yet known	–	0.001	0.400% ³⁾ (0.320%)	0.05%	Registered ⁵⁾	Accumulating
F-dist	USD	100	Not yet known	–	0.001	0.450% ³⁾ (0.360%)	0.01%	Registered ⁵⁾	Distributing
F-acc	USD	100	Not yet known	–	0.001	0.450% ³⁾ (0.360%)	0.01%	Registered ⁵⁾	Accumulating
Q-dist	USD	100	Not yet known	–	0.001	0.500% ²⁾ (0.400%)	0.05%	Bearer	Distributing
Q-acc	USD	100	Not yet known	–	0.001	0.500% ²⁾ (0.400%)	0.05%	Bearer	Accumulating
I-46-dist	USD	100	Not yet known	–	0.001	0.460% ²⁾ (0.370%)	0.01%	Bearer ⁷⁾	Distributing
I-46-acc	USD	100	Not yet known	–	0.001	0.460% ²⁾ (0.370%)	0.01%	Bearer ⁷⁾	Accumulating
I-40-dist	USD	100	Not yet known	10 Million**	0.001	0.400% ²⁾ (0.320%)	0.01%	Bearer ⁷⁾	Distributing

Unit class	Currency	Initial issue price ¹⁾	Launch period/date*	Minimum subscription	Smallest tradable unit	Maximum fee p.a. (maximum management fee p.a.)	Taxe d'abonnement p.a.	Form of custody	Use of earnings
I-X-acc	GBP	100	Not yet known	–	0.001	0.000% ²⁾ (0.000%)	0.01%	Registered ⁶⁾	Accumulating
U-X-dist	GBP	10'000	Not yet known	–	0.001	0.000% ³⁾ (0.000%)	0.01%	Registered ⁶⁾	Distributing
U-X-acc	GBP	10'000	Not yet known	–	0.001	0.000% ³⁾ (0.000%)	0.01%	Registered ⁶⁾	Accumulating

Footnotes:

* In the tables above, "not yet known" is used for unit classes which have not yet been launched at the time of publication of this sales prospectus and whose launch periods/dates have not yet been determined. Investors are requested to contact their investment adviser for further information.

** Upon subscription,
(i) a minimum subscription must be made pursuant to the table (or the corresponding currency equivalent)

or

(ii) be based on a written agreement of the institutional investor with UBS AG - or with one of its authorised counterparties - for total assets managed by UBS or its portfolio in collective capital investments of UBS must be more than CHF 30,000,000 (or the corresponding currency equivalent).

*** Upon subscription,

(i) a minimum subscription must be made pursuant to the table (or the corresponding currency equivalent)

or

(ii) be based on a written agreement of the institutional investor with UBS AG - or with one of its authorised counterparties - for total assets managed by UBS or its portfolio in collective capital investments of UBS must be more than CHF 100,000,000 (or the corresponding currency equivalent).

¹⁾ Plus issuing commission of 6% maximum and any stamp duties and fees.

²⁾ Flat fee of the Management Company. This will be used for the management, asset management and sale of the Subfunds and to cover the costs incurred. The amount in brackets reflects the value for the management fee, which makes up 80% of the value of the flat fee.

³⁾ Flat fee of the Management Company. This will be used for the management, asset management and sale of the Subfunds and to cover the costs incurred. An additional fee will also be charged; this will be determined via a separate contract between the investor and UBS AG or one of its authorised distribution partners. The amount in brackets reflects the value for the management fee, which makes up 80% of the value of the flat fee.

⁴⁾ Management Company fee. A fee covering the costs for Fund administration (comprising the costs of the Management Company, Administrative Agent and Custodian Bank) will be charged directly to the Subfund's assets. The costs for asset management and distribution will be charged to investors under a separate contract with UBS AG or one of its authorised counterparties.

⁵⁾ Management Company fee. Costs in connection with the services to be performed for unit classes "I-X" and "U-X" will be settled via the compensation to which UBS AG is entitled under a separate contract with the investor.

⁶⁾ Registered units must be posted to an account and held in safekeeping at UBS AG.

⁷⁾ The Custodian Bank ensures that the bearer units are issued to and may be transferred to institutional investors only.

Description of unit class types

Not all the types of unit class described below have to be offered at all times. The table above lists the unit classes currently available. The Management Company may decide to set up and offer corresponding unit classes of these types at an appropriate time. The following descriptions of unit class types and the tables in "An overview of the unit classes" will be adapted on each adjustment to the prospectus, if necessary.

P Units in classes with "P" in their name are available to all investors. Unit class "P" differs from unit classes "H" and "K 1" with regard to the level of the flat fee. Only bearer units are issued.

N Units in classes with "N" in their name (units with restrictions on the distribution partners or countries) are issued exclusively through Distributors domiciled in Spain, Italy, Portugal and Germany authorised by UBS AG, as well as, where appropriate, through Distributors in further distribution countries, provided this has been decided by the Board of Directors. Only bearer units are issued.

H Units in classes with "H" in their name are available to all investors. Unit class "H" differs from unit classes "P" and "K 1" with regard to the level of the flat fee. Only bearer units are issued.

K-1 Units in classes with "K-1" in their name are available to all investors. Unit class "K-1" differs from unit classes "P" and "H" with regard to the level of the flat fee. Only bearer units are issued.

K-2 Units in classes with "K-2" in their name are exclusively reserved for investors who have concluded a written asset management mandate or a written consulting mandate with UBS AG or one of its authorised counterparties, and who envisage a minimum investment of CHF 10,000,000 or a countervalue corresponding to this amount in the reference currency of the portfolio assigned to the asset management mandate or consulting mandate. Only registered units are issued.

F Units in classes with "F" in their name may be issued only to investors who have concluded a written asset management mandate with UBS AG or one of its selected banking subsidiaries. Upon termination of the mandate, investors lose the right to hold units in the Fund. UBS AG or its selected banking subsidiaries may return these units to the Fund at the prevailing net asset value and at no charge. Only registered units are issued.

Q Units in classes with "Q" in their name are reserved for professionals of the financial sector who make the following investments:
(a) on their own behalf;
(b) on behalf of their clients within a discretionary mandate; or
(c) on behalf of an undertaking for collective investment in transferable securities (UCITS) managed by a professional of the financial sector, provided that

(i) UBS AG has authorised, in writing, said professional to subscribe to the unit class; and

(ii) in cases (b) and (c), said professional has been duly authorised by the supervisory authority to which he/she is subject to carry out such transactions, and is domiciled in either Austria, Belgium, Bulgaria, Cyprus, Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Iceland, Ireland, Italy, Latvia, Liechtenstein, Lithuania, Luxembourg, Malta, the Netherlands, Norway, Poland, Portugal, Romania, Slovakia, Slovenia, Spain, Sweden or the United Kingdom, and/or is operating on behalf of another professional of the financial sector who has been authorised in writing by UBS AG and is domiciled in one of the above countries.

Admission of investors in further distribution countries shall be decided by the Board of Directors.

Only bearer units are issued.

I Units in classes with "I-46", "I-40", "I-34" and "I-25" in their name are exclusively reserved for institutional investors. Only bearer units are issued.

I-6.5

Units in classes with "I-6.5" in their name are exclusively reserved for institutional investors who have signed a portfolio management contract, an advisory agreement or an agreement on investing in Subfunds of the umbrella fund with UBS AG or one of its authorised counterparties. A fee covering the costs for Fund administration (comprising the costs of the Management Company, Administrative Agent and Custodian Bank) is charged directly to the Subfund. The costs for asset management and distribution are charged to investors under the aforementioned agreements. Only registered units are issued.

I-X

Units in classes with "I-X" in their name are exclusively reserved for institutional investors who have signed a portfolio management contract, an advisory agreement or an agreement on investing in Subfunds of the umbrella fund with UBS AG or one of its authorised counterparties. The costs for asset management, Fund administration (comprising the costs of the Management Company, Administrative Agent and Custodian Bank) and distribution are charged to investors under the aforementioned agreements. Only registered units are issued.

