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**Notice to shareholders of UBS (Lux) Key Selection SICAV (the "Company")**  
- UBS (Lux) Key Selection SICAV – Emerging Markets Income (USD)  
- UBS (Lux) Key Selection SICAV – European Growth and Income (EUR)  
- UBS (Lux) Key Selection SICAV – China Allocation Opportunity (USD)

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**This notice is important and requires your immediate attention. If you are in any doubt about the contents of this notice you should consult your stockbroker, bank manager, solicitor, accountant or other professional adviser for independent professional advice. UBS Fund Management (Luxembourg) S.A., the management company of the Company ("Management Company") and the directors of the Company, accept full responsibility for the accuracy of the information contained in this notice and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief there are no other facts the omission of which would make any statement misleading.**

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Dear Hong Kong resident Shareholders,

The Board of Directors of UBS (Lux) Key Selection SICAV would like to inform you that the following changes shall be incorporated into the sales prospectus, Information for Hong Kong Investors ("IHKI") and the product key fact statement of the relevant Sub-Fund (as defined below):

**(I) Repurchase / Reverse repurchase and Securities Lending Transactions**

*Forthcoming updates to the investment policy of the Company and "UBS (Lux) Key Selection SICAV – Emerging Markets Income ("USD)", "UBS (Lux) Key Selection SICAV – European Growth and Income (EUR)" and "UBS (Lux) Key Selection SICAV – China Allocation Opportunity (USD)" (Together, the "Sub-Funds")*

Currently, the Company and the Sub-Funds are not involved in, and do not intend to engage in securities lending or repurchase/reverse-repurchase transaction.

With a view to increasing the investment exposure of the Company and the Sub-Funds, the changes set out below will be made and will come into effect as of 18 September 2017 (the "**Effective Date**").

- 1) The Company and the Sub-Funds may conduct securities lending for up to 50% of their respective net asset value;
- 2) The Company and the Sub-Funds may conduct repurchase / reverse-repurchase transactions and similar over-the-counter transactions for up to 50% of their respective net asset value.

In respect of the repurchase, reverse repurchase, securities lending transactions and similar over-the-counter transactions (collectively "**Relevant Transactions**"), the Company and the Sub-Funds will only engage in the Relevant Transactions (including the re-investment of collaterals in connection therewith) in a manner consistent with their respective investment objectives, strategies and policies.

The securities lending transactions to be entered into by the Company and the Sub-Funds and the repurchase / reverse-repurchase transactions to be entered into by the Company and the Sub-Funds will be conducted in the best interests of shareholders and the associated risks will be properly mitigated and addressed. In addition, prudent collateral and risk management policy in order to mitigate the risks inherent to these transactions are put in place and will be adhered to and that these activities will also be effected in accordance with best market and industry standards and practices.

All incremental incomes generated from such transactions are split as to 40% with UBS (Luxembourg) S.A. as agent (an affiliate of the Management Company) with 60% accrued to the relevant sub-fund.

According to the applicable Luxembourg law/ Commission de Surveillance du Secteur Financier ("CSSF") circulars, in the case of securities lending and repurchase / reverse-repurchase transactions, the Company must, in principle, receive collateral, and the value of which must at least correspond to the total value of the counterparty's position and any accrued interest thereon. This collateral must be issued in a form of financial collateral as permitted by the provisions of Luxembourg law. Collateral may be provided in the form of liquid assets in highly liquid currencies, highly liquid equities and first-rate government bonds with a minimal rating of at least A or equivalent by a rating agency recognized by the supervisory authority and with a value greater than or equivalent to the value of the counterparty's exposure.

The Company has put in place relevant policies and procedures to comply with the applicable Luxembourg Law and CSSF circulars.

The principal selection criteria for selecting counterparties for securities lending/repurchase/reverse-repurchase transactions are:

- Experience / track record
- Degree and quality of market access
- Size and quality of client network
- Competitive position: expected level of gross revenue
- Quality / efficiency of back office processes
- Interfaces with the Company's custodian bank and administrator
- Reputation / important market participant
- Financial standing

Counterparties to a repurchase/reverse repurchase agreement or securities lending agreement will be entities with legal personality typically located in OECD jurisdictions and will be subject to a credit assessment. Where the counterparty is subject to a credit rating by any agency registered and supervised by ESMA, that rating shall be taken into account in the credit assessment. Where the counterparty is not subject to a credit rating, exception approval will have to be obtained within the Company before engagement of the relevant counterparty. Where a counterparty is downgraded to A2 or below (or comparable rating) by such a credit rating agency, a new credit assessment in respect of the counterparty will be undertaken without delay.

The Company conducts repurchase/reverse-repurchase and securities lending transactions to UBS AG on a principal basis. UBS AG is a nominee shareholder of the Company pursuant to which it becomes a connected party to the Company.

