

2016 Money Market Reform

Simplified tax accounting for floating-NAV money market funds

Institutional prime money market funds will be required to transact with floating net asset values (FNAVs) by October 14, 2016. This means that a fund's share price will fluctuate to reflect the daily market value of the underlying investments the fund owns. Although price changes may be small, shareholders in FNAV funds may incur a gain or loss at redemption and be subject to tax implications.

A closer look

While retail investors ("natural persons," as defined by the new regulations) can invest in FNAV funds, the majority of investors are likely to be institutional investors (for example, banks, corporations, hospitals, colleges or governments). Institutional investors that use money market funds for cash management purposes tend to purchase and redeem shares frequently, whereby each redemption from an FNAV fund may incur a gain or loss and would require detailed cost accounting. To relieve the potential burden of using detailed accounting on high volumes of fund redemptions, the U.S. Treasury and Internal Revenue Service (IRS) issued guidance to reduce the burden of tax compliance. These accounting procedures will be permitted for investors in ALL institutional prime money market funds that are required to adopt FNAV pricing.

The funds impacted

Select Prime Funds	Ticker	NAV	Retail Investor	Institutional Investor	Ratings (Moody's/Fitch) ^{1, 2}	Gates/Fees ³	Daily pricing	Minimum investment
UBS Select Prime Preferred Fund	SPPXX	FNAV*	X	X	Aaa-mf, AAAMmf	X*	8 a.m., 12 noon, 3 p.m.*	\$99M
UBS Select Prime Institutional Fund	SELXX	FNAV*	X	X	Aaa-mf, AAAMmf	X*	8 a.m., 12 noon, 3 p.m.*	\$1M
UBS Select Prime Investor Fund	SPIXX	FNAV*	X	X	Aaa-mf, AAAMmf	X*	8 a.m., 12 noon, 3 p.m.*	\$10K

* Effective in October 2016.

¹ The Fund is rated Aaa-mf by Moody's, indicating its belief that the Fund has a very strong ability to meet the dual goals of providing liquidity and preserving capital. Further information regarding Moody's rating methodology may be found on its website at www.moody's.com.

² The fund is rated AAAMmf by Fitch Ratings, which reflects Fitch's view of (1) the fund's overall credit quality and diversification; (2) low exposure to interest rate and spread risk; (3) holdings consistent with shareholder profiles and concentrations; and (4) maturity profiles consistent with rating criteria. Further information regarding Fitch's rating methodology may be found on its website at www.fitchratings.com.

³ Gates and fees refer to redemption gates and liquidity fees. Redemption gates permit temporary suspension of fund redemptions up to 10 days. Liquidity fees are redemption charges imposed and retained by a fund.

IRS guidance for FNAV funds

- **Simplified method of accounting for FNAV funds (also known as the NAV method).** The NAV method will permit shareholders of FNAV funds to determine net gains and losses over a specified period rather than with individual fund redemptions.
 - A shareholder will be able to measure gains and losses over a specific period (such as monthly, quarterly or annually) and then aggregate the net gains and losses at the end of the period.
 - The net gain or loss equals the increase or decrease in the value of the investor's shares minus the net investment during the period.
 - The NAV method is an IRS accounting method that will be permitted for all FNAV money market funds.
- **Information reporting.** Like constant net asset value (CNAV) funds, FNAV money market funds will also receive exemption from the information-reporting requirements applicable to brokers, transfer agents and certain issuers of securities (including mutual funds) on Form 1099-B: Proceeds from Broker and Barter Exchange Transactions.
- **Wash-sale exemption.** A wash sale occurs when a shareholder sells a security at a loss and acquires a substantially identical security within 30 days before or after the sale. Given that gains and losses on individual transactions will not be tracked for FNAV funds, the wash-sale rules will not apply.

For additional details on money market reform, including UBS fund changes and offerings, please refer to the UBS Money Market Fund website.

The chart below provides a comparison of the tax and accounting treatment for floating NAV and constant NAV funds.

	Floating NAV funds (FNAV)	Constant NAV Funds (CNAV)
Reporting gains and losses	Gains and losses are aggregated over a pre-determined time period.	Does not apply under most circumstances as shares should retain constant \$1.00 share price.
Wash-sale rule	Exempt from wash-sale rule.	Does not apply under most circumstances as shares should retain constant \$1.00 share price.
Information reporting for sale of shares	Exempt from IRS Form 1099-B.	Exempt from IRS Form 1099-B.

You could lose money by investing in a money market fund. Although a money market fund seeks to preserve the value of your investment at \$1.00 per share, a fund cannot guarantee it will do so. An investment in a money market fund is not insured or guaranteed by the Federal Deposit Insurance Corporation or any other government agency. A money market fund's sponsor has no legal obligation to provide financial support to a money market fund, and you should not expect that the fund's sponsor will provide financial support to a money market fund at any time.

Mutual funds are sold by prospectus. Investors should carefully read and consider a mutual fund's investment objectives, risks, charges and expenses before investing. The prospectus contains this and other information about a mutual fund. To obtain a free prospectus, please call your Financial Advisor or write to: UBS Asset Management, 1285 Avenue of the Americas, New York, NY 10019. You can also contact UBS Asset Management at 888-793 8637 or visit www.ubs.com/usmoneymarketfundsholdings for a current prospectus.

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