U-X

Units in classes with "U-X" in their name are exclusively reserved for institutional investors who have signed a portfolio management contract, an advisory agreement or an agreement on investing an amount defined in the prospectus in Subfunds of the umbrella fund with UBS AG or one of its authorised counterparties. The costs for asset management, Fund administration (comprising the costs of the Management Company, Administrative Agent and Custodian Bank) and distribution are charged to investors under the aforementioned agreements. This unit class is exclusively geared towards financial products (i.e. fund of funds or other pooled structures in accordance with different legislation). Only registered units are issued.

Legal aspects

UBS (Lux) Medium Term Bond Fund was established as an open-ended investment fund without legally independent status in the form of a collective investment fund ("fonds commun de placement", FCP) pursuant to Part I of the Luxembourg Law relating to undertakings for collective investment of 30 March 1988 and adapted in November 2006 to conform to Part I of the Luxembourg Law of 20 December 2002 relating to undertakings for collective investment (hereinafter "Law of 2002"). It was originally established under the title UBS (Lux) Medium Term Invest in compliance with the Management Regulations approved by the Board of Directors of UBS Medium Term Bond Fund Management Company S.A. (formerly UBS Medium Term Bond Invest Management Company S.A.) on 1 July 1995. UBS (Lux) Medium Term Invest was renamed UBS (Lux) Medium Term Bond Fund on 1 March 1999. The activities of UBS Medium Term Bond Fund Management Company S.A., in its capacity as Management Company of UBS (Lux) Medium Term Bond Fund, ended on 14.11.2010.

On 15.11.2010, UBS Fund Management (Luxembourg) S.A. assumed the function of Management Company.

The Management Regulations were published on 27 June 1995, and amendments were published on 14 May 1996, 16 April 1997, 30 September 1998, 3 March 1999, 13 November 1999, 1 March 2001, 30 May 2003, 8 November 2006 and by way of a notice of deposit on 15 November 2010 in the Luxembourg "Mémorial".

Each amendment deposited is announced in the "Mémorial". The new Management Regulations come into force on the date they are deposited with the Commercial and Company Register of the District Court in Luxembourg.

The consolidated version is held by the Commercial and Company Register of the District Court in Luxembourg for inspection.

The Fund has no legal personality as an investment fund. The entire net assets of each Subfund are the undivided property of all unitholders who have equal rights in proportion to the number of units they hold. These assets are separate from the assets of the Management Company. The securities and other assets of the Fund are managed by UBS Fund Management (Luxembourg) S.A. as separate trust assets in the interests and for the account of the unitholders.

The Management Regulations give the Management Company the authority to establish different Subfunds for the Fund as well as different unit classes with specific characteristics within these Subfunds. This sales prospectus will be updated each time a new Subfund or an additional unit class is launched.

There is no limit on the size of the net assets, the number of units, number of Subfunds or the duration of the Fund and its subfunds.

The Fund forms an indivisible legal entity. With respect to the unitholders, each Subfund is regarded as being separate from the others. The assets of a Subfund can, however, be used to offset only the liabilities which the Subfund concerned has assumed.

The acquisition of Fund units implies acceptance of the Management Regulations by the unitholder.

The Management Regulations do not provide for a general meeting of the unitholders.

The Fund's financial year ends on the last day of February.

Investment objective and investment policy of the Subfunds

Investment objective

The aim of the Fund is to achieve high current earnings, while giving due consideration to capital security and the liquidity of the Fund's assets. The average term of the Subfund's investments should be in the medium capital market maturities segment, in other words generally between one and six years. The remaining term of the individual investments must not exceed 10 years. For floating-rate debt securities and claims, maturity is considered to be the date of the next interest-rate adjustment.

Investment policy

The Subfunds mainly invest their assets in debt securities and claims.

Debt securities and claims include bonds, notes (including loan participation notes), secured loans, all types of asset-backed securities and similar fixed- and floating-rate secured or unsecured debt instruments.

The Subfunds may also invest their assets in money market instruments and in convertible, exchangeable and warrant bonds and convertible debentures as well as in equities, equity rights and warrants on securities.

Furthermore, the Subfunds may invest in collateralized debt obligations (CDO), credit default notes (CDN) and inflation-linked notes (ILN).

Secured loans are senior, transferable securities secured by a pledge that are generally interest-bearing on a floating-rate basis.

Convertible debentures entitle the holders and/or the issuers of a bond to exchange the bond for shares on a predetermined date in the future.

Credit default notes (CDN) are fixed-income securities into which is embedded a credit derivative which is handled in a similar way to credit default swaps (see point 4.5 of the "Investment principles"). Investments in CDN are subject to the provisions in point 4 of the "General investment principles".

Inflation-linked notes (ILN) are fixed-income and floating-rate securities whose interest income is linked to an inflation rate.

Equities and equity rights refer to shares and share-type securities.

The average remaining term of the Subfunds' investments must not exceed six years, whereby the residual maturity of the individual investments may not exceed 10 years.

For floating-rate debt securities and claims, maturity is considered to be the date of the next interest-rate adjustment.

The aforementioned securities and loan stock rights are securities as defined in Article 41 of the Law of 2002 where this is required under the terms of the investment restrictions detailed below.

In line with the investment principles below, each Subfund may buy and sell futures and options, enter into swap transactions (swaps, total return swaps, credit default swaps and inflation swaps) on financial instruments as described in point 1.1 g) of the "Investment principles", and conduct transactions involving options on securities other than for hedging purposes.

In the "US Government" Subfund, these include euro-dollar deposits.

The markets in options, futures and swaps are volatile; both the opportunity to achieve gains as well as the risk of suffering losses are higher than with investments in securities.

These techniques and instruments will be employed only if they are compatible with the investment policies of the individual Subfunds and do not adversely affect their quality. Each Subfund may accessarily hold liquid assets in all currencies in which investments are permitted.

With the Subfunds, care is also taken to ensure that investments are broadly diversified in terms of markets, sectors, borrowers, ratings and companies. For this purpose, the Subfunds may invest up to 10% of their net assets in existing UCITS and UCI, unless otherwise defined in the individual Subfund's investment policy.

UBS (Lux) Medium Term Bond Fund – AUD

UBS (Lux) Medium Term Bond Fund – CAD

UBS (Lux) Medium Term Bond Fund – CHF

UBS (Lux) Medium Term Bond Fund – EUR

UBS (Lux) Medium Term Bond Fund – GBP

UBS (Lux) Medium Term Bond Fund – USD

These Subfunds invest at least two-thirds of their assets in debt securities and claims as defined above, issued by public-sector, semi-public or private borrowers and denominated in the currency of the respective Subfund or with an option on the currency of the respective Subfund. Investments in UBS (Lux) Medium Term Bond Fund – EUR also include all the currencies of the EMU participating countries for as long as these national currencies remain legal tender.

Moreover, all the Subfunds may invest up to one-third of their assets in debt securities and claims denominated in a currency other than that of the respective Subfund. However, the portion of investments in foreign currencies not hedged against the currency of account of the respective Subfund may not exceed 10% of net assets.

After deducting cash and cash equivalents, the Subfunds may invest up to one-third of their net assets in money market instruments. Up to 25% of their net assets may be invested in convertible, exchangeable and warrant-linked bonds as well as convertible debentures.

In addition, after deducting cash and cash equivalents, the Subfunds may invest up to 10% of their net assets in equities, equity rights and warrants as well as shares, other equity shares and dividend-right certificates acquired through the exercise of conversion and subscription rights or warrants, or warrants remaining after the separate sale of ex-issues and any equities acquired with these warrants.

The equities acquired by exercise or subscription must be sold no later than 12 months after they were acquired.

The average remaining term of the Subfunds' investments must not exceed six years, whereby the residual maturity of the individual investments may not exceed 10 years. For floating-rate debt securities and claims, maturity is considered to be the date of the next interest-rate adjustment.