UBS AG has extensive experience in repurchase/reverse-repurchase and securities lending transactions and is an important actor in international capital markets. UBS AG's set-up for repurchase/reverse-repurchase and securities lending transactions ensure effective administrative processes, including quick and efficient re-calls of the Company's positions.

Details of the aforementioned connected party transactions, including but not limited to any securities lending fee(s) and repurchase/reverse repurchase transactions fee(s) will be disclosed in the connected party transaction section of the Annual Report and Semi-annual Report of the Company.

The existing Hong Kong Offering Documents (comprising the prospectus of the Company and the Sub-Funds, the IHKI and the product key facts statements of each Hong Kong sub-fund) will be amended to reflect the above changes and will be available free of charge from UBS Asset Management (Hong Kong) Limited, being the Hong Kong representative of the Company and the Sub-Funds at 43/F-52/F Two International Finance Centre, 8 Finance Street, Central and also on [https://www.ubs.com/hk/en/asset\\_management/wholesale.html](https://www.ubs.com/hk/en/asset_management/wholesale.html).<sup>1</sup>

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<sup>1</sup> Please note the content on this website has not been reviewed by the Securities and Futures Commission.

The following risks associated with stock lending, repurchase agreements, reverse repurchase agreements transactions and other similar over-the-counter transactions will be disclosed in the IHKI and the relevant product key fact statement of the relevant Sub-Fund:

"Risks relating to securities lending transactions

Securities lending transactions may involve the risk that the borrower may fail to return the securities lent out in a timely manner and the value of the collateral may fall below the value of the securities lent out.

Risks relating to repurchase agreements

In the event of the failure of the counterparty with which collateral has been placed, the fund may suffer loss as there may be delays in recovering collateral placed out or the cash originally received may be less than the collateral placed with the counterparty due to inaccurate pricing of the collateral or market movements.

Risks relating to reverse repurchase agreements

In the event of the failure of the counterparty with which cash has been placed, the fund may suffer loss as there may be delay in recovering cash placed out or difficulty in realising collateral or proceeds from the sale of the collateral may be less than the cash placed with the counterparty due to inaccurate pricing of the collateral or market movements."

Save for the above changes, the operation and manner in which the Company and the Sub-Funds is being managed will not be changed. Also, the changes above will not result in any change in fees or charges to be borne by the shareholders or the Company or the Sub-Funds. There will be no impact that may materially prejudice existing shareholders' rights or interests. There will be no costs and/or expenses incurred in connection with the aforementioned changes by the Company, the Sub-Funds and/or their shareholders. In any case, the Management Company will pay for all costs and/or expenses incurred, if any in relation to the proposed changes.

Shareholders who do not agree with the changes described above may, at anytime by or before 5pm (Hong Kong time) on the Effective Date, either:

- (a) convert their existing holdings in the Sub-Funds into any other sub-funds within the UBS range of funds which are currently authorised by the SFC without incurring any conversion fees. However, SFC authorization is not a recommendation or endorsement of a scheme nor does it guarantee the commercial merits of a scheme or its performance. It does not mean the scheme is suitable for all investors nor is it an endorsement of its suitability for any particular investor or class of investors; or
- (b) redeem their existing holdings in the Sub-Fund free of redemption charges.

Details of the Sub-Funds within the UBS range of funds which are currently authorised by the SFC shall be found in the sales prospectus, IHKI and the relevant product key fact statement of the relevant Sub-Fund. Such documents and will be available free of charge from UBS Asset Management (Hong Kong) Limited, being the Hong Kong representative of the Company and the Sub-Funds at 43/F-52/F Two International Finance Centre, 8 Finance Street, Central and also on [https://www.ubs.com/hk/en/asset\\_management/wholesale.html](https://www.ubs.com/hk/en/asset_management/wholesale.html).<sup>2</sup>

Shareholders are advised to read the sales prospectus and product key fact statements of the relevant sub-funds for detailed information on the investment objectives, dealing procedures, risks and fees associated with any relevant sub-fund into which they wish to convert.

## **(II) Enquiries**

If you have any questions or concerns about the foregoing, you may contact the Company at its registered office in Luxembourg or UBS Asset Management (Hong Kong) Limited as the Hong Kong

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<sup>2</sup> Please note the content on this website has not been reviewed by the Securities and Futures Commission.

Representative at 43/F-52/F Two International Finance Centre, 8 Finance Street, Central, Hong Kong  
at telephone (852) 2971 6330 (Mailing Address: GPO Box 506 Hong Kong).

Yours sincerely,

**UBS Asset Management (Hong Kong) Limited**  
**For and on behalf of UBS Fund Management (Luxembourg) S.A**

**18 August 2017**