UBS (Lux) Medium Term Bond Fund – US Government

The Subfund invests at least two-thirds of its assets in debt securities and rights as defined above, issued or guaranteed by the US administration or one of its agencies or instrumentalities. These investments are mainly US Treasury bonds and mortgage-backed securities, including mortgage pass-throughs, collateralized mortgage obligations (CMOs), real-estate mortgage investment conduits (REMICs) and stripped mortgage-backed securities (SMBs). In addition to issues of the US administration,

consideration will primarily be given to securities issued by the Federal National Mortgage Association (Fannie Mae or FNMA) and the Federal Home Loan Mortgage Corporation (Freddie Mac or FHLMC). Issues by the FNMA and the FHLMC are not officially guaranteed by the US administration. The guarantee of the issuer and accordingly its creditworthiness are, however, reinforced by its right to demand credit from the US administration.

Generally, mortgage-backed securities represent a direct or indirect participation in mortgages secured by real estate. Mortgage-backed securities are secured or payable by means of the latter. Every issue of mortgage-backed securities (with mortgage-pass-throughs, identified by a pool number, or with CMOs, REMICs or SMBs, by a serial number) has the exclusive right to the cash flow from the mortgage loans or securities securing the issue by means of a pledge or otherwise. Accordingly, each issue is actually legally independent and is viewed, when observing the relevant investment restrictions, as a separate issuer.

After deducting cash and cash equivalents, the Subfund may invest up to one-third of its net assets in money market instruments. Up to 25% of their net assets may be invested in convertible, exchangeable and warrant-linked bonds as well as convertible debentures.

In addition, after deducting cash and cash equivalents, the Subfund may invest up to 10% of its net assets in equities, equity rights and warrants as well as shares, other equity shares and dividend-right certificates acquired through the exercise of conversion and subscription rights or warrants, or warrants remaining after the separate sale of ex-issues and any equities acquired with these warrants.

The equities acquired by exercise or subscription must be sold no later than 12 months after they were acquired.

The average remaining term of the Subfunds' investments must not exceed six years, whereby the residual maturity of the individual investments may not exceed 10 years. For floating-rate debt securities and claims, maturity is considered to be the date of the next interest-rate adjustment.

To hedge against fluctuations in interest rates, the Subfund may moreover enter into various interest-rate transactions, including swaps, caps and floors.

Taking into account the investment restrictions in the prospectus, the Subfund may also hold certain short-term investments, including commercial papers, banker's acceptances, fixed deposits and certificates of deposit.

The prices of the securities in which the Subfund invests tend to move in the opposite direction to interest rates. Furthermore, apart from the securities issued by the US administration or one of its agencies or instrumentalities, these guarantees in no way apply to the units in the Fund, and the net asset value per unit may well fluctuate in proportion to the fluctuations in the US bond and mortgage market.

Use of futures and options

While observing the restrictions stipulated in "Special techniques and instruments that have securities and money market instruments as underlying assets", the Management Company may, in relation to each Subfund, use techniques and instruments involving securities and money market instruments to ensure the orderly management of the assets of each respective Subfund.

By buying and/or selling futures on indices, the Portfolio Manager can manage the flows of funds generated by subscriptions/redemptions as well as increase or decrease market exposure.

By buying and/or selling call and put options on securities and indices, the Portfolio Manager can increase and/or decrease the exposure for a corresponding security or in the corresponding market.

By buying warrants on securities, the Portfolio Manager can increase the exposure for a corresponding security.

Futures, swaps and options on currencies can be bought or sold by the Portfolio Manager for the purpose of building up or securing foreign currency positions for the Subfunds. However, the liabilities arising from such transactions should never exceed the assets of the Subfund concerned.

Risks connected with the use of derivatives

Derivative financial instruments are not in themselves investment instruments but rights whose valuation mainly derives from the price and the price fluctuations and expectations of an underlying instrument. Investments in derivatives are subject to general market risk, management risk, credit risk and liquidity risk.

However, the nature of these risks may be altered as a result of the special features of the derivative financial instruments, and may in some cases be higher than the risks associated with an investment in the underlying instrument.

For this reason, the use of derivatives requires not only an understanding of the underlying instrument, but also in-depth knowledge of the derivatives themselves.

The credit risk for derivatives traded on a stock exchange is, generally speaking, lower than that of derivatives traded over-the-counter on the open market, because the clearing agent that acts as issuer or counterparty of every market-traded derivative accepts a settlement guarantee. To reduce the overall risk of default, the guarantee is supported by a daily payment system maintained by the clearing agent, in which the assets required for cover are calculated. In the case of derivatives traded over-the-counter on the open market, there is no comparable clearing agent guarantee and in assessing the potential credit risk, the Management Company must take account of the creditworthiness of each counterparty.

There are also liquidity risks, as it may be difficult to buy or sell certain instruments. When derivative transactions are particularly large, or the corresponding market is illiquid (as may be the case with derivatives traded over-the-counter on the open market), it may in some cases not always be possible to fully execute a transaction, or else it may only be possible to liquidate a position subject to high costs.

Other risks associated with the use of derivatives include the risk of incorrectly valuing or determining the price of derivatives. There is also the possibility that derivatives do not completely correlate with their underlying assets, interest rates or indices. Many derivatives are complex and are frequently subjectively valued. Inappropriate valuations can result in higher cash payment requirements in relation to counterparties or in a loss of value for the respective Subfund. Derivatives are not always in direct or parallel proportion to the value of the assets, interest rates or indices from which they are derived. Therefore, the use of derivatives by the Management Company is not always an effective means of attaining the investment objective and can at times even have the opposite effect.

Investments in UBS (Lux) Medium Term Bond Fund

Conditions for the issue and redemption of units

Subfund units are issued and redeemed on every business day. In this context, “business day” refers to normal bank business days in Luxembourg (i.e. each day on which the banks are open during normal business hours) except individual, non-statutory rest days and days on which stock exchanges in the main countries in which the Subfund invests are closed, or on which 50% or more Subfund investments cannot be adequately valued. “Non-statutory rest days” are days on which banks and financial institutions are closed.

No issues or redemptions will be effected on days on which the Management Company has decided not to calculate net asset values, as described in “Suspension of the net asset value calculation and of the issue, redemption and conversion of units”. In addition, the Management Company is empowered to reject subscription applications at its discretion.

The Management Company does not permit any transactions which it considers could jeopardise the interests of unitholders, for instance “market timing” and “late trading”. It is entitled to refuse any application for subscription or conversion that it considers to be allied to such practices. The Management Company is further entitled to take any actions it deems necessary in order to protect the unitholders from such practices.

Subscription and redemption applications registered with the Administrative Agent or the central settling agent of UBS Investment Bank in Switzerland – a unit of UBS AG – no later than 16.00 CET (cut-off time) on a business day (order date) will be processed on the following business day (valuation date) on the basis of the net asset value calculated for that day. To secure punctual forwarding to the Administrative Agent or the central settling agent of UBS Investment Bank in Switzerland, earlier cut-off times may apply for submission of applications placed with Distributors in Luxembourg or abroad. Information may be obtained from the Distributor concerned.

For subscription or redemption applications registered with the Administrative Agent or the central settling agent of UBS Investment Bank in Switzerland – a unit of UBS AG – after 16.00 (Central European Time) on a business day, the order date is considered to be the following business day.

The same applies to the conversion of units of the Subfund into units of other Subfunds of the UBS (Lux) Medium Term Bond Fund performed on the basis of the net asset values of the Subfunds concerned.

This means that the net asset value for settlement purposes is not known when the order is placed (forward pricing). It will be calculated on the valuation date on the basis of the latest market prices (i.e. closing prices, or if they do not reflect a reasonable market value in the opinion of the Management Company, at the most recent prices available at the time of valuation). The individual valuation principles applied are described below.

Net asset value, issue and redemption price

The net asset value and the issue and redemption price per unit of each Subfund or unit class are expressed in the currency of account of the Subfund or unit class concerned and are calculated every business day by dividing the overall net assets of the Subfund attributable to each unit class by the number of units in circulation in this unit class of the Subfund.

The percentage of the net asset value attributable to each unit class of a Subfund changes each time units are issued or redeemed. It is determined by the ratio of the units in circulation in each unit class to the total number of Subfund units in circulation, taking into account the fees charged to that unit class.

If the total subscriptions or redemptions of all the unit classes of a Subfund on a single trading day come to a net capital inflow or outflow, the respective Subfund’s net asset value may be increased or reduced accordingly. The maximum adjustment amounts to 2% of the net asset value. Estimated transaction costs and tax charges that may be incurred by the Subfund as well as the estimated bid/offer spread of the assets in which the Subfund invests may be taken into account. The adjustment leads to an increase in net asset value if the net movements result in a rise in the number of units in the Subfund concerned. It results in a reduction of net asset value if the net movements bring about a fall in the number of units. The Board of Directors can set a threshold value for each Subfund. This may consist in the net movement on a trading day in relation to the net Fund assets or to an absolute amount in the currency of the Subfund concerned. The net asset value would be adjusted only if this threshold were to be exceeded on a trading day.

The value of the assets held by each Subfund is calculated as follows:

- Securities, derivatives and other investments listed on a stock exchange are valued at the last-known market prices. If these securities, derivatives or other investments are listed on several stock exchanges, the latest available price on the stock exchange that represents the major market for these investments will apply. In the case of securities, derivatives and other investments infrequently traded on a stock exchange and for which a secondary market among securities traders exists with pricing in line with the market, the Management Company may value these securities, derivatives and other investments based on these prices. Securities, derivatives and other investments that are not listed on a stock exchange but which are traded on another regulated market which is recognised, open to the public and functions in accordance with the regulations, are valued at the last available price on this market.
- Securities and other investments that are not listed on a stock exchange or traded on another regulated market, and for which no appropriate price can be obtained, are valued by the Management Company according to other principles chosen by it in good faith on the basis of the likely sales prices.
- Derivatives not listed at a stock exchange (OTC derivatives) are valued on the basis of independent pricing sources. In case only one independent pricing source of a derivative is available, the plausibility of the valuation obtained will be verified by means of calculation methods recognised by the Management Company and the Fund’s auditors, based on the market value of the underlying instrument from which the derivative originates.
- Units of other undertakings for collective investment in transferable securities (UCITS) and/or undertakings for collective investment (UCI) are valued at their last-known net asset value.
- For money market instruments, the valuation price will be gradually adjusted to the redemption price, based on the net acquisition price and retaining the ensuing yield. In the event of a significant change in market conditions, the basis for

the valuation of the individual investments is brought into line with the new market yields.

- Securities, money market instruments, derivatives and other investments denominated in a currency other than the reference currency of the relevant Subfund and not hedged by foreign-exchange transactions, are valued at the middle-market rate of exchange (midway between the bid and offer rate) known in Luxembourg or, if not available, on the most representative market for this currency.
- Fixed-term deposits and fiduciary investments are valued at their nominal value plus accumulated interest.
- The value of swap transactions is calculated by a number of external service providers approved by the Global Valuation Committee. The calculation is based on the net present value of all cash flows, both inflows and outflows. Independent valuations are made available by external service providers and reviewed by SuperDerivatives. In some specific cases, internal calculations (based on computers and market data from Bloomberg) as well as broker statement valuations may be used. The valuation methods depend on the respective security and are determined pursuant to the Global Valuation Policy. This valuation method is recognised by the Management Company and is audited by the auditor of the Fund during the annual audit.

The Management Company is authorised to apply other generally recognised and auditable valuation criteria in good faith in order to achieve an appropriate valuation of the net assets if, due to extraordinary circumstances, a valuation in accordance with the aforementioned regulations proves to be unfeasible or inaccurate.

In extraordinary circumstances, additional valuations can be carried out over the course of the day. These new valuations will then be authoritative for subsequent issues and redemptions of units.

Issue of units

The issue price of units in the Subfunds is calculated according to the provisions in the section “Net asset value, issue and redemption price”.

After the initial issue, the issue price is based on the net asset value per unit plus a maximum issuing commission of 6% of the net asset value in favour of the sales agencies. Any taxes, commissions and other fees incurred in the respective distribution countries will also be charged.

The local Paying Agent will undertake the corresponding transaction on behalf of the final investor or the nominee. Costs incurred for the services of the Paying Agent may be charged to the investor.

Subscriptions for Fund units are accepted at the issue price of the Subfunds at the Management Company, the Administrative Agent or the Custodian Bank as well as any other sales agency.

For subscriptions registered with the Administrative Agent or the central settling agent of UBS Investment Bank in Switzerland – a unit of UBS AG – after 16.00 (Central European Time) on a business day, the order date is considered to be the following business day.

The issue price of Subfund units is paid no later than on the third business day following the order date into the Custodian Bank account in favour of the Subfund.

The Management Company may accept full or partial subscriptions in kind at its own discretion. In this case, the capital subscribed in kind must correspond with the investment policy and restrictions of the relevant Subfund. These investments will also be audited by the auditor assigned by the Management Company. The associated costs will be charged to the investor.

If a physical unit certificate is requested, this certificate will be delivered as quickly as possible after the issue price has been fixed. The normal bank delivery charges will be made.

Only bearer-unit and registered-unit certificates in denominations of one or more whole units may be issued for each Subfund.

All units issued and still outstanding have the same rights. The Management Regulations nonetheless provide for the possibility of issuing various unit classes with specific features within a particular Subfund.

Furthermore, fractional shares can be issued for all Subfunds/unit classes. However, no physical certificates will be issued for these fractions; they shall instead be booked to the securities custody account of the unitholder’s choice. Fractions of units will be rounded to a maximum of three decimal places and do not confer the right to vote at general meetings, but will grant entitlement to a distribution or a proportionate distribution of the liquidation proceeds should the Subfund/unit class concerned be liquidated.

Redemption of units

Redemption applications, accompanied by any certificates that may have been issued, are accepted by the Management Company, the Administrative Agent, the Custodian Bank or another suitably authorised sales agency or paying agent.

For redemption applications registered with the Administrative Agent or the central settling agent of UBS Investment Bank in Switzerland – a unit of UBS AG – after 16.00 (Central European Time) on a business day, the order date is considered to be the following business day.

The countervalue for redeemed Subfund units is paid on the third business day after the order date unless legal provisions, such as foreign exchange controls or restrictions on capital movements, or other circumstances beyond the control of the Custodian Bank, make it impossible to transfer the redemption amount to the country in which the redemption application was submitted.

For Subfunds with several unit classes denominated in different currencies, unitholders may receive the equivalent value of their redemption in the currency of the respective unit class only.

Any taxes, commissions and other fees incurred in the respective distribution countries will also be charged.

The local Paying Agent will undertake the corresponding transaction on behalf of the final investor or the nominee. Costs incurred for the services of the Paying Agent may be charged to the investor.

A redemption commission of up to 2% (calculated on the net asset value) may be levied in favour of the sales agencies.

The development of the net asset value determines whether the redemption price is higher or lower than the issue price paid by the investor.

In the event of an excessively large volume of redemption applications, the Custodian Bank and Management Company may decide to delay execution of redemption applications until the corresponding assets of the Fund have been sold without

unnecessary delay. Should such a measure be necessary, all redemption applications received on the same day will be calculated at the same price.

The Management Company may offer investors full or partial redemptions in kind at its own discretion. These expenses will be checked by the auditors appointed by the Management Company and must not have any negative impact on unitholders remaining with the Fund. The associated costs will be charged to the investor.

Conversion of units

Unitholders may convert from one Subfund into another or from one unit class into another unit class within the same Subfund at any time. The same procedures apply to the submission of conversion applications as to the issue and redemption of units.

The number of units into which the unitholder would like to convert his/her units is calculated according to the following formula:

$$\alpha = \frac{\beta * \chi * \delta}{\varepsilon}$$

where:

α = number of units of the new Subfund or unit class into which conversion is required

β = number of units of the Subfund or unit class from which conversion is required

χ = net asset value of the units presented for conversion

δ = foreign-exchange rate between the Subfunds or unit classes concerned. If both Subfunds or unit classes are valued in the same currency of account, this coefficient equals 1

ε = net asset value of the units in the Subfund or unit class into which the conversion is to be performed plus any taxes, commissions or other fees

For the conversion, a conversion commission of 3% maximum (calculated on the net asset value of the units of the Subfund or unit class into which the conversion is performed) may be charged in favour of the sales agencies.

Any fees, taxes and stamp duties incurred in the individual countries for a Subfund conversion are charged to the unitholders.

In the event of a conversion, the new certificates will be delivered on request and without undue delay. The usual bank delivery fees will be charged.

Prevention of money laundering

The Fund's sales agencies must observe the provisions of the Luxembourg Law dated 19 February 1973 on the sale of drugs and the fight against drug addiction and the Laws dated 5 April 1993 on the financial sector and 12 November 2004 on the prevention of money laundering, each as amended, as well as the provisions of the current Management Regulations.

Accordingly, investors must provide proof of their identity to the sales agency or Distributor that accepts their subscription. The sales agency or Distributor must request the following identification documents from subscribers: for individuals – a certified copy of the passport/identity card (certified by the sales agency or Distributor or by the local administrative authority); for companies or other legal entities – a certified copy of the articles of incorporation, a certified copy of the extract from the Commercial Register, a copy of the most recently published annual accounts and the full name of the beneficial owner.

The sales agency must ensure that the Distributors adhere strictly to the aforementioned identification procedures. UBS Fund Services (Luxembourg) S.A. and the Management Company may, at any time, demand assurance from the sales agency that the procedures are being adhered to. UBS Fund Services (Luxembourg) S.A. will monitor compliance with the aforementioned provisions for all subscription and redemption applications they receive from sales agencies or Distributors in countries that are not members of the Financial Action Task Force on Money Laundering ("FATF").

Furthermore, the sales agency and its Distributors must obey all regulations to prevent money laundering which are in force in the respective countries.

Countries adhering to FATF regulations are considered FATF members.

Suspension of the net asset value calculation and of the issue, redemption and conversion of units

The Management Company may temporarily suspend calculation of the net asset value and hence the issue and redemption of units for one or more Subfunds and the conversion between the individual Subfunds when:

- one or more stock exchanges or other markets which provide the basis for valuing a substantial portion of the net assets are closed other than for normal holidays or if dealings therein are suspended, or if these stock exchanges or markets are subject to restrictions or to major price fluctuations in the short term;
- events beyond the control, liability or influence of the Management Company make it impossible to access the net assets under normal conditions or such access would be detrimental to the interests of the unitholders;
- disruptions in the communications network or any other reason make it impossible to calculate the value of a considerable part of the net assets;
- the Fund can no longer transact its business due to restrictions on foreign exchange and capital movements.

Suspension of the calculation of the net asset value, of the issue or redemption of units and of conversion between Subfunds will be notified without delay to all the responsible authorities in the countries in which units in the UBS (Lux) Medium Term Bond Fund are approved for sale to the public in addition to being published in a Luxembourg daily newspaper and, if necessary, in the official publications specified for the respective countries in which the units are sold.

If investors no longer meet the requirements of a unit class, the Management Company is further obliged to request that the investors concerned:

- a) return their units within 30 calendar days in accordance with the provisions on redemption of units; or
- b) transfer their units to a person who meets the aforementioned requirements for acquisition in the unit class; or
- c) convert their units into units in another unit class of the relevant Subfund whose acquisition requirements they are able to fulfil.

In addition, the Management Company is empowered:

- a) to refuse purchase applications for units at its own discretion;
- b) to redeem at any time units which were purchased in defiance of an exclusion order.

Distribution of income

In accordance with Article 10 of the Management Regulations, once the annual accounts are closed, the Management Company will decide to what extent distributions are to be paid out by each Subfund. The payment of distributions must not result in the net assets of the Fund falling below the minimum amount for fund assets laid down by law. If distributions are made, payment will be effected within four months of the end of the financial year.

The Management Company is entitled to determine whether interim dividends are paid and whether distribution payments are suspended.

Entitlements to distributions and allocations not claimed within five years of falling due will lapse and be paid back into the relevant unit class of the respective Subfund of the Fund. If the Subfund in question has already been liquidated, the distributions and allocations will accrue to the remaining Subfunds of the Fund in proportion to their respective net assets. The Management Company may decide, in connection with the appropriation of net investment income and capital gains, to issue bonus units. An income equalisation amount will be calculated so that the distribution corresponds to the actual income entitlement.

Distributions will be made upon submission of the relevant coupons. The Management Company will determine the method of payment.

Taxes and expenses

Taxation

The Fund is subject to Luxembourg legislation. In accordance with current legislation in the Grand Duchy of Luxembourg, the Fund is not subject to any Luxembourg withholding, income, capital-gains or wealth taxes. From the total net assets of each Subfund, however, a tax of 0.05% p.a. ("taxe d'abonnement") payable to the Grand Duchy of Luxembourg is due at the end of every quarter (reduced tax d'abonnement amounting to 0.01% p.a. for certain unit classes). Further details can be found under "An overview of the unit classes". This tax is calculated on the total net assets of each Subfund at the end of every quarter.

Unitholders should be aware that the Luxembourg Law of 21 June 2005 has transposed into Luxembourg law Council Directive 2003/48/EC of 3 June 2003 on the taxation of interest. Since 1 July 2005, this Law has provided for the imposition of a withholding tax on cross-border interest payments to individuals domiciled in the EU or for an automatic information exchange. This applies, inter alia, to distributions and dividends payable by investment funds which invest more than 15%, and earnings from the assignment or repayment of units in investment funds which invest more than 40% (from 1 January 2011: 25%) in debt instruments and claims as defined by the EU taxation of interest. Where necessary, the sales agency or Distributor may, upon subscription, ask investors to give their tax identification number provided by the state in which they are domiciled for tax purposes.

The taxable values shown are based on the most recently available data at the time they were calculated.

Provided the Subfund in question is not subject to EU taxation of interest or the unitholders are not affected thereby, unitholders are not required, under current tax law, to pay any income, gift, inheritance or other tax in Luxembourg unless they are domiciled in Luxembourg, have a residence in Luxembourg or maintain a permanent establishment there, or were previously domiciled in Luxembourg and hold more than 10% of the units in the Fund.

On 13 November 2008, the European Commission accepted a proposal for the amendment of the Savings Directive. If the amendment proposal is implemented, among other things, (i) the scope of the EU Savings Directive would be expanded to include payments distributed by certain intermediary structures (regardless of whether their registered office is in an EU Member State or not) and whose final beneficiary is a private person resident in the EU and (ii) the definition of interest that falls within the scope of the EU Savings Directive would be further established. As at the date the prospectus was being drawn up, it is not known whether and if or when the proposed amendment will enter into force.

The aforementioned represents a summary of the fiscal effects and makes no claim to be exhaustive. It is the responsibility of purchasers of units to seek information on the laws and regulations governing the purchase, possession and sale of units in connection with their place of residence and their nationality.

Investors in the United Kingdom

The Fund is an offshore fund for tax purposes within the scope of the (tax) laws of the United Kingdom on offshore funds, which entered into force on 1 December 2009 and expanded the previous tax laws that applied to investments in offshore funds.

Income earned by investors in the United Kingdom through the sale (e.g. transfer or redemption) of units in an offshore investment fund that are permitted as defined in the Offshore Funds Act is subject to capital gains tax (or corporate tax on chargeable gains) and not to income tax.

Income earned by investors in the United Kingdom through the sale (e.g. transfer or redemption) of units in an offshore investment fund that is not permitted as defined in the Offshore Funds Act may be subject to income tax (instead of capital gains tax).

Since 1 December 2009 and only during a transitional period, offshore funds may apply to HM Revenue & Customs (United Kingdom tax authorities) for approval as offshore funds with the status "Distributing Fund" or "Reporting Fund".

The application for approval may be submitted for one or more Subfunds within an umbrella fund or for one or more specific unit classes of a Subfund. For purposes of taxation in the United Kingdom, an investment in a unit class with the status "Distributing Fund" or "Reporting Fund" is treated as an investment in an approved offshore fund. After the transitional period, only investments in a Subfund or a unit class of a specific Subfund with the status of "Reporting Fund" are considered to be investments in a permitted offshore fund.

The members of the Board of Directors may at their discretion apply for the status of a permitted offshore fund for certain Subfunds or unit classes of the Subfund.

Wherever such an application is made, the members of the Board of Directors intend to manage the fund in such a way that an investment in specific unit classes is considered to be in a permitted offshore fund for all accounting periods and it is ensured to HM Revenue & Customs that the corresponding requirements are or will be fulfilled.

However, the members of the Board of Directors assume no guarantee that these requirements will actually be fulfilled or that HM Revenue & Customs confirm the fulfilment of these requirements.

The attention of persons with ordinary residence in the United Kingdom is drawn to the provisions of Book 13, Chapter 2 of the Income Tax Act 2007 ("Transfer of assets

abroad”), which states that under certain circumstances they may be taxable in relation to non-distributed income and profits of the Subfund achieved with an investment in a Subfund or such gains and income that are not payable to such person in the United Kingdom.

In addition, the provisions of Section 13 of the Taxation of Chargeable Gains Act of 1992 must be observed that apply to the distribution of chargeable gains of companies not domiciled in the United Kingdom and which would be “close companies” if they were domiciled in the United Kingdom. These gains are distributed to investors who have their ordinary place of abode or residence in the UK. Profits distributed in this manner are taxable for all investors who hold a share of more than 10% of the distributed profit either individually or together with associated persons. The members of the Board of Directors intend to make every reasonable effort to ensure that the Subfund(s) would not be classified as a “close company” within the meaning of Section 13 of the Taxation of Chargeable Gains Act if they were domiciled in the UK. Moreover, when assessing the effects of Section 13 of the Taxation of Chargeable Gains Act of 1992, it is important to ensure that the regulations of the double taxation agreement between the United Kingdom and Luxembourg are taken into account.

Expenses charged to the Fund

The Fund will be charged a maximum flat fee for unit classes “P”, “N”, “H”, “K-1”, “K-2”, “F”, “Q”, “I-46”, “I-40”, “I-34” and “I-25”, calculated on the average net asset value of the Subfunds.

This will be used for Fund administration (comprising the costs of the Management Company, Administrative Agent and Custodian Bank), asset management and distribution of the Subfunds, as well as for covering the costs incurred. The relevant maximum flat fee will not be charged until the corresponding unit classes have been launched. An overview of the maximum flat fees can be seen in “An overview of the unit classes”.

Out of the aforementioned flat fee, the Fund will bear all costs incurred in connection with the management, administration, portfolio management and safekeeping of the Fund’s assets as well as distribution of the investment fund, such as:

- annual fees and expenses for approving and supervising the Fund in Luxembourg and abroad;
- other fees charged by the supervisory authorities;
- printing of the regulations, prospectuses and annual and semi-annual reports;
- price publications and publication of notices to investors;
- fees incurred in connection with the listing of the Fund and sales within Luxembourg and abroad;
- commission and expenses of the Custodian Bank for the safekeeping of the Fund’s assets, dealing with payments and other duties, as required under the Law of 2002;
- fees and other expenses for the payment of dividends to investors;
- auditor’s fees.

The Custodian Bank, Administrative Agent and Management Company are nevertheless entitled to be reimbursed the costs of non-routine arrangements made by them in the interests of the investors; otherwise such expenses will be charged directly to the Fund. For purposes of general comparability with fee rules of different fund providers that do not have a flat fee, the term “management fee” is set at 80% of the flat fee.

The Fund will also bear all transaction expenses arising in connection with the administration of the Fund assets (brokerage commission in line with the market, fees, fiscal charges, etc.).

All taxes levied on the income and assets of the Fund, particularly the payment of the *taxe d’abonnement*, will also be borne by the Fund.

For unit classes “K-2” and “F”, an additional fee will also be charged; this shall be determined via a separate contract between the investor and UBS AG or one of its authorised distribution partners.

For unit class “I-6.5” a fee is charged to cover the costs of Fund administration (comprising the costs of the Management Company, Administrative Agent and Custodian Bank). The costs for asset management and distribution are charged directly outside of the Fund under a separate contract between the investor and UBS Global Asset Management or one of its authorised representatives.

Costs in connection with the services to be performed for unit classes “I-X” and “U-X” pertaining to asset management, Fund administration (comprising the costs of the Management Company, Administrative Agent and Custodian Bank) and distribution will be settled via the compensation to which UBS AG is entitled under a separate contract with the investor.

All costs which can be allocated to individual Subfunds will be charged to these Subfunds.

Costs which can be allocated to the individual unit classes will be charged to these unit classes.

If costs pertain to several or all Subfunds/unit classes, however, these costs will be charged to the Subfunds/unit classes concerned in proportion to their relative net asset values.

In the Subfunds that may invest in other UCI or UCITS under the terms of their investment policies, fees may be incurred both at the level of the relevant investment fund and at that of the relevant Subfund.

In the case of investments in units of funds managed directly or indirectly by the Management Company itself or another company related to it by common management or control, or by a substantial direct or indirect holding, the Subfund making the investment may not be charged with any of the target fund’s issue or redemption commissions.

Information to unitholders

Regular reports and publications

An annual report is published for each Subfund and the Fund on 28 (or 29) February and a semi-annual report on 31 August.

The two reports mentioned above contain a breakdown of each Subfund/unit class in the relevant currency of account. The consolidated breakdown of assets for the Fund as a whole is given in EUR.

The annual report, which is published within four months of the end of the financial year, contains the annual accounts audited by the independent auditors.

These reports are available to unitholders at the registered office of the Management Company and the Custodian Bank.

The issue and redemption price of each Subfund is announced in Luxembourg at the registered office of the Management Company and the Custodian Bank.

Notices to the unitholders will also be published in a Luxembourg daily newspaper and, if necessary, in foreign daily newspapers.

Depositing of documents

The following documents are available from the registered office of the Management Company:

- 1) the Management Regulations
- 2) the latest annual and semi-annual reports for the Fund

The following documents are lodged at the registered office of the Management Company, where they are available for inspection:

- 1) the articles of association of the Management Company
- 2) the agreements concluded between the Custodian Bank and the Management Company. The abovementioned agreements may be amended by common consent of the parties involved.

Liquidation and merger of the Fund and its Subfunds or unit classes

Liquidation of the Fund and its Subfunds or unit classes

Unitholders, their heirs or other beneficiaries may not demand the division or liquidation of either the Fund or an individual Subfund or unit class. The Management Company is empowered, however, to liquidate the Fund or the Subfunds and unit classes provided that, taking into account the interests of the unitholders, such liquidation is considered reasonable or necessary for the protection of the Management Company and the Fund or for reasons of investment policy.

The decision to liquidate a Subfund or a unit class will be published in a Luxembourg daily newspaper and, if necessary, in the official publications specified for the respective countries in which Fund units are sold as listed in this sales prospectus. No units may be issued after the date of such a decision and each conversion into the Subfunds concerned or into the unit class concerned will be suspended. The redemption of units or conversion from the Subfund/unit class concerned will still be possible even after this decision has been implemented. This ensures that the Subfund or unit class will take any liquidation costs into account. Those holding units in the Subfund/unit class at the time the decision to liquidate is taken will consequently bear such costs. In the event of liquidation, the Management Company will realise the Fund’s assets in the best interests of the unitholders and instruct the Custodian Bank to distribute the net proceeds from the liquidation of the Subfund/unit class to the unitholders of said Subfund/unit class in proportion to their respective holdings. Any liquidation proceeds which cannot be distributed to the unitholders on completing the liquidation may be deposited with the Custodian Bank for a period of six months. Afterwards, they will be deposited with the “Caisse de Consignation” in Luxembourg until expiry of the limitation period.

Liquidation of the Fund is mandatory in the cases prescribed by law and in the event of the Management Company being liquidated. Any such liquidation will be published in the “Mémorial”, a Luxembourg daily newspaper and, if necessary, in the official publications of the individual distribution countries. The liquidation procedure is identical for the Fund and its Subfunds with the exception that, in the case of the Fund, any liquidation proceeds which cannot be distributed to unitholders at the end of the liquidation procedure are immediately deposited with the “Caisse de Consignation”.

Merger of Subfunds/a Subfund with another undertaking for collective investment (UCI)

If for whatever reason, the net assets of a Subfund fall below a countervalue that makes impossible the economically efficient management in the interests of the investors or if the economic, legal or political environment changes, the Management Company may decide to cancel issued units of the corresponding Subfund and to allocate units in another Subfund or in another UCI under Part I of the Law of 2002 to unitholders of this Subfund. Should the Management Company take such a decision, the merger shall be binding for all unitholders of the Subfund concerned after expiry of a one-month period commencing on the date on which the decision is published. During this period, unitholders may submit their units for redemption without having to pay any redemption fee or administration costs.

The decision to merge Subfunds or one single Subfund with another UCI established in accordance with Part I of the above Luxembourg Law will be announced in a Luxembourg daily newspaper, and, if necessary, in the official publications specified for the countries in which Fund units are sold, as listed in this sales prospectus.

Applicable law, place of performance and authoritative language

The District Court of Luxembourg is the place of performance for all legal disputes between the unitholders, the Management Company and the Custodian Bank. Luxembourg law applies. However, in matters concerning the claims of investors from the other countries, the Management Company and/or the Custodian Bank may elect to make themselves and the Fund subject to the jurisdiction of the countries in which the units were bought and sold.

The German version of this sales prospectus is the authoritative version. However, in matters concerning units sold to investors in the countries in which Fund units may be bought and sold, the Management Company and the Custodian Bank may recognise translations which they have approved into the languages concerned as binding upon themselves and the Fund.

Investment principles

The following conditions also apply to the investments made by each Subfund:

1 Permitted investments of the Fund

- 1.1 The Fund’s investments principally consist of:
 - a) securities and money market instruments which are listed or traded on a regulated market in an EU Member State, as defined in Article 1 No. 13 of the Investment Services Directive;
 - b) securities and money market instruments which are listed or traded on a securities exchange or another regulated market which is recognised, open to the public and operating in accordance with the regulations in a Euro-

- pean, American, Asian, African or Australasian country (hereinafter referred to as "approved country");
- c) newly issued securities and money market instruments provided that the terms of issue contain a clause that an application has been made for an official listing on one of the securities exchanges or a licence to trade on one of the regulated markets mentioned under 1.1 a) or 1.1 b), and that this listing/licence is to be granted within one year of the issue of the securities.
 - d) sight deposits or deposits at notice at credit institutions with a term of up to 12 months, provided the institution concerned has its head office in an EU Member State, or – if the institution's head office is located in a non-EU state – it is subject to supervisory regulations which the Luxembourg supervisory authority deems equivalent to those under Community law;
 - e) money market instruments as defined under "Investment policy", which are not traded on a regulated market, provided that the issuance or issuer of these instruments is governed by rules providing protection for investors and investments and on condition that such instruments are:
 - issued or guaranteed by a state, regional or local entity of an approved state or public international bodies to which one or more EU Member States belong;
 - issued by an undertaking whose securities are traded on the regulated markets mentioned in points 1.1 a) and 1.1 b);
 - issued by an institution which is subject to supervision under Community law, or an institution subject to supervisory provisions which are deemed by the Luxembourg supervisory authority to be at least as strict as those of Community law,
 - or issued by other issuers belonging to a category approved by the Luxembourg supervisory authority, provided that investor protection rules apply to investments in such instruments which are equivalent to those of the first, second or third listed point above and provided the issuers constitute either a company with equity capital ("capital et reserves") amounting to at least 10 million euro (EUR 10,000,000), which prepares its annual accounts under the provisions of the Fourth Council Directive 78/660/EEC, or an entity within a group encompassing one or more listed companies and responsible for its financing, or an entity which is to fund the underlying securities for obligations by the use of a credit line made available by a bank;
 - f) units of other undertakings for collective investment in transferable securities (UCITS) and/or undertakings for collective investment (UCI) of the open-ended type. Such UCIs must satisfy the requirements laid down in Directive 85/611/EEC of 20 December 1985 and be domiciled in a Member State of the European Union or a non-EU state, provided that
 - such other UCI have been approved in accordance with statutory rules subjecting them to supervision that, in the opinion of the Commission de Surveillance du Secteur Financier (hereinafter "CSSF"), is equivalent to that which applies under Community law, and that adequate provision exists for ensuring cooperation between authorities. This is currently the case with all Member States of the European Union, Japan, Hong Kong, USA, Canada, Switzerland, Norway, Jersey, Guernsey and Liechtenstein,
 - the level of protection afforded to unitholders in the other UCIs is equivalent to that afforded to unitholders in UCITS and, in particular, rules apply to the separate holding of assets, borrowing, lending and the short-selling of securities and money market instruments that are equivalent to the requirements set forth in Directive 85/611/EEC,
 - the business operations of the other UCI are the subject of annual and semi-annual reports that permit an assessment to be made of the assets and liabilities, income and transactions arising during the reporting period,
 - the UCITS or other UCIs in which units are to be acquired may invest a maximum of 10% of its assets in units of other UCITS or UCIs in accordance with its formation documents.
 The Subfund invests a maximum of 10% of its assets in other UCITS or UCIs, unless stipulated to the contrary in the investment policy of the relevant Subfund.
 - g) derivative financial instruments ("derivatives"), including equivalent cash instruments, which are traded on one of the stock exchanges or regulated markets listed in 1.1 a) and b) above, and/or derivatives which are not traded on a stock exchange or regulated market ("OTC derivatives"), provided that
 - the underlying securities constitute instruments as defined by points 1.1 a) and b) or are financial indices, interest rates, currencies or macroeconomic indices in which the Company is permitted to invest directly or indirectly via other existing UCI/UCITS.
 - the counterparties in transactions involving OTC derivatives are institutions subject to on-going supervision and are in categories which have been authorised by the Luxembourg supervisory authority;
 - and the OTC derivatives are valued in a reliable and verifiable manner on a daily basis and may be sold, at any time, upon the Company's initiative at the appropriate market value, liquidated or settled by means of a back-to-back transaction.
- 1.2 Contrary to the investment restrictions set out in point 1.1, each Subfund may invest up to 10% of its net assets in securities and money market instruments other than those named in 1.1;
 - 1.3 The Management Company ensures that the overall risk associated with derivatives does not exceed the overall net value of the Fund portfolio. As part of its investment strategy, each Subfund may make investments in derivatives within the limits laid down in points 2.2 and 2.3, provided the overall risk of the underlying instruments does not exceed the investment limits stipulated in point 2.
 - 1.4 Each Subfund may hold liquid funds on an ancillary basis.
- ## 2 Risk diversification
- 2.1. In accordance with the principle of risk diversification, the Management Company is not permitted to invest more than 10% of the net assets of a Subfund in securities or money market instruments from a single institution. The Management Company may not invest more than 20% of the net asset value in deposits with a single institution. In transactions by a Subfund in OTC derivatives, the risk of loss must not exceed 10% of the assets of the Subfund concerned if the counterparty is a credit institution as defined in 1.1 d); the maximum allowable risk of loss is reduced to 5% in transactions with other counterparties. The total value of all positions in the securities and money market instruments of those institutions accounting for more than 5% of the net assets of a Subfund may not exceed 40% of the net assets of the respective Subfund. Such limitation shall not apply to deposits and transactions in OTC derivatives with financial institutions which are subject to supervision.
 - 2.2 Regardless of the maximum limits set out in 2.1, each Subfund may not invest more than 20% of its net assets in a combination of:
 - securities and money market instruments issued by a single institution
 - deposits with this institution and/or
 - expose itself to risks from OTC derivatives issued in relation to this institution.
 - 2.3 Contrary to the above, the following applies:
 - a) The limit of 10% mentioned in 2.1 may be raised to 25% for various debt instruments issued by credit institutions domiciled in an EU Member State and subject, in that particular country, to special legislative supervision of public authorities that would ensure the protection of investors. In particular, funds originating from the issue of such bonds must, in accordance with the law, be invested in assets which provide sufficient cover for the obligations arising from them during the entire term of the bonds and, in the event of insolvency of the borrower, provide a preference right in respect of the payment of capital and interest. The total value of such investments of a Subfund investing more than 5% of its net assets in such debt instruments issued by a single issuer may not exceed 80% of the net assets of that Subfund.
 - b) This limit of 10% can be raised to 35% for securities or money market instruments issued or guaranteed by an EU Member State or its central, regional and local authorities, by another approved state, or by international organisations with public-law character of which one or more EU States are members. Securities that come under the special ruling given in 2.3 a) and b) are not counted when calculating the abovementioned 40% risk-diversification ceiling.
 - c) The limits set out in 2.1, 2.2, 2.3 a) and b) may not be accumulated; therefore the investments listed in the said paragraphs made in securities or money market instruments of a single issuer or in deposits with the said institution or in its derivatives may not exceed 35% of the net assets of a given Subfund.
 - d) Companies which belong to the same group of companies in that they prepare their consolidated accounts under the rules of Council Directive 83/349/EEC (1) or according to recognised international accounting principles, must be treated as a single issuer for the calculation of the investment limits set out in this Article. However, investments by a Subfund in securities and money market instruments of a single group of companies may together make up to 20% of the assets of the Subfund concerned.
 - e) In the interests of risk diversification, the Management Company is authorised to invest up to 100% of a Subfund's net assets in securities and money market instruments from various issues that are guaranteed or issued by an EU Member State or its local authorities, by another approved country or by international organisations under public law to which one or more EU Member States belong. These securities or money market instruments must be divided into at least six different issues, with securities or money market instruments from a single issue not exceeding 30% of the total net assets of a Subfund.
 - 2.4 The following provisions apply with regard to investments in other UCITS or UCIs:
 - a) The Management Company may invest up to 20% of the net assets of a Subfund in units in a single UCITS or other UCI. In implementing this investment limit, each Subfund of a UCI consisting of a number of Subfunds is treated as an independent issuer if it can be guaranteed that said Subfunds are individually liable in respect of third parties.
 - b) Investments in units of UCI other than UCITS may not exceed 30% of the Subfund's net assets. The assets invested in the UCITS or other UCI are not included in the calculation of the maximum limits set out in 2.1, 2.2 and 2.3.
 - c) If a Subfund acquires units of other UCITS and/or other UCI managed directly, or on the basis of assignment, by the Management Company or another company with which the Management Company is related through common management or control or by a significant direct or indirect shareholding, the Management Company or other company may make no charge for subscribing to or redeeming units of these other UCITS and/or UCI through the Subfund.
 - d) For Subfunds which, in line with their investment policy, invest a significant portion of their assets in units of other UCITS and/or UCI, the maximum flat fees chargeable by the Subfund itself and by the other UCITS and/or UCI in which it invests are described in the section "Expenses charged to the Fund".
- If the limits mentioned in points 1 and 2 are exceeded unintentionally or due to the exercise of subscription rights, the Management Company must attach top priority in its sales of securities to normalising the situation while, at the same time, considering the best interests of the unitholders. Provided that they continue to observe the principle of risk diversification, newly founded Subfunds may deviate from the specific risk diversification restrictions mentioned above for a period of six months after being approved by the authorities. Provided the particular Subfund's investment policy does not specify otherwise, it may invest no more than 10% of its assets in other UCITS or UCI.

3 Investment restrictions

The Management Company is prohibited from:

- 3.1 Acquiring securities on behalf of the Fund, the subsequent sale of which is subject to any restrictions arising from contractual agreements;
- 3.2 Acquiring equities with voting rights that would enable the Management Company, possibly in collaboration with other investment funds under its supervision, to exert a significant influence on the management of the borrower in question;
- 3.3 Acquiring more than the below:
 - 10% of the non-voting shares of a single issuer,
 - 10% of the debt instruments of a single issuer,
 - 25% of the units of a single undertaking for collective investment,
 - 10% of the money market instruments of a single issuer.

In the latter three cases, the restrictions on acquiring securities need not be observed if the gross amount of the debt instruments or the money market instruments and the net amounts of the issued units cannot be determined at the time of acquisition.

Exempt from the provisions of 3.2 and 3.3 are securities and money market instruments which, in accordance with Article 48(3) of the Law of 2002, are issued or guaranteed by an EU Member State or its central, regional and local authorities or by another approved country or are issued by international organisations with public-law character to which one or more EU Member States belong.

- 3.4 Short-selling securities, money market instruments or other instruments listed in 1.1 f) and g);
- 3.5 Acquiring precious metals or related certificates;
- 3.6 Investing in real estate and purchasing or selling commodities or commodities contracts;
- 3.7 Taking out loans, unless
 - it is in the form of a back-to-back loan for the purchase of foreign currency;
 - it is only temporary and does not exceed 10% of the net assets of the Subfund in question;
- 3.8 Granting loans or acting as guarantor for third parties. This restriction does not prevent the acquisition of securities, money market instruments or the other instruments listed in 1.1 f) and 1.1 g) if these are not fully paid up.

The Management Company is authorised to introduce further investment restrictions at any time in the interests of the unitholders provided these are necessary to ensure compliance with the laws and regulations of those countries in which Fund units are offered and sold.

4 Special techniques and instruments that have securities and money market instruments as underlying assets

As set out in 1.1 g), the Management Company may, as a main element in achieving the investment policy for each Subfund, within the statutory conditions and limits defined, use special techniques and financial instruments whose underlying assets are securities, money market instruments and other financial instruments.

The Management Company must use a risk-management process that enables it, at any time, to monitor and measure the risk associated with its investment positions and its share in the overall risk profile of the investment portfolio; furthermore, it must use a process that allows it to determine the value of the OTC derivatives in a precise and impartial manner. It must regularly notify the CSSF in accordance with the rules set by it (les règles détaillées) of the types of derivatives contained in the portfolio, the risks associated with the underlying securities, the investment limits and the methods used for measuring the risks associated with derivatives transactions.

The Management Company is also entitled to employ techniques and instruments which feature securities and money market instruments, provided such techniques and instruments are used in the interests of efficient portfolio management subject to the conditions and limits defined by the CSSF. If such transactions relate to the use of derivatives, the terms and limits must comply with the provisions of the Luxembourg Law of 2002.

The Subfunds may under no circumstances deviate from their investment objectives for these transactions.

The Management Company ensures that the overall risk associated with derivatives does not exceed the overall net value of its portfolio.

The following are taken into account in computing risk: the market value of the underlying instruments, the risk of default, future foreseeable market developments and the period within which the positions are to be liquidated.

Within the limits set out in 2.3 d), the Management Company may invest in derivatives as part of its investment strategy, provided the overall risk of the underlying assets does not exceed the investment limits cited in point 2. Investments made by a UCITS in index-based derivatives need not be taken into account in the case of the investment limits in point 2 of the Article.

If a derivative is embedded in a security or money market instrument, it has to be taken into account with regard to compliance with the rules of this Article.

The Fund may also lend portions of its securities portfolio to third parties ("securities lending"). In general, securities lending may be effected only via recognised clearing houses such as Clearstream International or Euroclear, or using first-class financial institutions that specialise in such activities and following the procedure specified by them. Such transactions, however, may not be entered into for longer than 30 days. If the loan exceeds 50% of the Subfund's securities portfolio, it may only be effected on condition that termination of the loan contract is possible immediately.

In the case of securities lending transactions, the Fund must, in principle, receive collateral, the value of which must at least correspond to the total value of the securities lent out and any accrued interest thereon. This collateral must be issued in a form of financial collateral as permitted by the provisions of Luxembourg law. Such collateral is not required if the transaction is effected via Clearstream International or Euroclear, or another organisation which guarantees the Fund that the value of the securities lent will be refunded.

The Fund may engage on an ancillary basis in repurchase transactions ("repurchase agreements" or "reverse repurchase agreements") involving the purchase and sale of securities where the seller has the right or obligation to repurchase the securities sold from the buyer at a fixed price and within a certain period stipulated by both parties upon conclusion of the agreement.

Repurchase transactions may either be effected as a buyer or a seller. However, any transactions of this kind are subject to the following guidelines:

- securities may only be purchased or sold under a repurchase agreement if the counterparty is a first-class financial institution specialising in this kind of transaction.
- for as long as the repurchase agreement is valid, the securities bought cannot be sold before the right to repurchase the securities has been exercised or the repurchase period has expired.
- in addition, it must be ensured that the volume of the liabilities of repurchase agreements of each Subfund is structured in such a way that the Subfund can meet its redemption obligations towards its unitholders at any time.